MP-01:

Corporate Social Responsibility and Stakeholder Management: The Case of the Most Admired Companies of Turkey

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ABSTRACT

Corporate Social Responsibility (CSR), through the advantage it provides, plays an important role in competition among corporations. With their corporate social responsibility activities, corporations both fulfill their responsibility for society and make a good impression on their stakeholders. The purpose of this study is to expose the relationship between CSR and stakeholder management. In this direction, in the first section, the concepts of CSR and Stakeholder management would be examined theoretically. In the second section, the five most admired companies of Turkey are evaluated in terms of its CSR and stakeholder management.

1. INTRODUCTION

In the early 20th century, social performance was tied up with market performance (Bichta, 2003:12). The Committee for Economic Development commented about CSR as: “Today it is clear that the terms of the contract between society and business are, in fact, changing in substantial and important ways. Business is being asked to assume broader responsibilities to society than ever before and to serve a wider range of human values. Business enterprises, in effect, are being asked to contribute more to the quality of life than just supplying goods and services” (Dennis et al.,1998:649). Many businesses are becoming more active in contributing to society now than used to be the case. CSR issues are now being integrated into all aspects of business operations and explicit commitment to CSR is made in the visions, missions and value statements of an increasing number of companies all over the world (Ofori and Hinson, 2007:178).

Corporations have a large range of stakeholders from their employees and customers to public institutions, media and in general the whole society. These stakeholders expect these corporations to contribute to the betterment of life especially of education, health and environment. For instance, while employees expect improvement of their work conditions, customers expect more quality products. The society, on the other hand, expects the improvement of its well-being. Any attempt of corporations to fulfill these expectations greatly impact stakeholders perceptions and assessment about corporations in the long term.

2. THEORETICAL REVIEW

2.1. Corporate Social Responsibility

Societal expectations about the responsible role of business in society are on the increase and the recent research on CSR discourse shows that there have been developments of a variety of instruments that aim to improve, evaluate and communicate socially responsible practices (Golob and Bartlett, 2007). CSR is defined...
companies is to provide society with goods and services legally, efficiently and profitably. In fulfilling their primary purpose, they can choose to undertake such social activities as they believe are in their corporate interest and have the support, for publicly-quoted companies, of their shareholders. Such activities are not necessarily at the expense of shareholders, for whom corporate reputation is an asset (Cadbury, 2006:5). Moreover, CSR is not limited to the “maximization of shareholder wealth” but it requires taking into consideration many stakeholders (Smith, 2007:186). CSR has emerged as a global trend incorporating business corporations, states, international organizations and civil society organizations. As is usually the case with movements and trends, we find a broader group of actors jumping on the bandwagon with their own contributions (Sahlin-Andersson, 2006:595). Corporate engagement with society, also termed CSR, refers to one process by which an organization expresses and develops its ‘corporate culture’ and social consciousness (Rupp et al., 2006:537).

CSR involves companies consciously orienting their activities towards value creation in three dimensions – People (creation of well-being in and outside the organization), Planet (achievement of ecological quality) and Profit (maximization of profit) – while at the same time maintaining a clear and communicative relationship with the diverse stakeholders on the basis of transparency and dialogue (Cramer et al., 2004).

Being perceived as a socially responsible organization is not a simple task. When a company claims that it is responsible, it is not immediately believed in. Furthermore, the stakeholders do not like companies bragging about their CSR activities, but it should be kept in mind that they are content identifying with businesses undertaking CSR practices (Morsing, 2005: 84). Companies are amongst the most powerful social and economic institutions of modern society and, recently, their role has taken on more widespread functions, surpassing the traditional ones to include those belonging to the social and ethical profile (Testa, 2006).

An examination of the literatures referring to CSR reveals a breadth of disciplinary interest that, while perhaps providing evidence of the importance or at least currency of the topic, does serve to render the search for a coherent discourse problematic. For example, there are considerable literatures in the fields of marketing management, morality and ethics, accountancy and audit, political economy and the environment (Brooks, 2005:401–402). CSR initiatives to influence consumers and differentiate product offerings has become quite common (Becker-Olsen et al, 2006: 46). When a company is truly committed to social responsibility, it will look to have a unique relationship with stakeholders, one that resembles a partnership with respect to the intelligence gathering and communication activities (Smith, 2007:187). Various standard-setting initiatives have developed in recent years that are designed to induce companies to adopt more systematic, progressive and visible CSR policies (Fombrun, 2005:7). Within organizations, ethical and social principles are being institutionalized in a variety of ways. The goal of such activities is to ensure that organizational social responsibility concerns are treated in the same routine manner in which legal, financial, and marketing concerns are addressed (Karake, 1998: 207).

2.2. Stakeholder Management

Stakeholder management refers to activities by which a firm seeks to address and balance the interests of its various salient stakeholders. Although it would be altruistic for firms to be intrinsically committed to stakeholder interests because it is the right thing to do, a more instrumental approach views stakeholder management as a strategic tool to improve financial performance and provide a sustainable competitive advantage over the long term (Sirisly and Lamertz, 2008:356).

Who are the stakeholders? The word ‘stakeholder’ was first recorded in 1708 referring to a person who holds the stake or stakes in a bet and emerged in the 1960s as a counterpart to stockholder and refers to these “other parties having a ‘stake’ in the decision making of the modern, publicly held corporation in addition to those holding equity positions” (Mushove and Vogel, 2005:185).

Stakeholders have been defined in various ways. Freeman’s definition is the most popular one in literature, proposed that stakeholders are “any group or individual who can affect or is affected by the achievement of the
organization’s objectives” (Sweeney and Coughlan, 2008:114). This definition is important in highlighting a two-way relationship between the firm and its stakeholders. Stakeholders can impact whether or not a firm and its managers will achieve their objectives and, therefore stakeholders should be managed instrumentally, if profits are to be maximized (Preble, 2005:409).

Freman’s definition was refined by Starik who “are or might be influenced by, or are potentially are influencers of some organizations” (Kolk and Pinske, 2005:60). The stakeholder perspective, in a normative sense, identifies stakeholders by their interest in the corporation, regardless of whether the organization has any corresponding functional interest in them (Preble, 2005:409-410).

Providing more clarity, Clarkson (1995) distinguishes between ‘primary’ and ‘secondary’ stakeholders. A primary or participant stakeholder is one without whose continuing participation the corporation cannot survive as a going concern. Secondary or non-participant stakeholders are defined as those who influence or affect, or are influenced or affected by the corporation, but they are not engaged in transactions with the corporation and are not essential for its survival (Sweeney and Coughlan, 2008:114).

A second distinction can be made between the internal and external stakeholders (Verdeyen et al., 2004:327): External stakeholders of an organization-customer, suppliers, governments, special interest groups, media, trade unions, financial institutions and competitor, influence the organization from the outside.

Internal stakeholders are those stakeholders for whom the organization’s management takes responsibility. A third distinction can be made between contracting and public stakeholders (Verdeyen et al., 2004:327): Contracting stakeholders are managers, shareholders, employees, customers, suppliers, creditors etc.

The group of public stakeholders includes consumers, the government, environment action groups, local residents, press and media, universities etc.

According to Freeman’s Stakeholder map (1984), we can see all stakeholders as mentioned below. Government, local community organization, owners, consumer advocates, customers, competitors, media, employees, special interest groups, environmentalists, suppliers (Preble, 2005:417). Stakeholders are individuals or groups that have material, political, affiliated, informational, symbolic or spiritual interests in a company and that are able to advocate these interests through formal, economic, or political power (Golob and Bartlett, 2007).

Stakeholder salience will be positively related to the cumulative number of stakeholder attributes power, legitimacy, and urgency—perceived by managers to be present in an empirical test of the above model, summarize these three stakeholder attributes as follows. Legitimacy is a claim on a firm, based upon a contractual or legal obligation, a moral right, an at-risk status, or a stakeholder having a moral interest in the harms and benefits generated by a company’s actions (Preble, 2005:411) and the creation of a broad social basis that ensures that the policy and the institutions can function in an adequate way. Social legitimacy is a process that leads to the acceptance of the objectives and strategic choices of the organizations’, the use of the financial means and the way the organizations functions and justifies its actions.

This process requires both an internal and an external dialogue to involve the social environment in the policy- and decision-making of the organization’s (Verdeyen et al, 2004:329). Power is the ability to influence a firm’s behavior, whether or not the stakeholder has a legitimate claim (Preble, 2005:411) and relates to the ability to bring about outcomes of desire or the ability of one actor within a social relationship to have another actor do something that they would not otherwise have done (Sweeney and Coughlan, 2008:114).

Urgency is the degree to which a stakeholder’s claim calls for immediate attention, adding a dynamic component for a stakeholder to attain salience in the minds of managers (Preble,2005:411) and based on two characteristics; time sensitivity and importance of the claim to the stakeholder (Sweeney and Coughlan, 2008:115).
2.3. The Importance of Stakeholder

A corporation must be aware of the different concerns of stakeholder. Corporations’ success is relevant their stakeholders. Various stakeholders have various interests in and expectations about an exchange relationship with a firm. Therefore, they may evaluate the benefits of the prospective relationship using different criteria. When these criteria are satisfied, a person will enter into an exchange with the company; when they are not satisfied, the individual will ignore the relationship opportunity. The satisfaction with the exchange may encourage a person to make further transactions with the company (Puncheva, 2008:275).

Satisfied employees care more about customer satisfaction, cooperate more with each other, and apply more effort. They are more productive. Employee satisfaction has tangible benefits for all organizations, but the results may be most easily measured in for-profit businesses. Satisfied employees are associated with higher revenues (the dollars that businesses receive from their customers), lower costs (the dollars that businesses spend to provide customers with products or services), and greater profitability (the revenues that remain after all costs are met (Mckee, 2005:8).

Employees play a crucial role in representing the company to external stakeholders. The premise on which the stakeholder approach toward employees is based is that stakeholder management actions, namely the company tools and policies developed in order to satisfy stakeholders’ expectations, bring a strengthening of internal legitimacy and therefore the possibility of creating better working conditions that will lead to improved company competitiveness (Longo and Matteo, 2008:192).

Effective relationship building and maintenance with community stakeholders may also be variable and contextual. Community relations may also overlap other key areas of practitioner behavior, including management of employee relations, public affairs, consumer relations, and activist groups (Mckee, 2005:35-36).

Whether an organization is ethical and honest, environmentally friendly, and responsive to customers’ need can be a company’s asset or its costliest liability. Satisfied customers increase profitability. If its customers develop a negative perception of the company or its product, its sales and profits assuredly will decline. Customers have economic power vested in their purchasing decision and their ability to file product liability lawsuits when a product fails or endangers or injures its user (Preble, 2005:417).

Competitors are even rarely mentioned a stakeholder of a firm. At the simplest level the influences felt on an organization affected by competitors might be in term of loss or gain of market share as result of competition (Spence et al., 2000:333-334).

Stakeholder demands previously expressed in labor or consumer campaigns are emerging in investor activism (McLaren, 2004; Forum for the Future and PIRC, 2002). Stakeholder groups are increasingly collaborating with investors across national borders and across sectoral interests. Such investors have effectively turned from ‘exit’ to ‘voice’ in their relationships with unsatisfactory companies. For most stakeholders to obtain an equal position requires effective collaboration with investors, who can exercise power, and mobilize a credible threat within the current system (McLaren, 2004:192-193).

Suppliers will boast about organization, their clients. The built environment is likely to be used to position these organizations to their stakeholders (Chun et al., 2003:247). Suppliers will be concerned about various aspects of the companies they supply to. If they extend credit then they too become financial stakeholders in the business (Chun et al., 2003:259).

Media is also important as a stakeholder. People want to have information about organizations. And organizations need to have media to let them other stakeholders what they do. As a stakeholder, media help the organization in six ways (Mckee, 2005:88):

Efficiency: Mass media, such as Web sites, daily newspapers, and television, reach individuals by the hundreds of thousands or even millions with unsurpassed speed.

Credibility: Individuals often believe that information in reputable media, such as the New York Times or CBS-TV’s “60 Minutes” is more trustworthy than the same information presented by an organization.
Targeting: Individuals who read or watch certain kinds of media or programming may have predictable interests or habits, enabling the practitioner to tailor messages with greater precision and mutual benefit.

Agenda setting: Media attention often determines which topics come up in general conversation, and a practitioner may want to get people talking about a specific subject.

Economy: Messages that appear in the news media involve comparatively low costs for the practitioner’s organization.

Time shifting: Print media, in particular, allow individuals to pick their own best time and place to digest information. The same is true, to a lesser extent, for Web sites, CDs, and DVDs.

Activists are saints, sinners, and sometimes both. It depends on organization’s perspective of the public issue on which activists are focusing. Because issues seldom have only two sides, several activist organizations may get involved in a public discussion or controversy and try to influence its eventual outcome (Mckee, 2005:192). Activist groups, often called special-interest groups or advocacy groups, usually try to (Mckee, 2005:88):

- Influence popular opinion.
- Promote changes in public policy.
- Exert pressure on corporations.
- Remedy social problems.
- Affect personal behaviour.

2.4. The Relationship between Corporate Social Responsibility and Stakeholder Management

For many business managers, the notion of stakeholder engagement has also become part of their day-to-day practice. ‘Responsible corporations’ begin to tell consumers that their products are free from pollutants, sweatshop labor or animal testing, and trust that the consumer will be willing to contribute to CSR by choosing the ‘greener’ product, which often comes with a higher price (Foo, 2007: 381).

There are four prevalent ideas about the connection between CSR and stakeholders (Richardson, 1999:86):

CSR is seen as a social obligation towards society, in which initiatives are desirable corporate actions to serve society. CSR is a social obligation to corporate stakeholders, in which any corporate decision takes into consideration the implications of the company’s actions on those stakeholders. CSR is ethics-driven in the corporate self-interest to enable businesses to gain legitimacy. CSR is analyzed as managerial processes, in which initiatives are seen as instrumental in developing corporate social responsiveness.
Table 1. Examples of Stakeholder Issues and Associated Measures of Corporate Impact

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<thead>
<tr>
<th>Some stakeholder groups and issues</th>
<th>Potential indicators of corporate impact on these issues</th>
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<tbody>
<tr>
<td><strong>Employees</strong></td>
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<tr>
<td>• Compensation and benefits</td>
<td>• Ratio of lowest wage to national legal minimum or to local cost of living</td>
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<td>• Training and development</td>
<td>• Changes in average years of training of employees</td>
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<td>• Employee diversity</td>
<td>• Percentages of employees from different gender and race</td>
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<td>• Occupational health and safety</td>
<td>• Standard injury rates and absentee rates</td>
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<td>• Communications with management</td>
<td>• Availability of open-door policies or ombudsmen</td>
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<tr>
<td><strong>Customers</strong></td>
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<td>• Product safety and quality</td>
<td>• Number of product recalls over time</td>
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<td>• Management of customer complaints</td>
<td>• Number of customer complaints and availability of procedures to answer them</td>
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<tr>
<td>• Services to disabled customers</td>
<td>• Availability and nature of the measures taken to insure service to disabled customers</td>
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<tr>
<td>• Number of product recalls over time</td>
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<td>• Number of customer complaints and availability of procedures to answer them</td>
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<tr>
<td>• Availability and nature of the measures taken to insure service to disabled customers</td>
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<tr>
<td><strong>Investors</strong></td>
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<tr>
<td>• Transparency of shareholder communications</td>
<td>• Availability of the procedures to keep shareholders informed about corporate activities</td>
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<tr>
<td>• Shareholder rights</td>
<td>• Litigation involving the violation of shareholder rights (frequency and type)</td>
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<tr>
<td>• Availability of the procedures to keep shareholders informed about corporate activities</td>
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<tr>
<td><strong>Suppliers</strong></td>
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<td>• Encouraging suppliers in developing countries</td>
<td>• Fair trade prices offered to suppliers in developed countries</td>
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<td>• Encouraging minority suppliers</td>
<td>• Percentage of minority suppliers</td>
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<td>• Fair trade prices offered to suppliers in developed countries</td>
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<tr>
<td>• Percentage of minority suppliers</td>
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<tr>
<td><strong>Community</strong></td>
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<td>• Public health and safety protection</td>
<td>• Availability of an emergency response plan</td>
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<tr>
<td>• Conservation of energy and materials</td>
<td>• Data on reduction of waste produced and comparison to industry</td>
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<tr>
<td>• Donations and support of local organizations</td>
<td>• Annual employee time spent in community service</td>
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<tr>
<td>• Availability of an emergency response plan</td>
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<td>• Data on reduction of waste produced and comparison to industry</td>
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<td>• Annual employee time spent in community service</td>
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<tr>
<td><strong>Environmental groups</strong></td>
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<tr>
<td>• Minimizing the use of energy</td>
<td>• Amount of electricity purchased; percentage of green electricity</td>
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<tr>
<td>• Minimizing emissions and waste</td>
<td>• Type, amount, and destination of the waste generated</td>
</tr>
<tr>
<td>• Minimizing the adverse environmental impacts of products and services</td>
<td>• Percentage of product weight reclaimed after use</td>
</tr>
<tr>
<td>• Amount of electricity purchased; percentage of green electricity</td>
<td></td>
</tr>
<tr>
<td>• Type, amount, and destination of the waste generated</td>
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<tr>
<td>• Percentage of product weight reclaimed after use</td>
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Being successful, corporations need to build and nurture relationships with stakeholders, and they must know how to strategically manage and organize activities aimed at their stakeholders (Nielsen, 2007:39). This management system include processes for management and board responsibilities, identification of stakeholders’ expectations, strategic planning, managing resources, processes and systems, measurement and analysis, managing change and continual improvement. The only way to successfully address the complete spectrum of the CSR requirements is to look at the whole corporation and the way it carries out its activities (Shahin, 2007: 761).

It is important that identification or differentiation of “stake or interest” of each stakeholder as corporations have complex relationships with stakeholder groups and each stakeholder group does not have the same size of “stake” the same level of expectation. For reducing this problem it is necessary that engaging stakeholders to identify assess and balance their “stake or interest” (Gao, 2006: 725).
3. CASE STUDIES: THE MOST ADMIRED COMPANIES OF TURKEY

According to polls conducted by Capital Magazine, the most favored companies in 2007 were as follows:

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<th>Corporation</th>
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<tr>
<td>Turkcell</td>
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<td>Koç Holding</td>
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<tr>
<td>Arçelik</td>
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<tr>
<td>Vestel</td>
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<tr>
<td>Garanti Bank</td>
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3.1. The Most Admired Companies of Turkey CSR Activities

The information on CSR activities of the five most admired corporations in Turkey was obtained from the web pages of the related corporation. Instead of activities toward each stakeholder, companies tend to organize activities in general for the whole society. These activities are usually related to sports, education, health, environment and culture-arts. By organizing charities for the benefit of society corporations also contribute to the well being of their clients, employees, partners and local society.

Corporation’s visions-missions and messages from their chairmen include information on CSR. This shows that administrators take social responsibility seriously and think about it. Mustafa Koç, the chairman of Koç Foundation expresses his thoughts on the subject as follows:

While contributing to the Turkish economy with our investments, we are also taking important steps in the field of social responsibility, a cornerstone of our corporate culture. Following the model of our founder, Vehbi Koç, who pioneered social responsibility in Turkey, we are committed to increasing our work to generate social benefits.

We strive to be present in any area where we can serve our community. Our efforts are focused mainly in the areas of education, health, culture, arts, sports and the environment.

Our view of corporate citizenship is focused on efficiency and being proactive in risk management. The way we do business and evaluate our resources is shaped by this vision. It is our goal to use limited resources effectively and with foresight, and to create lasting value through a sustainable approach (www.koc.com.tr).

Similarly, Bülent Bulgurlu, the CEO of Koç Holding states the importance that their Holding gives to social responsibility in these words:

The corporate social responsibility projects we launched and implemented last year were exemplary. In an ambitious project, which started nationwide in 2006 to support vocational high schools, we aim to draw attention to the problems of unemployment and the shortage of qualified industrial workers, and take an initiative toward solving them. As of 2007, with the contribution of our corporation, we have provided scholarships to 4,000 students in 250 high schools.

Turkey’s most widely dispersed grassroots project for local development initiatives, “For My Country” draws on Koç Group employees, distributors, and subsidiaries to undertake locally identified projects that meet local needs, thereby demonstrating Koç Group's commitment to local issues and solutions nationwide (www.koc.com.tr).

Social investments of corporations toward their stakeholders differ according to their activities. For instance, Arçelik that produces durable consumer goods invest in environment while Garanti Bank gives priority to customer service and information. Koç Holding differs from other corporation with its investments in health.

Corporations examined in this study sponsor professional sports teams or sportsmen/sportswomen and thus contribute to popularization of sports/ and achievements of talented sportsmen/women. In this sense we can point to the support provided by Garanti Bank for National Men’s and Women’s Basketball Team and opening basketball schools. Among other major CSR projects are Vestel’s support Turkish athletics, Koç Allianz’s support for Aegean Yacht Rally in 2001, Migros’s support for Special Olympics Turkey Organization for three years. Also the sponsorship Migros provided for 1000 mentally challenged sportspersons in last two years and
its support, together with P&G, for 1500 physically challenged sportspersons in 2006; Turkcell’s sponsorship for Turkish National Football and Basketball Teams and some sports clubs are worth mentioning. In addition, we can mention Turkcell Anatolia Sports Press Training Seminars that Turkcell initiated in 20 different cities, aiming to contribute to the professional development of sports journalists.

The most known project sponsoring works in education was undertaken by Turkcell. Since 2000 it has been supporting a project called “Snowdrops/Kardelenler” that aims to help the girls who can not continue their education due to economic problems. Within eight years Turkcell provided scholarship for 18,400 students. As a result of this 7,380 students graduated from high school, 1400 students began their university education and 170 students earned BA/BS degrees. Snowdrops Project brought Turkcell many international wards such as IPR Excellence Awards, Foundation of Women Executives’ Public Relations (WEPR) “Crystal Obelisk” and PR News CSR Awards. In addition to these projects, Turkcell continues to support education through foundations under its four different institutions or directly through support activities.

Another corporation that supports education is Koç Holding. Its Turkish Education Foundation has sponsored many students from primary education to university since 1967. Similarly, believing that self-development of children should be supported from the early ages Arçelik initiated a project called “Standing United for Education with Arçelik” in 2004. Conducted jointly with the Ministry of Education, this project targets mainly students in primary schools. Also the corporation supports education through building schools, sponsoring student projects and providing financial assistance for those kids with economic disadvantages.

Deniz Yıldızları (Starfish) Project by Garanti Bank is another worth mentioning project related education. Having started in 1998 with contributions of Garanti employees and friends, the project resulted in the opening of the first Deniz Yıldızları Primary School (that provides education for 1130 students) in 1999.

Other sectors targeted by CSR activities are health, environment, culture and arts. For instance Koç Foundation donated a building in Ankara to the Treasury to be used as a children’s hospital. Also Koç Foundation founded Ankara University Medical Faculty Vehbi Koç Eye Bank, Istanbul University Cerrahpaşa Medical Faculty Institute of Cardiology and Admiral Bristol Vehbi Koç Cancer Pavilion with the aim of supporting public health. Also Koç Foundation established in 1985 the Turkish Family Health and Planning Foundation to help Turkish families with their health problems.

Corporations also has sponsored many projects aiming at protecting environment. For example Koç Foundation established, with some other institutions, TEMA, the Turkish Foundation to Fight Erosion. Similarly to help the protection of environment Arçelik invests in energy efficient products. Also it contributes to Acorn Planting Project that TEMA started in cooperation with the Ministry of Forestry and has been awarded with the Crystal of Acorn. In addition it supports the campaign called “Don’t Waste Water” that TEMA initiated to draw attention to the significance of individual efforts to use water resources more efficiently. Likewise aiming at contributing to the protection of nature Garanti has been a prime sponsor of WWF (Worldwildlife-Turkey (formerly Turkish Association for Conservation of Nature and Natural Resources) since 1992. Finally Koç Holding continues its efforts aiming cleaner world and the protection of nature through its support for works coordinated by Clean Sea group.

In addition to all these activities all the corporation examined in this study attract attention with their support for culture and arts. Koç Foundation established many cultural institutes, museums and centers such as Sadberk Hanım Museum, SUNA-İnan Kırça Mediterranean Research Institute AKMED, Kale içi Museum, Vehbi Koç and Ankara Research Center VEKAM. Recently Rahmi M. Koç Museum and Culture Foundation opened the first and only industry and technology museum in Turkey. Similarly Garanti Bank established Ottoman Bank Archives and Research Center in 1997 cooperation with History Foundation.

Another important aspect of CSR projects is that they determine their investments to some extent according to expectations and problems of the society. Corporation examined in this study consider social responsibility activities as an essential part of their policies; show interest in social issues and pay attention to environment and the interests of society while making investments.
Despite all their great efforts to support and contribute to the projects in sports, education, health and arts and culture, these corporation limit corporate social responsibility activities toward their employees (their shareholders) to their professional training. Turkcell, with its projects such as “Professional Development Counseling (PDC)” and “First Step to the Professionalism” aims to increase the awareness of new graduates of their own talents, interests and expectations and thus to help them achieve their goals. It also aims to develop their visions on professional life, jobs and corporation.

Garanti Bank is open to suggestions; it accepts suggestions and evaluates them in all areas. Also, units in the same branch and branches in general exchange services to serve their common customers better. However these activities and projects are important, it is certain that corporation don’t value communication experts that provide corporation’ connection with their shareholders as much as they should. Especially corporation in service sectors should invest more in their employees. Turkey’s most admired corporation are not only locomotive of Turkish economy but also due to their activities and investments an important actor in developing social responsibility culture. The fact that stakeholder management is not common in Turkey makes it difficult to say that corporation got a long way in defining who the stakeholders are. Corporation determine the awareness of that they are responsible for society and the form of social responsibility activities but some stakeholders are targeted less in these activities then they are supposed to.

Nowadays when competition expresses itself with intangible values than the concrete ones company’s stakeholders or possible stakeholders expect their corporation undertake additional activities besides their main responsibilities.

While supporting their stakeholders corporation also have to think about to what extent they might achieve their goals. Failed activities or those activities that can not pass their messages to their shareholders cause loss of their prestige. We can say that those corporation we examined in this study achieved their goals. Students from Vestel’s wrestling school won medallions, Turkcell’s efforts resulted in education of many girls and with Garanti’s sponsorship basketball has become a popular sport.

In their activities corporations work in cooperation with the government, non-government institutes, local administrations and foundations, which are among the stakeholders of these corporations even though they do not co-organize special projects. Thus in cooperation with their stakeholders, these corporations reach larger groups and receive stakeholders’ support for themselves and the society.

4. CONCLUSION

Corporations should care for society that is the reason for their existence as much as they care for their own investments. Stakeholders expect the best from their corporations in service as well as in social projects. While trying to do their best for people, environment and maximum profit, corporations at the same time.

Social responsibility activities increase the prestige of corporations that is the most important intangible value of them. At the same time they help corporations to establish long-lasting and sound relations with their customers. Targets, length and goals of social responsibility activities of corporations toward their stakeholders and the form in which these activities appear in media increase the chance of these activities to be evaluated and supported by stakeholders. When they are for a significant length of time social responsibility works tend to be more convincing. In this sense we see that projects and works of corporations viewed in this study have been continuing for some time. The most important thing is that all corporations that are developing and are expected to grow begin social responsibility works and become involved in activities beneficial for society as much as they can. Another issue that corporations should pay a special attention in their social responsibility activities is to analyze all their shareholders and make long-term investments in them.

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Managerial audit and its application in management of small and medium enterprises

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ABSTRACT

Managerial audit methodology was created and tested for a sample of 31 small and medium enterprises (SMEs) in 2006 – 2008 in the research project No. 2E06044 „Managerial audit as a support tool for sustainable development of SMEs” sponsored by National Program of research II Ministry of Education, Youth and Sports Czech Republic. Basic principles of the project consist of application of directed interview. The main aim was to study level of business management of pre-selected businesses. During interviews an analytical approach was used especially for getting known level of business management. Basic principles of coaching were used as well. In each business were two interviews organized. Based on management evaluation, it was discovered, that the worst fields were personal management and marketing–sales branches. Partial goal of the project became to approve possibilities of non-traditional education of students, which were based on their participation in an interview organized in mentioned above businesses. Students evaluated those activities as beneficial.

JEL Classification number: M000

Keywords: Management, managerial audit, coaching, process management, SMEs

1. INTRODUCTION

Small and medium enterprises contribute substantially to development and social stability of villages, cities and regions. They ensure high percentage of employment (61% in 2005), they generate substantial part of value added (53% in 2005), they have a big innovative potential. In spite of their contribution they are very vulnerable. It can be caused by their size, orientation at one product or service only, diminished abilities to get loans for their development and at last but not least not sufficient managerial processes and a wrong way of management, which differs very often from management of big businesses.

Problem, how to improve management of SMEs and enhance their development are included in the research project No. 2E06044 „Managerial audit as a support tool for sustainable development of SMEs” (2006 – 2008) sponsored by National Program of research II Ministry of Education, Youth and Sports Czech Republic. In the project participated following institutions: Faculty of Management, University of Economics, Prague, Faculty of Economics of South Bohemian University České Budějovice, group of experts based in the other institutions and selected students of both faculties. The main aim of the project is to create methodology of managerial audit, which would be valuable for SMEs and would become a tool for reserves detection and their potential increasing.
Above mentioned methodology is being created in the frames of university research, education and practise. It consists of introduction of new modern ways of human resources management connected to development of modern approaches to further education of employees. At last but not at least is the aim of the project based on educating new scientists among students.

The project is based on basic assumption that in reality SMEs, in the frames of its development, are using education and training offered by educational institutions in pre-designed courses. Very often they prefer branches of education, where they have already achieved some knowledge. Contents of programmes offered by educational institutions directly depend on knowledge of the lecturer. If some research concerning needs of the business is done in advance, very often some sociological research is organized (e.g. in a form of a questionnaire) which does not have to be very complex.

In the frames of the project there is a detailed analysis in the form of managerial audit performed in pre-selected SMEs while standard techniques of questioning are being used. Standard techniques were complemented with a new approach, which uses coaching technique (detailed description is being explained as follows). In the analysis cooperated teachers from universities with experts, tutors and students. Based on individual analysis case studies were made, which seem to be the most valuable methodological tool how to achieve contents analysis of specific phenomenon or situation (Strach, 2007). Based on results of evaluation of fundamental reserves of small and middle-size businesses are discovered and consequent programmes of their correction can be organized, education can be used as well.

2. GOALS AND METHODOLOGY

The main goal of the contribution is to introduce the topic of methodology of managerial audit and exhibit partial outcomes of the project, in the frames of which the topic was being solved, results of evaluation of processes level included plus possibilities of education of students by means of their involvement into directed interview in pre-selected businesses.

Methodology was proposed and approved in the frames of mentioned above research project of National Research Programme II organized by Ministry of Education, Youth and Sports 2E06044 “Managerial Audit as a Tool of Support of Sustainable Development of Small and Medium Enterprises”.

Substance of methodology of managerial audit is an assumption, that successful or unsuccessful management derived out of successful or unsuccessful small and medium enterprises in a large extent depends on abilities of management and employees of the company to manage basic processes. This approach is based on definition of internal managerial audit cited by Trunecek (2004), who describes an audit as „a system for errors and failures detection, which is aimed to current state improvement, based on objectives of businesses“.

The methodology proposed in a project targeted to small and medium enterprises is based on usage of directed interview. Their structure is connected to following branches: goals, reality, possibilities and implementation into practice.

Goals - by means of the first group of questions businesses were asked to formulate goals connected to business development. The main objective of this group of questions was apart from obtaining information was to raise confidence and interest of clients. In this phase of an interview questions concerning history of a business, its orientation, success evaluation (failures eventually) are asked.

Reality – second part of questions is based on level of pre-selected processes estimation. This branch is being solved by process management, which has often been mentioned as a modern breaking point of development in the field of management (Trunecek, 2003). In the frames of process management many partial methods of level of processes evaluation are being used, such as: process maps, process analyses, enterprise model (Trunecek, 2003, Watson, 1994). For a project realization are above mentioned methods and their application very time demanding and for suggested number of businesses difficult to organize. Those were reasons why methodology of managerial audit suggested by Kopcach (1999) was used and adjusted for project needs. The methodology is based on seven basic processes: marketing-sales, research-development, economy-finance, logistics-informatics, and administration-personal management. Management of above mentioned processes means, according to the author, reaching of sufficient level of material commodities, knowledge and skills. Each process functions separately, but in the same time gives an assumption for functioning of remaining
processes. Level of processes is according to mentioned methodology estimated by management as sufficiency or insufficiency estimation towards the best competitor possible (perfection is marked by number 1, total imperfection number 0). Outcome of estimation is made by means of radiation diagram, where separate values connected to processes have the meaning of their level of perfection, related to outer surrounding (that is to clients and successful competitors). Above mentioned methodology was as well used as a part of evaluation of agricultural businesses (Rolinek, Doktorova, 2002; Rolinek, 2003).

The research team, because of their previous experience and discussions, adjusted methodology mentioned by Kopceaj (1999) and limited number of processes as follows:

Production
Marketing and Sales
Economy and Financial Management
Personal Management

Separate processes were estimated by management of businesses by means of percentage evaluation (0-100%) according to the level reached, related to the best competitor or (more or less) knowledge about it. This system of evaluation is common e.g. in the frames of quality management system (model EFQM) and as a methodological approach of a social audit (Pavlica, 2000).

For easier directed interview organization, each asking person had at his disposal a list of additional topics, which specified individual processes more closely. This tool helped to formulate questions and contributed to the fluency of an interview. An organizer structured this phase of an interview as concentrated on the weakest, according to business managers, fields. An outcome should have become specification of one or some more leading problems, which management of SMEs was willing to solve.

Possibilities – this stage is aimed to construction of alternative approaches of problem removal (or process functioning perfection), which were discovered during the previous stage of research. For organizing of an interview basic principles of coaching were used (Rolinek 2007, Rehor, Novakova, 2007, Stipek, 2007, Hungerova, 2007, Whitmore, 2005). It means that an organizer of an interview, with the help of suitably chosen questions, tries to achieve, that the respondent could generate possibilities of problem solution, and consequently narrowed selected problems and chose such, which were, according to his opinion the most valuable ones. The organizer should not function as a tutor during this stage. This principle should be preserved, because it results into forcing managers to take responsibility for improvement of current situation.

Implementation into practice - results of the last stage of an interview are represented by a realization plan, which consists of activity, dates, responsibilities and willingness to achieve mentioned goals. Willingness is being estimated by the manager by means of scale 1 to 10 (the most critical point is 7, under which is necessary to find some alternative possibility of realization).

Above mentioned parts of directed interview are according to our methodology of managerial audit put into practice during two visits (during the first one numbers 1 and 2, during the second one 3,4). Second part of asking is being performed in an interval of 14 days as minimum. For realization of an interview techniques of coaching were used (not an expert approach as typical for the first visit). The time interval between the two visits is important for deeper understanding of problem and further procedure creation. To this attitude contributed especially discussion among tutors and other groups of tutors (organizers of interviews), which was easy, as majority of interviews was typed to a dictaphone and the transcription was done. In an interval in between two stages of an interview the respondent (e.g. owner of the business) has a chance to judge an importance of goal suggested, or he can think about its changing or adjustment.

In order to improve organization of interview, set of questionnaires and directives was created. It has been licensed in the Czech Republic as an industrial design.

Managerial audit was approved on the sample of 31 SMEs in the Czech Republic. Research was organized in 2006-2007. For each business contents of an interview was recorded and there was Protocol of coaching interview put down. Results found were evaluated by means of quality and quantity methods.
3. RESULTS AND DISCUSSION

Out of the results reached during managerial audit approval it is possible to mention two branches, which were solved in the frames of the project. The first branch is about level of processes in SMEs evaluation, the second branch is based on analyses of abilities of application of non-traditional methods during education of students, by means of their involvement into directed interview, used in the frames of methodology of managerial audit.

Out of the total sample of businesses, 22 were selected to estimate level of processes. Current results showed, that according to average estimation of processes (as evaluated by leaders of businesses) is the most problematic field personal management (64,41% as an average), and marketing-sale (66,36%). As the less problematic field was economy and financial management seen by selected respondents – managers (Chart 1).

Results of an evaluation were further adjusted as follows: to individual processes in each business were put scales from the best one (less problematic) up to the worst one (the most problematic). It was counted an average order, which brought the similar results as in previous evaluation, it means that the weakest point is personal management (2,95), followed by marketing (2,64). As the less problematic managers considered the field of economy and financial management (Chart 2).

At each interview participated one student, to whom it enabled deeper understanding of problems of SMEs management. Involvement of students was proposed to prove non-traditional way of education. Students had to fill in a questionnaire after their visit of businesses. Another way of feedback was a short essay with following structure:

Why did you decide to participate in a project organized by Ministry of Education, Youth and Sports?

How did you prepare for a visit in a business?

Was the interview understandable for you?

Which piece of information achieved during an interview in a business you are likely to use in your future studies or employment?

What has a participation in an interview brought to you?

What exactly do you suggest to change or add into an interview?

In their answers students participating in an project stated, that how managerial audit looks like was interesting for them. As well, they appreciated coaching interview and reactions of employees of businesses. According to the description of the project students had expected real depicting of what running of a business means and how much knowledge is necessary.

Students had to be prepared for a visit in a business, they had to study materials and general structure of questions, asked during an interview. They have also studied problems concerning coaching, they have discussed with their fellow-students, who had already been to firms.

Individual interviews were evaluated as understandable by students. They considered an interview to be well-structured. Some of students stated, that an atmosphere of an interview was friendly and very comfortable.

To the question about further usage of knowledge in their professional life several different answers were given. Students answered, that interesting for them was especially problem, of how to treat a client. Interesting as well was the problem of real companies and ways of their solutions. Students realized, that all the spheres of economic life of a company are interconnected and what is possible to learn out of accounting documents, which problems are typical for the sphere of motivation and rewarding of employees and how difficult is to deal with large-chain stores.
Changes in structure of coaching interview were not recommended by students. But in the other hand students stated, that they do not have knowledge enough to lead interview themselves. They were able to participate on certain stage of an interview leading to solution of a problem.

4. CONCLUSION

Managerial audit is a tool of evaluation of processes of management of organization. This definition was used in National research programme II, sponsored by Ministry of Education, Youth and Sports Czech Republic, number 2E06044. The methodology is being currently approved on a sample of SMEs. Its basic characteristic is usage of directed interview with leaders of businesses. The interview serves for evaluation of the level of basic pre-selected processes (according to the sample, it was discovered, that the most problematic field is personal management followed by marketing-sale), finding of problematic fields and solution of the problems found. Interviews were divided into four stages. During the first two stages an analysis of problematic fields is being done and some solutions suggested, finally their realization is being planned.

Partial goal of research project was to approve possibilities of enhancing knowledge and skills of pre-selected students, by means of their participation in an interview. Based on what did students stated in questionnaires and essays written afterwards, it is possible to say, that participation of students in the project like this, could become a way, how to substitute practical training during studies and how to teach them about possible solutions of problems in a real enterprise.

Out of the current experience we can see, that by us suggested procedure of managerial audit is positively accepted by leaders of firms and can fundamentally help to stabilize and develop potentials of SMEs. It can also become a tool of efficient interconnection of research, education and practice.

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Chart 1: Average evaluation of process in chosen SME (in %)

Chart 2: Average order of process in chosen SME
ABSTRACT

Expenditure on education is an investment that can help in fostering economic growth, enhance productivity, contribute to personal and social development, and reduce social inequality. The increasing demands on education systems to meet the challenges set by the revised Lisbon strategy are likely to require additional sources of funding. Yet, the common element of numerous studies in recent international literature is the idea that structural changes in educational institutions have a greater effect on efficiency than an increase in quantity. The Romanian compulsory educational system continues to be highly over centralized. Education has not been inefficient and unfair only due to lack of money and strategy. A surplus of funds does not necessarily solve problems within the system. On the contrary, a more efficient spending of money is required. Decentralization and managerial autonomy are the institutional features that could ensure increased efficiency in utilizing budget resources and making sure that the allotted supplementary resources get there where they are most needed. Poor results in standard tests have shown a reduced decision-making power to offer solutions for remedial strategies. Measures or reforms to remedy the situation are expected from a centralized source. Increased quality of the educational activity is closely linked to benchmarking capability and to decision-making autonomy. The above mentioned aspects are both priorities and challenges for the Romanian educational system. This paper aims at analyzing each of them and proposes several recommendations for future policy making.


Keywords: Compulsory education, decentralization, competition, life-long learning, Romania.

1. INTRODUCTION

Education is a challenge and also a sensitive issue for the administration in Romania, a country under development. The problems faced by the educational system are not easy to solve as these are not due exclusively to the amount of financial resources available but to institutional features (adapting financial means to the specific needs, system flexibility, decentralization and management autonomy etc). Education is a topic of interest in the elections. GNP is not large; the process of allocating money for different sectors is very difficult as the GNP is not very large.

The educational policy in Romania is probably facing the greatest challenge ever. The international trends in research and education – emphasizing the role of knowledge and innovation, the international trends on the labour market and the human capital, the cultural disparity and the disparity in development comparative to other EU countries are some elements that can prompt the leaders to re-consider the role of education, to implement an unprecedented increase of the budget allotted to education (6% is suggested for the next
budgetary year), as well as an institutional reform meant to increase the overall quality of the educational system.

The aim of this paper is to investigate ways of improving quality of compulsory education and to show that a surplus of funds does not necessarily solve the problems within the system. On the contrary, it is more about undertaking several solutions for a more efficient spending of money. Empirical studies in the economics of education literature have examined the correlation between public allotment for education and the level of development. Also, issues connected to measuring the efficiency of these allotments and to looking at the quality of education from the point of view of maximizing the results. Even though it is not our intention to make a literature review on this topic, we will mention recent contributions as these inspired our research and support our point of view. Current controversies regarding the increase in expenditure for education show that in order to reduce the differences in the level of development among countries, an increase in quantity regarding education - that is budget allotment – is no longer sufficient, but an arise in quality is needed (Levin and Naylor 2007).

The quality of education cannot be improved without a better motivation of its beneficiaries. Thus, beneficiaries of education are not to be viewed as mere products, but as creative human beings which engage actively in their own learning. It is necessary to change the philosophy and attitude towards education at the administrative and social levels.

Moreover, the quality of education implies structural changes in educational institutions (Gonard, Joumard and Price 2007; Hanushek and Wößmann 2007). The quality of general institutional framework as well as governance indices have an impact on the development of education as these determine the use of resources, socio-economic conditions and quality of human relations. (Acemoglu, Johnson and Robinson 2001, 2002, 2005 or Rajkumar and Swaroop 2002).

2. CHALLENGES IN ROMANIAN COMPULSORY EDUCATION

The educational system in Romania faces a set of diverse challenges, resulting in early school dropouts and irregular attendance or grade repetition, and also a rate of finalizing compulsory education lower than the European average.

If in Romania the rate of enrollment is quite high - a national average 98.9% in the year 2005, it is only 66.5% of the pupils that manage to graduate compulsory education, as compared to 77.3% which is the EU average.

The specific indicators for results of education in terms of acquired knowledge and skills do not place Romania in a positive position as 41% of the pupils do not manage to reach not even the lowest performance level in the PISA test as compared to an European average of 19.4%.

Romania is in the middle of a demographic crisis due to the adults migrating towards EU countries in search of a better paid job. That leads to a worrying social phenomenon: the left behind children. As parents migrate in search of jobs the children are left in the neighbours, grandparents or older brothers or sisters care. Though there are no official data in this matter, a study ordered by the Soros Foundation for an Open Society – Romania branch reports 16% of the children in secondary school to have parents that went abroad to work and came back. Also, 6% of the children still have their mothers working abroad, 8% have their fathers working in other countries and 4% have both parents gone. Taking into account that in secondary school is the highest drop-out rate and children are way more vulnerable at this age when it comes to drugs and felonies, the bigger picture is even more concerning.

Poverty is yet another factor that builds up the early school dropouts and irregular attendance or grade repetition due to the well known relation between lack of means and the cost of education. The education cost is very big in families with numerous children and low income. Also, the school opportunity cost in terms of income that could be earned instead of attending classes is to big taking into account that the visible positive

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aspects of education seem to be small, poor families not having the hope of moving up on the social ladder through education.

The perception of the Romanian education system is that lately it has not been fair, as it does not offer equal opportunities in spite of the underprivileged groups support policies implemented and due to the fact that compulsory education is not actually free, although it is meant to be.

Two categories of pupils are particularly underprivileged: pupils from the rural areas and pupils belonging to the Roma ethnic group. At present, only 24.5% of the pupils from the rural areas manage to attend high school. The average drop-out rate in secondary education is 1.5 -1.7 % every year, but the drop-out rate in the rural areas is 1.6 – 2.1 %.

As far as secondary education is concerned, the cost of education – mainly connected to the cost of transportation – is very high, and the opportunity cost of education related to housework in the household is also very high. 41 % of the agricultural households workers had a personal income under 119 ROL in 2006, when the personal income of 88% was under 336 ROL (the minimum pay was 330 ROL), while 74% of the employees had an average personal income of over 336 ROL when the average pay was 862 ROL. Very low income in the families of agricultural workers results in a very low rate of compulsory education graduation as compared to the national rate. Thus, the rate of pupils from the rural areas who obtain good results in the national tests is 2-3 times lower than that of pupils in the urban areas.

As far as the Roma ethnic group is concerned, as many as 80% of the persons who do not attend school belong to this group, of which 38% are functionally illiterate. The rate of Roma children being enrolled in primary education is 64% as compared to the national rate of 98.9%\(^3\). Official statistics of average income in the Roma families or of gender differentiation are limited or not available. The problems that the Roma ethnic group are facing are major and persistent, as most of the Roma children come from families where parents are unemployed, living from begging or social benefits in unwholesome public housing, in extreme poverty, violence and social exclusion.

The secondary school needs more money and a better quality in order to build up the concept of equal opportunities and also to really allow everyone into high-schools, including children from the rural areas, minorities of with special needs. It is why there is a need to increase the system flexibility and to direct resources towards specific areas.

In terms of the human resource in education and its professional level, Romania paid its toll to under financing the system: there are a lot of teachers under qualified or not qualified at all. 21% of the teachers in pre-school are either under qualified or not qualified. 19% of the teachers in primary and secondary school are in the same situation while, in the professional schools, the percentage goes as up as 33%\(^4\). Thus it is compulsory to offer continuous education opportunities for the existing teachers and a good initial training for the new ones.

The working conditions in schools are important but totally neglected when it comes to the school’s budget. Due to the under financing of the educational system most of the financial resources go into wages and almost no money is invested in arranging, rehabilitation or equipping libraries, laboratories or computer networks connected to the internet, or even for bare necessities like heating and ventilating systems, water and sewerage. Yet, it is a fact well known in management: employees work better and have good results if they have good working conditions.

The infrastructure of the educational system is very poor and the teaching equipment is barely elementary. 82% of the schools were built prior to 1970 and the lack of financing for repairs and equipping leaves the

\(^3\) *Romania for education, Romania for research*, Report of the Presidential Committee of Analysis and Elaboration of Educational and Research Policies, Bucharest, 2007, p. 8

\(^4\) *National policies for education –op.cit.,* p.13
schools in poor condition. Only 36% of schools have computers connected to the internet, most of them located in urban areas\(^5\).

The curriculum is perceived by all the parties involved (teachers, pupils and parents) as being overloaded and irrelevant for the demands of the labor market. What do we want or what do the children need to know or do when they graduate compulsory education or high school? What are the competencies that are required in order to find a suitable job? These are the issues that should be addressed in secondary or high-school education curriculum design. Yet, the system is reluctant to improve curriculum, even though it is overloaded, irrelevant and highly theoretical.

3. PRIORITIES IN ROMANIAN EDUCATIONAL POLICIES

The increasing demands on education systems to meet the challenges set by the revised Lisbon strategy are likely to require additional sources of funding. Public expenditure on education in the EU-27 in 2004 was equivalent to 5.1% of GDP, while the expenditure of both public and private sources of funds on educational institutions amounted to 5.4% of GDP. The highest public spending on education was observed in Denmark (8.5% of GDP), while Sweden (7.4% of GDP), Cyprus (6.7% of GDP) and Finland (6.4% of GDP) also recorded high rates.

Romania has been forced to revise many budgetary chapters and priorities in development policy after joining the EU. Education became one of the priorities. The educational policy in Romania is probably facing the greatest challenge ever. The international trends in research and education – emphasizing the role of knowledge and innovation, the international trends on the labor market and the human capital, the cultural disparity and the disparity in development comparative to other EU countries are some elements that can prompt the leaders to re-consider the role of education, to implement an unprecedented increase of the budget allotted to education, as well as an institutional reform meant to increase the overall quality of the educational system.

Thus, an increase in public spending for education in the amount of 26.41 bln RON (6% of the GNP) is foreseen for 2008, 24.28% more than in 2007 with 21.25 bln Ron (5.5% of GNP) and 228.48 % less than in 2004 with 8.04 bln lei (3.4% of GNP).

This increase has translated into a considerable public spending for Romania, a country with many problematic public spending areas such as social protection, public health, infrastructure investments necessary for development (e.g. highway building).

Unfortunately, increase in public spending is also directed towards increases in salaries in the amount of 90%. The remaining 10% go into other areas of support such as:\(^6\):

- 27,458 bln Ron (0,1%) purchase of school stationary for un-favored families.
- 100 bln Ron (0,37%) purchase of furniture for kindergartens and schools.
- 150 bln Ron (0,56%) purchase of school buses for rural areas.
- 113,063 bln Ron (0,42%) for the program of increasing quality and assessment, facilitating access to education and extracurricular activities.
- 26,960 bln Ron (0,1%) purchase of computers for pupils and students from un-favored families.
- 18,824 bln Ron (0,07%) financing school grants meant to identify and solve specific problems of each school
- 450 bln Ron ( 1,7%) rehabilitation and extending school housing.
- 236,811 bln Ron ( 0,89%) for the program money for high school to support children from un-favored families.
- 150,117 bln Ron ( 0,0,56%) purchase of sports equipment.
- 177,5 bln Ron ( 0,44%) equipping with computers of education and research.
- 450 bln Ron ( 1,7%) development of pilot vocational and art schools.
- 370 bln Ron ( 1,4%) opening medical facilities in rural schools.
- 450 bln Ron ( 1,7%) reform of early education by rehabilitating and building kindergartens.


As mentioned above, a low percentage is allotted for increasing quality of education (0.42%) and solving specific problems (0.07%). This shows that policy makers have used quantitative criteria. It is true that there is no education without public spending, but it is also true that the way financial resources are used is as important.

4. CASE STUDY ON ROMANIAN EDUCATIONAL INSTITUTIONS

The analysis of the institutional features of Romanian education is necessary within the context of the general institutional transformations undergone by our country; doubtlessly, there is a connection between economic institutional efficiency such as the respect for property, for the free market, of interest for international trade and the overall national performance of national economy, which, in turn, influences the efficiency of education. The connection works both ways, as education, in its turn, influences economic performances.

By using the methodology suggested by Gonard, Joumard and Price and by other members of the Economic Department OECD (2003, 2005, 2006 and 2007)\(^7\), we have evaluated the efficiency of education by taking into account certain institutional features of the Romanian educational system\(^8\). The aim of calculating these indicators is, on the one hand, to make a comparative cross analysis with the OECD countries and with the best practices in this domain in the developed countries; on the other hand, identifying certain institutional flaws in the Romanian education is a challenge, considering that Romania is on the point of implementing a major reform of the educational system in terms of both institutional change and of an important increase in the budget allotted to education: in this context, a comparative longitudinal analysis after the completion of the reform could be very interesting by highlighting the role of the institutional features in increasing the efficiency of education.

A national survey has been conducted and the indicators have been calculated at national level. The institutional features of compulsory education in Romania have been grouped around three dimensions: 1) the ability to allocate resources efficiently - through decentralization and matching resources to specific needs; 2) the efficiency in budget management – through managerial autonomy and outcome focused policy, and 3) market efficiency – through benchmarking and user choice possibility.

The decentralization is about who is involved in solving some of the problems that schools having: central authorities such as Ministry of Education, the local authorities such as School Inspectorates or City Councils, unions or schools themselves. A high level of centralization leaves some of the problems unaddressed, but also, a high level of decentralization leads to difficult situations due to lack of responsibility. It is why there is a need to clearly define responsibilities to every party involved. As it can be observed in table 1, due to the quite clear distribution of responsibilities between local in central authorities, Romania has a 6.4 scoring in this field, which is close to the OECD average.

Matching resources to specific needs shows the system’s capacity to address specific needs, be it those of pupils with less favored socio-economic background or rewarding teachers that have outstanding teaching results. In Romania, the score for this specific field is 2.5 as opposed to the 5.3 OECD average. This scoring is bad both because there are no resources to be invested in areas where results are low or the pupils have a poor economic and/or social background nor there are financial incentives for the outstanding teaching results.

Outcome focused policy is supposed to reflect the existence of vision that cares for results and is based on administrative incentives (support or penalties). Again, in this case too, Romania scores a very low evaluation.

\(^7\) Gonard, F., Joumard, I., Price, R., Public spending efficiency: institutional indicators in Primary and Secondary education, OECD, ECO/WKP, 2007/3, ANNEX 2 and ANNEX 3, pp. 29-47

\(^8\) The results of this study were presented at the 2nd International Conference on Educational Economics (ICEE 2008) organized by the Faculty of Economics at the National and Kapodistrian University of Athens, Greece, August 2008, in the paper V. Isan, L. Baciu, L. Asandului, Equity and Efficiency in the Romanian Compulsory Education
due to lack of reforms in educational policies. Evaluation of the pupils and ethical behavior of the teaching staff are the main obstacles in this matter.

**Managerial autonomy at the school level** is about the status of employment, personnel mobility and the secure and fair payment. Again, the Romanian score in this matter is lower than the OECD average as there is a weak managerial autonomy.

**Benchmarking** is the comparative analysis of activities thru identifying the weak and strong points in comparison with those of the others. Here Romania scores better than the OECD average. The good score comes from the fact that national evaluation results are made public and there are periodic or based on results inspections in schools. Yet the issues of matching resources to specific needs and outcome focused policies remain unaddressed.

**User choice** is about the right of pupils and/or their families to choose the school they prefer. This determines setting of an hierarchy based on results, making the system competitive. Again, Romania scores lower than the OECD average because there are factors that limit the user choice, be it financial, related to transportation or of other nature.

5. **FINAL REMARKS**

As a general remark, institutional features influence the quality of education. For this reason in the OECD countries where the degree of localized decision-making and the quality of benchmarking (Netherlands, Belgium, United Kingdom, Norway, the Czech Republic, Japan, Spain, Germany and Denmark) are high, the results of education are also above the average⁹, in terms of results at standardized tests. Romania has very poor results at PISA tests.

In conclusion, to provide equal opportunities in education and give access to education to children in rural areas, minorities and those with special needs we need better financing and quality in education. This leads to a need to increase system flexibility and allocate resources towards specific needs.

**Decentralization** is an institutional feature able to ensure increased efficiency. The decentralization of the educational system makes sense if it is corroborated with certain objectives: *better adjustment of the educational syllabi to local or regional needs, better adjustment of the educational curricula to specific needs etc.*

**Increased competition among schools and the possibility the user’s choosing the school to attend** is one of the very powerful institutional and useful instruments to improve the results of education. The *per pupil financing according to the principle the financing follows the pupil* could ensure an increased quality of educational activity, since better schools would attract more pupils and therefore more money. The institutional framework would be thus created so that public money would be directed towards quality. Another issue relates to *stimulating life-long learning* among adults as it is almost inexistent.

In the case of Romania, an increase in *the budgetary autonomy of schools* can function as an institutional reform to complement the funding-according-to-results system. If schools do not have managerial as well as accounting and budgetary autonomy, how could they possibly enhance the quality of their teachers’ activity? An increase in flexibility and autonomy respectively in hiring the staff and in selecting the teaching methods, in setting the payment are just some of the possible ways of improving results. Higher payment in itself is not enough, it has to be associated by an increased quality and quantity of the teaching activity. At present, a Romanian teacher’s average salary is only 0.95 of the GDP/inhabitant, while the average pay in the OECD

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countries is 1.31 GDP/inhabitant; moreover, Romania has the shortest school year and the smallest number of teaching hours\textsuperscript{10}.

The social status of professors is not a prestigious one, on the contrary, schools have gained a negative image. Under these conditions, the question is whether good students will be interested in pursuing a career in education after graduation. Even more, poorly paid, lacking motivation and socially marginalized professors will not be able to motivate students to finish their studies and take them seriously as a chance to do something meaningful with their lives? Professors lacking motivation are not able to offer credible perspectives for social integration and rewarding work of students as they are perceived as individuals who did not manage to be successful.

On the other hand, if almost the entire budget goes into paying salaries (an important raise of 50% has been approved on October 1, 2008), the question is when new schools will be built or decent conditions of work provided to teachers? Under these conditions, both budget allocations and the way the budget for education is divided are important. A change in mentality at the social level and philosophy at the administrative level are necessary for reshaping the role of school and educators.

Without these changes Romania cannot recover delays in development even in comparison with former communist countries such as Hungary or Poland. Human capital and mentalities cannot be developed over night. This is the reason why only a stable educational policy can provide long-term benefits in a growing economy in future 20-25 years.

\textbf{REFERENCES}

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APPENDIX

Table 1. Institutional framework in Romanian compulsory education

<table>
<thead>
<tr>
<th>Intermediate indicators and efficiency categories</th>
<th>OECD Average</th>
<th>OECD best Practice</th>
<th>Romanian Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Efficiency in resource allocation</td>
<td>5.2</td>
<td>7.7</td>
<td>4.45</td>
</tr>
<tr>
<td>Decentralisation</td>
<td>6.3</td>
<td>9.6</td>
<td>6.4</td>
</tr>
<tr>
<td>Matching resources to specific needs</td>
<td>5.3</td>
<td>8.3</td>
<td>2.5</td>
</tr>
<tr>
<td>2) Efficiency in budget management</td>
<td>3.3</td>
<td>7.4</td>
<td>3.25</td>
</tr>
<tr>
<td>Outcome-focused policy</td>
<td>2.7</td>
<td>7.9</td>
<td>2.5</td>
</tr>
<tr>
<td>Managerial autonomy at the school level</td>
<td>4.8</td>
<td>7.7</td>
<td>4</td>
</tr>
<tr>
<td>3) Market efficiency</td>
<td>4.8</td>
<td>8.4</td>
<td>5.2</td>
</tr>
<tr>
<td>Benchmarking</td>
<td>4.9</td>
<td>9.4</td>
<td>5.5</td>
</tr>
<tr>
<td>User choice</td>
<td>5.0</td>
<td>9.5</td>
<td>4.8</td>
</tr>
</tbody>
</table>

MP-04:

Six Sigma Approach in Business Enterprises: Schneider Electric Turkey Sample
-An Assessment In Terms of Internal Organizational Communication and Corporate Culture –

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ABSTRACT

The emergent globalization phenomenon since the 1980’s, came true with a series of changes and transformations. With the globalization effect, many of the business enterprises who are competing at the international markets needed new strategies in order to maintain their profitability levels as well as the competition force. That’s why, at the end of the globalization process, businesses and their competition strategies can be named as some of the widely affected areas. At this point, to overcome the obstacles of the total quality management, a new approach started to form. This new approach, six sigma, is the business strategy to improve profitability, eliminate unnecessary spending, reduce the quality costs, and fulfill the customer needs and expectations and to increase productivity of all business processes. The basis of six sigma is to measure a process with a focus in deficiencies. In order to successfully implement this approach, issues such as integrating six sigma strategy to the business strategy, the market and consumer researches, the management support and of course six sigma trainings are very critical. Moreover, six sigma success can’t be achieved unless the process is backed up by effective internal organizational communication and the necessary changes to be made in the corporate culture to have the six sigma operate.

In this study, after discussing six sigma in terms of its concept, tools and application with focusing on internal organizational communication and corporate culture, the Schneider Electric Turkey sample will be studied.

Keywords: Six sigma, internal organizational communication, corporate culture, Schneider Electric Turkey sample.

1. INTRODUCTION

In the intense atmosphere of competition rooted at globalization, enterprises gain competitive superiority in accordance with their performances. Companies’ abilities about efficiency and cost saving became highlighted as similar input, processes, equipment and resource exploitation started taking the back seat. New criteria of enterprise performance that would bring advantage in this atmosphere are the ability to save costs by avoiding operational errors. Six sigma presenting enterprises the advantage of maximum efficiency with less error and lower costs is a leading one among all key strategies of the new century.

Purpose of the study is to emphasize internal organizational communication and quality-focused corporate culture for the success of six sigma applications after the examination of six sigma which is accepted to be a drastic approach at the point of focusing at excellence.

The study furnishes six sigma definitions and its general properties, DMAIC and IDOV processes and the importance of internal organizational communication and corporate culture for the success of six sigma operations. Six sigma studies executed in Schneider Electric Turkey are explicated in internal organizational communication and corporate culture perspectives in accordance with the information gathered through semi-structured interview method.
2. SIX SIGMA: DESCRIPTION AND GENERAL PROPERTIES

One can come across many descriptions of six sigma while examining the literature about the concept. A description states that six sigma is a business development strategy that is used for improving profitability, eliminating dissipation, reducing quality costs and establishing the efficiency of any kind of business process devoted to the needs and expectations of customers (Coronado, Antony, 2001:119; Coronado Antony, 2002:92). A description which classifies six sigma as a methodology and philosophy expounds that the system enables the discovery and control of the resources of quality problems by means of a rapid analysis of statistical data (Markarian, 2004:28). On the other hand, Antony and Coronado underline that six sigma is a development strategy which provides a rise up in efficiency and effectiveness in order to go beyond customer needs and expectations (Coronado, Antony, 2001:119). In a description of six sigma by Klefsjö and his associates, it is emphasized that the system is not only for the elimination of errors through statistical applications but it is also for the elimination of incorrect production techniques (Klefsjö, Wiklund, Edgeman, 2001:33).

Being the 18th letter of Greek alphabet, sigma (ơ) represents the standard deviation variability. Its symbolic meaning in the approach is the level of proximity to excellence (Ertan, 2008). For his reason, the basic plot of six sigma while achieving business processes at the closest level to excellence is the increase in capacity and abilities and the sustainability of both (Mahanti, Antony, 2005:741). Each sigma is the indicator of another movement towards excellence. In statistical means six sigma points to an error margin of 3.4 in one million probabilities. It is possible to mention about a precision percentage of %99.99966 in a system proceeding like this (Brue, 2003:22; Kuei, Madu, 2003:956; Behara, Fontenot, Gresham, 1995:9).

Error in six sigma system is evaluated per unit and each process is examined in precision means. The error percentages and deviations from excellence get different in all 6 levels (Cankurt, 2003:2). For instance, 66.800 errors in a million or 93.3 % points to the success of process at 3rd level whereas the indicator of process’ success is 3.4 errors and %99.99966 in 6th level (Linderman, Schroeder, Zaheer, 2003:194). This sigma level is the one closest to excellence.

Many business enterprises have an error amount between 35000 and 50000 in a million which is reflected to customers’ invoices. This level of error equals to a range between 3 and 3.5 in sigma quality level (Antony, 2002:6). In these enterprises, the failure costs rooted at waste and loss constitutes 10-15 % of whole sales. Considering that the enterprises operate with an average profit of 10 %, it is pretty hard for companies at 3-4 sigma levels to compete with six sigma companies (Argüden, 2008).

With the operational excellence approach it has, six sigma is also described as the key to the success in unconditional customer satisfaction (Ertan, 2008). The three elements highlighted in order to achieve the desired quality level are customers, processes and employee (as cited in Ada, Aracıoglu, Kazanci, 2004:4; Little, 2003).

Jack Welch from GE emphasizes that best six sigma projects take place not inside but outside of the enterprise and they start with the phase of questioning the critical success points regarding customers. According to Welch, any effort made for customer satisfaction will turn out to be a positive financial result for the company (Pande, Neuman, Cavanage, 2000:6).

Process is another element subject to system supervision. According to Dave Burnitt, the vice-chairman and chief of finance of Caterpillar, six sigma urges enterprises to control the processes and anticipates the sustainability of results (Byrne, Lubowe, Blitz, 2007:6). In Magnusson’s word, the control of operation processes starts from the lower levels in enterprises and provides an increase in customer satisfaction through the design and supervision of daily operation activities which anticipate savings in resource and waste means (as cited in Andersson, Eriksson, Torstensson, 2006:283; Magnusson, Kroslid, Bergman, 2003). The prior processes to be supervised by the system are the ones which have the biggest effect on customers on the way to customer satisfaction because the resources must be exploited effectively for vital tasks with priority (Bas, 2003:16, 17). Another element on the way to desired level of quality is the employees. It is impossible to talk about success at a point where there’s no full participation by the employees.
Six Sigma’s basic role is to build new structures and adopt new applications designed for supporting improvement and securing the success of operation from beginning to the end (Pande, Neuman, Cavanage, 2004:4). Improvement expected in six sigma is about both knowledge and motivation. Improvement without knowledge is only an indirect result of coincidences fed by chance most of the time. On the other hand, goals about improvement reach their aim as they help arouse creativity by invigorating motivation and establishing improvement through this way (Linderman, Schroeder, Zaheer, 2003:193).

Six sigma in essence is a management policy built upon data and facts where the main focus is at customer oriented operation, excellence and process management. It is also possible to state that six sigma has a proactive understanding of management. Six sigma applications require the strengthening of inner communication upon upper management’s support, the establishment of a cultural texture where six sigma can exist and the support of employees to the system. Considering these, it is possible to state that the nature of the system is based on unlimited cooperation.

The correct perception and understanding of six sigma by all employees of the enterprise and their incorporation in the system is not enough since there is need for a team to keep the functionality of the system. Six sigma in a management is essentially executed by a personnel group hierarchy titled from top level to the lowest level as champions, master black belts, black belts and green belts. Project champions determine the projects which are strategically important for development teams and allocate the resources in accordance with their level of importance. Having a critical role about success in six sigma, black belts prepare for their duties with an education which is highly concentrated in content means. Black belt candidates positioned as project managers employ six sigma tools to reach project goals parallel with the education they are put upon. It is the duty of black belts to irrevocably solve the problems with priority which negatively influence the enterprise’s performance. Master black belts serve as educators or consultants whereas green belts generally focus on assisting tasks as they are experts on half time development. (Linderman, Schroeder, Zaheer, Choo, 2003:195). Team members work in a team dynamic for establishing sustainable improvement and achievement of success (Durakbasa, Cavusoglu, Osana, 2008).

Another point of importance in six sigma applications is the foundation of a system within the borders of project selection, follow up and reporting. For this reason, the enterprise needs to determine the criteria to be considered in selection of projects and the way of follow up and reporting.

3. SIX SIGMA DMAIC AND IDOV PROCESS

Six sigma quality management is applied by the projects and each project is carried out with a systematic approach named six sigma route map (Aslan, Demir, 2005:273). Long form of this route map comprising of five steps, which can be stated shortly as DMAIC, is as follows (Goh, Xie, 2004:236):

- Define (D)
- Measure (M)
- Analyze (A)
- Improve (I)
- Control (C)

In the stage of define, processes which will be developed are defined; goal, target and team members are determined; needs and expectations of customers are introduced; an improvement map about the process is outlined. Key factors which have a substantial effect on the process in the measurement stage is determined and it is tried to introduce how these factors will be measured. Analysis of the factors which need to be developed in the stage of Analysis is actualized and evaluation of improvement plan and results obtained is discussed in the last stage (Andersson, Eriksson, Torstensson, 2006:287).

The most common tools which are used in Define (D) stage are project cohesion plan, shareholder analysis, suppliers, inputs, outputs, processes and customer (SIPOC) map, product analysis, voice of the customer, affinity diagram, kano model, critical to quality factors tree. The most common tools which are used in measurement are data acquisition forms, frequency distributions, estimation R&R (repeatability, reproducibility), pareto cards, priorization matrix, FMEA, process capability, sampling, time series diagrams. The most common tools which are used in Analyze (A) are affinity diagram, brainstorming, cause-effect diagram, data acquisition forms, design of experiment (deney tasarımı), flow diagrams, frequency
distributions, hypothesis tests, pareto cards, regression analysis, reaction place methodology, sampling, dispersion diagrams, stratified frequency distributions. The most common tools which are used in improvement stage are brainstorming, creativity techniques, data gathering, design of experiment, flow diagrams, and hypothesis tests. The most common tools which are used in Control (C) Stage are control cards, data gathering, flow diagrams, frequency distributions for control of pre and post, pareto cards and such cards as quality control process card and standardization (http://www.kaliteofisi.com/makale/Makaleler.asp, 2008).

Within six sigma fields, beside the methodology called ‘problem solving methodology, DMAIC, there is also the preventive methodology named Design For Six Sigma-DFSS. Design for six sigma is accepted as a precise approach used for designing products, services and processes to meet the customer demands. Design for six sigma, known by the IDOV acronym, is a four phase process. Stages of this process can be listed as follows (Antony, 2002:7,8):

* Identify (I)
* Design (D)
* Optimise (O)
* Validate (V)

Describing customer and their demands, identifying design requirements about the product, describing critical quality characteristics, engineering and functional requirements which are important for the customer and the relation among customer demands and technical demands is discussed in Identify Stage (I). In design stage, analysis of design requirements and describing key design parameters as well as determining design alternatives are tried to be determined (Antony, 2002:7). Optimization is a stage which is tried to reach cost, quality and time balance in accordance with the market. Validation is a stage at which it is proved that client’s expectations are satisfied and his/her voice is considered through data (Brue, 2002:40).

4. SIX SIGMA INTERNAL ORGANIZATIONAL COMMUNICATI ON AND CORPORATE CULTURE

No sooner than 1980s, business life has understood that its main source is human factor and especially the big enterprises have made their employees a primary focus of interest. Even if it seems ironic, enterprise managers convinced that keys of the organizational success is not in machines’ power but in human’s power when computer and computer aided robots came into business life. In an effective leadership, creating an environment which will meet the needs of both organization and employees is highly gaining importance. Operating healthily communication in organization which is an important part of the internal organizational communication is a pre-requisite to provide it.

Six sigma comprises a big change for business enterprises. For this reason, it should be cared that internal organizational communication is formed in an effective and healthy way in a point of starting and sustaining an initiation. A plan of internal organizational communication in the beginning of application is a requirement for the success of the organization.

When assessed basically, internal organizational communication plan formed at the beginning of the application is developed to support six sigma initiatives and seen as an important part of the development plan. Communication plan has a big importance in that the enterprise perceives six sigma and it should be organized to respond to those questions listed as “Who, Why, When, How and Where”. These questions and their answers will facilitate introducing an effective internal organizational communication for six sigma. So-called questions and their answers can be listed as follows:

<table>
<thead>
<tr>
<th>QUESTION</th>
<th>ANSWER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Who?</td>
<td>Various target audiences</td>
</tr>
<tr>
<td>Why?</td>
<td>Providing information flow to the business enterprise</td>
</tr>
<tr>
<td>When?</td>
<td>Continuous, ongoing</td>
</tr>
</tbody>
</table>

* Schneider Electric Turkey six sigma training notes.
| **How?** | Using different communication tools and methods continuously |
| **Where?** | Environment where communication will be found |

The answer of the **WHO** question in a communication plan that will be prepared is target audiences as mentioned before. Herein, the crucial point while making plans for a healthy internal organizational communication is that all target audiences have different characteristics and expectations in enterprise. For this reason, target audiences analysis should be done carefully and communication plan should be constructed accordingly. It should not be forgotten that each target audiences can understand information in different manner via different media tools and methods and this situation should be taken into consideration while preparing the plan.

One question that should be answered is **WHY** in the course of organizing communication plan. The answer of the **WHY** question is the subject of the communication. At that point, the goal is to provide regular information flow to the business enterprise. Other question that the communication plan should answer is **WHEN**. The continuance of communication formed within the framework of six sigma is essential as the workings go on. It should be cared that communication be more often and intense in course of starting an initiative.

Communication plan should have a structure including the answer of **HOW** question. Answer of this question may be the usage of various media tools and methods. It is possible to create awareness in employees and inform them by using different media tools and methods. Which tool/tools and method/methods will be used is introduced within the framework of the answer of the question **WHO**. For this reason it is important to perform target audience analysis carefully. It is possible to benefit from many internal organizational communication tools and methods coordinately in terms of a qualified communication process. It is possible to summarize these technic, methods and tools as follows (Göksel, Yurdakul, 2002:251-253):

1. Internal publications
   - Organization publicity booklet
   - News releases
   - Organization newspaper
   - Organization bulletin
   - Organizational reports
   - Information articles about the organization
2. Letters
3. Communication boards
4. Closed circuit TV programs
5. Communication by phone
6. Meetings
   - Organization meetings
   - Organization journeys
   - Department meeting
   - Department presentations
7. Wishing boxes
8. Conversation and conference service for employees
9. Normal and audible slide display
10. Information films and videos
11. Speaker announcements
12. Informing employees about extrinsic public relations activities
13. Inviting employees to other public relations activities
14. Job rotation
15. Special organizations
   - Organization anniversary celebrations
   - Ceremonies
   - Annual personnel nights
   - Spring picnic
   - Grouped cinema and theatre organizations
16. Intranet
17. Visual and audio tools

It is important to design organizational communication plan in a way that it can respond to WHERE question. A possible answer to WHERE question is the description of the place where communication will be carried.

Although communication plans varies from one enterprise to another, it should not be forgotten that communication is a continuous and bilateral process; it is the key factor for leadership and job responsibility; it can be formed as vertical, horizontal and crosswise; each relation can be a communication; and communication is a management process.

Aforementioned communication plans are general communication plans that can be applied during six sigma practices. These communication plans are based on adopting six sigma, transferring six sigma culture to employees and informing employees continuously about six sigma projects. Beside these plans, each project which is formed during six sigma applications should have a communication plan. These communication plans are planned following a stakeholder analysis which will be made in organization. Shareholder analysis includes the determination of shareholders and process owners who are critical for the project, the evaluation of the support given by these people and the researching about what could be done to increase this support. Following this analysis, it is important to form a communication plan which can respond to WHO, WHY, WHEN, HOW, WHERE questions. In the communication plans formed as project-based, the answer of WHO question is shareholder/shareholders who will affect the project; the answer of the WHY question is the subject of the communication; the answer of the WHEN question is the frequency of the activity; the answer of HOW question is the communication style of the activity; and the answer of the WHERE question is the place where the activity will be carried out. These communication plans terminates at the end of the project.

Corporate culture is also important in six sigma success as much as internal organizational communication.

Six sigma is considered as a management strategy, so it is mandatory to arrange corporate culture for its application(Coronado, Antony, 2002:93). It is so difficult that a six sigma project can be successful when it stays as methodology and can not be integrated to the cultural values and can not be shared with target audiences.

It is a significant reality that efficiency and durability of six sigma depends on the working environment and the employees’ behaviors in enterprise. For this reason, cultural admission is especially emphasized in any study(Kuei, Madu, 2003:962). It should never be forgotten that the chance of six sigma to be effective is high in an corporate culture based on reducing errors, grounded on stakeholder cooperation, having an established conscious that every employee is an internal customer, having a belief that the contribution of each employee is important, trust and win-win understanding is predominant and open to developments(Dalhgaard, Dalhgaard-Park, 2006:274).

Settlement and generalization of six sigma philosophy is completely possible with the systematic, planned and organized activities of public relations management in cultural transformation phase. The subject of this generalization and settlement is human factor who will again apply this culture. Six sigma is actually built upon human; the only factor that will enable all processes to be qualified and produce continuously developing quality is human. Increasing human quality is not only employing qualified personnel. It is also required to increase the quality of the available personnel continuously. When the organization comes into a transformation which will create a continuous development culture, in an corporate culture having a formal organization structure, the cumulative impact of the individuals’ efforts to improve their jobs, conditions and themselves is as important as the team work. Consequently, the public relations management which creates and enroots the new corporate culture and provides the organizational communication as a backbone of the process has a strategic significance in establishing six sigma approach as the organization culture.

Since six sigma is a cultural transformation, so it entails cultural structure to pass through a serious transformation process before six sigma applications in business enterprises. The most preferred methods in breaking resistences of employees against change are education, communication and providing of collaboration. Especially, all questions in employees’ minds can be answered by an education program which will be formed before starting six sigma applications and employees can be informed with appropriate cultural
pattern for six sigma. Moreover, the crucial point that should be deliberated herein is how six sigma will have a role on employees’ career and training. In this context, with education program,

- Six sigma concept
- Contributions to business of six sigma
- Importance of the human factor attendance for the six sigma success
- Success stories about enterprises which apply six sigma
- Support of six sigma to the development should be transferred to the employees and it is mandatory that employees believe the requirement of the six sigma and the necessity of a change that will be made in corporate culture within this framework.

Building a communication comprising exact, clear and true information with employees who are against change will be helpful to break the resistance. Providing the continuity of communication will create a belief among employees that they are appreciated and also there will be any questions without responses as a result of communication. The point that should never be forgotten is that humans need to know what happens in enterprises.

Another method that can be utilized against the resistance to the change of corporate culture is the participation. The employees incorporated into the six sigma activities will easily be adapted to this system, thus the cultural change will be realized faster.

When transferring a cultural pattern to the employees where six sigma can find a life, internal organizational communication tools and methods are used. Within this framework, employees is tried to be adapted to the new culture via the help of internet, business newspaper or business bulletin, various posters, communication boards, closed circuit TV or closed circuit radio broadcasts, various meetings and socialization processes are actualized.

5. THE EVALUATION OF SIX SIGMA APPLICATIONS IN THE CASE OF SCHNEIDER ELECTRIC TURKEY

In this section, the six sigma studies executed in Schneider Electric Turkey will be mentioned in the context of organizational communication and corporate culture. Before stepping to six sigma applications, it would be proper to furnish brief information about Schneider Electric.

5.1. Brief Information about Schneider Electric:

With a history rooting back 160 years ago, Schneider Electric is one of the leading companies all over the world in electricity distribution, industrial control and automation equipment production with its three international trade marks Merlin Gerin, Square D and Telemecanique. In 1836, two brothers named Adolphe and Eugéne Schneider bought the Creusot mines, iron quarries and foundries. The main markets of the era were steel, heavy industries, railways and vessel construction. New processes which came on the scene on 1860’s and 70's enabled the production of harder steel products with lower costs. Schneider pioneered some changes in iron and steel production and turned out to be one of the leading substructure and gun producers in Europe. The company underwent a reconstruction in the end of 1980's. Merlin Gerin, Telemscanique and Square D joined in the organization in 1986, 1988 and 1991 respectively. In order to underline its expertise in electric business, the company changed its name as Schneider Electric in May, 1999.

5.2. Six sigma applications in Schneider Electric Turkey

Six sigma applications started in Schneider Electric Turkey in 2003 have been in progress for the aims of reducing errors, increasing reaction speed, elevating product and service quality, improving processes, cutting down the costs rooted at lack of quality, making investment in employees with six sigma educations and raising professional satisfaction by assigning employees in six sigma projects. With a general look, it can be stated that the company started six sigma studies in order to maintain the satisfaction of customers, shareholders and employees.

* Information about six sigma applications was given by Alper OZGEN, Chief of Lean Six Sigma in Schneider Electric Turkey.
The studies began with giving information to the management. One of the critical points of success in six sigma is the total belief and support of management in the concept. To arouse desired belief and support, a 1 day information study and six sigma game∗ were organized for management team. After giving information to the management team, Schneider Electric Turkey proceeded with its six sigma studies by informing its employees about the concept. The concept of six sigma was tried to be explained in seminars organized for this aim and the employees gained awareness on the subject. The expansion of six sigma in the world, the reasons of large scale companies for adopting six sigma methods, the importance of human resources in the execution of six sigma, the relationship between sigma values and error percentages, variation descriptions, variation-quality and cost relationship, process of raising a black belt and trouble shooting methods were also mentioned in these seminars. Another step towards six sigma applications is the foundation of an organization about the concept. The table below is important in sense of showing what kind of a six sigma organization was made in Schneider Electric Turkey.

<table>
<thead>
<tr>
<th>Champion</th>
<th>General Manager</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expansion Leader</td>
<td>Quality Manager</td>
</tr>
<tr>
<td>Sponsors</td>
<td>Process owners - Managers</td>
</tr>
<tr>
<td>Master Black Belt</td>
<td>6 Sigma — Master Coach and Educator</td>
</tr>
<tr>
<td>Black Belts</td>
<td>Project leaders, Project leaders, 25 days DMAIC education, Assistance to Green Belts.</td>
</tr>
<tr>
<td>Green Belts</td>
<td>10 days DMAIC education.</td>
</tr>
<tr>
<td>Financial Control</td>
<td>Finance Manager controls and confirms the gains.</td>
</tr>
</tbody>
</table>

Table 1: Six Sigma Organization in Schneider Electric Turkey

∗ This is a 1 day simulation which has different variations. Schneider Electric Turkey builds the simulation on courier structure. This simulation is arranged with a crowded team and since it allows the usage of visual and statistical tools it can be concluded in one day. The plot of simulation is simply like this: A courier company that provides bad service goes on serving without knowing the needs and expectations of its customers; it makes too much incorrect deliveries and loses lots of parcels. The game simulates how the service conditions of this company can be improved. In first of 3 rounds, the employees start the game by simulating the current situation of company in 20 minutes. Papers which represent the parcels are carried between the customers within some specific rules. The score is calculated in the end of first round and a situation analysis takes place after that. The team analyses the situation and discusses what kind of improvements can be arranged. The delivery time decreases parallel with the improvement step taken. Then the number of parcels is increased and the 15 minutes simulation starts. Another evaluation is made in the end of the round and the team is given a chance to proceed with maximum 2 radical improvement methods. The delivery time is reduced and the number of parcels is increased. After that, the results are analyzed and evaluated. In short, this is an accelerated simulation that covers many phases from the integration of the appropriate structure in accordance with variable customer demands to the way of analyzing and evaluating numerical data.
The application fields of six sigma in Schneider Electric Turkey can be classified as logistics process (improvement of timely delivery quality, reduction of idle stocks, reduction of slow moving stocks), production process (reduction of production junk, reduction of supply stocks, improvement of production efficiency, minimization of order-delivery time, setting of special process parameters), services (reduction of credits), customer support line (improvement of the percentage of responding to customers within 1 day) and SAP (optimization of technical improvement demands).

The belts∗ were determined after the information seminars about six sigma and the formation of organization. Green belts were also subjected to a team effectiveness seminar considering that the application is a team work. The main topics of education given by S.P.A.C. Consultancy can be classified as working with a team, preparation for team, communication plan, shareholder analysis, RACI-T analysis and four-way tables. The participants were educated about many issues within the borders of specific topics including responsibility field of project leader, specifications of a project leader, general rules of communication, the way of making a team opening speech (the most effective way of starting black belt, green belt project – it helps team members to rapidly understand how they can be more effective and successful and enables the creation of a high performance team), the borders of team opening speech (goals-team’s goals, team’s resources and targets, responsibilities – duties and responsible employees, volunteers and ones to be informed later- basic rules- way of working, meeting frequency, way of decision making, reporting systematic, behaviors and feed back – human behavior among the group, communication rules, ways of impressing and team success-) and preparations for meeting (presentation, content of presentation, detection of meeting needs, the preparation of opening speech by project champion, determination of meeting agenda, arranging reminder phone calls about meeting time and place).

The support of top management is highly important in the establishment of team efficiency. For this reason, in Schneider Electric Turkey, it is especially underlined that project champion and one person from management should make a short opening speech in meetings.

Team efficiency educations also aim at transmitting the importance of information of teams in accordance with the targets. In this context, any kind of project descriptions, project teams, potential gains, indicators and plans are shared with the team members.

Another subject emphasized in educations for the establishment of meeting efficiency is the determination of basic rules. At this phase, it is important to settle the balance between investigation and arguments, to activate the usage of issues to be discussed later when necessary, to determine the way of decision-making, to figure out when and where to hold the meeting and how to arrange timing.

Another issue emphasized during educations about team efficiency is roles and responsibilities. To make it clear, it would be helpful to make a chart with the names of people in charge on the left part, the names of responsible staff, information givers, consultants and staff to be informed on the upper part. The names appropriate for the functions above should be checked on the chart in order to make a clear division of labor.

<table>
<thead>
<tr>
<th>Staff</th>
<th>Responsible</th>
<th>Accountable</th>
<th>Confirmed</th>
<th>Informed</th>
</tr>
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<tbody>
<tr>
<td>Staff 1</td>
<td>X</td>
<td>X</td>
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<td>Staff 2</td>
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<td>Staff 4</td>
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<td>Staff 5</td>
<td>X</td>
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<tr>
<td>Staff 6</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Staff 7</td>
<td>X</td>
<td>X</td>
<td>X</td>
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</tbody>
</table>

Table 2: Roles and Responsibilities

After the preparation of chart furnishing the roles and responsibilities, a shareholder analysis should be executed in order to determine the critical shareholders and process owners which influence the success of project, to evaluate their support in project and to find out what can be done to increase their support in the

∗ Currently 44 green belts, 10 black belts and 1 master black belt is in duty in Schneider Electric Turkey. The team members within the belts are selected by project leader and sponsor in Schneider Electric Turkey.
project. The suggestion about shareholder analysis is the activation of most appropriate strategies towards the shareholders in accordance with the analysis data. Rewarding and punishment, convincing, participation and trust, bargaining and establishment of a shared vision are some of these strategies.

Table 3: Shareholder Analysis

<table>
<thead>
<tr>
<th>Name of Project</th>
<th>Shareholders</th>
<th>Desired Effect in Project(3-5)</th>
<th>Current Effect (1-5)</th>
<th>Difference</th>
<th>Is there a need for support? (Difference must be &lt;2)</th>
<th>Action to be taken</th>
</tr>
</thead>
<tbody>
<tr>
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</tbody>
</table>

1. Definitely opposing
2. Opposing
3. Neutral
4. Contributory
5. Very contributory

The execution of RACI-T analysis is another topic mentioned in educations. RACI-T analysis is a list where the information below can be found:

- Responsible
- Accountable
- Confirmed
- Informed
- Time
Table 5: RACI-T Analysis

The last topic underlined in educations is the usage details of four way charts which display the latest situation of operations. These charts show the actual status of operations, completed operations, operations to be completed within 15 days, barriers and problems and the actions to be taken in order to complete the level.

<table>
<thead>
<tr>
<th>Phase</th>
<th>Operation described</th>
<th>Responsible</th>
<th>Accountable</th>
<th>Confirmed</th>
<th>Informed</th>
<th>Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td></td>
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<tr>
<td>2.</td>
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<td>3.</td>
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<td>4.</td>
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<td>5.</td>
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<tr>
<td>6.</td>
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<td>7.</td>
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</table>

Table 6: Four Way Charts

A team management seminar was held right after team efficient education for Six Sigma participants in Schneider Electric Turkey. The seminar mainly focused on the importance of team management, the ways of providing volunteer participation, basic group dynamics and their usage in team managements. The belief that six sigma achieves success only upon team performance increases the need for seminars such as team efficiency and team management.

The project members are tried to be assisted and cooperated with the help of information collected during the education sessions. The members are uninterruptedly kept informed and a healthy and active communication is tried to be settled. Project leaders in Schneider Electric Turkey take utmost care to know team members, to assess them in accordance with their abilities and knowledge, to exchange ideas with members within the borders of project gains and to establish the transmission of right information to the right person at the right time through the usage of right communication channels.

Resistance by team members during operations is an important matter mentioned in educations in Schneider Electric Turkey. Resistance is a situation that should certainly be overcome. Inadequate knowledge, lack of resolution on ideas, the fear of power or status loss and rapid flow of change are some instances which lead to resistance. The employees of Schneider Electric Turkey were also informed about the ways of dealing with resistance.
The educations given to belts are very important for the success of six sigma. For this reason green belts, black belts and master black belts undergo respectively 10, 25 and 15 days of education. With a general overview, the topics subject to six sigma education are as follows:

a. Definition
1. Project declaration
2. SIPOC (Upper level process map)
3. Detailed process map
4. Voice of customer
5. Cause and effect matrix

b. Measurement
1. Efficiency of measurement system
2. Graphical analysis
3. Efficiency analysis
4. FMEA (Failure modes and effects analysis)

b. Analysis
1. Cause effect diagram
2. 5S (Seiri/Seiton/Seiso/Seiketsu/Shitsuke or Sort/Set in order/Shine/Standardize/Sustain) and Kaizen
3. Hypothesis tests
4. Multiple variable analysis
5. Regression
6. Design of experiments
d. Improvement
1. FMEA
2. Optimization plan
3. Operation plan
4. Plot trial
5. General Pull Systems
e. Control
1. Statistical Process Control
2. Error avoiding tools
3. Before-After Analysis

In addition to the educations given, the belts regularly undergo coaching during the month. The educations are given by a consultancy company named S.P.AC but the studies for transferring education duty to master black belts are going on. Also, the human resources department sends evaluation forms from time to time in order to help employees develop their talents and collect information about the educations they would like to undergo.

Schneider Electric Turkey arranges education sessions for the projects in accordance with the demands. Waves expand within the borders of these demands. The priority is given to staffs who are currently not taking part in any projects. If all staff is in charge in a project, then new team members are selected and given education.

The surveys sent to project leaders and candidates every 6 months help providing information about project declaration, project team and project calendar. Especially the project declaration is accepted to be one of the most important elements for the negotiation of top management and Six Sigma team. Project declaration includes project description, project scope, team members, financial analysis and time table. Surveys are assessed with a method called Benefit and Effort Analysis and the projects are listed after assessment. Project assessment takes place upon 3 important questions. These questions are as follows:

*Are the gains which will come out of project only for the benefit of company?*
*Are the gains for the benefit of another enterprise within the company?*
*Will the project gains only function as risk reducer?*
Right after the completion of educations and the settling of some elements about projects, the application process take a start in Schneider Electric Turkey.

Schneider Electric Turkey holds the belief that a strategy within the borders of Six Sigma operations must stand upon a vision. For the success of operations, it is very important to keep a master plan working except the strategy. Schneider Electric Turkey makes the first step with listening to the VOC (Voice of Customer). Customer of present day is basically in the center of everything in enterprises. So, the first step is to learn what customer wants and expects. The next step is listening to the voice of business, VOB (Voice of Business). The point underlined at this phase is how to integrate Six Sigma into business processes. Following important step is listening to the voice of employment, VOE (Voice of Employment). Especially the suggestion systems are effectively used at this step. After the completion of necessary information, the phase of process management starts. At this phase, the voice of process, VOP (Voice of Process) is listened. For the clear understanding of VOP, content of process is tried to be examined with balance score card method. Another important point of process management phase is the one when process sufficiency is introduced. Process value charts are arranged after the definition of process sufficiency. The achievement of all these phases leads to the activation of DMAIC process of six sigma if the tendency is towards the reduction of process errors or the activation of (DFSS) IDOV process if the tendency is towards the creation of a new product or service.

Schneider Electric currently operates through DMAIC process. Studies on DFSS are also in a busy progress. The operations taking place in each step within DMAIC process can be listed as follows:

**Definition** is the phase when a project declaration is constituted by the usage of SIPOC (supplier-input-process-output-customer) chart in order to provide a full vision of customer. A detailed process map is made at the next step. The relationship between input and output is tried to be displayed through the help of prioritization matrix.

**Measurement** phase aims to see the situation. Within the borders of this aim, time series, histogram, pareto analysis, estimation R&R (repeatability, reproducibility) and other process tools are used and process sufficiency is realized.

**Analysis** is the phase when various analyses take place through methods such as fishbone diagram and hypothesis tests.

**Improvement or optimization** is the phase when studies about process improvement are executed using design of experiments.

**Control** phase is the step of comparison between the before and the after of process to see whether improvement procedure worked or not. All data is furnished on written documents after completion of all phases for the aim of providing information to other parties and letting them use it.

An important point to be paid attention is regular monthly presentations by project leader to employees and top management. This activity helps achieving timely completion of projects and keeps employees and management informed about the updated status of operation. The team leaders also attach importance to meet their teams in every 15 days to determine various issues such as the tasks to proceed with and division of labor. The management of these meetings is another important topic for six sigma operations. For this reason some education seminars under the title of meeting management are held. First thing to do before meetings is the designation of meeting agenda and exchange of ideas with members of project team in order to reach a resolution on the agenda items.

The status of topics discussed in previous meeting is considered and the action is taken over GRIPS. The word GRIPS consist of the initials of following: goal, roles, interactions, process and style. **Goal** is the aims. It helps introducing the answer to the question what the aim of meeting is. Roles help determine the operation roles during meeting. **Roles** hold the key to the answers to questions like who the chairman will be, who the time timekeeper is or who the amanuensis is. **Interactions** stand for the interaction between project team

*So far, 114 projects have been activated, 92 projects were terminated, 11 projects were called off and 11 projects have been continuing in Schneider Electric Turkey.*
members and shows how the project members participating in the meeting will work together. *Process* stands for the meeting process and it puts forth the way of following up the meeting procedure. Finally, *style* stands for the organization style of meeting such as whether it will be held formally or informally or whether it will be made on phone or with another communication method. The meeting starts after the determination of details through GRIPS.

A flipchart is used during meetings for enabling participants to write their opinions with their own words, to summarize long thoughts on this tool and to take notes on two separate areas for different opinions. During the meeting, the items of meeting agenda are listed down, notes about who will take action when and how are taken and the meeting is concluded with the settling of next meeting’s time and place.

The usage of intranet in Schneider Electric Turkey not only establishes the internal communication of the company but also functions as a system where various documents about previously held six Sigma projects are stored. This system with global nature requires the publication of project leaders’ reports in English language. All employees of Schneider Electric all around have access to system and they can reach files about projects, education programs and six sigma tools whenever they need.

![Image of a flipchart](image.png)

**Table 7: Schneider Electric Intranet System**

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Table 8: Schneider Electric Intranet System (Six Sigma Documents)

5.3 Evaluation of Six Sigma Application Schneider Electric Turkey on the Basis of Internal Organization Communication and Corporate Culture

Six sigma operations in Schneider Electric Turkey start with information given to management level about the concept. The information of management is followed by the information of employees. It is very important to start this process with information seminars in order to maintain a healthy and active internal organizational communication in the organization. Having undergone the information phase, the employees are free from question marks and they become familiar with six sigma and its advantages. It’s a general fact that any kind of change cultivates some uneasiness, fear and concern in enterprises. The basic method to avoid these is the establishment of a good communication with employees. In this sense, one can possibly say that Schneider Electric Turkey tries to pay utmost attention to internal communication.

Another topic intensely studied during the educations given to belts is how to prepare communication plans (who, why, when, how and where) related to projects. These plans ensure the organization of communication between team members and shareholders during project period. The topics which would let internal communication function in a healthy and active manner are also attached great importance during all educations of belts.

Shareholder analysis taking place during application phase helps outlining how to establish internal communication with different people within the project. Communication with strategically important shareholders is shaped in accordance with the results provided from shareholder analysis through direct or indirect communication styles.

RACI-T analysis is executed in Schneider Electric Turkey while the projects for a better internal communication keep continuing in order to list down the names of responsible, accountable, confirmed,
informed and time. This method enables the transmission of information to the correct receiver and the gathering of information from the right resource.

Internal and external communication is also in use during six sigma applications phase. VOC -Voice of Customer- external communication during the listening of customer’s voice and VOE-Voice of Employment-internal communication during the listening of employment’s voice are the ways of using communication in application phase. Great importance is attached on internal communication (meetings, presentations, etc...) for the success of DMAIC process.

Project leaders consider it vital to make monthly presentations to employees and top management to keep the effectiveness of internal communication and the success of operations. They also arrange presentations for their own teams in every 15 days.

The usage of intranet in Schneider Electric Turkey not only establishes the internal communication of the company but also functions as a system where various documents about previously held six sigma projects are stored.

Presentations in Schneider Electric Turkey do not only take place during projects. They also arrange closing presentations after the completion of projects to keep other employees informed and updated about the finished project. The projects are also demonstrated through communication clipboard which is an internal organizational communication tool.

Schneider Electric believes in the importance of a cultural texture focused on quality as well as internal communication for the success of six sigma operations. The enterprise aims excellence at every phase from the designation of products to after sales services and carries the vision of providing the best opportunities of new electricity world to anyone at anytime and anywhere. The cultural structure of the enterprise is built on occupational safety, customer and employee satisfaction and high quality production.

Company’s goal is to make its employees understand the importance of six sigma through information seminars and to help them adopt the change more rapidly. For the sake of this goal, internal organizational communication is attached great importance during projects. Certification ceremonies are held for successful project leaders and six sigma certificates are given in year end parties. Project endings are also followed by certification ceremonies with the participation of all management. All these activities listed prove that the company has an corporate culture understanding that places the motivation and satisfaction of internal customer to the basis of all its activities.

6. CONCLUSION

The changes started in 1990’s in operation methods of managements due to increasing competition leded the way to the establishment of six sigma basics. Applied for improving profitability, overcoming waste, reducing quality costs and achieving excellence, six sigma is accepted as a business development strategy. Six sigma is an approach where processes almost excellently function and the error percentage is only 3, 4 in one million probabilities. It is possible to say that an enterprise operating at six sigma level has an accuracy percentage of 99, 99966 %.

Six sigma is a management style built upon customer satisfaction, desire for excellence, data and facts. The system runs in accordance with projects selected within the borders of certain criteria. The projects are supervised, followed and reported during application phase. In executing phase, professionals named as champion, master black belt, black belt and green belt get involved in process. It’s noticeable that these professionals undergo educations which would make them apply DMAIC and IDOV processes.

The projects mentioned are handled in a systematic approach. The key methodology named DMAIC consists of five steps being definition, measurement, analysis, improvement and control. Another key methodology is IDOV which is used in product or service designation demands and it consists of the initials of identify, design, optimize and validate. There are different tools to be used for all phases.

Success of six sigma is closely related to many elements including leadership, customer focused approach, association of management strategy and six sigma strategy, process management and education of belts. Great
importance is paid to eliminate the question marks in employees’ minds and to keep them motivated, to organize human resources plans in accordance with studies executed and to build rewarding and appreciation systems. One of the reasons of vitality for the success of six sigma is securing the efficiency of internal organizational communication. A communication plan that includes the answers to questions “who, why, when, how and where” would help system function in good health. These communication plans should be arranged in two types being general plans and project based plans. General communication plans are for the prepossession of six sigma, the transmission of six sigma culture to the employees and the providing of continuous information to employees about six sigma projects. Except general communication plans, each project should have its own communication plan during application phase. Project based communication plans are made after a shareholder analysis in the enterprise. Another matter of importance for the success of six sigma approach is the calling into being of a quality focused, flexible, innovative, shareholder cooperation oriented corporate culture where win-win is the dominant idea and the acceptance of this approach by employees. At the point of realizing this transmission, internal communication tools and methods are used.

In this study, six sigma operations executed in Schneider Electric Turkey since the year of 2003 are explicated. It’s noteworthy that the application had got a move on the goals of reducing error and costs of quality lack, increasing quality, obtaining customer, employee and shareholder satisfaction. The approach started with educations targeted at keeping employees and top management informed and basic information about six sigma was transmitted to relevant parties. After educations, an organization consisting of champion, expansion leader, sponsors, master black belts, black belts and green belts was called into being. The belts underwent educations about team activity, team management and meeting management. The belts also attend some other educations within DMAIC process and the periods are 10 days for green belts, 25 days for black belts and 15 days for master black belts. While educations given by S.P.A.C. consultancy went on, personal development educations were also executed by human resources department upon employees’ demand. During the execution of six sigma applications in Schneider Electric Turkey, it’s observed that there is a continuous endeavor by the company to adopt quality and accuracy as a philosophy of life and that the company tries its best to maintain active internal communication through communication plans that cover the answers to the questions “who, why, when, how and where” and through the usage of international intranet system.

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MP-05:

Disintermediation VS Reintermediation – Undergraduate Understanding of E-Commerce in Tourism

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ABSTRACT

The undergraduates of today face many challenges in their future working environment, not least are the ramifications of technological development. Within the study of e-commerce, this paper reviews the concepts of disintermediation and reintermediation, providing an overview which undergraduates might themselves compile. Their learning from the relevant level 1 module is then assessed, including background features such as prior academic study of tourism and possession of employment experience. What emerges is that not all students comprehend these terms and that examples are of paramount value in aiding learning.

Keywords: Disintermediation, reintermediation, integration, undergraduate.

1. INTRODUCTION

Although Thomas Cook laid the foundations, in the nineteenth century, large scale package holiday tourism dates from the mid 1950s, growing particularly rapidly from the 1960s (Evans 2001). By the end of the twentieth century, the inclusive tour market, representing many millions of holidays in the UK, was characterised by a small number of vertically integrated companies such as Thomson, First Choice, Thomas Cook and MyTravel (Klemm & Parkinson 2001; Page et al 2001). Thomson is, of course, but one part of the TUI stable, the world’s largest integrated tour operator with 81 brands, 88 aircraft, 285 hotels and resorts, and 3,700 travel agencies (Theuvsen 2004). A few major operators, therefore, possess considerable economies of scale via both their market share and purchasing power; they also possess distribution channel control – an unassailable position, it would appear. Despite a state of oligopoly, whereby a few companies control much of the market (Evans 2001; Vanhove 2005), technological developments have, however, moved in tandem with changes in tourist behaviour, and Poon (1993) was one of several authors to identify the growth in numbers of travellers seeking an individualised product. Related to the issues of firm size, Internet development and individualised product, Tiessen et al. (2001) report the web-site of the smallest respondent in their study as handling more detailed transactions than the sites of larger businesses – arguably, because it was a high-tech firm but, nonetheless, illustrating that size may not matter.

The development of the Internet has, then, catalysed a process of disintermediation within the tourism industry, affecting tour operators and travel agents to a significant degree. Once affected by this phenomenon, traditional intermediaries have responded with new strategies, resulting in the concept of reintermediation. Importantly, the advent of the Internet does not eliminate the need for intermediaries (Wynne et al 2001). This paper considers the extant literature pertaining to the concepts of disintermediation and reintermediation in order to identify what undergraduates might be able to research themselves – the classic case of “reading around” their degree. The paper then reviews level 1 undergraduate comprehension of the terms via a questionnaire survey conducted after the Week 4 lecture. A number of individual background variables are assessed in order to identify specific features aiding – or hindering – understanding.

2. DISINTERMEDIATION AND REINTERMEDIATION

The concept of disintermediation has been with us for some decades (Wikipedia 2006a) and is particularly relevant to the tourism industry whereby intermediaries are removed from the distribution channel. To some
extent, this is no different to the traditional direct-sell tour operator eliminating the need for travel agency agreements and selling direct to the consumer (Cooper et al. 2005; Page et al. 2001); the advantages and disadvantages of such trading has been discussed by Laws (1997) and a plethora of brands encapsulate the concept. Indeed, for Werthner & Klein (1999: 260) disintermediation is the establishment of “direct sales strategies”.

However, despite concern trumpeted in Travel Trade Gazette and similar publications, over decades, about the direct-sell threat to retailers, it is the advent of the Internet which has had a truly significant impact (Buhalis & Licata, 2002; Page et al. 2001). E-commerce in tourism has really arrived; “suppliers of travel products can eliminate the need to use an intermediary and sell through the World Wide Web” (Page et al. 2001: 88). The B2C supply channel could, therefore, eliminate both tour operator and travel agent in a given transaction (Buhalis & Licata 2002). Evans’ (2001) research (n = 33) on the dependency of independent tour operators reliance – or rather lack of it – on the integrated retailers for distribution of their products makes interesting reading several years on.

What must not be forgotten is that disintermediation has affected corporate travel as much as leisure tourism (Page et al. 2001); a low-cost airline such as flybe.com exemplifies this with a number of features targeted at the business traveller, emphasising the point that B2B has also been impacted (Buhalis & Licata 2002). Indeed, Alford (1999) reports Texas Instruments as expecting to achieve savings of $11 million by permitting Internet bookings for its most frequent travellers. Whilst the Wikipedia (2006b) definition of reintermediation suggests that the term applies especially to situations where disintermediation has occurred, it does not argue this to be a precondition. Therefore, the development of Microsoft’s Expedia and SABRE’s Travelocity needs to be viewed as the insertion of a retail function in the distribution channel (Álvarez, Martín & Casielles, 2007; Page et al. 2001).

So, the advance of the Internet into the commercial aspects of tourism has been very rapid and, critically, Cooper et al. (2005: 434) report that “the volume of online tourism-related transactions is anticipated to reach over one-third of all e-transactions in the near future”. Certainly, a number of new players have appeared from nowhere – Expedia, for example, was established as recently as 1996 and did not enter the UK market until 1998 (Cooper et al. 2005), achieving £360,000 of bookings in the first month of operation (Hodge & Condon 1998). Furthermore, a distinction between traditional electronic tourism intermediaries (tourism eMediaries) and new tourism eMediaries is made by Buhalis & Licata (2002), emphasising the difference between GDS and the likes of Opodo – the latter illustrating disintermediation of travel agencies by airlines. Further differentiation is made according to whether the new tourism eMediary utilises the internet or the likes of mobile phones and interactive digital television.

Table 1: Examples of Traditional Tourism eMediaries and New Tourism eMediaries

<table>
<thead>
<tr>
<th>Traditional Tourism eMediaries</th>
<th>New Tourism eMediaries</th>
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</thead>
<tbody>
<tr>
<td>GDS –</td>
<td>Suppliers – airline examples</td>
</tr>
<tr>
<td>Amadeus</td>
<td><a href="http://www.flybe.com">www.flybe.com</a></td>
</tr>
<tr>
<td>SABRE</td>
<td><a href="http://www.ba.com">www.ba.com</a></td>
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<td><a href="http://www.opodo.co.uk">www.opodo.co.uk</a></td>
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<td>Suppliers – hotels</td>
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<td></td>
<td><a href="http://www.travelodge.co.uk">www.travelodge.co.uk</a></td>
</tr>
<tr>
<td></td>
<td>Travel agencies</td>
</tr>
<tr>
<td></td>
<td><a href="http://www.expedia.com">www.expedia.com</a></td>
</tr>
<tr>
<td></td>
<td><a href="http://www.travelocity.co.uk">www.travelocity.co.uk</a></td>
</tr>
<tr>
<td></td>
<td>Switch companies</td>
</tr>
<tr>
<td></td>
<td><a href="http://www.utell.com">www.utell.com</a></td>
</tr>
</tbody>
</table>

Source: Adapted from Buhalis & Licata (2002)
A number of traditional tourism intermediaries were taken by surprise, according to the trade press of a few years ago. The response from some tour operators has been to offer web-sites with a high degree of flexibility in terms of inclusive tour-creation, permitting non-standard holiday duration to be booked, for example; with Thomson, this is termed ‘Build your own holiday’ (Thomson 2006). The ‘traditional’ tour operators are attempting to compete with the dynamic packaging opportunities now available to the computer-literate public – genuine B2C. It is this reappearance of traditional tour operators which manifests the concept of reintermediation. The ‘mass’ operator offering a “standardised package” (Curtin & Busby 1999:137) still exists but many offer a parallel opportunity to modify this package; it is their significant purchasing power (monopsony) allied to technology which permits this. Indeed, following a Court of Appeal ruling, in England, in October 2006, operators are likely to be offering even more dynamic packaging possibilities; TUI, for one, stated that it would restructure in light of this ruling (Travelmole.com 2006).

Turning from the tour operator to the retailers’ perspective, Hatton (2004:108) outlines options if they are to remain within the distribution channel; he argues that agents, collectively, can secure treatment as equals with airlines, for example, and that “the survival of travel agencies is integral to the overall health of the global tourism system”. Álvarez, Martín & Casielles (2007) argue that travel retailers have been particularly hard hit by development of the Internet but that it should be seen as an opportunity; indeed, Cooper et al. (2005) talk about those which have embraced technology as ‘clicks and mortar’ agencies. Stockdale (2007: 210) suggests that “clicks and bricks firms are seen to have more advantages in gaining customer trust from an already established offline brand”.

Whilst the free web-based encyclopedia Wikipedia provides a definition and an example of reintermediation, that of the Levi Strauss company (Wikipedia 2006b), it is argued that the phenomenon is still so recent that undergraduate texts do not refer to it. Reference has been made to Cooper et al. (2005) several times because this is, possibly, the best-selling undergraduate tourism text; and yet, whilst the Glossary defines disintermediation, there is no mention of reintermediation. How then should the concept be introduced to undergraduates? As with most text books, it is argued that this feature of the tourism industry is addressed in lectures pertaining to organisational structures; for these authors, a discussion of vertical, horizontal, complementary and diagonal integration is a necessary foundation. Once undergraduates have some knowledge of the role of intermediaries in explaining these phenomena, it is a logical step to consider the effect of their removal – and reappearance. The next section considers the various backgrounds of the undergraduates in question.

3. THE STUDY COHORT, FINDINGS AND DISCUSSION

The undergraduates in question are studying a level 1 Bachelor’s module entitled The Tourism Industry, worth one-sixth of the first year. Besides being a compulsory module for many, it is offered as an elective to those on more generic business awards; this was considered to enhance possible distinctions in individuals’ understanding of the concepts. The questionnaire has been implemented immediately after the Week 4 lecture, in October 2006, securing 69 respondents, with the cohort composition as follows:

<table>
<thead>
<tr>
<th>Award title</th>
<th>n =</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>BSc Tourism Management</td>
<td>17</td>
<td>24.6</td>
</tr>
<tr>
<td>BSc International Tourism Management</td>
<td>8</td>
<td>11.6</td>
</tr>
<tr>
<td>BSc Business &amp; Tourism</td>
<td>12</td>
<td>17.4</td>
</tr>
<tr>
<td>BSc Hospitality &amp; Tourism Management</td>
<td>3</td>
<td>4.3</td>
</tr>
<tr>
<td>BSc International Hospitality Management</td>
<td>2</td>
<td>2.9</td>
</tr>
<tr>
<td>BSc Cruise Operations Management</td>
<td>1</td>
<td>1.4</td>
</tr>
<tr>
<td>BSc Events Management</td>
<td>4</td>
<td>5.8</td>
</tr>
<tr>
<td>BA Marketing</td>
<td>12</td>
<td>17.4</td>
</tr>
<tr>
<td>BA Business Studies</td>
<td>8</td>
<td>11.6</td>
</tr>
<tr>
<td>BA Business Administration</td>
<td>2</td>
<td>2.9</td>
</tr>
<tr>
<td>Total</td>
<td>69</td>
<td>100.0</td>
</tr>
</tbody>
</table>
Almost 45 per cent of these undergraduates were aged 18 and 90 per cent were under 21. In terms of nationality, just over 91 per cent were British, four individuals were ‘other EU’, and two were ‘overs sea non-EU’. The previous qualifications studied were considered to possibly affect comprehension of the concepts and Table 3 is provided in order to illustrate this diversity.

### Table 3: Previous qualifications studied by respondents

<table>
<thead>
<tr>
<th>Previous qualifications studied</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>A levels only</td>
<td>45</td>
<td>65.2</td>
</tr>
<tr>
<td>AVCE</td>
<td>4</td>
<td>5.8</td>
</tr>
<tr>
<td>A levels and AVCE</td>
<td>9</td>
<td>13.0</td>
</tr>
<tr>
<td>National Diploma or Certificate</td>
<td>5</td>
<td>7.2</td>
</tr>
<tr>
<td>Access to Higher Education</td>
<td>2</td>
<td>2.9</td>
</tr>
<tr>
<td>Master’s degree</td>
<td>1</td>
<td>1.4</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>2.9</td>
</tr>
<tr>
<td>Missing</td>
<td>1</td>
<td>1.4</td>
</tr>
<tr>
<td>Total</td>
<td>69</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Of course, what this table does not show is the plethora of subjects studied within the relevant award; for example, the range of A levels is extensive and citation of National Diploma might refer to that for Travel and Tourism, Media and Photography, or some other title. To aid analysis, students were, therefore, asked if they had studied Tourism (academically) before and to identify the award title. Eighteen individuals fell into this category, sixteen having studied AVCE Travel and Tourism and two the National Diploma Travel and Tourism. Nonetheless, it was considered that possession of A levels in Economics or Business Studies might actually provide individuals with the necessary foundation to understand the concepts to an equal or greater extent than those who had studied Tourism as a subject. Incidentally, the student citing possession of a Master’s degree was an overseas national and the subject area was Librarianship. Another variable to be reviewed is prior employment – and whether this was in the Tourism/Hospitality domain. Table 4 presents the results.

### Table 4: Prior employment

<table>
<thead>
<tr>
<th>Prior employment</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>47</td>
<td>68.1</td>
</tr>
<tr>
<td>No</td>
<td>22</td>
<td>31.9</td>
</tr>
<tr>
<td>Total</td>
<td>69</td>
<td>100.0</td>
</tr>
<tr>
<td>In Tourism and/or Hospitality</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>31</td>
<td>44.9</td>
</tr>
</tbody>
</table>

Mirroring national trends, over two-thirds of the cohort had worked before coming to university and nearly 45 per cent had worked in the Tourism or Hospitality industry. Clearly, the specific sector where individuals were employed will impact to a greater or lesser extent although, it is argued, that all employment in tourism and hospitality is likely to lead to awareness-raising of various subject topics. Five questions addressed the phenomenon of intermediation; students were asked if they understood the distinction between forms of intermediary, their functions, whether they comprehended disintermediation and reintermediation, and whether examples were critical to their understanding. Sixty-two undergraduates (89.9 per cent) stated that they understood the distinction between intermediaries, 63 (91.3 per cent) understood the functions, and 57 (82.6 per cent) comprehended disintermediation. As expected, rather fewer, understood the concept of reintermediation – 34 individuals, or 49.3 per cent, agreeing with this. It should come as no surprise, therefore, that 64 (92.8 per cent) considered examples to be critical to their understanding of these concepts.

A number of variables were cross-tabulated in order to identify possible statistical associations; despite a range of cross-tabulations, no associations were found to exist. However, some of the cross-tabulations are reported
here for they are interesting, in their own right. Table 5 examines awareness of the distinction between tour operators and travel agents according to whether tourism had been studied as an academic subject before.

Table 5: Previous study of tourism * distinction between tour operators and travel agents

<table>
<thead>
<tr>
<th>Previous study of tourism</th>
<th>Distinction between TOTA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Previous study of tourism</td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>16</td>
</tr>
<tr>
<td>Expected Count</td>
<td>15.3</td>
</tr>
<tr>
<td>No</td>
<td>46</td>
</tr>
<tr>
<td>Expected Count</td>
<td>46.7</td>
</tr>
<tr>
<td>Total</td>
<td>62</td>
</tr>
<tr>
<td>Expected Count</td>
<td>62.0</td>
</tr>
</tbody>
</table>

Previous study of tourism cross-tabulated against an understanding of the disintermediation concept produced similar results, as one would expect (Table 6). Finally, prior employment or work experience is cross-tabulated against stated understanding of what reintermediation means and, again, there is nothing to suggest that first-hand employment provides an advantage when the undergraduate comes to the university lecture theatre to study this topic (Table 7).

Table 6: Previous study of tourism * understanding of disintermediation

<table>
<thead>
<tr>
<th>Previous study of tourism</th>
<th>Understand disintermediation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Previous study of tourism</td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>15</td>
</tr>
<tr>
<td>Expected Count</td>
<td>14.0</td>
</tr>
<tr>
<td>No</td>
<td>42</td>
</tr>
<tr>
<td>Expected Count</td>
<td>43.0</td>
</tr>
<tr>
<td>Total</td>
<td>57</td>
</tr>
<tr>
<td>Expected Count</td>
<td>57.0</td>
</tr>
</tbody>
</table>

Table 7: Prior job or work experience * understanding of reintermediation

<table>
<thead>
<tr>
<th>Prior Job or WExp</th>
<th>Understand reintermediation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>25</td>
</tr>
<tr>
<td>Expected Count</td>
<td>23.2</td>
</tr>
<tr>
<td>No</td>
<td>9</td>
</tr>
<tr>
<td>Expected Count</td>
<td>10.8</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
</tr>
<tr>
<td>Expected Count</td>
<td>34.0</td>
</tr>
</tbody>
</table>

Of course, by the time of graduation, individuals will have reflected on a wide range of tourism topics. They will also, in many cases, have undertaken a twelve-month industrial placement and, it is argued, this is when a real understanding of e-commerce is achieved. Consider the following statement from an undergraduate who
spent a year-long placement with a tour operator: “Application of theory into practice was priceless, e.g. working for the ‘wholesaler’ rather than reading about it made the whole distribution channel model much more understandable” (Busby 2005:102).

4. CONCLUSION

Given that e-commerce in the tourism industry has taken on such an important dimension in the last few years, it is argued that tourism undergraduates need to become familiar with specific concepts very quickly once embarked on their degree. Clearly, those pursuing more generic business degrees do not have the same level of urgency in coming to terms with the concepts although e-commerce is, of course, still very pertinent. This paper reflects on a number of the key authors – of both specific, relevant journal articles and ‘general’ tourism texts – and observes that, whilst there is some discussion of disintermediation, the literature concerning reintermediation is very limited at present. This leads on to the question of ‘how’ these concepts can best be taught; examples are argued to be the single most suitable vehicle. Previous academic study of tourism is not shown to provide any individual advantage when compared with an understanding of intermediation, disintermediation, or reintermediation. The same applies to prior employment or work experience secured by the undergraduate. What is important is that academic staff reflect on the issue of concept delivery in order to assure clear understanding which, in turn, helps to make graduates more effective employees from early on.

REFERENCES


Thomson (2006): [http://www.thomson.co.uk/buildyourown/search.do](http://www.thomson.co.uk/buildyourown/search.do) viewed 19/10/06


The Effectiveness of Selected Human Resources Management Practices on Organisational Performance and Objectives (A case study of the Libyan Iron and Steel Company)

Elhusein H. Elasfer and Azhdar Karami
Business School, Bangor University, Bangor.

ABSTRACT
A considerable body of literature suggests that Human resource management is effective. Nonetheless, the term HRM is ambiguous, the precise ways in which it works uncertain, and hard empirical evidence as to its impact on organisational performance and objectives is short to lacking. The present study investigates executives’ perceptions of HRM, organisational performance, and realisation of organisational objectives at the Libyan Iron and Steel Company (LISCO). Results suggest that LISCO executives have positive perceptions of LISCO’s implementation of HRM, of LISCO performance, and of LISCO’s realisation of its objectives. However, regression analysis suggests some HRM practices have little impact on LISCO performance, and even fewer on LISCO’s realisation of objectives. The one exception to this is human resource planning. This suggests that, if anything, the most important aspect of HRM is its integration into an organisation’s strategic thinking, not the specific form it takes.

Keywords: Human resource practices; human resource panning; recruitment; selection; training and development; job evaluation; performance appraisal system; health and safety; organisational performance; organisational objectives; Libyan iron and steel company; LISCO; Libya.

1. INTRODUCTION
Human resource management (HRM) in organisations concerns the planned management of employees in order to optimise the organisation’s performance. HRM covers such practices as training and development, health and safety, recruitment, selection, job evaluation, performance appraisal, and human resource planning. This list is far from exhaustive. Nonetheless, HRM practices are held to be an essential component of organisational strategy (e.g., Boxall and Purcell, 2003).

In the past, HRM was associated with Draconian styles of management (downsizing, cost-cutting, and work-intensification) (see, e.g., (Boxall and Purcell, 2003). More recently, it has put on a more human face (Boxall and Purcell, 2003), and some authorities, Holman et al. (2003) for example, point to organisations’ need for intelligent, well educated, and highly motivated workforces. Thus HRM, as the term is now used, usually means employers caring for workers, consulting with them, educating them, enabling them to fulfil their potential, and so on. Some researchers have justified (and measured) the effectiveness of HRM practices in terms of their effects on employee morale (e.g., Becker and Huselid, 1998; Kallenberg and Moody, 1994).

2. Ambiguities in definition and measures
As the above suggests, there is uncertainty over definition of HRM. Storey (1989) considers the term HRM “elastic” (p. 8), and Keenoy (1999) likens it to a hologram. Guest (1987) states that HRM ranges from loose HRM—using new words for old practices (human resource manager, for instance, instead of personnel manager; in which case HRM is anything but distinctive, to tight HRM—the strategic integration of policies and improved business outputs—in which case HRM is very distinctive.

There is likewise little agreement, even if one allows that HRM practices are effective, about exactly how they are effective. Several mechanisms are possible, but there is uncertainty about which, if any, are the most important (see, e.g., Ulrich, 1997; Ulrich and Lake, 1990; Watson Wyatt, 2001). In short, current understanding of the effectiveness of HRM is deficient.
3. Empirical studies

Empirical studies on the effectiveness of HRM practices provide mixed results. On the positive side, Huselid (1995) found, in a study of almost 1,000 firms, that HRM practices improved, not only employee turnover but also employee productivity and long-term company performance. However, this result must be viewed cautiously, if only because of the huge sample size: one cannot review 1,000 firms in depth.

Terpstra and Rozell (1993) similarly found HRM practices to be effective. The authors used data from 201 US organisations in order to determine the influence of HRM on financial performance. They used five staffing practices to examine whether organisations using more of these practices had higher levels of profitability and sales growth. They found a significant positive relationship between the level of implementation of the five staffing practices and financial performance, including annual profit and profit growth. This suggests that, in the US’s 1990s economic environment at least, HRM practices affected organisational performance, and for the better. However, Terpstra and Rozell also found that the degree of HRM effectiveness varied according to organizational type. High relationships were in the service and financial sectors; no relationships were found in the manufacturing and wholesale/retail sectors. Terpstra and Rozell comment that the service sector in particular has high staffing levels. So perhaps it is unsurprising that HRM practices are most effective where they are most needed—in organisations with high staffing levels. To this one can add that the service sector and, especially, the financial sector, may require high levels of skills in staff; the same might not be true of the wholesale/retail and manufacturing sectors.

Other studies found even less clear-cut benefits from HRM practices. Cho et al. (2006) investigated the relationship between the use of 12 HRM practices and organisational performance. Cho et al. found that the 12 HRM practices had a significant relationship with only one measure of organisational performance: the turnover rate of non-managerial employees. So, the results indicate only that companies implementing HRM practices tend to retain less well educated staff. On one level of thinking, this would suggest that the 12 practices are “good” in the sense that they foster employee loyalty (but note: by the researchers’ criteria, such loyalty, if present, does not translate into improved organisation performance). On another level of thinking, it would suggest that the 12 practices encourage employees to mulct their employers, and stay with them only for this reason (but note: by the researchers’ criteria, such mulcting, again if present, does not translate into deteriorated organisation performance).

Other studies concur with Cho et al. (2006) in that they agree that HRM practices are good insofar as they improve organisational performance, but they disagree in the way that they improve it. Thus, for example, Angle (1983), Ulrich (1997), and Wimalasiri (1995) found that HRM practices (especially rewards, in the case of Angle’s study) improve employee commitment, but McEvoy (1997) found they improve only employee satisfaction. Other studies suggest that HRM practices are good for company performance, but differ in the nature of the specific HRM practice that occasions the company benefit. Thus Harel and Tzafrir (1999), for example, in an examination of the impact of HRM practices on Israeli companies, found that only training practices make a significant contribution to organisational performance, but that training practices and recruitment affect perceived market performance.

In contrast, Ogilvie (1986) found that a range of HRM practices—including performance evaluation, promotion policies, and compensation and benefits—affect organisational performance. Similarly, Huselid (1995) found that HRM practices have a positive impact on short-term employee productivity and turnover and on long-term financial performance.

Some research suggests that HRM has little impact on company performance. Most notably, in a study of 97 companies, Youn dt et al. (1996) found that, although contingency-based approaches to HRM correlated well with overall measures of company performance (e.g., employee productivity), the main effect came from linking employee practices to company strategy it’s how companies implement strategy that matters. The authors did find, however, that HRM practices moderated the effects on company performance. In this vein, but more positively as regards HRM practices, Horwitz (1999) argues that strategic human resource development (SHRD) is an important component of HRM as a means to improve performance and organisational effectiveness. Horwitz also argues that HRM activities are affected by the firm’s performance. HRM practices can effect a virtuous circle.
This conflicting finding suggests two possibilities. First, the needs of different companies for HRM, and its various sub-types, differ. Second, the use of HRM practices lies somewhere between being a mere correlate of what really matters—strategic thinking and planning—and a powerful, and positive, moderator of strategic planning, possibly with powerful and beneficial feedback effects. These possibilities are not mutually exclusive.

Özcelik and Aydinli (2006) in a review pointed out that research on SHRM focuses heavily on the linkage between HRM and business strategy. The authors argue that linking HRM and business strategy requires that human resource (HR) departments provide appropriate input into strategic decisions, that HR managers partake in strategic planning (and see Fombrun et al., 1984), and that HRM and strategic planning be integrated (and see Schuler, 1992; Sheehan, 2005). Özcelik and Aydinli (2006) emphasise the need for HR departmental representation on companies’ boards of directors, and, by implication, equivalent bodies in other organisations. This is all the more so, the authors argue, given changes in management roles and the economic environment since the 1970s (and see Lundy, 1994).

It is one thing to say that HRM should be part of organisational strategy. It is another to implement it. Kane et al. (1999), in a study of barriers to effective HRM practices, highlight the need for change in management attitudes—if senior managers don’t care about effective HRM, it is unlikely they will implement it. Kane et al. also highlighted the need for technical know-how, as opposed to theoretical knowledge, in managers. Kane et al. studied 549 employees, managers, and HRM staff in five different countries (Australia, New Zealand, the U.S.A., the U.K., and Canada), operating in a range of sectors (financial/business services, manufacturing, community service, and public administration) and sizes (200–9,999 employees). They found that lack of technical know-how and lack of commitment to HRM were correlated, and that these barriers to effective HRM held true across countries. Practice in each appeared inept.

In a similar vein, Othman and Poon (2000), in a study of 108 Malaysian manufacturing companies, found that management orientation predicted HRM practice, competitive strategy, and overall management quality. Equally important, the authors found management approach mediated corporate strategy and HRM practices—in other words, it might not be just company strategy that matters, it is fundamentally management quality that matters. In this regard, Smith and Dowling (2001) note that, though training is an important strategic consideration for companies, its importance may be more perceived by senior managers than by junior managers, the latter of whom may take short-term views. Here note that McHugh et al. (2003), in a study of organisational change within the UK public sector, state, “the openness of the organisation to culture change, together with the attitude and commitment of top management to change are critical factors in the achievement of organisational metamorphosis” (p. 109).

Such phenomena may be cross-cultural. Cheng and Brown (1998), in a comparison of Singapore and Australian hoteliers, found that corporate strategies of reducing turnover, through enhanced recruitment, selection, and induction, successfully reduced the turnover, and that this was despite socio-economic differences between Australia and Singapore.

Thus, despite uncertainty regarding the way HRM improves organizational performance, and, indeed, of the most effective forms of HRM, the literature is relatively unambiguous on four things: (a) executives should be aware of the importance of HRM; (b) they should incorporate HRM into their strategic thinking; (c) they don’t always do so; and (d) although the manner in which HRM assists organizations, it, or aspects of it, has beneficial consequences for organizational performance.

4. The present study

The present study investigates selected HRM practices in the Libyan Iran and Steel Company (LISCO). It does so with a view to (a) determining what the perceptions are; and (b) determining the extent to which such perceptions translate into perceptions of company performance and objectives.
Libya and LISCO.

Although Libya is different, culturally and economically, from western nations, it is rapidly trying to become a member of the world economic community; this is all the more so following the removal of almost all US sanctions in 2004. There are signs it is being successful. In 2000, its GDP (official exchange rate) was US$34.5 billion (current value; World Bank, 2008, estimate); in 2007 it was US$66.01 billion (CIA, 2008, estimate). In 2000, its annual growth was 1.1% (World Bank, 2008, estimate); in 2007 it was 5.4% (CIA, 2008, estimate). However, at present it still relies on oil for 95% of its export earnings, one-quarter of its GDP, and 60% of its public sector wages (CIA, 2008).

Some aspects of Libyan culture lend its amenable to HRM practices. Libya has a unique political-economic system, one that establishes, by law, that employees share company profits and, in principle at least, are involved in corporate management (Alvi, 1984). Here note that Libya is also an Islamic country, and that Islam encourages employer and employee mutual responsibility. Also on the positive side, many Libyan executive receive, or have received, a western education, and such contacts with the West have been increasing. There is also the effect of globalization. There are other aspects of Libyan culture that may make it less amenable to HRM practices.

The Libyan Iron and Steel Company (LISCO) was established by Act 66911991 of the People’s General Committee as a public joint-stock company of Libya. LISCO is located near the city of Misurata, near the capitol city (Tripoli) the plant occupies 1,200 hectares, and employs about 7,500 people. LISCO’s products now meet most of Libya’s domestic requirements for rolled steel. LISCO also exports to Africa, Europe, and Asia (LISCO 2006).

Rationale

The first part of the study measures LISCO executives’ perceptions of HRM practices at LISCO. In this, it divides the HRM practices into eight sub-areas: human resource planning recruitment selection training and development, job evaluation performance appraisal health and safety, and overall HRM. This is to determine, at a descriptive level, the executives’ perceptions of HRM at LISCO. Note in this regard that empirical evidence suggests that executive’s perceptions of organisational performance translate into actual organisational performance: perceptual measures of organisational performance are common and are highly correlated with objective financial measures (e.g., Delaney and Huselid, 1996; Den Hartog and Verburg, 2004; Perry-Smith and Blum, 2000).

The second part of the study measures the same managers’ perceptions of LISCO’s performance, as indicated by cost reduction, product development, product quality, financial performance, market share, and research and development. It also measures the managers’ perceptions of LISCO’s objectives, as indicated by shareholders’ earnings, market leadership, improved industrial relations, extended range of products, use of new technology, increased volume share, minimized production costs. Notice that the measures of perceptions of performance pertain to short-term issues, but the measures of perceptions of objectives pertain to long-term needs—that is, to strategy. In this, we use the term strategy in a broad sense. Our use of the term translates to Bennett’s (1999) use of the phrases strategic objectives, operational objectives, and tactical objectives.

The third part of the study relates the managers’ perceptions of HRM at LISCO to their perceptions of LISCO’s performance and their perceptions of LISCO’s realization of its objectives. Note the logic here: If HRM practice is effective, and if managers implement it, then all aspects of HRM should impact on company performance, and managers should perceive it to be doing so. If HRM practice is effective, and if managers perceive it to be, then all aspects of HRM should impact on company objectives, and managers should perceive it to be doing so.
In other words, if HRM is effective and if managers perceive it to be so, managers’ attitudes to HRM can be used to predict their perceptions of organisational performance and organisational objectives. Note that organisational objectives translate to organisational strategy.

5. Method

Measures

Measures comprised questionnaire scores. The questionnaire was designed by the researchers following standard guidelines for questionnaire design (e.g., Oppenheim, 1992; Hussey and Hussey, 1997; Saunders et al., 2000; Sekaran, 2003). Thereafter the questionnaire was field tested on PhD students of HRM or business and given to 3 specialists in HRM at Libyan universities and 15 senior managers at LISCO for comment. Minor changes were made to the questionnaire in the light of feedback from the students, specialists, and LISCO senior managers.

Questionnaire design

The main part of the questionnaire comprised 64 questions to be answered in five-point Likert scales. The wording of the questions varied (strongly agree–strongly disagree; always–never; very good–very poor; etc.) and the direction of “good” versus “bad” varied in order to avoid response bias in respondents. The manifest and latent content of all questions was to the effect that respondents describe the extent to which they regarded LISCO performance, LISCO objectives, and HRM in general positively or negatively. In addition to the 64 questions that comprised the main body of the questionnaire, the questionnaire asked for details of respondents’ age, years of service within LISCO, job title and responsibilities, and gender.

The 64 main questions were grouped as follows: (a) LISCO’s performance (9 questions); (b) LISCO’s objectives (9 questions); (c) LISCO’s HRM practices (46 questions). The questions on LISCO’s HRM practices were subdivided into eight subgroups: questions concerning HRP, recruitment, selection, T&D, job evaluation, performance appraisal, health and safety, and overall HRM. The number of questions in each of these subgroups ranged from four to eight.

Respondents

Respondents were recruited from LISCO executives. At the time of the study, LISCO had 313 executives. These ranged in seniority from general managers (most senior) through managers, heads of department, supervisors, and heads of units (least senior). Figure 1 shows the management hierarchy at LISCO.

![Management hierarchy of LISCO executives.](image)

At the time of the study, there were 17 General Managers. All LISCO executives were young to middle-aged (approx. 30–50 years). A minority were bilingual/multilingual, with English as a second language. All were male. As a group they were highly educated, with over 90% educated to at least degree level and about one-fifth educated to post-graduate level. As a group they managed the 7,500 staff at LISCO, with individual responsibilities ranging from 10 to over 500 LISCO employees. All executives were native Libyans.
Procedure
The researchers first approached LISCO’s General Manager by letter asking for cooperation in the research. The researchers also obtained endorsement for Libya’s Deputy Minister of Manpower, who wrote to LISCO’s General Manager asking LISCO to cooperate with the research. With the help of such endorsement, a researcher visited LISCO and was able to recruit respondents. The researcher who visited LISCO distributed the questionnaire by hand. All distribution took place within LISCO headquarters. The researcher met the respondents in their offices, gave them the questionnaire, and explained it to them. This method helped ensure a good response rate. It also helped ensure that all relations between the researchers and LISCO staff were cordial. For the most part, respondents completed the questionnaire after the researcher had met the executives. In a few instances, executives completed the questionnaire in front of him. The questionnaires were returned to the researcher by hand or by internal LISCO mail. They were subsequently scored by the researcher.

6. Results
Of the 313 LISCO executives, 246 returned the questionnaires and 67 did not—a response rate of close to 80%. Of the 246 returned questionnaires, 37 were unusable (illegible or incomplete). This yielded an overall usable response rate of 67% (N = 209).

Figure 2 shows a breakdown of the positions of respondents within LISCO’s management hierarchy.

**Respondents’ Positions**

![Diagram showing the distribution of positions: General manager 23%, Manager 33%, Head of department 8%, Supervisor 23%, Head of unit 13%]

**Figure 2. Respondents’ positions within LISCO’s management hierarchy. N = 209.**

Statistical analyses
For purposes of analysis, all Likert scale scores were re-calibrated, where appropriate, such that lower scores indicated negative perceptions/attitudes and high scores indicated positive perceptions/attitudes. All statistical analyses were performed using SPSS for Windows (Version 14).

Respondents’ perceptions of LISCO

**Organisational performance**
Respondents’ perceptions of LISCO’s performance were good (M = 3.71; SD = .70; range = 1–5). Only 17% of respondents thought LISCO’s performance was poor or very poor.

**Organizational objectives**
Respondents’ perceptions of LISCO’s objectives were good (M = 3.5; SD = .66; range = 1–5). Only 23% of respondents thought LISCO’s realisation of its objectives was poor or very poor.
**HRM practices**

Table 1 shows a breakdown of respondents’ perceptions of HRM practices. The table reveals that, in general, respondents had a high regard for HRM practices. For all variables, the mean was greater than 3.

Table 2 shows the percentage of respondents who perceived LISCO’s implementations of HRM practices to be poor to very poor, for each of the HRM practices.

---

**Table 1. Breakdown of respondents’ attitudes to HRM practices.**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>HRP</td>
<td>1.00</td>
<td>5.00</td>
<td>3.44</td>
<td>.6769</td>
</tr>
<tr>
<td>Recruitment</td>
<td>1.00</td>
<td>5.00</td>
<td>3.40</td>
<td>.4043</td>
</tr>
<tr>
<td>Selection</td>
<td>1.00</td>
<td>5.00</td>
<td>3.49</td>
<td>.4775</td>
</tr>
<tr>
<td>Training and development</td>
<td>1.00</td>
<td>5.00</td>
<td>3.54</td>
<td>.7702</td>
</tr>
<tr>
<td>Job evaluation</td>
<td>1.00</td>
<td>5.00</td>
<td>3.43</td>
<td>.5014</td>
</tr>
<tr>
<td>Performance appraisal</td>
<td>1.00</td>
<td>5.00</td>
<td>3.54</td>
<td>.5115</td>
</tr>
<tr>
<td>Health and safety</td>
<td>1.00</td>
<td>5.00</td>
<td>3.22</td>
<td>.3975</td>
</tr>
<tr>
<td>Overall HRM</td>
<td>1.00</td>
<td>5.00</td>
<td>3.48</td>
<td>.6059</td>
</tr>
</tbody>
</table>

**Table 2. Breakdown of respondents who perceived LISCO’s HRM practices to be poor to very poor.**

<table>
<thead>
<tr>
<th>HRM practice</th>
<th>Percent perceived poor or very poor</th>
</tr>
</thead>
<tbody>
<tr>
<td>HRP</td>
<td>29</td>
</tr>
<tr>
<td>Recruit</td>
<td>30</td>
</tr>
<tr>
<td>Select</td>
<td>25</td>
</tr>
<tr>
<td>TandD</td>
<td>23</td>
</tr>
<tr>
<td>Job eval</td>
<td>27</td>
</tr>
<tr>
<td>Performance appraisal</td>
<td>26</td>
</tr>
<tr>
<td>Health and safety</td>
<td>37</td>
</tr>
<tr>
<td>Overall</td>
<td>28</td>
</tr>
</tbody>
</table>

**Table 3. Correlation matrix: organisational performance.**

<table>
<thead>
<tr>
<th>Pearson correlation</th>
<th>HRP</th>
<th>Recruitment</th>
<th>Selection</th>
<th>Training and development</th>
<th>Job evaluation</th>
<th>Performance appraisal</th>
<th>Health and Safety</th>
<th>Overall HRM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organisational performance</td>
<td>.495</td>
<td>.321</td>
<td>.269</td>
<td>.300</td>
<td>.273</td>
<td>.171</td>
<td>-.282</td>
<td>.261</td>
</tr>
<tr>
<td>Organisational objectives</td>
<td>.431</td>
<td>.119</td>
<td>.15</td>
<td>.138</td>
<td>.414</td>
<td>.349</td>
<td>.111</td>
<td>.31</td>
</tr>
</tbody>
</table>

*Sig.*

| Organisational performance   | <.001 | <.001 | <.001 | <.001 | <.001 | <.001 | <.001 | <.001 |
| Organisational objectives    | <.001 | <.001 | <.001 | <.001 | <.001 | <.001 | <.001 | <.001 |
Table 4. Correlation matrix for different measures of attitudes to HRM practices.

<table>
<thead>
<tr>
<th></th>
<th>HRP</th>
<th>Recruitment</th>
<th>Selection</th>
<th>Training and development</th>
<th>Job evaluation</th>
<th>Performance appraisal</th>
<th>Health and Safety</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recruiting</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Selection</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Training and development</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Job evaluation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performance appraisal</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health and safety</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overall HRM</td>
<td></td>
<td>.233 .540</td>
<td>.018 .655</td>
<td>.271 .138 .784</td>
<td>.410 .378 .386 .374 .477 .491</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sig. HRP

<table>
<thead>
<tr>
<th></th>
<th>HRP</th>
<th>Recruitment</th>
<th>Selection</th>
<th>Training and development</th>
<th>Job evaluation</th>
<th>Performance appraisal</th>
<th>Health and Safety</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recruiting</td>
<td>.</td>
<td>&lt;.00</td>
<td>&lt;.00</td>
<td>&lt;.001 .001</td>
<td>&lt;.001 .001</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Selection</td>
<td>.</td>
<td>&lt;.00 &lt;.001</td>
<td>.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Training and development</td>
<td>.</td>
<td>&lt;.00</td>
<td>&lt;.001 &lt;.001</td>
<td>&lt;.001 .001</td>
<td>&lt;.001 .001</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Job evaluation</td>
<td>.</td>
<td>&lt;.00 .021</td>
<td>&lt;.001</td>
<td>&lt;.001 .001</td>
<td>&lt;.001 .001</td>
<td>&lt;.001 &lt;.001</td>
<td>.023 &lt;.004</td>
</tr>
<tr>
<td>Performance appraisal</td>
<td>.</td>
<td>&lt;.00 &lt;.001</td>
<td>&lt;.001 &lt;.001</td>
<td>&lt;.001 &lt;.001</td>
<td>&lt;.001 &lt;.001</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health and safety</td>
<td>.</td>
<td>&lt;.00 &lt;.001</td>
<td>&lt;.001 &lt;.001</td>
<td>&lt;.001 &lt;.001</td>
<td>&lt;.001 &lt;.001</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overall HRM</td>
<td>.</td>
<td></td>
<td>&lt;.001</td>
<td>&lt;.001 &lt;.001</td>
<td>&lt;.001 &lt;.001</td>
<td>&lt;.001 &lt;.001</td>
<td>&lt;.001 &lt;.004</td>
</tr>
</tbody>
</table>

Internal reliability

A test of reliability revealed the questionnaires had high internal reliability for each of the perceptions and each of the attitudes (Cronbach’s $\alpha > .88$ for all measures).

Correlations

Table 3 shows the correlations between perceptions of organisational performance and HRM practices, and correlations between perceptions of organisational objectives and HRM practices.

Table 4 shows the correlation matrix for correlations between all measures of perceptions of HRM.
Table 3 reveals that perceptions of LISCO performance correlated significantly with all measures of attitudes to HRM practices. However, curiously, the correlation with health and safety was negative. The table also reveals that perceptions of LISCO objectives correlated significantly with all measures of attitudes to HRM practices; all correlations were positive.

Table 4 reveals that all measures of attitudes to HRM correlated positively and significantly with each other. However, again curiously, all bar one of the correlations concerning health and safety were negative. Although, unsurprisingly, the correlation matrix shows much collinearity, none of the correlations were so high as to preclude regression analysis: only two of the correlations (that between training and development and job evaluation and overall HRM) were above .7, and none was above .8; correlations between independent variables of less than .8 are acceptable, all things being equal, in multiple regression (see, e.g., Field, 2000).

**Multiple regressions**

All regressions used forced entry. Because there were two analyses, a Bonferroni adjustment was employed for significance: alpha was set at $p = .025$ for all tests.

**Organisational performance**

There were eight independent variables. These were the eight measures of respondents’ attitudes to HRM practices (Tables 1 and 3). The outcome variable was respondents’ perception of LISCO’s performance. The regression yielded a significant result, $F(8, 200) = 68.93, p < .001$. The regression model accounted for around 40% of variance in scores, $R^2 = .396, \text{adjusted } R^2 = .390$. Table 5 summarises the model.

**Table 5. Regression summary. Independent variables: attitudes to HRM. Outcome variable: perception of organisational performance. $N = 209$.**

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Unstandardised slopes</th>
<th>Standardised slopes</th>
<th>t-value</th>
<th>Sig.</th>
<th>Tolerance</th>
<th>VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>–1.256</td>
<td>.321</td>
<td>–3.915</td>
<td>&lt;.001</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HRP</td>
<td>.559</td>
<td>.067</td>
<td>.544</td>
<td>8.286</td>
<td>.001</td>
<td>0.742</td>
</tr>
<tr>
<td>Recruitment</td>
<td>.278</td>
<td>.095</td>
<td>.162</td>
<td>2.928</td>
<td>.004</td>
<td>0.882</td>
</tr>
<tr>
<td>Selection</td>
<td>.177</td>
<td>.064</td>
<td>.122</td>
<td>2.753</td>
<td>.006</td>
<td>0.381</td>
</tr>
<tr>
<td>Training and development</td>
<td>.123</td>
<td>.039</td>
<td>.136</td>
<td>3.112</td>
<td>.002</td>
<td>0.597</td>
</tr>
<tr>
<td>Job evaluation</td>
<td>.172</td>
<td>.087</td>
<td>.124</td>
<td>1.984</td>
<td>.049</td>
<td>0.348</td>
</tr>
<tr>
<td>Performance appraisal</td>
<td>8.648E–02</td>
<td>.072</td>
<td>.064</td>
<td>1.196</td>
<td>.233</td>
<td>0.629</td>
</tr>
<tr>
<td>Health and safety</td>
<td>–.224</td>
<td>.120</td>
<td>–.128</td>
<td>–1.871</td>
<td>.063</td>
<td>0.566</td>
</tr>
<tr>
<td>Overall HRM</td>
<td>.135</td>
<td>.040</td>
<td>.117</td>
<td>3.366</td>
<td>.001</td>
<td>0.891</td>
</tr>
</tbody>
</table>

The table reveals all independent variables were significant predictors of perceptions organisational performance, except performance appraisal and health and safety. The independent variable with the highest unstandardised and standardised slopes was HRP.

Figure 3 shows the regression model as regards standardised slopes of each of the six significant independent variables.

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Figure 3. Regression model for the six significant independent variables on perception of LISCO performance. Slopes are standardised.

The figure reveals that HRP was by far the most important independent variable in the model, and that the other significant independent variables contributed approximately equally to the model. Note that the correlation, $r = .495$ (Table 3), between HRP and organisational performance suggests that HRP alone accounts for 24.5% of the variance in organisational performance. This impression provided by the figure thus accords with the correlation matrix.

**Regression assumptions.** There was some indication of violation of multicollinearity. The variance inflation factors (VIFs) for selection (2.6) and for job evaluation (2.9) were high (Table 5), and the respective tolerances were low. However, there is no absolute standard of where violation of regression assumptions occur, and, as regards multicollinearity, serious problems may emerge only when a VIF is 10 or over, and the mean VIF is much higher than 1 (Field, 2000). In the present instance, the mean VIF was 1.77 (from Table 5). One may conclude that multicollinearity was therefore present, but probably not serious enough to grossly upset the model.

Regression also requires that residuals are uncorrelated. The Durbin–Watson test in the present instance yielded a value of 1.596, which is within safe limits (1–3, Field, 2000).

**Organisational objectives**

There were eight independent variables. These were the eight measures of respondents’ attitudes to HRM practices (Tables 1 and 4). The dependent variable was respondents’ perception of LISCO’s realisation of its objectives.

The regression yielded a significant result, $F(8, 200) = 87.66, p < .001$. The model accounted for around 28% of variance in scores, $R^2 = .283$, adjusted $R^2 = .275$. Table 6 summarises the results of the regression model.

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Unstandardised slopes</th>
<th>Standardised slopes</th>
<th>t-value</th>
<th>Sig.</th>
<th>Tolerance</th>
<th>VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>−.720</td>
<td>.288</td>
<td>−2.498</td>
<td>.013</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HRP</td>
<td>.468</td>
<td>.061</td>
<td>.481</td>
<td>7.726</td>
<td>.000</td>
<td>0.742</td>
</tr>
<tr>
<td>Recruitment</td>
<td>7.119E–02</td>
<td>.085</td>
<td>.044</td>
<td>.833</td>
<td>.406</td>
<td>0.882</td>
</tr>
<tr>
<td>Selection</td>
<td>−8.856E–02</td>
<td>.058</td>
<td>−.064</td>
<td>−1.529</td>
<td>.128</td>
<td>0.381</td>
</tr>
<tr>
<td>Training and development</td>
<td>4.361E–02</td>
<td>.035</td>
<td>.051</td>
<td>1.232</td>
<td>.219</td>
<td>0.597</td>
</tr>
<tr>
<td>Job evaluation</td>
<td>.395</td>
<td>.078</td>
<td>.301</td>
<td>5.059</td>
<td>.000</td>
<td>0.348</td>
</tr>
<tr>
<td>Performance appraisal</td>
<td>.171</td>
<td>.065</td>
<td>.133</td>
<td>2.636</td>
<td>.009</td>
<td>0.629</td>
</tr>
<tr>
<td>Health and safety</td>
<td>−1.004E–02</td>
<td>.108</td>
<td>−.006</td>
<td>−0.93</td>
<td>.926</td>
<td>0.566</td>
</tr>
<tr>
<td>Overall HRM</td>
<td>.143</td>
<td>.036</td>
<td>.131</td>
<td>3.961</td>
<td>.000</td>
<td>0.891</td>
</tr>
</tbody>
</table>

The table reveals that only HRP, job evaluation, performance appraisal, and overall HRM were significant predictors of perceptions of LISCO’s realisation of organisational objectives. The independent variable with the highest unstandardised and standardised slopes was again HRP. However, job evaluation also had high unstandardised and standardised slopes. Also note that the standardised slopes of performance appraisal (.133) and overall HRM (.131) were almost identical. Figure 4 shows the regression model as regards standardised slopes of each of the four significant independent variables.

Organisational Objectives: Standardised Slopes

![Organisational Objectives: Standardised Slopes](image)

Figure 4. Regression model for the six significant independent variables organisational objectives measures. Slopes are standardised. The slopes of performance appraisal and overall HRM overlap.
Again, HRP was the most important independent variable. However, job evaluation also made a large contribution. This accords with the impression provided by Table 3: the correlation between HRP and organisational objectives is the highest (.431), but those of job evaluation (.414), performance appraisal (.349), and overall HRM (.310) are high, too.

Regression assumptions. There is, of course, the same indication some of violation of multicollinearity as in the organisational performance regression (see above). The Durbin–Watson test in the present instance yielded a value of 1.968. This is close to the ideal of 2 (Field, 2000). Errors appeared independent.

6. Discussion

Respondents’ perceptions of LISCO and HRM

LISCO’s managers in general had a positive attitude towards the company (Table 1). The mean rating of the company’s performance was 3.71 and only 17% of respondents thought the company’s performance was poor or very poor. Similarly, the mean rating of the company’s realisation of its strategic objectives was 3.5, and only 23% of respondents thought the realisation was poor or very poor. As regards respondents’ perceptions of LISCO’s implementation of HRM practices, on no single measure was the Likert rating negative, and the lowest (health and safety) was positive (3.22), albeit close to neutral. For overall HRM, the Likert rating was 3.48. However, a high percentage of the executives perceived the implementations to be poor or very poor, with 30% perceiving the company’s recruitment practices as poor or very poor and 37% perceiving the company’s health and safety practices as poor or very poor. Overall, over 28% of respondents’ ratings pictured the company’s implementation of HRM practices as being poor or very poor.

The above suggests that, in general, respondents perceived LISCO to be doing well, both in terms of its performance and its objectives, yet they perceived the company’s implementation of HRM practices less favourably. If one grants that the respondents had a positive attitude to HRM practices, one may wonder why the discrepancy. If HRM practices were that good, one would expect the agreements between perceptions of performance, objectives, and HRM practices to have been closer. In this regard, one may also wonder why the correlations between perceptions of health and safety and all but one (overall HRM) independent variable were negative, yet respondents had overall positive views on health and safety (mean: 3.22).

Regressions

The regressions in the present study tested the hypotheses that perceptions of company implementation of HRM practices impact on perceptions of company performance and company objectives.

Performance

The main finding from this regression was the overwhelming importance of HRP. It provided by far the greatest standardised slope (.544) (Table 3; and see Figure 3), being more than three times the value of the standardised slope of any other independent variable. This accords with the views of many researchers (e.g., Chew and Horwitz, 2004; Foot and Hook, 2005; Singh, 2003; Tyson and York, 2000), who argue that effective HRP—indeed, incorporating it into company strategic thinking—is vital to corporate survival: good company performance demands good HRP, and this is especially so given the changing, and often volatile, circumstances of today’s economic life. In this, insofar as the regression deals with respondents’ perceptions, the perceptions accord with what (largely western) researchers would suspect: good management perceptions of good HRP translate into good perceptions of company performance.

The relatively small contributions of the other significant independent variables—recruitment, selection, job evaluation, training and development, and overall HRM—does not suggest that they were unimportant. Indeed, because (from Table 3, calculating $R^2$ from the correlation) perceptions of HRP explain only about 25% of the variance in perceptions of LISCO performance and because the regression model as a whole explains about 40% of the variance, even allowing for collinearity, such factors together made a contribution. However, is the importance of HRP and the absence of any significant contribution to the model from performance appraisal and health and safety. As regards the first of these, the regression suggests that, of HRM practices in general, HRP is by far the most importance. This is discussed below. As regards the
second, as with the negative correlations between health and safety and other independent variables, one may wonder why respondents attached such importance to performance appraisal and health and safety when the factors figured not at all in the respondents’ perceptions of how LISCO was performing.

Objectives

Again, the main finding from this was the importance of HRP. It provided by far the greatest standardised slope (.544) (Table 5; and see Figure 4). However, job evaluation also made a large contribution to the model, and performance appraisal and overall HRM made significant contributions, too. The inclusion of performance appraisal as a significant independent variable in this regard perhaps explains why respondents saw it as being an important component of HRM practices but did not see it as important as regards company performance—perhaps they saw it as important only as regards realising LISCO objectives.

The are two salient features of the regression model. First, it explains relatively little of the overall variance of perceptions of realisations of LISCO’s objectives. The value of $R^2$ suggests only about 28%. In other words, about 72% of the variance in respondents’ perceptions of LISCO’s realisation of objectives was not explained by their perceptions of LISCO’s implementation of HRM. One may ask, then, what does explain the variance? No doubt, random or otherwise unpredictable economic, social, and political events could account for much of it. And if not random or otherwise unpredictable economic, social, and political events, there do not seem to be any candidates.

The second salient feature of the objectives regression reinforces this last point. Four aspects of HRM—training and development, recruitment, selection, and health and safety—made no significant contribution to the model. Again, even allowing for possible problems with collinearity (Tables 3 and 6—not from Table 6 that the VIFs for recruitment and training and development are relatively low), one wonders why, if such practices are so important for company survival—especially, as some have claimed, training and development (e.g., Jacobs and Washington, 2003; Tzafrir et al., 2004; Yang, 2006), selection (e.g., Chew and Horwitz, 2004; Huo et al., 2002; Taylor (2006)), and recruitment (e.g., Chew and Horwitz, 2004; Harel and Tzafrir, 1999; Taylor, 2006)—the practices made no impact on respondents’ perceptions of LISCO’s realisation of its objectives.

One may recall that over 40% of respondents in the present study were very senior (General Manager or Manager; see Figure 2), and their views, if they considered all aspects of HRM to have been important in LISCO’s realisation of its objectives, thus should have been reflected in the regression model. It seems either that LISCO respondents were paying lip service to certain HRM practices or that they perceived them to be important only as regards performance, not objectives. In the latter event, such perceptions would be at variance with the literature on HRM and corporate strategy (e.g., Ransom and Lober, 1999; Heraty and Morley, 2000; Youndt et al., 1996).

Generalising the results

Possible peculiarities of Libya

Some features of HRM as practiced at LISCO may reflect the socio-political climate in Libya more than implementation of HRM practices in general. This may, for example, apply to recruitment and selection.

Although most Libyan companies, including LISCO, use standard means of recruitment—advertisements in the national press, interviews, psychometric testing, and so on—Libyan (and, for that matter, much African) culture places high value on personal recommendation, either from other organizations or from individuals. In this, LISCO may be subject to recruitment by both nepotism and tribal affiliation (Al-Aiban, 1988; Al-Aiban and Pearce, 1993; Ali, 1989; Almhdie and Nyambegeza, 2004). This may be exacerbated by the traditional Islamic stress on the importance of family and social networks in all aspects of national life (Edwards and Kruvilla, 2005; and see Bayat, 2002; Weir, 2000). In addition one may note that Libya as a whole is undergoing what it calls Libyanisation. This is the process whereby Libya is aiming to reduce its reliance on foreign nationals. This may result in Libyan companies recruiting less able staff. Here note that Libya’s literacy rate at present is 82.6% (CIA, 2008); this is high by North African standards, but nonetheless low.
One may also note that, despite Libya’s having liberalized its economy since the removal of sanctions in 2004, employment in Libya, especially in the state sector, is controlled by the Libyan Ministry of Manpower, and this may curtail LISCO’s independent choice as to whom to recruit. Such factors may explain the non-significant contribution of recruitment and selection to the organizational objectives regression (Figure 4). (However, if so, it does not explain why each was a significant independent variable in the organizational performance regression—see Figure 3. Neither does it explain why LISCO executives perceived LISCO’s recruitment and selection practices positively.)

Against the possibility that tribal, family, and other personal loyalties dictate LISCO recruitment and selection, one may note that LISCO does, as mentioned, use standard recruitment practices. One may also note that the importance of recruitment and selection varies according to company type. For high-skilled work, effective recruitment and selection is important. It is less important in low-skilled work. Iron and steel manufacture, being a traditional heavy industry, involves much low-skilled work. Libya’s unemployment rate may also be a factor. It is high (30%, 2004 estimate—CIA, 2008); so LISCO has a large reserve of potentially employable people from which to choose. Thus one may conjecture that, if LISCO’s current recruitment and selection practices are not as sophisticated as many employed in the West, and if, as seems likely from the regression analysis, LISCO executives perceive recruitment and selection as relatively unimportant as regards organisational objectives, there are good reasons for LISCO’s practices.

The same may be said of health and safety. Perceptions of health and safety practices at LISCO made no significant contribution to perceptions of the company’s performance or realisation of objectives. However, Libya is a relatively poor country. Its per capita GDP (purchasing power parity) is US$13,100 (2007 estimate; CIA 2008). This compares with a US per capita GDP of US$46,000 and typical Western per capita GDPs (purchasing power parity) of over US$30,000. And health and safety measures can be expensive, especially environmental ones. In the USA, environmental health and safety interventions cost, on average, 146 times as much as other health interventions per life year saved (Ames and Gold, 1997); it is arguably asking too much of relatively poor countries to invest so heavily in health and safety. Given this, it would not be surprising if Libyan companies place less importance on health and safety as regards their performance and objectives than do Western companies, and neither is it surprising that LISCO executives’ rating of health and safety measures, as indicated, were negatively correlated with their ratings of HRM practices (Table 4). The only problem therefore in the results of the present study is why LISCO executives placed positive value on health and safety measures in the first place (Table 1). This, arguably, may be explained by the executives placing moral, but not economic, worth on health and safety measures.

As indicated, some have argued that developing nations have a culture that hinders risk-taking and business development (e.g., Littrell and Valentin, 2005; Muller, 1999). This may certainly apply to Libya. However, the striking feature of the present study, caveats about recruitment, selection, and health and safety aside, is how much its findings accord with studies of HRM practices in the West.

**Similarities between findings of those of the present study and those in the literature.**

As indicated, the regressions suggest that LISCO executives perceive HRM practices, all on balance, to range from slightly better than neutral (e.g., health and safety) through good (HRP, training and development, selection, performance appraisal). Descriptive analysis suggested the executives have positive overall perceptions of HRM (Table 1). However, with one exception (HRP) the regressions suggest the perceptions of HRM practices translate strongly neither into perceptions of LISCO’s performance nor of LISCO’s realisation of objectives. Given the variety, and often conflicting reports of the relative importance of diverse HRM practices, this is what one would expect (see, e.g., (Ulrich, 1997; Ulrich & Lake, 1990; ). There is, as indicated, the possibility that many “significant” findings as regards HRM in the literature are false positives. There is also, again as indicated, the possibility that what constitutes good HRM for one company (or industry, or sector) need not be so good for another company (or industry, or sector). Indeed, if, as Terpstra and Rozell (1993) is true for all manufacturing companies, not just US ones, one should not expect a strong relationship between any HRM practice and company performance; because of this, the present study corroborates Terpstra and Rozell’s conclusion, save with the difference that planning is important. Further, given that HRM practices comprise a basket of practices, and given that together the practices include a basket of industrial
philosophies it is in no way surprising that LISCO executives evaluations of their company’s performance and realisation of objectives show little relation to their perceptions of most HRM practices.

The one exception to the lack of a strong relationship between perceptions of HRM practices and perceptions of organisational performance and realisation of objectives, as indicated, was HRP. Theoretical claims regarding the importance of HRP stress its relevance given the increasing uncertainty, and rapid change, in today’s economic climate (e.g., Foot and Hook, 2005), and, related to this, that company management is the art of the possible (e.g., Buyens and DeVos, 2001)—and what is possible is constrained by what employees are capable of doing. Empirical evidence lends support to such views. Lam and Schaubroeck (1998), in a study of 85 middle to senior managers’ perceptions of their own companies’ performance and its relationship to (a) the degree of HRP and (b) the degree to which the companies formalised HRP, found that perceptions of good company performance correlated highly with both the level of HRP and the degree of formalisation of the planning. Thus, overall, the present study suggests that, though LISCO may be different from companies in other countries and other industries in specifics, in broad terms of its management needs it is similar. In this, the overarching importance of formulating strategies may well be crucial, and, if so, LISCO executives, at least in terms of HRM as exemplified by HRP, appear to recognise this.

Implications

The present study corroborates claims that HRP and strategic HRM are important features of company policy. It also reveals that management’s perceptions of most HRM practices do not correlate highly with their perceptions of realisation of objectives. This latter result warrants future research. It suggests, as regards LISCO, either that most HRM is unimportant to corporate strategy or that LISCO managers do not perceive it to be so. Apropos this latter possibility, note that Kane et al. (1999) report that—in the English-speaking world—negative management attitudes as regards HRM is a major barrier to effective use of HRM (and see Othman and Poon, 2000).

To date, there has been little direct research on HRM and organisational objectives (most is on corporate performance). One needs to know whether LISCO is typical in this regard, and, if so, what is the relationship between most HRM practices and organisational objectives. Against this, in that it highlights the importance of HRP, the study corroborates claims, common in the literature, that HRM is general and HRP in particular should be incorporated into corporate planning, at a very high level (e.g., Fombrun et al., 1984; Özcelik and Aydinli, 2006; Schuler, 1992; Sheehan, 2005).

There is also the issue of the amount of variance in respondents’ perceptions, especially as regards realisation of organisational objectives, that is left unexplained. Again, LISCO may be atypical, but if it is typical, one needs to explain over 70% of the variance in perceptions of realisation of organisational objectives by using factors other than HRM. What these factors might be is a subject for future research.

Limitations

There are three obvious limitations of the study. First, because the study used executives’ perceptions of performance and realisations of organisational objectives, it lacks empirical corroboration. However, this limitation seems not to be severe. As indicated, executives’ perceptions of organisational performance tend to be accurate. Also, if one allows that executives had poor perceptions of LISCO performance and realisation of organisational objectives, one still needs to explain why such distorted perceptions correlated so well with their perceptions of HRP but not so well with other HRM practices. In short, the data suggest LISCO executives had relatively accurate perceptions of their company’s performance.

Second, the present study investigated only one company. LISCO may not be typical of company’s that employs HRM practices.

Third, the study relies only on quantitative evidence. Perhaps more light will be shed on LISCO management’s views, and use of HRM, by more qualitative analysis.
7. CONCLUSION

The present study found LISCO executives have positive perceptions of HRM practices, LISCO performance, and LISCO realisation of organisational objectives. However, on balance, the executives perceived LISCO’s performance and realisation of organisational objectives more positively than they perceived HRM practices.

In general, executive’s perceptions of HRM related better to LISCO performance than to realisation of its organisational objectives. On the one hand, this may be explained by, perhaps, the executives ascribing more importance to performance; on the other, it may be explained by, perhaps, many HRM practices being relatively unimportant. Both issues are topics for future research.

The present study found strong evidence that the most important HRM practice, both as regards performance and as regards realisation of its objectives, was HRP. This accords with what much of the literature suggests. Against this, the study found that perceptions of HRM practices in general, accounted for relatively little of the variance in perceptions in realisations of organisational objectives, and even in the case of perceptions of organisational performance, the explained variance was less than 40%. Given the esteem in which HRM is held—at least in much of the literature—this lack of explanatory power of HRM demands further research.

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Information and Communication Technologies as An Incentive For Improving Relationships In Business To Business Markets

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ABSTRACT

The managerial theory as well as the practice of the industries consider the relationships of collaboration between enterprises, the most important resources for business strategy, contributing in the creation of value and economic capital, sustainability of the competitive advantage and also in the definition of innovative ways of enterprise development. The management of these capacities could improve from the sustaining information and communication technologies (ICT). The impact that ICT may have in the relations between clients and suppliers, is not entirely elaborated. The use of ICT, based also in the intense connectivity through Internet remains limited when speaking of some activities that generate value. The effects of interconnecting Internet technologies are even now partially unexplored. This paper will analyze how ICT affect the collaboration relationships between clients and suppliers and related processes of creating value, focusing on the value drivers in Business to Business (B2B) markets, value process in the supply chain and client –supplier relationships and B2B e-marketplaces in the processes of creating and delivering value in the supply chain. Examples of European companies as well as the stage of Albanian companies in relation with these concepts illustrate the ideas throughout the paper.

Keywords: Value, collaboration, relations.

1. INTRODUCTION

The managerial theory as well as the practice of the industries consider the relationships of collaboration between enterprises, the most important resources for business strategy. They can contribute in the co-production of value, in the creation of value and economic capital, in the sustainability of the competitive advantage as well as in the definition of innovative ways of enterprise development.

The collaboration approach in business to business markets about the relationship management between clients and suppliers is explained with the advantages that collaboration processes give to both parties.

Major relevant advantages are:

- The increased efficiency and effectiveness that explains the activities that generate value.
- The access of each actor involved in the relationship, to the resources and organizational capacities of the other partners involved. These resources and competencies are complementary with those of other partners as well as not imitable. (reproducible)
- The access of external knowledge of the partners;
- The participation in creating new knowledge nepermjet the interaction with the partners and the development of collective learning processes.
- The increasing in innovation capacities, deriving from the division of resources, knowledge and organizational capacities as well as from the continuing learning processes between partners.
The variety of strategic alternatives that the actors could achieve thanks to the synergic combination of collective capacities that could not be implemented from a single enterprise;

- The raising capacity of involved subjects for adopting always new ways of competitive advantage, leveraging from the integration and coordination of resources and complementary capacities, innovating and reconfiguring the combination of these capacities in a dynamic manner with the changing environment;

- Increasing of the generating potential of value deriving from the improved competitive supply of the suppliers in relation with their client company as well as the client in relation with their customers;

- The management of these capacities could improve from the sustaining information and communication technologies (ICT), particularly those that are based in universal standards such as TCP/IP protocol. The interconnecting power of web technologies gives the opportunity to redefine the structure of the supply chain, the models of the relationship of supply, to integrate with more efficiency and effectiveness the activities of different actors involved in the process of co-production of value, dividing the resources, knowledge and competencies of single partners. The impact of ICT based on Internet protocol, in the relations between clients and suppliers, is not entirely elaborated, along with the enterprise applications, that are also in the emergency phase. The use of ICT, based also in the intense connectivity through Internet remains limited when speaking of some activities that generate value. It is the case to mention the provisioning on-line of the products, through so called business to business e-marketplaces, or the interchange of structured information through technologies like: Internet, Extranet, EDI-Electronic Data Interchange and /or CADD, Computer-Assisted Design and Development or other systems.

The effects of interconnecting Internet technologies could have if utilized for the development of new products and integrated management of supply chain are even now partially unexplored. In the work proposed will be analyzed how ICT affect the collaboration relationships between clients and suppliers and related processes of creating value. In this paper we will focus on the potentials of Internet and digital technologies that are based on a standard of open universal communication.

The first point will individualize the value drivers in B2B markets. The assumption is that, the more the capacity of the suppliers to deliver value to the customer, the more increases the potential of the suppliers to improve the enterprise value (in terms of the share value).

The second point will analyze how the technologies with high connective intensity will affect the generating value process in the supply chain and client–supplier relationships. These relationships and the dynamics that develop between client and supplier are considered as the most important point to mobilize synergically the resources and the organizational capacities of different actors to create value and satisfy the expectation of each company.

The third point, at last, shows the role of B2B e-marketplaces in the processes of creating and delivering value in the supply chain. The ideas of this paper are object of a research program that will show the role of ICT in the process of value creation in B2B markets, through case studies of companies in Albania that try to better manage the on line transactions the relations in the supply chain.

Creating value in B2B markets

One of the most relevant aspects of the organizational decisions and marketing actions in business markets is the individualization of all system elements that generate value for the clients. The development of a efficient competitive strategy is just based in the capacity to individualize the value drivers that guide the buying behaviour of clients in business markets and understand their evolution in time. This capacity is the basis that create the the conditions for the value added of suppliers for their clients. The customer satisfaction is the fundamental determinant of organization value in the customer based point of view the concept of value in business markets is based on the considerations of clients benefits and costs that are produced as a result of their choice to adopt a specific offer between different options in the supply market (Busacca, 1994; Cantone, 1996; Anderson, Narus, 1998).

In this paper the created value for the client is defined as the difference between the benefits and costs of business clients in a determined system of supply and in utilizing it during its life cycle. The following
paragraph is discussing some of the aspects of this definition. The benefits that generate value for the clients in business markets are of three types:

- **Performance benefits.** Are all the advantages that the client attributes value related with the supply system. In business markets, it is all about functional and explicit benefits, like the operative prestazioni of the supply system, although the symbolic and implicit benefits (Busacca, 1994) may have their importance (for example, think about the believe in the supplier brand and the impact of the adoption of a new process technology in the organoizational climate etc.);

- **Process benefits.** Are related with the ongoing of the buying process in a determined supply system, from the moment in which the client identifies the problem till the moment in which the order to buy is given and the supply system is inserted in the organizational processes. The value that the client is attributing to this kind of benefits grows when the activities of the buying process are personalized, simple, quick and supported by detailed and available information.

- **Relational benefits.** Nowadays, it is difficult that business markets may not experience long term collaboration relationships, based on the believe and the partnership relations). Sharing the information, organizational capacities and the knowledge about clients and suppliers, integration and coordination of value creation processes (productive logistic systems, designing systems etc) are only some of the aspects that characterize the collaborative approach of managing the client-supplier relationship. There are various advantages that come from this situation: fast innovation times systemic flexibility; decisional effectiveness, better use of the activities that generate value, personalized supply solutions to the customer, alignment of decisions and activities in all the supply chain etc. The nature of such advantages tells us that in B2B hypercompetitive markets, the basis for the value creation of the supply chain organization are the relational benefits.

Business clients give importance not only to performance benefits, but also to process and relational benefits, with the same level of significance. Moreover, if the offer of value from the supply company do not satisfies the demand for these three benefits, it is very difficult to build a competitive advantage and create new economic value through them. Although the three types of benefits are related through reciprocal influences, it must be recognized that relational benefits are one of the most important in comparison with those of performance or process.

*Ceteris paribus*, a supply company may gain a competitive advantage and create a new economic value when the clients’ value of benefits of the supply provider exceeds the value of the competitors in the market.

The leverage of the benefits’ value allows the supplier to gain a differentiation advantage in respect of competitors. As a result a greater economic value can be created due to the chance to implement strategies of premium price customer loyalty related with the proper supply system. Even though the clients can gezoje benefits of a specific supply system, they must sustain a series of costs. In the viewpoint of evaluating total costs, the price is certainly the most important element monetary component and also probably the easiest to evaluate. In addition, there are other costs that ma be more difficult to be evaluated. A classification of costs that are sustained by the clients for using a specific supply system is as follows:

**Buying costs (or buying price);**

**Process costs,** that include all the costs of activating and conducting the transaction process with the supplier. These are information, evaluation and selection costs and/ or costs of the supplier system, order costs logistic costs, administrative costs etc. **Operational costs,** like costs of maintaining of the system during the life cycle, quality costs, etc;

**Integration costs,** are the costs needed to insert the supply system in the organizational context of the client organization, for example the installation and initiation costs, learning costs, integration costs with the internal and external costs in use, *legacy costs, switching costs,* etc;

**Relational costs,** that are the organizational, menagerial and control costs of the structure of governing the client-supplier relationship (Williamson, 1975). Some of them are: the needed investment costs for organizing,
managing and controlling the system integration and coordination of the value chain activities for clients and suppliers; organizational change costs; the costs of risk perceptions for the investment and relation-specific investments; the costs of risks in market uncertainties (supply for the suppliers and buying for the clients); asymmetry information costs that exist between different actors in the market; missing or improper innovation costs (product, process, organization or strategy innovation); negotiation costs and goal definition as well as contractual standards application; costs of control in applying contracts; risk costs of supply system performance, etc. When adopting a collaborative approach in relation management between clients and suppliers, the perception risks of relation specific investments. These investments are necessary for interconnecting the value chain activities of clients and suppliers and creating reciprocity instead of traditional sequenced relations between actors in the supply chain (Norman, Ramírez, 1994).

**Obsolescence costs** or costs derived from the velocity of determination of losung the physical, technological and economic value of the supply system, object of the transaction. In a competitive market situation, these costs are independent from the type of relation. The obsolescence is determined by the interaction of market forces;

**Opportunity costs**, that are sustained when spending the funds for the acquisition of the supply system disclaiming from economic value of alternative investments attractive for the client. The suppliers have opportunity costs in the case of disclaiming from the economic value of different market segments or individual clients that may have the same attraction that those selected to serve. These costs do not depend from the approach adopted to manage client-supplier relations.

The same as for benefits, different cost categories are related with reciprocal influence. The relational cost have the primary role in this influence, identified by different studies (Holmstrom, Hoover, Louhioluoto, Vasara, 2000; Dyer, Ouchi, 1993; Lamming, 1993; Cusumano, Takeishi, 1991; Womack, Jones, Roos, 1990). The increase in the cost of relations for client or supplier, lowers all the other costs related with the transactions and management of client-supplier relations.

This influence of relational costs is illustrated particularly in case of joint development of two or more product innovation projects. Since, they happen in a situation of elevated relational intensity – from concept development stage till the stage of design, realization and launching the new product – the project performance gets better through three evaluating dimensions considered critical (Munari, 1999; Clark, Fujimoto, 1991):

- developed product / process quality (koherenca of the new product with the client needs);
- project lead-time (time between idea generation and launching the new product);
- Project productivity (the use of resources to finish the project).

If collaboration relations contribute in the reduction of client total costs in activating the buying processes in supply markets, the effect of gaining product value will be a determinant competitive advantage of the supplier company. If the supplier can support higher selling prices, customer preference and loyalty, because of the elevated economic client value, the generation of this value, will be a fundamental element in the economic value of the supplier company.

The concept of value, as described above, can be expressed with the following relationship:

\[ V_{SS} = \sum_{i=1,...,n} w_{VBS} - \sum_{j=1,...,m} w_{VCTS} \]

or

\[ V_{SS} = \sum_{i=1,...,n} w_{VBS} - \sum_{j=1,...,m} w_{VCTS} \]

where

- \( V_{SS} \) = Value that the Supply System SS generate for the client;
- \( w \) = Wight of each relevant benefit;
- \( V_{B} \) = value of Supply sistem benefits;
- \( V_{C} \) = value of client costs to sustain and use the supply system during its life cycle;
- \( i = 1, 2, ..., n \), relevant benefits;
- \( j = 1, 2, ..., n \), relevant costs.

So, the absolute value of a specific supply system is determined from the spread between benefits value and sum of total costs produced by the client. The greater this difference or the rapporti between the two terms, the I priorr is the client to buy the system (Anderson, Narus, 1998; Cantone, 1996; Costabile, 1996; Valdani, 1995; Gale, 1994; Busacca, 1994).
The relative comparative value is, on the other hand, expressed by the difference between a specific supply system and the best competitive alternative in the supply market (Cantone, Cantone, Donzelli, 2001; Cantone, Cantone, Donzelli, 2000(a); Cantone, Cantone, Donzelli(b); Anderson, Narus, 1998; Cantone, 1996). This comparative value determines which system will be chosen by the client.

2. VALUE CREATION THROUGH INFORMATION AND COMMUNICATION TECHNOLOGIES AND SUPPLY CHAIN RELATIONSHIPS

Information and Communication Technologies (ICT) are a very large group of electronic systems with high connection intensity with different roles in value creation process in the company.

One of the fundamental characteristics of the ICT is the high connection intensity. In other words, these technologies are standardized interfaces that allow sharing information, resources, knowledge, and complementary competencies between actors, independently from the business system. These elements are the key to the process of co-production of value (Sanchez, 1996). The connective capacity is illustrated perfectly with the diffusion of Internet as a standard, universal and open protocol (Vicari, 2001; Valdani, 2000; Mandelli, 1998). Part of ICT-s are also Interorganizational Systems, IOS (Cash, Konsynsky, 1983). The IOS allow a high level of connectivity and integration of the company based on the electronic open platforms, such as EDI, Electronic Data Interchange or computer-based as computer aided design and manufacturing, CADD-CAM (Marzocchi, 1992).

Some interconnected phenomenon have contributed in determining the need of value production system for connectivity: the dramatic acceleration of competitive processes, the companies must have the capacity to continually redefine the rules of competition and the bases for competitive advantage, the use of speed economies and the satisfaction of customer needs and other stakeholders; the company tendency to focus on core competence and the un construction of value chain that follows (Evans, Wurster, 2000); the affirmation of network economy that connects the value chains of independent actors of business systems un-constructed with the intention to share resources, knowledge, competencies and experience, important elements to produce value and develop competitive advantage.

ICT have contributed to competitive advantage development of companies, supposing different roles during a scheme of evolution as follows (Ostillio, Troilo, 2000; Gartner Group, 2000; Marzocchi, 1991; Rockart, 1988; Rockart, Scott Morton, 1984):

- During the first phase (’50-’70) automation for improving the internal processes efficiency for creating value. In the first phase (’50-’60), automation has dealt with accounting and administration processes, adopting automated information systems to the centralized architecture of the organization and Batch manipulation procedures (mainframe e midrange computing). Later on (’60-’70), ICT was used to all those operational processes in the value chain for which the flow of data and information accessed in a real time is a critical factor;

- the second phase (’70-’80) in which ICT diffused to improve the efficiency and effectiveness of the decisional processes till in the individual level. This has been possible from the diffusion of client/server computing technologies and the simplifying of the processing systems at the hardware and software level that followed;

- the third phase in the ’90s experience the diffusion of Internet/network computing technologies that improve the efficiency and effectivity in all the complexity of the production processes value. Actually they can integrate and coordinate with high levels of performance all the value chain activities of a single company, but also the value chains of all the independent actors from the business systems in the process of co-production of value (suppliers, clients, competitors, other partners);

- in the future, the diffusion of Internet as a universal open standard will allow the redefinition in a wider base the business models, through un-construction processes of the value systems. In fact, all the
opportunities related with the separation between information economy and that of commodities can be exploited and the trade of between depth and width in the internal of value systems (Evans, Wurster, 2000; Valdani, 2000; Shapiro, Varian, 1999). In other words, ICT will be the instrument used to modify the strategic and organizational architecture not only in single systems, but also in full value systems like supply networks, industry networks, value Constellations. The evolution of ICTs allows capturing strategic opportunities, above all in very competitive situations: improves the width and depth of collaboration relations between independent actors in the business system.

On one hand, this will be realized through overpassing the difficulties of space and time costs of business models with such relationships in value co-production processes that are based fundamentally on the physical connection of the actors involved. On the other it is impacted by the possibility to modify the rules of competitive interaction (D’Aveni, 1994) through the adoption of business models that are based on new organizational and strategic architecture of value creation systems that also make possible new approaches for competitive advantage. (Vicari, 2001; De Frigueiredo, 2000). One of the recent issues (Evans, Wurster, 1997, 2000; Valdani, 2000; Shapiro, Varian, 1999; Hagel, Armstrong, 1997) is that connective technologies based on the Internet protocol rimuve the traditional trade-off richness-reach (Evans, Wuester, 2000). In other terms, the specific relationship between supply ans digital technology, based on the Internet protocol, allows the increase of reachness and reach of the relations client-supplier, with the minimum competitive costs. In coherence with the definition of Evans and Wurster (2000), the reachness is a concept that includes both the reach and the quality of client-supplier relationships. This concept can be defined based on different elements, such as, the quality (in terms of credibility, personalization and velocity) of information and shared knowledge, the level of integration in the value creation processes (logistic, production, design, etc.), the level of collaboration, credibility and variability of advantages, which the relation is based on. With the reach of the relation, on the other hand, is meant the number of actors of the business system that are involved in the value co-production processes.

So, the diffusion of digital technologies with high connective intensity, based on the universal standard open communication of Internet, allowed the affirmation of the e-business models based on supply networks, deep and reach in the same time. This supported the technological and economic conditions for inter organization relations development in the supply chain with higher levels of reachness and reach in comparison with situations where the relations and interconnections in the value system happen through the physical distribution of actors or through the use of proprietary ICT-s or moreover, through mass ICT-s. Actually, physical interconnections as well as technological ones (of the proprietary network type) are limited from the time and access space. So, they develop very profound relations, but with a limited number of actors in the value system. While the mass ICT-s, activating relations one-to-many allow the development of superficial relation, but with a greater number of actors in the value system.

The collaborative approach for the administration of client-supplier relations in the physical value systems is characterized by hierarchical relations. (Lamming, 1993): lations of collaboration (deep) only with a limited number of suppliers of a “prime level”, partner o comaker suppliers that supply full systems that are assembeled by the client organization in the finished product.; the suppliers of the first level integrate in their systems the components provisioned from the suppliers of the second level and so on along the supply chain, according to a strictly hierarchical system. In every successive level, the first that can be reiproducend is the trade-off between the richness-reach of the relationship and the limited number of suppliers, the digital connective network technology, contributed in creating better structers to govern client –supplier relationships that exploit not only the advantages of reach, but also those of reachness. As a result, relationships of collaboration through web connection can be constructed (Web partnership)

In the Internet era, the trade off between reachness and reach could be overcame in systems that are characterized from physical value systes with a limited connectivity and low level of relational variety, in the meantime when the value production is based on the integration of physical (design, production and distribution of products) and knowledge (producing knowledge, learning processes, passing and sharing knowledge and information) (Valdani, 2000). The digital, high intensity technologies, based on the open and universal standard of internet, can help, on one hand, in adopting structures for managing client-supplier relations, potentially profiting from richness and reach; on the other hand, they may determine an increasing rivalry between actors of the supply chain, and generally speaking in the large competitive system (Porter, 2001). This is the result of the power movement of contracts from each actor or ulterior strengthening of
consolidated position of power. Particularly in fragmented supplier markets, the Internet technology increases the contractual power of clients, which could be incited to be guided in opportunistic and conflict behaviour in front of supplier organizations. The increase of negotiating power of clients derives from the un-intermediation processes in the supply chain and from the perfect accessibility of all clients in the same supply resources (resource homogenization). These conditions can be changed through the exercise of power of clients to reach lower prices, in case clients use the leverage of the great negotiating power they have. In the same time Internet increases the actual power of suppliers, because of they may access, with reasonable costs and without the foreign intermediaries.

Even in this case, the result can be a greater pressure of suppliers over clients to obtain higher prices, impacted from favourable buying conditions.

Thanks to ICT and Internet, the condition for information democracy (Sawhney, Kotler, 2001) that reduces or even cancel the information asymmetry (Amit, Zott, 2000) generate a more opportunist and conflictual behaviour in the relation client-supplier. An intense conflictual behaviour between clients and suppliers can be supported also form the frictionless economy (Brynjolfsson, Smith, 2000) generated by internet technologies. Frictionless economy deals with transaction cost reduction for goods/services sold and bought in a network (e-procurement, e-sales), the client organization possibility to search, with low cost and without problems of time and space, more price competitive and more need coherent products/services the access to lower costs from the supplier side in a very broad client base, more coherent with their capacity, strategies and productivity goals. The connective Web-based technologies, can support the development of conflictual relations in the supply chain, ruining the bases of a relational model client-supplier, recently diffused in different markets, particularly in the most competitive ones and with high level of innovation: the relational model based on the long-term relationship of loyalty and advantage mutuality. The discussion follows with the analysys of the manner in which digital technologies used on the Internet protocol may improve creation value processes in the supply chain (Evans, Wurste, 2000; Verona, Prandelli, 2001). This analysis will consider the digital markets business to business as an aplication of Internet technologies (BtoB e-marketplaces).

3. BUSINESS TO BUSINESS E-MARKETPLACES

The development of digital markets (e-marketplaces) is one of the most recent innovative phenomenon derived from the application of Internet protocol based technologies in the B2B markets (Mariotti, Sgobbi, 2000; Kaplan, Sawhney, 2000).

Table 1. Some global B2B estimates and forecasts (Billions of dollars)

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forrester</td>
<td>-</td>
<td>-</td>
<td>2 160</td>
<td>3 875</td>
<td>5 904</td>
<td>8 823</td>
<td>12 275</td>
</tr>
<tr>
<td>IDC</td>
<td>282</td>
<td>516</td>
<td>917</td>
<td>1 573</td>
<td>2 665</td>
<td>4 329</td>
<td>-</td>
</tr>
<tr>
<td>eMarketer</td>
<td>278</td>
<td>474</td>
<td>823</td>
<td>1 409</td>
<td>2 367</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Gardner Group</td>
<td>433</td>
<td>919</td>
<td>1 929</td>
<td>3632</td>
<td>5 960</td>
<td>8 530</td>
<td>-</td>
</tr>
</tbody>
</table>

E-market places can be described as virtual online markets where buyers, suppliers, distributors and sellers find and exchange information, conduct trade, and collaborate with each other via an aggregation of information portals, trading exchanges and collaboration tools. E-marketplaces could be e-commerce only (when they offer only transaction facilities), but can also be e-business tools when solutions for integration with other internal processes are provided. Since the first e-marketplaces appeared on the Internet the times have changed and it is time to take stock of the situation.

Business-to-Business (B2B) e-marketplaces are software systems that allow industrial buyers and sellers to transact business online over the Internet through a central node. Their development in Europe can be traced back to 1996, when British Telecom established a Private Digital Exchange known as BT Trading Places.1 It did, however, not work successfully and was withdrawn. E-marketplaces were more widely developed from 1998 onwards. Since then, the number of such markets has exploded.
In 2000 UBS Warburg estimated that 200 marketplaces were active in Europe, in sharply.  

Worldwide B2B Internet commerce surpassed US $ 433.3 billion in 2000 and in 2001, it was estimated to reach US $ 919 billion. By 2005 it was assumed worldwide e-markets would generate more than US $ 8.5 trillion. But the bandwagon of opening an e-marketplace didn’t last long as hundreds of e-markets that had been hastily formed to capitalize on the boom went out of business – in many cases before they had handled a single e-transaction. Out of almost 1000 e-markets that were opened in year 2000 only 183 were expected to be up and running by year 2003. Though e-markets came into existence in 1998 but it was as late as in year 2001 when Ariba.com became the first e-market to announce profitability. E-markets are more on a consolidation stage now rather then booming, with e-markets showing strong growth but definitely not as predicted during the 1999-2000.

The development of e-markets is shown in the table below and the ratio between B2B and B2C e-Markets is clearly in favour of the former.

Table 2. World e-market numbers

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>7127</td>
<td>58.1</td>
<td>211</td>
<td>37.5</td>
<td>34</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>2460</td>
<td>20</td>
<td>185</td>
<td>33</td>
<td>13</td>
</tr>
<tr>
<td>Western Europe</td>
<td>2320</td>
<td>18.9</td>
<td>138</td>
<td>24.6</td>
<td>17</td>
</tr>
<tr>
<td>Latin America</td>
<td>216</td>
<td>1.8</td>
<td>16</td>
<td>2.6</td>
<td>13</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>84</td>
<td>0.7</td>
<td>6</td>
<td>1.1</td>
<td>13</td>
</tr>
<tr>
<td>Africa and Middle East</td>
<td>69</td>
<td>0.6</td>
<td>5</td>
<td>0.9</td>
<td>13</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>12275</td>
<td>100</td>
<td>562</td>
<td>100</td>
<td>22</td>
</tr>
</tbody>
</table>

According to e-business W@tch [B], 23% of firms (by employment) purchase at least 5% of their supplies online. This includes a wide range of online services (from e-mail to ERP integration), and only a small percentage (estimated at 2-3% of the European SME participate in e-markplaces, and 6% of the large companies (more than 250 employees).

There are four general market types under which there are many variations:

Buyer-Managed Exchanges: These are markets which are set up by large buyers, often in conjunction with technology partners. An example would be the Covisint joint venture between General Motors, Ford, DaimlerChrysler, Renault, Nissan, Oracle and i2.

Supplier-Managed Exchanges: These markets are being set up by suppliers, such as UTC, Honeywell, and their technology partner i2, who developed a marketplace for aerospace equipment (MyAircraft.com).

Market Makers: These are independent exchanges not controlled by buyers or sellers. They tend to be backed by venture capital and often were early innovators. Examples would be auction houses such as Freemarkets.

Content Aggregators: Content aggregators are sites that build and maintain multivendor catalogues which allow customers to access the offerings of several suppliers using a common search structure.

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11Source: Forrester (2001). Decimals have been rounded Source: http://r0.unctad.org/ecommerce/ecommerce_en/edr02_en.htm
Another useful categorisation can be built upon the scope of an exchange and its position in the value chain. Horizontal exchanges offer uniform, non-strategic products across multiple industries. Examples would be the maintenance, repair, and operations (MRO) exchange Grainger.com or the office supplies provider Staples.com. Vertical marketplaces, on the other hand, concentrate typically on one industry and try to offer all the inputs, strategic and non-strategic, that are required to operate in this industry. Examples would be Covisint for the automotive industry or Rubbernetwork for the tyre industry. There are, however, also multi-industry vertical marketplaces which seek to create trading communities in several industries. An example would be Freemarkets. B2B electronic markets are generally considered as a potential source of significant efficiency gains. They generate efficiencies in three ways. First, they put a downward pressure on purchasing prices. Secondly, they decrease informational costs and expand everyone’s market reach by removing the geographic barriers to buyers and sellers efficiently discovering each other. Thirdly, they allow a reduction in transaction costs and an improvement of inventory management. Estimates about the size of these gains vary. UBS Warburg, for example, predicted cost savings from B2B electronic markets of 7 per cent of turnover on average.

Some major e-markets operating in major industries are below.

<table>
<thead>
<tr>
<th>Industry</th>
<th>E-market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automotive</td>
<td><a href="http://www.covisint.com">www.covisint.com</a></td>
</tr>
<tr>
<td></td>
<td><a href="http://www.supplyon.com">www.supplyon.com</a></td>
</tr>
<tr>
<td>Aviation</td>
<td><a href="http://www.exostar.com">www.exostar.com</a></td>
</tr>
<tr>
<td></td>
<td><a href="http://www.b2b-aero.com">www.b2b-aero.com</a></td>
</tr>
<tr>
<td>Building and Construction</td>
<td><a href="http://www.bravobuild.com">www.bravobuild.com</a></td>
</tr>
<tr>
<td></td>
<td><a href="http://www.edilportale.it">www.edilportale.it</a></td>
</tr>
<tr>
<td>Chemicals</td>
<td><a href="http://www.elemica.com">www.elemica.com</a></td>
</tr>
<tr>
<td></td>
<td><a href="http://www.chemconnect.com">www.chemconnect.com</a></td>
</tr>
<tr>
<td>Energy and Fuels</td>
<td><a href="http://www.eutilia.com">www.eutilia.com</a></td>
</tr>
<tr>
<td></td>
<td><a href="http://www.traderanger.com">www.traderanger.com</a></td>
</tr>
</tbody>
</table>

B2B e-marketplaces provide buying and selling companies significant and proven benefits. The article will present the reader with an overview of such benefits and put them in counter with barriers on joining an e-marketplace.

Benefits and Barriers
The major benefits of B2B e-marketplaces are within procurement and collaborations activities. An e-marketplace often has a particular business purpose and focuses on one of those two activities. Thus some benefits within these activities are more accurate than others and depend on what type of e-marketplace is in question.

Benefits
Companies are obviously both a buyer and seller. “Cost Reduction on Purchasing” is a benefit only for the buyers, but all the others are beneficial for both suppliers and buyers.

Cost Reduction on Purchasing
Companies that have adapted B2B e-commerce solutions have reported cost savings on direct materials of up to 15%. It is done by reducing waste and supplier margins and retrieving price transparency on the market. Reversed auctions are a common way to achieve price transparency. Buyers may also reduce search costs when catalogues or matching of products are available.

Construction industry e-marketplaces Illustrative case is the construction industry. In 2003 a survey was carried out to analyse the impact of the purchasing on line and the effects derived from the usage of the B2B e-
marketplaces in the construction industry. The interviewees were asked what has been their experience of the effect of online procurement.

The reduction of procurement costs appears to be the most beneficial impact of the construction firms’ purchasing online activities. Efficiency of internal business processes was reported to be almost equally improved.

Two other positive effects were stated by less than half of the respondents (in percentage of employment): enhancement of relations to suppliers and costs of logistics and inventory. Negative effects were reported by a very small share of interviewees. Sector company surveys in France, Spain, Italy, Germany and the UK show most online purchasing is through a firm’s corresponding corporate web page. As can be seen in the table below, e-marketplace usage is still limited, to just 21% of companies surveyed. Extranets also appear underused and no use of Electronic Data Interchange (EDI) was reported at all.

Product and client profiles

Most of these e-marketplaces are used predominantly by builders, bricklayers and stonemasons, concrete placers and concrete finishers, carpenters and joiners, roofers, floor layers and tile setters, plasterers, insulation workers, glaziers, plumbers, pipe fitters, building and related electricians, painters, and building structure cleaners. These tend to be companies of above a certain size but also include SMEs.

Products sold on these platforms are those used in the construction industry, such as tiles, bricks and metal panels, as well as façade, roof, pipework, irrigation, plastering and insulation materials, plus other related industry items. These e-markets sometimes also offer additional services such as integrated construction and engineering project management and public tender information.

Lowering Transaction Costs

E-marketplaces often include standardisation and automation of agreement, inquiring, paying/receiving and ordering processes. Such attributes reduce transaction costs and streamlines business methods.

Find and Conduct New Business

Companies can find business partners that they previously did not know about or could not trade with. The global span of the Internet allows many-to-many interactions. In addition the costs of finding and promoting new customers are minimal through such e-marketplaces.

The Supply Chain

E-marketplaces give companies the advantage to increase their efficiency of their supply chain, by automated procurement processes. Companies can e.g. receive deliveries just in time, reduce inventory and bring products to the market quicker. Such benefits often require strong collaboration from both parties and an implementation of an e-commerce solution.

Monitor Corporate Spending

B2B e-commerce solutions enable buyers to gain information on their buying patterns, consequently allowing organizations to allocate, control and reduce corporate spending. This is done through integrating procurement applications with the corporate computing systems. Such an application can also extend the companies Material Requirement Planning (MRP) and Enterprise Resource Planning (ERP) system to their suppliers and enable more competitive bidding process. Suppliers can also better provide the needs of their customers. E-commerce solutions of such type are defined as an application service provider (ASP). They are a tailor-made for different companies and hardware and software implementations are required.

Barriers

Barriers for using e-marketplaces are tangible issues and require awareness in the matter in order to break through them. There are essential barriers when joining an e-marketplace or implementing an e-commerce solution in the firm.
Strategic Change

A change in a firm’s business system can be an evolutionary (operational) or a revolutionary (strategic) process. A balance of the both is necessary. Resistance to changes can among others depend on psychological and cultural reasons. Psychological reasons are when many people resist to changes due to them becoming fixed to organizational routines and them establishing certain habits. Cultural resistance is when a firm carries on a number of out of date assumptions about the market, typically when they surrounded by others with the same inconsistent certainty. In these two cases it can be necessary to make a revolutionary change in the firm.

There are many success stories where companies have used e-commerce and been able to find new markets, reduce costs, etc.

Electronics sector e-business. At a strategic level, the electronics industry has evolved dramatically during the last years. Vertically integrated companies have restructured themselves, focusing on core competencies, slashing costs and building networks of suppliers and partners that are also specialized and cost competitive.

Cutting-edge products now come together not solely from individual companies but from networks of companies, each contributing a specialized, high-value aspect of the total solution.

- At the structural level, several features of the electronics industry make the sector particularly suitable for e-business:
  - Electronics is a truly global business. Product design, production and related marketing activities are frequently carried out in different parts of the world, exploiting comparative advantages of regions.
  - Components and products are highly standardised, easy to describe and traded in considerable quantities.
  - Value chains are complex and deep. Outsourcing is very common and requires intense cooperation between enterprises, often across cultural and geographical borders. Product life cycles are short. Time to market is one of the most important strategic variables in the industry. In addition, technological progress means rapid depreciation of products and components.
  - Manufacturers of electronics equipment are naturally IT-savvy and open to experiment with IT driven management solutions.

In this complex manufacturing environment, with the challenging product introduction cycles of the industry, information and communication technologies (ICT) are an instrumental part of the companies' strategy, and collaboration across the supply chain has become a crucial element in the creation of business value. Moreover, easy access to information on customers, products and trends can be a competitive advantage by offering better customer service, accurate product data and up to date forecasts.

Costs and Financing of Implementing E-commerce

Costs include planning, procuring hardware and software, maintenance and telecommunications charges. When deciding whether it is a good idea to purchase such solutions firms can make a return-on-investment analysis. The analysis should consider the value and importance of trade partners that already are members of the e-marketplace and the long-term benefits of joining the e-marketplace. Long-term benefits can e.g. be reducing product cycle times, lowering inventory levels and increasing trade volumes.

Yet an obstacle for such an analysis is that it can be difficult to understand commercial benefits of the e-marketplace and therefore hard to calculate the return-on-investment.

It is worth mentioning that there are numerous of e-commerce solutions that charges minimum rates and do not require software nor hardware implementations in the firm, i.e. a return-on-investment analysis does not imply all solutions.

Personal contact

Within various industry sectors personal contact is important. Each buyer has a different situation and all special requirements are difficult to include in an e-marketplace. Business processes in such situations is complicated to completely integrate in an e-marketplace.
Security and regulations

Security aspects such as impact of hacker attacks, thefts of business information and funds as well as dishonest transactions and conflicts makes companies sceptical on using e-marketplaces. In order to reduce security threats it is recommended to check if the e-marketplace verifies memberships, publishes members past successful engagements or recent testimonials and includes a security certification.

Technology

New technologies often emerge and companies that choose to build a certain e-commerce platform will lose out if new standards are adopted.

This challenge is over passed successfully in the telecommunication industry, because of its high technological nature. The Telecommunication sector experienced considerable growth in the second half of the 1990s, before deregulation and privatisation of former players changed the landscape. In recent years the increased competition has caused a fall in prices, including incumbent’s telephone services. Reflecting an approach by the European regulatory framework to promote consumers’ interests.

However, the new competitors have been only partially successful because the demand of services has been weaker than expected.

Looking at data, in 2003, the EU-15 telecommunications companies had a production value of 277 billion Euros and created a value added of 138 billion Euros in telecommunications services. The four largest member countries (Germany, UK, Italy and France) account for almost 80% of the telecommunications value-added.

The Telecommunication industry is one of the leading sectors in the adoption of e-business applications.

The industry is in top position in terms of connectivity of enterprises, broadband internet access, CRM adoption, internal processes, automation, marketing and sales.

Markets are evolving at the global level producing increasingly complex structures for the sector. The growing demand for customised services gives to CRM a critical role considering the number of large companies that have to deal with a large number of customers and evolve on the basis of their changing needs.

Currently there are 20 active telecommunication and bandwidth e-marketplaces in the eMarket Services directory (December 2005).

All the emarkets in the sector require a registration to join their platform, and in 9 cases an on line form is available.

Product and client profiles

On these platforms they usually trade telecommunication services, Voice over IP, switched minutes; wholesale voice traffic, bandwidth, and equipment related to telecommunication industry are traded.

The participants are telecommunications service providers, VoIP providers, hosting companies, data centres, content providers, system integrators, resellers and IT companies.

The most used trading tool is Request for Quotation/Proposals/Bid function. It means that the seller or buyer sends a request to sell or buy something, usually by filling out an on-line form.

The request is then put on a list on the site or sent to the trading partners by email to be answered. Auction, reverse auction and on-line order are also often used.

Supplier Issues

Some type of e-marketplaces benefit buyers more than suppliers and price transparency is not always acceptable for suppliers. Other suppliers are not convinced on sharing inventory and capacity information in believe that it will cost them sales. Further B2B e-marketplaces reduce the direct relationships that sellers had with their customers. Many suppliers have therefore avoided such types of e-marketplaces.
4. CONCLUSION AND GOALS OF A RESEARCH PROJECT

The high connectivity technologies can transform radically the value creation processes and collabora
tion relations through the supply chain. Particularly, the inter-organizational online relations can integrate the offline relations, based on the physical localization of supply chain actors in time and space, for activating the co-production value processes. The diffusion of e-business will be realized not only when the technological problems will be overcome, but also when standards will be accomplished, inter-organizational processes will be integrated, the security, liability, communication effectiveness will be reached, as well as the proper strategies, organizational processes and structures will change. Since Albania is only in the first phase of the ICT market, we can firmly say that the demand (dependent from company uses of ICT-s) is also in the latent phase. So, the ideas of this paper are object of a research project with different companies in Albania that will try to illustrate the characteristics of firms that indicate a positive attitude towards ICT, e-marketplace initiatives or usage, their B2B electronic transactions etc. Different firm’s attributes include firms’ predominant position (mainly acting as buyer or seller), size, awareness about the e-marketplaces phenomenon, and type of industry ans current level of participation.

There is a diversity of B2B e-marketplaces when it comes to potential benefits and barriers, which need to be assessed in business matters. The diversity depends mainly on the e-marketplaces business purpose and quality. To match the right e-marketplace for your business purpose is not an easy assignment, it requires familiarity and time. Yet a successful match may reduce mentioned barriers and enhance company earnings.

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**Woman Role and Gender Equity in Albania**

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**ABSTRACT**

Local government authorities are involved in the processes of drafting local strategies and plans. Building of human resources capacities makes up a very important element with regard to local economy development and the success of these strategies. In the context of this regional development, gender equity and woman role enhancement plays a very important part. This research aims at addressing a series of problems and challenges vis-à-vis the gender inequity and with the women’s role in the community in close connection with social, cultural and economic circumstances in Albania. The long-term solution consists in the behavioral changes to occur largely across the society. Gender roles and inequity between them is determined, to a large extent, by the behavior of the society, which improves very slowly. In the present-day concept, gender referees to the social/cultural definition of man and woman and, to the approach, based on which societies distinguish man from women and assign them with various roles. This research plays an important role concerning drafting of regional strategic plans through integrating also the issue of gender equity as one of the success factors of these plans.

Keywords: Gender equity, participation of women in leadership, unemployment and employment for women, strategic regional plans.

1. **INTRODUCTION:**

**Gender Equity**

According to European Commission, gender has to do with roles and with males and females responsibilities, which have been established in different societies and cultures. The concept of gender includes also our expectations with regard to attitudes and behaviors of women and men. Gender equity has been subject to ratification by several ILO (International Labor Office) conventions, which promote equity among males and females in the labor market. Albania is one out of 130 countries, which have ratified the Convention “On Equal Remuneration” and the convention “On Equal Employment”.

Traditionally, the roles between genders have been clearly distinguishable, but the situations have evolved over the years of communist regime. Enhancement of women’s role in the society and the augmentation of its social status was one of the purposes of this regime. Albanian women turned into an active force in the society, their status improved considerably and they got occupied with positions, which were priorly held solely by men, etc.

During “those years”, the concept of “housewife” was virtually and perceptually inexistent in the large cities of the country. Following the collapse of communist system and transition to the market economy system, several activities were classified as nonprofit making and were shut down, thus leaving the women formerly
employed there jobless. This increased women’s unemployment rate at the beginning of ’90. In the subsequent years, as a consequence of social customs change, society civilization or, as a consequence of family planning, Albania women have become more professionally ambitious by increasing their participation in labor, by becoming entrepreneurs and by enhancing their participation in politics, etc.

2. WHAT IS CEILING-GLASS?

“Glass Ceiling” is an imaginary term, which is applied to describe invisible barriers that exist and, which become an obstacle for women in terms of their career achievements and, in terms of getting high-ranking positions in the organizations, to which they belong as staff.

How can this “glass- ceiling” be broken?
This is undoubtedly a strong challenge, with which women face in their career. The long-term solution consists in the behavioral changes to largely occur across the society, which is actually something very difficult to happen. Gender roles and inequity among them is, to a considerable extent, determined by the culture of the society, which evolves at a very slow pace.

When does the “Glass ceiling” start?
There are several existing factors, which affect or, which hinder the progresses of the career of women in the direction of getting hold of the high-rank management of the organization by them. Some of these factors are listed hereunder:

- In the case of organizations, women work essentially in the area of human resources or, they hold administrative functions, which are considered to be either secondary or supporting activities.
- Our perceptions concerning what types of work can women usually carry out could also have an impact on the choices of women about job positions.
- Discrimination, which exists across organizations, confines the women’s opportunities to the secondary activities in organizations.

Labor world, just like the world in general, is stuffed with inequity. It is focused on the masculine values like the personal interest, money and power. When women reach some powerful positions, they aim at maintaining the status quo, and they do exactly those things that men would do in similar situations, therefore men’s example becomes a serious obstacle in the women’s route to equity.

3. RESEARCH GOALS AND METHODOLOGY

- To make an assessment of women participation in social and economic life;
- To make an assessment of women’s interests with regard to professional education;
- To make an assessment of women’s participation in leadership and their interests in connection with career enhancement;
- To make an assessment of unemployment and employment trends between women.

4. METHODOLOGY

The research was based on the information received from several sources, including the following:
- Interviews conducted with employed or unemployed women, with leaders of different state institutions and private businesses;
- INSTAT, Employment Office and the Regional Council constituted a very important alternative source in relation to different arguments, which demonstrate woman presentation in social, cultural and economic life of our region.
- Questionnaires addressed to bank sector employees, a section of which analyzed gender equity;
- Researching of various literature sources;
- Based on these sources, information was collected and processes to draw out the conclusions.
5. SITUATION AND THE TREND

Vlora district is located in the South of Albania and it has a surface area consisting of 1069 km². Vlora district has a population of 228,715 inhabitants, 72541 or 32% of which live in rural areas. Women make up 49.6% of the population. This proportion remains unchanged for both, urban and rural areas, in this district. The geographic location and democratic improvements during the transition period has caused large population movement in the form of emigration towards Western countries, while, on the other hand, Vlora has been the focus of population migration from Northern part of the country or, from the rural areas in its direction. Vlora city has traditionally been one of the most developed cities of Albania and, in addition to that, after 1990 Vlora transformed into the emigration harbor, which led to further increase of new cultures infiltration where women emancipation and integration augmentation in the society constitutes one of their elements. Evolution of political, legal, social and economic conditions led the Albanians, in the course of these years, to the emergency of finding their place in the world and to the development of a new system of more appropriate standards and rules vis-à-vis the new living conditions.

With passing of years, emigrants, who used to worked and who still work for more than a decade in the neighboring countries like, Greece and Italy have begun to invest and to develop different types of businesses in the city where they were born. This return, which is maybe rather in investment terms than in physical presence terms, was combined with features of new cultures, with which the Albanian society was not familiarized and, which is, I would say, a hybrid culture that enjoys combined characteristics of authentic and of new cultures. These characteristics have been learned by them in the course of their life as emigrants in other countries where they have lived an active life and they have become accustomed to the new culture.

This hybridization, I believe, brings about an enhancement of society emancipation, augmentation of women’s representation degree and an increasing tender equity.

These movements have changed the urban structure, the number of population, the gender setup of this population, but also the orientation towards civilization of the society and feminist values.

Gender equity in the focus of Millennium Goals

Encouragement of gender equity and enhancement of women’s role in society is one of the Millennium Goals.

The main objectives are:

- To eliminate by 2005 gender equity across elementary school education and, by 2015 gender equity across all levels of education.
- To eliminate gender equity in the general and local elections.

The following are main indicators of this goal accomplishment:

- Increasing of women’s percentage across different levels of education;
- Increasing of women’s percentage employed in the non-farming sector;
- Increasing of women’s presentation percentage in the Parliament and in the decision-making processes.

The analyses, which have been conducted on a national level, indicate that Albania can accomplish this goal by 2015, although the 2004 Human Resources Development Report about Albania maintained that, as long as, poverty will constitute the central focus of policies and strategies, gender equity will not receive the same attention.

Education takes an important role, because it helps in building human resources capacities.

Enhancement of women’s education is important because of the following reasons:
• It increases their employment opportunities;
• It increases their incomes rate and reduces poverty;
• It increases the education level of their children;
• Women, who invest in their education, find it easier to break the decision-making barriers inside their families and they may democratize the life of their families, as the fundamental cell of the society.

6. POSTGRADUATE STUDIES

“Ismail Qemali” University was established as of 1994 in Vlora. Statistics indicate that there is a permanent increase of the number of females, who continue university studies on a national and local level. In the course of 2005/2006 academic year, 64% of the students who attended the university were females. This fact supports the accomplishment of the Millennium Goal concerning females’ education level enhancement.

I assume that increasing over years of the number of females who have graduated the university has not been the outcome of any central government policy, rather than an outcome generated by other factors. So, university professional schools of business management, education, nurse care, English language, Italian language have been opened and established in Vlora University and they make up the preferable schools, especially by young women. Women generally prefer work environments, in which they may feel confident.

On the other hand, males are inclined, following their high school graduation, to emigrate in order to contribute to their families income increase.

Content of school textbooks tends to repeat gender stereotypes

Female images are less present than the male ones in the school textbooks or in the school textbooks content. In addition to this, when female examples are displayed, they are presented in their traditional roles as mothers, homemakers, spouses, etc. Examples in the books maintaining that males have been the promoters of our history and that women have played an inactive role continue to be frequent.

So, books continue to stimulate functioning of gender stereotypes and of traditional ideology, which describe women more deprived than men in the social and political domain.

Introduction of information on gender equity into the education programs, I assume, makes up an important tool to convey the values about gender equity and equal opportunities to the future generations.

Women’s contribution in the education area

Women have a considerable role in Vlora region education. So, according to statistics, it can be observed that 68% of education staff is composed of women. There are 1394 women teachers in the elementary, primary and high education. (Table 1)

7. EMPLOYMENT AND UNEMPLOYMENT RATE

Vlora district has an active workforce consisting of 65,000 persons.

There are 5883 registered unemployed persons.

There are 3185 registered unemployed women. (Table 2)

As it can be realized, based on the figures, women take up 54% of unemployment rate.

The aforementioned figures comprise the registered unemployed persons, while it is accepted that there is deviation of this versus real unemployment. This high rate of unemployment among women is an outcome of
high structural unemployment, which has its beginning dating back to the changes following 1990, when several branches of economy were shut down as nonprofit ones under the market economy circumstances.

Companies such as those of artisan products and garments had basically employed women; therefore, after these companies shutdown after 1990, these women became subject to unemployment. I believe that women are suffering the consequences of this type of unemployment longer, because there are several barriers in place for them compared to men in terms of adapting their professional skills to those required by the labor market. The informal sector provides employment for women, but these results in the lack of their legal defense and lack of social benefits. The results of survey conducted in relation to behavior in the bank sector, in which one of the sections was dedicated to gender equity, indicated that 78% of employees were women. Out of 11 bank managers, only 4 were women. The average age of respondents was 32 years, which implies higher interests in connection with job employment.

I believe that employment of young women in these banks, despite prior limited job experience, is a strategy based on the argumentation that these young women do no have too may family commitments and concerns, therefore they can commit themselves to their job and they can have a higher concentration on their job, but when the issue on promotion to management positions come up, then gender inequity barriers apparently come up, at the same time, too.

**Women’s wages are lower compared to men’s wages**

There exist wage differences between man and women and this happens as a result of the type of profession, which women generally pick out, these professions ensure a sustainable status, but lower income rates (teachers, nurses). During the academic year of 2005/2006, 249 students attended the Teachers School for Elementary Education in Vlora University and 100% of them were females. The need that women have for more unoccupied time to manage their households, leads them toward those professions with less business hours or, toward those professions that provide less career promotion for them. Let us not forget that the traditional model work – leisure time at home with the family, is what still constitutes a burden for the women in our society, which forces them to also carry out “non market duties” (rearing the children, cooking, etc.).

This element adds the barriers vis-à-vis gender equity in Albanian society, which appears to support also the cultural dimension of gender equity. Women are emotionally linked with their work. This high level of commitment could be an expression of the distress that women stand at work, but also their positive feelings about the positions that they hold. Women are more linked with household activities, with rearing of kinds, with care about the other members of the family and this increasing pressure of multiple roles may be one of the key reasons of the higher anxiety and distress that women carry in their job.

In United Kingdom, according to a survey conducted by Statistics National Office, 6 out of 10 private sector employees are males, whereas on the public sector women prevail with 65% of employees. Women tend to get employed in government institutions rather than in private businesses where salaries are higher. Nevertheless, this salary difference is smaller in the case of women of young age. This difference demonstrates the trends in terms of choosing the professions by the young generation and increasing investment in human capital.

This new model of behavior encourages young women to keep permanently seeking job opportunities and high salaries, thus ignoring gender differences. Changing of lifestyle, changing of fertility models and society civilization has resulted in increasing the young women’s interests in connection with job, career and increasing incomes.

**Women in leadership**

Enhancement of women participation in leadership and in decision-making would certainly be a positive indication in terms of gender equity achievement.

But, how does the situation look like on a national level?
Analysis of figures belonging to the national level concerning women participation in leading positions in social and economic domains does not present a satisfactory picture. Only 21% of the leading positions in institutions, in production business or in private companies are held by women.

The Parliaments of Albania has only 10 woman members of parliament out of 140 parliamentary seats. It is obvious, thus that only 7% of Albanian parliamentarians are women. 20.3% of the first democratic parliament in 1991 was women. By comparing figures, it can be observed that Albanian women’s parliamentary representation has kept decreasing. This is the lowest level of women’s parliamentary representation in the region. The number of women members of parliament in Albania is lower than the number of women members of parliament in Macedonia (8%), Rumania (37%), and Croatia (31%). Meanwhile, the government cabinet has actually only one minister held by a woman versus 14 minister positions. Thus, again 7% of ministerial positions are held by women. According to researches, women make a decision to work on their career when they an increasing number of examples of successful women.

No strategy has been yet implemented in Albania to move gender equity from declarations to the law. In that context, no low is in place yet in terms of setting the minimum quotes for women’s representation.

Countries of the region (Kosova, Bosnia, etc.), have set by law a quotation standard consisting of 30% of women participation in political decision-making.

32% of women hold leading positions in local institutions on a local level, although none of them is a mayor, chairperson of the region council or prefect (main leading positions). Vlora region does not have any woman parliament member representing them in the Parliament. (Table 3).

So, with regard to the education level, it was exactly women who has increasing interests on a continual education, while, on the other hand, they are discriminated and do not feel represented in leadership. It is evident that there is a paradox coming out of a series of various barriers, which restrict women’s career towards senior leading positions and, which consequently leads to gender equity.

In this way, the society demonstrates its masculine and intolerant values by means of discriminating women in terms of leading positions, irrespective of their professional skills and values. Lack of women in decision-making is an indicator of the interesting fact that women’s interests are not represented, which means that there are few opportunities for their interests to become part of strategies, which could lead to their role and status enhancement in the society.

8. CONCLUSIONS AND RECOMMENDATIONS

With the present civilization and improvement of the well-being of the Albanian society women constitute an active force of the society. They provide a significant contribution to the family incomes, they invest seriously in human capital, and they make efforts to achieve equal opportunities with men and try to break off the traditional models of addressing women.

• The traditional models, according to which the husband works, while the wife covers children’s bringing up, have been broken off. They are both, husband and wife, active in labor market.
• Local structures must support, encourage and coordinate the gender equity enhancement initiative.
• Enhancement of gender equity could be a success factor with regard to development of local strategies.
• Increasing the employment rate and decreasing of the unemployment rate of women in the region with the purpose of alleviating the poverty rate.
• Functioning of new bank services to facilitate crediting of women’s business initiatives.
• Establishment of an information system based on a specific search with the purpose of monitoring, benchmarking and measuring the trend of gender indicators and their benchmarking against the local ones.
• Introduction of information on gender equity into the education programs makes up an important tool to convey the values about gender equity and equal opportunities to the future generations.
Actual configuration of international standards, of formal meetings, of the society civilization and of democracy encourages women’s participation in the economic, social and political life also in our region, thus leading to gender equity enhancement. This new trend would lead, among other things, to the diminishing of masculine characteristics of our culture.

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APPENDIX

Table 1: Staff and students number belonging to different levels of education.

<table>
<thead>
<tr>
<th>Description</th>
<th>Total</th>
<th>Females</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>High school students</td>
<td>7513</td>
<td>3917</td>
<td>52%</td>
</tr>
<tr>
<td>University students</td>
<td>5278</td>
<td>3398</td>
<td>64%</td>
</tr>
<tr>
<td>Teachers at all levels</td>
<td>2062</td>
<td>1394</td>
<td>68%</td>
</tr>
<tr>
<td>Academic staff</td>
<td>92</td>
<td>57</td>
<td>62%</td>
</tr>
</tbody>
</table>

Source: INSTAT Regional Office

Table 2: Situation of unemployment

<table>
<thead>
<tr>
<th>Active workforce</th>
<th>Unemployed</th>
<th>Unemployed women</th>
<th>Unemployed men</th>
<th>Unemployment rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>65000</td>
<td>5883</td>
<td>3185</td>
<td>2698</td>
<td>9%</td>
</tr>
</tbody>
</table>

Source: Vlora Employment Office

Table 3: Public Employment in 2004

<table>
<thead>
<tr>
<th>Description</th>
<th>Total</th>
<th>Women</th>
<th>Percentage of women</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employed</td>
<td>6287</td>
<td>3168</td>
<td>50.3%</td>
</tr>
<tr>
<td>Leaders</td>
<td>465</td>
<td>150</td>
<td>32%</td>
</tr>
<tr>
<td>Professionals with university education</td>
<td>2178</td>
<td>1253</td>
<td>58%</td>
</tr>
</tbody>
</table>

Source: INSTAT Regional Office.
MP-09:

Functional Analysis of Production Managers on Potentially Developing the Conversive Industries in Semnan Province (IRAN) 2007

Fakhraledin ABOEIYEH
Shahram SHARAFI
Islamic Azad University Damghan branch, Iran.

ABSTRACT

According to the increasing rate of population and increasing demand for food resources, development of conversive industries in agriculture and animal husbandary in necessary. This research was done to survey the potentiality of developing the conversive industries in agriculture and animal husbandary in semnan province and obstacles and suggestions to reach this purpose with cross-sectional method in 2007. the survey was planned and written of 18 independent factors (the quality of yields produced, suitable packaging, advertising ....). The quality variables consist of the demand for yields produced in conversive industries’ factories, income and economic reason (for yields produced) in conversive industries’ factories motivation for developing the conversive, availability of cheap raw material and qualified raw material in order to create or confirm a relationship between dependent and independent variables. 75 questionnaire form 125 factories and 75 product workshops and analyzed concisely scientifically. The results showed that the effect of independent factories on increasing the sales rate and developing the conversive industries was considerable. Also computing correalyion coefficient of independent and control variables showed that there is a clear and direct relation ship between variables. (p<0.01). So for developing conversive industries in semnan province. We should try more in increasing the quality of products and developing the exports.

Key words: Developing conversive industries, conversive industries in semnan province , conversive industries in agriculture and animal husbandary

1. INTRODUCTION

With respect to the increase of population growth, activities in and development of the food industries, aimed at expanding essential nutriment resources, it seems that the demand for food industries is rising in most parts of the world, and resolving the problem of deficiency of foodstuffs is feasible only through coordinating the sector of producing food products and by reducing the spoilages in all stages, from harvesting the crops to consumption. Establishing and developing changeable industries cause a large number of people to work, thereby generating employment. But in the areas with personnel limitation, food factories are designed in a way that they will need fewer personnel, whereas an attempt is made in the countries which have economic problems and in which the number of jobs is limited to base factories on traditional technology so that more laborers will work.

There are many methods of operations for producing foodstuffs. The simplest method is traditional and the most perfect one is industrial methods with high capacity. Modern technology and its effects on the society can be extremely wide. Hence, the factors available should be taken into consideration before any decision is made for these changes. Since one of the major and central problems with agricultural sector is middlemen, generation of false jobs and long distance between consuming market and production places, farmers constantly have to meet many costs in these two categories and, as a result, the profit arisen from agriculture and animal farm falls. On the one hand, the most important issue concerning this case in Semnan province includes wideness of the lands under cultivation and the ranges on which the livestock grazes and farm animal population of the province, increasing and growing population consuming farm animal and agricultural materials of the province, the factories of changeable industries heterogeneous with regional products, production middlemen, non-profitability of initial production of agricultural and farm animal products, non-economical nature of changeable industries and available food industries workshops, all of which display obstacles to process of developing changeable, agricultural and animal farm products of the province.
Any step taken to resolve food problems should be in coordination with the national development strategy. This method is definable only when relative importance of such factors as new employments is reconsidered, i.e. the social status quo is maintained, acquisition of foreign exchange is taken into account, and self-sufficiency is considered. Hence, by investigating the possibility of developing changeable agricultural and animal farm industries of Semnan Province and generating local consumption market, a new horizon can be reached by developing changeable industries factories in the above-mentioned categories to recognizing the factors of and obstacles to development of these industries and generation of employment and raising farmer and cattlemen's incomes, increasing income and net profit of owners of such industries and satisfying the customers. With respect to such development obstacles, an attempt has been made in this research to recognize and introduce solutions to development and ideal situation of existing circumstances, potentials of the province for reinforcement and movement towards ideality and final purpose of changeable industries.

2. TOOLS & METHODOLOGY

This study has been conducted with descriptive cross-sectional, correlation and causal-comparative methods. The population deal with included all factories and workshops of changeable agricultural and animal farm industries of Semnan Province. To collect precise and comprehensive information on the population, census method was applied. Only 75 scientifically precise and accurate questionnaires was returned to the researcher from 125 factories and workshops and analyzed. The questionnaire was designed and prepared based on the research hypotheses and question, covering 18 characteristics which are as follows:

1. Quality of the products by province factories,
2. Suitable packaging,
3. Suitable storage,
4. Suitable advertisements & information,
5. Suitable governmental planning & simple regulations for production start-up,
6. Net profit & economic justification of production,
7. Maintenance of added value,
8. Omitting cost of missed opportunities,
9. Boosting production & reducing fixed cost,
10. Reducing production costs like duties and tax,
11. Omitting middlemen,
12. Reducing the distance between farms/gardens and factories as well as shipment fee,
13. Reducing the price of production locations,
14. Suitable transportation to maintain product quality,
15. Quality of products in farms and gardens (initial items of food industries factories),
16. Establishing production cooperatives & gatherings with partnership of farmers & garden-owners,
17. Granting long-term facilities with low interest (2 & 7 & 8 & 9 & 10).

Since there are too many independent variables and are measured only as questions asked from owners of changeable industries, and establishing or proving the relationship between independent and dependent variables needs to the evidence which can be altered or reinforced in the province industry to make development of changeable industries possible, control variables were defined based on this, including:

1. Level of demand for products in changeable industries factories.
2. Income and economic justification of changeable industries factories.
3. Existence of the motivation for developing changeable industries.
5. Quality of raw materials.

Research hypotheses were formulated based on the possibility of existence of relationship between improving changeable agricultural and animal farm industries of Semnan Province and control variables. To check the questionnaire for reliability, some copies were, having been exposed to some alterations made by masters of food industries and research issues specialists, considered and tested by a similar statistical population in the city of Tehran. After considering and making alterations to the questionnaire and assurance about the fact that
it measures the desired variables and that it is reliable enough, it was used in the original population. To achieve this end, Alpha Kronbach coefficient was applied and the reliability of the questionnaire was calculated at $\alpha=87\%$, indicating the ideal reliability of these tools. When the desired data were collected and classified, frequency distribution of was obtained with descriptive statistics and such items as innovation, cumulative percentage, mean, etc. were computed. Then, they were analyzed with Spearman Rating Method, Kruskal-Wallis Test and SPSS/Pc+ software.

3. FINDINGS & DISCUSSION

3.1. Results of Data Descriptive Analysis

The results of opinions expressed by owners of changeable agricultural and farm animal industries in Semnan Province about the effect of independent characteristics on the possibility of developing such industries are summarized in Table 1.

The obtained results (Table 1) reveal that out of 75 returned questionnaires, 81% of industrialists believe that the quality of products greatly affect the increase of sales. 56% of them consider suitable packaging, too, as an effective factor in increase of their own sales. Moreover, more than 61% of respondents considered suitable & on-time storage of products as an important factor and significant in the increase of sales, and the other important factor in the increase of products has been suitable advertisements, information and marketing, in which all of the respondents believed.

With regard to increase of factory income and economic justification of activities of workshops of the province changeable and animal farm industries, such factors as suitable governmental planning and imposing simple regulations for production with 74.7 agreement, net profit and economic justification in fiscal accounts with absolute agreement, maintenance of added value of initial capital with more than 50% agreement, omitting the cost of missed opportunities with more than 94% of respondents, increase of level of production and reducing fixed cost with absolute agreement, reducing production costs like duties & tax with absolute agreement are among important factors in development of Semnan Province's changeable industries. Such factors as omitting middlemen production course located to production in factory with 84% agreement, reducing the distance between location & factory and of shipment fee with 92% agreement, reducing final price for production of locations with absolute agreement and raising level of agricultural & gardening & farm animal products and reducing fixed costs with absolute agreement were among the most important factors in the cheapness of raw materials, which has been simultaneous with achieving cheap raw materials ideal for changeable industries industrialists in the province. In achieving quality promotion in the products, two factors, namely, suitable transportation with 80% agreement and quality of raw agricultural and animal farm materials with more than 74% were deemed significant and, ultimately, to generate motivation for developing changeable industries in Semnan Province, owners of these industries stressed on two factors, i.e. production cooperatives and gatherings with more than 78% agreement and granting suitable long-term low-interest banking facilities with 76% agreement.

The most important obstacles which industrialists put forward were: lack of suitable selling markets at home and abroad, of suitable marketing, packaging, advertisements and information, of exports and recognition of target markets, unsuitable quality of the production locations in the province, varying price for production locations, long distance between production locations and the factory, high price of production locations, high price for shipment. The most important solutions put forward by industrialists to resolve such problems were: developing and expanding domestic & foreign sales markets, generating suitable information system, promoting quality of agricultural and animal farm products, reducing the final price for products, granting banking facilities, simple regulations like reducing duties and tax, reducing shipment fee and establishing producing cooperatives and gatherings.
Table 1: Distribution of 75 Industrialists of Semna Province based on their Attitudes toward Effect of Various Factors on Possibility of Developing Changeable Agricultural & Farm Animal Industries in 2007

<table>
<thead>
<tr>
<th>Dependent Characteristics/Freq./Net Percentage</th>
<th>Very High</th>
<th>High</th>
<th>Medium</th>
<th>Low</th>
<th>Very Low</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality of Products</td>
<td>61</td>
<td>10</td>
<td>4</td>
<td>53</td>
<td>6</td>
<td>75</td>
</tr>
<tr>
<td>Suitable Packaging</td>
<td>42</td>
<td>15</td>
<td>12</td>
<td>6</td>
<td>8</td>
<td>75</td>
</tr>
<tr>
<td>Suitable Storage</td>
<td>30</td>
<td>16</td>
<td>13</td>
<td>16</td>
<td>6</td>
<td>75</td>
</tr>
<tr>
<td>Suitable Advertisements &amp; Information</td>
<td>61</td>
<td>14</td>
<td>12</td>
<td>16</td>
<td>6</td>
<td>75</td>
</tr>
<tr>
<td>Governmental Suitable Planning &amp; Imposing</td>
<td>25</td>
<td>31</td>
<td>12</td>
<td>7</td>
<td>9.3</td>
<td>75</td>
</tr>
<tr>
<td>Regulations to Facilitate Production Start-up</td>
<td>25</td>
<td>31</td>
<td>12</td>
<td>7</td>
<td>9.3</td>
<td>75</td>
</tr>
<tr>
<td>Net Profit &amp; Economic Justification in Fiscal Accounts</td>
<td>71</td>
<td>4</td>
<td>32</td>
<td>5</td>
<td>6.6</td>
<td>75</td>
</tr>
<tr>
<td>Maintenance of Added Value of Production Capital</td>
<td>15</td>
<td>23</td>
<td>32</td>
<td>5</td>
<td>6.6</td>
<td>75</td>
</tr>
<tr>
<td>Omitting Missed Cost</td>
<td>45</td>
<td>26</td>
<td>4</td>
<td>5</td>
<td>5.3</td>
<td>75</td>
</tr>
<tr>
<td>Boosting Production &amp; Reducing Fixed Costs</td>
<td>67</td>
<td>26</td>
<td>4</td>
<td>5</td>
<td>5.3</td>
<td>75</td>
</tr>
<tr>
<td>Reducing Production Costs like Duties &amp; Tax</td>
<td>70</td>
<td>5</td>
<td>12</td>
<td>16</td>
<td>16</td>
<td>75</td>
</tr>
<tr>
<td>Omitting Middlemen Production Course Located to Production in Factory</td>
<td>48</td>
<td>15</td>
<td>12</td>
<td>16</td>
<td>16</td>
<td>75</td>
</tr>
<tr>
<td>Reducing Distance between Production Location &amp; Factory</td>
<td>52</td>
<td>17</td>
<td>12</td>
<td>16</td>
<td>16</td>
<td>75</td>
</tr>
<tr>
<td>Reducing Final Price for Product</td>
<td>71</td>
<td>4</td>
<td>32</td>
<td>5</td>
<td>6.6</td>
<td>75</td>
</tr>
<tr>
<td>Raising Level of Agricultural &amp; Gardening &amp; Farm Animal Products &amp; Reducing Fixed Costs</td>
<td>68</td>
<td>7</td>
<td>4</td>
<td>5</td>
<td>5.3</td>
<td>75</td>
</tr>
<tr>
<td>Suitable Transportation</td>
<td>43</td>
<td>17</td>
<td>15</td>
<td>20</td>
<td>20</td>
<td>75</td>
</tr>
<tr>
<td>Quality of Agricultural, Gardening &amp; Farm Animal Products</td>
<td>41</td>
<td>15</td>
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</table>
3.2. Results of Inferential Data Analysis:

Computation of coefficient correlation of independent variable revealed level of demand for products manufactured in changeable industries factories and that of the dependent variable suggested the possibility of developing changeable agricultural and animal farm industries in the province and that there was a direct and significant relationship between the above-mentioned variables (characteristics 6 & 7 & 8 & 9 & 10) (p<0.01). The results also indicated that there was a significant relationship between the possibility for developing changeable agricultural and animal farm industries of Semnan Province and economic justification of changeable industries factories (characteristics 11, 12, 13, 14, 15 and 16) (p<0.01). The results of the test for possibility of the relationship between existence of cheap raw materials in Semnan Province and developing changeable industries suggested that there was a significant relationship between them with 99% reliability (p<0.001). It was also revealed that the quality of raw materials in the form of agricultural and gardening products affected the possibility of developing changeable agricultural and farm animal industries of Semnan Province (p<0.01). The results suggested that the more the motivation for developing changeable agricultural and farm animal industries was reinforced in the form of financial aids, the more these industries would develop in the province and there was a significant relationship between them (p<0.001).

Hence, with respect to the above-mentioned results, it is recommended that more efforts be made to develop exports, open the way for exporting the products of the province, expand E-commerce in the exports of manufactured products for reducing exports costs, promote the quality of manufactured products for boosting sales and suitable and on-time process of products, including packaging, storage, etc.

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Analysis of Virtual Company Effects on Entities Involved and Its Direct Environment

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ABSTRACT

Nowadays when small and medium enterprises (SME) lack financial resources for i.e. investments into up-to-date technology or in order to increase their influence on market they tend to agglomerate into alliances, entrepreneurial networks, clusters or virtual firms. Networking or clustering itself will not secure desired effects and some of entities involved and not so satisfied will try to improve its position or even rethink its involvement in company grouping. Main reason and motivation for grouping of companies into networks is potential profit for own entrepreneurial activity. Unfortunately just few of them understand before joining such grouping that major effects appear after full interlacing of processes of individual members and pure verbal declaration of cooperation leads to nothing. Such type of “cooperation” delivers marginal benefits without deeper effects what creates an environment of frustration and negative synergy. Therefore this article is aimed on an analysis of virtual firm effects on entities involved and its direct environment.

JEL Classification: P13 - Cooperative Enterprises
Key words: Virtual Company, competitiveness, cooperation, network.

1. INTRODUCTION

In turbulent times of today’s entrepreneurial environment development and sustainable maintenance of competitive advantage is not an easy task. Rapid development of computers, information and communication technology, openness of world markets and globalisation, makes from innovation and change an inevitability. Increasing competition forces subjects involved to introduce and deliver revolutionary solutions. Only subjects capable of quick reaction on changing environment, updating own goals and strategies according to market situation may achieve success.

To acquit these requirements companies concentrate on their own core competences and voluntarily enter businesses co-operations and networks created to increase their overall competitive position. Distinguish form of inter-company cooperation is so called virtual corporation.

1.1 Virtual Company

Davidow and Malone (1993) from U.S. raised interest of many scientists and managers by publication of “The Virtual Corporation: Structuring and Revitalizing the Corporation for 21st Century” printed in 1982. Their concept of virtual corporation introduced to small and medium enterprises a new way of handling even large projects. Each business should both focus on its core competences and cooperate within business networks. Cooperation is based mainly on up-to-date information technology. To its external environment this business network appears as one entity dealing flexibly with orders, internally virtual corporation consists of independent subjects building their cooperation on mutual trust. Through realignment of value chains of individual partners new value chains is created with partial role of each partner.

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12 This work was supported by the Grant Agency in the Czech Republic (GA CR) No. 402/08/H051
According to Bürki (2003) a virtual organisation is a connection of legally independent subjects externally presented as a unit and cooperating on business project realisation. Time frame of virtual business cooperation is limited and equals to scale of common project. Basic characteristic of virtual business is partners’ mutual understanding and trust. Partners represent small or medium enterprises, organisation units of bigger corporations or individuals. From cooperation point of view and for the definition of core competencies of virtual business understanding strengths and weaknesses of each partner is crucial. Organisational structure may be labelled as virtual business only in case of external presentation of such network of businesses, individuals and institutions as one subject cooperating and working on common goals. Cooperation may be based on both stable and dynamic interconnection. Characteristic feature is massive usage of ICT support of coordination and cooperation within business network. Main goal of cooperation is optimisation of value chain through building on core competencies of individual members of network, sharing of risk, costs and knowledge base. Cooperating subjects participate with their core competencies along the whole value chain. Virtual organisation remains hidden to the customer. As before customer receives product from one subject - representative of virtual company, but may expect lower prices, wider product range and offer, higher quality or better service.

1.2 Characteristics of Virtual Organisation

Virtual company represents unique form of inter-company cooperation with increasing importance due to interlinking by modern information and communication means. Using this technology expands possibilities of organising or realising activities in terms of time or place even out of boundaries of an organisation. When market opportunity appears group of independent subjects will form a virtual company in order to seize it. Start and termination of cooperation proceed quickly without negotiations of detailed contracts. With lower costs virtual company is capable to deliver same results as standard company. Partners provide purely own core competencies in order to achieve optimal operation in terms of costs, quality and time.

Virtual company is unique by its characteristic features. Hermann (2001) sums them up into these characteristics:
- concentration on core competencies (achieving synergy effect),
- cooperation of organisation members: rapid utilisation of market opportunity,
- virtual matter: partners are geographically dislocated and interlinked by ICT,
- flexibility and conformability,
- common business goal of partners,
- sharing of sources, knowledge and risk,
- relationships built on trust, without mutual control (support on market entry),
- relationships within virtual organisation are loose and informal,
- legal entities independent from each other - networks created usually by smaller businesses,
- no hierarchy: all partners are equal, there is no central coordinating body,
- focus on customer: customer deals with one subject solely,
- massive utilisation of information and communication technology,
- temporary character of cooperation.

From above mentioned the most important feature is focus and utilising on core competencies of individual companies. Term “Core Competence” refers to unique ability or abilities of each company which are inevitable to fulfil company strategic goals and have major contribution to creation of value product or service perceived by customer. Usually core competencies are not easy to replicate by competition. Combination of core competencies of virtual organisation members increases efficiency of organisation as a whole, what enables its members to gain advantage over other market players.
Core competencies include technical, technological, commercial and organisational skills of company. Definition of share of contribution of each core competence to final product or service is difficult. Core competencies are supported by so called complementary competencies, which should be within virtual company took over by cooperating companies or outsourced.

1.3 Subjects of virtual company and its environment

Concept of virtual company offers one of many ways how to fulfil requirements of today’s dynamic business environment. According to Zadražilová (2004) virtual company is created by complementary businesses for temporary purposes, often just for one large project. Members of virtual organisation are not only companies, but even educational or research and development institutions thanks to which cooperating companies may increase their research and development, production or commercial potential. Virtual company has no firm structure, changes it or replaces members according to purpose, goal of project or situation.

Direct environment of virtual organisation includes first of all customers, but also competing companies and suppliers, which are not a part of business network, state and local governmental institutions, other educational and research and development institutions as well as region as a whole.

All above mentioned subjects operating in the same environment as virtual firm are impacted - positively or negatively - by its activities. It’s important to be aware of that influence to utilise on positive effects and minimize risk of or purge negative effects. List of potential positive effects and risks or even negative effects on companies within virtual organisation resulting from mutual interaction as well as effects on direct environment of virtual organisation follows.

2. Positive effects, risks and negative effects on members of virtual organisation

Impulse to create a virtual company arises from thorough analysis and evaluation of benefits and risk or potential negative effects of such project on companies and other interested subjects. These impacts and risks can be according to value chain structure divided into the following areas in Tab.1.
**Table 1. Areas of impacts and risks according to value chain**

<table>
<thead>
<tr>
<th>Inputs (sources)</th>
<th>financial, human, material (suppliers)</th>
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</thead>
<tbody>
<tr>
<td>Production</td>
<td>logistics, manufacturing process</td>
</tr>
<tr>
<td>Complementary activities</td>
<td>research and development, strategy and planning, knowledge management</td>
</tr>
<tr>
<td>Outputs</td>
<td>sales and marketing, service</td>
</tr>
</tbody>
</table>

### a. Inputs - positives, risks and negatives

From **financial** perspective main positives of being a member of virtual company are:
- better access to loans;
- higher potential for gaining foreign investments;
- better capital relocation via intra-virtual company loans;
- increased financial stability and cash flow due to securing a part of production or activities to cover needs of virtual company;
- lower overhead costs and costs on common activities shared among members;
- possibility to receive subsidies and aids from the Czech Republic and European Union (only for Czech companies).

On the other hand financial risks and potential negatives are:
- providing guarantee for loans drawn by other subjects of virtual firm;
- increased costs on ITC and communication.

From **human resource** perspective main positives of being a member of virtual company are:
- better and more effective education management with lower costs per employee,
- better possibilities for cooperation with universities and high schools on potential employee preparation.

On the other hand human resource risks and potential negatives are:
- lack of interest of employees;
- different company cultures;
- recruitment policy and local labour market offer limited according to needs of virtual company as a whole;
- wooing of key employees by other virtual company members.

From **material input** perspective main positives of being a member of virtual company are:
- improved accessibility and wider supply opportunities with potentially lower purchasing prices;
- optimisation of supply chain management;
- synergic effects following from sharing the activities and resources of virtual companies.

On the other hand material input risks and potential negatives are:
- purchasing policy dictating suppliers even with higher prices;
- increased supplier risk through dependence on other virtual company member with purchasing as core competence.

### b. Production - positives, risks and negatives

From **logistic** perspective main positives of being a member of virtual company are:
- increased efficiency of logistic centres;
- stock optimisation;
- efficient storing, handling and timing of material, semi-finished products and finished products;
- efficient distribution management and lower distribution costs.
On the other hand logistic risks and potential negatives are:
- high initial costs to build infrastructure.

From **manufacturing process** perspective main positives of being a member of virtual company are:
- increased efficiency and effectiveness of manufacturing process;
- increased flexibility and speed of production;
- increased quality through specialisation;
- possibility of clearing the company form unnecessary activities (specialization support);
- higher technology and know-how transfer.

On the other hand manufacturing process risks and potential negatives are:
- strategic investment priorities of specific company overruled by priorities of virtual company as a whole;
- cost savings through transferring profits from one member of virtual company to another without real savings in total value chain.

c. **Complementary activities - positives, risks and negatives**

From **research and development** perspective main positives of being a member of virtual company are:
- increased potential and sources for basic and application research and development;
- better cost organisation and focus of R&D activities;
- shorter lead time to market with innovation or new product or service.

On the other hand research and development risks and potential negatives are:
- ownership of copyright and patent rights.

From **strategy, planning and management** perspective main positives of being a member of virtual company are:
- risk leverage;
- managing development of business subjects in region (lobby possibility);
- cooperation and potential strategic alliances with the other strong companies (home and foreign cooperation as well);
- effective law service.

On the other hand research and development and development risks and potential negatives are:
- different goals of individual virtual company members;
- loss of competencies and increased dependence on other virtual company members;
- compromise decisions and trade-offs;
- interests of virtual company overruled by individual interests of big players in such business network;
- irresponsibility of a member, potential synergy effects diminished by never-ending negotiations and/or one member’s actions against common agreements;
- "dinosaur" thinking of member/-s satisfied with and sticking to current way of doing things, not searching and/or not accepting new better ideas;
- "bureaucrat" thinking prohibiting any flexibility - sticking on defined rules written in agreements even their change would be beneficial for all;
- insufficient consideration and definition of priorities for individual companies within virtual chain or too many priorities defined.

From **knowledge management** perspective main positives of being a member of virtual company are:
- sharing, transferring and exchanging information, knowledge and know-how of participants;
- better access to information;
- lower communication costs through using compatible information channels and communication technologies;
- extended communication with the other institutions;
- cooperation with universities (science and research, audits, market research, thesis, etc.);
- using advisory, consultancy and educational service of virtual company.
On the other hand research and development risks and potential negatives are:
- dependence on extended ITC system and communication network.
- reserve approach and protection of information and know-how, companies perceive other members as “alien” subjects, competitors and threat, not as partners;
- insufficient awareness of all part of virtual chain and information lack of necessary data.

d. Outputs - positives, risks and negatives

From marketing and sales perspective main positives of being a member of virtual company are:
- cost organization and better possibilities in advertisement, promo materials, www promotion, fairs and exhibitions;
- wider range of products and services offered;
- new opportunities on larger projects for smaller company unthinkable;
- wider possibilities and shorter time to enter new market (domestic or foreign);
- effective purchasing of marketing and sales services;
- wider customer base and better CRM;
- power to do better market research and gain insight data;
- faster and less risk innovation introduction to market.

On the other hand research and development risks and potential negatives are:
- loss of marker connection for certain virtual company members.

From service perspective main positives of being a member of virtual company are:
- more effective service handling;
- closer to customer services.

Only by accepting of model of virtual company by all members and their full involvement in mutual cooperation creates environment favourable for achieving key benefits of it - increased profitability and competitiveness of all members.

e. Benefits for educational and R&D institutions

Virtual organisations may include not only entrepreneurial subjects, but also educational and R&D institutions with contribution potential. All institutions of tertiary education around the world undertake reshape to absorb globalisation impacts on focus, scale and quality of education as well as on R&D activities. This trend will force many of these institutions to strengthen contacts with private sector to secure competitive knowledge offer reflecting market needs. Some of them will gather with companies in virtual organisations as major players and will benefit from it in many ways:
- opportunity to gain new invaluable practical experience by academics and research workers, and through their lecturing and project leading also students;
- other opportunities for students to experience real world of business through traineeships, study stays, excursion etc.;
- opportunity to verify new tutorial methods, applied research and R&D results in practice;
- financial benefits from participation on projects run by businesses, commercialisation of R&D and its results or leading education activities for company employees;
- virtual company may participate in grant projects;
- increased promotion of universities;
- through connection with business and inside understanding of its needs in terms of knowledge universities will be able to adjust educational programmes and provide graduates matching those needs.

Benefits from participation of educational or R&D institution in virtual company will be visible not only in adjusted curriculum reflecting up-to-date requirements of business world, but mainly in graduates better prepared for application of their knowledge in practice. Interconnection Approximation to business community provide institutions of tertiary education with better R&D focus consequently also more appealing offer to business partners within but also outside virtual company.
f. Impacts of virtual organisation on direct environment

Direct environment of virtual organisation includes first of all customers, but also competing companies and suppliers, which are not a part of business network, state and local governmental institutions, other educational and research and development institutions – it means region as a whole.

The region is impacted by virtual organization in three ways. The first one is higher efficiency. Transactions could be done without high logistical and transport costs. Communicational channels are getting shorter and market participants could have faster reactions. Virtual organization also produces resources (products, service), which are available for regional companies for lower price. In case of company is from another region it has to pay for access to service. Example could be skilled powers in region. It is possible to rent those powers simply and share them from one company to another. It also works with many other inputs: human resources, market knowledge and technologies.

Business networks create also the opportunities for innovations. It is faster and less risk adapting of innovations and better and faster finding of innovation opportunities. If many companies and participants are concentrated on one place in market, the market gap is filled in faster and easier.

The advantage is the access to capital as well. Financial institutions which corporate with clusters have special skills – from wine – to car manufacturing – and could faster and better decide about risk capital.

Clusters could enable to found new companies faster. It is easier to enter the market. Companies get easier the capital and choose the important suppliers and customers. Benefits of virtual company for region can be summed as follows:

- total stabilization of small and midsized companies;
- better resistance and prospects in globalization;
- improved infrastructure and education;
- support of perspective branches;
- increased attractiveness of region for investors;
- increased competitiveness of region.

g. Results & Discussion

Concept of virtual organisation provides one of many options how to fulfil requirements of contemporary dynamic entrepreneurial environment. Even the list of all potential positive effects for subjects involved is vast companies cannot take success for granted just by using this model.

In real world only rare examples of virtual companies mainly in branches dealing with intangible products such as software, consultancy etc. can be found. Majority of virtual companies are networks of entrepreneurs, small or medium enterprises trying to compete with larger financially strong companies. Undisputable advantage of virtual organisation is its flexibility and ability to react fast on market change.

It is obvious that none organism operates flawlessly. Especially if we talk about such complex multi-company systems. Of course if every company in virtual organisation will identify and analyse potential risks and negative effects thoroughly and eliminate them, it will contribute to achieving of much higher satisfaction of all partners and last but not least final customers as well.

Virtual organisation may become wide-spread form of organisation structure mainly thanks to support given by new media - especially internet. To achieve that a major mindset change of management heads as well as employees ones, because virtual business is control replaced by trust. This is the cornerstone of virtual organisation success standing on skills and cooperation of all members of organisation.

3. CONCLUSION

Virtual companies are created mainly to increase competitiveness of its members on basis of united effort to achieve one common goal. That requires not only absolute openness of virtual company members to all others involved, but also full interconnection of communication and material flows. Not until complex interlacing of
all key aspects of companies and institutions involved and creation of fully operational and coherent whole is achieved expected increase of competitiveness and profitability of its members may appear.

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ABSTRACT

The speedy flow of the current world has created an increasingly speed in all thinking and practical aspects of human. Management and organization, as one of the most applicable of people thinking and practical context, have been directed this speed to a special side. Nowadays the different aspects of management and organization have been deeply changed so that the comparative aspect of business world requires announcing and knowing new flows and trends and practice them. In this paper, by survey these trends, it provides a new classification of them. First, on based on different notions of scholars, it determines the main components of management and the main components of organization. Then based on them, it classifies new and emerging trends in organization and management separately. The purpose of the paper is offer a new classification and also in public and private management separately. The paper also proposes a framework for direction and design of future trends in organization and management.

Key words: New Trends/ Emerging Trends/ Organization/ Management / Public Management / Private Management

1. INTRODUCTION

The current world is speedy, changeable and movement one, and nothing is constant except the change itself. The increasingly complexity in relationship between phenomena is so that be explore relations between further phenomena every day in proportion previous, as like as be explore emerge new phenomena.

The emergence of new phenomena on science, knowledge and technology areas has been more than other areas and this shows the speed of growth of human knowledge in different areas. Business area is a blend of different disciplines and knowledges such as economics, management, law, politics, sociology, and so on. In the area, we are witness for new theories, approaches, perspectives, patterns, and models, and some times these changes are too originally and broad that it have been called them as a paradigm shift.

In the paper, the aim is to provide current and emerging changes on management and organization as trends, and also to draw the direction of business in aspect of management and organization. To do this, first described trend concept, second it is identified organization and management components, and third offered some new trends of organization and management separately.

1.1 Trend Concept

"Trend" is a term that is applied synonym with several words such as "flow", "direction", "orientation", and "tendency". By this regard, this word should be use in its place. In expression, it can assume a trend as a direction that is with changes and falls and rises, and shows slow or rapid changes that happen in a certain area such as growth trend, development trend, evolution trend, historical trend and so on.

By attention the above definition, trends are recognizable in different scientific and natural context and fields. In management and organization area also it can be determine trends. In general, trends divide to three groups.
- Past trends
- Current trends
- Emerging trends ( new trends)
The past trends have taken place in past and their start and final points have been linked to history, and account as a section of bibliography of an object. The Current trends have rooted and started from the past, and can be result from past trends. These trends are applying in present time and it can't consider any end point for them yet. The new/ emerging trends are flows that have been created their emergence features but have not been generalized and have been only considered limitedly. Of course, for trends in its all kinds can not certain an exact start and end point but the points describe an almost period of time.

In scientific side of organization and management, it can be provide some classification of trends. If it considers study and analytical aspects of organizations, organizational studies could be doing in different aspects that are: sociological, economical, political, psychological, management, and communicational.

In another classification, it can divide trends in terms of components and elements of organization and management. This classification is base of the paper.

1.2 Management and Organization Components

Organization and management are tow bases of a business that is not feasible to take separate them from each other but because of offer a certain classification in the paper, it is temporarily separate them. There are some trends that completely related to both organization and management so that it can not be apart them.

Management Components: Management has different and broad elements, and to identify its components depends on view it from what perspective. Robbins and Mary (2004) view manager and management from four perspectives. They believe that in functional approach, management has four elements of planning, organizing, leading and controlling; in skill approach, management has three components of human skills, technical skills, and conceptual skills; in organizational levels perspective, management means a chain including top level, middle level, and first-line level in organization. Also from roles approach, management has ten elements that categorize in three branches. They are interpersonal roles, decision making roles, and informational roles. In based on Daft's notion (2004), management has tow main elements that all activities locate around them. They include efficiency and effectiveness. Management is applying all kinds of human, financial, row material, technological, and informational resources that are directed toward attaining efficiency and effectiveness through doing functions such as planning, organizing, leading, and controlling.

Nowadays, management being applies in very diverse and different areas but the most common areas for application of management are: development management, business management, strategic management, banking and financial management, public management, industrial management, and insurance management.

Management, in every kind of organization, includes relatively certain components. Human resource management, financial and investment management, purchase and procurement management, manufacturing management, sale and marketing management are of the most required elements for comprehensive management on an organization. There are some trends on these areas that are either applying or emerging.

Organization Components

Henry Mintzberg (1989) in his theory about organization identifies five elements in an organization. He believed that at the bottom of the organization is the operating core. These are the people that do the basic work of producing the products or delivering the services. The apex is charged with ensuring that the organization executes its mission. As the organization grows, the need for direct supervision increases. This results in the development of a strategic apex. They are responsible to the owners, government agencies, unions, communities, etc. As the organization grows even larger, one manager can't handle all the workers, and so there are multiple managers of workers, plus a manager to manage the managers. This creates a middle line which transmits authority from the top to the bottom. However, as organizations become larger, they typically develop a separate group of people -- analysts -- who take on the job of figuring out what the company's technology should be and what the company's procedures should be. These analysts form the technostructure of the organization. Finally, the organization adds other administrative units that provide...
services to itself, such as a cafeteria, mailroom, legal counsel, public relations, etc. These are called the support staff. Here, in the paper, it has been assumed five components for each organization including organizational technology, structure, systems and processes, environment, and communication.

1.3 New Trends of Management

Human Resource Management: HRM is to apply managerial theories and techniques for attract, assign and maintain of people for achieve organizational goals. One of the most important components of management in organizations is human resources that are as human/intellectual capital. According to survey of the author the most number of trends have been offered in this area. Schramm (2006), as a member of SHRM, noted that there are top ten trends for demography in organization.

- Growth in the number of employees for who English is not their first language.
- Implications of the Latino/ Hispanic population as the nation's largest minority group.
- Growth in the number of employees with eldercare responsibilities.
- Generational issues: recognizing and catering to groups such as Gen Y (born 1980-2000) and Gen X (born 1965-1980).
- Increase in the age individuals choose to retire.
- Growth in number of who have both eldercare and childcare responsibilities at the same time (sandwich generation).
- Demographic shifts leading to a shortage of skilled workers.
- Aging of the workforce.
- Retirement of large numbers of baby boomers (born 1945-1964) at around the same time.
- Aging population driving an increase in health care costs.

Other happened trends are in management education in business schools. The number of business-related majors and courses has increased in recent years so that human resources have been more diverse in education. In other side, management education now is very different in the world. The emerging areas of study in business schools are health care entrepreneurship, intellectual property, and real state investments (Manzoor Arain and et al, 2007). Manzoor (2007) also has resulted that in the most famous international business schools there are some common courses such as: Marketing Management, Business Strategy, Operations Management, Business Finance, Organizational Behavior, Managerial Economics, Managerial Accounting, Financial Accounting, Managerial Communications, Leading and Managing, Data & Business Decisions, Decision Making in crisis & uncertainty, Leadership, Business Statistics, Economic environment & policy, Ethics & corporate social responsibility, Interpersonal Dynamics, Management Information Systems.

Employment of human resource has some trends in which the conditions are shifted. Privacy concerns of employees, more employees with untreated physical and mental health conditions due to an increase in health care costs and the number of uninsured, establishment of a link between pay and performance, greater demand for flextime, a continued change in negotiating strategies, tactics and processes used by labor and management caused by business pressure to remain competitive, work intensification as employers try to increase productivity with fewer employees, employee backlash against rising benefits costs, employee security concerns, rising health care costs, a greater emphasis on employers to develop retention strategies for current and future workforce are current and emerging trends in employment conditions (Schramm, 2006).

Training of managers and employees is a part of human resource management. In this area, according to Bitting (2007), there are new trends such as new challenges for the new managers ( new responsibilities, varied responsibilities, time, balance, feeling alone, and personal wellness), knowledge and skills of supervision in a multicultural (and multigenerational) workplace, emotional intelligence for managers and supervisors, supervisors: leading themselves and managing their own learning, mentoring new/ probationary supervisors, performance management, career development and life planning, and enhancing the supervisory working alliance.

Performance management is the organized method of monitoring results of work activities, collecting and evaluating performance to determine achievement of goals, and using performance information to make
decisions, allocate resources and communicate whether objectives are met. Recent research reveals that the majority of organizations are utilizing performance management systems / performance management software and many are in the process of revamping their first generation systems. According to Development Dimensions International (DDI), performance management systems are active in 91% of 3,600+ organizations studied. Increased automation of performance management and HR functions, increased integration of HR functions, and strategic HR as the link between employee performance management and organizational performance are current trends of performance management (INSAŁA, 2006).

One of the greatest approaches that in recent years in HRM have been dominated is knowledge management. Knowledge management is enough new but according to Uden (2007), it has new trends including operating in the knowledge economy, inter-institutional collaboration, cross-cultural aspects of KM practices, adaptation of KM in organizations, collaborative working environments, networking with knowledge, KM for SMEs, shared knowledge in business networks, technologies and tools for KM, data and knowledge sharing, business intelligence and data warehousing, knowledge discovery and data mining, knowledge representation, design methodologies for KM, intelligent and ubiquitous KM, the use of semantic webs for KM, application of semantic modeling, domain modeling and ontology-building, use of web services for KM, agent technologies for KM, and evaluation of KM.

Manufacturing Management: Manufacturing Process Management (MPM) is a collection of technology and methods used in the manufacturing and ERP/MRP defines when it is to be made; MPM defines how it will be made. MPM has different topics and technologies including production process planning, computer-aided manufacturing (CAM), communication with other systems, time and cost estimates, computer-aided quality assurance (CAQ), success measurements, generation of shop floor work instructions.

Howell & Soucy (1987) believed that there are six major trends visible among US manufacturing companies including: higher quality, lower inventory, flexible flow lines, automation, product line organization, and more effective use of information in the production environment. Quality management is one of the most main areas of manufacturing management. Some of the emerging trends of managing quality are core and peripheral quality, implementation of TQM & BE in public and non-profit sector, emergence of “Network” economy, transition from mass production to customized products and services, further development and implementation of Business Process Management Systems (BPMS), emergence of new methods and tools for measuring and managing quality, long-term and strategic planning for Sustainable Development and Corporate Social Responsibility, analysis of specific quality, situations for creating competitive advantage, and using organizational self-assessment techniques.

New trends in production systems are another important part of manufacturing management. Rusina & Coze (2007) surveyed some new trends in this area. According to them, globalization (production, suppliers, R&D …), new leaner technologies, product / process competitiveness, outsourcing (logistics, engineering, production …), and customer satisfaction and retention concerns are key industrial market trends. They noted shift from ManuFacture to ManuFuture and draw system integration and control architecture evolution as following:
Financial and Investment Management: Investment management is the process of managing money, including investments, budgeting, banking, and taxes. Also it is called money management. There are two essentially different frames of reference for trying to analyze and understand innovations in the financial system. One perspective takes as given the existing institutional structure of financial service providers, whether they be governmental or private sector, and examines what can be done to make those institutions perform their particular financial service more efficiently and profitably. An alternative to this traditional institutional perspective is the functional perspective, which takes as given the economic functions served by the financial system and examines what is the best institutional structure to perform those functions. Placed in a normative context, current theory has been a fruitful source of ideas for subsequent innovations in finance practice for examples market completeness, households, financial advice dispensed by an agent, non-financial firms, and country risk (Merton, 2000).

Order and Procurement Management: Procurement is the sourcing and purchasing of goods and services for business use. Individual businesses set procurement policies that govern their choice of suppliers, products and the methods and procedures that are going to be used to communicate with their suppliers. For example, businesses often have set procedures for calling for and evaluating proposals. Issues in procurement include: identifying the needs of customers and suppliers; choosing and preparing tools and processes to communicate with suppliers; preparing requests for proposals and requests for quotations; setting policies for evaluating proposals, quotes and suppliers.

There are general trends in procurement. One of the most recent of these is green procurement, with an increasing number of businesses creating procurement policies that emphasize sourcing and purchasing goods and services that are less environmentally damaging than comparable alternatives (Ward, 2007).

In special point, there are also five emerging trends in procurement. In a conference (CIPS) that held in Sydney, keynote speakers discussed these trends. They are:

![Figure (1) System Integration & Control Architecture Evolution](image)
- **Performance optimization**: What are the indicators of high performance in strategic sourcing and particularly the role of low-cost country sourcing as a key strategy for organizations in Australia and New Zealand?
- **Socially responsible procurement [srp]**: How is this now affecting the supply side of organizations?
- **The procurement profession’s talent scarcity**: How are we seeking to deal with this through recruitment and people development, and how does it differ from a naked skill shortage? How are we also managing the rapid growth of our profession?
- **Supplier relationship management [srm]**: How do we manage greater collaboration with suppliers and yet still manage supplier performance against ever more demanding targets?
- **Socialization in procurement**: What are the true impacts on procurement and supply chain management from globalization and new global trends? (Dutton, 2007)

**Marketing and Sales Management**: Marketing management is process of planning and executing the conception, pricing, promotion (selling, advertising, public relations, sales promotions-coupons), distribution, research of ideas, goods, services, organizations and events to create exchanges, and to maintain relationships that satisfy exchanges that satisfy individual and organizational goals.

One of the main areas of sales and marketing management is customer support. The emergence of the Internet as a cost-effective, collaborative business tool has created new opportunities to optimize the classic support model by extending the support organization and enabling collaboration within and across organizational boundaries. Extending the support organization, collaborative support, flexible sourcing, collaborative workspaces, knowledge capture, visibility and control, and integration with the support infrastructure are the main trends in this area (ePeople, 2001).

1.4 New Trends of Organization

**Organizational Technology**: Organization Technology provides a systematic approach to aligning work design and improving how it supports other organizational components. Over time, as organizations evolve and grow, these elements begin losing the support they once had for each other, leading to bureaucracy and unresponsive performance within the organization. In start up organizations these conditions may not be noticed until it is too late. The focus is usually on their new product or service, rather than on ensuring their infrastructure is sound.

As Liebenau (2007) noted, there are three new trends in OT. First one is **Ubiquitous ICT**. As an extension of the existing trend, we can project further technologies and institutions accommodating the ubiquitousness and connectedness and “virtual” character of business and personal communication and computation capabilities. The second trend is related to customer. **Customization** is an application and product of the ubiquitous character of ICT. We are likely to see changes in our ability to simplify and customize products and processes. **Biology** is third trend. We have become used to rapid changes in health care methods and we will continue to see the application of technologies to body control and we will devise strategies to deal with their cultural and environmental significances.

Another trend in OT is some trends in **Integrated Management**. They are include management architecture (management platforms), technology platforms, instrumentation (MIS, MIB), and multi-vendor interoperability (Ray & Fry, 1993).

**Organizational Structure**: Formal and informal framework of policies and rules, within which an organization arranges its lines of authority and communications, and allocates rights and duties. Organizational structure determines the manner and extent to which roles, power, and responsibilities are delegated, controlled, and coordinated, and how information flows between levels of management. This structure depends entirely on the organization's objectives and the strategy chosen to achieve them. According to Ramazanian (2007), the structure of organizations will be different from the past. They will be constructing into **Networks, Star form, Spider, Triple Dimensions, Virtual, Imaginary, and Cluster form**.

There are also some new trends in project management as one of departmentation kind in organization. According to ESI (2008), they are: investment in project management training to counter effects of troubled
economy; better, faster project decision-making; critical thinking as a key project management competency; emerging relevance of the project management office; talent management impact on business ROI; project managers taking leadership roles in organizational change; communication challenges of remote team management; earning PgMP certification; navigating the overlap between PM and BA tasks; and co-dependency between project management and enterprise analysis.

**Organizational Systems and Processes:** An Organizational System and Process is a main department of an organization that performs a main activity and produces a certain product or service. New Institutionalism and Organizational Development are two major areas of OSP component. New institutionalism can take different focuses and can draw its inspiration from different disciplines. Here are some types of new institutional study: Normative Institutionalism, Historical Institutionalism, and Rational choice institutionalism (Wikipedia, 2008). Macro forces including changes in technology, constant change, partnerships and alliances, changes in structure of work, increase diversity in the work force, shifting age demographics, globalization, and mergers and acquisitions result in the following five emerging trends in OD: Expanding the use of OD, Combining traditional “hard” business competencies and OD, Creating whole systems change- organizational design and culture change, Using OD to facilitate partnerships and alliances, and Enhancing constant learning (Mozenter, 1999).

**Organizational Environment:** Environment of an organization is a set of social, cultural, technological, economical, political, and natural forces that impact on organizational activities. Daft (2004) in his book, *Management*, noted that the most important current and future trends of organizational environment is *Globalization*. Borderless World, Foreign Markets - Entrance, and Multinational Corporations are the main characteristics of global environment and international environment factors are economic (economic development, infrastructure, resource and product markets, per capita income, exchange rates, economic conditions), legal-political (political risk, government takeovers, tariffs, quotas, taxes, terrorism, political instability, laws, regulations), and sociocultural (socio values, beliefs, language, religion, kinship patterns, formal education, literary, time orientation).

**Organizational Communications:** OC is process of set up relations between departments, divisions, individuals in organization according to organizational level to perform functions and duties.

Kanchana (2006) believed that new trends are emerging in OC. They are communication patterns including Cross Communication, Gang Plank Mechanism, Open Door Policy, Coaching, Mentoring, Counseling, and Collectivism Culture including Quality Circles, Self Managed Teams, and Cross Functional Teams.

### 1.5 New Trends in Public Management

Public management in governmental agencies has different trends from private sector management. Shaw (2004) studied health sector of developed and developing countries and resulted three new trends for them. They are Responsibility (what managers are responsible for), Performance (how managers are mobilized to improve outcomes), and Accountable (to whom managers are accountable for quality). Shaw called them as three building blocks of new public sector management.

New public management, according to Bovarid and Loffler (2003), is moving toward *Governance*. Bovarid defines governance as ‘the set of formal and informal rules, structures and processes which define the ways in which individuals and organizations can exercise power over the decisions (by other stakeholders) which affect their welfare and quality of life’. Indeed, in general governance involves six groups of stakeholders: Citizens (as individuals), Voluntary sector, Business, Media, Higher levels of government/Parliament, including international levels, and Local authorities. Government needs to consider not only organizational leadership, policy and strategy, people management, resource management, processes, measurement of objectives and subjective results, values of the organization, functioning of government at local level, but increasingly also leadership of networks, politicking: balancing strategic interest, management of the labor market, resources and knowledge management, internal and external relationships, measurement of multi-dimensional performance, public service values and ethics, developing good local governance.
2. CONCLUSION

In this paper, it is attempted classify current and emerging trends which has been provided in different areas and aspects of management and organization till now. Of course it is not possible to identify all of trends, and it can not do this in a paper.

By review on described trends in the paper, it can counted three basic elements for a business including human, management, and organization. In other words, a business is established of integration of three elements: 1) kind of view on and attitude of humans, 2) organizational approach, and 3) managerial orientation.

Organizational Anthropology: Studying different trends of business, from the past to now, shows the fact that the perspective on human that have been dominated, have has a significant role in growth and excellence path of business. Five kinds of human are recognizable. Rational man is motivated through doing things that contain economic desirable. Social man is motivated by satisfying social needs such as esteem, relatedness, and collective relations. Organizational human is obedient of organization and its rules, and is loyal to administration. He/she prefers organizational goals to personal one. Ethical man is in looking for developing his/her ethical training and places ethic as source of his/her motivation and behavior. Spiritual human is beyond ethical man, and is motivated by doing things through creating an intrinsic relation to metaphysic world between type of work and gained results of it.

Organizational Approach: Organizations has different forms from approachal aspect. In machinery approach, organization has a simple, repeated, and routine structure, and works are planned-perform and without flexibility. Organization with economic approach looking for to maximize profits with minimizes costs. Systemic/social organization considers social relationships, norms, rules, and social incrustation in doing things. In this approach, organizational goals are following by considering mutual relation between organizational elements. Administrative/bureaucratic approach is one that organizations attempt perform their functions based on rules and law, and everything is perform in legal and impersonal framework. In cultural approach, organizations reinforce cultural components of their customer and stakeholders. Global approach has borderless and stateless orientation that the main activities of organization set up in all countries, societies, and cultures. Figure (3) shows these approaches. Organizations have different approaches, and they can choose one of them at a period of time.
Managerial Orientation: Management also has different orientations. Management in some organization is ownership; it means that owner of the firm is manager too, and maintains the firm in every state as his capital and property. He/she tries decrease costs more and more, and increase benefits. Managerial orientation in many cases is representative. Management is representation of shareholders who their requests should be satisfy. Economic/industrial management is another orientation that according to it, is assume the main activity of organization as a part of a great industry and focused on developing it. In social or public orientation of management, the main focus is to maximize public benefits. This kind of management acts toward satisfies public requirements and goods. Developmental orientation attempts to empower and activate potentials of individuals and organization. Technological orientation tries to apply technology more and more in organizational activities and processes. In global orientation, management directs doing things in a multicultural environment with broad communications. In knowledgeable management, the main base of business management is capture, create, and share knowledge and leading organization by focus on knowledge. Finally, value management is newest kind of managerial orientation that the core of planning, decision making and leading are ethical and spiritual values.
Based on three elements of human, organization, and management, it can be describe that every organization, private or public, profit or nonprofit, in every time, place and subject, apply an integration of anthropology, organizational approach, and managerial orientation. It can be creating several new trends for organization and management by integrating these three elements so that be recognizable a certain kind of attitude to people, a certain approach to organization, and a special orientation in its management. Figure (5) shows a model for this integration.

As shown in the model, for determining a new trend, first should be determine what kind of attitude to people is dominated or can be dominate in organization. Then will be determine the main orientation for perform managerial functions based on that attitude. The managerial orientation depends on tow factors of kind of attitude, and type and quality of organizational goals. These tow elements help to make an appropriate organizational approach. Finally, and based on three dimensions of the model, a lot of trends can be create.

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ABSTRACT

According to the White Charter of Romania SMEs (2006), the major problems that affect Romanian entrepreneurs in their activities are bureaucracy (52.83%), followed by corruption (32.22%), the evolution of the legal framework (33.31%), the lack of transparency of the business environment, the tensioned social climate and high frequency of political changes. Hence, Romanian sociologists’ researches show that the Romanian business people maintain the corruption, giving bribes in order to obtain several advantages for their firms. Furthermore, the evidence of a responsible attitude of the citizens against corruption is missing. Thus, at the level of the informal institutions ethical behavior coexists with the unethical one. The question is to what extent the general values shared by the Romanians impact on the ethics patterns. In other words, do Romanians have a series of negative traits which affect the informal institutions and, furthermore, the formal ones and impact on economic performance? This paper explores the relationship between institutions and entrepreneurship in Romania, in general and the ways in which institutions have influenced entrepreneurial development in the North-East Region, in particular. Our study is based on data from a survey whose respondents are economic agents from the North-East Region of Romania.

Key words: Entrepreneurship, Institutions, Cultural features, Corruption, Economic performance.

JEL Classification: D01, D02, D73, K42, L26, O17.

1. INTRODUCTION

Majority of literature on entrepreneurship point out that institutions lie at the bottom of the entrepreneurial activity which fosters economic growth and development. In other words, weak institutions can explain a low level of entrepreneurial development and orientate entrepreneurs towards unproductive activities. This is the case of several transition economies, including Romania, characterized by high levels of corruption, a weak rule of law, excessive regulations, a low level of trust etc.

These problems are mostly related to several economic and political factors and to the quality of institutional framework. We refer to both formal and informal institutions but especially to the latter ones. Thus, even if in Romania progress has been made since, most of the formal rules for the future market economic structure have been laid down; however, there is still a lot to be done with respect to informal institutions. The existing informal institutions, partly of communist inheritance, partly of the way Romanians are in general, have considerably affected institutional design. We refer to the fact that Romanians are supposed to have a series of fatidic informal institutions which intertwine with the efficient formal ones or are against institutional change. Ethno-psychological studies show that Romanians tend to be obedient in front of authority, expect that somebody offers them assistance, believe that the State should provide a better life for everybody, easily use
connections and bribe to solve their problems. All these cultural features affect the ability of the society to operate with formal institutions and, furthermore, hamper progress and economic growth.

This paper explores the relationship between institutions and entrepreneurship in Romania, in general and the ways in which informal institutions have influenced entrepreneurial development in the North-East Region, in particular. The fundamental premise of our research is that the cultural features and negative informal institutions (such as corruption, the culture of bribe and connections, negative collective identity etc.) are correlated with the lack of economic performance and the orientation of Romanian entrepreneurship towards unproductive activities.

The paper is organized into five sections in order to provide a logic and coherent analysis. After this introduction, a short literature review (Section 2) referring to the role of both formal and informal institutions in entrepreneurship prepares the background for analyzing specific issues related to the Romanian institutional framework and the way it impacts on entrepreneurial activity (Section 3). Section 4 is dedicated to the case study on the North-East Region of Romania. This section is divided into three parts namely, a short presentation of the socio-economic context, research methodology and the main findings of our research. The last section of the paper briefly outlines several conclusions.

2. LITERATURE REVIEW

It is unanimously acknowledged that the institutional system plays a fundamental role in economic growth and development. According to Douglass North, one of the most outstanding representatives of the field of new institutional economies, “institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction” (North, 1990, p. 3).

Institutions can take the form of formal and informal rules. The formal ones (laws, regulations, institutional constraints) are deliberately designed, compulsory and punitive. The informal ones (values, traditions, conventions, behavioral norms etc.) evolve in time and turn into unspoken and unwritten norms of conduct. These exist regardless of formal rules and they are extremely important for the institutional matrix. The basic idea is that the institutional system must be analyzed by means of the interrelation between formal and informal. Cultural features embedded in the informal rules affect the ability of a society to create and operate with the formal ones.

Frederic Sautet explains this in terms of enforcement: “Institutions only affect people’s behavior when they are enforced. In situations where there is no overlap between formal and informal rules, and formal institutions cannot be enforced properly, it is the informal rules that take priority. This makes the enforcement of the formal rules difficult and costly” (Sautet, 2005, p. 4).

Both formal and informal institutions influence the behavior of individuals by structuring the incentives that guide their activities. They “define and limit the set of choices of individuals” (North, 1990, p. 4). In other words, “profits proceed from the existence of institutions” (Sautet, 2005, p. 8).

This statement brings us to the relationship between institutions and entrepreneurship. In short, institutions create incentives, for profits and these, in turn, determine the nature of entrepreneurship (Sautet, 2005). With respect to the quality of institutions as a fundamental factor in determining the economic outcome of human action, William Baumol maintains that: “the entrepreneur often makes no productive contribution at all, and in some cases plays a destructive role (…). This does not happen fortuitously, but occurs when the structure of payoffs in an economy is such as to make unproductive activities such as rent seeking (and worse) more profitable than activities that are productive” (Baumol, 1993, p. 1). In the same direction, Bruno Dallago points out that “to allocate the existing entrepreneurial supply (…) to play a productive role in the economy it is necessary and sufficient to structure institutions in such a way that they properly reward entrepreneur for their productive (value increasing) activity – and perhaps punish them for non-productive (rent-seeking, destructive) activity” (Dallago, 2005, p. 9).
The quality of institutions, thus, channels entrepreneurship to different activities: productive, evasive and destructive (Sautet, 2005, p. 8). Productive entrepreneurship develops when the formal rules are compatible with the informal norms and together they allow exploiting profit opportunities. Evasive entrepreneurial activities correspond to the situation where formal institutions fail to provide incentives for entrepreneurs and they prefer to ignore them and to go underground. Destructive (predatory) entrepreneurship occurs when the institutional framework encourages wasteful, unproductive, rent-seeking behaviors.

All these aspects are meant to support the idea that institutional system plays a very important role in entrepreneurship development by permitting the exploitation of resources and business opportunities and channeling human efforts towards productive activities which, furthermore, are at the core of the socio-economic performance of a society.

The next section applies the analytical framework set above to the reality of the Romanian economy in order to explain the poor entrepreneurship development and the low economic performance.

The Specificity of Romanian Institutional Framework and Its Influence on Entrepreneurial Activity

Romania is a particular model of institutional change in a transition economy which provides strong evidences that informal institutions have a strong influence on the outcomes of the formal ones. Economic performance was very low mainly because formal and informal rules did not overlap. This formal/informal gap has led to a situation where formal institutions could not be enforced properly and, consequently, the informal rules took priority (Baciu et al., 2007). In Helmke and Levitsky’s terms (2004), Romania is a case of substitutive, even competing informal institutions which made the enforcement of the formal ones difficult and costly. Therefore, individuals did not follow the formal rules legislated by governments which resulted in the strengthening of black economy and the discouragement of honest competition.

Gradually, market-based institutions have been established. However, the institutional framework is not complete yet. Formal institutions remain fragile as long as they are not supported by the informal ones. This is mainly because the political pressures are still high, the credibility of the government’s commitment is low, the extent to which economic agents have confidence and respect the formal rules (such as contract enforcement, for example) is also low. At the same time, the level of corruption is very high mostly due to the weakness of the state which is often “captured” by private interests with rent-seeking behavior. Corruption continues to be an impediment for private sector proper development in Romania.

As shown in Table 1, Romania ranks worst among the EU and Western Europe countries in the Corruption Perception Index prepared by Transparency International. Although Romania has made significant improvements in the score, from 2.6 in 2002 to 2.9 in 2004 and 3.7 in 2007, corruption continues to be a serious problem, hampering both entrepreneurship and economic growth and development (See also Figure 1).

Several studies point out that the perception of less corruption and a more favorable perceived attitude towards entrepreneurship among the population and the government increase the likelihood that people become entrepreneurs (Djankov et al., 2005). The low ranking of Romania comes despite government’s efforts to enforce anti-corruption legislation. This shows that Romanians are skeptical about the established institutions as a result of the lack of confidence in State and the judiciary system often perceived as inefficient and corrupt. Romanian sociologists’ researches show that Romanian business people maintain the corruption, giving bribes in order to obtain several advantages for their firms. Furthermore, what is missing is the evidence of a responsible attitude of the citizen against corruption, which makes the fight against it more difficult. A study made in 2002 on 250 Romanian firms shows that 54.9% of these paid bribes and 26.3% paid kickback tax rates in order to receive government contracts (Steven Fries et al., 2003). Thus, it is also the lack of people motivation which makes formal institutions to be less internalized and enforced.

In other words, the incompatibility between established formal rules and unwritten informal ones leads to a weak institutional framework which, in turn, explains the low level of entrepreneurship development and economic growth. Regarding the quality of the business environment and encouraging entrepreneurship the indicators published by the World Bank in Doing Business 2008 Report show a slow involution (Figure no. 2) which discourages entrepreneurial activity.
At the same time, Romanians have a series of fatidic informal institutions which intertwine with the efficient formal ones or are against institutional change. Ethno-psychological studies show that Romanians tend to be obedient in front of authority, expect that somebody offers them assistance, believe that the State should provide a better life for everybody, easily use connections and bribe to solve their problems. Politicians misuse power and accept nepotism, whereas in business, Romanians do not focus in any specific trade (Baciu et al., 2007).

In short, in Romania, the incentive structure provided by both formal and informal institutions is such that the productive behaviors are often dominated by the predatory ones.

**Case Study on The North East Region of Romania**

**Regional socio-economic context**

Romania is organized into eight regions of development (42 counties were grouped using industrial and global indicators, and thus the eight regions of development were formed). The regions are the legal framework for development, implementation and evaluation of the regional development policies and collecting statistical data, in line with European regulations issued by EUROSTAT for the second level of NUTS 2 territorial classification (Law on Regional Development of Romania, p.3).

The 2006 White Book of the SMEs in the North East Region shows that within the period 2000-2005 there was a annual average growth of GDP of 5.1%, in 2005 attaining the same percentage as in 1989 (seen comparatively), which shows a positive trend for the first time in 16 years of transition. According to the Regional Attractiveness Index 2004, elaborated by PriceWaterhouseCoopers Management Consultants, the North-East region scores 19.7 points which corresponds to low attractiveness. That is mostly due to the set of factors within the business environment category such as the labor market and wages, the foreign investment, the foreign trade etc. At the same time, the region displays the lowest score among all the other regions in Romania. Small and medium enterprises represent an important segment of the region’s economy.

The main industry sectors of the region are: wood processing and furniture production, light industry (textile, clothing and leather processing industry), machine, tools and equipment manufacturing industry, pharmaceutical and food processing industries. Business concentration in 2004 grew by approximately 8% in comparison with 2003 and approximately by 23% since 2001, this indicates a positive dynamics of the SMEs sector in the region. The percentage of profitable SMEs grew considerably, from 42.5% in 2001 to 52% in 2004. In comparison with 2001, the percentage of unprofitable SMEs has decreased significantly (by 7%), which can indicate a strengthening of the business environment and companies. The North East Region has developed both in terms of assets and the quality of economic activities: 8.5% of total debts, 5.9% out of the average regional profit rate, an important growth in labour productivity (data provided by the North-East Regional Development Agency).

Nevertheless, there are economic factors that can be strong points of the Region, a similar pace of economic growth: natural resources, the tourist and educational potential. Romania’s workforce is 1,701,000 people, the North East Region providing 18.57% of the country’s labour force.

**3. Research methodology**

The research was conducted in the North East Region in the spring of 2007, a random sampling being implemented. The respondents were managers from small and medium size enterprises. The questionnaire included three types of questions:


- Questions related to negative informal institutions supposedly being specific to Romanians (V1. Skulking, V2. Postponing duties, V3. Lack of ambition, V4. Futility, V5. Bribe, V6. Negligence and idleness, V7. Envy, V8. Lack of punctuality, V9. Waiting for assistance, V10. Negative collective identity). These so-called negative informal institutions were described as statements in the survey in order to check the respondents’ honesty, supposing that these will not acknowledge that they are envious, idle and negligent. For example, for V9. (Waiting for assistance) the following prompt was used: The State must provide assistance to its citizens and offer means of living to all;

- Issues related to the economic performance of businesses that the respondents represented, such as profit, providing funds for investments, restructuring/adjusting to change, financial incentives for employees.

The response scale for the respondents’ opinion on the informal institutions ranged from 1 = totally disagree to 5 = totally agree. Providing funds for investments is grouped in two categories: below 10% and over 10%. Profit is grouped in four categories: 1. it grew less than 20%; 2. it grew between 20 – 50%; 3. it grew between 50 – 100%, 4. it grew over 100%.

Main findings

The statistical analysis performed allows us to point out some relevant options of the instrumental values from the Rokeach value survey. The hierarchy of the traits reflecting the type of behaviour needed to attain goals is shown in Table no. 2. According to respondents, values that indicate reflective personality and desire for self-improvement V22- Capable, V28- Intellectual, V20- Ambitious, V26- Independent, were on top positions whereas on the last ones V24- Clean, V21- Obedient, V27- Forgiving, and V36- Happy. This hierarchy is contradicting the ethical perspective described above where Romanians are seen as being happy, superficial, not very ambitious or reflective. It is worth mentioning that the respondents were business people and entrepreneurs. The dominance of reflective values and the desire for self-fulfilment is rather predictable and rational, being a positive outcome of the research (See Table 2).

The second part consists in an assessment of the negative informal institutions supposed to be specific to Romanians (skulking, postponing duties, refusal to get involved, futility, giving bribe, negligence and idleness, envy, lack of punctuality, waiting for assistance, negative collective identity). The hierarchy of the negative informal institutions supposed to be specific to Romanians (skulking, postponing duties, refusal to get involved, futility, giving bribe, negligence and idleness, envy, lack of punctuality, waiting for assistance, negative collective identity) is shown in Figure no. 3. Most respondents totally agreed with V9 – waiting for assistance and V10 – negative collective identity; partially agreed with V7 – postponing duties and V8 – envy. The results reflect the initial premise of the research. The respondents totally disagreed with V3 – lack of ambition, V6 – idleness, and disagreed with V1 – skulking, V4 – futility, V5 – bribe, V8 – punctuality, results which contradict the initial premise of the research.

To provide a better explanation of the results, we calculated the percentage of the respondents’ affirmative and negative statements (totally agree + partially agree for agreement and totally disagree + partially disagree for disagreement), as shown in Table 3.

We can remark that the negative informal institutions that are specific to respondents are Waiting for assistance (56%), Negative collective identity (56%), Postponing duties (48%) and Envy (40%). The existing negative informal institutions result from several weak points which we consider to be strongly related (Baciu et al., 2008).

Firstly, they can be explained by the communist inheritance. In Romania, communism suppressed any form of freedom and private initiative. The State was omniscient and omnipotent. As the percentage for Waiting for assistance (56%) shows that, after 18 years since the fall of communism, many Romanian people still believe that the State (or any authority) ought to provide everybody with housing and jobs. This is the proof of a deep
path dependence which is often translated in “the past was better than the present”, hampering the acceptance of the new market institutions and, furthermore, economic development.

Secondly, after 1990, the government has introduced inconsistent and half reforms that did not lead to a certain result. Consequently, the loss of trust by Romanians towards the state and its institutions, often perceived as inefficient and corrupt. This general distrust makes Romanian to be sceptical about the formal rules. The weak formal institutions, in turn, provide a fertile ground for the persistence of strong negative informal rules, through their incapacity to meet people’s expectations.

Thirdly, it is the way Romanians are in general that explains the waiting for assistance, negative collective identity, postponing duties and envy. The Romanians perceive themselves as having several negative traits. For example, in one of the most seminal studies about the Romanians’ way of thinking, Drăghicescu considers that Romanian behaviour is a mixture of frequently detrimental cultural peculiarities of other nations: carelessness, idleness, lack of initiative, unresisting acceptance of fate, lack of self-confidence, and above all fatalism, blind belief in luck and destiny (Drăghicescu, 1996, pp. 345-361). We add here another opinion which we consider significant for the results of our research and it is strongly related to the previous aspect that is, “the mentality of Romanians is egocentric and individualistic. Hence a subaltern’s opposition to an idea expressed by a peer is considered personal antipathy. Opposition to a superior’s idea is considered disobedience. This is why organizations run by Romanians, State institutions or enterprises, do not innovate. Meetings are sterile, without exception. Steps forward are made only by tête-à-tête dialogues, that save face, between peers, and they become friendly, when the hierarchical context is missing, between subordinates and leaders. Romanians have an authoritarian mentality: in a collective, they must know if they have a leading or a following role. This is why they cannot work in a team. Romanians mistrust institutions, which function with French bureaucratic centralized and useless slowness. They prefer to know a person in an institution. ‘Have you got any connection?’ – this question penetrates the Romanian society from the bottom to the top, and determines it, from the simple renewal of one’s identity card to severe acts of corruption” (Ernu, 2007).

The correspondence analysis performed allows us to identify some associations between several instrumental values and the informal institutions:

1. V27- Forgiving (willing to pardon others) and V2- Postponing duties. Thus, the premise that there is a positive relation between a value and a type of attitude (or behaviour) is confirmed. The relation between the two values – forgiving and postponing duties – indicates the fact that here we deal with a permissive value so that those who are forgiving also accept the lack of commitment (See Figure 4).

2. V19 - Loving (affectionate and tender) and V1- Skulking. The last result is in line with the general approach according to which the Romanian people are predominantly affectionate and hedonistic, so that those who are tender and affectionate accept skulking and lack of responsibility (See Figure 5).

3. V22-Capable and V9- Waiting for assistance (See Figure 6).

In the third part of the questionnaire the respondents had to answer questions about the economic performance of their businesses, such as profit, providing funds for investments, restructuring/adjusting to change, financial incentives for employees. The research team started from the premise that economic performance can be better assessed in case of entrepreneurs rather than consumers, for the latter category the subjective concepts of pleasure, use, achievement prevail, thus interpersonal comparisons being difficult to make. The results confirm the positive evolution of the North East Region lately, dominated by the 5.1% annual average growth of the GDP, the development of SMEs in the region, the higher number of profitable SMEs, growing from 42.5% in 2001 to 52% in 2004; the decreasing number of unprofitable SMEs (in 2004 7% less than in 2001), all this indicating the improvement of business environment and the strengthening of the economic power of companies. The respondents’ answers confirm the relation between: the growth in the turnover, profit, and financing capacity of their businesses (e.g. where the turnover doubled, the growth in financing capacity by more than 10 per cent appears in 80% of the cases); the growth of the turnover and profit by increasing incentives (e.g. where the turnover doubled, in 57.1 per cent of the cases, the management is motivated by other means than the financial ones and is remunerated by a higher salary than the average one in 100 per cent of the cases) (Baciu et al., 2007).
3. CONCLUSION

Even if in theory institutional reform has been acknowledged as extremely important for the success of transition, in practice building an efficient institutional infrastructure to support an emerging market economy has proven to be a great challenge for Romania.

We started this research from the premise that the Romanian people have a series of negative traits which correspond to a similar number of negative informal institutions (i.e., the culture of bribe and connections, obedience in front of authority, the belief that the State ought to provide everybody with housing and jobs; negative collective identity, superficiality, lack of motivation for work, postponing duties, the lack of planning, etc.,) due to which market-supportive formal economic institutions (such as property rights, competition regulating institutions, contracts etc.) are less internalized.

Regarding the negative informal institutions supposedly specific to Romanians (skulking, postponing duties, lack of commitment, futility, offering small favours and giving bribe, negligence and idleness, envy, lack of punctuality, waiting for assistance, negative collective identity), the respondents’ hierarchy of the informal institutions strongly confirms the initial premise of the values of waiting for assistance and negative collective identity, partially validate the values of postponing duties and envy. The premise is contradicted in the case of lack of ambition, negligence and idleness, skulking, futility, bribe, punctuality.

Our research also confirms that the existing institutions influence economic performance both at the individual and national level. The assimilation of formal and informal market-associated institutions is possible only if there is enough motivation. In other words, if people are motivated, behaviour can be improved by internalizing efficient formal institutions which provide incentives and opportunities, thus making individuals praise those values that allow behaviour adjusting to the institutional context.

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APPENDIX

Table no. 1. Corruption Perception Index 2007

<table>
<thead>
<tr>
<th></th>
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<td>Denmark</td>
<td>9.4</td>
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<td>6.5</td>
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<td>4</td>
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</tr>
<tr>
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<td>5</td>
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<td>9.0</td>
<td>39</td>
<td>20</td>
<td>Hungary</td>
<td>5.3</td>
</tr>
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<td>Cyprus</td>
<td>5.3</td>
</tr>
<tr>
<td>9</td>
<td>7</td>
<td>Norway</td>
<td>8.7</td>
<td>41</td>
<td>22</td>
<td>Czech Republic</td>
<td>5.2</td>
</tr>
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<td>8</td>
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<td>8.4</td>
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<td>Italy</td>
<td>5.2</td>
</tr>
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<td>8.4</td>
<td>49</td>
<td>24</td>
<td>Slovakia</td>
<td>4.9</td>
</tr>
<tr>
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<td>8.1</td>
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<td>25</td>
<td>Latvia</td>
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</tr>
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<td>25</td>
<td>15</td>
<td>Spain</td>
<td>6.7</td>
<td>69</td>
<td>30</td>
<td>Romania</td>
<td>3.7</td>
</tr>
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</table>


Figure no. 1 The evolution of Corruption Perception Index in Romania between 2002-2007

Figure no. 2. Starting a business in Romania

Table no. 2. The hierarchy of instrumental values

<table>
<thead>
<tr>
<th>Variable</th>
<th>Median</th>
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</thead>
<tbody>
<tr>
<td>Capable</td>
<td>5</td>
</tr>
<tr>
<td>Intellectual</td>
<td>5</td>
</tr>
<tr>
<td>Ambitious</td>
<td>6</td>
</tr>
<tr>
<td>Independent</td>
<td>7</td>
</tr>
<tr>
<td>Logical</td>
<td>7</td>
</tr>
<tr>
<td>Courageous</td>
<td>8</td>
</tr>
<tr>
<td>Responsible</td>
<td>8</td>
</tr>
<tr>
<td>Imaginative</td>
<td>9</td>
</tr>
<tr>
<td>Polite</td>
<td>9</td>
</tr>
<tr>
<td>Broad-minded</td>
<td>9</td>
</tr>
<tr>
<td>Self-controlled</td>
<td>9</td>
</tr>
<tr>
<td>Honest</td>
<td>10</td>
</tr>
<tr>
<td>Helpful</td>
<td>12</td>
</tr>
<tr>
<td>Loving</td>
<td>13</td>
</tr>
<tr>
<td>Clean</td>
<td>13</td>
</tr>
<tr>
<td>Obedient</td>
<td>13.5</td>
</tr>
<tr>
<td>Forgiving</td>
<td>14</td>
</tr>
<tr>
<td>Happy</td>
<td>14</td>
</tr>
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</table>
Figure no. 3. People’s evaluation of negative informal institutions

Table no. 3 Assessment of negative informal institutions

<table>
<thead>
<tr>
<th>Statement</th>
<th>Disagree (%)</th>
<th>Agree (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 I admire people who manage to skulk as to follow their own agenda.</td>
<td>61</td>
<td>18.5</td>
</tr>
<tr>
<td>2 Duties can be sometimes postponed supposed there are reasons for that.</td>
<td>38</td>
<td>48</td>
</tr>
<tr>
<td>3 Lack of ambition and commitment are, sometimes, positive traits.</td>
<td>71</td>
<td>12</td>
</tr>
<tr>
<td>4 Futility is not a negative trait if the person manages to get by.</td>
<td>56</td>
<td>21</td>
</tr>
<tr>
<td>5 Small favours and bribe may be excused if they contribute to the solving of some problems.</td>
<td>63</td>
<td>24</td>
</tr>
<tr>
<td>6. Negligence and idleness are acceptable in the case of well-off people.</td>
<td>76.5</td>
<td>8</td>
</tr>
<tr>
<td>7 Envy can be a good motivation.</td>
<td>35</td>
<td>40</td>
</tr>
<tr>
<td>8 Lack of punctuality is not always to be condemned.</td>
<td>59</td>
<td>25</td>
</tr>
<tr>
<td>9 The State must provide assistance to its citizens and offer means of living to all.</td>
<td>28.5</td>
<td>56</td>
</tr>
<tr>
<td>10 The Romanian people lack special qualities, only individuals being able to become top performers.</td>
<td>29</td>
<td>56</td>
</tr>
</tbody>
</table>
Figure no. 4  Correspondence analysis between V27- Forgiving (willing to pardon others) and V2- Postponing duties

Figure no. 5  Correspondence analysis between V19 - Loving (affectionate and tender) and V1- Skulking
Figure no. 6 Correspondence analysis between V22-Capable and V9-Waiting for assistance

![Graph showing correspondence analysis between V22-Capable and V9-Waiting for assistance.](image)

**Row and Column Points**

**Symmetrical Normalization**

- Agree
- Partially agree
- Neutral
- Partially disagree
- Disagree
- First
- Second
- Third
- Fourth
- Fifth
- Sixth
- Seventh
- Eighth
- Ninth
- Tenth
- Eleventh
- Twelfth
- Thirteenth
- Fourteenth
- Fifteenth
- Sixteenth
- Seventeenth
- Eighteenth
MP-13:

Effective factors on organizational commitment of employees who work in a social organization which contribute aids to the family of war victims in Golestan state

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ABSTRACT

Human forces loyal and directed with organizational values and goals that are interested in being a membership of an organization and have an over-working can play a significant role in improvement of an organization. An effective movement in an organization is the result of behavior of humans committed to their organizations and of those who have a positive thought and creativity and make their mind busy on changing the world around them. This study, based on descriptive and co relational research, is willing to find factors effective on organizational commitment of employees who work in an organization named martyrs and sacrifice's affairs (social organization which contribute aids to the family of war victims). For doing so, the research made the 5 following hypothesis: there's a significant relationship between organizational cooperation, equity, understanding of organizational support, job levels and demographic features and organizational commitment of employees. The data were collected using Allen and Meyer Questionnaire (1990) Chalabi and Izanbargar of a sample including 125 employees working in Golestan state Martyrs and sacrifice's affairs organization. Using SPSS software and statistical methods, named spearman correlation and Pearson correlation, ANOVA, T-TEST and Multivariate analysis, regression the data were analyzed. The first two hypothesis were accepted and the two last ones were rejected. Multivariate regression between all independent variable with organizational commitment imply that equity has the highest effect on commitment and then cooperation, number of offsprings and understanding of organizational support are the most effective ones respectively.

Key word: organizational cooperation, organizational equity and understanding of organizational support, job levels, demographic features.

1. INTRODUCTION

Attitudes are of importance for many different reasons. Many social scholars in different discipline hold the view that attitude can be viewed as a desire and readiness to be responsible to things, persons, concepts or every things concerned optimally or non-optimally. In order to response a question like how such specific attitudes can be formed, generally, it can be said that such a feeling can be taught. Everybody can acquire or learn such feelings through experience or environment. So there exists a specific attitude for everything around us which can be positive or negative. A person’s attitude to his/her job is his/her positive or negative assessment on different aspects of his/her job environment.

3 kinds of attitudes, namely, job satisfaction, job dependence and job commitment are different studies done in the field of organizational behavior (Robbins, 1995, p.265). The result of many studied done shows that job commitment is used much more than job satisfaction to predict and justify everybody’s behavior and using it can predict better and better many employee’s behavior such as resigning, quitting the job and not being present in the job related. (Robbins, 1995, p.267)

2. REVIEW OF LITERATURE

Human beings are the most complex and complicated factor in an organization which can play a significant role in directed achievement. When human beings are under pressure due to Anomie of an organization, the
mental agreement between such a person and organization will be weakened and they will make persons in such an organization disappointed directly and indirectly and the conflicts between managers and their employees will be shown and hence, all pressures through job environment will have a strong impact on everyday’s personal and social life. So, an organizational behavior such as how to act and being eager to continue in such a job is a real reflection of an organizational and balancing healthy. On the other hand, such behaviors are influenced by many internal and external factors as processes and organizational commitment (Rashidpoor, 2000, p.10). Organizational commitment is one of the significant issues which should be investigated in its related organization and effort level. Now it is turn to pose the research question i.e. what’s the effective factor in employee’s organizational commitment?

2.1 Organizational commitment definition

Most definitions mentioned in this regard stress that organizational commitment is a kind of mental and emotional dependence to an organization which can connect an individual in an organization to it. Generally speaking, organizational commitment can be put in the 3 following characteristics:

1. Strong belief in an organization and acceptance of organizational goals.
2. Much attempt to achieve the organizational goals.
3. Strong desire from individual in an organization to be working in that organization forever.

2.2 Effective factors in employee’s organizational commitment

Based on the research done in this field, the factors effective in organizational commitment can be classified in the 4 following groups: (Borhani: 2003, p.19)

1. Personal factors
2. Factors related to the job
3. Organizational factors
4. Ultra factors

2.3 Theories related to organizational commitment

In such a paper, it has been tried to study and analyze the subjects using equity theory and such subjects as equity and organizational commitment, understanding organizational support and commitment, organizational cooperation and commitment, job levels and organizational commitment and demographic features and organizational commitment.

2.3.1 Equity theory

Equity Theory suggested by Adams (1963-1965) has been originated from cognitive dissonance theory of Festinger. Such a theory states that people in a social organization will have a look at others and they will compare their own input output with others (Roberts: 1995). Such a person, if understand the ratio of his input or inputs (attempts, facilities and time) to his output or output (money, identification and…) is not equal with other will think they are not of unequal feelings. (Corman: 1991, p. 102-103).

Broadly speaking, it can be said that:

1. If the result of comparison is not equal, then there is no question.
2. If a person conceive that his/her inputs to organization are much more than others, then S/He will experience a kind of tension related to low reward and S/He is willing to compensate such tension with reducing his/her activities in the organization related. Obviously in such a condition, this person can reduce his/her inputs and increase his/her outputs or change his/her internal factors.
3. If a person conceive that his inputs are lower than his outputs, then such he will experience tension originated from additional reward and in order to tackle such problem he can work harder than before and try to increase his inputs or change his standards like what mentioned above. Or to accept lower income to decrease his outputs. (Roberts, 1995) Adams reckoned that a procedure which will be selected to reduce tension may be different from one person to another person during the different time, so he posed the minimum expense to such an issue.
2.3.2 Equity and organizational commitment

Many researchers like Linkston, Roberts and Chalko (1995) Lawrence and Lewin (1989) have studied the effects of equity on organizational commitment are of 7 dimensions:
1. rules related to income
2. income level
3. payment management
4. regulation management
5. job procedure
6. duties distributed
7. Flexibility or received equity. (Mcfallin 1992)

Lawrence and Lewin (1989) and Cowarlz (1994) have found a direct relation between equity and organizational commitment.

2.3.3 Understanding organizational commitment and support

Although many researches on organizational commitment have been done, a few researches have studied the role of organizational commitment on employees which is called understanding organizational support.Izenbergar and etal (1986) have mentioned the significance of studying the organizational commitment about employees and stated that it is of significant value. Many researchers have expressed that understanding the organizational commitment on employees are based on their believes in an organization about how much it gives credence to organization values and their prosperity. They argued using social interaction system, that those employees who are of high level of understanding organizational support are more likely to do their assignments.Fasterm and Kantz stated that there is a positive correlation between organizational commitment and understanding organizational support.

2.3.4 Organizational commitment and cooperation

It seems that cooperation is a logical answer to condition and challenges existing at present. Cooperation needs time since it will make conflicts, hence it needs discussion and pose the pressing need for the information and communication. So cooperation is expensive, however, the studies done in the early 1980 express that cooperation needs such costs and it has proven that activities resulted in much more efficiency have been done cooperatively (Mclegan, 1998, p.47). Porter and etal (1974) have posed that commitment is necessary for person’s identification in an organization and for realizing how much s/he cooperates with such an organization. And Mode (1992) posed the cooperation as one significant effective factor on commitment. Steers, Porter and Mode (1983), Botman and atel (1989), Nicklon karberg (1985) and Mayer skwammer, Allen and Meyer (1991) have found in their studies that there is a significant and positive relationship between a person’s cooperation in decision-making and organizational commitment.

2.3.5 Job level and organizational commitment

Some scholars have defined organizations in a form of collection of roles. In fact, an organization is a set of roles and situation which is of a hieratical system and every organizational position have a specific role and organizational value. Although every organization is of different positions with different values but unequal share and being hieratical is an inherent characteristic of every organization (Motevalial-mota, 1999, p.37)Many researches have shown that there is a significant relation ship between organizational position, job level and organizational commitment. The more job level is, the more committed employees will be. Gary disler (1980), Cohen, Rozbalt and Faril (1983), Fosterm (1990) …have shown in their studies there is a significant relationship between job level and organizational commitment.

2.3.6 Demographic features and organizational commitment

Age: Mode, sholden, Becher,Botman,Borpown, Greenberg have shown that the older employees who are much more experienced and are of much job year are much more commit led.
**Service record:** People’s properties will increase when time goes by and their experience increase. Such an issue has an impact on people’s continuous commitment.

**Education level:** Sholden, and Mode have shown in their studies that there is a negative and inverse relationship between commitment and education level. And may be that is because organizations are not able to meet the employee's needs with higher education such people are more committed to their profession in comparison with their organization.

**Gender:** there are many different theories on employees’ gender and its effect on organizational commitment. In some studies, it has been noted that both genders are, to some extent, of equal organizational commitment. But many researchers such as Sholden, Ahmadi, etc. hold the view that women’ organizational commitment is much more that men’s.

**Number of offspring:** Corabic and Razin have shown that, the employees are more committed against the organization when the number of their offspring is higher.

**Marital status:** Some studies have shown that there is a significant relationship between marital status and organizational commitment (Corabic, Razin, Isac, etc)

The analytic model of research:

- **Organizational Commitment**
  - Personal Characteristics
  - Organizational Support

- **Organizational Cooperation**
- **Organizational Equity**
- **Organizational Support**
- **Age**
- **Education level**
- **Gender**
- **Job level**
- **Marital status**
- **Number of offspring**
- **Service record**

4. METHODOLOGY

**Population:** The related organization included 245 employees. From among them, 187 persons worked in such an organization formally and in the form of determined and time-based contracts.

**Sample of study**

In such a paper, in order to estimate and determine sample of study, Morgan and Kerjasy table have been used and finally 125 people were selected as Sample of study randomly.Instruments of data collecting:The instruments needed to collect the data were the same as follows:

1. Library study
2. Interview
3. Questionnaire

To test the hypothesis posed, the research used some questions related to commitment, demographic characteristics, and job level and also some other features concerning organizational factor such as organizational equity, organizational cooperation and understanding organizational support.to collect the data, standard questionnaire namely Allen and Meyer questionnaire, Chalabi and Izenberger were used.

**Variables:** In the present paper, such indexes as organizational cooperation, organizational equity, understanding organizational support, job level and some demographic features were determined as independent variables and organizational commitment as dependent variable.
Reliability and validity

Validity: The validity of such a study was approved. Using SPSS software, the efficiency of questionnaire (1), the existing and optimum condition, were 76%, 76% respectively. And the efficiency of questionnaire (2), the existing and optimum condition, was 96%.

Reliability: To measure reliability of the present study, two methods were used. The first method was through content reliability. And the second method was through internal consistency, there existed high reliability coefficients between subtests such as equity, cooperation and understanding organizational support and also kinds of organizational commitment.

Data analysis

In such a study; data collected were analyzed using such descriptive statistics as frequency, mean. To test the hypothesis, some inferential statistics as Spearman test, T-test, Pearson efficiency test, one-way ANOVA test and Regression method were used. And the following results were obtained.

5. CONCLUSION

There is a strong significant relationship between
1. Organizational cooperation and organizational commitment. That is to say: the higher organizational cooperation, the higher organizational commitment will be.
2. There is a significant relationship between organizational equity and organizational commitment. That is to say: the higher organizational equity, the higher organizational commitment.
3. There is a significant relationship between employees’ understanding organizational support and organizational commitment. That is to say: the higher understanding organizational support and organizational commitment.
4. There is no significant relationship between employees’ job level and organizational commitment.
5. There is no significant relationship between employees’ demographic characteristics (age, gender, service record, number of offspring, educational, marital status) and organizational commitment.

ACKNOWLEDGMENT

This work was supported by Young researchers club, Islamic Azad University, Branch of Ailabad katoul, Iran and also I hereby acknowledge Mr. Mojtaba Rajabi for translating and editing such a paper.

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MP-14:
The Effects of Cultural Orientations on Preferred Compensation Policies

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ABSTRACT
This study aims to examine the relationship between cultural orientations and preferences for compensation policies. Our findings suggest that while culture represents an important factor in human resource management, its effects on compensation preferences should be viewed as partial and moderate. Further analysis reveals that effects of culture on preferred compensations may vary from one orientation to another. While some cultural orientations are more likely to affect pay policies; others seem of lesser importance. Similarly, it is found that compensation policies are not affected equally by cultural orientations. By analyzing the extent and direction of cultural effects, the study provides some insights into designing compensation policies and points out managerial implications.

1. INTRODUCTION
Culture has become an important factor in explaining all aspects of organizational phenomena (Laurent, 1986; Hampden-Turner and Trompenaars, 1993; Hickson and Pugh, 2001; Mangaliso, 2001; Whiteley, 2000; Hofstede, 2001; Hofstede and Bond, 1984). Despite this interest, the majority of studies on culture have focused on the national level of analysis in that they have compared aggregated scales of cultural values across countries (Cohen, 2007; Hofstede, 1980; Schwartz, 1992). Considering that culture is a broad, fuzzy, and multidimensional concept, a very fundamental question in cultural management research is to look at the effects of cultural orientations on organizational behavior. This research agenda seems legitimate, because individuals both within and across societies hold different cultural values that influence their attitudes and behaviors (Schwartz, Sagiv, and Boehnke, 2000). Accordingly, in this study we are not interested in cross-national variations but we focus on the cultural values within one society and their implications for compensation policies. In our view, these cultural values influence how people perceive and interpret a given situation and consequently how they behave (Schwartz, Sagiv, and Boehnke, 2000). More specifically, in this study we intend to examine some possible relationships between cultural values and preferred compensation policies. This objective seems appealing, because among all HRM functions, compensation is a fundamental one that may influence all aspects of organizational behavior and ultimately its performance (Bonache and Fernandez, 1997). Moreover, compensation has been dominated traditionally by a micro-level perspective focusing solely on intra-organizational settings (Gomez-Mejia and Welbourne, 1994; 1988). The current study involves direct measurement of both cultural values and compensation preferences held by Iranian managers in order to test their possible relationships. While most of empirical studies are devoted to developed countries of Western Europe or North America (e.g. Hiltrop, 1993; Brewster and Hegewisch, 1994; Brewster, 1995; Sparrow and Hiltrop, 1997; Sparrow and Wu, 1998), testing HRM hypotheses in a developing country such as Iran might have significant theoretical and managerial implications.

The paper has been organized in three major parts. First the notions of culture and compensation are framed and then by relying on an integrative conceptual framework the data are collected and analyzed. At the end, findings are described, theoretical/practical implications are discussed and research limitations are mentioned.

2. CULTURE AND CULTURAL ORIENTATIONS
Culture can be considered the accumulation of shared meanings, rituals, norms, and traditions which distinguishes members of one society from another (Soloman, 1996; Schein, 1985; Hofstede, 1980). Since culture is a complex notion, a practical and popular approach among researchers is to identify and analyze only several of its major dimensions. Cross-cultural literature provides us with different conceptual frameworks based on some orientations/dimensions along which culture can be studied (e.g. Kluckhohn and Strodtbeck, 1961; Hall, 1976; Hofstede, 1980; Trompenaars, 1993; Hampden-Turner and Trompenaars, 1993; Schwartz
and Bilsky, 1990; Schwartz, 1992). A very useful and relatively comprehensive framework for cultural analysis has been proposed by Kluckhohn and Strodtbeck (1961). These two anthropologists developed a model for analyzing culture based on three principal assumptions: I) there is a limited number of common human problems for which all peoples must find some solutions, II) there is a range of possible solutions and III) all alternatives of all solutions are present in all societies at all times but are differently preferred (Kluckhohn and Strodtbeck, 1961). In line with this view, they maintained that the solutions for the problems can reflect society's culture. Consequently, Kluckhohn and Strodtbeck suggested a framework for cultural assessment which includes six major orientations: 1- Human nature: Human nature can be considered as good, bad or a combination of both, 2-Relationship to nature: the relationship to nature can be expressed in terms of dominance, subjugation or harmony, 3- Time orientation: the focus on the past, present or future, 4- Human activity: concentrating on living (being) striving for goals (doing) and reflecting (thinking), 5-Relationships among people: individualism, collectivism, and hierarchical structure, 6- Conception of physical space: private, public or a mixture of both. Cultural orientations proposed by Kluckhohn and Strodtbeck (1961) represent a very comprehensive and rich framework which can be applied in organizational research. The cultural orientations are straightforward and meaningful notions corresponding to the hardcore of culture and they are presumed to be found in all societies (Maznevski et al., 2002). The validity of these orientations has been tested by many researchers (Maznevski et al., 2002). Moreover, Kluckhohn and Strodtbeck’s (1961) shaped and inspired cultural research; therefore, it is possible to find considerable similarities between this framework and other models proposed by Hofstede (1980), Trompenaars (1993), and Hall (1969, 1976).

3. COMPENSATION POLICIES

Among all HRM functions, compensation is perhaps the most fascinating because it is related directly to money. Money is the rationale behind any business activity and the impetus for every transaction in the society. As a matter of fact, compensation affects not only the performance of the organization, but also its very existence. For the purpose of this research the terms compensation, rewards, and remuneration are used interchangeably. Geringer and Fryane (1990) have defined compensation as what “includes those rewards monetary and non-monetary, direct or indirect that an organization exchanges for the contributions of its employees, both job performance and personal contributions”. According to the definition of American Compensation Association (1995) compensation can be defined as “cash and non cash remuneration provided by an employer for services rendered”. Compensation can include “anything an employee may value and desire that an employer is able or willing to offer in exchange for employees’ contribution” (Henderson 1989, P.2). Compensation can be both tangible and intangible. Tangible compensation is financial and may be direct or indirect. The most basic forms of direct compensation are pay and incentives. Pay takes usually the form of a wage or salary. An incentive on the other hand, is kind of compensation that rewards an employee for efforts beyond normal performance expectation. Bonuses, commissions, and profit-sharing plans are examples of incentives. Indirect compensation is tangible reward which is not received in cash. Examples of indirect rewards are benefits such as health insurance, vacation pay, or retirement pensions given to an employee.

The compensation policies cover a wide range of issues related to reward philosophies, pay basis, form of reward packages, design of the pay system and administrative frameworks. Through an extensive review of literature Gomez-Mejia and Balkin (1992) suggested 17 different categories of the compensation systems. These categories are grouped in pairs of opposite and distinct choices as depicted in Table-1. Left-hand compensation policies are labeled mechanic as they reflect formalized procedures that are applied uniformly across organization. By contrast, the right-hand policies are branded organic because they are more responsive to varying conditions, contingencies, and individual situations (Gomez-Mejia and Welbourne 1988). All these choices may be grouped based on three main criteria: A) basis for pay, B) pay design and C) administrative frameworks used to deliver the reward (Gomez-Mejia and Balkin, 1992). The basis for Pay may include nine important policies which are used to determine rewards: Job vs. Skills, Performance vs. Seniority, Individual vs. Group Performance, Short- vs. Long-Term Orientation, Risk Aversion vs. Risk Taking, Corporate vs. Division Performance, Internal vs. External Equity, Hierarchical vs. Egalitarian, and Quantitative vs. Qualitative Measures of Performance. The design of compensation system is related to four major policies: Higher than Market Pay-level vs. Lower than Market Pay-level, Fixed pay vs. Incentives, Monetary vs. Non-monetary Rewards, and Intrinsic vs. Extrinsic rewards. Finally, the administrative framework of compensation may include four other choices: Centralized vs. Decentralized Pay Policies, Open vs. Secret Pay, Participation vs. Non-participation of Employees and Bureaucratic vs. Flexible Pay Policies.
4. RESEARCH FRAMEWORK

The objective of this research is to investigate the effects of cultural orientations on preferred compensation policies. Therefore, an appropriate framework should encompass both culture and compensation. This framework is presented in Exhibit-1.

The theory of Kluckhohn and Stroedtbeck (1961) has been regarded as one of the most comprehensive models for analyzing culture in organizational disciplines (Maznevski et al., 2002). While the original model consists of six orientations, due to some measurement limitations, we choose for a model of five orientations: 1- Human-nature orientation, 2- Activity orientation, 3- Relational orientation, 4- Man-to-nature orientation and 5- Time orientation. The sixth orientation as proposed by Kluckhohn and Stroedtbeck (1961) is related to the conception of space. According to these anthropologists, people depending on their cultures may perceive physical space as private, public or a mixture of both. Contrary to other five cultural orientations, the conception of space is not present in other cultural models such as Hofstede (2001, 1980), Trompenaars (1993) and Schwartz (1994). Moreover, there is little evidence of the effects of this cultural orientation on HRM practices.

As discussed earlier, the compensation policies represent a wide range of options, however; for the purpose of this research and in the environment of Iranian organizations, it is necessary to choose only the policies which are contextually and practically meaningful. The concept of HRM is essentially Western (Brewster, 1995). Therefore, in any investigation in non-Western countries, a good deal of attention should be paid to cultural relativity of HRM (Sparrow and Wu, 1998). For increasing the conceptual equivalency, in this research we used a combination of etic-emic approaches and we chose only ten commonly-accepted compensation policies. It is argued that these ten policies represent the most widespread compensation practices which can be found in our samples. The ten pairs of compensation policies are described in Table-2.

5. HYPOTHESES

I. Activity Orientation

The Activity orientation has three subdivisions: Doing, Being and Thinking. The Doing orientation involves that people are continually engaged in activity to accomplish tangible tasks. According to Maznevski and DiStefano (1995) this orientation corresponds to masculinity dimension as described by Hofstede (1980). Masculine or Doing cultures cherish assertiveness, achievement and material success whereas Being/Thinking cultures emphasize human relationships, and the quality of life. Hence, a compensation system that links reward to results and personal achievement should be preferred by Doing cultures (Johnsona, and Droegeb, 2004). By the same token, it is argued that employees in Doing cultures are more likely to accept the increased risk inherent in outcome-based contracts due to the emphasis they place on achievement and desire for material rewards (Johnsona, and Droegeb, 2004; Newman and Nollen, 1996). In other words, Doing cultures operate more consistently with the assumptions of agency theory and outcomes. On the contrary, Thinking/Being cultures emphasize interdependence, relationships, service, and above all harmony (French and Weis, 2000) and consequently are more likely to prefer behavior-based compensation policies (French and Weis, 2000; Newman and Nollen, 1996).

In line with these arguments, it is possible to propose that:
H.1.a: Doing cultural orientation is associated with preference for Variable pay, Skill-based, Individual-based, Production-based, and Monetary compensation policies.
H.1.b: Being/Thinking cultural orientations are associated with preference for Fixed pay, Job-based, Seniority-based, Non-monetary, and Time-based compensation policies.

II. Relationships among People

Relationships among People are about Individualism, Collectivism and Hierarchy. Hofstede (1980) views an individualistic society as one in which beliefs and behaviors are determined by the individual; whereas in a
collectivist society, loyalty towards one’s family, job, and country tend to determine the attitudes. People in collectivistic cultures expect members of their particular in-groups to look after their members, and give them security (Adler, 1997). Individualists’ involvement with an organization is largely contractual, whereas collectivists are connected to their organizations through moral commitment. Therefore, the use of financial incentives should be favored more in individualistic cultures (Gomez-Mejia and Welbourne, 1994). Individualism also involves a tendency to differentiate between people. Therefore, individual-based performance incentives might be more appropriate for individualist cultures (Chiang and Birtch, 2006; Gomez-Mejia and Welbourne, 1994). In contrast, collectivism orientation emphasizes compensation policies that support group harmony and cohesion (Cable and Judge, 1994). Hence collectivists may prefer behavior-oriented reward systems that are non-competitive in nature.

It is possible to find a similarity between Kluckhohn and Strodtbeck’s Hierarchy and Hofstede’s Power Distance (Maznevski and DiStefano, 1995). Hierarchy and Power Distance are related to inequality that exists within the society. In high Power Distance cultures, organizations are marked by centralization, concentration of authority and tall pyramids (Hofstede, 1980). In high Power Distance and Particularistic cultures, wage and salary determination is based on the subjective and behavior-oriented evaluations of managers who reserve the right to assign differential salaries to employees recruited for the same job (Aycan, 2005). As a result of their respect for authority and loyalty, reward systems that are based on seniority should be accepted more in high Power Distance cultures (Child and Markoczy 1993; Hui and Luk, 1997).

Consequently, it is possible to assume that:

H.2.a: Collectivism cultural orientation is associated with preference for Job-based, Group Performance, Fixed Pay, Hierarchical, Time and Seniority-based compensation policies.


H.2.c: Hierarchy cultural orientation is associated with preference for Fixed pay, Hierarchical, Seniority-based and Low participation compensation policies.

III. Relationship to Nature

Relationship to Nature has three subdivisions: Mastery, Harmony and Subjugation. Mastery implies that people try to control, change or exploit the environment. By contrast, a harmonious relationship with nature involves maintaining balance and status quo (Maznevski and DiStefano, 1995). Subjugation to nature is the opposite of mastery and means that people are passive toward the environment and its forces. Mastery orientation is reflected in the goal-setting and motivational practices characterized by high degrees of individual’s internal locus of control (Locke, Latham, and Erez, 1988; Locke and Latham, 1990). Individuals with a strong internal locus of control are more likely to pursue their goals and may be inclined to outcome-oriented rewards like pay-for-performance and variable pays. In contrast, Harmony and Subjugation orientations involve a predisposition toward an external locus of control (Gopalan and Stahl, 1998) which can be related to behavior-oriented compensations such as fixed-pay and ascription-based rewards.

Therefore, it is plausible to propose following hypotheses:

H.3.a: Mastery cultural orientation is associated with preference for Job-based, Group Performance, Fixed Pay, Time-based, Hierarchical, and Seniority-based compensation policies.


IV. Time Orientation

According to Kluckhohn and Strodtbeck (1961) people can take a past-, present- or future-orientation toward time. For example, it has been argued that Americans are oriented toward the future and consequently they are not inclined to uphold the status quo (Gopalan and Stahl, 1998). By contrast, most of traditional cultures are past-oriented and attach importance to maintaining their traditions. These traditional cultures are characterized by social order, respect for tradition, family security and wisdom (Schwartz, 1992). In such cultures, the person is viewed as embedded in a group, and emphasis is put on maintenance of the status quo, modesty, and restraint of actions or inclinations that might disrupt the solidarity or the traditional order (Schwartz, 1992). Accordingly, it seems plausible to put forward that Past cultural orientation embraces behavior-oriented compensations which favor the status quo and harmony.

Therefore, it is possible to hypothesize that:

V. Human Nature
Based on the model proposed by Kluckhohn and Strodtbeck (1961), people may perceive human nature as good, bad or a mixture of both. Good orientation supposes that people are by nature good and can be trusted. By contrast, Evil orientation holds that individuals are basically wicked and can not be trusted to do the right thing. Taking human nature as bad entails mistrust in workplace and tighter control mechanisms (McGregor, 1960). In the same way, thinking that human beings are good may lead to flat organizations with more participation and less formal control mechanisms (McGregor, 1960). Therefore, following hypothesis is suggested:
H.5: Evil cultural orientation is associated with preference for Low-participation of employees in designing compensation system.

6. INSTRUMENTATION
For measuring cultural orientations, we used “Cultural Perspectives Questionnaire”, (CPQ) developed by Maznevski et al. (2002). This instrument measures 13 subdivisions of five cultural orientations and has shown an acceptable degree of psychometric equivalence and reliability (Maznevski et al., 2002). CPQ consists of 89 Likert-type questions, scaled from 1 to 7 which are randomly distributed in the questionnaire to minimize the errors due to acquiescence.

The average priorities attributed to different values by societal members reflect their shared culture (Schwartz, 1994). Hence the average scores point to the underlying, common cultural values (Schwartz, 1992). Building on this logic, first the scores for every individual were calculated, and then these scores were aggregated to obtain shared cultural values. Internal reliabilities of cultural orientations were verified by calculating Cronbach’s Alphas. In order to measure “preferred compensation policies” an instrument was designed based on ten pairs of classifications presented in the research framework (See Exhibit-1). The instrument consisted of Likert-type questions scaled from 1 to 7. Respondents were asked to indicate the degree of their preference for each item by assigning the appropriate number form 1 to 7. Number 1 is interpreted as the strongest degree of preference for left-hand orientation and number 7 is the strongest preference for right-hand orientation of the item. Number 4 represents an equal degree of preference for both orientations.

7. SAMPLING AND DATA
The sample was chosen from three levels of managers (supervisor, middle and top management) working in large Iranian organizations operating in the service sector. As a result of their size and structure, these organizations seem more appropriate for conducting a study on compensation policies. Due to lack of the reliable lists and other operational difficulties, researchers had to rely on opportunistic samples (Sekaran, 1983). It is of paramount importance to mention that this study is a one-country analysis that intends to examine the relationship between cultural orientations and compensation policies. To this end, the research design seems appropriate, as the study is not concerned with samples representativeness or cross-national variations.

Regulations for conducting research and collecting data in Iranian organizations are very tight. For overcoming these challenges, researchers had to find a network of influential people to obtain approval and necessary collaboration. With this respect, a cover letter was provided by managing directors explaining the purpose of the investigation and indicating that results served academic purposes. Moreover, the respondents were assured of confidentiality and anonymity. All semantic questionnaires were translated into Persian (Farsi) through back-translation. In addition to cultural orientations and preferred compensation policies, another questionnaire was designed to shed light on respondents’ profiles. In this questionnaire, issues such as age, sex, and educational-professional background were investigated. The auto-administered questionnaires were mailed and respondents were asked to rate their preferences for every item. Respondents were instructed that there were no wrong or right answers and all choices were valid. After follow-up (2 months) at last 153
useable questionnaires were collected representing 46% rate of response which seems quite satisfactory. The results are depicted in three tables. Table-3 is concerned with respondents’ profiles, Table-4 describes cultural orientations, and finally, Table-5 depicts preferences for compensation policies. As shown in Table-3 all respondents are born in Iran and with exception of 6 all of them have always lived in their country of birth. The majority of these managers belong to the middle level and they represent male workforce with some higher education.

Table-4 depicts means, internal reliability and standard deviation for 13 cultural orientations. As shown in Table-4, as of Activity, respondents get a high score on Thinking orientation ($\bar{X} = 6.22$) and moderate scores on Being and Doing. For the Time orientation Present got a low Alpha coefficient ($\alpha = 0.24$) indicating a very low level of internal reliability for the scale. The results suggest that with a mean ($\bar{X} = 6.10$) respondents tend to be past-oriented. With regard to Relation orientation the results indicate high levels of Hierarchical Distance ($\bar{X} = 5.83$) and Collectivism ($\bar{X} = 6.02$). For Relation to Environment the score for Subjugation is relatively low, but the scores for both Harmony ($\bar{X} = 5.60$) and Mastery ($\bar{X} = 5.53$) are relatively high. This may seem paradoxical, since Harmony and Mastery may represent opposed orientations. And finally, the mean for Human Nature orientation is moderate ($\bar{X} = 4.56$), meaning that respondents view humans as a mixture of good and bad with a slight tendency toward Evil orientation. While this study does not intend to investigate Iranian management culture, the results seem in accordance with previous investigations in Iranian organizations (e.g. Hofstede, 1980; Javidan and Dastmalchian, 2003; House et al., 2004).

Table-5 presents the means and standard deviations for ten pairs of compensation policies. As shown, the means for Job/Skill-based ($\bar{X} = 4.02$), Individual/Group ($\bar{X} = 4.21$) and Secret/Open compensation ($\bar{X} = 4.18$) are close to 4, suggesting that the respondents prefer balanced policies between mechanic and organic approaches. As of Hierarchical/Egalitarian ($\bar{X} = 3.47$), Short/long-term ($\bar{X} = 3.54$) and Fixed/Variable Pay ($\bar{X} = 3.75$) there is a tendency toward left-hand choices. For other policies Time/Production ($\bar{X} = 4.40$), Monetary/Non-monetary ($\bar{X} = 4.52$) and Seniority/Performance ($\bar{X} = 4.58$) there is a slight preference for organic pay policies.

8. DATA ANALYSIS

First of all, coefficients between non cultural variables such as sex, age, education, job level and preferences for compensation policies were calculated. The results did not reveal any significant relationships between age, sex, education level and preferred compensation policies. This issue may be explained by the fact that the respondents consisted of predominantly male workforce (83%) and they were very similar in terms of age and education background (See Table-3). The results, however, showed a slight association between job level and some preferred compensation policies. For instance, it seems that job level is moderately related to preference for Job-based ($r = 0.151$), and Hierarchical Pay ($r = 0.173$) policies.

Subsequently, Pearson correlation coefficients between cultural orientations and preferred compensation policies were computed in order to verify research hypotheses. Also, multiple regression analysis technique was used to determine to what extent every compensation policy is linked to cultural orientations. This permitted to make sense of the overall effects of cultural orientations on every particular compensation policy. As presented in Table-6, among Activity orientations, Thinking has not a significant correlation with any preferred compensation policies, but Being has significant correlations with Job-Based compensation ($r = -0.222$ or a negative correlation with Skill-Based compensation), Fixed-Pay ($r = -0.160$), Short-Term orientation ($r = -0.181$), and Non Monetary Reward ($r = 0.165$). As of Doing orientation it is related only to Egalitarian Reward ($r = 0.216$), Present orientation was not taken into consideration because of low Cronbach’s Alpha (See Table-4). As of Future orientation we do not find out any significant correlation, but Past is related to preferences for Non Monetary Reward and Seniority-based Pay ($r = 0.162$ and $r = -0.158$).

Relational orientation is concerned with Individualism, Collectivism and Hierarchy. According to Table-6, Individualism and Collectivism are related only to Low Participation of Employees ($r = -0.185$) and Fixed-Pay ($r = -0.234$). Another cultural orientation, Hierarchy is related to Job-Based Compensation ($r = -0.205$) and Fixed-Pay ($r = -0.159$). Concerning Man-to-nature orientation we do not distinguish any significant correlation.
for Subjugation, but Mastery is correlated to three compensation policies: Skill-Based ($r = 0.168$), Fixed-Pay ($r = -0.162$) and Productivity-based compensation ($r = 0.165$). In the same way Harmony is correlated with Fixed-Pay ($r = -0.205$). Finally, Evil is related only to Monetary Reward ($r = -0.171$). These results support (H.1.b), (H.3.a) and (H.2.c), but reject other hypotheses.

Table-7 presents $R$, $R$ Square, Adjusted $R$ Square, Standard Error of the Estimate and $F$ value for each of compensation policies which are taken as dependent variables. Based on these results, it is understood that among all compensation policies, Job/Skill-based policy is more susceptible to be affected by culture ($R$ Square = 0.196). This means that about 20 percent of variance in preference for this policy may be explained by cultural orientations. Also, about 13 percent of variability in Fixed/Variable Pay, Monetary/Non-monetary Reward and Hierarchical/Egalitarian policies may be attributed to cultural orientations ($R$ Square = 0.125, 0.126 and 0.128). As of Short/long-term Pay, Low/High Participation of Employees, and Seniority/Performance-based policies, about 7 to 9 percent of the variation may be linked to culture. Time/Production, Secret/Open Pay, and Individual/Group-based Pay are the policies which have the smallest $R$-Square and which are less susceptible to be affected by cultural orientations (see Table-7).

9. DISCUSSION

The current study aimed to examine the effects of cultural orientations on preferred compensation policies. The application of an instrument based on original theory of Kluckhohn and Strodtbeck (1961) permitted to analyze culture along five major traits: Human-nature, Activity, Relational, Man-to-nature and Time orientations. These cultural orientations and their subdivisions are straightforward notions which correspond to the hardcore of culture and therefore, are presumed to be meaningful in the context of investigation. With respect to compensation we concentrated on ten common policies.

The findings support some of our hypotheses and confirm moderate association between cultural orientations and preferred compensation policies. Among all cultural orientations, Being and Mastery are supposed to be more important in shaping preferences for compensation choices as they are related respectively to four and three policies (See-Table-6). Therefore, it might be possible to suggest that the cultures with higher levels of Being are more likely to cherish Job-Based compensation, Fixed-Pay, Short-Term, and Non Monetary Reward. In the same way, the cultures with higher degrees of Mastery tend to prefer reward systems which emphasize skills, fixed-pay and productivity-based compensations. Two other cultural orientations which seem to have important implications are Past orientation and Hierarchical Relation. As understood from Table-6, the past-oriented cultures might be more comfortable with Non-Monetary reward and Seniority-based pay systems. By the same token, it is argued that hierarchical cultures are susceptible to show some degree of preference for fixed rewards and those determined by ascription rather than skills. While Individualism, Collectivism, and Doing are among the most important cultural orientations, apparently they are not related to many compensation policies. Individualism is related only to the preference for Low Participation of Employees. As of Collectivism it is related only to Fixed-Pay. Also, it is possible to consider that three cultural orientations Thinking, Future and Subjugation are not related to any compensation policies. Accordingly, it is understood that cultural orientations may have different implications for compensation function. While some of them are likely to influence preferred reward choices, others may not be important effects. In the same way, the extent to which compensation policies are affected by culture may vary from one policy to another. For instance, the regression analysis showed that a good deal of variation in Job/Skill-based (about 20%) can be attributed to 12 cultural orientations. However, in the case of Time/Production-based pay, the cultural orientations can explain only 6% of the variation (See Table-7). In the case of Fixed/Variable pay, Monetary/Non-monetary, and Hierarchical/Egalitarian, the attributed variation to culture is around 13%. That is to say that pay policies are not affected equally by culture, but they may be influenced highly, moderately or scantily by cultural orientations.

The findings of this study may have some significant implications at theoretical and practical levels. The effects of culture divert attention from classical perspectives such as equity paradigm (EP) and labor market theory (LMT) and gives way to a new strategic perspective of compensation. This perspective implies that compensation should be adapted to external factors such as culture to enhance organizational effectiveness (Bloom et al., 2003; Gomez-Mejia and Welbourne, 1994). Compensation function is at the heart of the
organization and aims to attract, retain, and motivate employees to achieve targeted objectives. The alignment between compensation policies and employees’ cultural values may lead to organizational effectiveness. On the contrary, pay policies which do not match employees’ values, may lead to ineffectiveness. This entails that MNEs having operations in different parts of the world should tailor their reward systems to local and cultural factors (Tregaskis and Brewster, 2006). For instance, as found in this research, higher degrees of Being orientation tends to be incompatible with variable pay and therefore, employees in cultures marked by this orientation may not embrace reward policies such as pay-for-performance. Another outcome of this research is that while culture has important implications, it should not be viewed as the main variable. In other words, the effects of cultural orientations should be interpreted in combination with other external variables such as political, economic, and social systems surrounding the firm and intra-organizational settings. This finding seems in conformity with Gerhart and Fang (2005) who emphasized the importance of other contextual factors in shaping HRM practices.

10. CONCLUSION

Consistent with the strategic perspective of HRM, the alignment between compensation policies and external factors may lead to organizational effectiveness (Bloom et al., 2003; Mangaliso, 2001; Gomez-Mejia and Welbourne, 1994). Through this study we aimed to examine the effects of cultural orientations on preferred compensation policies. Our findings suggested that while culture may be held responsible for affecting compensation, its effects should be considered partial and moderate. Further analysis revealed that the effects of culture on compensation can vary from one orientation to another. Some cultural orientations such as Mastery and Being are more likely to be related to pay policies; however, some others such as Subjugation and Thinking seem less significant. In the same way, the extent to which compensation policies are affected by culture may vary. In other words, some pay policies seem more culture-bound than others. For that reason, it is concluded that by understanding the effects of cultural orientations, firms can design compensation systems which are in accordance with employees’ cultural values and consequently increase organizational performance.

While this study provides valuable insights, it should be interpreted cautiously and by considering the conceptual and methodological limitations. First of all, the findings are limited to a few cultural orientations and compensation typologies. Moreover, the study has a narrow scope as it deals with preferred compensation policies which are different from those ‘implemented’ in the organization (Khilji and Wang, 2006; Khilji, 2003). At the methodological level, it should be pointed out that both Pearson's coefficient and multiple regressions are measures of linear relationships. Therefore, to have a coefficient close or equal to zero does not mean that there is no relationship between cultural orientations and compensation policies. In fact, the relationship may exist but it might be non linear. Even, when there are significant coefficients, attention should be paid to the fact that correlation does not imply causation. However, since culture encompasses basic values, it is plausible to take it as independent variable. Application of broader frameworks to incorporate culture and compensation, designing a multiple-country study, differentiating the gap between preferred and implemented compensation policies, and verifying non linear relationships are among issues which might be addressed in future studies.

REFERENCES


APPENDIX

Table 7: Typologies of Compensation Policies

<table>
<thead>
<tr>
<th>A) Basis for Pay</th>
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<tbody>
<tr>
<td>1 Job vs. Skills</td>
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<tr>
<td>2 Seniority vs. Performance</td>
</tr>
<tr>
<td>3 Group vs. Individual Performance</td>
</tr>
<tr>
<td>4 Short- vs. Long-Term Orientation</td>
</tr>
<tr>
<td>5 Risk Aversion vs. Risk Taking</td>
</tr>
<tr>
<td>6 Corporate vs. Division Performance</td>
</tr>
<tr>
<td>7 Internal vs. External Equity</td>
</tr>
<tr>
<td>8 Hierarchical vs. Egalitarian</td>
</tr>
<tr>
<td>9 Quantitative vs. Qualitative Measures of Performance</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>B) Design</th>
</tr>
</thead>
<tbody>
<tr>
<td>10 Higher than Market Pay-level vs. Lower than Market Pay-level</td>
</tr>
<tr>
<td>11 Fixed pay vs. Incentives</td>
</tr>
<tr>
<td>12 Monetary vs. Non-monetary Rewards</td>
</tr>
<tr>
<td>13 Intrinsic vs. extrinsic rewards</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>C) Administrative framework</th>
</tr>
</thead>
<tbody>
<tr>
<td>14 Centralized vs. Decentralized Pay policies</td>
</tr>
<tr>
<td>15 Secret vs. Open Pay</td>
</tr>
<tr>
<td>16 Low-participation of Employees vs. High Participation</td>
</tr>
<tr>
<td>17 Bureaucratic vs. Flexible Pay Policies</td>
</tr>
</tbody>
</table>

Adopted from Gomez-Mejia and Balkin (1992)
Exhibit-I:
Research Framework Incorporating Personal Cultural Orientations and Compensation Policies
Table-2: Description of Ten Pairs of Compensation Policies Used in the Study

<table>
<thead>
<tr>
<th></th>
<th>Job-based</th>
<th>Skill-based</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The factors within the job are key determinants of the amount of pay.</td>
<td>Workers are rewarded based on their mastery and skill.</td>
</tr>
<tr>
<td>2</td>
<td>Group Performance</td>
<td>Individual Performance</td>
</tr>
<tr>
<td></td>
<td>Group appraisal affects rewards.</td>
<td>Individual appraisals affect rewards.</td>
</tr>
<tr>
<td>3</td>
<td>Fixed Pay</td>
<td>Variable Pay</td>
</tr>
<tr>
<td></td>
<td>Compensation is based on membership in the organization and employees</td>
<td>Compensation is based on paying a substantial portion of an employee’s</td>
</tr>
<tr>
<td></td>
<td>are rewarded the same amount on a predictable basis.</td>
<td>income on a variable basis.</td>
</tr>
<tr>
<td>4</td>
<td>Time-based</td>
<td>Productivity-based</td>
</tr>
<tr>
<td></td>
<td>Employees are paid for the amount of time spent on the job.</td>
<td>Employees are paid for the amount of work produced.</td>
</tr>
<tr>
<td>5</td>
<td>Short-Term Orientation</td>
<td>Long-Term Orientation</td>
</tr>
<tr>
<td></td>
<td>The compensation is based on satisfying current needs of employees.</td>
<td>The compensation has a long term horizon and focuses on future goals.</td>
</tr>
<tr>
<td>6</td>
<td>Non-monetary</td>
<td>Monetary</td>
</tr>
<tr>
<td></td>
<td>Rewards are non-cash and often intangible benefits such as employment</td>
<td>Rewards involve a tangible cash payment to employees in order to satisfy</td>
</tr>
<tr>
<td></td>
<td>security, recognition, employee involvement in decision making etc.</td>
<td>their extrinsic needs.</td>
</tr>
<tr>
<td>7</td>
<td>Hierarchical Reward Structure</td>
<td>Egalitarian Reward Structure</td>
</tr>
<tr>
<td></td>
<td>Wage gaps between top management and frontline workers are huge.</td>
<td>Wage gap between top management and frontline workers are not huge.</td>
</tr>
<tr>
<td>8</td>
<td>Seniority</td>
<td>Performance</td>
</tr>
<tr>
<td></td>
<td>Reward and pay increase are based on tenure and seniority of employees.</td>
<td>Reward and pay increase are based on performance and results.</td>
</tr>
<tr>
<td>9</td>
<td>Secret Pay</td>
<td>Open Pay</td>
</tr>
<tr>
<td></td>
<td>Firms keep pay information secret from employees.</td>
<td>Firms have policies to disclose pay information.</td>
</tr>
<tr>
<td>10</td>
<td>Low Participation of Employees</td>
<td>High Participation of Employees</td>
</tr>
<tr>
<td></td>
<td>Pay decisions are made on an authoritarian basis.</td>
<td>Employees participate in designing pay and their feelings are considered.</td>
</tr>
<tr>
<td></td>
<td>Employees do not participate in designing pay and their feelings are not</td>
<td></td>
</tr>
<tr>
<td></td>
<td>valued.</td>
<td></td>
</tr>
</tbody>
</table>
Table-3: Respondents’ Profile

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Value</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country of birth</td>
<td>Iran</td>
<td>153</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Other</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Missing</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Have you always lived in the country of birth?</td>
<td>Yes</td>
<td>147</td>
<td>96</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Missing</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Sex</td>
<td>Male</td>
<td>127</td>
<td>83</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>16</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>Missing</td>
<td>10</td>
<td>7</td>
</tr>
<tr>
<td>Age Group</td>
<td>30-34</td>
<td>18</td>
<td>11.8</td>
</tr>
<tr>
<td></td>
<td>35-39</td>
<td>27</td>
<td>17.6</td>
</tr>
<tr>
<td></td>
<td>40-44</td>
<td>48</td>
<td>31.4</td>
</tr>
<tr>
<td></td>
<td>45-49</td>
<td>41</td>
<td>26.8</td>
</tr>
<tr>
<td></td>
<td>50-54</td>
<td>8</td>
<td>5.2</td>
</tr>
<tr>
<td></td>
<td>50-55</td>
<td>4</td>
<td>2.6</td>
</tr>
<tr>
<td></td>
<td>Missing</td>
<td>7</td>
<td>4.58</td>
</tr>
<tr>
<td>Education</td>
<td>Bachelor</td>
<td>72</td>
<td>47</td>
</tr>
<tr>
<td></td>
<td>Master</td>
<td>67</td>
<td>44</td>
</tr>
<tr>
<td></td>
<td>Doctor</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Missing</td>
<td>11</td>
<td>7.1</td>
</tr>
<tr>
<td>Job level</td>
<td>Supervisor</td>
<td>51</td>
<td>33.3</td>
</tr>
<tr>
<td></td>
<td>Middle manager</td>
<td>70</td>
<td>45.8</td>
</tr>
<tr>
<td></td>
<td>Top manager</td>
<td>13</td>
<td>8.5</td>
</tr>
<tr>
<td></td>
<td>Missing</td>
<td>19</td>
<td>12.4</td>
</tr>
<tr>
<td>Which factor is more important in shaping your culture</td>
<td>Country of birth</td>
<td>72</td>
<td>47</td>
</tr>
<tr>
<td></td>
<td>Religion</td>
<td>66</td>
<td>43</td>
</tr>
<tr>
<td></td>
<td>Missing</td>
<td>15</td>
<td>9.8</td>
</tr>
</tbody>
</table>
**Table 4: Cultural Orientations**

<table>
<thead>
<tr>
<th>Cultural Orientations</th>
<th>Alpha</th>
<th>Mean</th>
<th>St. D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Activity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Thinking</td>
<td>0.75</td>
<td>6.22</td>
<td>0.54</td>
</tr>
<tr>
<td>2 Being</td>
<td>0.55</td>
<td>4.78</td>
<td>0.65</td>
</tr>
<tr>
<td>3 Doing</td>
<td>0.70</td>
<td>4.30</td>
<td>0.83</td>
</tr>
<tr>
<td>Time</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Future</td>
<td>0.55</td>
<td>4.69</td>
<td>1.03</td>
</tr>
<tr>
<td>5 Present</td>
<td>0.24</td>
<td>3.45</td>
<td>1.00</td>
</tr>
<tr>
<td>6 Past</td>
<td>0.69</td>
<td>6.10</td>
<td>0.55</td>
</tr>
<tr>
<td>Relation With Others</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 Hierarchy</td>
<td>0.56</td>
<td>5.83</td>
<td>0.50</td>
</tr>
<tr>
<td>8 Individualism</td>
<td>0.60</td>
<td>4.30</td>
<td>0.78</td>
</tr>
<tr>
<td>9 Collectivism</td>
<td>0.61</td>
<td>6.02</td>
<td>0.51</td>
</tr>
<tr>
<td>Relation With</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10 Harmony</td>
<td>0.68</td>
<td>5.60</td>
<td>0.62</td>
</tr>
<tr>
<td>11 Subjugation</td>
<td>0.65</td>
<td>3.90</td>
<td>0.70</td>
</tr>
<tr>
<td>12 Mastery</td>
<td>0.65</td>
<td>5.53</td>
<td>0.68</td>
</tr>
<tr>
<td>Human Nature</td>
<td>13</td>
<td>0.60</td>
<td>4.56</td>
</tr>
<tr>
<td></td>
<td></td>
<td>0.74</td>
<td></td>
</tr>
</tbody>
</table>

**Table 5: Preferences for Compensation Policies**

<table>
<thead>
<tr>
<th>Compensation Policies</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Job/Skill</td>
<td>4.02</td>
<td>0.85</td>
</tr>
<tr>
<td>2 Individual/Group</td>
<td>4.21</td>
<td>1.14</td>
</tr>
<tr>
<td>3 Fixed/Variable Pay</td>
<td>3.75</td>
<td>1.02</td>
</tr>
<tr>
<td>4 Time/Production</td>
<td>4.40</td>
<td>1.14</td>
</tr>
<tr>
<td>5 Short/long-term Pay</td>
<td>3.54</td>
<td>1.48</td>
</tr>
<tr>
<td>6 Monetary /Non-monetary</td>
<td>4.52</td>
<td>0.78</td>
</tr>
<tr>
<td>7 Hierarchical/Egalitarian</td>
<td>3.47</td>
<td>0.61</td>
</tr>
<tr>
<td>8 Seniority/Performance</td>
<td>4.58</td>
<td>1.74</td>
</tr>
<tr>
<td>9 Secret/Open Pay</td>
<td>4.18</td>
<td>1.04</td>
</tr>
<tr>
<td>10 Low/High Participation</td>
<td>4.76</td>
<td>0.80</td>
</tr>
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</table>
Table 6: Pearson Correlations

<table>
<thead>
<tr>
<th></th>
<th>Think</th>
<th>Future</th>
<th>Being</th>
<th>Doing</th>
<th>Past</th>
<th>Hierarchy</th>
<th>Individualism</th>
<th>Collectivism</th>
<th>Harmony</th>
<th>Evil</th>
<th>Subjugation</th>
<th>Mastery</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job/Skill</td>
<td>0.168</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual/Group</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed/Variable Pay</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Time/Production</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short/long-term Pay</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monetary/Non-monetary</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hierarchical/Egalitarian</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seniority/Performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Secret/Open Pay</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low/High Participation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Correlation is significant at the 0.05 level (2-tailed).
Table-7: Multiple Regression Analysis- Personal Cultural Orientations (independent variables), Preferences for Compensation Policies (dependent variables)

<table>
<thead>
<tr>
<th>Dependent Variables</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>F</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Job/Skill</td>
<td>0.442(a)</td>
<td>0.196</td>
<td>0.128</td>
<td>0.793</td>
<td>2.877</td>
</tr>
<tr>
<td>2) Individual/Group Performance</td>
<td>0.266(a)</td>
<td>0.071</td>
<td>-0.006</td>
<td>0.141</td>
<td>0.925</td>
</tr>
<tr>
<td>3) Fixed/Variable Pay</td>
<td>0.354(a)</td>
<td>0.125</td>
<td>0.053</td>
<td>0.988</td>
<td>1.728</td>
</tr>
<tr>
<td>4) Time/Production</td>
<td>0.250(a)</td>
<td>0.062</td>
<td>-0.013</td>
<td>0.152</td>
<td>0.825</td>
</tr>
<tr>
<td>5) Short/long-term Pay</td>
<td>0.328(a)</td>
<td>0.107</td>
<td>0.034</td>
<td>0.461</td>
<td>1.454</td>
</tr>
<tr>
<td>6) Monetary/Non-monetary</td>
<td>0.355(a)</td>
<td>0.126</td>
<td>0.054</td>
<td>0.756</td>
<td>1.758</td>
</tr>
<tr>
<td>7) Hierarchical /Egalitarian</td>
<td>0.357(a)</td>
<td>0.128</td>
<td>0.056</td>
<td>0.533</td>
<td>1.783</td>
</tr>
<tr>
<td>8) Seniority/Performance</td>
<td>0.293(a)</td>
<td>0.086</td>
<td>0.009</td>
<td>0.669</td>
<td>1.119</td>
</tr>
<tr>
<td>9) Secret/Open Pay</td>
<td>0.271(a)</td>
<td>0.073</td>
<td>-0.002</td>
<td>0.041</td>
<td>0.968</td>
</tr>
<tr>
<td>10) Low/High Participation</td>
<td>0.302(a)</td>
<td>0.091</td>
<td>0.017</td>
<td>0.729</td>
<td>1.233</td>
</tr>
</tbody>
</table>

(Using enter method, P<0.001)
Polish Enterprises on the European Internal Market. Assessment of the competitive environment

Joanna KUCZEWSKA, Ph.D
Department of European Integration Economics
Economics Faculty
University of Gdańsk, Poland.

ABSTRACT

This paper provides an analysis of the competitive environment of Polish enterprises in the light of the European Union Internal Market Programme and enterprise policy pursuing by Polish government and local authorities. The analyse of the competitive environment will concern only the external relations and macroeconomic conditions, which influence the enterprise competitiveness. There will be used elements of the SWOT analysis (identification of strengths, weaknesses, opportunities and threats). The first part of the paper would provide the analysis of the potential costs and advantages affecting the enterprise competitiveness, which result from the European Internal Market accession. The EU common market, introducing free movement of people, services, goods and capital, eliminating barriers restraining these freedoms and introducing regulations and policies supporting its implementation, created specific conditions for the operation of business companies. The implementation of the Internal Market exerts influence on two aspects of business operations. It modules the external environment of business (economic, legal, technological, ecological conditions of running business etc.) and indirectly influences the business potential and the level of protection of internal resources of a company. The second part of the paper would provide the results of Polish business survey, which states opinion about effectiveness of the Polish enterprise policy, economic conditions and expectations of Polish companies connected with joining the European market. The survey was conducted by author within Department on European Integration Economics research.

1. INTRODUCTION

Potential threats and opportunities resulting from introduction of the Internal Market Programme Principles for Polish enterprises competitiveness.

The benefits in the external sphere are the following:

- The companies operates in a stable macroeconomic environment;
- An increase in foreign investments - the common market made Poland a much more attractive investment location;
- An increase in the volume of trade thanks to the possibility of reduction in transaction costs and increase in output as a result of elimination of all tariff and non-tariff barriers;
- A reduction in transport costs resulting from reduction in waiting time on border crossings, thanks to the simplification of border control procedures, elimination of border forms (SADs) as well as veterinary and sanitary control tests;
- More convenient allocation of resources resulting from elimination of trade barriers;
- Taking advantage of possibilities of change in the sources of supply in line with the change in location of manufacturing activities towards countries with lower prices; the principle of mutual recognition of goods, which guarantees the businesses the possibility of selling any products allowed for trading in Poland: a product allowed to be marketed in one member country can freely circulated over the whole territory of the Union. However, benefits from mutual acceptance and prohibition of discrimination are partly offset with considerable costs of harmonisation and standardisation procedures;
- Harmonisation of taxes, reducing costs resulting from differences in tax systems of the Member Countries;
- Liberalisation of the service sector: unification of requirements concerning financial and insurance services, what would significantly reduce costs associated with the establishment of financial institutions; an increase in road transport services resulting from the elimination of customs barriers and border procedures; an increase in investments in the telecommunications sector; liberalisation of the capital market, radically simplifying financial operations; harmonisation of regulations concerning the establishment, operation and liquidation of enterprises;

- Effective protection of enterprises (in particular the small and medium-sized ones) resulting from the introduction of competition policy principles designed to protect them against violations of free competition principles such as price and cartel conspiracies (as well as other anti-competitive practices), abuse of dominant positions; as well as creation of monopolies leading to a deterioration in quality of products and customer service;

- Introduction of common requirements concerning environmental protection, being of considerable advantage to large corporations, allowing them to reduce costs in the future.

- Potential advantages in the area of internal resources of enterprises are the following:

- Development of business logistic systems as a result of connection to trans-European networks, what would result in a dramatic reduction in transport costs and the possibility of reaching larger number of customers;

- Financial advantages from aid programmes of the European Union, particularly important for the small and medium-sized enterprises;

- Possibility of selection of qualified personnel thanks to mutual recognition of diplomas, application of equal-rights principles for men and women, what facilitates wage negotiation procedures and social policies guaranteeing transfer of social security benefits;

- Regulations in the area of security and hygiene in the workplace, bringing positive results for large multinational companies facilitating the creation of a uniform organisational structure over the whole territory of the EU;

- Functioning of the European Economic Interest Group, which, being an independent economic grouping promotes co-operation among competitors in the area of exchange of market information, prices and business experience, and in the realisation of joint ventures;

- Wide access to information through the Union's initiative: building of information networks, data banks and information centres. They are particularly important for small businesses, which cannot afford to hire specialists able to provide information about constant law changes and are not able to find business partners by themselves. This role is played by the Euro-info centres which provide a number of benefits offering lower costs and easier access to necessary information;

**Threats of integration for Polish enterprises**

Polish enterprises entering the EU Internal Market would have to bear the following costs:
- Substantial costs of integration appeared in the process of upgrading of Polish businesses to the Union standards and harmonisation requirements. This procedure brings difficulties and losses resulting from lengthy procedure of product approval and granting of quality certificates, losses resulting from discontinuation of sale of certain products and resulting lack of possibility of acceptance of such costs by small enterprises with narrow product ranges. Extremely high standardisation costs result from very high security and health requirements (certificates) as well as requirements concerning the type and shape of packaging.

- Higher labour costs resulting from the migration process (UK and Ireland);

- Costs resulting from the adjustment of the Polish tax system: adjustment of rates, tax-collection and transfer principles

- Dramatic losses appeared in the moment of full liberalisation of public procurement contracts and allowance of unconditional tendering of all EU enterprises. The problem is even more serious since almost all Member Countries have trouble with the application of all principles of the free public procurement market and this area is a serious source of losses for the Union’s enterprises;

- Polish businesses suffered considerable integration costs at the moment of introduction of a ban on any kind of unjustified government aid;

- Large expenditures had to be borne by small and medium-sized enterprises in connection with the necessity of implementation of the required environmental protection and technical standards and all kinds of working conditions standards. These are very substantial costs in particular for small businesses with narrow product lines,

- Generally high costs will appear in the service sector at large; this sector is in Poland definitely less developed and liberalised to a very limited extent only. (see table 1)

2. RESULTS OF POLISH BUSINESS SURVEY

In order to analyse Polish enterprises competitiveness position, there was conducted a pilot survey among Polish enterprises “Polish enterprises within the European Internal Market”, which stated opinions about the effects of integration with the European Union, effectiveness of the Polish enterprise policy and economic conditions. The questionnaire was sent to 500 Polish firms from all sectors and regions and about 16,2% of Polish enterprises responded.

Polish enterprises point out that the most important advantage of the EU integration is the easier international cooperation (about 30% of the responders) and access to wider, internal market (about 16% of responders). Only 7% of enterprises point out the importance of new resources accession and 5,5% - accession to new wider labour market. About 25% of companies emphasise the lack of integration advantages. There are mainly small enterprises which operate within local or regional market. Their activities concentrate on national cooperation within Polish law regulations system (see figure 1).
Table 1.

<table>
<thead>
<tr>
<th>The potential opportunities in the external sphere</th>
<th>The potential opportunities in the area of internal resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stable macroeconomic environment</td>
<td>Development of logistic systems (ex. TEN-s)</td>
</tr>
<tr>
<td>Increase in foreign investments</td>
<td>Financial advantages</td>
</tr>
<tr>
<td>Increase in volume of trade</td>
<td>Selection of qualified personnel</td>
</tr>
<tr>
<td>Reduction of transport costs</td>
<td>Social standards</td>
</tr>
<tr>
<td>Effectiveness in allocation of resources</td>
<td>Business lobbies (ex. EEIG)</td>
</tr>
<tr>
<td>Scale benefits</td>
<td>Wide access to information</td>
</tr>
<tr>
<td>Harmonisation of tax systems</td>
<td></td>
</tr>
<tr>
<td>Liberalisation of services</td>
<td></td>
</tr>
<tr>
<td>Competition policy</td>
<td></td>
</tr>
<tr>
<td>Industrial policy – improving enterprise competitiveness</td>
<td></td>
</tr>
<tr>
<td>Joint research and science policies</td>
<td></td>
</tr>
<tr>
<td>Access to the European programmes supporting small and medium size enterprises</td>
<td></td>
</tr>
<tr>
<td>Common ecological standards</td>
<td></td>
</tr>
<tr>
<td>The potential threats of integration</td>
<td></td>
</tr>
<tr>
<td>Mutual recognition and standardisation process</td>
<td></td>
</tr>
<tr>
<td>Liberalisation of public procurement</td>
<td></td>
</tr>
<tr>
<td>Liberalisation of services</td>
<td></td>
</tr>
<tr>
<td>Adjustment to the EU legislation</td>
<td></td>
</tr>
<tr>
<td>Higher competition</td>
<td></td>
</tr>
<tr>
<td>Higher labour costs</td>
<td></td>
</tr>
<tr>
<td>Applying new technologies</td>
<td></td>
</tr>
</tbody>
</table>

Source: Own analysis
Figure 1. Advantages of the EU accession

About 25% of the responders underline, that there have appeared the higher labour costs. The reason of that situation is connected with Polish people migration process – specially to the UK and Ireland which opened their labour markets just after the EU enlargement. Than Polish companies point out that higher competition is also important adjustment cost (about 22%) and finally investing in new technologies, higher production costs and new regulation appear as negative effects of the EU accession (see figure 2).

Figure 2. Costs of the EU integration

Source: Own Research “Polish enterprises within the European Internal Market”, Gdańsk 2006/2007
Polish enterprises assess that there are a number of administrative barriers connected with business start-up activities (more than 50% of the responders assess the business start-up activities as difficult and very difficult). Lack of financial support (30% of the responders) and administrative procedures (about 32% of responders) are defined as the most important difficulties connected with business start-up. About 20% of the responders are also afraid of the high business risk and about 14% assess the macroeconomic environment as not favourable. Comparing to the last survey carried out in 2003, Polish enterprises assess the business environment as much more stable and attractive for business operations (see figure 3 and 4).

![Figure 3. Assessment of the business start-up activities](source: Own Research "Polish enterprises within the European Internal Market", Gdańsk 2006/2007)

Responders also asses that the Polish law regulations are not coherent and not adjusted to the business requirements in the following areas: employment and the labour conditions, VAT, public procurement, intellectual property and competition. They underline that the most coherent and adjusted to business requirements are the law regulations related to certification and standardisation process. Polish companies...
emphasize that the law regulations are changed very often (26% of responders) and that they are very complicated and unclear (23% of the responders) (see figure 5).

Figure 5. Assessment of the law regulation construction

Source: Own Research “Polish enterprises within the European Internal Market”, Gdańsk 2006/2007

About 65% of the respondents assess that government enterprise policy is negative or rather negative. There is no response that the national enterprise policy is positive. Similarly, results of the survey demonstrate that the activities of local authorities are assessed as negative or rather negative. Responders also emphasize that the Polish government should undertake more activities supporting business.

The most popular – as the external financial support resource – are the EU structural funds. About 33% of the responders prepared the application form and about 26% of them signed the final contract. The companies pointed out that the other financial support programmes (offered by central and local authorities and other institutions supporting business) almost do not exist. They were replaced by the EU funds (see figure 6).

Responders also assess the EU structural funds redistribution process as not effective. About 32% of them underline that application procedure is very complicated and that the time between application and final contract is too long (about 21%). About 18% of the responders point out that the EU programmes are not adjusted to business requirements (opinion of the large companies which are rarely beneficent of the EU programmes) (see figure 7).
Figure 6. Assessment of the external financial support

Source: Own Research “Polish enterprises within the European Internal Market”, Gdańsk 2006/2007

Figure 7. Assessment of the EU Programmes application procedures

Source: Own Research “Polish enterprises within the European Internal Market”, Gdańsk 2006/2007
After the EU accession, the Polish enterprises demonstrate that not only the macroeconomic conditions are more favourable but also the competitive business environment creates more opportunities. About 40% of the responders assess that sectoral competition is high and it is very difficult to build strong competitiveness position (comparing to the last survey – it was about 77% of the responders). About 55% of the responders assess that their competitiveness position is strong and stable (see figure 8).

**Figure 8. Assessment of competitions within sector**

Source: Own Research “Polish enterprises within the European Internal Market”, Gdańsk 2006/2007

Polish enterprises still define the sector entry barriers. The most important are still financial resources (about 30% of the responders). Than unfortunately the government enterprise policy (about 17% of the responders), access to the distribution networks (about 11%) and economics of scale (about 10.5% of the responders) (see figure 9).

**Figure 9. Barriers of entry**

Source: Own Research “Polish enterprises within the European Internal Market”, Gdańsk 2006/2007
3. CONCLUSION

Generally speaking, the transformation of Polish law regulating the operations of enterprises is determined by guidelines of integration adjustments. Better assessment of the business environment, increasing role of the external financial support resources and the lower importance of the administrative procedures and law regulations let to formulate the thesis that general business environment became more favourable after the EU accession.

Polish enterprises still emphasis that there some gaps appeared in this positive opinion. Firstly, the government enterprise policy is not enough effective, access to the EU financial support is limited by the administrative procedures, law regulation connected with business operations is not enough coherent and clear (e.g. public procurement, labour conditions, intellectual property rights, VAT etc.), sectoral entry barriers are very high e.g. financial resources and enterprise policy and the higher labour costs and higher competition have been defined as the most important integration costs.
**Determinants of Workers’ Competitiveness in the Private Health Services Sector in Malaysia**

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**ABSTRACT**

Malaysia is moving towards a knowledge-based economy with the services sector expected to lead the economic growth through generating new investments and broadening their markets and enhancing their level of competitiveness. Every company strives for high customer satisfaction with their services to become internationally competitive and world class. The last few decades had an increased awareness of human capital as one of the driving forces in competitiveness of companies and nations. A high quality employee with strong cognitive, functional and social competence to perform tasks efficiently and effectively is a crucial factor for a company’s competitiveness. The health sector being one of the services sub-sector is important especially for attracting more foreign customers and strengthening the loyalty of local customers. This paper aims to investigate determinants of workers competitiveness in the health services sector so that future human resource development can be put forward to produce a more competitive workforce. Analysis was based on 518 executives of private companies in the health services sector in four major states, i.e. Selangor, Federal State, Penang and Johor. The study reports on the workers’ competitiveness index and regression of the index on determinant factors such as human capital, personality, work ethic, and job satisfaction. Multiple linear regression models were used in the data analysis. The study hypothesizes that all variables will have a positive impact on workers’ competitiveness and the most important factor will be workers’ human capital indicators.

1. **INTRODUCTION**

Malaysia has recognized that knowledge workers are the most critical element in developing advance technologies, improving productivity and continuing to attract foreign direct investment (FDI) (Fong Chan Ong 2006; Kanapathy, 1997; Malaysia, 2002, 2001a,b; Tan & Gill, 2000). The success of companies in the knowledge based economy today lies more on their knowledge and intellectual capital than on other resources (Brown & Lauder, 1996; Carnoy, 1998; Davies & Guppy, 1997; Kraak, 1999; Lewin, 1998; Malaysia 2008; Oxfam, 1999a,b; Sieh, 2000; Steward, 1996; Varma, 1999). These circumstances point to the importance of human resources as factors of investment, economic development and as key element of competitiveness.
Malaysia is moving up the competitiveness rankings by seven spots to the 25th place in the Growth Competitiveness index in 2005, as compared to 2004. In terms of the Business Competitiveness Index, Malaysia’s ranking moved upward to 20th place as shown in Table 1. Malaysia also places 26th in the World Economic Forum’s (WEF) Global Competitiveness Index (GCI) rankings for 2006. Currently Malaysia has moved up to the 19th place in the World Competitiveness Yearbook 2008 published by the International Institute for Management Development (IMD) based in Switzerland. However, Turkey maintain at 48th place in the world competitiveness score board (IMD, 2008).

Table 1: Comparative Overall of Malaysia’ Competiveness

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Finland</td>
<td>2 (2, 2, 6)</td>
<td>3 (2, 2)</td>
</tr>
<tr>
<td>Singapura</td>
<td>5 (5, 7, 6)</td>
<td>11 (11,10)</td>
</tr>
<tr>
<td>Republik Korea</td>
<td>24 (19, 29, 18)</td>
<td>25 (24, 24)</td>
</tr>
<tr>
<td>Malaysia</td>
<td>26 (25, 31, 29)</td>
<td>20 (23, 23)</td>
</tr>
<tr>
<td>Thailand</td>
<td>35 (33, 34, 32)</td>
<td>37 (37, 37)</td>
</tr>
<tr>
<td>India</td>
<td>43 (45, 55, 56)</td>
<td>27 (31, 30)</td>
</tr>
<tr>
<td>China</td>
<td>54 (48, 46, 44)</td>
<td>64 (57, 47)</td>
</tr>
<tr>
<td>Turkey</td>
<td>59 (71, 66, 65)</td>
<td>46 (51, 52)</td>
</tr>
<tr>
<td>Indonesia</td>
<td>50 (69, 69, 72)</td>
<td>35 (59, 44)</td>
</tr>
<tr>
<td>Filipina</td>
<td>71 (73, 76, 66)</td>
<td>72 (69, 70)</td>
</tr>
</tbody>
</table>


2. RESEARCH OBJECTIVES

The competitiveness of nations and companies in today’s knowledge based economy relies more on their knowledge and intellectual capital than on other resources (Lubit, 2001; Malaysia 2008). A highly quality staff, embedded with strong cognitive, functional and social competencies to perform tasks efficiently and effectively is a crucial factor for a company’s competitiveness. There are several determinants of workers’ competitiveness, among them are human capital variables. Rahmah (2002) showed that there was a significant positive relationship between workers’ performance and the percentage of those with a tertiary level of education and training attendance. Gerfin (2004) also found that training activities increased workers’ competitiveness and contributed 2.0 percent to wage increases. A study by Verner (2000) showed that there was a direct relationship between training and workers’ experience on workers’ productivity in Ghana. His study indicates that workers’ experience has a higher impact on productivity as compared to its impact on wages. A study by Suharto Wijono (1997) in central Jawa, Indonesia showed a significant relationship between workers’ motivation and personality and workers’ performance. Judith et al. (2005) studied the personality of graduates entering the labour market and found that human capital variables (education, training and workers experience) and graduates’ personality significantly affect their ability to fulfil labour market requirements. In light of this previous research, the main purpose of this study was to investigate determinants of workers’ competitiveness among private health service organizations in order to make recommendations for future human resource development toward producing a more competitive workforce in this sector.

3. PRIVATE HEALTH SERVICES SECTOR IN MALAYSIA

Health services in Malaysia are dominated by public hospitals and clinics. The public health services are spread throughout the country to remote rural areas and to provide services to the low income community. Recently, the Malaysian private health services sector saw robust growth in the number of hospitals, beds and customers. The number of beds in private hospitals in Malaysia has risen at an annual growth rate of 3.3 percent, up from 9,715 beds in 2000 to 11,637 beds in 2006. The number of private hospitals has risen from 224 hospitals in 2000 to 233 hospitals in 2006 as shown in Table 2. All private medical centers are approved and licensed by the Ministry of Health Malaysia. Meanwhile, private medical centers are internationally recognized with quality assurance such as MS ISO 9002, certificated by the Standard and Industrial Research
Institute of Malaysia (SIRIM) or/and accredited by the Malaysian Society for Quality of Health (MSQH). However, the private medical centers tend to focus on illness management and supply of services to urban dwellers (Yong, 2003). The private hospitals are equipped with the latest diagnostic and imaging facilities to cater to the wealthier segment of the population and have fewer restrictions when it comes to procurement of equipment (MFADs, 2006). According to the Association of Private Hospitals of Malaysia (APHM, 2008), private medical centers provide medical screening services, diagnostic services, curative/therapeutic services and dental services at competitive prices. The treatments demanded by foreign patients include cardiology, cardio thoracic surgery, radiotherapy and radiology.

Table 2: Number of Hospitals in Malaysia, 2000-2006

<table>
<thead>
<tr>
<th>Year</th>
<th>Public</th>
<th>Private</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>120</td>
<td>224</td>
<td>344</td>
</tr>
<tr>
<td>2001</td>
<td>121</td>
<td>224</td>
<td>345</td>
</tr>
<tr>
<td>2002</td>
<td>127</td>
<td>224</td>
<td>351</td>
</tr>
<tr>
<td>2003</td>
<td>130</td>
<td>219</td>
<td>349</td>
</tr>
<tr>
<td>2004</td>
<td>131</td>
<td>218</td>
<td>349</td>
</tr>
<tr>
<td>2005</td>
<td>128</td>
<td>222</td>
<td>350</td>
</tr>
<tr>
<td>2006</td>
<td>128</td>
<td>233*</td>
<td>361</td>
</tr>
</tbody>
</table>

Annual growth rate 2000-2006: 1.11% 0.66% 0.82%

Note: * Including maternity and nursing homes.

In 1980 there were 1,171 beds in private hospitals (Kanapathy, 2003) and in 2006 there were 233 private hospitals and maternity/nursing homes with nearly 12,000 beds. The private health services capacity has grown along with per capita income. Table 3 shows in year 2006 private hospitals provided 23% of the total hospital beds in Malaysia as compared to 11% in 1985.

Table 3: Number of Beds in Public and Private Hospitals, 1985-2006

<table>
<thead>
<tr>
<th>Year</th>
<th>Public Hospitals Services</th>
<th>Private Hospital Services</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of Beds</td>
<td>Percent</td>
<td>Number of Beds</td>
</tr>
<tr>
<td>1985</td>
<td>32,495</td>
<td>88.86</td>
<td>4,073</td>
</tr>
<tr>
<td>1995</td>
<td>35,555</td>
<td>82.00</td>
<td>7,809</td>
</tr>
<tr>
<td>2001</td>
<td>37,255</td>
<td>79.32</td>
<td>9,715</td>
</tr>
<tr>
<td>2002</td>
<td>37,519</td>
<td>79.40</td>
<td>9,737</td>
</tr>
<tr>
<td>2003</td>
<td>37,001</td>
<td>78.05</td>
<td>10,405</td>
</tr>
<tr>
<td>2004</td>
<td>37,261</td>
<td>77.95</td>
<td>10,542</td>
</tr>
<tr>
<td>2005</td>
<td>37,677</td>
<td>77.73</td>
<td>10,794</td>
</tr>
<tr>
<td>2006</td>
<td>38,625</td>
<td>76.85</td>
<td>11,637*</td>
</tr>
</tbody>
</table>

Note: * Including maternity and nursing homes.

Health professionals in the private sector keep increasing concurrently with demand from local and foreign patients. The doctor-to-population ratio in Malaysia improved from 1:1,490 in 2000 to 1:1,214 in 2006 as shown in Table 4. The total number of doctors in Malaysia has increased at an annual growth rate of 6.7% to 21,937 in 2006. Of this, 39% were employed in the private sector.
There are 35 private hospitals that have collaborated with tour operators in Malaysia to offer health tourism (MATRADE, 2008). The number of foreign tourists seeking treatment in Malaysian private hospitals almost tripled from 39,000 in 1998 to 72,000 in 2001 and to 100,000 in 2002 (APHM 2008; MFAD 2006). The revenue generated by health tourism rose substantially from RM$25.9 million in 2002 to RM$203 million in 2006 (Choy Lup Bong, 2007) as shown in Figure 1. By 2010, this sector is targeted to bring in revenue of over US$526 million (MFAD, 2006). Health tourism promotions are targeted at less-developed countries like Indonesia, Bangladesh, Vietnam, Myanmar, countries in the Middle East and high growth economies mainly China and Korea (MATRADE 2008). The Ministry of Tourism Malaysia is also intensifying efforts in promoting Malaysia as the place to go for private health and medical requirements. At the moment medical charges and hospitalization costs are very competitive compared to those in many advanced countries. For example, a Normal Cardiac Bypass Surgery (CABG) costs approximately US$ 6,000 – US$ 7,000. It is also said that Malaysian medical expertise is ranked among the best in the world (MFAD, 2006). Malaysia is optimistic and capable of providing excellent healthcare services to customers from around the globe (Bernama, 2008).

![Figure 1: Patients and Income Under Health Tourism Programme 2002-2006](source: APHM, quoted in Choy Lup Boong, 2007)

Table 4: Number of Health Professionals: Population Ratio in Malaysia, 2000 and 2006

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Doctors</td>
<td>8,410</td>
<td>13,335</td>
<td>7,209</td>
<td>8,602</td>
<td>15,619</td>
<td>21,937</td>
<td>1:1.490</td>
</tr>
<tr>
<td>Dentists</td>
<td>750</td>
<td>1,368</td>
<td>1,394</td>
<td>1,572</td>
<td>2,144</td>
<td>2,940</td>
<td>1:10.851</td>
</tr>
<tr>
<td>Pharmacists</td>
<td>434</td>
<td>889</td>
<td>1,899</td>
<td>3,403</td>
<td>2,333</td>
<td>4,292</td>
<td>1:9.972</td>
</tr>
<tr>
<td>Nurses</td>
<td>23,255</td>
<td>34,598</td>
<td>7,874</td>
<td>13,044</td>
<td>31,129</td>
<td>47,642</td>
<td>1:1,000</td>
</tr>
</tbody>
</table>


Sample and Data Collection. A survey was used to achieve the objectives of this study. The population for the study is professionals in private hospitals, clinics, pharmacy and maternity homes. From the population size for each selected state (four major industrialized states) in Malaysia, a representative sample (518 professionals) was drawn using a stratified sampling technique as shown in Table 5. The sample size was calculated using a technique proposed by Israel (1992). The data was gathered using self-administered surveys.

Table 5: Population and Sample Size by States

<table>
<thead>
<tr>
<th>State</th>
<th>Population (N)</th>
<th>Sample (n)</th>
<th>Response (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selangor</td>
<td>1,353</td>
<td>192</td>
<td>84 (43.7)</td>
</tr>
<tr>
<td>Pulau Pinang</td>
<td>479</td>
<td>68</td>
<td>17 (25.0)</td>
</tr>
<tr>
<td>Wilayah Persekutuan Kuala Lumpur</td>
<td>1,224</td>
<td>174</td>
<td>43 (24.7)</td>
</tr>
<tr>
<td>Johor</td>
<td>593</td>
<td>84</td>
<td>57 (67.8)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,649</strong></td>
<td><strong>518</strong></td>
<td><strong>201 (38.8)</strong></td>
</tr>
</tbody>
</table>

Source: Department of Statistics Malaysia (2007).

**Instrumentation.** Based on an extensive literature reviews, the competitiveness of workers could be viewed from two broad dimensions, namely, competency and performance (Le Deist & Winterson, 2005). In the context of this study, the measurement of workers’ competency was clustered with their cognitive, functional and social competence, as established by Le Deist & Winterson (2005). Worker competencies was measured using a 40-item instrument adapted from ANTA (1999), Azmi (1988), Brolhelweit, (1999), Clarke, (1997), Cotton, (1999), Lankard (1990), Leon & Borchers (2002), McNabb (1996), NCVER (2002ab), NYATEP (1996), Poole & Zahn (1993), Ryan & Fritz (1994), SCANS (1991, 1994), Stevenson & Bower (1986), Employment Skills 2000+ (The Conference Board of Canada, 1998), Turner, (2002), van Loo & Semeijn (2001), Wisconsin (2000), Wood & Lange (2000) and Zirkle (2002). Each of the competencies was captured by a set of indicators as shown in Table 5. A five-point Likert scale (from 1= weak, to 5 = excellent) was used to measure the competence level of workers for each construct in these indicators.

Worker performance was measured using a multidimensional design. Performance has been defined in terms of outcomes or behaviors that lead to desired outcomes (James, Simith, Landay & Farr, in Hempel, 2001). It consists of task performance, (Motowidlo, Borman & Schmit, 1997; Caligiuri, 1997), contextual performance (Brief & Motowildo, 1986; Caligiuri, 1997; Mckay & McDaniel, 2003; Smith, Organ & Near, 1983;) adaptive performance (Caligiuri, 1997; Schmit, Cortina, Ingerick & Wiechmann, 2003 ) and counterproductive behavior (Sackett, 1988). The measurement of worker performance was comprised of both measurable and perception components as shown in Table 6. As for perception based performance, the respective constructs were also measured using a five-point Likert scale (1= do not meet standard, 2 = below standard, 3 = moderate, 4 = meet standard, 5 = exceed the standard). General performance consists of 5 items, namely, perception toward quality of work (Gabris & Ihrke 2001; Murphy & Cleveland 1995; Posthuma, 2000; Roth, Huffcutt & Bobko 2003), quantity of work (Posthuma, 2000 Roth, Huffcutt & Bobko 2003), job knowledge (Posthuma, 2000 Roth, Huffcutt & Bobko 2003), dependability (Murphy & Cleveland 1995; Gabris & Ihrke 2001) and continuous job improvement. While specific performance (3 items) consists of overall interpersonal, communication and technical skills. The survey instrument was initially tested on a small number (n=11) of professionals. The survey instruments were evaluated for reliability using the consistency measure developed by Cronbach & Meehl (quoted in Rezin & McCaslin, 2002). According to George and Mallery (2001), a Cronbach alpha (α) of 0.7 is considered acceptable, while 0.8 is good and 0.9 is excellent. Based on this determination, most of the instruments used in the study were in the excellent range with Cronbach alphas above 0.9 (Table 6).

Table 6: Reliability of Instruments

<table>
<thead>
<tr>
<th>Subjective Components</th>
<th>Alpha (α)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Competency (40 items)</td>
<td>.965</td>
</tr>
<tr>
<td>Job performance (8 items)</td>
<td>.945</td>
</tr>
<tr>
<td>Ethic, Values &amp; Personality (18 items)</td>
<td>.961</td>
</tr>
<tr>
<td>Job satisfaction (14 items)</td>
<td>.975</td>
</tr>
</tbody>
</table>

Note: n = 11
4. COMPUTATION OF COMPETITIVENESS INDEX

Different weights were also imposed on each component to represent their relative importance and contribution in calculating the competency index. Cognitive competence was assigned a higher weight as compared to that of the other components mainly due to the importance of using knowledge in performing various tasks. Functional competence and social competence were given weights of 0.3 and 0.2 respectively. Measurable performance and perception based performance were given weights of 0.6 and 0.4, respectively, for the computation of the performance index.

Table 7: Measurement of Competence

<table>
<thead>
<tr>
<th>Cluster</th>
<th>Indicator</th>
<th>Total constructs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cognitive (weight = 0.5)</td>
<td>a. thinking skills</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>b. Information and Communication technology (ICT)</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>skills</td>
<td></td>
</tr>
<tr>
<td>Functional (weight = 0.3)</td>
<td>a. decision making and problem solving skills</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>b. planning skills</td>
<td>5</td>
</tr>
<tr>
<td>Social (weight = 0.2)</td>
<td>a. communication and interpersonal skills</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>b. team work and leadership skills</td>
<td>15</td>
</tr>
</tbody>
</table>

Table 8: Measurement of Performance

<table>
<thead>
<tr>
<th>Component</th>
<th>Indicator</th>
<th>Total constructs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Measurable performance (weight = 0.6)</td>
<td>a. wage</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>b. job appraisal point/score</td>
<td>-</td>
</tr>
<tr>
<td>Perception based performance (weight = 0.4)</td>
<td>a. general performance related to job</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>b. specific performance related to skills</td>
<td>3</td>
</tr>
</tbody>
</table>

The computation of the competitiveness index is adapted from human development indices constructed by the UNDP (2006), the Human Tourism Indicator (HTI) designed by Gooroochurn and Sugiyarto (2003), and is illustrated as follows:

**Step 1: Computation of the aggregate index for each component**

In the first step, the total score for each indicator (except wage and appraisal) is obtained by summing up the response of all the constructs associated with indicator \( k \). In order to make the scores or values comparable across individuals, the total scores, wages and appraisal points are then normalized using the following procedure:

\[
\tilde{X}_k^i = \frac{\text{actual value} - \text{minimum value}}{\text{maximum value} - \text{minimum value}}
\]  

where \( \tilde{X}_k^i \) is the normalized value, between 0 and 1, for indicator \( k \) and individual \( i \).

Computation of the aggregate index for each of the five components is given as follows:

\[
I_j^i = \frac{1}{n} \sum_{i=1}^{n} \tilde{X}_k^i
\]

where \( I_j^i \) is the aggregate index for component \( j \) and \( n \) is the number of indicators in component \( j \).

**Step 2: Computation of the aggregate index for each dimension**

The second step derives the competency index and performance index by incorporating the weights as assigned in Table 1 and Table 2. The aggregation is undertaken using the following formula:

\[
Z_y^i = \sum_{j=1}^{m} w_j I_j^i
\]

where \( Z_y^i \) is the aggregate index for dimension \( y \), \( m \) is the number of components in dimension \( y \), and \( w_j \) is the weight associated with each component.
Step 3: Computation of overall competitiveness index

Finally, the overall competitiveness index is computed by taking the weighted average between the competency index and performance index. The formula for computing the overall competitiveness index \( CI' \) is as follows:

\[
CI' = \sum w_y Z_y
\]

(4)

Where \( w_y \) is the weight associated with each dimension. The competence index and performance index are given a weight of 0.3 and 0.7 respectively.

The \( CI' \) takes a value between 0 and 1. A value of \( CI' \) near to 1 implies that an individual is highly competitive. In contrast, the smaller \( CI' \), the more the individual exhibits a lower level of competitiveness.

The classification of the level of competitiveness for subsequent discussion is shown in Table 9.

**Table 9: Level of Competitiveness**

<table>
<thead>
<tr>
<th>Competitiveness index</th>
<th>Level of competitiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td>less than 0.2000</td>
<td>very low</td>
</tr>
<tr>
<td>0.2001 to 0.4000</td>
<td>Low</td>
</tr>
<tr>
<td>0.4000 to 0.6000</td>
<td>Moderate</td>
</tr>
<tr>
<td>0.6001 to 0.8000</td>
<td>High</td>
</tr>
<tr>
<td>more than 0.8000</td>
<td>very high</td>
</tr>
</tbody>
</table>

**Respondents’ Background**

Almost all respondents (99.5 percent) engaged with local companies. The educational qualifications of the respondents are shown in Table 10. Of the 201 respondents, 60.7 percent have diplomas and below, 29.3 percent have bachelor degrees and only 10.0 percent have higher academic qualifications. Respondents with higher academic qualifications received a higher income, which is in line with human capital theory prediction. Respondents with master’s degrees received on average RM4,391.00 gross monthly income as compared to RM3,206.00 for bachelor degree holders.

**Table 10: Academic Qualification and Average Gross Monthly Income (RM)**

<table>
<thead>
<tr>
<th>Academic Qualification</th>
<th>Number (Percent)</th>
<th>Average Gross Monthly Salary (RM$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diploma holders &amp; below</td>
<td>122 (60.7)</td>
<td>RM 2,326.64</td>
</tr>
<tr>
<td>Bachelor Degree</td>
<td>59 (29.3)</td>
<td>RM 3,206.35</td>
</tr>
<tr>
<td>Master</td>
<td>14 (7.0)</td>
<td>RM 4,391.92</td>
</tr>
<tr>
<td>PhD</td>
<td>nil</td>
<td>nil</td>
</tr>
<tr>
<td>Others</td>
<td>6 (3.0)</td>
<td>RM 2,894.28</td>
</tr>
<tr>
<td>Total</td>
<td>201</td>
<td>RM 2,555.01</td>
</tr>
</tbody>
</table>

In terms of occupation classification, 49.5 percent were professionals, and 33.7 percent were managers and senior executives. Only 11.6 percent of the respondents were administrative, sale and marketing executives as shown in Table 11. Most of the respondents (68.3 percent) were considered young executives with ages below 34 years old and only 13.8 percent of the respondents were above 45 years old.
Table 11: Occupations Category

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managers and senior executives</td>
<td>64</td>
<td>33.7</td>
</tr>
<tr>
<td>Professionals</td>
<td>94</td>
<td>49.5</td>
</tr>
<tr>
<td>Technicians and associate professionals</td>
<td>10</td>
<td>5.3</td>
</tr>
<tr>
<td>Administrative, sales &amp; marketing executives</td>
<td>22</td>
<td>11.6</td>
</tr>
<tr>
<td><strong>Jumlah</strong></td>
<td><strong>196</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

**WORKERS COMPETENCY AND PERFORMANCE**

Overall, employees in the private sector health services have higher levels of functional competency in decision making and problem solving skills ($M = 3.92$, $SD = 0.69$) and planning skills ($M = 3.83$, $SD = 0.67$), as compared to the other competency dimensions. However, communication and interpersonal skills was the highest job competency ($M = 3.99$, $SD = 0.60$) while team work and leadership skills was the lowest ($M = 3.14$, $SD = 0.51$). Based on the calculated job competency index, the overall job competency of these target respondents is considered high.

Table 12: Job Competency Index

<table>
<thead>
<tr>
<th>Competency Dimension</th>
<th>Indicator</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Weighted Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cognitive (weighted 50%)</td>
<td>a. Thinking skills</td>
<td>3.7562</td>
<td>.72971</td>
<td>.3465</td>
</tr>
<tr>
<td></td>
<td>b. Information and communication technology (ICT) skills</td>
<td>3.7886</td>
<td>.85590</td>
<td></td>
</tr>
<tr>
<td>Functional (weighted 30%)</td>
<td>a. Decision making and problem solving skills</td>
<td>3.9184</td>
<td>.68623</td>
<td>.2156</td>
</tr>
<tr>
<td></td>
<td>b. Planning skills</td>
<td>3.8299</td>
<td>.67580</td>
<td></td>
</tr>
<tr>
<td>Social (weighted 20%)</td>
<td>a. Communication and interpersonal skills</td>
<td>3.9934</td>
<td>.60273</td>
<td>.1480</td>
</tr>
<tr>
<td></td>
<td>b. Teamwork and leadership skills</td>
<td>3.1410</td>
<td>.50724</td>
<td></td>
</tr>
<tr>
<td>Overall</td>
<td></td>
<td></td>
<td></td>
<td>.7101 (High)</td>
</tr>
</tbody>
</table>

Table 13 shows that the overall job performance index is considered at a moderate level. The average gross monthly salary of health workers was MYR2,554.95 and annual job assessment score was 80 - 89 marks. Generic performance ($M = 4.00$, $SD = 0.62$) and specific performance ($M = 3.99$, $SD = 0.66$) were relatively high. The total score for the worker competitiveness index was obtained from the summation of the job competency index (weighted 30 percent) and job performance index (weighted 70 percent) as shown in Table 14. The total score for the worker competitiveness index in private sector health services was categorized as moderate.
### Table 13: Job Performance Index

<table>
<thead>
<tr>
<th>Competency Dimension</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Weighted Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Measurable performance (weighted 60%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Salary</td>
<td>MYR2554.9473</td>
<td>MYR1773.49</td>
<td>0.0251</td>
</tr>
<tr>
<td>b. Job appraisal score/point</td>
<td>80 – 89 marks</td>
<td>-</td>
<td>0.2036</td>
</tr>
<tr>
<td>Perception based performance (weighted 40%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Generic performance related to job</td>
<td>4.0050</td>
<td>0.61788</td>
<td>0.1502</td>
</tr>
<tr>
<td>b. Specific performance related to skills</td>
<td>3.9934</td>
<td>0.66161</td>
<td>0.1497</td>
</tr>
<tr>
<td>Overall</td>
<td></td>
<td></td>
<td>0.5286 (Moderate)</td>
</tr>
</tbody>
</table>

### Table 14: Level of Worker’s Competitiveness Index

<table>
<thead>
<tr>
<th>Competitiveness components</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job competency (weighted 30%)</td>
<td>0.2130</td>
</tr>
<tr>
<td>Job performance (weighted 70%)</td>
<td>0.3700</td>
</tr>
<tr>
<td>Worker competitiveness index</td>
<td>0.5830 (Moderate)</td>
</tr>
</tbody>
</table>

Note: n = 210

Table 15 shows the distribution of the job competency, job performance and overall employee competitiveness index. The majority of respondents (52.2 percent) have a moderate level of competitiveness while 40.3 percent were found to be high. Only 4.5 percent of these executives scored low on the competitiveness index. Overall, the respondents indicated better quality in job competency. Of these, 45.8 percent had a high level of job competency while 28.9 percent had very high job competency. In term of job performance, 60.2 percent were moderate and 25.9 percent had a high level of job performance.

### Table 15: Job Competency and Performance Index

<table>
<thead>
<tr>
<th>Level</th>
<th>Job competency index (%)</th>
<th>Job performance index (%)</th>
<th>Overall (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>very low</td>
<td>0.0</td>
<td>0.5</td>
<td>0.0</td>
</tr>
<tr>
<td>Low</td>
<td>2.0</td>
<td>12.9</td>
<td>4.5</td>
</tr>
<tr>
<td>Moderate</td>
<td>23.4</td>
<td>60.2</td>
<td>52.2</td>
</tr>
<tr>
<td>High</td>
<td>45.8</td>
<td>25.9</td>
<td>40.3</td>
</tr>
<tr>
<td>very high</td>
<td>28.9</td>
<td>0.5</td>
<td>3.0</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

### 5. Determinants of Worker’s Competitiveness

Individual employee performance is a function of competence, traits, motivation and organizational support (Grote, 2002; Roa, 2004). A linear regression model was used to analyze the data. The model incorporated human capital variables, workers’ attributes, demographics and ethnicity and is written as follows,

\[
CI = \beta_0 + \beta_1 S + \beta_2 JM + \beta_3 HC + \beta_4 EXP + \beta_5 T + \beta_6 JS + \beta_7 WE + \chi_8 MLY + \beta_9 CNS + \beta_{10} GEN + \mu
\]

Definitions of the variables are shown in Table 16.
Table 16: Definition of Variables

<table>
<thead>
<tr>
<th>Dependent Variable</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>CI</td>
<td>Workers’ Competitiveness Index</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Human Capital</td>
<td></td>
</tr>
<tr>
<td>S</td>
<td>Mean years of schooling</td>
</tr>
<tr>
<td>JM</td>
<td>Job Mobility, dummy variable; coded 1 for ever change job and 0 otherwise</td>
</tr>
<tr>
<td>HC</td>
<td>Health Condition, dummy variable; coded 1 for less than 14 days medical leave, 0 otherwise</td>
</tr>
<tr>
<td>EXP</td>
<td>Mean of current and previous year of working experience</td>
</tr>
<tr>
<td>T</td>
<td>Training, dummy variable; coded 1 for attending any type of training and 0 otherwise</td>
</tr>
</tbody>
</table>

| (b) Employee Attributes |            |
| JS                     | Mean of job satisfaction |
| WE                     | Mean of work ethics, values and personality |

| (c) Demographic & ethnicity |            |
| MLY                    | Malays Ethnicity, dummy variable; coded 1 for Malay and 0 otherwise |
| CNS                    | Chinese Ethnicity, dummy variable; coded 1 for Chinese and 0 otherwise |
| GEN                    | Gender, dummy variable; coded 1 for male and 0 otherwise |

The result of the multiple linear regression model of workers’ competitiveness is reported in Table 11. The overall model shows a strong statistical significance with $p < 0.001$ and $R$-square of 0.365. Multi-collinearity does not appear to be a serious concern since the VIFs for these variables are below 3.0 (Hair et al. 1995) while none of the VIFs for any of the remaining variables exceeded 2.5. The study hypothesis posits that human capital, job satisfaction, works ethics, values and personality are significantly associated with workers’ competitiveness.

Table 17: Determinants of Workers’ Competitiveness Index

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>$\beta$</th>
<th>$t$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Konstan</td>
<td>-.028</td>
<td>-.285</td>
</tr>
</tbody>
</table>

(a) Human Capital

| Years of schooling   | .009    | 2.369** |
| Job Mobility         | -.002   | -.161  |
| Health condition     | -.019   | -.492  |
| Working experience   | .002    | 2.052** |
| Training             | .010    | .675   |

(b) Workers’ Attributes

| Job Satisfaction     | .071    | 5.839*** |
| Work ethics, values and personality | .049 | 3.307*** |

(c) Demographic & ethnicity

| Malay                 | .001    | .062   |
| Chinese               | -.028   | -1.081 |
| Gender                | .022    | 1.306  |

$R^2$ = .365

| F                    | 9.444*** |
| Saiz sampel (n)      | 174     |

Note: *** $p < 0.001$ ** $p < 0.05$ * $p < 0.10$

Empirical evidence support that both predicted variables have a significant impact on workers’ competitiveness index. Table 17 shows that years of schooling ($\beta = 0.009$, $p<0.05$) and working experience ($\beta = 0.002$, $p<0.05$) are positively related to the dependent variable. However, it appears that job mobility, employee health condition and training are not significantly related ($p>0.10$) to workers’ competitiveness. In
terms of company-related factors, job satisfaction \( \beta = 0.071, p<0.001 \) is a significant predictor variable. Work ethics, values and personality of employee positively \( \beta = 0.049, p<0.001 \) predict workers’ competitiveness. Findings from ethnicity and gender dummy variables are shown insignificant \( (p>.10) \).

6. CONCLUSION

The discussion above indicates that workers’ competitiveness in the private health services sector is moderate. Less than five percent of the respondents are still at low levels of competitiveness while only 3.0 percent of the respondents are at a high level. Further, the study shows that human capital variables like years of schooling, working experience and training attended significantly determine workers’ competitiveness in the private health services sector. Also, workers’ attributes like job satisfaction and work ethics, values and personality contribute significantly to workers’ competitiveness, whereas demographic and ethnicity variables are insignificant.

In the effort to increase and maintain competitiveness in the private health services sector, enhancing human capital becomes pertinent. The worker needs to be continuously equipped with knowledge, skills, positive attitudes and values and to upgrade their level of educational qualification. The study also shows that it is important for employers to provide a superior working environment to enhance workers’ job satisfaction. In this context, a comfortable workplace and good working conditions and human relations are crucial to maintain workers’ loyalty to their employers and to curb them from moving away for other jobs. Another significant aspect is work ethics, values and personality. These variables can be enhanced through positive relationships between employers and employees and among the employees themselves.

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Changes in Labor Force Structure in Terms of Educational Level in Turkey

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ABSTRACT

More than half of the manpower in our country has just completed basic or compulsory education. Today, the market economy needs to be implemented skilled labor force to grow in terms of increasing the growth rate of our country is important. Unemployment figures in Turkey show that the number of unemployed youngsters is drastically high. The high number of educated unemployed youngsters is seen as a real threat for the country’s future. Turkish education system should try to get youngsters to at least the level of high school graduates and should improve professional qualifications of current labor force by providing more training opportunities.

Key Words: Education, Labor Market, Employment, Unemployment, Economic Development.

INTRODUCTION

Information age brings to the forefront specialized, qualified labor. Training and educating labor in the best possible manner can be achieved as a result of a process when all formal and mass education facilities from elementary school to university are used in an efficient manner. Turkish education system aims to train good persons and good citizens at elementary school level; it also aims in secondary and higher education to provide an education which supports the qualifications of being a good person and good citizen, which prepares person to life and equip him/her with a profession which makes sure that he/she maintains his/her life and lives in the society as a productive and respected individual.

Being in an effort to integrate with global economy, Turkey must follow advancing technology, reflect it to production of goods and services, and elevate to the level of a country which produced and sells technology so that it can claim the place that it deserves among developed countries. Today educating qualified and compatible individuals with high level of motivation who can meet the competitive market demand that the market economy in practice needs is quite essential in order to accelerate the pace of growth of our country.

1. EDUCATION AND ECONOMIC DEVELOPMENT

Today education is not only a constitutional right and a function of a social state where rule of law prevails; it is also accepted as one of the most efficient production fields in economic terms. Education is one of the most effective means of political, societal and cultural integration. Starting from Adam Smith and Alfred Marshall, there are many studies conducted in the literature on benefits of education.

In particular in late 1970s the globalization process which started its domination with fast change and development in information and communication technologies not only became determinant in economic life, but it also made sure that many new developments occur with its effect in social and cultural lives. These developments launched the process called “Information Society”. Today information became a resource which is as important and valuable as energy for development and Gross National Product growth. Man, who activating physical and human power (capital) and using this power in a more efficient manner in both agricultural and industrial societies, mankind is obliged to stimulate the power of information in this information age and make the most efficient use of this source (DPT, 2001). Information society process is the most important factor in accelerating economic growth and improving infrastructure and cultural interaction (Türkmen, 2002).

One of the most important requirements for promoting to information society is investment in knowledge. Countries that can perform these investments will be those which created employment and production in new fields, recorded sustainable development, offered quality education, health and other social services to citizens
Qualified labor, which is an important step for promoting to information society, will be possible with providing an education in mass and formal education institutions which can ensure adaptation to international competition environment based on an approach taking lifelong learning as principle (Güvenen, 1998).

Until the first half of twentieth century, physical investments were the key to development, but after Second World War in particular, “investment made in human” replaced this belief. Therefore, the thought of “investment in human” started to gain importance in economics literature starting from the early 1960s. In the year 2000, total value of physical assets in USA was 18.8 trillion $, compared to the 24.4 trillion $ worth of human capital resources (Psacharopoulos, 2000).

According to many education economists, basic point of economic development is education. Increase in education expenditures made for developing human resources was an important factor in the economic growth witnessed by Far East countries. Efficiency improvements caused by application of new production methods stipulated by technological advancements proved to be an important factor in economic growth of the countries accepted today as “Developed Nations” (Lihsu, 1997). According to the results of a research conducted by Wheeler in 1980 on eighty –eight developing countries found out that when literacy rate increased to 30% from 20%, Gross Domestic Product improved between 8% and 16% (Türkmen, 1999).

Endogenous Growth models, which have been widely accepted since 1990s, represented technological investments, R&D activities and other investments directed towards developing human resources, rather than physical investments, in the foundation of economic growth; these models are fuelled by the thought that “human capital is knowledge, which does not require an additional cost once it is produced” (Mcmahon, 1999). Today these models started to display more concretely the role of education in bigger economic growth by means of production and diffusion of knowledge.

At the beginning of 21st century, Turkey determined that its strategy should follow this path. Republican governments paid considerable efforts in order to ensure development in this field. As planned period began, importance given to education improved and it came to be handled as one of the most important factors for economic development (Bircan, 1979). In the Seventh Five-Year Development Plan, a target was determined as “Improvement of education level of labor so that international competitive power can be strengthened...”(State Planning Organization, 1995). In the Eighth Five-Year Development Plan, the dominating philosophy is expressed as follows: “Improvement of our education system will make sure that qualified labor needed by the economic development of our country, which has a young population, is met and it is endowed with competitive power” (State Planning Organization, 2001).

### 2. CREATING SKILLED LABOR STUDIES IN THE TURKISH EDUCATION SYSTEM

The most important role for educating qualified labor, continuously improving and renewing their qualifications belongs to secondary education due to its content and place, status and target group in the entire education process. Secondary education in Turkish education system has been entrusted with a dual role, namely preparing the graduates of basic education for (a) business life and (b) higher education. In this sense, secondary education has to prepare students for an examination which ranks millions of university-candidate youngsters according to their correct answers as well as equipping the youngsters who will enter working life after secondary school with vocational knowledge and skills which will ensure their employment (State Planning Organization, 2001). In this sense, secondary education is entrusted with a very difficult and critically important role. When measuring the success of current secondary education system, it would be useful to put emphasis on the extent to which these two functions are performed.

It is difficult to claim that today’s secondary education is at desirable level of quality and effectiveness in terms of both functions. It would be useful to underline a few issues when evaluating the function of preparing secondary education students for university. First of all, the preparing-for-university of youngsters function of secondary education has undergone significant change. Knowledge and skills offered to youngsters at secondary education are not basic academic knowledge and skills that they will need at university; their purpose is to make sure that they are accepted to the undergraduate or associate program that they desire by making them answer as many questions as they can. The second issue is that it is not easy to even claim that secondary education is able to perform this function with its current structure and functioning. Today, thousands of youngsters crowding private establishment preparing students for various exams and hoping for
help from them instead of school is a consequence of the non-performance of schools of the function of preparing youngsters for university. One must accept that university entrance system has a prominent role in this unintended shift in function. Lack of vocational guidance, insufficient recognition and respect in society for vocational training, and defects of relevant policies lead to the fact that almost all graduates of secondary education want to enter university. However, capacity of higher education allows for placement of only 30% of graduates of secondary education (State Planning Organization, 2001). In this case, university exams gained a structure which forces youngsters compete with each other and accept unsuccessful those who get under a certain score rather than placing them to higher education programs that is compatible with their skills, interests and choices.

It is not easy to claim that the preparing youngsters for working life function of secondary education have reached the desired quality and effectiveness level. Problems in the youngsters for working life function of secondary education are not new, but they are being discussed more openly and seriously for the last 10-15 years. One of the basic reasons for this is the inevitable globalization process which is entered, fast technological innovations witnessed especially in communication and transportation, and, consequently, the fact that national and international markets need more qualified labor, and the changing profile of labor. In the world market where national and inter-business relations proliferated, countries need labor which will be competitive not only in national market but also in the international market. Improving relations between companies and international company mergers cause resemblance between the labor profiles needed by national and international markets, therefore, companies seek certain and continuously changing and improving universal attributes in the labor that they employ or will employ; which turns transformed the concept of “qualified labor” and gained it new meanings. Nations have to think more universal and train the “qualified labor” who is able to compete in global markets when constructing their education systems. Business life which has to compete both in national and international markets and which feels this obligation heavily is questioning education sector and forcing it to be more responsive towards business needs. Today it is not easy to claim that education institutions are successful in training qualified labor by taking into account their economic needs. The basic reason for this is that there are still some obstacles for establishing relation between employment and education.

There are three basic problems before strengthening the interaction between education system and employment in a manner so that positive results can be attained: First reason is the static structure of education system, including vocational training, which is not responsive enough to the demands of labor market. Second reason is the inability to integrate the qualifications that labor has to have with education programs in a fast and continuous manner through vocational standards prepared by business life and therefore under-responsiveness of education towards the needs of business life. Third reason is the lack of support for the knowledge and skills acquired during education process with a testing and certification system respecte and accepted by business life (State Planning Organization, 2001). Unless these obstacles are removed, the rate of educated but who is unable to meet the demand of business life in our country will continue to increase.

Searches for education are continuing in the whole world. No ideal education system has been created in any country yet; however, there is a consensus on the opinion that successful education depends on three factors, which are:

- A strong foundation for education,
- Education priorities being set by real economic demands,

Inability to detect the labor demand of business life in a complete, realist and reliable manner brings about the result that education supply is made based on estimations only. Ministry of National Education has created an important education capacity with the purpose of training man force for certain vocations. Due to the policy of using current capacities instead of training students according to needs, most people graduated in 1991-1992 cannot find jobs in the field that they are educated. A research conducted by Occupational and Technical Research and Development Center in Turkey displayed that 48% of the employed graduates of industrial vocational technical training institutions found jobs that are not related to their education. On one hand youngsters cannot find jobs in the fields that they are educated; on the other hand, there is sheer need for
qualified labor in other fields, which is a natural but very dangerous result of the fact that education supply does not meet labor demand (Occupational and Technical Research and Development Center, 1997).

Today Ministry of National Education and some other public and private institutions offer education in our country. However, the education provided is far from being responsive to the needs of labor market in terms of quality and effectiveness. As a result of this, unqualified labor in the labor market is increasing and demands for qualified labor which is a result of the economy and fast-improving technology cannot be met.

The low level of education decreases labor productivity; it also makes unemployment a serious problem. It is not possible to claim that the only reason of unemployment is the low level of education. Such an assumption cannot explain unemployment of qualified youngsters which is especially the case in urban areas.

3.1. THE IMPORTANCE OF RESEARCH

Information and technology have entered every field; moreover, by that there has been structural transformation in employment field. Education, which has an essential role on bringing information skills to labor force, has an important role on economical developments. Having trained labor force that is necessary on advanced technology of production on manufacturing and service sectors is one of imperfect titles in developing countries. The importance of this study is to identify the details of educational background of present labor force, people to employ and job hunter in a developing country, Turkey.

3.2. THE OBJECTIVE OF RESEARCH

The objective of this research is to identify the details of educational background of present labor force, people to employ and job hunter in a developing country, Turkey. This research paper tries to respond following questions.

1. How is educational background of labor force in Turkey?
2. How is educational background of labor force who is employed in Turkey?
3. How is educational background of labor force who is jobless in Turkey?
4. Which segment has the highest employment on educational background in Turkey?
5. Which segment has the most highest out of employment on educational background in Turkey?

3.3. THE EXPERIMENTAL METHOD OF RESEARCH

In this research, the statistical data’s were collected on quantitative research method. The numbers on formulas represent the columns on forms.

- Based on years;
  
  The ratio of educational background on labor force who are employed = $1/4 * 100$
  The ratio of educational background on labor force who are jobless = $2/5 * 100$
  The ratio of work day on educational background = $3/6 * 100$

- 1990-2001 period to general;
  
  The ratio of educational background on labor force who may employed = $\sum 1/\sum 3 * 100$
  The ratio of educational background on labor force who may be jobless = $\sum 2/\sum 3 * 100$
  The ratio of educational background on labor force who are employed = $\sum 1/\sum 4 * 100$
  The ratio of educational background on labor force who are jobless = $\sum 2/\sum 5 * 100$
  The ratio of work day on educational background = $\sum 3/\sum 6 * 100$
3. 4. FINDINGS AND INTERPRETATION

Unemployment of educated population should be discussed and interpreted individually. In this context, if we examine the change between 1990 and 2001 in the education levels of people employed in a number of industries, we can see the following:

**Table 1. Employment Figures For Illiterate People in Turkey (15+Age)**

<table>
<thead>
<tr>
<th>Years</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>1/4</th>
<th>2/5</th>
<th>3/6</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Employed (x1000 People)</td>
<td>Unemployed (x1000 People)</td>
<td>Labor Force (x1000 People)</td>
<td>Employed (x1000 People)</td>
<td>Unemployed (x1000 People)</td>
<td>Labor Force (x1000 People)</td>
<td>(%)</td>
<td>(%)</td>
<td>(%)</td>
</tr>
<tr>
<td>1999</td>
<td>2.851</td>
<td>132</td>
<td>2.983</td>
<td>18.538</td>
<td>1.611</td>
<td>20.149</td>
<td>15.4</td>
<td>8.2</td>
<td>14.8</td>
</tr>
<tr>
<td>1993</td>
<td>1.854</td>
<td>64</td>
<td>1.918</td>
<td>18.501</td>
<td>1.815</td>
<td>20.316</td>
<td>10.0</td>
<td>3.5</td>
<td>9.4</td>
</tr>
<tr>
<td>1994</td>
<td>2.147</td>
<td>71</td>
<td>2.218</td>
<td>20.007</td>
<td>1.870</td>
<td>21.877</td>
<td>10.7</td>
<td>3.8</td>
<td>10.1</td>
</tr>
<tr>
<td>1997</td>
<td>1.957</td>
<td>33</td>
<td>1.990</td>
<td>21.203</td>
<td>1.552</td>
<td>22.755</td>
<td>9.2</td>
<td>2.1</td>
<td>8.7</td>
</tr>
<tr>
<td>1998</td>
<td>1.925</td>
<td>43</td>
<td>1.968</td>
<td>21.778</td>
<td>1.606</td>
<td>23.384</td>
<td>8.8</td>
<td>2.7</td>
<td>8.4</td>
</tr>
<tr>
<td>1999</td>
<td>1.961</td>
<td>45</td>
<td>2.006</td>
<td>22.048</td>
<td>1.829</td>
<td>23.877</td>
<td>8.9</td>
<td>2.5</td>
<td>8.4</td>
</tr>
<tr>
<td>2000</td>
<td>1.917</td>
<td>68</td>
<td>1.985</td>
<td>21.582</td>
<td>1.495</td>
<td>23.077</td>
<td>8.9</td>
<td>4.5</td>
<td>8.6</td>
</tr>
<tr>
<td>2001</td>
<td>1.900</td>
<td>60</td>
<td>1.960</td>
<td>21.526</td>
<td>1.966</td>
<td>23.492</td>
<td>8.8</td>
<td>3.1</td>
<td>8.3</td>
</tr>
</tbody>
</table>

Source: Turkish Statistical Institute

**Employment and Unemployment According To Education Status**

In 1990, 2,851 thousand illiterate people were employed in Turkey; in 1995, this figure decreased by 26.6% to 2,092 thousand people and in 2001 it decreased a further 9.2% to 1,900 thousand people. The rate of illiterate people in the entire workforce of Turkey recessed from 15.4% in 1990 to 10.2% in 1995 and further to 8.8% in 2001.

In 1990, 132 thousand illiterate people were unemployed in Turkey; in 1995 this figure decreased by 53.8% to 61 thousand and in 2001 it decreased 1.6% to 60 thousand people. The ratio of illiterate people in total unemployed population reduced from 8.2% in 1990 to 3.6% in 1995 and to 3.1% in 2001.

In 1990, 1,461 thousand literate people who did not graduate from a school were employed; in 1995 this figure decreased by 25.8% to 1,050 thousand and in 2001 it decreased a further 28.8% to 748 thousand people. The ratio of literate people who did not graduate from a school in the total employment in Turkey was 7.6% in 1990; this percentage decreased to 5.1% in 1995 and to 3.8% in 2001.

In 1990, 72 thousand literate people who did not graduate from a school were unemployed; this figure decreased by 36.1% in 1995 to 46 thousand; this percentage remained the same in 2001. The ratio of literate people who did not graduate from a school total unemployment was 4.5% in 1990; it reduced to 2.7% in 1990 and 2.3% in 2001.
Table 2. Employment Figures for Literate People Who Did Not Graduate From a School in Turkey (15+ Age)

<table>
<thead>
<tr>
<th>Years</th>
<th>1 Employed (x1000 People)</th>
<th>2 Unemployed (x1000 People)</th>
<th>3 Labor Force (x1000 People)</th>
<th>4 Employed (x1000 People)</th>
<th>5 Unemployed (x1000 People)</th>
<th>6 Labor Force (x1000 People)</th>
<th>1/4 (%)</th>
<th>2/5 (%)</th>
<th>3/6 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>1.416</td>
<td>72</td>
<td>1.488</td>
<td>18.538</td>
<td>1.611</td>
<td>20.149</td>
<td>7.6</td>
<td>4.5</td>
<td>7.4</td>
</tr>
<tr>
<td>1993</td>
<td>1.108</td>
<td>66</td>
<td>1.174</td>
<td>18.501</td>
<td>1.815</td>
<td>20.316</td>
<td>6.0</td>
<td>3.6</td>
<td>5.8</td>
</tr>
<tr>
<td>1994</td>
<td>1.159</td>
<td>75</td>
<td>1.234</td>
<td>20.007</td>
<td>1.870</td>
<td>21.877</td>
<td>5.8</td>
<td>4.0</td>
<td>5.6</td>
</tr>
<tr>
<td>1995</td>
<td>1.050</td>
<td>46</td>
<td>1.096</td>
<td>20.586</td>
<td>1.699</td>
<td>22.285</td>
<td>5.1</td>
<td>2.7</td>
<td>4.9</td>
</tr>
<tr>
<td>1996</td>
<td>903</td>
<td>31</td>
<td>934</td>
<td>21.195</td>
<td>1.504</td>
<td>22.699</td>
<td>4.3</td>
<td>2.1</td>
<td>4.1</td>
</tr>
<tr>
<td>1997</td>
<td>728</td>
<td>25</td>
<td>753</td>
<td>21.203</td>
<td>1.552</td>
<td>22.755</td>
<td>3.4</td>
<td>1.6</td>
<td>3.3</td>
</tr>
<tr>
<td>1998</td>
<td>702</td>
<td>35</td>
<td>737</td>
<td>21.778</td>
<td>1.606</td>
<td>23.384</td>
<td>3.2</td>
<td>2.2</td>
<td>3.2</td>
</tr>
<tr>
<td>1999</td>
<td>764</td>
<td>34</td>
<td>798</td>
<td>22.048</td>
<td>1.829</td>
<td>23.877</td>
<td>3.5</td>
<td>1.9</td>
<td>3.3</td>
</tr>
<tr>
<td>2000</td>
<td>707</td>
<td>42</td>
<td>749</td>
<td>21.582</td>
<td>1.495</td>
<td>23.077</td>
<td>3.3</td>
<td>2.8</td>
<td>3.2</td>
</tr>
<tr>
<td>2001</td>
<td>748</td>
<td>46</td>
<td>794</td>
<td>21.526</td>
<td>1.966</td>
<td>23.492</td>
<td>3.5</td>
<td>2.3</td>
<td>3.4</td>
</tr>
</tbody>
</table>

Source: Turkish Statistical Institute

Employment and Unemployment According To Education Status

Table 3. Employment Figures Elementary School Graduates in Turkey (15+ Age)

<table>
<thead>
<tr>
<th>Years</th>
<th>1 Employed (x1000 People)</th>
<th>2 Unemployed (x1000 People)</th>
<th>3 Labor Force (x1000 People)</th>
<th>4 Employed (x1000 People)</th>
<th>5 Unemployed (x1000 People)</th>
<th>6 Labor Force (x1000 People)</th>
<th>1/4 (%)</th>
<th>2/5 (%)</th>
<th>3/6 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>10.178</td>
<td>804</td>
<td>10.912</td>
<td>18.538</td>
<td>1.611</td>
<td>20.149</td>
<td>54.9</td>
<td>49.9</td>
<td>54.2</td>
</tr>
<tr>
<td>1992</td>
<td>10.987</td>
<td>923</td>
<td>11.910</td>
<td>19.460</td>
<td>1.805</td>
<td>21.265</td>
<td>54.5</td>
<td>51.1</td>
<td>56.0</td>
</tr>
<tr>
<td>1993</td>
<td>10.686</td>
<td>937</td>
<td>11.623</td>
<td>18.501</td>
<td>1.815</td>
<td>20.316</td>
<td>57.8</td>
<td>51.6</td>
<td>57.2</td>
</tr>
<tr>
<td>1994</td>
<td>11.478</td>
<td>912</td>
<td>12.390</td>
<td>20.007</td>
<td>1.870</td>
<td>21.877</td>
<td>57.4</td>
<td>48.8</td>
<td>56.6</td>
</tr>
<tr>
<td>1995</td>
<td>11.424</td>
<td>794</td>
<td>12.218</td>
<td>20.586</td>
<td>1.699</td>
<td>22.285</td>
<td>55.5</td>
<td>46.7</td>
<td>54.8</td>
</tr>
<tr>
<td>1996</td>
<td>11.803</td>
<td>654</td>
<td>12.457</td>
<td>21.195</td>
<td>1.504</td>
<td>22.699</td>
<td>55.7</td>
<td>43.5</td>
<td>54.9</td>
</tr>
<tr>
<td>1997</td>
<td>11.860</td>
<td>620</td>
<td>12.480</td>
<td>21.203</td>
<td>1.552</td>
<td>22.755</td>
<td>55.9</td>
<td>39.9</td>
<td>54.8</td>
</tr>
<tr>
<td>1999</td>
<td>11.936</td>
<td>791</td>
<td>12.727</td>
<td>22.048</td>
<td>1.829</td>
<td>23.877</td>
<td>54.1</td>
<td>43.2</td>
<td>53.3</td>
</tr>
<tr>
<td>2000</td>
<td>11.384</td>
<td>632</td>
<td>12.466</td>
<td>21.582</td>
<td>1.495</td>
<td>23.077</td>
<td>52.7</td>
<td>42.3</td>
<td>54.0</td>
</tr>
<tr>
<td>2001</td>
<td>11.201</td>
<td>899</td>
<td>12.100</td>
<td>21.526</td>
<td>1.966</td>
<td>23.492</td>
<td>52.0</td>
<td>45.7</td>
<td>51.5</td>
</tr>
</tbody>
</table>

Source: Turkish Statistical Institute

Employment and Unemployment According To Education Status

In 1990, 10.178 thousand elementary school graduates were employed in Turkey. In 1995, this ratio increased by 12.2% to 11.424 thousand; in 2001, the figure decreased by approximately 2% to 11.201 thousand people.
In 1990, the ratio of elementary school graduates in total employment in Turkey was 54.9%; in 1995, the figure increased to 55.5% and in 2001 it reduced to 52%.

In 1990, 804 thousand elementary school graduates were unemployed in Turkey; in 1990 this figure decreased by 1.2% to 794 thousand and in 2001 it increased by 13.2% to reach 899 thousand people. The ratio of elementary school graduates in the unemployed population of Turkey was 49.9% in 1990; this ratio decreased to 46.7% in 1995 and 45.7% in 2001.

Table 4. Employment Figures For Secondary School Graduates in Turkey (15+ Age)

<table>
<thead>
<tr>
<th>Years</th>
<th>Secondary School Graduates</th>
<th>Total</th>
<th>Employment-Unemployment-Labor Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 Employed (x1000 People)</td>
<td>2 Unemployed (x1000 People)</td>
<td>3 Labor Force (x1000 People)</td>
</tr>
<tr>
<td></td>
<td>1999 1.288 179 1.467</td>
<td>18.538 1.611</td>
<td>20.149</td>
</tr>
<tr>
<td></td>
<td>1991 1.310 206 1.516</td>
<td>19.287 1.722</td>
<td>21.009</td>
</tr>
<tr>
<td></td>
<td>1992 1.418 198 1.616</td>
<td>19.460 1.805</td>
<td>21.265</td>
</tr>
<tr>
<td></td>
<td>1993 1.415 208 1.623</td>
<td>18.501 1.815</td>
<td>20.316</td>
</tr>
<tr>
<td></td>
<td>1994 1.512 225 1.737</td>
<td>20.007 1.870</td>
<td>21.877</td>
</tr>
<tr>
<td></td>
<td>1996 1.862 183 2.045</td>
<td>21.195 1.504</td>
<td>22.699</td>
</tr>
<tr>
<td></td>
<td>1997 1.958 216 2.174</td>
<td>21.203 1.552</td>
<td>22.755</td>
</tr>
<tr>
<td></td>
<td>1998 2.159 207 2.366</td>
<td>21.778 1.606</td>
<td>23.384</td>
</tr>
<tr>
<td></td>
<td>1999 2.204 229 2.433</td>
<td>22.048 1.829</td>
<td>23.877</td>
</tr>
<tr>
<td></td>
<td>2000 2.049 179 2.198</td>
<td>21.582 1.495</td>
<td>23.077</td>
</tr>
<tr>
<td></td>
<td>2001 2.093 242 2.335</td>
<td>21.526</td>
<td>23.492</td>
</tr>
</tbody>
</table>

Source: Turkish Statistical Institute

Employment and Unemployment According To Education Status

In 1990, 1,288 thousand secondary school graduates were employed in Turkey. In 1995, this ratio increased by 41.6% to 1,824 thousand; in 2001, the figure increased by 14.7% to 2,093 thousand people. In 1990, the ratio of elementary school graduates in total employment in Turkey was 6.9%; in 1995, the figure increased to 8.9% and in 2001 it further increased to 9.7%.

In 1990, 179 thousand secondary school graduates were employed in Turkey; in 1990 this figure increased by 24.6% to 223 thousand and in 2001 it increased by 8.5% to reach 242 thousand people. The ratio of elementary school graduates in the unemployed population of Turkey was 11.1% in 1990; this ratio increased to 13.1% in 1995 and decreased to 12.3% in 2001.

In 1990, 89 thousand people graduated from secondary vocational schools were employed in Turkey; in 1995, this figure decreased by 3.4% to 86 thousand and in 2001 it decreased further by 61.6% to 33 thousand people. The ratio of secondary vocational school graduates in the total national employment was 0.5% in 1990; it decreased to 0.4% in 1995 and 0.2% in 2001.

In 1990, 13 thousand people graduated from secondary vocational schools were unemployed nationwide; in 1995 no change was observed, but in 2001 this figure decreased by 117.3% to 4 thousand people. The ratio of secondary vocational school graduates in total unemployment figure of Turkey was 0.8% in 1990 and 1995; it decreased to 0.2% in 2001.
### Table 5. Employment Figures for Secondary Vocational School Graduates in Turkey (15+ Age)

<table>
<thead>
<tr>
<th>Years</th>
<th>Secondary Vocational School Graduates</th>
<th>Total</th>
<th>Employment-Unemployment-Labor Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 Employed (x1000 People)</td>
<td>2 Unemployed (x1000 People)</td>
<td>3 Labor Force (x1000 People)</td>
</tr>
<tr>
<td>1999</td>
<td>89</td>
<td>13</td>
<td>102</td>
</tr>
<tr>
<td>1991</td>
<td>77</td>
<td>11</td>
<td>88</td>
</tr>
<tr>
<td>1992</td>
<td>88</td>
<td>11</td>
<td>99</td>
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<td>1993</td>
<td>87</td>
<td>11</td>
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<td>1994</td>
<td>79</td>
<td>15</td>
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<td>1995</td>
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<td>1996</td>
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<td>9</td>
<td>59</td>
</tr>
<tr>
<td>1998</td>
<td>47</td>
<td>5</td>
<td>52</td>
</tr>
<tr>
<td>1999</td>
<td>70</td>
<td>12</td>
<td>82</td>
</tr>
<tr>
<td>2000</td>
<td>64</td>
<td>7</td>
<td>71</td>
</tr>
<tr>
<td>2001</td>
<td>33</td>
<td>4</td>
<td>37</td>
</tr>
</tbody>
</table>

Source: Turkish Statistical Institute

### Table 6. Employment Figures for High School Graduates in Turkey (15+ Age)

<table>
<thead>
<tr>
<th>Years</th>
<th>High School Graduates</th>
<th>Total</th>
<th>Employment-Unemployment-Labor Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 Employed (x1000 People)</td>
<td>2 Unemployed (x1000 People)</td>
<td>3 Labor Force (x1000 People)</td>
</tr>
<tr>
<td>1999</td>
<td>1.138</td>
<td>254</td>
<td>1.392</td>
</tr>
<tr>
<td>1991</td>
<td>1.268</td>
<td>258</td>
<td>1.526</td>
</tr>
<tr>
<td>1992</td>
<td>1.481</td>
<td>316</td>
<td>1.797</td>
</tr>
<tr>
<td>1996</td>
<td>2.161</td>
<td>353</td>
<td>2.514</td>
</tr>
<tr>
<td>1997</td>
<td>2.103</td>
<td>373</td>
<td>2.476</td>
</tr>
<tr>
<td>1998</td>
<td>2.405</td>
<td>401</td>
<td>2.806</td>
</tr>
<tr>
<td>1999</td>
<td>2.335</td>
<td>409</td>
<td>2.744</td>
</tr>
<tr>
<td>2000</td>
<td>2.332</td>
<td>273</td>
<td>2.605</td>
</tr>
<tr>
<td>2001</td>
<td>2.185</td>
<td>337</td>
<td>2.522</td>
</tr>
</tbody>
</table>

Source: Turkish Statistical Institute

Employment and Unemployment According To Education Status

In 1990, 1.138 thousand high-school graduates were employed in Turkey; in 1995 this figure increased by 81.6% to reach 2.067 thousand and in 2001 it increased further by 5.7% to reach 2.185 people. The ratio of high school graduates in the total national employment was 6.1% in 1991; it increased to 10% in 1995 and 10.2% in 2001.

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**International Conference on Economic and Management Perspectives**

*Conference Proceedings, October 17-19, 2008, North Cyprus*
In 1990, 254 thousand high school graduates were unemployed nationwide; in 1995 this figure increased by 37.8% to 350 thousand and in 2001 it decreased by 3.7% to 337 thousand people. The ratio of high school graduates in total unemployed population was 15.8% in 1990; it increased to 20.6% in 1995 and reduced to 17.1% in 2001.

Table 7. Employment Figures for Vocational High School Graduates in Turkey (15+ Age)

<table>
<thead>
<tr>
<th>Years</th>
<th>Vocational High School Graduates</th>
<th>Total</th>
<th>Employment-Unemployment-Labor Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 Employed (x1000 People)</td>
<td>2 Unemployed (x1000 People)</td>
<td>3 Labor Force (x1000 People)</td>
</tr>
<tr>
<td>1999</td>
<td>594</td>
<td>85</td>
<td>679</td>
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<tr>
<td>1991</td>
<td>539</td>
<td>100</td>
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<td>1992</td>
<td>620</td>
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<td>1993</td>
<td>547</td>
<td>81</td>
<td>628</td>
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<td>1994</td>
<td>590</td>
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<td>1995</td>
<td>722</td>
<td>125</td>
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<td>1996</td>
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<td>970</td>
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</tr>
<tr>
<td>1998</td>
<td>936</td>
<td>140</td>
<td>1,076</td>
</tr>
<tr>
<td>1999</td>
<td>1,017</td>
<td>157</td>
<td>1,174</td>
</tr>
<tr>
<td>2000</td>
<td>1,233</td>
<td>151</td>
<td>1,384</td>
</tr>
<tr>
<td>2001</td>
<td>1,415</td>
<td>214</td>
<td>1,629</td>
</tr>
</tbody>
</table>

Source: Turkish Statistical Institute

In 1990, 85 thousand vocational high school graduates were unemployed nationwide; in 1995 this figure increased by 47.1% to reach 125 thousand and in 2001 it increased by 71.2% to 214 thousand people. The ratio of vocational high school graduates in the total national employment was 3.2% in 1990; it increased to 3.5% in 1995 and 6.6% in 2001.

In 1990, 594 thousand people graduated from vocational high schools were employed in Turkey; in 1995, this figure increased by 21.5% to 722 thousand and in 2001 it increased further by 96% to 1,415 thousand people. The ratio of vocational high school graduates in the total national employment was 3.2% in 1990; it increased to 3.5% in 1995 and 6.6% in 2001.

In 1990, 998 thousand associate and undergraduate degree holders were employed nationwide; in 1995 this figure increased by 33.9% in 1995 to 1,323 thousand people and rose by 47.5% in 2001 to 1,951 thousand people. The ratio of associate and undergraduate degree holders in the total national employment was 5.3% in 1990; it increased to 7.4% in 1995 and to 10.9% in 2001.

In 1990, 254 thousand associate and undergraduate degree holders were employed in Turkey; this figure increased by 47.1% to reach 125 thousand and in 2001 it increased by 71.2% to 214 thousand people. The ratio of vocational high school graduates in total unemployed population was 5.3% in 1990; it increased to 7.4% in 1995 and to 10.9% in 2001.

In 1990, 73 thousand associate and undergraduate degree holders were unemployed in Turkey; this figure increased by 23.3% in 1990 to 90 thousand people and 82.2% in 2001 to 164 thousand. The percentage of associate and undergraduate degree holders in total unemployed population in Turkey was 4.5% in 1990; this figure increased to 5.3% in 1995 and 8.3% in 2001.
Table 8. Employment Figures for Associate And Undergraduate Degree Holders in Turkey (15+ Age)

<table>
<thead>
<tr>
<th>Years</th>
<th>Associate And Undergraduate Degree Holders</th>
<th>Total</th>
<th>Employment-Unemployment-Labor Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 Employed (x1000 People)</td>
<td>2 Unemployed (x1000 People)</td>
<td>3 Labor Force (x1000 People)</td>
</tr>
<tr>
<td>1999</td>
<td>988</td>
<td>73</td>
<td>1.061</td>
</tr>
<tr>
<td>1991</td>
<td>1.000</td>
<td>83</td>
<td>1.083</td>
</tr>
<tr>
<td>1992</td>
<td>1.078</td>
<td>99</td>
<td>1.177</td>
</tr>
<tr>
<td>1993</td>
<td>1.133</td>
<td>102</td>
<td>1.235</td>
</tr>
<tr>
<td>1994</td>
<td>1.239</td>
<td>104</td>
<td>1.343</td>
</tr>
<tr>
<td>1995</td>
<td>1.323</td>
<td>90</td>
<td>1.413</td>
</tr>
<tr>
<td>1996</td>
<td>1.448</td>
<td>103</td>
<td>1.551</td>
</tr>
<tr>
<td>1997</td>
<td>1.579</td>
<td>115</td>
<td>1.694</td>
</tr>
<tr>
<td>1998</td>
<td>1.633</td>
<td>151</td>
<td>1.784</td>
</tr>
<tr>
<td>1999</td>
<td>1.764</td>
<td>155</td>
<td>1.919</td>
</tr>
<tr>
<td>2000</td>
<td>1.869</td>
<td>143</td>
<td>2.012</td>
</tr>
<tr>
<td>2001</td>
<td>1.951</td>
<td>164</td>
<td>2.115</td>
</tr>
</tbody>
</table>

Source: Turkish Statistical Institute

Employment and Unemployment According To Education Status

In Turkey, the ratio of employment of illiterate people to employment of literate people was 18.2% in 1990; this figure decreased to 11.3% in 1995 and 9.7% in 2001. The ratio of unemployment of illiterate people to unemployment of literate people was 8.9% in 1990; it reduced to 3.7% in 1995 and 3.1% in 2001. The share of literate people in the total national workforce was 84.6% in 1990; this figure increased to 89.8% in 1995 and 91.2% in 2001. The share of literate unemployed people in Turkey in total unemployment was 91.8% in 1990; this figure rose to 96.5% in 1995 and 96.9% in 2001.

CONCLUSION AND RECOMMENDATIONS

Unemployment data in Turkey display that youngster unemployment is at grave levels nationwide. This high unemployment rate witnessed in educated youngsters must be accepted as the sign of an imminent threat for the future of the country. Depending on the importance attached to vocational education, the number of vocational training schools is increasing, but demand for general high school education is still on the rise. The limitations on higher education quotas lead to the fact that high-school graduates flow to labour market with simply no vocational background and face with a grave unemployment problem. It is not possible to discuss youngster unemployment, which is high across the country, independently from education policies that is in force. The biggest share in total unemployment belongs to elementary school graduates; however, the ratio of high-school graduates is also high. In this case, it is quite essential that the secondary education function of preparing for employment should be reexamined and necessary plans should be urgently made and put into practice.

It is a reality that the capacity of employment-generating investments is not sufficient to cover the increase in labor supply and that education offered is not sufficient for employment. In this case Turkey has to provide better education facilities to its youngsters and promote them to the minimum level of high-school graduates on one hand, and has to improve current workforce with mass education based on life-long learning philosophy (on-the-job training, in-service training, improvement training etc.) and continuously improve vocational qualifications. It is believed that unemployment among educated population of Turkey is higher than that of uneducated population. However, it is not likely that this problem will be solved merely with education. It is natural that youngster’s graduates from department opened with no consideration of employment opportunities end up unemployed, and education system can be held responsible for such problems. However, it is a reality that the bigger portion of business world is not tended to employ qualified
workforce. One can claim that companies opening themselves to global markets are increasingly becoming aware of this mistake and tend to employ qualified workforce. There is no other way of being able to compete in international markets. If the truth than unqualified workforce and low wages mean higher costs is better accepted in business life, the economic benefit generated by education will improve and unemployment rates of educated individuals will decrease.

One of the obstacles for health development of education-employment relations is the fact that it is discussed as an issue merely related to vocational and technical education. Most European countries are in an effort to generate a structure at elementary school level so that school-business life relation can be strengthened. Projects are being prepared for this purpose, and students are taken to workplaces at minor ages and they are introduced with business life. In Turkey, on the other hand, school has undertaken the function of preparing students for life, which seems to have reached a level which detaches school from life and creates a separate world. In summary, not only vocational and technical education institutions in Turkey are detached from business life but also general education institutions are equally detached from life. All kinds and levels of relations between education and business life have to be established and strengthened in order to change this structure. It is believed that, if this can be done, most problems observed in education-employment relations can be solved.

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ABSTRACT

Today’s economic markets are changing rapidly. Business rules of former days are not longer guilty at present. In order to meet the challenges of tomorrow, banks and insurance companies have to know their customers or in other words the value of their customers. In this paper, the authors describe an approach to separate the valid customers from the not valid customers. In order to reach this goal, we created a model based on a scoring method as well as domain specific rules for evaluating the customers for operational and strategic processes. In addition, after calculating the customer value, the model creates reaction recommendations for the responsible persons based on the customer value calculated by the model. By using these reaction recommendations of the operational part of model, banks and insurance companies have the benefit to accelerate decision finding processes, because of an automatically generated decision support. Moreover the strategic part of the model separates the customers in predefined customers segments.

JEL Classification: B41; C12; C15; C61; F47.

Keywords: Customer Value; Customer Value Calculation; Business Intelligence; Financial Reporting.

1. INTRODUCTION

Today’s economic markets are largely saturated and therefore highly competitive. Because of the internet and the globalization, banks and insurance companies have to compete with organizations from almost all parts of the world. Furthermore, customers of today are more critical and not longer as loyal as in the past. At the same time, in addition to these external facts, there is an enormous internal pressure by the companies’ management to streamline and to reduce costs. Furthermore, it is significant for the banking and the insurance industry to provide a broad range of services, which are offered individually to the customers and also based on the current situative environment of the customer. As the Customer Value model is characterized by many perspectives and thereby an interdisciplinary approach – e.g. the marketing perspective, the strategic view, the mathematical calculation – this paper focuses on the opportunities to support the concept with information and communication technology. Therefore employees, e.g. in call centers, could be enabled to interact with the customers on a situative and individual level, so that a differentiation in comparison to the competitors can be
reached. As a reaction on these trends mentioned above, companies need a method to evaluate their customers in order to separate the valuable customers from the not-valuable customers.

2. BACKGROUND AND CURRENT STANDARDS OF DETERMINING THE CUSTOMER VALUE

A recent market study shows that about 40 percent of the companies already use a Customer Value (CV)-model. The two major issues pointed out arise from the small number of useful variables, used to calculate a significant CV, as well as the overestimation of their CV-model’s flexibility by the companies, which still needs to be increased. The same study found that 37 percent rely on 5 or less indicator variables for the calculation of the CV, while only 13 percent use a more complex CV-model, which encompasses more than 10 indicator variables (Capgemini 2005). Hence, it is not surprising that the adequate addressing of the customers, based upon a reliable customer value model, remains one of the top Customer Relationship Management (CRM)-topics (Capgemini 2006). Of course CRM has to go beyond the pure assessment of customers according to their projected life value and rigid sorting out of not valuable customers. Especially in order to keep the good customers, the CRM must be multidimensional and should focus also on the personal customer individually (Ambler and Roberts, 2006; Ambler 2007).

There is a wide range of models available, which can be used to aggregate the Customer Lifetime Value (CLV). A recent comparison study in the insurance industry computed the CLV for a four-year period and found that especially the simple models performed well, while more complex models did not result in substantially better predictions of the CLV. Furthermore it is pointed out that it is not enough to take the customer retention into account, but also necessary to comprise the cross-buying (Donkers et al. 2007).

Customer Lifetime Value (CLV)

The Customer Lifetime Value-approach is part of capital budgeting. It is long-term-oriented rather than period-oriented and measures the value of a customer throughout the entire life cycle of the relation (based on the life cycle-concept). Expected future payments are being discounted to calculate the CLV, which can be seen as the present value of all future cash flows caused by a particular customer. The Customer Lifetime Value delivers a number on which companies can decide whether the relation to the customer is advantageous (Gunther et al., 2006). But there are tremendous problems in how this number is calculated: it does not include the qualitative aspects of the relation and the quantitative numbers are solely based on highly uncertain approximations of the future (Hinterhuber, 2006).

Taking a closer look on the calculation of the CLV, theory relies on the present value of all future cash flows, which can be associated with a certain customer (Pfeifer et al., 2005). As it is very challenging to predict these future cashflows, most models rely on historical customer data for the calculation. In contrast, Fader et al. (2004) tried to focus on the future by using RFM (regency, frequency, monetary value) paradigm inputs and iso-value curves to “translate past behavior into likely future trends”.

The underlying figure 1 for the ABC Analysis can either be turnover or profit contribution per customer (we will concentrate on ABC-Analysis by turnover because of its higher popularity). It follows the rule, that 20% of the customers are responsible for 80% of the turnover (Gunther et al., 2006). The “Lorenz-Curve” helps to better understand how the ABC-Analysis works: The slope of the “Lorenz-Curve” shows the concentration of turnover which is then being used to identify A, B and C- customers. A-customers are most important and justify the highest amount of care because they produce the biggest part of the turnover. On the contrary, the companies try to minimize the care for C-customers whereas for B-customers the decisions are ambiguous (Hinterhuber, 2006).

The biggest strength of the ABC-Analysis is certainly its simplicity. While an easy implementation is crucial for companies, the ABC-Analysis comes with many weaknesses. Notable examples are the neglect of customer potential, which makes it hard for high potential C-customers to develop into A-customers, because the company fails to take care of them; also the ABC-Analysis disregards the cost aspects and by doing so does not reveal the customer’s profitability.
Customer Profit Contribution

By using the customer profit contribution it is possible to calculate a more accurate value of the customer relation. The turnover is not the only criteria to evaluate the customer value but the direct costs of the relation are taken into account (Hinterhuber, 2006). Examples for costs, that can directly be allocated to customers are costs for client service, special services and customer-specific packaging (Gunther et al., 2006). The customer profit contribution method delivers much better results than the ABC-Analysis because besides turnover it also includes costs. Since there is no perfect way to find the customer value, this method also implies disadvantages like the fact, that it does not comprehend qualitative factors. Furthermore, certain positions cannot be assigned directly to single customers and distort the results (Hinterhuber, 2006).

Scoring Models

Scoring models are mathematical assessment methods, which are easily structured and assign a certain “score” to each customer. The first step is to define the criteria by which the customer is being evaluated. The next step is to define the weighting of each criteria. Subsequently every customer gets an evaluation based on each criteria which adds up to the “score”, in this case the customer value (Gunther et al., 2006).

There are many different Scoring Models which have different strengths and weaknesses, but one strength, which they all share, is definitely the fact, that companies can freely choose which criteria are most important and by doing so create a perfect fit between customer value and company. The subjectivity of choice and weighting of the criteria on the other hand can also result in problems as well as the allocation of the scores to individual customers (Gunther et al., 2006).

Even though all these methods to define the customer value could be used in practice, the usage differs widely. By far the most common method to identify the customer value is the ABC-Analysis by turnover. Customer profit contribution is next in line and still used by almost half of the companies queried in a study conducted by the University of St. Gallen, while almost none of these companies used Scoring Models or Customer Lifetime Value. (Universität St. Gallen, 2005)

3. THE CUSTOMER VALUE REFERENCE MODEL

A simplified approach to calculate the value of a customer is described in Cornelson (2000). The method is to divide the earnings (reached a specific customer) by the costs (caused by that specific customer). The model, described in this paper, uses not only earnings and costs to evaluate the value of a customer.

Creation of a customer value reference model

In order to create a reference models that uses an extended amount of customer-features for calculating the customer value. In this context, the relevant features of the customer are called the attributes of a customer. Examples of the attributes are separated in general attributes (valid for all branches) and in domain specific attributes. On the one hand, attributes for banks are the amount of used credits, the sum of savings, trading behavior etc. and attributes for insurance companies are the amount of caused claims, the sum of the claims or the amount of insurance relationships of the customer. On the other hand, general attributes are the income, the age or the amount of children of the customer. When all relevant attributes are collected, every attributes needs a specific weight.

The weight (for example: a number between 1 and 100) evaluates how much this specific attribute affects the customer value. In addition to the weight, every attributes needs rules in order to evaluate the attribute values of a specific customer. If all these components are finished for the specific domain, the algorithm is able to calculate the “value” of a customer. This process is described exactly in next paragraph.
Calculation of the customer value.

The calculation of the customer value bases on defined rule evaluation values for every rule of an attribute. To be more exactly, if a specific rule matches for an attribute value of a customer, the rule evaluation value will be multiplied with the predefined weight of the attribute. For example: The yearly income of a customer is “42.000” Euro. For the attribute “income” which has a predefined weight of “5”, the following rules exist:

• 1. Yearly income between 0 and 1.000 Euro -> evaluation value: 0
• 2. Yearly income between 1.001 and 5.000 Euro -> evaluation value: 10
• 3. Yearly income between 5.001 and 10.000 Euro -> evaluation value: 20
• 4. Yearly income between 10.001 and 20.000 Euro -> evaluation value: 30
• 5. Yearly income between 20.001 and 25.000 Euro -> evaluation value: 40
• 6. Yearly income between 25.001 and 30.000 Euro -> evaluation value: 50
• 7. Yearly income between 30.001 and 40.000 Euro -> evaluation value: 60
• 8. Yearly income between 40.001 and 50.000 Euro -> evaluation value: 70
• 9. Yearly income between 50.001 and 70.000 Euro -> evaluation value: 80
• 10. Yearly income between 70.001 and 100.000 Euro -> evaluation value: 90
• 11. Yearly income greater than 100.000 Euro -> evaluation value: 100

For the example customer with a yearly income of “42.000” Euro matches the rule number 8. So an evaluation value of “70” will be multiplied with a weight “5” of the attribute “income”. The result is the attribute evaluation value which will be divided by 100 in order to keep in a scale between 0 and 100 for the attribute evaluation value. In the case, the attribute evaluation value of “income” is 3.5 (=70*5/100). The customer value as final result is the sum of all attribute evaluation values. The customer value also lies between 0-100 because of the chosen scale form of 100.

Operational Areas of the Customer Value in the Banking and Insurance Domain

There are two possible main directions of operational areas of customer value. One the one hand, the customer value can be used for the strategic separation of the customers. This means to allocate the customer into a specific customer segment on the base of the customer value. This is the one-dimensional method. The two-dimensional method is to calculate the so called “earnings rate” of the customer (customer value related to the past) and the “potential rate” (customer value related to the future). For computing this specific customer values, attributes, weights and rules have to be defined which are relevant for the specific customer value. On the base of the two values, the customer can be allocated in a two dimensional customer segment model. The following allocation rules are an example for a scale of 100:

• If earnings rate > 50 and potential rate > 50 -> allocation to segment: Star Customer
• If earnings rate > 50 and potential rate < 50 -> allocation to segment: Premium Customer
• If earnings rate < 50 and potential rate > 50 -> allocation to segment: Future Customer
• If earnings rate < 50 and potential rate < 50 -> allocation to segment: Low Value Customer

The classification of customers to segment delivers valuable information for e.g. the campaign controlling or how much effort can be invested for a customer for processing complaints etc.

One the other hand, besides of strategic tasks, the customer value can also be used in the fields of operational processes just as decision finding processes. An example for an operational use of the customer value is the ”goodwill granting” process in the context of claim handling in the insurance domain. For this process, a specific situation based customer value, similar to earnings rate and potential rate, will be calculated. In order to reach that goal all relevant attributes for claim handling (just as amount of claims of the customer, sum of all claims of the customer, amount of the actual claim) have to be collected. The next step is to create weights, rules and rule evaluation values for all attributes of the situation based customer value (in this case for claim handling). On the base of situation based customer value, specific reaction rules can be defined. The following example describes reaction rules for the claim handling process (for a scale of 100):

• If claim handling customer value between 0 and 33 -> action: no goodwill granting
• If claim handling customer value between 34 and 66 -> action: individual controlling
• If claim handling customer value between 67 and 100 -> action: goodwill granting

The benefit of this method for insurance companies is to find goodwill granting decisions for a lot of claim cases automatically. This reduces the efforts for individual controls enormously.

4. CORRELATION ANALYSIS

The acquisition of data sets with selected attributes is considered the foundation of the correlation analysis. In course of that, specifics to the customer value according to the customer value model are being analysed and suitable data as well as (if applicable) existing customers or target values are extracted from provided databases (Fig. 2). The second step is conducting an empirical analysis. Supported by analysis programs, correlations between individual customer attributes as well as correlations between the attributes and the target value itself are being examined. The calculated values generate a system, which enables to cancel attributes with marginal correlation to the target value from the customer value system or combine them with other attributes. Using this procedure ensures, that only relevant attributes are implemented into the model. This repetitive process allows converging the ideal state and rendering a universal concept to develop the customer value into an instrument inevitable for both banks and insurances in order to increase productivity end efficiency.

5. CONCLUSIONS

Using a Business Intelligence System within the Customer Lifetime Value can lead to varies opportunities for the companies. If the Customer Value is integrated in all Systems of the company it is possible to gain varies profits. Based on a BI-System companies actions can be initiated more effectively. The system can for example aggregate and visualize the data of the current financial situation of a customer. Based on the CLV the employees can derive recommendations for further actions. Another chance is to provide an integrated view of the customer. As the CLV model implies a consideration of all phases of the customer lifecycle it is possible so separate the existing customers for future marketing activities. When activities are planned the BI-System can search for customers which might be interested. Adapted from the historical and potential value the system provides a rate which informs the companies about the further potential of their customers. If a CLV oriented controlling is integrated the value proposition of each customer becomes transparent. As former studies have shown only 20% of the customer relations are profitable. Other relations destroy value. Knowing which customer is really profitable is important for the controlling of further actions. Companies can focus their activities on the profitable customers. This focus might result in an ascent of the company’s value because the estimated income of orders rises. So the sustainable success of a company can be reached.

7. REFERENCES


MP-19:

An Evaluation of Industrial Structure of South-East Anatolia Region on The Basis Of Various Indicators

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ABSTRACT

Of all the regions in Turkey, Southeast Anatolian Region is the smallest. The region is at a lower level due to some factors such as inefficiency of infrastructure and financial support and some social-cultural factors that affect development. Southeastern Anatolia Project has brought significant changes to economical structure and social life of the region. The most active sectors in the industry of the region are foodstuff and beverage production, textile products, non-metallic mineral products, mining and quarrying, production of clothes and dyeing and processing of furs and extraction of crude oil and gas. Some other sub-sectors are bakery, production of textile except clothing, construction and decoration stone production, metal materials for buildings, sand quarrying, production of plastic products and inorganic chemical items.

Keywords: South-East Anatolia Region, Industry, Sectors, Sub-sectors.

INTRODUCTION

It has been often stated that, in the globalization process, knowledge becomes an important production factor and those countries which can use and manage knowledge efficiently will leave their mark on 21st century (Demirel, 2007). Realization of the basic transformations that information society requires is quite essential so that economic and social structure of Turkey can be strengthened. Realization of the transformation to information society will allow for maximum utilization of the opportunities and potentials released by globalization process and minimization of problems. Construction or strengthening of information infrastructure in Turkey will play a key role in preparing our country for the future and entrusting it with an effective role in the world.

The purpose of this paper is to determine manufacturing industries that come to the fore in South-East Anatolia Region and display the industrial structure of the region. Paper’s findings should be reinforced with more detailed studies in local areas and supported by secondary studies which will display the features, potentials and dynamics of each district.

If the findings of this paper, which discusses prominent economic activities in South-East Anatolia Region can be supported by field researches or feasibility and inventory studies, and provide manufacturing industry data input on a regional basis, an important information infrastructure will be generated in terms of guiding public policies and private sector alike, rational utilization of public resources and formation of a location-focused promotion system which works effectively nationwide.

The scope of this paper is generally restricted with manufacturing industries; however, as chambers of industry and trade choices, import, investment incentive and foreign investment data include herbal production, stockbreeding and tourism, these industries were also taken into consideration.

1. GENERAL EVALUATION OF THE ECONOMIC STRUCTURE OF SOUTH-EAST ANATOLIA REGION

South-East Anatolia Region is the smallest geographical region in Turkey with its 59,176 km² area. Its share in the total area of Turkey is 7.5% (Cangir and Boyraz, 2003). The region is located between east of Hatay and Kahramanmaraş, southern skirtings of Southeast Toroslar and Syria in the east, and partially Iraq. Karacadağ and Mardin mountains divide the region into two sections: Middle Euphrates in the west and Tigris in the east.
(Akın, 1999). The region includes the following provinces: Gaziantep, Diyarbakır, Şanlıurfa, Mardin, Adıyaman, Batman, Siirt, Kilis and Şırnak.

There are significant differences between geographical regions of Turkey in terms of development level. Within this framework, Marmara and Aegean regions represent a relatively high level of development, whereas South-East Anatolia and Eastern Anatolia regions have low levels of development. South-East Anatolia Region ranked sixth in Social-Economic Development Ranking of Regions of Turkey in 1996-2003 period (State Planning Organization, [http://www.dpt.gov.tr/bgyu/seg/cog_bolge.htm](http://www.dpt.gov.tr/bgyu/seg/cog_bolge.htm)). Differences in development level between regions is attributable to factors including lack of infrastructure, insufficient level of capital accumulation (both human and physical), existence of social-economic structures which badly affect development phenomenon etc. (Elmas, 2001). Economic imbalance between Turkey’s geographical regions has been worsening throughout years. The fact that investments usually concentrate in developed regions attracted more investments and economic imbalance between regions worsened in time. However, there is not a homogeneous picture of underdeveloped regions. As Gaziantep represents, some provinces can display characteristics different from the general features of their region (Pınarçioğlu and Işık, 2004).

Before examining the industrial structure of South-East Anatolia Region, we must mention The Southeastern Anatolian Project, which is accepted as a turning point in the development of the region. After adopting planned development in Turkey, a special importance has been attached to regional development and eliminating disparities between regions. Within this context, in addition to regional development plans, which is the basic tool, there were also investment incentives, policies for Development-Prioritized Districts, industry infrastructure investments etc. South-East Anatolia Region took an important share of these efforts. The Southeastern Anatolian Project is the most important project that is produced as a result of this framework (Akın, 1999).

The Southeastern Anatolian Project was launched in order to accelerate the development pace of the region (Southeastern Anatolia Project–Regional Development Administration, 2005). The project is the biggest and integrated package of projects of Republican history: it is also a regional development project programmed and implemented by Turkish people (Demir, 1989). With its integrated nature, the project is not limited to physical investments like dams, hydro-electricity power plants, watering facilities only; it is also inclusive of investments and activities like developing agricultural development, industrial and urban infrastructure, communication, education, health, culture, tourism etc. social-economic factors in cooperation (Southeastern Anatolia Project–Regional Development Administration, 2005). As implementation of the project began, important changes and developments were witnessed in the economic structure and social life of the region.

### Table 1: Gross Domestic Product (1987 Prices)

<table>
<thead>
<tr>
<th>Years</th>
<th>South-East Anatolia (Billion TLs)</th>
<th>Turkey (Billion TLs)</th>
<th>Region/Turkey (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>4.514</td>
<td>83.578</td>
<td>5.4</td>
</tr>
<tr>
<td>2001</td>
<td>6.076</td>
<td>109.885</td>
<td>5.5</td>
</tr>
</tbody>
</table>

Source: Turkish Statistical Institute, Gross Domestic Product, [http://www.dpt.gov.tr/bgyu/bgr/eg/gsyih87.htm](http://www.dpt.gov.tr/bgyu/bgr/eg/gsyih87.htm)

The share of South-East Anatolia Region’s Gross Domestic Product in national Gross Domestic Product was 5.4% in 1990; it increased to 5.5% in 2001. When we examine the sectoral distribution of South-East Anatolia Region’s Gross Domestic Product, we can see that agricultural industry claims approximately 32%, whereas shares of manufacturing and service industries represent 18% and 50% respectively (State Planning Organization, [http://ekutup.dpt.gov.tr/ekonomi/gosterge/tr/1950-01/esg.htm](http://ekutup.dpt.gov.tr/ekonomi/gosterge/tr/1950-01/esg.htm)).

### 2. MATERIAL AND METHOD

The infrastructure of this paper is provided by percentage distribution of employment and unemployment figures compiled from General Industry and Workplaces Census results and intensity quotient of industries, private sector workforce efficiency quotients compiled from Manufacturing Industry Survey results, sectoral
priorities and preferences compiled from the Survey For Investment Areas Where Competitive Power is Best Perceived on National and Global Scale, percentage distribution and intensification quotient compiled from the data of Under Secretariat of Foreign Trade, foreign investments and realized incentive-certified investments compiled from the data of Under Secretariat of Treasury.

At the first stage of the research, data obtained from the above mentioned sources were independently evaluated with a number of calculation methods, and the first three prominent sectors were determined for each province. At the second stage, determined industries were evaluated together and sub-sectors that come to the fore in each region were determined on a province-basis. Then, these obtained data were ranked according to their recurrence and the sectors that are prominent in the economic structure of prominent in South-East Anatolia Region were detected. Calculation methods employed in this paper are taken from Turkish Statistical Institute paper titled “Province-Based Prominent Industry Sectors”.

3. PROMINENT SECTORS IN SOUTH-EAST ANATOLIA REGION IN TERMS OF CERTAIN INDICATORS

In this section, economic activities that come to the fore in South-east Anatolia Region’s economic make-up are detected in terms of indicators for workplace and employment figures of sectors, percentage distribution, intensification quotients, preferences of chambers of commerce and industry, percentage distribution of exports and concentration quotients, foreign investments and incentive-certified investments.

3.1. Sectors that Stick Out According to Percentage Distribution of Employment and Workplace Numbers in General Industry and Workplaces Census

Percentage distribution of sectoral workplace and employment figures in South-east Anatolia Region is obtained by applying the following calculation method on the data obtained from General Industry and Workplaces Census (GIWC).

\[
\text{GIWC Provincial Percentage Distribution} = \left( \frac{M_{ij}}{M_i} \right)^{0.5} + \left( \frac{E_{ij}}{E_i} \right)^{0.5}
\]

Where;
- \(M_{ij}\) is the number of workplaces in the province “i” in sector “j”
- \(M_i\) is the total number of workplaces in province “i”
- \(E_{ij}\) is the employment figure in province “i” in sector “j”
- \(E_i\) is the total employment figure in province “i”

In this calculation method, equal weight is given to workplace and employment percentages of sectors in provinces. As a result of this calculation, three factors were determined as prominent in terms of percentage distribution for each province in the region. Determined factors were ranked according to their recurrence values and the sectors that stick out according to percentage distribution in South-east Anatolia Region were determined as listed below:

- Foodstuff and beverage production
- Manufacturing of textile products
- Manufacturing of clothes; fur processing and dyeing
- Manufacturing of other non-metallic mineral products
- Manufacturing of fabrication metal product excluding machinery and equipments
- Mining and quarrying
- Manufacturing of wood and wooden cork (excluding furniture)
- Manufacturing of materials obtained by weaving reeds, hays and similar materials
3.2. Sectors that Stick Out According to General Industry and Workplace Census Concentration Quotient

Concentration quotient of industry sectors in South-east Anatolia Region is obtained by applying the following calculation method on the data obtained from General Industry and Workplaces Census.

\[
\text{GIWC Concentration Quotient} = \left\{ \left( \frac{M_{ij}}{M_i} \right)^{0.5} + \left( \frac{E_{ij}}{E_j} \right)^{0.5} \right\}
\]

Where:
- \( M_{ij} \) is the number of workplaces in province “i” in sector “j”
- \( M_i \) is the total number of workplaces in province “i”
- \( M_j \) is the total number of workplaces in sector “j”
- \( M \) is the total number of workplaces in Turkey
- \( E_{ij} \) is the employment figure in province “i” in sector “j”
- \( E_i \) is the total employment figure in province “i”
- \( E_j \) is the employment figure in sector “j”
- \( E \) is the total employment figure in Turkey

If the concentration quotient is bigger than 1, it means that that sector is above national average in that province; if it is smaller than 1, it means that that sector is below national average in that province; if it is “1”, it means that the figure is equal to national average. As a result of the calculation, three prominent sectors are determined for the concentration quotient of each province in the region. These sectors prominent in terms of concentration quotients in South-east Anatolia Region, which are ranked according to the number of recurrence, are listed in the following list:

- Foodstuff and beverage production
- Manufacturing of other non-metallic mineral products
- Manufacturing of wood and wooden cork (excluding furniture), manufacturing of materials obtained by weaving reeds, hays and similar materials
- Manufacturing of textile products
- Mining and quarrying
- Manufacturing of fabrication metal product excluding machinery and equipments
- Manufacturing of tobacco products
- Tanning and processing of leather
- Manufacturing of plastic and rubber products

3.3. Sectors that Stick Out According to Private Sector Manufacturing Industry Workforce Efficiency Concentration Quotient

Relative workforce efficiency concentration quotients of private sector manufacturing industry in South-east Anatolia Region are determined by implementing the following calculation method according to the data obtained from Manufacturing Industry survey.

\[
\text{Workforce Efficiency Concentration Quotient} = \frac{M_{ij}}{M_j}
\]

Where:
- \( M_{ij} \) is added value per capita in province “i” in sector “j”
- \( M_j \) is national added value per capita in sector “j”.
Quotients obtained as a result of calculation are ranked and three sectors with the highest workforce efficiency concentration quotients in South-east Anatolia Region are listed as follows:

- Foodstuff and beverage production
- Mining and quarrying
- Manufacturing of textile products
- Manufacturing of clothes; fur processing and dying
- Manufacturing of plastic and rubber products

3.4. Prominent Sectors According to Preferences and Priorities of Chambers of Industry and Trade

A survey has been applied with the topic of “Investment Areas Where Competitive Power on National and Global Scale is Best Perceived” to chambers of industry and trade of all provinces of Turkey by State Planning Organization–Directorate General of Regional Development and Structural Adaptation in 2004. From the section titled “Sectoral Priorities and Preferences” of this survey, best-preferred three sectors for each provinces of South-east Anatolia Region are detected. The identified sectors are ranked according to number of recurrence and the sectors that stick out according to priorities and preferences of chambers of industry and trade in South-east Anatolia Region are detected and listed as follows:

- Foodstuff and beverage production
- Manufacturing of textile products
- Manufacturing of other non-metallic mineral products
- Mining and quarrying
- Agriculture
- Manufacturing of clothes; fur processing and dying
- Stockbreeding
- Furniture products, other manufacturing’s not classified elsewhere
- Manufacturing of chemical products and materials
- Manufacturing of cocking coal, refined petroleum products and nuclear fuels
- Manufacturing of machinery and equipments not classified elsewhere
- Manufacturing of electrical machinery and equipments not classified elsewhere
- Tourism

3.5. Sectors that Stick Out According to Percentage Distribution of Exports

Sectors that stick out in terms of percentage distribution of exports in South-east Anatolia Region are determined by means of applying following calculation method on the export data obtained from Under Secretariat of Foreign Trade.

Provincial Export Percentage = \( \frac{M_{ij}}{M_j} \)

Where;

- \( M_{ij} \) is the total export figure in province “i” in sector “j” in 2002-2006 period
- \( M_j \) is the total export figure in Turkey in sector “j” in 2002-2006

With this calculation method, the percentage of export made from region’s provinces according to sectors to the total sectoral export of Turkey is determined separately for each year. The first three sectoral export rates are ranked according to number of recurrence and the sectors that stick out in South-east Anatolia Region according to the percentage distribution of export are determined and listed as follows:

- Manufacturing of textile products
- Foodstuff and beverage production
- Manufacturing of other non-metallic mineral products
- Herbal production
- Main metal industry
- Manufacturing of machinery and equipments not classified elsewhere
3.6. Sectors that Stick Out According to Export Concentration Quotient

Sectors that stick out in terms of concentration quotient of exports in South-east Anatolia Region are determined by means of applying following calculation method on the export data obtained from Under Secretariat of Foreign Trade.

\[
\text{Export Concentration Quotient} = \frac{M_{ij}/M_i}{M_j/M}
\]

Where;
- \(M_{ij}\) is the total export figure in province “i” in sector “j” in 2002-2006 period
- \(M_i\) is the total export figure in the province in 2002-2006 period
- \(M_j\) the total export figure in Turkey in sector “j” in 2002-2006 period
- \(M\) is the total export figure in Turkey in 2002-2006 period

With this calculation method, concentration quotients of sectoral exports in region’s provinces are determined individually for each year. The first three detected quotients are ranked according to their number of recurrence and thus sectors that stick out in terms of concentration of export quotient in South-east Anatolia Region and listed as follows:

- Foodstuff and beverage production
- Manufacturing of other non-metallic mineral products
- Manufacturing of textile products
- Herbal production
- Stockbreeding
- Manufacturing of clothes; fur processing and dying
- Manufacturing of wood and wooden cork (excluding furniture), manufacturing of materials obtained by weaving reeds, hays and similar materials
- Manufacturing of fabrication metal product excluding machinery and equipments
- Manufacturing of chemical products and materials

3.7. Sectors that Stick Out According to Foreign Capital Investments

Sectors that stick out in terms of foreign capital investments in South-east Anatolia Region are detected from foreign capital investment figures obtained from Under Secretariat of Foreign Trade. First of all, three sectors to which the highest foreign investment is made are detected separately for each province. Then, detected sectors are ranked according to their number of recurrence and the sectors that stick out in South-east Anatolia Region according to foreign capital investment are detected as listed below:

- Manufacturing of clothes; fur processing and dying
- Activities related to petroleum and gas excluding crude oil and natural gas extraction and search and exploration
- Manufacturing of chemical products and materials
- Mining and quarrying
- Foodstuff and beverage production

*However, as not all provinces host foreign capital investment, or as the number is less than 3, the ranking was made according to the number of current foreign capital investments.
3.8. Sectors That Stick Out According to Realized Incentives

Sectors that stick out in South-east Anatolia Region according to incentive-certified investments are detected from the data of Under Secretariat of Treasury. First of all, three sectors with the highest incentive-certified investment (file closed) are detected separately for each province. Then, detected sectors are ranked according to their number of recurrence and the sectors that stick out in South-east Anatolia Region according to incentive-certified investments are detected as listed below:

- Foodstuff and beverage production
- Manufacturing of textile products
- Stockbreeding
- Manufacturing of plastic and rubber products
- Furniture products, other manufacturing’s not classified elsewhere
- Main metal industry
- Manufacturing of clothes; fur processing and dying

4. PROMINENT SUB-SECTORS IN SOUTH-EAST ANATOLIA REGION IN TERMS OF VARIOUS INDICATORS

In this section, sub-sectors that stick out in South-east Anatolia Region are determined. At the first stage, recurrence numbers of sectors that stick out are determined on the basis of eight indicators compiled from data sources given above. The sector with highest number of recurrence is ranked first, and other sectors following it are ranked second and third sectors. At the second stage, detected sectors are examined in terms of the sub-sectors within themselves and sub-sectors that stick out in the region are determined. Sub-sectors are determined from the sectoral percentages calculated by giving equal weight to workplace and industry based on provisional results of 2002 General Industry and Workplace Census of Turkish Statistical Institute. Scopes of sub-sectors are derived from “Manufacturing Industry Detailed Sectoral Structure” section of NACE classification based on two and four numbered coding of sectors. As a result, sub-sectors that stick out in South-east Anatolia Region on the basis of various indicators are determined as listed below.

1. Foodstuff and Beverage Production
   - Production of bread, bakery products and cakes
   - Production of grinded grain products
   - Production of rusk, biscuits, durable pastry shop products and durable cake production
   - Creamery operating and cheese production
   - Production of refined, liquid and solid fats
   - Production of cacao, chocolates and candies
   - Production and storing of meat products
   - Sugar production
   - Ready-feed production for barn animals
   - Processing and storing of vegetables and fruits not classified elsewhere

2. Manufacturing of Textile Products
   - Production of textile products excluding clothes
   - Preparation and spinning of natural and synthetic cotton fiber
   - Production of rugs and carpets
   - Soft goods
   - Knitwear and needle-made jumper, cardigan etc. production
   - Production of other textile products not classified elsewhere

*NACE-Nomenclature statistique des Activités économiques dans la Communauté Européenne (Statistical Classification of Economic Activities in European Community)
3. Manufacturing of Other non-Metallic Mineral Products

- Cutting, shaping and making ready-to-use of decorative and construction stones
- Construction-aimed production of concrete products
- Production of bricks, briquette, tiles and construction materials made of dried clay
- Production of ceramics and cobblestones
- Production of cement
- Production of sheet glass

4. Manufacturing of Fabrication Metal Product Excluding Machinery and Equipments

- Manufacturing of metal construction chopping
- Production of metal structures and structure parts
- Coating and processing of metals
- Forging, pressing, pressurizing and rolling of metals; dust metallurgy

5. Mining and Quarrying

- Sand and pebble quarrying
- Decoration and construction stones
- Extraction of crude oil and natural gas
- Mining and brick-making in quarry

6. Manufacturing of Plastic and Rubber Products

- Manufacturing of other plastic products
- Manufacturing of plastic construction materials
- Manufacturing of plastic packaging materials
- Manufacturing of plastic layers, moulds, tubes and profiles

7. Manufacturing of Chemical Products and Materials

- Production of other inorganic main chemical materials
- Production of coating materials like dye and varnish and printing house ink and paste
- Production of pesticides and other agricultural chemicals

8. Herbal Production

9. Manufacturing of Clothes; Fur Processing and Dying

- Manufacturing of other outwear

CONCLUSIONS AND RECOMMENDATIONS

Economic backwardness of South-east Anatolia Region is a well-known fact. Regional entrepreneurs are making investments and founding new businesses from time to time so as to make a contribution to the elimination of this problem. However, some of these investments fail at the end as they are made without necessary field research and feasibility works in the first place, just for the purpose of creating added value and being helpful to regional development, as today’s market conditions oblige entrepreneurs to give the first place to their business returns.

This research is important in that it determines the sectors that stick out in the South-east Anatolia Region according to a number of indicators. When we shortly examine the results obtained from data sources listed above, we can conclude that:
It is highly possible that industry sectors that attract intense investment in one region are production areas with high profitability. According to General Industry and Workplaces Census results:

- Foodstuff and beverage production
- Manufacturing of textile products
- Manufacturing of clothes; fur processing and dying

are the production areas that attract most investment in the region.

When taking decision for industry investment, workforce efficiency in relevant sector is a benchmark that should be taken into consideration. According to Turkish Statistical Institute Manufacturing Industry data:

- Foodstuff and beverage production
- Mining and quarrying
- Manufacturing of textile products

are the production areas with highest workforce efficiency in the region.

At chambers of commerce and industry, there is considerable information on the industrial and commercial situation of their region. Taking into consideration this accumulation of knowledge will be effective for entrepreneurs in taking proper investment decisions. The chambers of commerce and industry in the region are prefer that investment is made in the following sectors:

- Foodstuff and beverage production
- Manufacturing of textile products
- Manufacturing of other non-metallic mineral products

Production of products with high demand in markets abroad is an important factor especially in marketing process. The following sectors have the highest export figures in the region:

- Manufacturing of textile products
- Foodstuff and beverage production
- Manufacturing of other non-metallic mineral products

Businesses with foreign capital are conducting serious field research and feasibility research before taking investment decisions. Therefore, when taking investment decisions, it would be beneficial for entrepreneurs to consider those sectors where foreign capital investments concentrate:

- Manufacturing of clothes; fur processing and dying,
- Activities related to petroleum and gas excluding crude oil and natural gas extraction and search and exploration,
- Manufacturing of chemical products and materials

are the sectors which attract most foreign capital investments.

Public investment incentives are an important funding source in cases where capital is insufficient or costs are high.

- Foodstuff and beverage production
- Manufacturing of textile products
- Stockbreeding

are the production areas which receive most investment incentive in the region.

It is essential that entrepreneurs who consider making investment in South-east Anatolia Region conduct field research and feasibility studies which can complement the assessments provided in this paper so that their business can be sustainable.

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