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2<sup>nd</sup> 2016 Academy of Business and Emerging Markets (ABEM) Conference

*Growth through FDI and Regional Integration*

August 2-4, 2016  
Phnom Penh, Cambodia, Asia

ABEM Conference Proceedings 2016

Editors

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## A NOTE FROM ABEM CONFERENCE PROCEEDINGS EDITORS

The emerging market question can be traced back to Antoine van Agtmael, who still thinks that firms in the rich world have not fully digested the rise of the emerging markets. Before discussing the journey of the Academy of Business and Emerging Markets (ABEM) and what it represents, it is worth stating that the term 'emerging markets' was coined by a reputable economist at the International Finance Corporation (IFC) in the 1980s, when the group - a private sector arm of the World Bank, was promoting the first mutual fund investments for what used to go by the appellation "third world" or "less developing countries."

Since then, references to emerging markets have become ubiquitous in the media, foreign policy and trade debates, investment fund prospectuses and multinationals' annual reports, even as varied as the definitions may be – including appellations such as transition economies, developing countries and the third world amongst others. In the far eastern region of Asia, Cambodia, is a part of ASEAN trading bloc which is undergoing a transition into a Common Market, representing the 7th largest economy with a population of over 600 million and a gross domestic product or GDP over US\$2.5 trillion.

The ASEAN is one of the fastest growing emerging markets through the strategies of foreign direct investment and international trade, making Phnom Penh an ideal venue to hold 2nd ABEM conference in 2016. In this context, ABEM's revolution is evident in the sponsorship of conferences on these regional developments. It is our great pleasure to edit the conference proceedings of the 2nd ABEM Conference taking place during August 2-4, 2016 in Phnom Penh, Cambodia.

The mission of the conference is: knowledge generation, translation and transfer across the East and the West. The Academy received 45 submissions from 20 countries, mostly from the developing countries and emerging markets, making it true to its mission, especially so considering that papers have been submitted by authors in various parts of emerging markets outside the BRIC quartet. Each submission was peer-reviewed in a double-blind review process by at least two reviewers who were experts in the areas of the submission. Twenty-two submissions were selected for presentations. The proceedings contains 12 abstracts and 10 competitive and work-in-progress (less than 4000 words) papers that were presented at the Conference.

We are grateful to University of Winnipeg, Build Bright University, University of Johannesburg, Inderscience Publishers, conference co-chairs, organizing committee, program and awards committee, reviewers and authors for contributing to the conference that resulted in the proceedings.

Sincerely,



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## ABSTRACTS

### TRENDS AND EVOLUTIONS OF INNOVATIVE FINANCING MECHANISMS AS A COMPLEMENT OF THE OFFICIAL DEVELOPMENT ASSISTANCE

*Darina Saxunova, Comenius University, Slovakia*

Globalization has contributed positively to an endless process of searching, exploring, assessing the ways of new sources of financing by encouraging and attracting additional international financing. The mankind faces an incredible task to tackle, which is to eradicate poverty and to respond to climate changes. The essential prerequisite of it are available capital resources. New opportunities for funding must be identified and collaboration between various actors—especially investors, entrepreneurs, and policy-makers is required. Innovative financing provides capital resources characteristic with the attributes such as stability, predictability and are supplemental to official development assistance (ODA) from donor countries. Innovative financing, from the perspective of a deployment of capital, highlights a new set of tools for capital donors that are decided to create more development impact through their investments, or for financial institutions seeking new opportunities, as well as, it highlights the procedures how innovative financing mechanisms can make development initiatives more effective and efficient by reallocating risk, improving liquidity, and matching the duration of investments with project needs. The definition of innovative financing mechanisms for development (innovative financing) comprises both visions: approaches to mobilize resources and to increase the effectiveness and efficiency of financial flows that address global social and environmental challenges. The objective of the paper is to explore the current status of innovative financing for development, new trends and evolutions and to analyze its main characteristics taking both mentioned visions into consideration. In the end the comparison of the various financial aid provided to developing countries is presented and the analysis of a financial aid impact on selected macroeconomic indicators is conducted and evaluated.

### ASSESSING SOCIAL ENTERPRISE IMPACT IN EMERGING MARKETS

*Ven Sriram, University of Baltimore, USA*

Social enterprises, which have characteristics of both for-profits and non-profits, are hybrid organizations that are driven by their mission to provide social value. They engage in revenue generation activities that cover part or all of their costs and any profits they earn are used to fund their social mission. In emerging markets in particular, these enterprises have the potential to fill important market gaps as financial stresses, caused partly by pressure on governments to cut public spending, have resulted in the reduction or elimination of the social services once provided by the government. Unlike in many industrialized countries, the private sector in emerging markets is not as well developed or may be unwilling to enter industry sectors where the profits are uncertain. As the donor funding that traditional nonprofits usually rely on shrinks in recessionary times, social enterprises have stepped to contribute to individual and the society's wellbeing. In recent years, as supporters begin looking for evidence of efficient resource use and impactful outcomes, the pressure on social enterprises to develop robust and appropriate performance metrics is growing. This talk first introduces a framework for social enterprise performance measurement and, based on case data from Ethiopia and India, applies this framework and suggests some future paths for assessing the impact of social enterprise activity in the emerging market context.

### FINANCIAL MARKET SIGNALLING BY INDIAN E-COMMERCE COMPANIES

*Krishanu Rakshit, Indian Institute of Management Calcutta, India*

*Nikhil Aremanda, Indian Institute of Management Calcutta, India*

In the last few years, the Indian e-Commerce firms have attracted a lot of interest from the venture



capitalists and private equity investors, both locally as well as internationally. Several high-ticket investments have been in the news. The purpose of the practice paper is to study the various market signaling mechanisms that firms use to communicate with the potential investors. Market signaling is a phenomenon where analysis is made to understand specific signals given out to generate inferences. This paper attempts to arrive at few inferences and analyze the underlying strategies in the start-up funding space in India with reference to timelines and various operating, financial and strategic signals given out to the public, through the post-facto event-wise analyses of the communication of four firms and the nature and timing of investments from private equity and venture capital investors.

## CONSUMER RIGHTS PROTECTION IN DIGITAL AGE: A STUDY OF INDIA AND PHILIPPINES

*Basanta Kumar, Utkal University, India*

Consumer rights protection movement has gone a long way after the recognition of four fundamental rights of a customer relating to safety, information, choice and grievance redress for the first time in March 1962. In the meantime, the world over most of the countries has enacted their respective laws and policy framework based on the fundamental guidelines issued by the United Nations in April 1985. However, during the last fifteen years, the world economy has witnessed the transformation of the marketplace due to barrier-free trade policy with consumers looking for opportunities of sustainable consumption. The online business has widened the scope of the possibilities for the delighted users. Now the consumers are as powerful as the governments and corporations they interact. They are empowered to challenge unfair, unsafe and unethical business practices. However, the ground reality remains that consumers in most of the developing countries are yet to be delighted customers.

Given these, the present study is intended to investigate the strategic development of the consumers' rights protection in the digital age in India and Philippines through the analysis of their existing laws and exploratory research with 340 respondents using semi-structured questionnaire and SPSS 20. The preliminary results suggest that the current laws are yet to catch up with the digital age. Indian Consumer Protection Bill 2015 aiming at providing better protection to e-consumers among other things is pending before the government. The Philippines enacted E-Commerce Protection Regulation in 2012, but its implementation is yet to be encouraging, and it has joined the International Consumer Protection and Enforcement Network (ICPEN) to protect e-consumers in 2015. Analysis of respondents' views indicates that almost 72 percent respondents felt cheated in the online marketing process where they had no chance of product and service inspection, and payment through a card. They needed extensive reforms in the existing laws and policy framework.

## DIGITAL MARKETING FOR A PREMIER BUSINESS SCHOOL

*Rajendra V Nargundkar, IIM Indore, India*

In this case study, a premier business school in Central India runs multiple programs including a flagship two-year Post Graduate Program and a few other programs of different durations for different segments for both executives with prior work experience and currently working (a part-time program). It also runs a doctoral program in full-time and part-time modes aimed at two different segments. Although its flagship program requires little promotion, the other programs need awareness creation and other promotional efforts to enlarge the applicant base and ensure good quality intake. Conventional print advertising is expensive and has shown mixed results with variable quantity of applications year-on-year. The Business School therefore experimented with Digital Marketing for the first time in its history. The case study details the results of this experiment in Digital Marketing. It is a field-based case study with real data and experiences.



## JOINT DETERMINANTS OF CAPITAL STRUCTURE AND DIVIDEND POLICY: EVIDENCE FROM EMERGING MARKET OF BANGLADESH

*Faieza Chowdhury, American International University-Bangladesh (AIUB), Bangladesh*

A plethora of articles have been written on the determinants of capital structure and dividend policy. However, most of these studies focused on only one puzzle at a time while joint determinants of capital structure and dividend policy are still under-researched. The purpose of the study is to mainly investigate whether or not there are factors that can jointly explain capital structure and dividend policy decisions in the emerging market of Bangladesh. For analyses purposes, data was gathered for 40 Bangladeshi firms listed on the Dhaka Stock Exchange during the period 2009-2013. Results were obtained by conducting Ordinary Least Squares regression analyses in which the debt and dividend payout ratios (as the dependent variables) were regressed on the five explanatory variables: closely held shares, liquidity, profitability, growth, and size. Findings from the regression analyses indicate that capital structure and dividend policy jointly depend on the profitability and size of Bangladeshi firms. This result gives credit to the pecking order theory, signaling theory, trade-off theory, and agency theory. It appears to be the first study that investigates the joint determinants of capital structure and dividend policy within the emerging market of Bangladesh, hence contributing to literature.

## GLASS CEILING SYNDROME IN TURKISH FINANCE SECTOR: THE CASE OF WOMEN WORKING IN BANKS

*Omer Caha, Yildiz Technical University, Turkey*

This paper aims at analyzing the problems women face in their business life and during the mobilization process in Turkish financial sector. Two basic questions of the study are: first, portrayal of women working in different positions in public and private banks, particularly women managers; and, second, the problems women face in their work-life that originate from their family life, business environment and social norms. The barriers and obstacles women encounter during their mobilization process are the basic questions of this research. This study is based on the results of a survey supported by the World Bank and conducted through face-to-face interview with 408 women working in 106 banks in 12 different Turkish cities. The research data has been obtained through the combination of qualitative and quantitative methods. Results of the study indicate that there is a glass-ceiling syndrome in Turkish finance sector in both public and private banks. Even though women make up majority (54 percent) of the workforce, only 23 percent hold managerial positions, a significant decrease in the percentage of women managers in financial sector. It is argued in this paper that women face diverse obstacles and barriers during their mobilization process. While some of these barriers are observable and testable, an important part of them is indeed unobservable, and thus hidden. The unobservable barriers constitute the glass ceiling that prevents women's mobilization to the top managerial positions. The research has found that the barriers women face in their work-life are originated from their personnel choice as well as from their familial background, organizational culture and social norms. Also, women's personnel choice has been colored by the traditional social norms through their socialization process. The combination of diverse barriers has allowed women to mobilize up to mid-range managerial positions, but unfortunately not beyond.

## THE DEMOGRAPHIC DIVIDEND AND SUSTAINABILITY

*Greg Clydesdale, Lincoln University, New Zealand*

Under mid-range projections, Africa's population is expected to double from 1.2 billion to 2.4 billion by 2050, reaching 4.2 billion by 2100. This will have serious consequences for the environment, poverty and civil conflict. Nevertheless, aid agencies express confidence in demographic trends, placing faith in a 'demographic dividend'. This optimism is based on East Asian nations that experienced a demographic dividend during their development in the mid-late twentieth century.



However, this paper compares the current situation in Africa with that which existed when the Asian nations experienced their rise, and finds the two are in very different situations. There is also little consideration given to environment effects. Past policies have been enacted with the effect of increasing population with insufficient consideration for environmental limits. This paper argues that failure to consider the population issue is a major contributor to the mixed results that aid agencies are achieving.

**MARKET RESEARCH IN AFRICA:  
CHALLENGES, TRENDS AND IMPLICATIONS**  
*William K. Darley, King Abdulaziz University, Saudi Arabia*

Multi-national corporations are increasingly setting their sights on Africa for future growth because *Africa is the land of the future* and offers a *great promise as the last economic and industrial frontier*. To capitalize on Africa's market opportunities, an understanding of Africa's consumers and the African marketplace is needed. Unfortunately, there has been lack of research about African consumers' attitudes, behavior and needs historically both at the secondary and primary data levels. Given the new interest in the markets of Africa, a discussion of the market research techniques used in the African context with their attendant limitations and the implications of these methods for marketers is apropos. We offer remedies to enhance the quality of market research emanating from the continent.

**QUALITY CUES IN EVALUATION OF FOREIGN PRODUCTS**  
*Igor Makienko, University of Nevada, USA*

This conceptual paper examines how geographical stereotypes about South and North in addition to country-specific stereotypes affect consumers' product evaluations. Based on literature review, we develop a theoretical framework. Similar to country-specific stereotypes, there exist numerous stereotypes about different regions within one country (such as Hollywood in the US) and different groups of countries (such as the European Union). Research has shown that such stereotypes also affect consumers' perceptions of products manufactured in different regions of a country or the world. In addition, consumers are likely to have some other geographical associations (such as South-North) that might also influence their evaluations of foreign products. The quality perception of imported goods creates advantages and disadvantages for exporting countries. South-North geographical cues may become a strong factor when made salient during product evaluation. To our knowledge no prior research has addressed the potential effects of such geographical cues in enhancing product quality perceptions.

**THE INSTITUTIONAL SUPPORT FOR TOURISM DEVELOPMENT IN AUSTRIA**  
*Jarmila Weffers, Comenius University, Slovakia*  
*Hans Weffers, Comenius University, Slovakia*  
*Rita Szarkova, Comenius University, Slovakia*  
*Manuel Santos, CSJ Slovakia, Slovakia*

In 1980 the world tourism conference was held in Manila and its participants approved the declaration in order to clarify the genuine nature of tourism in a dynamic and globally transforming environment. Moreover, the declaration also focused on the responsibility of states for the development and enhancement of tourism in contemporary societies, as it is the economic benefits that are crucial drivers for tourism development. Tourism is considered an economic activity effecting directly social, cultural, educational and economic sectors of countries worldwide. The development of tourism is associated with the social and economic development of the states. Tourism is the largest service-based industry contributing significantly to the service sector growth. In developing countries, the



service sector creates around 40-50 percent of GDP and in industrialized economies it is approximately about 70-80 percent of GDP. Austrian tourism strives to be successful in providing high standard services. It has been enabled with the support of the state, regional governments and EU structural funds. The objective of the paper is to study and analyze the support for Austrian tourism from the perspective of functioning Austrian institutions, such as Austrian Ministry of Science, Research and Economy, Austrian Hotel and Touristic Bank, European Investment Bank, and in addition the paper also emphasizes other indirect forms of assistance and supportive programs. The instrument of the state investment aid is also a beneficial tool in the process of financing of many projects in this area together with the EU structural funds. In the end, the accomplished results so far, in the area of an Austrian tourism service sector, are presented and assessed and pros and cons are summarized and may serve or be an inspiration for many countries.

## AFRICA IN RESEARCH PUBLICATION CITATION AND INTERNET/WEB PRESENCE: GROWTH THROUGH FOREIGN DIRECT INVESTMENTS

*Ranjith K Gladstone, Adventist International Institute of advanced studies, Philippines*

The OCED Program on Innovation, Higher Education and Research for Development (IHERD) focuses on the knowledge economy, where the Universities in Africa express their significance of knowledge production through research and development (R&D), Research Publication Citation (RPC), and Internet/Web presence (IWP). Among the 15 Adventist Universities in Africa, only 11 universities are ranked for their RPC and IWP with only three universities within the first five hundred rankings. The Lucas–Romer endogenous growth model suggests that endogenously accumulated human capital has a direct impact on human capital leaving innovation in the stock of knowledge as an exogenous factor. It is an important source of long-term growth, either because it is a direct input into research or because of its positive externalities. Moreover, the difference in their rates of human capital accumulation gives the growth rates of various countries. On the other hand, the theory of online presence management and the social presence theory signifies the role of Search Engine Optimization (SEO) of these low ranking Adventist Institutions. The purpose of the case study is to seek and identify the knowledge role in their RPC as well as SEO for IWP and their rate of human capital accumulation of the selected Adventist Universities in Africa. Findings of this study recommend significant reforms for the betterment through Foreign Direct Investments in the Universities in Africa.



## PAPERS

### FAIR TAXATION AS A REGIONAL DEVELOPMENT DRIVER

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Taxes, whether they are direct or indirect ones, no doubts they are inseparably connected with doing business and with the obligation linked to the settling down tax liabilities owed to the state having been arisen during the accounting period. Taxes are perceived by the taxpayers, who have to pay them off, as an inevitable evil, but on the other hand they are the source of the financial capital for the state, which should return them back to the taxpayers. In the least the state should be active and showing initiative to allocate them in a fair manner, particularly to the health care area, education and state security. The state should reinvest the funds to those who create them in the form of public services. The state is not an efficient state when it cannot provide a high level of health care, proper education and security to its citizens. The scientific paper copes with tax policies in a global environment focusing on the regional development aspect. The objective of the paper is to highlight and compare several tax models of selected global economies, to analyze and assess them concentrating on real cases of mutual positive symbiosis of the state and entrepreneurs, sole-proprietors and employees in profit or non-profit entities supporting the removal of regional disparities.

#### Introduction

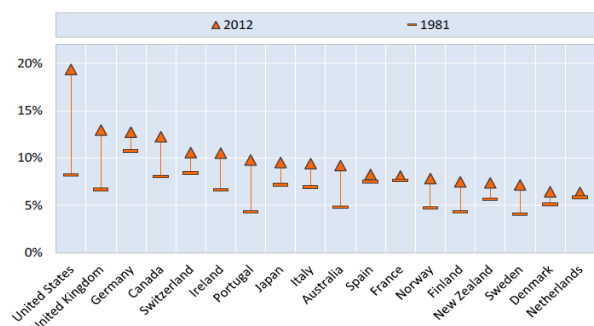
Direct or indirect taxes are associated inherently with entrepreneurship. They are entrepreneurs' commitments linked to the settlement of accrued taxes in cash, a tax is a forced obligation by the state. It is not necessary to emphasize that taxes have been the most significant income of the state budget since long time ago representing resources for financing state budgetary expenditures. Taxes are one of the financial and legal instruments that have arisen within the state together and have been carrying on in their development concurrently with the state evolution reacting to its requirements. On the side of the tax-payers who are obliged to pay tax, but money paid to the government for public purposes in a form of tax have been perceived as an inevitable and burdensome evil. However, on the other hand they are the source of capital resources for the state which must be returned back to the tax payers e.g. in the forms of public services. At least there should be an effort from the state to allocate resources justly, especially into the health care system, education and state security sector. The state should return these resources to their creators via certain public services. The state is not a high standard state if it cannot provide care to its citizens in the area of health, education and security etc., therefore the high quality tax system is a highly appreciated asset for the country. To enhance the quality of state tax system it may contribute to the recovery and increase of public finance, to support economic growth and creating employment, to the economic stability and justice apparatus, including as well fairness and honesty in enterprising.

However, taxes influence, for instance: (1) decisions of households how to save or invest into human capital; (2) decisions of the companies on what to produce, where to invest, innovate or create new jobs; and, (3) investors' decisions to select assets and alternatives for reinvesting and enhancing existing capital resources. The crucial factors of the tax system and its structure are not only the volume of taxes, but also the way how different tax instruments are proposed and possibilities of their combination to generate revenues.

#### Low or High Taxes?

Economic inequality of states worldwide and politicians' efforts to restore equal opportunity are a key agenda of many political debates and discussions. Thomas Picketty (2015) in its book *The Capital in the Twenty-first Century* puts an emphasis on the fact how the very richest in society are accumulating an ever-increasing proportion of national incomes. All over the world income inequality has been soaring because well-off households have been earning more to a greater degree than both low- and middle-income families. The share of top-income recipients in total gross income increased significantly in most countries over the past three decades. The rise was most spectacular in the United States, where the share of the richest one percent in all pre-tax income has more than doubled since 1980, reaching almost 20 percent in 2012. Top earners also fared immensely well in several other English-speaking countries including Australia, Canada, Ireland and the United Kingdom, in the Netherlands and in





**Figure 1. Shares of top 1% Incomes in Total pre-tax income, 1981-2012**  
Source: (OECD<sup>8</sup>, 2014)

some Nordic countries and in addition some Southern European countries (OECD<sup>8</sup>, 2014). Figure 1) points out the OECD countries in which the share of the wealthiest one percent in total pre-tax income has increased since 1981 (measured in 2012).

What is the most appropriate tax rate? Is it fair when a low-income group has to pay the same sales tax or value -added tax for a product purchased as the high-income group or upper- income group? Is it just that the taxpayer from low-income group contributes to the state budget with the same amount as the tax-payer of the

high income group when buying a 400 EUR television? In certain cases the taxpayer of the low-income group contributes even more, because he/she cannot deduct VAT when making purchases. The principle of fair taxation and simple tax administration are definitely in contradiction. What tax system will make citizens content? What tax system will make the state function in more efficient manner? And what type of tax system will make entrepreneurs do business honestly, or rewarding them for honest work performed, as well? There are many questions that are most complex and difficult to respond to. Therefore, there is a necessity to study tax systems of each individual country and evaluate different tax methods and discuss the results. That is why the globalization process is positive in spreading favorable and unfavorable information, society itself gains knowledge by comparing and analyzing pros and cons of many vexed matters, thus e.g. including tax policies as well. The objective of this scientific paper is tax instruments scrutiny. The objective of the submitted paper is to compare selected tax instruments how successful they are in contributing to the state budget in a selected geographical area. The selection of Nordic countries is influenced by the high tax levied in these states. The hypothesis to be tested and evaluated is:

*H1: The higher tax rates on income lead to higher public expenditures.*

The research is still in process, but based on the small sample data, results obtained from comparison confirmed so far the formulated hypothesis.

### **An Efficient Tax System**

A tax is a financial category conveying the financial relation between a tax-payer and the state, and it is obtained forcefully on the tax-payer. In the period of liberalism an economic theory emphasized the principle of the minimalist tax burden, on the contrary, in the 30-ties of the past 20<sup>th</sup> century John Maynard Keynes is an advocate of the tendency with maximalist taxes as the main source of active fiscal policy. The 70ties of the 20<sup>th</sup> century are known for very high taxation and the motivation to do business started to diminish with the consequence of massive tax evasions that led to decreasing tax revenue gradually a decade later (the 80-ties of the 20<sup>th</sup> century). The low tax rates the state tax revenue grows together with the tax rates up to the certain point, which is called Laffer's point. Tax theories are oriented to tackle and search for the optimal tax burden. (EC, 2015).

According to Escoffier and Fortin (2006), the following five features are typical and essential for a high standard tax system: (1) economic effectiveness – taxes influence consumers 'behavior therefore a tax system should not result in big differences between prices and benefits from various types of activities. (2) Justice – it is necessary to judge cautiously that the consumption creates the base for determining the tax amount and revenue are equal the sum of consumption and savings. Each tax system is inevitably unjust or unfair. (3) Simplicity of tax administration – a tax system ought to be simple because of its being implemented without any difficulty. (4) Functioning of the tax system is relatively costly for tax authorities and for the taxpayers as well. (5) Flexibility – tax system should react promptly and flexibly to the changes in the economy. And (6) political transparency of the tax system – it means it is easy to understand how much and where tax-payers pay a compulsory contribution to state revenue, legislative tax amendments are transparent.

### **Tax Structure (Tax Mix)**

There are discrepancies existing in the tax structure of individual countries though, the majority of OECD countries rely on three main sources of tax revenues: a) income tax of natural persons (personal income tax) and of legal



persons (corporate income tax), b) Income Labor Tax and Labor Tax, c) taxes from the goods and services. From the OECD's perspective (OECD <sup>7</sup>, 2015) taxes are classified in the following way: taxes on income, profit and capital gains – of personal and corporate taxes, social security contributions, taxes on payroll and workforce, taxes on property, taxes on goods and services, and other taxes.

Table 1 presents the historical results on the tax structure in the OECD countries from 1965 to 2013. It demonstrates the share of tax categories determined as a percentage of a particular major tax category collected out of the total tax revenue collection. Major tax categories are classified according to the OECD tax classification.

**Table 1. Tax Structure in the OECD-area since 1965**

TAX CATEGORIES	PERCENTAGE SHARE OF MAJOR TAX CATEGORIES IN TOTAL TAX REVENUES [IN %]						
	1965	1975	1985	1995	2005	2010	2013
Personal Income Tax	26	30	30	26	24	24	25
Corporate Income Tax	9	8	8	8	10	8	8
Social Security Contributions <sup>1</sup>	18	22	22	25	25	26	26
Employee	(6)	(7)	(7)	(9)	(9)	(9)	(10)
Employer	(10)	(14)	(13)	(14)	(14)	(15)	(15)
Payroll taxes	1	1	1	1	1	1	1
Property taxes	8	6	5	5	6	5	6
General Consumption taxes	12	13	16	19	20	20	20
Specific Consumption taxes	24	18	16	13	11	11	10
Other taxes	2	2	2	3	3	3	3
Total	100	100	100	100	100	100	100

Source: (OECD, 2015)

Legend: OECD countries: Australia (AUS), Austria (AT), Belgium (BE), Canada (CAN), Denmark (DK), Finland (FI), France (FR), Germany (GE), Greece (EL), Iceland, Ireland (IE), Italy (IT), Japan (JP), Luxemburg (LU), the Netherlands (NL), New Zealand (NZ), Norway (NO), Portugal (PT), Spain (ES), Sweden (SE), Switzerland (CH), Turkey (TK), United Kingdom (UK), the USA (US); since 1972 – Korea; since 1980 –Mexico; since 1990- Chile; since 1991- Hungary(HU), Poland (PL); since 1993- Czech Republic; since 1995- Estonia (EE), Israel, Slovak Republic (SK) and Slovenia (SI). <sup>1</sup>SSCs (Social Security Contributions) include social security contributions paid by self-employed and benefit-recipients. A tax structure is determined by the share of major taxes in the entire volume of tax revenues, i.e. a tax share in the so-called tax mix. Tax levels have been growing, the share of main taxes in the tax mix remains remarkably stable. On average OECD countries collected 33.7 percent of total tax revenues on taxes of income and profits (personal and corporate income tax together). The personal and corporate income taxes remain the most significant source of the state budget for the public expenditures, in nine countries worldwide; Australia, Canada, Denmark, Iceland, Ireland, New Zealand, Norway, Switzerland and the USA the amount of tax collected exceeded the 40% share of total tax revenue mix, and seven states (apart from Ireland and the USA) belong to the top ten, are the most contented countries in the world. (OECD, 2015).

### International Tax Agenda

The contemporary international tax agenda comprises in tackling two big challenges: tax avoidance and promoting transparency and exchange of information among jurisdictions for tax purposes. The project Base Erosion and Profit Shifting (BEPS) of the OECD and G20 has been pursuing the accomplishment of the tax agenda goal via global implementation. In 2009 the G20, as the consequence of the financial crisis, declared that bank secrecy had to cease to exist and G20 decided to take action against non-co-operative jurisdictions, tax havens were included as well. The agreement of the countries worldwide to fight cross-border tax evasion was approved. The countries also agreed to act in accordance with the international standard for exchange of tax information on request (EOIR). The standard was developed by the OECD. Moreover, G20 joined Global Forum on Transparency and Exchange of Information for Tax Purposes. The further enhancement of the global tax transparency in 2014 led to developing the global Common Reporting Standard (CRS) for Automatic Exchange of Information (AEOI). The 101 jurisdictions have already committed to implement the CRS for AEOI, due to be put in effect by 2017. The purpose of this common global standard is to minimize the compliance burdens for both governments and financial institutions, and increase in voluntary compliance (over US\$48 billion already collected through voluntary disclosure programs aimed at encouraging taxpayers to report income and wealth previously hidden from their tax authorities.)



The OECD's Forum on Tax Administration (FTA) approved the use of a Common Transmission System (CTS) whose development was funded by FTA members. The CTS is the first global bilateral exchange system to operationalize automatic exchanges. Its quality comprises in high data security, in applying leading industry standards of encryption to each transmission. The FTA members will enable developing countries to utilize this system. Recently, the "Panama Papers" scandal was a demonstration of the relevancy of tackling the tax matters globally. Tax evasion and tax avoidance continues to damage states, regions, communities or to commit other serious financial crimes like money laundering. (Saint-Amans, 2016).

### *Tax Reforms*

Tax systems are primarily used on financing of public expenditures. There are also other objectives behind. They must be directly addressed to solve the social and economic problems. It is necessary that the authorities minimize tax obligation of the tax payers and at the same time they preclude a tax evasion and tax avoidance. In the last decades many OECD countries reformed structurally their tax systems, especially attention was paid to the income tax returns of natural persons (*i.e.*, personal income tax returns) of the to simplify the process of their preparation and other conditions for the tax payer especially in the administrative area, because the unemployment is very high in many countries and the micro, small and medium size businesses usually represent over 90 percent of all businesses and are important for job creation, the prevailing majority of them are family businesses and they also create remarkable share of GDP in their countries.

The most of tax reforms are aimed at the income tax returns of individual persons (*i.e.*, to report and pay taxes on payroll and workforce), were implemented with the goal of creating economic environment encouraging saving, investments and enterprising in order to assure increased work motivation. Moreover, alike also tax reforms for corporations were implemented and aimed at increasing the competition and avoidance of the manipulation with the tax income volume. After many tax reforms having been executed, they led to a decline of income tax rates or enlargement of the income tax base. Each reform was implemented to pursue the goals of improving effectiveness and efficiency of tax collection, but at the same time the goals of preserving income tax revenue volumes. Member states of the European Union continue the process of reforming the tax policy towards to the proposals stimulating investments. Managing the process of tax collection throughout the EU and OECD countries is set up in such a logical order to disallow or reduce tax evasion and tax frauds by accepting direct legislation addressing relevant matters being introduced and being put in effect globally.

### **Development of Taxes in the European Union**

The trend of the recent years is the proof of an increase in flat tax rate utilization, especially in the countries of Central and Eastern Europe (see Table 2), which ignited reforms of tax systems in the states with high tax rates, among which the countries of Northern Europe certainly belong. High rates for taxation of capital gains in the states may result in transferring the wealth abroad, into the states with lower tax rates. Lower tax rates enable broadening an income tax base. A tax model of the flat rate represents the linear variant of complex income tax, it usually is included to the tax base for several or all capital gains.

**Table 2. Tax Rates on Personal (PI) and Corporate Income (CI) in the EU**

State Rates in percentage	PI %	CI %	PI %	CI %	PI %	CI %	PI %	CI %	PI %	CI %	PI %	CI %
	1995		2000		2005		2010		2014		2015	
<b>BE Belgium</b>	60.6	40.2	60.6	40.2	53.7	34.0	53.7	34.0	53.8	34.0	53.8	34.0
<b>BG Bulgaria</b>	50.0	40.0	40.0	32.5	24.0	15.0	10.0	10.0	10.0	10.0	10.0	10.0
<b>CZ Czech Republic</b>	43.0	41.0	32.0	41.0	32.0	26.0	15.0	19.0	22.0	19.0	22.0	19.0
<b>DK Denmark</b>	65.7	34.0	62.3	32.0	62.3	28.8	55.4	25.0	55.6	24.5	55.8	23.5
<b>DE Germany</b>	57.0	56.8	53.8	51.6	44.3	38.7	47.5	30.2	47.5	30.2	47.5	30.2
<b>EE Estonia</b>	26.0	26.0	26.0	26.0	24.0	24.0	21.0	21.0	21.0	21.0	20.0	20.0
<b>IE Ireland</b>	48.0	40.0	44.0	24.0	42.0	12.5	47.0	12.5	48.0	12.5	48.0	12.5
<b>EL Greece</b>	45.0	40.0	45.0	40.0	40.0	32.0	49.0	24.0	46.0	26.0	48.0	29.0
<b>ES Spain</b>	56.0	35.0	48.0	35.0	45.0	35.0	43.0	30.0	52.0	30.0	46.0	28.0
<b>FR France</b>	59.1	36.7	59.0	37.8	53.5	35.0	45.4	34.4	50.3	38.0	50.3	38.0
<b>HR Croatia</b>	42.9	25.0	41.3	35.0	53.1	20.0	50.2	20.0	47.2	20.0	47.2	20.0
<b>IT Italy</b>	51.0	52.2	45.9	41.3	44.1	37.3	45.2	31.4	47.9	31.4	48.9	31.4



<b>CY Cyprus</b>	40.0	25.0	40.0	29.0	30.0	10.0	30.0	10.0	35.0	12.5	35.0	12.5
<b>LV Latvia</b>	25.0	25.0	25.0	25.0	25.0	15.0	26.0	15.0	24.0	15.0	23.0	15.0
<b>LT Lithuania</b>	33.0	29.0	33.0	24.0	33.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
<b>LU Luxemburg</b>	51.3	40.9	47.2	37.5	39.0	30.4	39.0	28.6	43.6	29.2	43.6	29.2
<b>HU Hungary</b>	44.0	19.6	44.0	19.6	38.0	17.5	40.6	20.6	16.0	20.6	16.0	20.6
<b>MT Malta</b>	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0
<b>NL Netherlands</b>	60.0	35.0	60.0	35.0	52.0	31.5	52.0	25.5	52.0	25.0	52.0	25.0
<b>AT Austria</b>	50.0	34.0	50.0	34.0	50.0	25.0	50.0	25.0	50.0	25.0	50.0	25.0
<b>PL Poland</b>	45.0	40.0	40.0	30.0	40.0	19.0	32.0	19.0	32.0	19.0	32.0	19.0
<b>PT Portugal</b>	40.0	39.6	40.0	35.2	40.0	27.5	45.9	29.0	56.5	31.5	56.5	29.5
<b>RO Romania</b>	40.0	38.0	40.0	25.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0
<b>SI Slovenia</b>	50.0	25.0	50.0	25.0	50.0	25.0	41.0	20.0	50.0	17.0	50.0	17.0
<b>SK Slovakia</b>	42.0	40.0	42.0	29.0	19.0	19.0	19.0	19.0	25.0	22.0	25.0*	22.0
<b>FI Finland</b>	62.2	25.0	54.0	29.0	51.0	26.0	49.0	26.0	51.5	20.0	51.6	20.0
<b>SE Sweden</b>	61.3	28.0	51.5	28.0	56.6	28.0	56.6	26.3	56.9	22.0	57.0	22.0
<b>UK United Kigdom</b>	40.0	33.0	40.0	30.0	40.0	30.0	50.0	28.0	45.0	21.0	45.0	20.0
<b>EU average</b>	47.2	35.0	44.6	32.0	40.4	25.3	38.6	23.2	39.4	22.9	39.3	22.8
<b>EA average</b>	46.9	35.8	45.2	33.3	40.6	26.7	39.7	24.5	42.3	24.8	42.1	24.6
<b>NO Norway</b>	41.8	28.0	47.5	28.0	47.0	28.0	40.0	28.0	39.0	28.0	28.0	27.0

Source: processed by author using (OECD<sup>2,3,4,5,6</sup>, 2016)

Legend: \*If the state has a bracket system of taxation, the table shows the highest tax rate, e.g. Slovakia's case.

### Slovak Tax Reform

In 2008 Slovakia introduced the flat tax rate of 19 percent for the corporate income, which was later increased up to 23 percent in 2013 and again, there was a decrease to 22 percent since January 1, 2014. For the personal income the flat tax rate of 19 percent originally introduced in the tax reform has not been changed for the income up to the amount of €35022.32, above this limit the personal income is taxed by 25 percent tax rate. The value-added tax was changed from 19 percent to 20 percent, whereas certain group of products are taxed by 10 percent.

### European Union Development in Tax Area

In recent years overall tax burden of the EU member states determined as the percentage of Gross National Product (GDP) has been increasing. Past revision during 2006-2012 the average increased by over 4.11 percent, the base year was 2000, to which the comparison was made (see table 3). Indirect taxes are fairly stable, there was a decrease in the financial and economic crisis period, interim 2008 and 2009; the average decrease by 1.66 percent was caused by the lower consumption of goods and services and by the reduced average tax rate in the investigated time period. Since 2000 direct taxes on corporate income have increased by 8.79 percent on average, collected taxes represent 2.6 percent of GDP and direct taxes on personal income have grown slightly by 0.03 percent to 2 percent of GDP on average. It is obvious (see Table 3) that in the EU the percentage of tax burden in direct taxes (as a percentage of GDP) is much lower as tax burden of about 11 percent (as a percentage of GDP) on indirect taxes. Direct taxes - Income labor taxes represent even the highest tax burden -19.7 percent (as a percentage of GDP), the labor tax is also high -18 percent. In many cases the income labor tax shows the growing trend throughout the world, unlike the Northern countries, where in 2014 there was a significant decline because their labor income taxes were one of the highest trend, the possible explanation of this decline was the effort of transferring the focus of taxation into other areas, where it did not have such a negative impact on the employee. It is really necessary to study this trend and monitor it, whether it is seen that the resources paid in the form of taxes contribute to and participate in the higher standards of living for the workforce which create these resources. Results shown in table 3 are the results of the EU on average for the period from 2000-2012. Referring to the results presented in the table 3 we may conclude that the effort of the responsible authorities for the taxation policy should be directed to a reduction of Labor Income tax (workforce employment) in order that the state may utilize less negative appealing sources of tax revenues.

### Comparison of Tax Instrument in the States of Vysegrad Four and in Other Selected States

The following tables 4 and 5 present results of comparison of two years, the year 2000 and 2014 in the V4 countries and in the Northern European countries, USA and Canada concentrating on the main categories of OECD classification within these two years. The average values of OECD serve as benchmarking value.



**Table 3. European Union – Tax structure (according to the Economic Functions)**

A percentage of GDP	2000	2006	2007	2008	2009	2010	2011	2012
<b>Total average change: +4.11</b>	%	%	%	%	%	%	%	%
<b>CONSUMPTION TAX</b>	<b>11.2</b>	11.10	11.00	10.80	10.70	11.10	11.20	11.20
Average change: -1.66		<b>-0.89</b>	<b>-1.79</b>	<b>-3.57</b>	<b>-4.46</b>	<b>-0.89</b>	<b>0.00</b>	<b>0.00</b>
<b>LABOR INCOME TAX</b>	<b>19.7</b>	19.20	19.10	19.50	19.90	19.70	19.80	20.10
Average change: -0.44		<b>-2.54</b>	<b>-3.05</b>	<b>-1.02</b>	<b>1.02</b>	<b>0.00</b>	<b>0.51</b>	<b>2.03</b>
<b>LABOR TAX - EMPLOYED</b>	<b>18.0</b>	17.50	17.50	17.80	18.10	17.80	17.90	18.20
Average change: -0.95		<b>-2.78</b>	<b>-2.78</b>	<b>-1.11</b>	<b>0.56</b>	<b>-1.11</b>	<b>-0.56</b>	<b>1.11</b>
<b>Employer's contributions</b>	<b>7.7</b>	7.70	7.60	7.80	8.00	7.90	7.90	8.00
Average change: +1.86		<b>0.00</b>	<b>-1.30</b>	<b>1.30</b>	<b>3.90</b>	<b>2.60</b>	<b>2.60</b>	<b>3.90</b>
<b>Employee's contributions</b>	<b>10.2</b>	9.80	9.80	10.00	10.00	9.90	10.00	10.20
Average change: -2.38		<b>-3.92</b>	<b>-3.92</b>	<b>-1.96</b>	<b>-1.96</b>	<b>-2.94</b>	<b>-1.96</b>	<b>0.00</b>
<b>Non-employed</b>	<b>1.7</b>	1.70	1.60	1.70	1.90	1.90	1.90	1.90
Average change: +5.88		<b>0.00</b>	<b>-5.88</b>	<b>0.00</b>	<b>11.76</b>	<b>11.76</b>	<b>11.76</b>	<b>11.76</b>
<b>CAPITAL TAX</b>	<b>8.0</b>	9.20	9.30	8.90	7.80	7.70	7.90	8.20
Average change: +5.36		<b>15.00</b>	<b>16.25</b>	<b>11.25</b>	<b>-2.50</b>	<b>-3.75</b>	<b>-1.25</b>	<b>2.50</b>
<b>Capital and business income</b>	<b>5.4</b>	6.30	6.40	6.10	5.10	5.20	5.30	5.40
Average change: +5.29		<b>16.67</b>	<b>18.52</b>	<b>12.96</b>	<b>-5.56</b>	<b>-3.70</b>	<b>-1.85</b>	<b>0.00</b>
<b>Corporate Income</b>	<b>2.6</b>	3.40	3.40	3.10	2.30	2.40	2.60	2.60
Average change: +8.79		<b>30.77</b>	<b>30.77</b>	<b>19.23</b>	<b>-11.54</b>	<b>-7.69</b>	<b>0.00</b>	<b>0.00</b>
<b>Households income</b>	<b>0.7</b>	0.90	1.00	0.90	0.90	0.80	0.80	0.90
Average change: +26.53		<b>28.57</b>	<b>42.86</b>	<b>28.57</b>	<b>28.57</b>	<b>14.29</b>	<b>14.29</b>	<b>28.57</b>
<b>Income of self-employed (SSC)</b>	<b>2.0</b>	2.00	2.10	2.10	2.00	2.00	2.00	2.00
Average change: +0.03		<b>0.00</b>	<b>5.00</b>	<b>0.00</b>	<b>-4.76</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Supply of Capital/ Wealth</b>	<b>2.7</b>	2.90	2.80	2.80	2.70	2.50	2.60	2.80
Average change: +1.06		<b>7.41</b>	<b>3.70</b>	<b>3.70</b>	<b>0.00</b>	<b>-7.41</b>	<b>-3.70</b>	<b>3.70</b>

Source: elaborated by the author using (OECD<sup>2,3,4,5,6</sup>, 2016)

**Table 4. Comparison of Tax Instruments in the states of Vysegrad Four (V4)**

States	Tax as a Percentage of GDP in the Individual Tax Categories: in the year: 2014 and 2000						
	Tax revenues GDP/per cap.	Personal income tax	Corporate income tax	Labor Tax %	Tax wedge	Taxes on Property	Indirect taxes
<b>CZ 2014</b>	\$6527	3.51	3.63	14.68	42.64	0.45	11.03
<b>CZ 2000</b>	1944	4.2	3.21	14.40	42.59	0.46	10.24
<b>Δ v %</b>	<b>235.75</b>	<b>-16.43</b>	<b>13.08</b>	<b>1.98</b>	<b>0.12</b>	<b>-1.96</b>	<b>7.68</b>
<b>HU 2014</b>	5355	4.99	1.49	12.97	49.03	1.30	16.87
<b>HU 2000</b>	1783	7.18	2.2	11.35	54.68	0.67	15.66
<b>Δ v %</b>	<b>200.34</b>	<b>-30.50</b>	<b>-32.27</b>	<b>14.27</b>	<b>-10.33</b>	<b>94.63</b>	<b>7.74</b>
<b>PL 2014</b>	<sup>2013</sup> 4412	4.46	1.77	12.31	35.60	1.39	11.47
<b>PL 2000</b>	1486	4.34	2.39	13.04	38.17	1.42	11.63
<b>Δ v %</b>	<b>196.90</b>	<b>2.76</b>	<b>-25.94</b>	<b>-5.58</b>	<b>-6.73</b>	<b>-1.83</b>	<b>-1.37</b>
<b>SK 2014</b>	5714	3.03	3.03	13.46	41.21	0.44	10.66
<b>SK 2000</b>	1817	3.34	2.57	13.96	41.86	0.61	12.16
<b>Δ v %</b>	<b>214.47</b>	<b>-9.28</b>	<b>17.90</b>	<b>-3.54</b>	<b>-1.55</b>	<b>-28.22</b>	<b>-12.38</b>
<b>OECD<sub>2014</sub></b>	<sup>2013</sup> 14923	8.77	2.60	9.11	35.96	1.85	10.97
<b>OECD<sub>2000</sub></b>	7258	9.09	3.33	8.56	36.75	1.81	11.01
<b>Δ v %</b>	<b>105.61</b>	<b>-3.52</b>	<b>-21.92</b>	<b>6.32</b>	<b>-2.15</b>	<b>2.55</b>	<b>-0.44</b>

Legend: Tax wedge is sum of the Income labor tax and social security contributions



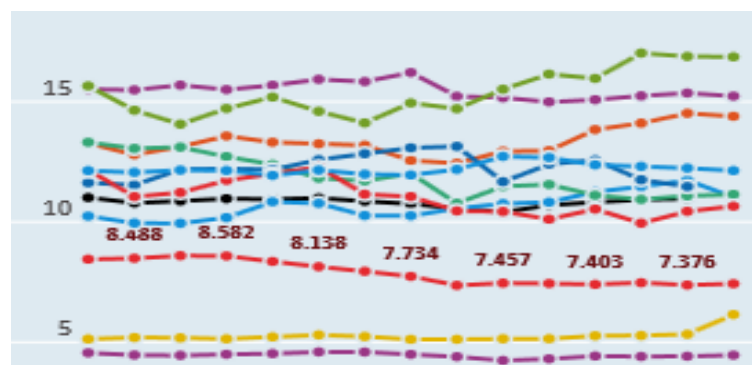
**Table 5. Comparison of Tax Instruments in Selected States**

States	Tax as a Percentage of GDP in the Individual Tax Categories: in the year: 2014 and 2000						
	Tax revenues GDP/per capita	Personal income tax	Corporate income tax	Labor Tax	Tax wedge	Taxes on Property	Indirect taxes
<b>DK</b> 2014	\$31054	27.67	2.69	0.08	38.07	1.88	15.23
<b>DK</b> 2000	\$14402	24.68	3.18	0.64	44.09	1.56	15.52
<b>Δ v %</b>	<b>115.62</b>	<b>12.12</b>	<b>-15.41</b>	<b>-88.19</b>	<b>-13.65</b>	<b>20.92</b>	<b>-1.84</b>
<b>SE</b> 2014	\$25121	12.22	2.58	9.94	42.46	1.06	12.14
<b>SE</b> 2000	\$14347	16.28	3.69	12.90	50.14	1.68	12.13
<b>Δ v %</b>	<b>75.10</b>	<b>-24.94</b>	<b>-30.08</b>	<b>-22.94</b>	<b>-15.32</b>	<b>-36.52</b>	<b>0.02</b>
<b>FI</b> 2014	\$21844	13.41	1.93	12.68	43.90	1.33	14.39
<b>FI</b> 2000	\$11119	14.03	5.72	11.56	47.52	1.11	13.28
<b>Δ v %</b>	<b>96.46</b>	<b>-4.42</b>	<b>-66.26</b>	<b>9.63</b>	<b>-7.62</b>	<b>18.94</b>	<b>8.39</b>
<b>NO</b> 2014	\$38016	9.80	7.13	9.91	37.02	1.10	11.94
<b>NO</b> 2000	\$15987	10.08	8.77	8.77	38.56	0.97	13.31
<b>Δ v %</b>	<b>137.79</b>	<b>-2.78</b>	<b>-18.70</b>	<b>13.03</b>	<b>-3.99</b>	<b>13.58</b>	<b>-10.26</b>
<b>US</b> 2014	\$14204	9.94	2.88	6.23	31.54	2.79	4.46
<b>US</b> 2000	\$10264	11.87	2.23	6.64	30.36	2.87	14.55
<b>Δ v %</b>	<b>38.39</b>	<b>-16.26</b>	<b>29.15</b>	<b>-6.19</b>	<b>3.89</b>	<b>-2.86</b>	<b>-69.36</b>
<b>CAN</b> 2014	\$15483	11.27	3.06	0.64	31.63	3.12	7.43
<b>CAN</b> 2000	\$8563	12.85	4.26	0.72	32.89	3.32	8.23
<b>Δ v %</b>	<b>80.81</b>	<b>-12.30</b>	<b>-28.17</b>	<b>-11.11</b>	<b>-3.83</b>	<b>-6.02</b>	<b>-9.72</b>

Source for table 4.,5.: elaborated by the author using (OECD<sup>2,3,4,5,6</sup>, 2016)

*Northern Europe and the USA:* The increase in the collection of tax revenue in the Nordic countries is remarkable, although in percentage it looks lower than in the V4 states, the tax revenues collected successfully in the Czech Republic represents only one sixth (1/6) of the amount of Norwegian tax revenues procured.

*Direct and Indirect taxes:* Contribution of the direct and indirect taxes to the state budgets is shown in the Figure 2, Tables 6 and 7. Apart from Denmark and Finland the majority of the prevailing resources of the state budgets come from indirect taxes.



**Figure 2. Comparison of Indirect Taxes of the Selected Countries**

Source: (OECD, 2016)

Legend: Right dots: HU (apple-green), DK (dark purple), FIN (dark orange), SE (light blue), PO (royal blue), NO (emerald green), SK (red), CZ (blue), CAN red (with numbers), JP (yellow), USA (bottom lilac), EOCED (black)



**Table 6. Direct and Indirect Taxes in Vysehrad Four**

<b>DIRECT (DT) AND INDIRECT TAXES (IT) AS A PERCENTAGE OF GDP</b>										
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>CZ – DT</b>	8.42	8.62	7.62	6.91	6.63	6.84	6.79	7.01	7.2	7.14
<b>CZ – IT</b>	10.32	10.56	10.37	10.82	11.14	11.94	12.38	12.86	12.11	12.02
<b>HU – DT</b>	9.20	10.13	10.36	9.7	7.9	6.31	6.82	6.67	6.73	6.45
<b>HU – IT</b>	14.97	15.97	15.59	16.43	17.58	19.41	18.65	18.59	18.63	18.30
<b>PL – DT</b>	7.38	8.26	8.42	7.21	6.70	6.77	7.00	6.79	6.98	6.96
<b>PL – IT</b>	14.20	14.45	14.50	12.95	13.65	13.80	12.98	12.71	12.63	12.78
<b>SK – DT</b>	6.38	6.43	6.75	5.86	5.67	5.78	5.86	6.41	6.62	6.87
<b>SK – IT</b>	11.07	10.97	10.33	10.32	10.02	10.45	9.88	10.36	10.57	10.47

**Table 7. Direct and Indirect Taxes in Sweden, Denmark, Finland**

<b>DIRECT (DT) AND INDIRECT TAXES (IT) AS A PERCENTAGE OF GDP</b>										
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>DK – DT</b>	28.81	28.62	27.97	28.48	28.72	28.63	29.56	30.61	33.73	30.45
<b>DK – IT</b>	17.30	17.45	16.49	16.42	16.31	16.42	16.58	16.75	16.61	16.52
<b>SE – DT</b>	21.10	20.15	18.75	18.50	18.17	17.64	17.43	17.76	17.74	17.87
<b>SE – IT</b>	22.05	21.98	22.34	22.63	22.21	21.13	22.16	22.13	22.05	22.17
<b>FI – DT</b>	16.78	17.03	16.81	15.51	15.45	15.85	15.61	16.30	16.56	16.65
<b>FI – IT</b>	13.23	12.66	12.42	12.91	12.95	13.81	14.08	14.47	14.52	14.40

Source of table 6 a 7: processed by author using (OECD, 2016), (OECD<sup>3</sup>, 2016).

### Thoughts for Pondering--Not only for Slovakia

#### VAT or Sales Tax?

*The 1<sup>st</sup> recommendation, not only for Slovakia:* The collection of indirect taxes exceeds the direct taxes, however as it is seen in Figure 2 and Tables 6 and 7, the amount of indirect taxes collected is fairly stable, not volatile. Except for Hungary, Czech Republic, Finland, Sweden (slightly) and Japan the values of indirect taxes (as percentage of GDP) achieved in 2014 higher values than in the year 2000. The acceptable explanation may be: a) low tax rates for indirect taxes, which needn't be the case or b) a problem with indirect taxes collection. There are companies that can make an effort to avoid paying the taxes, by manipulating with VAT which leads to fraudulent behavior, *e.g.*, frauds known as Carrousel schemes. For instance, European countries have introduced VAT and in the USA there is a sales tax, which differs from the VAT by not allowing to lower sales tax obligation when the business makes purchases. The amount of the VAT, when the goods are sold, is the obligation but when the goods are purchased, it is a receivable, lowering a VAT tax obligation.

Producers do not pay sales tax for production resources, they are exempted from taxation. When the product is ready for sales then the sales tax is levied, and it is levied even when the product is sold several times. In Slovakia, the companies which have the turnover of 49790 EUR and higher, for 12 consecutive months (without interruption), then they become a VAT consumption payer. The companies may become voluntarily value added tax payers, because which results in big businesses refusing to trade with non VAT payer-companies. Small businesses are at disadvantage in trading with large VAT payer companies. Their purchases are more costly because the acquisition cost includes VAT and consumption costs. We believe it is worthwhile continuing in investigating and determining the effect of canceling VAT and replacing it with an appropriate rate of sales tax, it would make tax compliance process simpler and it would conclude carrousel frauds.

*More diversified VAT, selective regional taxes? The 2<sup>nd</sup> recommendation:* Slovakia has two rates 20 percent (majority of goods) and 10 percent for VAT for fresh domestic grocery products (bread, milk, meat and fish). The diversifying VAT rates for various goods would be more equitable and fair. Slovakia could be inspired by the policy of selective taxes which could be levied by regions or counties. If the legislation is properly proposed it can regulate the competences of regional governments. The tax revenue from the regional or local taxation should be allocated to their regions for financing their activities and/or projects.

*To reduce taxes?* To lower taxes is not always a positive feature of any government decision, it may be an attractive



point tagline in any election campaign, or a criterion which FDIs is seeking. But the tax policy, for example, in Nordic countries, known for its high taxation provides financing for public expenditures which are then reinvested in public services for all citizens. For example, based on OECD<sup>9</sup> (2015) in 2012, countries such as Denmark, Finland, Norway, Sweden reinvested their subnational government expenditures: (1) **education** (percent of total subnational government expenditures, consecutively as the states are in order: 10 percent in DK, 17.2 percent in FI; 24.4 percent in NO; and 20.6 percent in SE), or (2) **social protection** (55.5 percent in DK; 25.3 percent in FI; 27.4 percent in NO; and 20.6 percent in SE of total government expenditures), (3) **health care** (22.4 percent in DK; 29.6 percent in FI; 14.5 percent in NO; and 27 percent in SE percent of total of total government expenditures), (4) For comparison OECD average and EU-28 average, consecutively, investments of subnational government expenditures were: 26.2%; 20% **into education**, 11.9 percent, 12.95 **percent into to social protection**, 15.2 percent, 11.3 percent **in health care** of their total subnational government expenditures), The countries of V4 known by low tax rates do not have enough capital resources for public expenditures, as it is seen in the following data: in 2012 based on OECD<sup>9</sup> states Czech Republic, Hungary, Poland and Slovakia, consecutively, invested: (1) **education** (32.3 percent in CZ, 28.8 percent in HU, 28.8 percent in PL, 40 percent in SK, of their total subnational government expenditures); (2) **social protection** (5.9 percent in CZ, 13.5 percent in HU, 12.8 percent in PL, 7.6 percent in SK of their total subnational government expenditures); (3) **health care** the investment was 2.6 percent in CZ, 8.3 percent in HU, 14.1 percent in PL, 0.3 percent in SK of their total subnational government expenditures).

It is not surprising that education, health care and social security are underfinanced. What is also alarming is the fact that from total subnational government expenditures for the economic affairs in CZ, HU, PO and SK these are the following investments made by the Vysegrad governments: 21.9 percent in CZ, 11.7 percent in HU, 15.6 percent in PL and 14.7 percent in SK of their total subnational government expenditures). If they support the projects from which people will benefit, then it is an appropriate decision, but supporting the projects where there was no transparency in the process of public procurement it may be led to fraudulent behavior (nepotism, bribery etc.).

*High taxes – reason to leave the country?* Countries that were investigated in 2014, the highest GDP per capita was achieved by Norway (\$65705), USA (\$54353), Denmark (\$46 600), Sweden (\$ 45298), Finland (\$40684), Czech Republic, (\$31888), Slovakia (\$28327), Hungary (\$25061), Poland (\$24 952), and average Eu-28 is \$36817. In spite of long tradition of paying high taxes in Northern Europe the people do not move to countries or states with lower tax rates, companies create GDP, and high GDP contributes to the increase of standards of living, the state becomes a high standard state which is capable of taking care of its citizens. The tax burden is not perceived as a burden by citizens but a source of higher standard of living and a more content life.

## Conclusion

In sum, the recent trend in taxation is summarized, especially in the EU member states: (1) social security contributions increased, (labor tax), (2) the share of consumption taxes is diminishing in favor of a general widespread VAT, (3) the share of property tax and ecological taxes is stable over a longer period, (4) the most significant change was the reduction of marginal tax rates for the category of personal income taxes, but no reduction of the rates for taxation of labor income (people employed). Reduction of tax rates of personal income was accompanied by the reduction of rates in the corporate income which was in many countries compensated by broadening the tax income base, (5) the highest tax rate for taxation of dividends decreased and tax stimuli were introduced for investments into science and research. The taxes are regulatory method in the macroeconomic regulation of supply and demand; they influence various assets of entrepreneurs and citizens, and when there is a system of tax policy set up with justice, it is a relevant factor in reallocation of capital resources in regions which need the capital funds the most. The responsible task of the state comprises in ensuring that all mentioned tasks in order that it will reflect in the increase cost of living and in higher quality of social services for all its citizens.

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# EXPLORING SOUTH AFRICAN EMPLOYEES' REWARD PREFERENCES

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Research has found a link between reward systems and desired performance. However studies have not clarified whether and why managers should employ intrinsic or extrinsic reward systems. Therefore this study aimed at further investigating employee perceptions on intrinsic and extrinsic rewards. Managers will be better informed from this study as to which reward system would work better in which situation. This research is significant because prior studies on reward systems have not been substantial on the issue of intrinsic and extrinsic motivation. Therefore further study was needed to investigate how employees perceive intrinsic and extrinsic reward systems and which they prefer. The issue about employee entitlement would be addressed and deductions pointed out that will assist organizations. Managers will be enlightened about reward systems, which to employ under which conditions and about employees' generally perception of reward systems. The research design used was quantitative. Questionnaires were administered to selected respondents using simple random sampling. It was found that employees still prefer extrinsic rewards and are keen to advance their careers. Employers understand this and reward employees in the same manner. Yet, considering that many people are unhappy in the workplace, perhaps further research may shed light on employee happiness as an intrinsic reward and the abilities of transcendental, rather than transactional leaders to deliver it. The research conducted proved to be useful as the aims of the research were achieved.

## Introduction

This research investigated employees' perception and preference of reward systems and whether employees were more motivated extrinsically or intrinsically. The information was sought through a survey. Reward systems are some of the key tenets in managing performance in an organization. Rewards are a major motivator for employees. They aim to attract people to join an organization, and keep them coming to work diligently. Other than just doing what is expected, reward systems are designed to make employees exceed beyond expectation in terms of job performance (Pratheepkanth, 2011). Reward systems are generally divided into two categories, namely intrinsic and extrinsic. According to Deci & Ryan (2008) the authors of self-determination theory, human behavior is motivated either by interest and enjoyment (intrinsic) or by possible results (extrinsic). Intrinsic reward systems are therefore those rewards that are not tangible such as a sense of achievement, job satisfaction or praise. It stems from intrinsic motivation, a sense of personal interest that comes from within. Extrinsic rewards are those tangible rewards, which are given when something is accomplished. These include bonuses, pay rise and stock options (Hartzell, 2014). Tangible rewards also suggest the transactional leadership approach of exchanging rewards for services offered by individuals (Bateman & Snell, 2011). Managers will see that some people act out of own interest at times and may or may not be aware whether employees are motivated intrinsically or extrinsically in the work place. Managers are known to try different things in an effort to find suitable reward systems yet they may make uninformed decisions because they don't know what really works (Beswick, 2007). Keeping these factors in mind, this study was aimed at investigating the aspects regarding the use of reward systems as a means of increasing employee motivation in the workplace.

Khan, Farooq & Ullah (2010) found that payment, recognition, and benefits offered had a significant impact on employee motivation. Roberts (2005) supports this and reiterated that improved reward and recognition systems lead to better motivation and satisfaction levels among employees and may in turn lead to higher levels of performance. Poor job motivation may be linked to several factors. In Nigeria for instance, employees are underpaid despite their hard work. At the same time, the privileged class which is not necessarily the most hardworking, brazenly show off their wealth. This has a negative impact on the morale of the employees who earn meager salaries (Sajuyigbe, Bosede, & Adeyemi, 2013). Hafiza, Shah, Jamsheed & Zaman (2011) found that for organizations to perform well and compete effectively, they must make the most of their resources, especially their human assets. Employee motivation is important for performance standards to be achieved. Armstrong (2012) confirmed that managing performance is vital for better organizational results. Desired goals may only be achieved effectively if individual and organizational goals are aligned.

Real organizational success comes from employees' willingness to use their creativity, ability, energy and skill for the overall benefit of an organization and effective reward systems nurture and encourage these inputs (Markova & Ford, 2011). Highly motivated employees are a competitive advantage for any company because their performance will lead to superb achievement of a company's goals (Rizwan & Ali, 2010). In addition, such



employees who experience high levels of happiness, pleasure and meaningful work lives recover quicker from illness, display a superior attention span and produce other positive individual and organizational results (Seligman, 2008). Therefore, as literature suggests, employees are valuable contributors to organizational success and it is imperative for managers to work closely with them and tend to their needs through effective reward systems. La Belle (2005) supported this by stating that different employees have different needs for rewards being either financial or non-financial incentives. Similarly, Herman (2009) argues that an effective reward system is one that seeks to meet the specific needs of employees. However, employees who have already achieved basic need-satisfaction through monetary reward will tend to value rewards that satisfy their need for self-actualization more.

Evidently, different views exist across the literature about how reward systems impact employees. However, a prevalent and recurrent theme is that higher motivation results in better job performance. Whether this motivation is intrinsic (which comes from a sense of satisfaction) or extrinsic (which depends on external tangible things) is however not well understood. An ill-informed manager for instance would not know which employees prefer intrinsic rewards to extrinsic rewards or which to apply under which conditions. Yet, estimations show that between 50 and 70 per cent of the world's population is unhappy (Seligman, 2002, 2008). South African employees are no exception (Pike, 2008). Employees' emotional response to their jobs determines their level of job satisfaction. Despite good compensation and rewards, dissatisfaction at work also has an impact on the lives of employees and influence behavior such as absenteeism, labor unrest and their physical and mental health (Buitendach & Rothmann, 2009).

In summary, therefore, the literature above point to a need to further investigate the aspects relating to reward systems. A clearer picture was needed about intrinsic and extrinsic rewards in any given organizational setting and this research intends to shed more light on that.

### **Literature Review**

Henri Fayol's Theory of Management stated that management must foster employee morale. It further states that real talent is needed to coordinate effort, encourage keenness, use each person's abilities and reward each one's merit without arousing jealousy and perturbing a harmonious relationship. However, a flaw in this theory is that it assumes workers can only be motivated by monetary rewards. Issues such as job satisfaction and human resource development have not been considered. However Fayol's theory gives credence to sensitivity to the needs of employees when designing a reward system (Kibisu, Muturi & Munene, 2014). A reward system can be classified as all those elements that comprise the different components chosen for performance evaluation and the actual placement of monetary and non-monetary rewards (Ehlers & Lazenby, 2010). Intrinsic rewards are the non-financial incentives including recognition, praise, and job satisfaction, among others (Fareed, Abidan, Shahzad & Lohdi, 2013). In this case rewards come from within and are associated with the job itself. Examples include challenging work, creativity and the opportunity to showcase abilities and talents (Ozutku, 2012). In addition, employees are said to be better motivated if they have a sense of pride in their work, knowing that their effort is important to the success of the job and the team. They work better if their job is enjoyable, challenging and rewarding (Mahaney & Lederer, 2006). Extrinsic rewards are those rewards not associated with the job itself, such as bonuses, a pay rise, private office space such as a corner office, and overtime payments. Extrinsic rewards may enhance morale among employees. This is seen where employees tend to occupy well-paying jobs for a longer time and do extra on those activities that will make them earn monetary rewards. However some managers consider monetary rewards as counterproductive as they cannot be accurately measured against performance and they also diminish teamwork as employees are only focussed on the reward to self (Ozutku, 2012).

Rewards are vital instruments in employee performance. Employees who are well rewarded will feel valued at work. They will tend to work harder if they are aware that their employers take them seriously. No organization can achieve its objectives without employees. In an analogy, employees can be seen as the engine of an organization, reward being the fuel (Sajuyigbe, Bosede, & Adeyemi, 2013). Every organisation's reward system should focus on four major areas namely compensation, benefits, recognition and appreciation (Sarvadi, 2010). Benefits such as car loans, medical cover, club membership, adequate office space, parking and company vehicles are ways of rewarding valued employees. Recognition and appreciation are other vital components of a winning strategic reward system. Recognition is acknowledging someone before their peers for accomplishments achieved, desirable behaviour, actions undertaken or having a positive attitude. Appreciation on the other hand is showing gratitude to an employee for his or her action. Such rewards help employees to gauge their performance and know whether they are performing well or not (Sarvadi, 2010).



## **Reward Management**

Reward management is concerned with the formulation and implementation of strategies and policies that aim to reward people fairly and consistently with respect to their value to the organization (Armstrong, 2012). It centers on philosophies and principles consistent with organizational values. Therefore, in brief, if human resource management (HRM) is about investing in human capital where an adequate return is required, it is suitable to reward people differentially according to their contribution (Armstrong, 2012). The philosophy of reward management also notes that it should be aligned to organizational strategy and should address the long-term issue of how people should be valued for what they do and achieve. Strategies for reward and the processes needed to implement them must flow from the business strategy (Longo, 2010). In addition, reward management utilizes a holistic approach where emphasis is placed on all aspects of reward as a coherent whole with other HRM strategies such as talent management and skills development. Reward management is a key element in HRM approach towards managing people (Jiang, Xiao, Qi & Lei, 2009).

### **Theories of Motivation**

Social scientists have studied motivation for decades to uncover what motivates people and have come up with theories regarding the same. A look at some of these theories will shed more light on what motivates people and how it relates to how they behave in the workplace. We discuss major theories of motivation. The Herzberg's Two-Factor Theory developed by Frederick Herzberg holds that there are two factors that influence employee motivation and satisfaction namely motivator factors and hygiene factors. Motivator factors are those that lead to satisfaction and encourage employees to work harder. Examples include career progression recognition etc. Hygiene factors, if absent, are likely to lead to dissatisfaction and a lack of motivation. Examples include salary and good relationships with managers and fellow workers (Mohammed & Nor, 2013). According to Herzberg, while motivator and hygiene factors both affect motivation, they appeared to work independently of each other. Thus, while motivator factors increase employee satisfaction and motivation, the absence of these factors does not necessarily cause dissatisfaction (Dartey & Amoako, 2011).

Secondly, Maslow's Hierarchy of Needs Theory, developed by Abraham Maslow, holds that an individual's lower order needs must be met before they become motivated to achieve higher level needs. According to the hierarchy of needs, one must be in good health, safe and secure with meaningful relationships and confident before they are able to be their best in the workplace (Huit, 2007). The third theory discussed in this research is the Expectancy Theory developed by Viktor Vroom. It states that people will choose how to behave depending on the outcomes they expect as a result of their behaviour. Humans decide what to do based on their expected outcome. This implies that, for instance, people may work longer hours because they expect a pay rise (Lunenburg, 2011). Expectancy Theory also suggests behaviours are chosen based on our perceptions of rewards. Workers for instance are likely to work harder if they have been promised a pay rise than if they had only assumed they might get one. Hence, people are most motivated if they believe that they will receive a desired reward when they attain an achievable target. They are less motivated if they do not want the reward or they do not believe that their efforts will result in getting the reward (Parijat & Bagga, 2014).

This study would not be complete without a discussion of Self-determination Theory. First coined by Deci and Ryan (1995, 2000), this theory holds that employees feel more trusted and competent when they are experiencing a sense of choice. Their sense of choice is positively related to intrinsic motivation (Hagger, Keatley, Chan, Chatzisarantis, Dimmock & Jackson, 2013). Therefore when presented with choice, an individual's intrinsic motivation is enhanced. In this sense, employees may feel that external possibilities or events like rewards reduce their feelings of choice and motivation. Their happiness at work may be reduced if they perceive rewards to reduce their locus of control (Bateman & Snell, 2009). On the other hand, employees feel a sense of achievement, joy and happiness when they are working toward achievement of their own potential (Anchor, 2011).

### **Happiness in the Workplace**

Anchor (2011) suggests that engaged employees who experience positive emotions in the workplace are a potential source of competitive advantage. Happiness and contentment at work leads to success and improved performance. Employees who find their jobs meaningful, who support others and enjoy support, who grow and learn continuously, enjoy a sense of thriving and their work fuels them with energy. This is a source of intrinsic motivation (Hagger, Rentzelas & Chatzisarantis, 2013).



### **Relationship between Rewards and Motivation**

Ali and Ahmed (2009) found that there was a direct relationship between reward and motivation. To this end, recognition and reward lead to positive change in worker motivation and satisfaction. Individuals are more motivated to perform when they see the rewards are fairly distributed and in this regard, management must ensure that there is equity both internally and externally. External equity relates to comparable pay for similar jobs with other similar organizations whereas internal equity relates to a comparison of individuals with different jobs in the same organization. Employees compare their pay with that of others based on what they believe they should justly earn and consequently decide whether they are being paid fairly or not (Muchinsky & Schreuder, 2010). In addition, individuals are more motivated to work if they know the size and magnitude of the reward. As the Expectancy Theory suggests, motivation is a function of key factors such as the employees' perception of their effort in relation to performance, their perception that performance is rewarded with things such as pay or praise, and the value of the reward given (Hafiza, Shah, Jamsheed & Zaman, 2011). As shown, the authors cited have researched reward systems in organizations and how it relates to factors such as employee motivation, satisfaction and the quality of work produced. In general, the studies mentioned have shed some light on the aspects pertaining to reward systems in organizations. However, further research is needed to address intrinsic and extrinsic reward systems. Whether extrinsic rewards are more favored to intrinsic rewards and whether that should be the case has not been addressed well. Therefore a more comprehensive study was needed to explore intrinsic and extrinsic reward systems, which is more preferred by South African employees and the reasons for their preference.

### **Problem Statement**

Reward systems are one of the key strategies used by organisations to increase employee motivation and as a result organisational performance (Ehlers & Lazenby, 2010). Researchers and scholars have established a link between reward systems and desired performance. However prior studies on intrinsic and extrinsic reward systems have not clarified reward system is better and the reasons for it. Therefore this study aimed at further investigating employee perceptions and preferences about intrinsic and extrinsic rewards. Managers will be better informed after this study as to which reward system would work better in which situation. Given the above background, the following research question may be formulated: Which reward system South African employees prefer?

### **Objectives of the Study**

The primary objective of this research is to explore different reward systems used in South Africa and to discover which one is preferred by South African employees. A number of secondary objectives, which support the primary objective are formulated as follows: To investigate how employees would prefer management to reward them; To investigate whether employees are more motivated intrinsically or extrinsically; and, To make recommendations to management on reward systems

### **Scope and Demarcation of the Study**

This research focused on employees working in various organisations who reside in Gauteng South Africa as well as postgraduate students at University of Johannesburg who are currently part-time or full-time employed. Subjects were chosen on the basis of availability as getting permission from companies to conduct research proved difficult. However, the scope chosen proved to be relevant as it incorporated people with different demographics. This is important because varied population characteristics helped in reducing research bias.

### **Research Methodology**

#### **Research Paradigm**

The paradigm of this research was positivistic. Positivism is the application of logic and methods of physical science to uncover the laws governing social phenomena. It is research conducted systematically and the emphasis is on observable facts. Since the research is about the impact reward systems have on employees it implies a causal relationship (Visagie, 2010). The positivistic paradigm uses an objective approach, where interest is in discovering and confirming causal laws.

#### **Type of Research Study and Research Approach**

This research study was exploratory in nature. Exploratory research is done when there is no clear knowledge on a particular topic and the researcher carries out the study to find out more and develop concepts more clearly (Babbie & Mouton, 2009). The research approach used is quantitative. Survey questionnaires were used, which gave a more



objective finding on aspects pertaining to reward systems in organisations. Since the research paradigm used a positivistic approach, the use of an objective measuring scale was most appropriate (Visagie, 2010).

## Population and Sampling

### Target Population

The target population comprised randomly selected employees who reside in Gauteng, South Africa as well as working postgraduate students at University of Johannesburg. This population was chosen on the basis of convenience as it proved difficult to obtain consent from companies. A sample of 120 respondents was surveyed. Since the research was quantitative, involving the use of questionnaires, a large sample was required in order to get comprehensive data for analysis. The bigger the sample size, the smaller the margin of error and more useful the results measured (Wittes, 2006). In quantitative research, the reliability of the obtained scores must be generalizable to other samples under other circumstances (Welman, Kruger & Mitchell, 2005). Simple random sampling gave each member of the population an equal chance of being included in the study and only minimal advanced knowledge is needed of the population. Also it is used when researchers want to sample on the basis of availability (Visagie, 2010).

### Data Collection Methods, Validity and Reliability

A self-developed questionnaire was used to collect the data for this research due to the highly relevant nature of this data collection instrument (Visagie, 2010). A total of 120 were administered and 101 were returned completed and useful for analysis. Validity is the extent to which the measuring instrument collects data that it is meant to collect (Njanja, Maina, Kibet & Njagi, 2012). University of Johannesburg statistical research consultants (Statcon) validated the questionnaires beforehand.

### Data Analysis

Data analysis is the process of reducing accumulated data to a size that is manageable, developing summaries, searching for patterns and applying statistical techniques (Cooper & Schindler, 2006). The data collected from the questionnaires was coded, processed and analyzed using computer aided data analysis software called Statistical Package for the Social Sciences (SPSS). Descriptive statistics and factor analysis were used to present the data analyzed in this research project. These were helpful in comparison in terms of finding the aspects regarding reward systems.

## Results and Findings

The results and findings from the survey are presented and reported on below:

**Table 1. Cronbach's Alpha Reliability Statistics**

Cronbach Alpha	Cronbach's Alpha based on Standardized Items	No of items
.90	.90	14

A Cronbach's Alpha of 0.902 was achieved from the measuring instrument proving that it had internal consistency and is therefore sufficiently reliable. A Cronbach's Alpha of 0.7 and above is considered acceptable for a measuring instrument to be deemed reliable (Dennick & Tavakel, 2011). Of respondents surveyed, 41 percent have been employed gainfully for more than 1 year but less than 5 years. These also happened to be the respondents who were more motivated and eager to go up the corporate ladder. Only six percent of the respondents fell in the category 15 to 25 years of gainful employment.

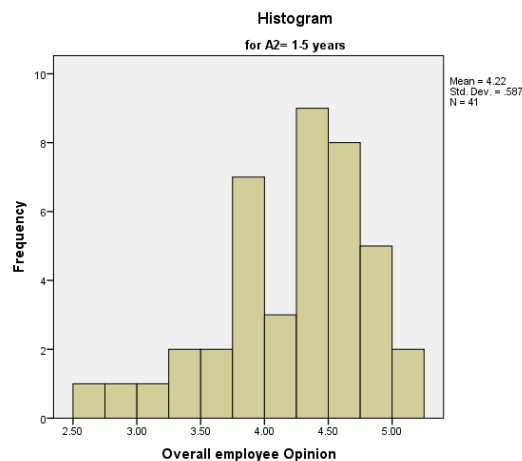
**Table 2. Tenure of Employees**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	<1 year	29	28.7	28.7	28.7
	1-5 years	41	40.6	40.6	69.3
	5-15 years	15	14.9	14.9	84.2
	15-25 years	6	5.9	5.9	90.1
	25 years or more	10	9.9	9.9	100.0
	Total	101	100.0	100.0	



Among the 101 respondents both genders were almost equally represented. Tenure is also illustrated in Figure 1.

**Figure 1. Tenure of Employees with Highest Rating**



### **Employee Opinion on Reward Benefits**

Respondents considered opportunities for career growth and possibility to achieve promotion the most important. Most scored this item 57 percent, 56 percent and a mean score of 4.33 and 4.2 respectively were recorded. Likewise, opportunities for promotion and annual bonus based on organizational achievement were the most motivating factors for respondents. They scored a 47 percent, 46 percent, 43 percent and a mean of 4.01, 4.00, and 3.94, respectively.

### **Rating of Management Performance**

When asked to rate management performance, respondents considered appreciation for work well done, respect, recognition, appreciation of outstanding performance and lastly, fair treatment, as very important.

Based on the respondents' rating of their respective reward systems, 68 percent of them were satisfied with the reward system currently employed in their organizations. However, when asked about their organization's reward system, fifty percent of respondents were unsure or indifferent about criteria for recognition programs and more than half of the respondents were not aware of the procedures for nominating a given employee for an award.

### **Work Ethic and Entitlement and Management Decision Criteria in Allocating Rewards**

A willingness to share credit for work well done, enjoying one's work and being motivated to work hard because it is the right thing to do were highly rated most by respondents, with a mean of 4.2, 4.19, and 3.99, respectively. The criteria management should use in deciding how to allocate rewards, delivering outstanding customer service, exceeding service expectations and exceeding performance objectives were most highly rated. These achieved a mean of 4.50, 4.31, and 4.31, respectively.

## **Conclusion and Recommendations**

From this research, it can be concluded that employees prefer extrinsic to intrinsic rewards. Evidence of this was found in the high rating given by respondents on extrinsic rewards as shown on the reward benefits section in the findings. These rewards are the incentives given by organizations to induce them to stay on their job and perform beyond expectation. These rewards included things such as opportunities for promotion and company bonuses. It is also noted that the respondents who were most motivated extrinsically were those that had been worked for five years and less. These respondents, being young and at the start of their careers may have the more immediate desire to fulfil their lower order needs first. Similarly, these respondents, according to the findings, are keener to move up the corporate ladder and advance their careers, compared to the respondents with a tenure of 15-25 years. In fact, seventy per cent had been at their given organizations for five years and less and were keen on career advancement. More than half of the respondents were content with the reward systems used in their respective organizations. The implication is that many are not content, and could leave their organization for this reason. However, organizations that could improve this score may improve the levels of job satisfaction and therefore staff retention among their employees. The important thing is not only to find ways to retain employees but also seeking to improve their work lives (Strydom, 2014). Very few of the respondents stated that they are aware of the procedures for nominating employees for an award. It is of interest for managers to make employees aware of these procedures for the sake of transparency. It lessens the suspicion of problems such as bias and nepotism. Respondents were found to display low levels of self-entitlement. This is evident from their willingness to work hard because it is the right thing to do and that alludes to intrinsic motivation. Although from the findings it could be concluded that most employees are motivated extrinsically, some are also motivated intrinsically. Intrinsic motivation can be further harnessed through the creation of improved working conditions in office.

The findings and conclusions above have fulfilled the objectives of the research. It has been proved that employees have a higher preference for extrinsic rewards compared to intrinsic rewards. The younger respondents



were prepared to work hard in order to enjoy the benefits of career progression and pay rises. This is in line with Vroom's Expectancy Theory. At this young age they seem to be more motivated extrinsically than intrinsically hence their preference for extrinsic rewards. Older respondents were found to be less driven by career progression and salary increases, and as expected, intrinsic rewards such as self-actualization were more important to them. There was no significant difference in the preferences recorded for males and females, neither for people with different tenures.

### **Limitations**

The limitations pertaining to this research conducted were the following: (1) The sample size: The research focused only on a convenience sample of working people who reside in Gauteng, South Africa as well as working postgraduate students at University of Johannesburg. This may not be reflective of the overall employee opinion of reward systems and a bigger sample would have improved results. Generalizability may be questioned because a convenience sample was chosen. Having a sample of 120 was still effective according to the normal and binomial approximation. This type of approximation is accurate when population is large and sample size is small (Morris, 2015); (2) Time constraints: The time that was allocated for the collection and analysis of data was limited and therefore thorough scrutiny of the results was limited; (3) Level of study: This research was an honors degree study and therefore it is not a large scale project; (4) Availability of respondents: This was a major challenge in this research. The organizations approached were quite bureaucratic and unwilling to give permission to conduct research with their respective employees as subjects; (5) Finances: Any given research requires finances for it to be better. Due to limited funds there was a ceiling to the extent to which the research could have been carried out. More funding would have improved the research; and, (6) The questionnaire as research instrument contained several questions relating mostly to extrinsic motivation. In hindsight, the authors realize that the research instrument could have been designed with more depth, if topics like job satisfaction and happiness in the workplace were included. Most questions centered on extrinsic rewards with too little emphasis on intrinsic rewards. This may perhaps be addressed in further research.

### **Implications for Management**

Self-determination theory suggests a focus on people's motivations and the degree to which their professional behavior is self-determined (Miniotaite & Buciuniene, 2013). Scholars of this theory have found that people experience a need for competence, autonomy and relatedness and that when these needs are met, individuals tend to grow, flourish and experience happiness in the workplace. Considering that many people are unhappy in the workplace, recent research suggests that leaders can create a culture where people can be so happy in their workplace that they experience a sense of thriving. This may be achieved through providing more engaging work, more involvement in decision making, and even experiencing more relational connectedness with colleagues (Barney, Wicks, Scharmer & Pavlovich, 2015). Traditional approaches to leadership are superficial and a new conceptual model, namely transcendental leadership, is gaining momentum, which builds on the continuum of transactional to transformational leadership and culminates in transcendental leadership (Sanders, Hopkins & Geroy, 2003). Transcendental leaders add a service dimension (Cardona, 2000) and have the ability to motivate followers through uncertain times more successfully through their highly developed internal locus of control and spirituality (Lui, 2007). Thompson (2000) said that the only means for leaders to become transcendental, is through spirituality. Transcendental leaders are found to be more effective in motivating followers, and instead of discarding the traditional transactional and transformational leadership approaches, transactional leadership complements these two approaches (Lui, 2007).

The findings of this research suggest that younger employees are motivated extrinsically. However, by practicing transcendental leadership, adopting a more serving, caring and follower-centered approach (Lui, 2007), leaders may be able to expose young followers in the workplace to the desire to move between intrinsic and extrinsic rewards earlier in their careers, gaining a higher internal locus of control, which may lead to a happier and more successful workforce. In conclusion therefore, future research may investigate the potential organizational success through motivated employees, led by a generation of internally orientated leaders who can inspire followers to transcend their personal interests for the purpose of pursuing a higher, collective purpose.

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# INTER-FIRM LEARNING AND LOCAL PARTICIPATION IN EMERGING AFRICAN OIL NATIONS

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The paper focuses on collaboration experiences and preferences regarding collaborative programs to improve competitiveness, and follows an explorative study design. The study is based on a survey of 110 Tanzanian companies targeting the emerging oil and gas industry located in rural and urban locations. The major finding is that only 15 percent collaborate, or have previously collaborated, with two or more firms. A cluster analysis revealed that “open firms” are also more positive to contribute in improvement programs. Close to one-third of the firms are unwilling to contribute financially, and a majority of the firms are willing to spend 15 days or less, which is assumed to be far below the minimum for an effective inter-firm improvement program. The paper contributes to a limited number of empirical studies focusing on African suppliers meeting international sourcing requirements in the host country.

## Introduction

When marketing scholars study business-to-business interactions they often see that actors collaborate with each other through trust-based mechanisms. These mechanisms open for collaboration within several aspects of importance for the firm’s competitiveness, for example: (1) improving the activities between the firms in its value chain, (2) to bundle resources and thus strengthen the firm’s resource base, and (3) to share information and experience. The trust-based mechanism is one cornerstone in the industrial network approach, also referred to as the IMP approach) in marketing (Håkansson & Snehota, 1995), in which the firm is dependent on combining its resource base across a firm’s boundaries. Through inter-firm relationships in a network of interdependent actors, the resource base can be enhanced and provide a fundament for competitive advantages. This is particularly relevant in a developing country context, in which each indigenous market actor suffers from both a weak resource base and a weak culture of inter-firm collaboration and trust, not least in a context in which foreign firms are dominant market actors with access to a well-developed and competitive international supplier base. This study focuses on the collaborative aspects of Tanzanian companies within the emerging oil and gas industry of the country.

Foreign-based companies and suppliers are highly involved in the exploration and exploitation of natural resources in African countries. Whereas the mining industry has been going on for hundreds of years, the petroleum industry is relatively new to Sub-Saharan nations (SSA). New oil and gas nations such as Ghana, Uganda, Tanzania and Mozambique are now facing challenges in applying natural resources as a means to create national wealth and benefits for society. Discoveries of oil and gas make the extractive industry the fastest growing sector in emerging economies. The upstream value chain activities in this industry are dominated by international oil companies and foreign suppliers (IOCs), which are increasingly exposed to *local content* expectations and requirements (Vaaland, 2015).

The World Trade Organization (WTO, 2011) defines *local content requirements*, synonymously referred to as *domestic content requirements*, as a “requirement that the investor purchase a certain amount of local materials for incorporation in the investor’s product”. The fundamental task is to “*involve and enhance the domestic knowledge base through arrangements that allow for a dynamic industrial and technological development that gradually expands domestic competence and capabilities to competitive levels*” (Heum, 2008:4). This also creates an opportunity to build a sustainable culture of service quality and capabilities that exceeds customer expectations, and that is comparable to international standards (Ihwa *et al.*, 2011; Mwakali *et al.*, 2011). However, in spite of local content expectations imposed on the IOCs, the inclusion of local suppliers is not easy to acquire. Firstly, highly competitive global suppliers are already available; secondly, the level of the industrial base of the host country is not yet ready for meeting the minimum standards for inclusion (Nnambi & Owusu, 2014). Local content requirements imposed on IOCs can enable local firms to become involved in tendering processes and be included in an IOC-initiated supplier development program, although a local firm without ambitions for climbing up the ladder to a higher level than the minimum performance levels will never survive in this type of competitive environment (Owusu & Vaaland, 2016).

In the early stages of the development of the petroleum and mining sector, the capacity to meet professional industry requirements is likely to be low, particularly in developing countries with a weak industrial base (Tordo *et al.*, 2013). Some of these challenges are illustrated by Parris (2013): (1) a low level of economic development; (2) a



lack of timeliness; (3) a high level of corruption; (3) people not following written instructions; (5) “poor quality is the norm;” (6) “it is not a problem until it is a problem;” (7) “life is unpredictable;” and finally, (8) “workers are not expected to innovate”. Anderson’s (2011) study of SMEs in Tanzania identified: (1) inadequate international business skills and management capacity; (2) poor access to finance; and, (3) imperfect market information and links as main challenges. Adebajo *et al.*’s (2013) study in Nigeria identified that the vast majority of potential suppliers failed to achieve the minimum acceptable performance. They further suggest that supplier performance in countries similar to Nigeria has a very significant scope for improvement, thus casting doubt on the ability of many suppliers to compete internationally or with international competitors.

These findings illustrate major obstacles for an indigenous company in meeting international sourcing criteria and expectations from IOCs. The way these obstacles can be reduced is primarily to develop the local companies’ product offerings and resource bases. Learning networks and supplier developing programs are examples of collaborative arrangements that can help enhance the indigenous companies’ competitive power. The value of these arrangements rests on a willingness for participants to share information and experience, and to involve and learn from foreign companies more familiar with international sourcing requirements.

The aim of the paper is to explore the inter-firm collaborative potential in order to improve the competitiveness in relation to participation in the oil and gas industry. Rather than providing a critical analysis of the theoretical aspects of inter-organizational trust and collaboration, this paper attempts to explore the more practical sides of inter-firm collaboration and improvement in a developing country context. It is inferred that improvement processes are attached to formalized programs, in which local firms actively participate in sharing and accessing competencies. This leads to two research questions: (1) What inter-firm collaborative experience prevails among developing country firms? and, (2) If an inter-firm developing program is launched: (i) What content, comprehensiveness and teaching resources should be included? and, (ii) How much is the firm willing to invest in time and money to participate?

The Tanzanian context is chosen for of three reasons: First, there is much that is unknown about business activities in developing economies (Adebajo *et al.*, 2013), and very few empirical studies have focused on African suppliers meeting demanding international companies in the host country, and to the best of our knowledge, none from a supplier perspective. Second, the industrial base is weak and suffers from a lack of inter-organizational trust, which hampers collaboration and in the end necessary improvement processes. Third, the potential economic effect of including local firms in the oil industrial value chain is considerable for a developing country such as Tanzania. The paper is further organized into six sections: First, a literature review is presented, followed by methodology. In the third section, findings are presented and continued with a discussion and implications, before the paper is concluded in the sixth section.

## **Literature Review**

The study is theoretically based on the industrial network approach, which represents three core elements required for collaboration. The literature within supplier development and learning networks within a developing country context are also presented in order to provide a background for the program features.

### **The Industrial Network Approach**

According to the industrial network approach (*e.g.*, Ford *et al.*, 2006; Haakanson & Snehota, 1995; Vaaland *et al.*, 2012), the firm is described as an actor in a network of interdependencies. The position in the network (*e.g.* in terms of competitiveness) is determined by the strength and content of relationships connecting the firms. In this perspective, the firm is both affected by-, and affects, other actors in the network. This implies that the network of “weak” developing country suppliers represents a potential for enhancing competitiveness which supposes that they are willing and able to share resources. The relationships between the networking actors (*i.e.*, the local firms) consist of three interrelated dimensions, which can also be studied separately (Håkansson & Snehota, 1995, 2006); *namely*, activity links, resource ties and actor bonds. Moreover, the activity links between the firms can be analyzed and improved by collaborating on where to set the boundaries for activities in the value chain.

The resource dimension describes how resources between the actors are connected, combined and shared through resource ties for achieving common goals. The resources possessed by networking actor are considered significantly larger than the resources possessed and controlled within the specific firm boundaries. Industrial network research focuses on what roles actors play in business relationships and what resources they bring and develop, both individually and mutually, with the other actors and networks (see Ford *et al.*, 2011; Håkansson & Snehota, 2006; Ritter *et al.*, 2004). However, for the specific networks to achieve certain aims, they need to develop resources to



help fulfil their roles. The process of developing resources and fulfilling roles is encapsulated in relationship building through various types of linkages (ibid.). Our dynamic and active view of linking and building relationships is similar to the findings of Järvensivu & Möller (2009) and Möller & Rajala (2007), who state that actors cooperating in an industrial networks have to contribute unique and dynamic resources, and continue to develop them in an interlinked way (ibid.). According to network theory, any resource is only valuable to the extent that it is combined, and, thus, interrelated with other resources. These resources are comprised of localization in the domestic market, facilities, equipment, systems, methods and manpower being included in their resource base.

Vaaland *et al.*'s (2012) study of Nigerian suppliers suggests three types of resources that the local companies should develop and share – capital, competence and delivery capabilities. Studies by Silvestre and Dalcol (2009) and Hernandez-Perez (2011) within the Brazilian oil and gas industry show that success was achieved through establishing the competence of their staff and cooperating with a large network of competent local firms and support organizations. The Brazilian and other examples show the importance of the relationships and networks between the firms, but also in a wider sense to include public regulators, learning institutions and foreign firms. The resource base, and in turn the competitive force, is influenced by an ability to “network” and build inter-organizational trust and commitment. This implies that the resource base of a “weak” indigenous firm can be significantly strengthened through an inter-firm collaboration, which supposes that the third dimension is in place, the actor bonds. The actor bonds are comprised of trust, commitment and mutuality, and describe the firm's social interaction aspect (Håkansson & Snehota, 1995, 2006). Strong actor bonds enable the firm to share information and resources with each other, and is a precondition for collaboration, with trust being a core issue in building and strengthening actor bonds. Although the concept of trust has no uniform and fully accepted definition and suffers from a lack of clarity (Blois, 1999), the marketing literature often describes trust in terms of a firm's willingness to rely on an exchange partner in whom one has confidence (*e.g.*, Moorman *et al.*, 1992; Schurr & Ozanne, 1985), and which is conceptualized as existing when one party has confidence in an exchange partner's reliability and integrity (Morgan & Hunt, 1994).

To sum up, the industrial network approach provides a framework for understanding the preconditions for collaboration among firms. An understanding of a firm's interdependencies with other firms, and an ability to trust the other actors and mutual commitments, are the main conditions for collaboration.

### **Supplier Development**

An inter-firm collaboration, with the purpose of enhancing a competitive level, is often associated with “supplier development”. In industrialized economies, inter-firm collaboration and development can take place without target customers being involved. In other cases, a specific customer or groups of customers are key stakeholders and initiators of supplier development initiatives with the purpose of enhancing the quality or competitiveness of their supplier base. The target group in this study primarily consists of companies not yet directly involved as suppliers to the oil and gas industry, but which have ambitions to participate. These companies have to improve in order to qualify for inclusion in the supply chains, but are not yet included in “supplier development” initiatives from the buyer side. Nevertheless, inter-firm collaboration, in order to improve without an active participation from the buyer side, shares some characteristics with “supplier development”, which will be clarified in the following section.

Watts & Hahn (1993, p.12) define supplier development as “a long-term cooperative effort between a buying firm and its suppliers to upgrade the suppliers' technical, quality, delivery and cost capabilities and to foster ongoing improvements.” Krause and Ellram (1997a, p.21) encompass “any effort of a buying firm with its supplier to increase the performance and/or capabilities of the supplier and meet the buying firms supply needs.” Wagner (2006) sharpens the definitions by adding four dimensions or facets describing supplier development: First, *results-oriented* versus *process-oriented*, displaying to which the focus is to meet specific results determined by the buyer, or more general improvement or more long-term value for the supplier. Second, *narrow perspective* versus *broad perspective*, indicating to which degree the supplier is a new source of supply or a newcomer in the supplier base. The third is related to buyer motivation, a *reactive approach* versus a *strategic approach*, displaying the extent of primarily eliminating existing deficiencies or actively improving long-term supplier performance. The final dimension displays the role of the buying firm as a *direct or internalized supporter* of human or capital resource deployment to supplier versus *indirect or externalized support*. These are related to incentives or encouragements to enforce improvements.

The preferred dimensions of a supplier development program might be different from a stakeholder perspective. For example, an IOC might argue that investments in the local supplier base have to be limited to result-oriented development and a narrow perspective, and aligned with specific sourcing needs. However, the local firm might favor more comprehensive, broader and process-oriented development in order to build competitiveness beyond the IOC's immediate sourcing requirements. This latter perspective will certainly be supported by the host country



government aiming to strengthen employability and economic growth in the local industrial base (Arroyo-López *et al.*, 2012).

The typology provided by Sánchez-Rodríguez *et al.* (2005) distinguishes among three supplier development constructs: (1) Basic supplier development pertains to practices that require the most limited firm involvement and minimum investment of the company's resources, including evaluating supplier performance and providing feedback to suppliers; (2) Moderate supplier development, including assessing supplier facilities, rewarding and recognizing performance improvements, collaboration on improvements and certification through ISO 9000; and, (3) Advanced supplier development, including the training of suppliers, as well as collaboration and openness related to sharing information among the parties. In our context, the training element is essential, which implies that the context is advanced supplier development. Nonetheless, the comprehensive training of suppliers is a challenge for a cost-conscious and risk-averse IOC. Expecting an IOC to bring a developing country firm up to a world-class standard by investing in a development program might be unrealistic, particularly taking into consideration that there is a global competitive supplier market readily available.

### Learning Networks

Learning networks based on collaborating local firms can be an alternative to training facilitated and provided by buying firms, such as IOCs. Bessant and Tsekouras (2001) define a learning network as a formally set-up initiative with a primary learning target, has a structure of operation, includes processes which can be mapped into a learning cycle and measures a learning outcome that feeds back to the operation of the network.

**Table 1: Elements, Questions and Measures**

<i>Pre-conditions Elements</i> (Morris <i>et al.</i> , 2006)	Core Questions	Measures
<u>Trust</u> Is critical for the function of a network, and mutual learning implies openness.	Can other participating companies be trusted in an assumed low-trust business environment?	<ul style="list-style-type: none"> <li>• Collaborative attitudes and experience.</li> </ul>
<u>External intermediaries</u> Can external facilitation be recognized?	Actors other than participating local firms are assumed to be core players, e.g. a learning institution and/or an IOC. Who are the other core players?	<ul style="list-style-type: none"> <li>• Beyond local inter-firm learning, who else should add competence? Learning from whom?</li> </ul>
<u>Challenging inherited mindsets</u> Inherited mindsets represent serious obstacles. Tendency to blame external forces, e.g. government and IOCs.	What is the required program comprehensiveness in terms of time and content? To what extent are participants willing to invest in a program?	<ul style="list-style-type: none"> <li>• Learning content</li> <li>• Duration</li> <li>• Preparations</li> <li>• Willingness to pay</li> </ul>

Morris *et al.*'s (2006) study of learning networks in South Africa provides aspects of inter-firm learning that breed the competitive force of the host country's industrial base. They suggest a few basic challenges for running an experience-sharing learning network in an emerging economy context: (1) a lack of trust and unwillingness to share information among member firms; (2) a tendency to blame the emerging problems to others (*e.g.*, government, suppliers and customers) and avoiding opening up the "black box" of firm inefficiency and resource utilization; and, (3) a lack of commitment and active participation in running the network. A distinction is made between those activities that are important at the set-up stage, the operational stage and the sustaining phases (*ibid*). Building a learning network in a developing country context poses some challenges in relation to hampering effective inter-firm learning, and Morris *et al.* (2006) suggest some key features associated with establishing and running the networks. In this study, we focus on whether the selected informants seem to fulfil the pre-conditions for the set-up of a learning network. Hence, we take the pre-condition elements from a learning network based on Morris *et al.* (2006), and place it into a program in which external actors (*e.g.*, a learning institution or a competitive foreign company) play a facilitating role.

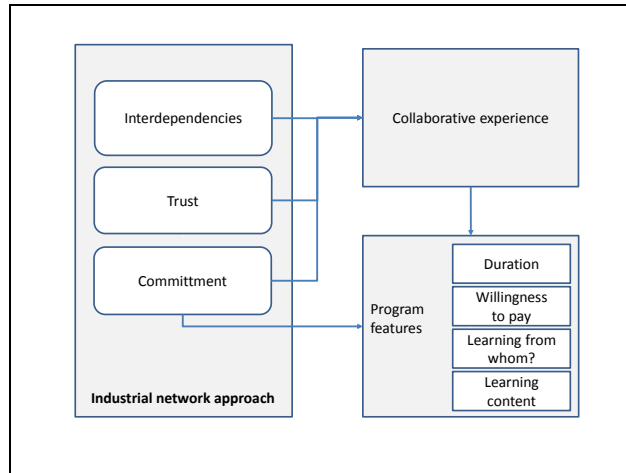


The theoretical approach and related variables in the study are conceptualized in the following:

### Conceptual Model

The concepts of interdependencies, trust and commitment are core elements in the industrial network approach, which are assumed to have a significant effect on the collaborative experience among the focal firms. As a result, a lack of collaborative experience is an effect of manifested autonomy within the firm, weak inter-firm trust and/or a lack of commitment.

The collaborative attitude and experience is assumed to affect perceived program features, which are also assumed to be directly affected by the firm's commitment, regardless of any prior collaborative experience. We are suggesting and applying two motivational factors (i.e. duration and a willingness to pay) and two structural variables (i.e. *learning from whom* and learning content) characterizing the program features. Figure 1 depicts the model.



**Figure 1. Conceptual Model**

(Source: Authors)

## Methodology

### Data Collection

The survey was conducted in Dar es Salaam and Mtwara in 2015. Dar es Salaam (an urban location) is the country's commercial city that hosts the headquarters for most IOCs operating in Tanzania, while most of the country's petroleum extraction activities take place in Mtwara (a rural location). The companies to be included were based on a list of 200 companies that represents the fastest growing medium-sized companies in Tanzania (KPMG, 2015). The selected respondents had an annual turnover between 0.5–9.3 million USD (equivalent to TZs 1 billion–20 billion). One research group member filled in the questionnaires during physical meetings with each company's informant. Out of 120-targeted companies, 110 (92 percent) companies/questionnaires were considered complete, with 82 located in urban Dar es Salaam and 28 located in rural Mtwara. With respect to the nature of businesses, 73 firms were service-related businesses and 37 companies related to physical production. The questionnaire covered the extent and nature of collaborative experience and four issues related to a collaborative training program, as outlined in Table 2.

### Analytical Tools and Procedures

Various methodological approaches and techniques were adopted, including cluster analysis, graph visualization, descriptive statistics and concepts from social network analysis (SNA). All the variables used in this study were grouped into different clusters with the objective of detecting similar behavioral patterns among the organizations comprising the sample of our study. More specifically, in the first phase of the cluster analysis all variables were included with the aim of revealing the general features of the firms. Afterwards, the analysis was refined by looking at each pair of variables belonging to the upper categories labeled as "collaborating partners", "total duration of a program" and "willingness to pay a portion of a program". This approach revealed the behavioral patterns in greater detail, and verified the reciprocal correspondence of the different variables. The approach used to conduct this analysis was the binary hierarchical clustering using the *Jaccard* score, according to which two variables are



considered to display similar patterns when the organizations making up each cluster answered both no="0" and yes="1" in correspondence to each variable considered. This method made it possible to classify the variables in six different clusters based on similar response patterns.

**Table 2. Upper Categories, Variables and Content of the Questions**

Upper categories	Answers/variables	Content of the question
1. Collaborative experience partners	1. Alone, as a pure internal process 2. One foreign partner 3. One local partner 4. Two or more local partners 5. Two or more foreign partners	During the last 3 years, has your company been involved in any formalized improvement processes? If yes, with whom?
2. Total duration of program	1. 5 Days 2. 10 Days 3. 15 Days 4. 20 Days 5. 30 Days 6. 45 Days	Duration of the program includes both preparations within the company and attendance in the class, together with other companies. How many days in total should a program have?
3. Willingness to pay	1. Pay nothing, someone else should pay. 2. Pay 250K TSh per participant 3. Pay 500K TSh per participant 4. Pay 750K TSh per participant 5. Pay 1,000K TSh per participant 6. Pay more than 1,000K TSh per participant	Are you willing to pay a portion of the program cost? How much?
4. Teaching resources: Learning from whom?	1. Business school instructors 2. Foreign oil industry instructors 3. Local business instructors 4. Indifferent as long as the instructors have a practical approach to business competitiveness	Who else should contribute with knowledge diffusion beyond the participating firm?
5. Learning content	Health, safety, environment and quality (HSEQ), standards and underlying processes Supply chain management, production and delivery processes, project management Organization, business systems, management structure and staffing/HR development and management Contracts and legal issues Business ethics and rules of conduct, cultural differences Oil and gas-specific areas, industrial understanding, technologies Basic accounting, project economics, budgeting and financial management Strategy and industrial marketing, inter-firm collaboration, basics of mergers and acquisitions Others, please specify	What subjects should be included in order to improve the competitiveness of the local firm?

After having revealed the association between the organizations based on their behaviors regarding their openness towards external sources of knowledge (*i.e.*, "collaboration partners") and a willingness to be involved in programs (*i.e.*, "the total duration of a (potential) program" and "willingness to pay for a portion of a program"), a further analysis primarily based on graph visualization was carried out. The aim of this additional analysis was to assess the potential association between the aforementioned behaviors and the geographical location of the firms (*i.e.* an urban or rural area) and the sector (*i.e.* industry or services) of the firms. A case-by-variable contingency matrix was built by including all the binary responses of the interviewees (*i.e.*, no="0" and yes="1") in the cells corresponding to each variable included in the study. By means of the NetDraw visualization software (Borgatti *et al.*, 2002), in addition to statistics and concepts borrowed by the social network analysis, we were able to determine



if the firms' collaborations with other organizations, their willingness to be involved in programs and their opinion about the content of the program was influenced by geographical location (*i.e.*, rural or urban areas). The concept of "degree" used in our analysis refers to the actual number of positive responses corresponding to each individual variable (grouped in the upper categories according to Table 2) divided by the overall possible number of positive responses multiplied by 100 (very similar to an approach based on a case-by-case matrix aiming to determine the most central and influential actors in networks, see Wasserman and Faust, 1994). This method was adopted in this study to reveal the most frequent responses of the local rural and urban firms and the related: (1) actual external sources of knowledge, (2) a willingness to improve their competitiveness and innovative performances, (3) the ability to satisfy the IOC supply chain inclusion criteria, and (4) to determine the most important content of the learning programs and the potential instructors.

## Findings

In the following, findings related to the two research questions will be presented: collaboration experience and preferences regarding a joint-industry developing program.

### Collaboration Experience

Tanzanian firms have established few external collaborators. No significant differences between firms located in urban and rural areas, as well as between firms operating in the physical production and in services (*i.e.*, trading and service providers), were observed. Going into more detail, the rural firms tend to collaborate more with external partners compared with the firms located in the urban areas; in fact, 32.1 percent of the rural firms established collaborations with one local partner, 17.9 percent with one foreign partner and 10.8 percent with two or more foreign partners. Conversely, the percentage of urban firms with no external ties is significantly higher (29.3 percent as opposed to 17.9 percent for the rural firms). The major difference in the comparison between physical producers and service firms was found in the significantly higher number of companies operating in the industry with two or more foreign partners (18.9 percent versus 5.5 percent).

**Table 3. Collaboration Experience**

<b>Collaborating partners</b>										
<b>Answers/variables</b>	<b>Overall (110)</b>		<b>Urban (82)</b>		<b>Rural (28)</b>		<b>Industry (37)</b>		<b>Services (73)</b>	
	Degree	%	Degree	%	Degree	%	Degree	%	Degree	%
Alone	29	26.4	24	29.3	5	17.9	10	27.0	19	26.0
One local partner	24	21.8	15	13.6	9	32.1	7	18.9	17	23.3
One foreign partner	18	16.4	13	15.9	5	17.9	7	18.9	11	15.1
Two or more local partners	6	5.5	4	4.9	2	7.1	2	5.4	4	5.5
Two or more foreign partn.	11	10	8	9.8	3	10.8	7	18.9	4	5.5

The cluster analysis shows a clear positive association between the more "open" firms with respect to inter-firm collaboration and their willingness to improve their performance. In fact, the firms collaborating with local or foreign partners are also those willing to invest more time and money in a program (see Appendix, cluster). This finding is confirmed by the additional cluster analyses grouping the variables pertaining to each pair of upper categories (see Appendix, clusters 2-4). Conversely, the analysis of the graphs aiming to show a relationship between the geographical location of the firms (*i.e.* rural or local), their openness towards external sources of knowledge, and their willingness to reach the requirements of the IOCs operating in the country, show more conflicting and in some ways unexpected results (see Figures 1-3 and Table 2). Overall, most of the Tanzanian firms are not involved in formalized improvement programs, and thus lack a systematic knowledge exchange with external partners. Similarly, they are only willing to pay an insignificant portion of the program cost, if anything at all. Furthermore, they consider 15 days the optimal duration for a program. Surprisingly, no particular positive associations were found between the variables used in the study and the urban firms. Conversely, the frequency (or "degree") of rural firms with external partners is higher when compared with the same measure regarding the urban firms.

In the following sections, the findings related to the four aspects of a joint industry training program will be presented: (1) preferred duration; (2) a willingness to pay; (3) preferred external teaching resources (beyond their own exchange of experience and skills); and finally, (4) preferred learning content.



## Program Preferences

### Duration

Overall, most of the Tanzanian firms consider 15 days the ideal duration of a training/education program, even though in this case the rural firms are also more willing to invest time in them. In fact, in Table 4, 35.7 percent of rural firms would enable their employees to attend a program lasting 15 days, even though a very high percentage are willing to invest even more time (30 days, 21.4 percent). On average, urban firms show a lower willingness to participate. At the same time, similar results were found in the comparison between industry and services, with the firms operating in the physical production more willing to participate in a program.

**Table 4. Duration**

Duration of a program										
Answers/variables	Overall (110)		Location				Types			
			Urban (82)		Rural (28)		Industry (37)		Services (73)	
	Degree	%	Degree	%	Degree	%	Degree	%	Degree	%
5 Days	24	21.8	20	24.4	4	14.3	6	16.2	18	24.7
10 Days	23	20.9	17	20.7	6	21.4	8	21.6	15	20.5
15 Days	31	28.2	21	25.6	10	35.7	12	32.4	19	26.0
20 Days	4	3.4	4	4.9	0	0	1	2.7	3	4.1
30 Days	18	16.4	12	14.6	6	21.4	9	24.3	9	12.3
45 Days	10	9.1	8	9.8	2	7.14	1	2.7	9	12.3

### Willingness to Pay

Overall, the Tanzanian firms are reluctant to pay parts of the program cost, with no significant differences among the various categories under analysis. The main difference in Table 5 is that most of the rural firms (42.9 percent) and companies operating in the service sector (34.2 percent) want to pay nothing for participation in a program with the purpose of enhancing the firm's competitiveness through an exchange of experience and the adoption of competencies provided by external sources. Lastly, more urban firms are willing to pay for a potential program (even though only 250K TSh, equivalent being approximately 100 USD) compared with the rural firms ("pay nothing" was the most frequent response).

### Teaching Resources

The findings in Table 6 indicate that a majority of Tanzanian firms prefer a foreign expert in the oil industry as an external knowledge provider in a program (40.9 percent), even though a very high percentage of interviewees (39.1 percent) does not have a clear opinion, and answered "indifferent" to this specific question. These findings were confirmed when the sector of the firms was considered. A very high number of firms operating in the physical production would prefer a foreign instructor working in the oil sector, whereas the background and geographical origin of the instructor is "indifferent" for 45.2 percent of the service firms. Both types of firms showed less interest towards instructors from a business school and local business instructors. Similar differences were also noticed in the responses of the urban and rural firms. Most of the rural firms do not have a clear opinion (53.6 percent), whereas urban located firms clearly prefer a foreign instructor from the oil industry (47.6 percent).

**Table 5. Willingness to Pay**

Willingness to Pay										
Answers/variables	Overall (110)		Location				Types			
			Urban (82)		Rural (28)		Industry (37)		Services (73)	
	Degree	%	Degree	%	Degree	%	Degree	%	Degree	%
Pay nothing	32	29.1	20	24.4	12	42.9	7	18.9	25	34.2
Pay 250K TSh/participant	36	32.7	28	34.1	8	28.6	15	40.5	21	28.8
Pay 500K TSh/participant	14	12.7	10	9.1	4	14.3	4	10.8	10	13.7
Pay 750K TSh/participant	10	9.1	10	12.2	0	0.0	4	10.8	6	8.2
Pay 1,000K TSh/participant	3	2.7	2	2.4	1	3.6	2	5.4	1	1.4
Pay >1000K TSh/participant	15	13.6	12	14.6	3	10.7	5	13.5	10	13.7



**Table 6. Teaching Resources**

<b>Teaching Resources</b>										
<b>Answers/variables</b>	<b>Overall</b>		<b>Location</b>				<b>Types</b>			
			<b>Urban</b>		<b>Rural</b>		<b>Industry</b>		<b>Services</b>	
	Degree	%	Degree	%	Degree	%	Degree	%	Degree	%
Business school instructors	9	8.2	7	8.5	2	7.1	3	8.1	24	32.9
Foreign oil industry instructors	45	40.9	39	47.6	6	21.4	21	56.8	6	8.2
Local business instructors	13	11.8	8	9.8	5	17.9	3	8.1	10	13.7
Indifferent	43	39.1	28	34.1	15	53.6	10	27.0	33	45.2

### *Learning Contents*

Both Table 7 and Figures 2, 3 and 4 related to the learning content show that all the different possible contents of a program are considered important, even though some specific areas are considered more relevant than others for some particular types of organizations. More specifically, physical producers consider “Business ethics and rules of conduct, cultural differences” and “Oil and gas-specific areas” as two highly relevant fields (3.8 out of 5), followed by “Strategy and industrial marketing” and “Organization, business systems, management structure and staffing/HR development and management” (3.6). Conversely, “Strategy and industrial marketing” (3.6), “Organization, business systems, management structure and staffing/HR development and management” (3.5), “Basic accounting, project economics, budgeting and financial management” (3.4), “Oil and gas-specific areas” (3.3) and “Business ethics and rules of conduct, cultural differences” (3.1) are considered the most important fields by the firms operating in the service sector. Both categories consider aspects such as, “Health, safety, environment and quality (HSEQ), standards and underlying processes”, “Supply chain management” and “Contracts and legal issues” as less relevant topics. The dimensions of the nodes of each variable in the three graphs below clearly show the differences.

### **Synthesizing Collaborative Experience and Program Preferences**

#### *Collaborative Experience and Motivational Factors*

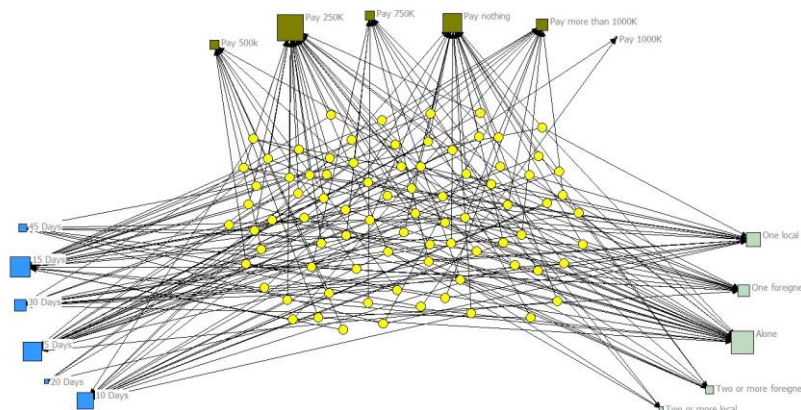
Figure 2 and Figure 3 graphically show the reluctance of the Tanzanian firms to collaborate with external partners and to be actively involved in learning programs. In fact, the different dimensions of the nodes related to the various variables used in this study reveal their tendency to internalize their improvement process and to invest a very small portion of money and time in potential learning program.

Motivation to participate in collaborative training program is a critical factor for economic entities located in a developing country such as Tanzania since it determines the firms’ willingness to improve the quality of the products and services they are able to offer. Moreover, there is a widespread consensus in economics, management and geography literature about the importance of collaborations with partners located both in the local and more distant geographical areas. Local and international dimensions of collaborations contribute to create and foster large knowledge networks enabling firms to share capital, burdens, skills and competences. Furthermore, these networks increase the degree of trust among firms by limiting the risk of opportunistic behaviors. In a nutshell, motivation and relational networks are essential factors in determining the competitiveness of firms located in marginally innovative developing countries and potentially enable or help them to reach the standards of the global supply chain. In this study the willingness to be involved in a training program for a certain number of days and the willingness to pay for a portion of such a program were considered two very good proxies to assess the degree of motivation showed by the Tanzanian firms. Similarly, the number of domestic and foreigner partners determined the extent of the relational network of each firm. The cluster analyses reveal clear associations between variables. Firms who are willing to invest more time in a program are also those who are willing to pay more for a portion of it. At the same time, there is a positive association between the more “open” firms, i.e. those ones with one or more partners, and their willingness to invest time and money in the program. However, as highlighted above, the results of our analyses related to each variable considered in this study are largely disappointing. According to the findings displayed in Figures 2 and 3 most firms want to pay nothing (rural firms) or are willing to pay a very small amount (250k Tsh; urban firms) for participating in a training program. Moreover, most of the Tanzanian firms - irrespective of their location - are willing to invest only 15 days to improve their capabilities. Furthermore, the relational networks created by the Tanzanian firms we surveyed in our study are very limited since most of them do not collaborate with other firms at all (urban firms) or tend to establish collaborations with only one local partner at the local level (rural firms). A lack of foreigner partnerships was also found irrespective of the firms’ location.



### Table 7. Learning Contents

Learning content/Importance										
Answers/variables	Overall		Location				Types			
			Urban		Rural		Industry		Services	
	Mean	S.D.	Mean	S.D.	Mean	S.D.	Mean	S.D.	Mean	S.D.
HSEQ standards and underlying processes	2.9	0.3	2.9	0.4	3.0	0.0	3.0	0.2	2.9	0.4
Supply chain management	2.8	0.5	2.8	0.5	2.9	0.3	2.9	0.4	2.8	0.5
Org., bus. systems, management	2.5	0.7	2.5	0.7	2.6	0.6	2.4	0.7	2.6	0.6
Contracts and legal issues	2.6	0.7	2.5	0.7	2.8	0.6	2.7	0.5	2.5	0.8
Bus. ethics and rules of conduct	2.6	0.7	2.5	0.7	2.6	0.7	2.6	0.7	2.5	0.7
Oil and gas- specific areas	2.3	0.8	2.2	0.8	2.4	0.9	2.2	0.7	2.3	0.8
Account., budgeting, finance	2.2	0.6	2.2	0.6	2.2	0.7	2.1	0.6	2.3	0.6
Strategy and industrial marketing	2.5	0.6	2.5	0.5	2.5	0.6	2.6	0.5	2.4	0.6
Others	3.4	1.2	3.4	1.2	3.4	1.1	3.5	1.1	3.3	1.2
Learning content/Ranking										
Answers/Variables	Overall		Location				Types			
			Urban		Rural		Industry		Services	
	Mean	S.D.	Mean	S.D.	Mean	S.D.	Mean	S.D.	Mean	S.D.
HSEQ standards and underlying processes	2.1	1.3	2.1	1.3	2.1	1.4	1.9	1.2	2.2	1.3
Supply chain management	2.7	1.3	2.5	1.2	3.1	1.2	2.8	1.1	2.6	1.3
Org., bus. systems, management	3.5	1.1	3.5	1.1	3.6	1.3	3.6	1.1	3.5	1.2
Contracts and legal issues	2.7	1.3	2.7	1.3	2.9	1.2	2.6	1.1	2.8	1.3
Bus. ethics and rules of conduct	3.3	1.3	3.3	1.2	3.3	1.5	3.8	1.1	3.1	1.3
Oil and gas-specific areas	3.5	1.4	3.5	1.3	3.2	1.6	3.8	1.4	3.3	1.4
Account, budgeting, finance	3.4	1.3	3.5	1.2	3.0	1.4	3.2	1.4	3.4	1.2
Strategy and industrial marketing	3.6	1.5	3.7	1.5	3.1	1.4	3.6	1.5	3.6	1.5
Others	4.7	0.5	5.0	0.0	4.0	0.0	5.0	0.0	4.5	0.5

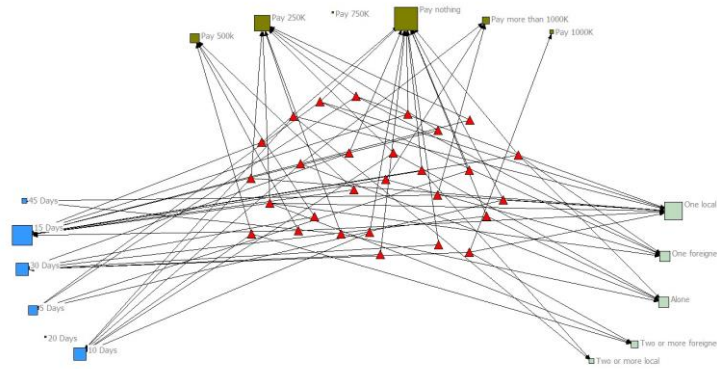


### Figure 2. Urban firms

Upper categories (degree). Legend: yellow circles=urban firms; dimension of the squares=degree.

Source: Authors using NetDraw visualization (Borgatti et al., 2002)



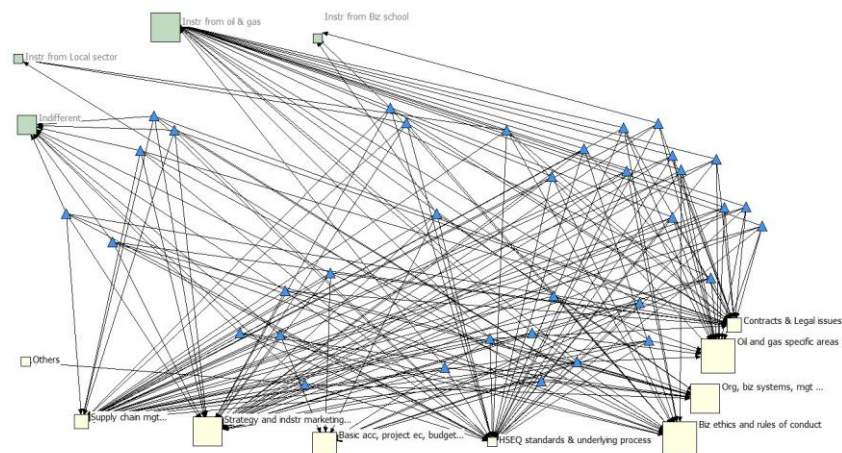


**Figure 3. Rural Firms**

Upper categories (degree). Legend: red triangle=rural firms; dimension of the squares=degree.  
Source: Authors using NetDraw visualization (Borgatti et al., 2002)

#### Program Content and Potential Instructors

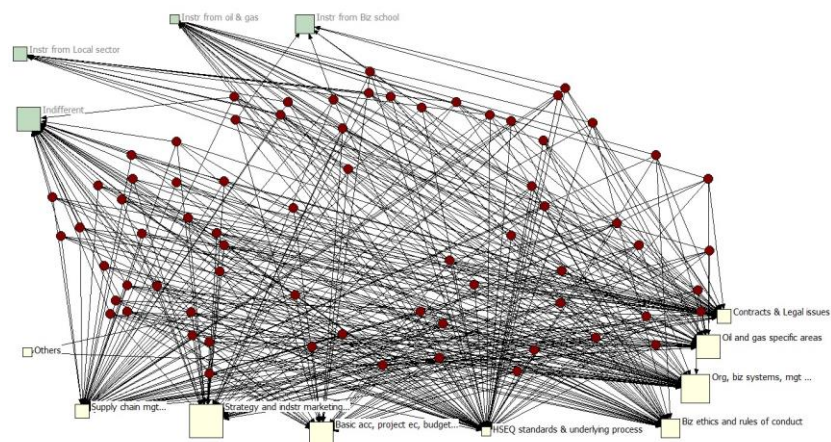
The dimension of the nodes of each variable in the Figures 4 and 5 below clearly show the differences in the preferences between the physical producers and the service firms with regard to the content of the programmes and the related instructors. At the same time, the two graphs graphically illustrate that “*Business ethics and rules of conduct, cultural differences*” and “*Oil and gas-specific areas*” are considered the two most important topics by the physical producers, whereas the topic named “*Strategy and industrial marketing*” is considered to be the most relevant by the service firms. The graphical visualization of the two structural variables we used in this study (i.e. *learning from whom* and *learning content*) discloses some very interesting facets. First, the priority areas identified by the interviewees largely reflect the accomplishments established by the IOCs and suggest us that the Tanzanian firms are fully aware of the prerequisites they need to achieve to join the global supply chain. No significant differences were found between physical producers and service firms with regard to this specific issue. On the other hand, the instructors from the oil sector dominate the figure related to the physical producers, whereas the highest dimension of the node corresponding to the variable “indifferent” can be noticed in the graph visualization related to the service firms. An interesting complementary aspect to consider is that instructors from business schools are generally considered less relevant in transferring knowledge despite the economic and legal nature of the variables we have detected. This result is likely to be the direct consequence of very limited university-industry linkages in the country.



**Figure 4. Industry Firms**

Upper categories (degree). Legend: blue triangle=industry (firms); dimension of the squares=degree.  
Source: Authors using NetDraw visualization (Borgatti et al., 2002)





**Figure 5. Service Firms**

Upper categories (degree). Legend: red circles=services (firms); dimension of the squares=degree.

Source: Authors using NetDraw visualization (Borgatti *et al.*, 2002)

## Discussion

### Collaboration

Prior studies of indigenous companies operating in an oil and gas context in developing countries have emphasized the importance of strengthening the resource base and activity structures (*e.g.*, Vaaland *et al.*, 2012; Vaaland, 2015; Owusu & Vaaland, 2016). In this line of research, the firm is assumed to be interlinked in relationships with other firms, and as such embedded in an industrial network of interrelated actors (*e.g.*, Haakansson & Snehota, 1989; Ford *et al.*, 2006). These actors can be competitors, sub-suppliers and customers or others. According to network theory, any capability (within the boundaries of the firm) is only valuable to the extent that it is combined with capabilities controlled by other actors. Furthermore, and even more importantly, the resource base of the firm can be significantly expanded in combination with other firms. It is therefore crucial to strengthen inter-firm collaboration.

Given this assumption, the descriptive data and cluster analysis indicate a modest degree of collaboration between Tanzanian companies. Most firms are not involved in joint industry programs (*i.e.*, more than two firms) and only 15 percent collaborate, or have previously collaborated, with two or more firms in order to improve. If they do, they collaborate with other local firms, and rarely with foreign companies. Whereas collaboration and sharing experience with other peers can provide ideas and facilitate managerial and technological innovation, it depends on with whom you collaborate. Since local Tanzanian firms have to compete with global suppliers, the competitive power of the indigenous firm depends on the extent to which competencies from these foreign firms can be accessed and included in formalized improvement programs.

The findings also indicate that some firms already collaborate. These “open firms” are also more positive to sharing costs and presumably their commitment to a joint improvement program. Contrary to our expectations, the rural firms seem to be more inclined to collaborate than the urban ones. This is interesting since the literature in fields such as economic geography and regional science indicates a higher number of collaborating partners and a more relevant propensity to innovate in firms located in urban or “core” areas, rather than in firms located in rural or “peripheral” areas. One possible explanation for is that rural Mtwara hosts an offshore gas field supply base, in which several foreign firms operate. The threshold for entering collaborative inter-firm relationships with foreign companies might therefore be lower.

Finally, the findings also indicate a more fundamental problem among African firms, namely a lack of inter-firm trust. According to a Vaaland *et al.* (2012) study of potential suppliers to the oil and gas industry in Nigeria, business relationships and collaboration are significantly hampered by a lack of inter-firm trust. A reluctance to collaborate leads to at least two significant negative effects on competitive power (*ibid*). Firstly, small companies are less capable of developing or accessing the resources and competencies necessary to comply with buyer requirements (*i.e.*, IOCs internationally based sourcing requirements). Secondly, a lack of consolidation into larger



business units implies that the indigenous companies are too small for large integrated contracts or contracts that presuppose integrated delivery processes.

### **Program Features**

This study has also revealed aspects related to a learning network as perceived from the indigenous companies. Many learning networks are self-supporting in the sense that each participant contributes with competence elements and experience, which can be shared and collectively improved. Whereas this can be sustainable in an industrialized industry context, companies in a developing country presuppose that external knowledge providers are added to the network. This is emphasized in the Morris *et al.* (2006) study of South African learning networks, in which the foreign-dominated buyer side and learning institutions play an important role as partners and participants.

The findings indicate that only one-fourth of the firms are willing to spend 30 days or more in a joint program, with a majority (71 percent) willing to spend 15 days or less. A change process takes time and requires dedication in order to facilitate sustainable improvements. Hence, it may be argued that a program of 30 days is a minimum for improving administrative and operational processes up to a competitive level. The extent of participation might be influenced by company size, which has not yet been taken into consideration in our data set. On the other hand, a small company has small-scale disadvantages in the first place, which makes it hard to secure daily business operations with the necessary improvement processes.

Sharing program costs in a developing country is one barrier to participation, albeit an important proxy for motivation and unconditional “free riding”. Close to one-third of the firms are unwilling to contribute at all, and 14 percent are willing to pay the maximum of one mill TSh (USD 400) per participant. Again, this illustrates that a segment of relevant participants is required. A sustainable inter-firm improvement program therefore has to build in some entrance barriers for the purpose of avoiding “free riders”. In the end, the successful completion of a development program can be honored by the reimbursement of participation fees.

Anderson (2011), Adebajo *et al.* (2013), Parris (2013) and Owusu & Vaaland (2016) all suggest various competencies that should be closed for an African firm to become more competitive. These competencies (or lack thereof) were articulated in terms of nine subjects presented as content elements in a development program for the informant’s consideration and prioritizing. The informants revealed an emphasis on all subject areas. However, three areas seem to exhibit the highest ranking: *health safety, environment and quality (HSEQ)*, *supply chain management* and *contracts and legal issues*. These priorities seem to be consistent with the cornerstones in prequalification criteria employed by the IOC. When it comes to external knowledge providers beyond the participating firms, representatives from the oil and gas industry are clearly preferred. Business school contributions do not seem very well recognized, as only eight percent consider this to be preferred. This is surprising given the fact that the purpose of a business school is to lay the groundwork for competitive and professional businesses. The lack of business school status among indigenous companies can also be an indication of the “ivory tower” syndrome, in which business school faculties lack business legitimacy.

### **Managerial Implications**

Local content requirements and IOCs efforts to include qualified and competitive local suppliers represent a significant business potential for local firms. On the other hand, the IOCs will hardly invest in a local supplier base without incentives. The local firm’s motivation in terms of a willingness to share risk, time and cost (expressed through the duration of a program and a *willingness to pay*) is one such incentive. It is therefore recommended that the management of local firms be proactive towards inter-firm collaboration, and engage in joint development initiatives. Including foreign supplier firms, IOCs and a learning institution, should strengthen these initiatives. The latter can facilitate, organize and add some generic knowledge elements, which can be synthesized with experience from participating foreign and local firms. Moreover, a shared responsibility for necessary joint improvement processes could attract foreign aid funding based on the potential a competitive local firm represents in terms of employability and economic growth.

### **Conclusion**

This study has revealed two important aspects related to the competitiveness of Tanzanian companies aiming towards participation in the country’s emerging oil and gas industry. The first aspect is about the extent of inter-firm collaboration, and in particular collaborative arrangements with foreign firms (*i.e.*, international oil companies (IOCs) and foreign suppliers well connected in the IOCs’ global supply chains). Through collaborative arrangements, indigenous companies may access crucial experience, competencies and resources, which in turn significantly improve their inclusion in the supply chains of the oil and gas industry. The findings illustrate a large



potential for improvements in the linkages, as most firms are not involved in a formalized joint industry program. Only 15 percent collaborate, or have previously collaborated, with two or more firms in order to improve. A cluster analysis revealed that “open firms” (*i.e.*, a collaborative experience) are also more positive to contributing to formalized joint-industry improvement programs. The findings indicate a more fundamental problem among African firms, namely a lack of inter-firm trust.

The second aspect is related to inter-firm development programs, both in terms of motivation and content. Two measures of motivation were employed: to what extent the firms are willing to share the cost of a program and an investment in terms of time (*i.e.*, the total duration of the program). The findings indicate that close to one-third of the firms are unwilling to contribute at all, while 14 percent are willing to pay the maximum of one mill TSh per participant. A majority (71 percent) of the firms are willing to spend 15 days or less, which is assumed to be far below the minimum requirements for effective organized improvement processes within a program. Among nine groups of program themes, three are sharing the highest importance: *health safety, environment and quality (HSEQ)*, *supply chain management* and *contracts and legal issues*. This is not surprising given the fact that these issues are cornerstones in the prequalification criteria employed by the IOC.

The findings illustrates that a segment of relevant participants is required. A sustainable inter-firm improvement program therefore has to build in some entrance barriers with the purpose of avoiding “free riders”. Following Morris *et al.*’s (2006) conditions for a learning network, a segmented base of the most motivated and “open” firms is a good starting point for local firm participation in the emerging oil and gas industry of Tanzania.

This study is not without some limitations. Only one respondent for each firm is included, primarily the top manager, though not always. Secondly, improvement is not necessarily contingent upon collaboration. In this study, we have assumed that improvement is formalized and subject to inter-firm collaboration. Furthermore, the study has not omitted control variables such as size of the firm, which may have an effect on the outcome. Nonetheless, the explorative character of the study could justify some of these weaknesses. Further research should explore how learning and improvement processes in local firms can be aligned with the requirements of a demanding foreign customer. Can a new innovative type of development program connect the competitive foreign buyer with the local firm? A second important issue for continuing research is related to inter-firm trust in a developing country context. A lack of trust not only hampers the sharing of resources and improving activity chains, but also reduces the necessary structural consolidation into larger and more competitive business units. Hence, the challenges of including a weak industrial base into the international oil and gas supply chain in a developing country may be overwhelming. Consequently, there is a need for further more research-based empirical documentation of how the oil and gas industry, and particularly foreign companies, actually enhance the inclusion of the local industry and knowledge sector, and thus sustain economic growth. Local content implies a long-term goal of helping to develop local suppliers to be internationally competitive beyond their home country; methods and strategies to fulfil such ambitious goals are also strongly needed.

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## Appendix

### Cluster Analysis 1

Cluster	Variables
1	Alone, Pay 250K, 10 Days, 15 Days
2	One local, One foreigner, Pay more than 1,000K, 45 Days
3	Two or more local, Two or more foreigners, Pay 750K, 30 Days
4	Pay nothing, 5 days
5	Pay 500K, 20 Days
6	Pay 1,000K

Variables	6 clusters
Alone	1
One local	2
One foreigner	2
Two or more local	3
Two or more foreigners	3
Pay nothing	4
Pay 250K	1
Pay 500K	5
Pay 750K	3
Pay 1,000K	6
Pay more than 1,000K	2
5 days	4
10 days	1
15 days	1
20 days	5
30 days	3
45 days	2

### Cluster Analysis 2

Variables	6 clusters
Alone	1
One local	2
One foreigner	2
Two or more local	3
Two or more foreigners	3
Pay nothing	4
Pay 250K	1
Pay 500K	5
Pay 750K	3
Pay 1,000K	6
Pay more than 1,000K	2



Cluster	Variables
1	Alone, Pay 250K
2	One local, One foreigner, Pay more than 1,000K
3	Two or more local, Two or more foreigners, Pay 750K
4	Pay nothing
5	Pay 500K
6	Pay 1,000K

### Cluster Analysis 3

Cluster	Variables
1	Alone, 15 Days
2	One local, One foreigner, 5 Days
3	Two or more local, Two or more foreigners, 30 Days
4	10 Days
5	20 Days
6	45 Days

Variables	6 clusters
Alone	1
One local	2
One foreigner	2
Two or more local	3
Two or more foreigners	3
5 days	2
10 days	4
15 days	1
20 days	5
30 days	3
45 days	6

### Cluster Analysis 4

Variables	6 clusters
5 days	1
10 days	2
15 days	2
20 days	3
30 days	4
45 days	5
Pay nothing	1
Pay 250K	2
Pay 500K	3
Pay 750K	4
Pay 1000K	6
Pay more than 1000K	5

Cluster	Variables
1	5 Days, Pay Nothing
2	10 Days, 15 Days, Pay 250K
3	20 Days, Pay 500K
4	30 Days, 750K
5	Pay more than 1000K
6	Pay 1000K



# CONSUMERS' AND VENDORS' ACCEPTANCE AND BEHAVIOR ON PORK BRANDING WITH PREFERRED QUALITY INDICATORS IN SELECTED WET MARKETS IN METRO MANILA

*Michael Bigol Pasco, De La Salle University, Philippines*

The study was conducted to determine the most important pork quality indicators desired by consumers and vendors, and the acceptance to branded pork with preferred quality indicators of the vendors and consumers in the wet markets in the Philippines. The study utilized the descriptive normative-survey method. There is very strong direct relationship between the family income and the willingness to pay premium. There are ten quality indicators most preferred by vendors and consumers. "Guaranteed safe" indicator has the highest score followed by "freshness in appearance and smell." However, there is no significant difference in the rankings of the top ten quality indicators by vendors and consumers. Vendors and consumers who underwent the same survey on the acceptance of branded pork over regularly sold in wet markets have equal population variances. Transforming branded pork into real value-added products entails deep understanding of consumers' and vendors' family income, occupation, information on demands and benefits, and other factors.

## Introduction

Consumers make many buying decisions every day. Most large companies conduct researches on consumer buying decisions in great details to answer questions about what consumers buy, where they buy, how and how much they buy, when they buy and why they buy. Marketers can study actual consumer purchases to find out what, where and how much they buy. But learning about consumer buying behavior is not so easy- the answers are often locked within the consumers' mind (Kotler & Armstrong, 2008). Kotler and Armstrong (2008, p. 216), also cited John Stewart, the co-founder of Quaker Oats, that "If this business were split up, I would give you the land and bricks and mortar, and I would keep the brands and trademarks, and I would fare better than you." Gupta (2003) mentioned that branding of commodities offers additional value both to the consumers and the producers and that branding, through the brand promise, leads to commodity differentiation and hence enables consumer preference. The same is true with pork as one of the top commodities in the Philippines in terms of valuation (Business Balita, 2007). In wet markets, I observe that identity of pork, stores and markets with either name of store, veterinarian's or meat inspectors' slaughterhouse stamp and certificate, store signs with municipal government registration and accreditation, name of farm source, labels of price, amount and cuts, do exist to differentiate the pork products for sellers to enjoy extra profit margin. New King James Version (1982) cited in Leviticus in the Old Testament that pig was thought to be unclean.

But in my view, with the way modern domestication of swine, management of potential hazards, cleanliness and sanitation, slaughter, quality control and processing of pork and pork products are being practiced, pork emerged as one of the meats of choice in many countries. I also understand pork branding as the assignment of name, term, symbol, color, promise or tagline to pork to signify and associate important tangible and intangible attributes of said commodity like those of experience and emotions from quality indicators, reputation of a company, impact of a name, influences of an existing brand, advantages of producing location and the likes (Aaker, 1991; Kotler, 2003; Kotler and Armstrong, 2008; Moore, 2003; Ries & Ries, 2002). Currently, countries like USA, Korea, Taiwan and Japan have developed pork branding through trends, processes and measures to maintain superior pork quality characteristics and level of food safety desired by their citizens (Shih, Wei, Chen & Wei, 2009; Vonada, Bidner, Belk, McKeith, Lloyd, O'Connor & Smith, 2000). An example of niche marketing program with a private enterprise and government collaboration is the "Pennsylvania Country Wagon Family Farms Pork Program," where Hatfield Farm and Processor licensed by the government meets exact Japanese specifications for quality and safety (Martinez & Zering, 2004). Another example of the development of branded pork is the accomplishment of Premium Standard Farms (PSF) in its line of branded fresh pork products and specialty products, such as "Fresh & Tender" and "Premium 97 HeartHealthy" as results of an agreement with a leading hog genetics company in the Netherlands to obtain exclusive use of selected male genetic lines in the United States (Martinez & Zering, 2004). Stephen King (1973, p. 37) once wrote: "A product is something that is made in a factory; a brand is something that is bought by a customer. A competitor can copy a product; a brand is unique. A product can be quickly outdated; a successful brand is timeless." Faylon and The Pork Production Committee 2004 (2005) cited that over the past decade, pork has consistently represented more than 55 percent of the total animal meat consumption of the Filipinos. There is a



need to justify premium prices of pork to be profitable in the industry. This can be done through branding of pork and quality processing in managing controllable supply chain which evolves from the feeds and other input suppliers, to the farm, to the slaughter house and processing sites, to the market and finally to the consumer (Martinez & Zering, 2004). I also consider pork branding as part social responsibilities of every firm and every entrepreneur and an approach to manage profit squeeze inherent in the pork industry. The study is intended to deliver benefits to the swine producers, consumers, investors, entrepreneurs, government, supply chain segments, and future researchers. Hui (2004) advised that the threats of foreign competition on poultry and livestock production intensify as trade liberalization continues. With the recent developments in ASEAN Free Trade Agreement, the need for competitive advantage (Porter, 1996) is important to be successful in the Philippines market and act differently to achieve different and better results.

### **Hypotheses**

Can pork be branded with quality indicators desired by consumers as well as by vendors and be transformed into value-added product in the wet markets? I attempt to answer the research question by understanding the constructs and variables based on demography and family income, purchase decisions and behaviors, price of pork, pork quality indicators, and relevant relationships of variables as parts of the four hypotheses.

#### **Purchase Decisions and Pork Price**

The willingness to pay extra amount for branded pork as influenced by family income is an attitude of interest to a quite number of scholars and related businesses. In China, Wu, Xu, Zhu, & Wang (2012) argue in their research in China that food safety and family income are the only two variables that clearly affects willingness to pay premium. Ortega, Wang, Olynk, Wu & Bai (2003) observed that for Chinese consumers, government certification is preferred on cheaper milk products or commodities, private certification is required on more expensive products, and that shelf-life is expected longer for more expensive products. In addition, Moeller (2006) conducted comprehensive survey in Ohio, United States of America and found out that the willingness to pay premium on branded pork is preferred by few consumers as the additional selling price of pork increases and these require capabilities like pork traceability system and government certification. To gauge consumer pork quality indicators preferences toward in United States, Sanders, Moon, and Kuethe (2007) conducted survey that shows consumer willingness-to-pay a premium for an improvement in the pork attributes that include juiciness, tenderness, marbling, and leanness. According to Sanders *et al.* (2007), approximately 50 percent of the respondents were willing to pay premium for the attributes of juiciness, leanness, and tenderness with the average premium size ranges from \$0.20/lb. for marbling to \$0.37/lb. for tenderness. Moreover, Ubilava, Foster, Lusk, and Nilsson (2008) suggested that, on the average, consumers are willing to pay more for the certification attributes if the product is branded but benefits to certification beyond one pork quality attribute may yield lower benefits for branded pork products.

This research argue with the first hypothesis:

*H1: No significant correlation exists between the respondents' monthly family income and their willingness to pay extra pesos for the branded pork.*

#### **Demography and Family Income**

Demography and distribution of income are factors that are essential for marketers in choosing segmentation to win in the marketplace (Kotler & Armstrong, 2008). Brand bonding occurs when customers experience the company as delivering on its benefit promise as related to demography of the target markets (Kotler & Armstrong, 2008). Demography is the study of human population in terms of statistics and classifications such as religion and lifestyle, age, gender, education, occupation and family income (Kotler & Armstrong, 2008). Considering key demographic profiles, Mendoza (1982) specified that income, family size, age of wife, and non-cash income are found to be relatively related with demand, and that consumers in the highest income bracket had the most elastic demand for beef and those in the lowest income bracket an inelastic demand, demand for pork and beef was not significantly different between occupation groupings. Mendoza (1982) also concluded that education exerted a significant influence on demand for both meats such that those with high levels of learning were found to consume more red meat.

#### **Purchase Decisions and Behaviors**

Purchase decisions on branded pork also cover actions to buy more amount, buy more often, or buy at a premium price while the following are influences on purchase decisions by pork consumers as adopted from Kotler &



Armstrong (2008), Kotler (2003), and Ries & Ries (2002). Overall, this research describes the purchase behaviors of consumers and vendors as influences of favorite meat of family, of pork price, of health and activity, of availability and of credit purchases. Grunert, Loebnitz & Zhou (2015) studied that supermarket literacy in China is related to brand awareness and more favorable brand images but not to pork branding-based purchase intentions because of the need for more reliable sources of information about products and benefits. In addition, Ubilava, & Foster (2009) noted that branding, store location, product and appearance also affect willingness to pay premium. This research formed and tested the second and third hypotheses:

*H2: No significant difference exists between the vendors and consumers with respect to the frequency of buying pork for dietary supplement.*

*H3: Vendors and consumers undergoing the same survey on the acceptance of branded pork over pork regularly sold in the wet markets have equal population variances.*

### **Pork Branding Success or Failure**

Ries and Ries (2002) noted that that successful branding is based on the concept of singularity and that the objective of branding is to create in the mind of the prospect the perception that there is no product in the market quite like a particular product and this differentiation is expected to deliver value in terms of higher margin, greater sales volume and brand existence for longer period of time. Ries & Ries (2002) associated the “Law of Singularity” in branding to the single-mindedness of a brand as the most important aspect. Thus, owning one benefit in the minds of selected customers is stronger than owning several marketing propositions. Shih *et al.* (2009) reported that pork branding is an active marketing activity in Japan and Taiwan and that Taiwan has at least 20 major pork brands and started with product or service differentiations. Among the uniqueness emphasized in Taiwan pork to attain health and food safety awareness versus antibiotics and chemical use in food animals, and compliance to sustainability, are the use of liquid feed with acidifiers, use probiotics, use of mechanically ventilated housing system, free of drug or chemical residues, use of herbs in the feeds, or being environmentally-friendly in numerous ways (Shih *et al.*, 2009). Furthermore, Vonada *et al.* (2000) recognize the value of pork branding based on satisfying the demand and quality indicators as consumption needs by the Koreans.

### **Quality Indicators of Pork**

Moeller (2006) also focused on pork quality drivers, arranged according to the level of perceived importance by consumers in Ohio as seen in Table 1. Grannis & Thilmany (2000) concluded that consumers in the intermountain regions of Colorado, Utah and New Mexico are very concerned about the additives to the meat they consume, and that these consumers are willing to pay premium to guarantee that the meat they consume is free from these additives. Some of the lists of pork attributes included in the research of Grannis & Thilmany (2000) are no small or crowded pens, no antibiotics, no growth hormones, grazing managed, meat aged at least 14 days, and grass-fed. In my view, the Native Pig Industry Association of the Philippines, Philippines-Organic Network member-agencies and Organic Certification Center of the Philippines are some of the active groups but valuing organic pork seem to have weak visibility in markets except for whole roasted pork (lechon) businesses.

Regarding food safety, Miller and Unnevehr (2001) concluded that 33.2 percent of consumers in Illinois are very concerned about safe pork, 27.1 percent are somewhat concerned, 20.6 percent are not too concerned while 14.4 percent are not concerned at all. Most are willing to pay for safer pork but branding also has additional costs. McSwane, Rue, & Linton (2006) noted that awareness in food safety is attributed to occurrence of food borne illness from contaminated food by either bacteria, parasites, fungi, virus, chemical and physical contaminants. A foodborne disease outbreak will have negative impact on the owners, managers and employees of the business where it occurred and on the rest of the food industry as well. At least 4 out of 15 journal articles gave importance to sensory qualities such as color, freshness in appearance and smell, leanness, tenderness (water-holding capacity and juiciness), and marbling of pork as seen in Table 1. The attributes matched some of the top pork quality indicators investigated by Moeller (2006).



**Table 1. Quality Indicators of Pork Emphasized in Selected Research Studies**

Authors	Location	a) leanness	b) fat content	c) freshness in appearance and smell	d) price and cost	e) color	f) brand name	g) tenderness/ water-holding/ juiciness	h) ease of preparation	i) no additives or preservatives	j) marbled or intramuscular fats	k) aged	l) wholesome	m) guaranteed safe	n) locally-raised	o) no antibiotics	p) grains or feeds-fed	q) no hormones	r) non-confined	s) taste of cooked pork	t) additional flavor	u) fortified w/ vitamins and minerals	v) pH	w) lightness	x) texture	y) indigenous breed	z) age & sex of pigs
Lebret, Ecolan, Bonhomme, Meteau, & Prunier (2015)	France	X						X														X	X				
Budimir, Kusec, Lukic, Dzijan, Margeta, & Kusec (2014)	Croatia									X						X										X	X
Xiao, Gao, & Shou (2014)	China	X	X	X		X																					
Damez, & Clerjon (2013)	France												X								X						
Girolami, Napolitano, Faraone, & Braghieri (2013)	Italy					X																					
Torngren, Darre, Kristensen (2013)	Denmark			X		X		X												X	X						
Tyra, & Zak (2013)	Poland									X																	
Dissing, Papadopou-lou. Tassou, Ersboll Carstensen, Panagou, & Nychas (2013)	Denmark												X														
Barbin, Elmasry, & Da-Wen (2012)	Dublin, Ireland	X	X			X		X																			
Li, Liu, Zhou. Xu, Qi, Shi, & Xia (2012)	China					X		X														X	X				







## Research Methods

These research methods included the research design and its classification, population and probability sampling techniques, research instruments used in the study, data gathering procedures and statistical tools that were used in the treatment of data at 5 percent level of significance (Young, 2003).

### Research Design

The study utilized the descriptive normative-survey method, considered fitted to the presentation and analysis of the research problems. This descriptive method of research was a fact-finding study with adequate and accurate interpretation of the findings. The normative-survey method assessed the perception of the respondents through standards assigned through rating scales and Likert scales. The researcher used personal interview to get informal responses and confirm answers or no response items.

### *Population and Sampling Techniques*

Following multi-stage sampling technique, the researcher conducted the draw-lot method for the 3 selected cities in Metro Manila. The cities of Manila, Mandaluyong and Pasig were randomly selected. A draw-lot method was also done to determine the month in the last quarter of 2008. November was chosen. Similarly as to the exact date of the interview and data gathering which are November 17 (Pasig City), November 22 (Manila City) and November 23 (Mandaluyong City). The appropriate three wet markets drawn were: Paco Public Market in Paco, Manila City; Munting Palengke, Triple A Flea Market and Mandaluyong Kalentong Flea Market in Mandaluyong City; and, Mutya ng Pasig Public Market, Pasig City. The population of consumers and vendors was based on the data approximated by the respective market administrators as well as with visual counting by the researcher aided with counter. The researcher decided to pursue the first 30 consumers who were randomly selected on the day and agreed to have survey and personal interview in each market following systematic random sampling technique (Young, 2003).

**Table 2. Frequency and Percentage Distribution of Respondents (N=180)**

Respondents	Kalentong Market		Paco Market		Pasig Market		Total	
	f	%	f	%	f	%	f	%
Consumers	30	16.66	30	16.66	30	16.66	90	50.00
Vendors	30	16.66	30	16.66	30	16.66	90	50.00
Total	60	33.33	60	33.33	60	33.33	180	100.00

In analyzing the consumers' and vendors' preference on valued pork attributes to design branding strategy, there were 180 respondents from the selected three wet markets in Metro Manila.

### Research Instruments Used

This study used the duly approved survey questionnaires by the adviser. Such questionnaires had structured questions in the form of rating scales and dichotomous follow-up questions to achieve definite responses as seen in Appendix 1. The researcher also used in the discussions secondary data from sources like books, journals, magazines, and government agency information and policies. This study also used empirical observations to complete the evaluation of pork quality attributes preferred by both vendors and consumers, those that were available in the wet markets, and factors that influence respondents' perception and behavior. To measure the rankings of the quality indicators as seen Table 1, the consumers and vendors who served as respondents of this research were asked to rate quality indicators with 1 to 5, with 5 being the highest score. Lightness, pH, age and sex of pigs, and indigenous breeds were not included as choices of top 10 pork quality indicators in survey tools.



## Results and Analyses of Data

### Purchase Decisions and Pork Price

Seventy-six out of 90 vendors and 70 out of 90 consumers feel that it is “very important” to consider the desired quality indicators in buying branded pork. Results of the survey give 4.80-weighted mean for vendors and 4.66 average for consumers. The results imply that both groups of respondents are selective of pork to buy. With an obtained weighted mean of 2.71 for vendors and 2.50 for consumers, there are more vendors and consumers alike who are only “moderately willing” at most, “least willing”, and still about 38 respondents are “unwilling” to pay extra amount for branded pork. The rankings of effects are the same for both groups. The rankings of effects from one to four are as follows: buy at a higher price (50 percent), for vendors and (46.67 percent) for consumers, both buying at a higher price and buy more (29 percent) for vendors and 31 percent for consumers; no effect (13.33 percent) for vendors and 11.11 percent for consumers; and rank four is “buy more” where 7.78 percent are vendors and 10 percent are consumers.

### Demography and Family Income

Contrary to common perception that vendors in wet market are females, the results of the study showed domination of male among vendors in the selected three wet markets. Female still dominate in buying pork as consumers. It is assumed that the traditional practice of “marketing is for women” still exists even in Metro Manila. It can be gleaned that wet market in the Philippines is not popular among the Chinese, Americans, Europeans, and other races, but among the Filipinos as Filipinos can tolerate wet surroundings based on empirical observations. Outside the scope of this study, there are also many foreign visitors and Filipinos in the Philippines who prefer to buy pork in groceries and supermarkets because of wide acceptance of frozen and chilled pork, in addition to the convenience and other advantages of said points-of-sales. Informal responses from 55 consumer respondents, who have more diverse occupations than the vendors, note that they also consider management of their monthly budget for food and other expenses and that they prefer to buy pork products from wet markets because they are cheaper and fresh as compared to those frozen or chilled meat available in groceries and supermarkets. The assumption that “Roman Catholics consider pork as edible” is also noted. The demographic profiles of respondents are further described as seen in Table 4.

**Table 4. Frequency and Percentage Distribution of Respondents (N=180) based on Demography**

Measurement items	Vendors (n=90)		Consumers (n=90)	
	F	Percentage	f	Percentage
Respondent's profiles				
1. Gender				
male	46	51.11	30	33.33
female	44	48.89	60	66.67
third gender	0	00.00	0	00.00
2. Age (years)				
10-20	2	02.22	2	02.22
21-30	18	20.00	21	23.33
31-40	22	24.44	13	14.44
41-50	30	33.33	36	40.00
51 and above	18	20.00	18	20.00
3. Race				
Filipino/Malay	90	100.00	89	98.89
Chinese	0		1	01.11
American	0		0	
European	0		0	
Others	0		0	



4. Educational Attainment					
Post-graduate	0	00.00	0	00.00	
Graduate	0	00.00	0	00.00	
College	25	27.78	19	21.11	
High School	55	61.11	62	68.89	
Elementary	10	11.11	9	10.00	
5. Occupation					
Common worker	14	15.56	34	37.78	
Skilled worker	0	00.00	5	05.56	
Professional	0	00.00	6	06.67	
Businessman	76	84.44	20	22.22	
Student	0	0.00	1	01.11	
Wife	0	0.00	15	16.67	
Unemployed	0	0.00	9	10.00	
6. Religion					
Catholic	86	95.56	87	96.67	
Protestant	0	0.00	0	00.00	
Islam	0	0.00	0	00.00	
Buddhist	0	0.00	0	00.00	
Others	4	4.44	3	03.33	
7. Monthly income of family					
> P50000	3	03.33	1	01.11	
P20001 to P50000	27	30.00	4	04.44	
P 8001 to P20000	43	47.78	27	30.00	
P 4001 to P 8000	11	12.22	34	37.78	
P 1000 to P 4000	5	05.56	20	22.22	
No response	1	01.11	4	04.44	
8. Number of years of buying pork					
less than 3 years	5	05.56	3	03.33	
3-5 years	9	10.00	11	12.22	
6-10 years	21	23.33	13	14.44	
11-15 years	17	18.89	8	08.89	
16 years and above	38	42.22	55	61.11	

### Purchase Decisions and Behaviors

Purchase decisions are associated with vendors and consumers' perceived acceptance and behavior on branded pork in this research as seen in Figure 1. Majority of vendors and consumers feel that their "chosen" suppliers are "always" consistent in delivering the desired quality indicators to their customers. Results of the survey showed that family prefer pork during regular meals as responded by 88 percent of the vendors and 70 percent of consumers, and made this reason number 1. Ranked second is health and activity for both vendors and consumers: 9 percent for vendors and 14 percent of consumers considered pork as part of their lifestyle. Understandably, no vendor chooses "purchase on credit", because the distribution of carcass is limited to cash sales and they also prefer to sell pork in cash. A survey on the level of acceptance of branded pork by both consumers and vendors reveal that branded pork is "very strongly" accepted by 72 vendors and 72 consumers with resulting means as seen in Table 5.



**Table 5. Summary of the Level of Acceptance and Behavior (Branded Pork)**

Behavior	Weighted Mean		Verbal Interpretation	
	V	C		
Level of Acceptance	4.56	4.69	VS	VS
Level of Giving Importance	4.78	4.66	VS	VS
Level of Willingness to Pay Premium	2.71	2.5	W	W

Notes: V- Vendors; C- Consumers; VS- Very Strong; W- Weak

Seventy-eight vendors and 63 consumers in wet markets of Kalentong, Paco and Pasig perceive pork branding as “very important” for fast and accurate identification of products with desired quality indicators. In line with the frequency and mean distribution of respondents’ perception of pork branding for fast and accurate identification of products free of agents of food borne illnesses from microorganisms or worms, it appears that 77 out of 90 vendors and 59 out of 90 consumers from three wet markets (Kalentong, Paco and Pasig) perceive pork branding’s role in identifying quality products as “very critical.” How important is the credibility of preferred agency to certify Pork quality and safety? Seventy-five vendors and 73 consumers answer “very necessary; 12 vendors and 16 consumers feel it as “moderately necessary” as summarized in Table 6. As to preferred agency to certify quality and food safety, the choice of both vendor and consumer respondents is the same-government, which is ranked number 1. 72 percent of the consumers and 74 percent of the vendor respondents prefer government while 23.33 percent of consumers and 12.22 percent of vendors prefer private companies to certify pork quality and food safety. Two percent of consumer respondents and 12 percent of vendor respondents prefer private individual. The least preferred is “association” to certify pork quality and safety. Majority of the respondents buy pork daily, twice a week or weekly as analyzed as seen in Table 7.

**Table 6. Summary of the Level of Importance of Pork Branding for the three different purposes**

Purposes	Weighted Mean		Verbal Interpretation	
	Vendor	Consumer	Vendor	Consumer
For fast and accurate identification of products with desired quality indicators	4.78	4.66	VI	VI
For fast and accurate identification of products free of agents of foodborne illnesses	4.77	4.57	VC	VC
For credibility of preferred agency to certify quality and food safety	4.73	4.22	VN	VN

Notes: VI- Very Important; VC- Very Critical; VN- Very Necessary

**Table 7. Frequency, Mean Score and z-Test of the Frequency of Buying Pork for Dietary Supplement**

Parameters	Likert Scale	Frequency	
		Vendors	Consumers
<u>Number of times buying pork</u>			
Daily	5	42	18
Twice a Week	4	40	35
Weekly	3	7	24
Twice a Month	2	0	7
Others	1	1	6
Total Sample Size		90	90



Mean Score	4.36	3.58
Variance	0.52	1.21
<b><u>z-Test</u></b>		
p-level	0.05	
Standard Error	0.14	
z	5.60	
P (Z<=z) - Two-tailed distribution	0.00	
z Critical Value - Two-tailed distribution	1.96	

But the amounts of pork bought by majority vendors and consumers for specific reasons like dietary supplement, family requirements, family gatherings and special occasions range from one to 10 kilograms for each purchase with obtained mean of 100.75 responses considering the four reasons and ranked number one. Ranked number two was less than one kilogram whose mean was 49.50 responses. Tailing in rank number three was 10 to less than 30 kilograms with mean of 31.67 responses. However, less than one kilogram was bought for individual's daily dietary supplement as responded by 154 out of 180 vendors and consumers.

### **Quality Indicators of Pork**

Of the 22 quality indicators ranked, vendors preferred “guaranteed safe” with weighted mean of 4.91. This is followed in equal ranking by “freshness in appearance and smell” and “pork from feeds-fed hogs.” In rank 4, is the “brand name”, followed by “tenderness” in rank 5. “Leanness” was in rank 6. In rank 7 is the “color of the meat.” “Ease of preparation”, “price and cost”, and “wholesomeness” complete the top ten (10) quality indicators as perceived by the vendors and are ranked 8, 9, and 10 respectively. The following are the top ten (10) pork quality indicators as perceived by the consumer respondents: “guaranteed safe” whose mean was 4.82 and is also ranked number 1; “freshness in appearance and smell” (mean: 4.81) ranked second; ranking third is “color of the meat” (mean: 4.76); rank number 4 is “price and cost” whose (mean: 4.72); ranked fifth is “leanness” (mean: 4.71); rank 6.5 are “brand name” and “tenderness” whose means are the same with 4.59; ranked 8 is “wholesomeness” whose (mean: 4.44) and the last two (2) of the top ten (10) quality indicators, ranked 9 and 10 respectively are “ease of preparation” with mean of 4.38 and “taste of cooked pork” with a mean of 4.29, respectively.

## **Discussion and Conclusion**

This research concludes with the outcome of the hypotheses testing, and discussion using evaluations with earlier studies and empirical observations.

### **Hypothesis 1**

*No Significant Correlation Exists between the Respondents' Monthly Family Income and their Willingness to Pay Extra Pesos for Branded Pork*

Since the computed t-value of 3.21 was greater than the critical value of 3.182, the assumption of the null hypothesis that there is no significant correlation between the respondents' monthly family income and their willingness to pay extra pesos for branded pork shall be rejected at 5 percent level of significance. Therefore, it is safe to conclude that significant correlation exists between the two variables namely, monthly family income and willingness to pay extra pesos for branded pork. Pearson correlation coefficient of 0.88 and t-test 3.21 are in consonance with each other. There existed a significant positive relationship. The great majority of respondents are 75.56 percent vendors and 73.34 percent consumers are willing to pay additional 10 percent only. This is close to the study results of Sanders *et al.* (2007) that average premium size ranges from \$0.20/lb. for marbling to \$0.37/lb. In rank 2, sad to note, was 21.11 percent and 23.33 percent of vendors and consumers respectively were not willing to pay any extra amount. As the premium perceived to be paid on premium pork increases, lesser number of consumers and vendors are willing to pay as investigated by Moeller (2006). During the time, majority of the respondents are classified under lower income brackets and this can explain the willingness to pay extra amount on branded pork as also pointed out by Mendoza (1982) and Wu *et al.* (2012).

### **Hypothesis 2**

*No significant Difference Exists between Vendors and Consumers with respect to the Frequency of Buying Pork for Dietary Supplement.*



Since the computed z-value of 5.60 is greater than the critical value 1.96 and since p-value is less than 0.05 (significance level), therefore, we can reject the 2<sup>nd</sup> null hypothesis. It is safe to conclude that based on the study conducted among 90 vendors and 90 consumers from Paco, Kalentong, and Pasig Wet markets, there is significant difference that exists between vendors' and consumers' frequency of buying pork for dietary supplement. This conclusion is opposite to findings of Mendoza (1982) that differences in occupations do not affect the demands for pork.

### Hypothesis 3

*Vendors and Consumers Undergoing the Same Survey on the Acceptance of Branded Pork over Pork Regularly Sold in Wet Markets have Equal Population Variances*

Using F-test, the computed F-value is 0.35. Since 0.35 is less than the critical value of 9.60, then the decision is not to reject the assumption in the null hypothesis at five percent significance level. Hence, this test statistics concludes that accepting branded pork over pork regularly sold in wet markets was relatively consistent for both vendors and consumers. Simply stated, respondents have equal variance with respect to accepting branded pork over pork regularly sold in wet markets. Grunert *et al.* (2015) are true in the findings that factors like supermarket literacy is not related to pork branding-based purchase intentions because of the need for more reliable sources of information about products and benefits. Recognition of value of pork branding is possible if the criteria and demand for preferred pork quality indicators are clear as argued by Vonada *et al.* (2000).

### Hypothesis 4

*There is no Significant Difference in the Rankings of the Top Ten Pork Quality Indicators by the Vendor and Consumer Respondents.*

To test the above hypothesis, respondents' ratings were extracted for Mann-Whitney test as seen in Table 8.

**Table 8. Summary Table for Mann-Whitney Test of the top 10 Quality Indicators of Pork**

Top 10 Pork <u>Quality Indicators</u>	Weighted Mean		Rank		Mann-Whitney Rank	Test Result	Decision
	V	C	V	C			
Guaranteed Safe	4.91	4.82	1.0	1.0	1		
Freshness in Appearance and Smell	4.90	4.81	2.5	2.0	2.5	U1 = 73	
Pork From Feeds-fed Hogs	3.76	4.09	2.5	12.0	2.5	U2 = 27	
Color	4.68	4.76	7.0	3.0	6		
Price and Cost	4.61	4.72	9.0	4.0	8	Z = - 1.74	
Brand Name	4.87	4.59	4.0	6.5	4		
Tenderness	4.76	4.59	5.0	6.5	5		
Leanness	4.72	4.71	6.0	5.0	7	CV = -1.96	
Ease of Preparation	4.64	4.38	8.0	9.0	9		
Wholesomeness	4.57	4.44	10.0	8.0	10		
Taste of Cooked Pork	4.53	4.29	11.0	10.0			Do not reject Ho at 5% $\alpha$

Notes: U1, U2 = Population means

CV = Critical/ Tabular Value; Reject Ho ( $p < 0.05$ )



Mann-Whitney test result shows that computed z-value of  $-1.74$  is greater than the critical value  $-1.96$ , hence, assumption in the null hypothesis shall not be rejected at five percent significance level. Therefore, it can be safely concluded that there is no significant difference in the ranking of the top ten pork quality indicators by the vendors and consumers. The top 10 pork quality indicators in this research confirm that sensory qualities of pork are more relevant than the nutritional value, organic concepts, animal welfare, and technological features as derived from Table 1. While Moeller (2006) identified the importance of locally-raised, no antibiotics, no hormones, non-confined, and additional flavor, this research determined the importance sensory features as also seen in Table 8 that gives the ordinal data of the top 10 quality indicators as ranked by the vendor and consumer respondents of the study. Based on the Mann-Whitney Test, the top ten quality indicators to consider in buying pork according to rank were as follow: guaranteed safe (1), freshness in appearance and smell (2.5), pork from feeds-fed hogs (2.5), brand name (4), tenderness (5), color (6), leanness (7), price and cost (8), ease of preparation (9), and wholesomeness (10). The results are entirely different from the responses taken by Grannis & Thilmany (2000) who have high regards on pig production with no small or crowded pens, no antibiotics, no growth hormones, grazing managed, meat aged at least 14 days, and grass-fed. Most importantly, guaranteed safe is a “must-have” feature or of top priority as also argued by Martinez, & Zering (2004), McSwane *et al.* (2006), Miller & Unnevehr (2001), and Wu *et al.* (2012). This research concludes that pork can be branded with quality indicators desired by consumers and vendors, with the strong acceptance and level of importance given by the respondents as seen in Table 5. However, transforming branded pork into real value-added products in the wet markets entails deep understanding of factors that include consumers’ and vendors’ family income, occupation, reliable sources of information about branded pork and benefits, and relevant target customers’ pork quality indicators, clear buying criteria and high demand.

### Implications for Managers or Policy Makers

I suggest to relevant investors and firms in Metro Manila, Philippines to develop a new brand name, logo, symbol and tagline of brand promise to trademark, either “safe, fresh, meaty, reddish and tender pork”, to be consistently available in the wet markets to keep consistent pork sales and market share. Selecting one pork quality indicator to be developed is a strategic option as also emphasized by Ries, and Ries (2002) and Ubilava *et al.* (2008) that owning a single value proposition has the strongest branding. I recommend researchers to exert efforts to update and develop the “branded pork with preferred quality indicators category” and make this new brand the leader and the best in this category. I also encourage further research on the interrelationships between geography, demography and family income, purchase decisions, desired pork quality indicators, and influences on prices of pork of pork branding to undergo multivariate analysis for deeper perspectives. I also recommend marketers to conduct further survey, develop brands and create value propositions related to pork based on quality indicators as well as consider capabilities with the establishment of coordinated system and vigorous campaign with the National Meat Inspection Commission, with the Bureau of Animal Industry, and with the preferred private and government agencies to execute activities for pork safety and quality as well as to create publicity (Martinez, & Zering, 2004; Moeller, 2006). It is also recommended to jointly invest in promotions (Kotler & Armstrong, 2008) such as advertising activities, education of consumers and vendors regarding the new brand to be developed, and the marketing of pork with preferred quality indicators.

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#### Appendix 1. Operational Framework: Variables and Measurement items

Variables	Measurement items
Demography and family income	Respondent's profiles: gender, age, race, educational attainment, educational attainment, religion, number of years of buying pork & Monthly income of family  > P50000 P20001 to P50000 P8001 to P20000 P4001 to P8000 P1000 to P4000
Purchase decisions	How do selected consumers/vendors/respondents accept and behave with branded pork? 1) For the acceptance of branded pork: 5- Very strong 4- Strong 3- Weak 2- Very weak 1- No effect  2) For the importance of their desired quality indicators in buying and consumption of branded pork: 5- Very important 4- Important 3- Moderately important 2- Least important 1- Not important at all



3) For the buying behavior influenced by the desired quality indicators:

- 5- Buy pork at higher price
- 4- Increase amount to be purchased
- 3- Both
- 2- No effect
- 1- Will not buy

4) For the willingness to pay extra peso for the branded pork:

- 5- Very willing
- 4- Willing
- 3- Moderately willing
- 2- Least willing
- 1- Not willing at all

5) For the amount of extra peso payment for branded pork:

- +>50%
- +50%
- +30%
- +10%
- 0

How do consumers and vendors perceive pork branding?

1) For the fast and accurate identification of products with desired quality indicators:

- 5- Very important
- 4- Important
- 3- Moderately important
- 2- Least important
- 1- Not important at all

2) For the fast and accurate identification of products free from agents of foodborne illnesses from microorganisms or worms:

- 5- Very critical
- 4- Critical
- 3- Moderately critical
- 2- Least critical
- 1- Not critical at all

3) For the credibility from preferred agency to certify quality and food safety:

- 5- Very necessary
- 4- Necessary
- 3- Moderately necessary
- 2- Least necessary
- 1- Not necessary at all

4) For the preferred agency to certify pork for quality and food safety:

- Government
  - Private Company
  - Association
  - Private Individual
  - None
-



# LEVEL OF CORPORATE AWARENESS AND INVOLVEMENT ON THE ENVIRONMENTAL AND COMMUNITY SUSTAINABILITY PRACTICES OF SELECTED FOOD MANUFACTURING COMPANIES IN THE NATIONAL CAPITAL REGION, PHILIPPINES

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The study assessed the level of corporate awareness on environmental and community sustainability practices of selected food manufacturing companies in the National Capital Region. This also covered the extent of involvement and the challenges faced by these companies in pursuing their sustainability practices primarily in terms of planet (environment) and people (community/social) it also examined the extent of sustainability integration to strategic business core. The primary objective was to describe the corporate sustainability best practices of the manufacturing firms in the National Capital Region and be able to share the findings to our entrepreneurship students and business practitioners. The study utilized the descriptive method of research using a modified survey instrument divided into four parts; company profile, level of corporate awareness and extent of involvement to sustainability practices, extent of sustainability integration to strategic business core and the challenges encountered in pursuing sustainability practices. There are one hundred four retrieved instruments from the respondents. The findings revealed that the manufacturing companies are aware of the environmental practices and fully aware in the community sustainability practices. Food manufacturing companies had great extent of involvement in both areas. On the assessment of companies' extent of sustainability integration to strategic business core, the food manufacturing companies have a common response of high extent of integration in four major areas such as; leadership, policy setting, program development and monitoring and reporting. Customer expectations and cost implications were the barriers being identified by the companies in pursuing their sustainability practices. Based on the findings, the food manufacturing companies are responsive to waste management program and are fully responsible in providing a conducive workplace. Also, middle managers seriously considered the integration of the sustainability practices in its strategic business core. Finally, it is recommended that these bottom lines (people, planet, profit) must be integrated on the development of companies' strategic plan. Adequate financial budget must be allocated in continuous environmental and community programs of the company. Thus, creating a maximize stakeholders value. Moreover, the present and actual sustainability practices and the improvement on the challenges in pursuing sustainability programs must be used as a good reference in designing the manufacturing companies' sustainability practices framework.

## Introduction

Sustainability in its purest sense is quite easy to understand when associated with the words "maintain" and "prolong". It has become a buzz word by which individuals, organizations and nations are to assess human impacts on the natural environment and resources. Corporate sustainability was defined as a business approach that creates a long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments (Wilson, 2003). While corporate sustainability recognizes growth and profitability, it also requires the corporation to pursue societal goals relating to sustainable development such as environmental protection, social justice and economic development. Corporate sustainability encompasses three dimensions of needs, known as the triple bottom line: economic prosperity and opportunity; social equity and quality of life; ecological resource preservation (Fiksel, 2001). Moreover, it is an organizational commitment to achieve competitive advantage through the strategic adoption and development of ecologically and socially supportive production processes, products and services and innovative human resource management practices. Sustaining corporation is the corporation which fully incorporates the tenets of human and ecological sustainability into its own operations and which also works actively to support the application of sustainability principles throughout the rest of the society (Dunphy & Griffiths, 2003, p. 62). Corporate sustainability is an evolution on a more traditional phrases describing ethical corporate practice. Phrases such as corporate social responsibility, corporate conscience or corporate citizenship continue to be used but are increasingly superseded by the broader term, *corporate sustainability*. Unlike the other phrases that focus on "added-on" policies, corporate sustainability describes business practices built around social and environmental considerations. The phrase is derived from two key sources. In 1987, the Brundtland Commission Report- Our Common Future described sustainable development as, "*development that meets the needs of the present without compromising the ability of the future generations to meet their own needs*" ([www.undp.org](http://www.undp.org)). This desire is becoming more and more central to business philosophies,



nowadays. The other important source is within more academic management circles Elkington (1999) developed the concept of Triple Bottom Line which proposed that business goals were inseparable from the societies and environments within which they operate. A failure to account for social and environmental impacts would make those business practices unsustainable.

This study focused on the level of corporate awareness, involvement, extent and challenges on environmental and social/community sustainability practices of selected food manufacturing companies in the National Capital Region was relevant to the researcher's field of specialization which business administration. Nowadays, companies and businesses, especially global and international corporations, have already incorporated not just CSR programs but corporate sustainability instead. The latter viewed as the recent trend in business operation not just for the company to exist for financial reason but also to contribute in prolonging our mother earth and help to develop our workforce as well as help improve lives of the diverse people in the society. The researcher conducted this study to personally be an instrument in creating awareness among her students particularly BS entrepreneurship students to become aware and knowledgeable to environmental and social/community practices. These future young entrepreneurs and businessmen must know at this early that they have a big role and responsibility in prolonging and sustaining mother earth. By instilling to them the value of making profit while protecting the earth and human resources can be beneficial to the success of their business operation. Besides, young people can be easily influence compare to practicing entrepreneurs for years now. This advocacy of the researcher to awaken awareness among her students in doing business profitably while protecting the earth's depleted resources served as inspiration to her to finish this paper.

### **Background of the Study**

The researcher was inspired to conduct this study, for it has been observed that majority of the research papers previously studied was focused on the corporate social responsibility programs initiated by different business industries. Corporate sustainability is not just being a socially-responsible corporation, but implementing strategic approach to attain success to become a socially-responsible business entity, consistently. Companies will have difficulty in achieving corporate and operational success if they will disregard commitment to sustainability practices, particularly environmental sustainability and social or community sustainability. At the moment, never did the researcher found a study about awareness of the said practices since previous studies just dealt on benchmarking, assessment and responsiveness. In addition, how could anyone implement and commit to these sustainability practices if the companies were not even aware of the said sustainability practices. To shed light and to find an answer, the researcher was eager to finish this present study.

Business sustainability requires firms to adhere to the principles of sustainable development. For industrial development, companies must address important issues at the macro level, such as: economic efficiency (innovation, prosperity, and productivity), social equity (poverty, community, health and wellness, human rights) and environmental accountability (climate change, land use, biodiversity). Firms that are sustainable have been shown to attract and retain employees more easily and experience less financial and reputation risk. These firms are also more innovative and adaptive to their environments. The researcher was motivated to pursue this study after observing the findings of the UN Global Compact and Accenture recent study on corporate sustainability across business sectors.

The UN Global Compact and Accenture Sustainability Services are releasing the largest-ever chief executive study on corporate sustainability. Through an online survey and in-depth one-to-one interviews, nearly 1,000 CEOs, senior business executives, and civil society leaders (from USA, Europe, Asia Pacific, Africa and Middle East) have contributed to this landmark study on the state and future of responsible business in the 21st century (Kell & Lacy, 2010). It may come as a surprise to some, but perhaps the most significant finding of this study is that, despite the economic downturn and a flurry of global challenges, corporate commitment to environmental, social, and governance issues remains strong: 93 percent of CEOs see sustainability as critical to their company's success. This signals a fundamental shift in mind sets since this survey was last conducted in 2007. Then, sustainability was starting to reshape the rules of global business. Now, it has become a strategic priority for CEOs around the world.

Based on Kell & Lacy's study, CEOs approaches to sustainability are changing: (1) CEOs identified the consumer as being as important a stakeholder as their business and government customers on this issue, driving companies to take action in response to new attitudes and needs. (2) Ninety-one per cent (91 percent) of CEOs report that they will use new technologies to address sustainability over the next five years. Social media in particular were highlighted as both an opportunity for increased consumer engagement but also a challenge in terms of greater transparency. (3) CEOs identified partnerships and collaboration (*e.g.* with NGOs) as an

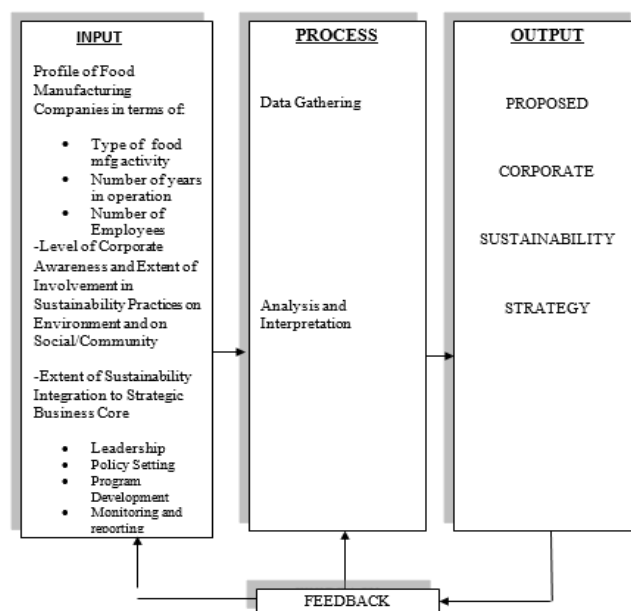


increasingly important element in furthering goals of social development. (4) Furthermore, due to post-financial crisis, CEOs around the globe recognize a critical role for sustainability in rebuilding trust with stakeholders. Seventy-two per cent of CEOs highlighted "brand, trust, and reputation" as key motivations for taking action on sustainability. CEOs believe they are still facing many challenges, despite significant recent progress. Externally, much uncertainty still surrounds support from the investment community or the extent to which sustainability concerns will drive consumer purchasing decisions. Another concern is the lack of clear and effective regulation. Internally, CEOs recognize that there is currently an implementation gap in meeting their ambition to embed sustainability deep and wide within their organizations, particularly along supply chains and in subsidiaries. For example, 88 percent of CEOs believe they should be integrating sustainability through their supply chains, but only 54 percent believe this is being achieved in their company. A similar performance gap is seen in subsidiaries.

In order to overcome these challenges and to reach a new era in which sustainability concerns are fully embedded in core business, CEOs believe they can take a leadership role in bringing about a number of "must-have" conditions. The findings highlight that companies are taking the long view on sustainability. They also realize that the journey will not necessarily be a short one. But, arguably, the modern era has never before seen such a high level of executive commitment to the environmental, social and corporate governance agenda. Many leading companies are aware of the power they have to change the world—but acknowledge that this is "the end of the beginning" and not "the beginning of the end" in the transition to a new era of sustainability. Based on the above recent study the researcher is motivated to conduct research focusing on the sustainability practices of selected corporations in the National Capital Region, Philippines. Thus, to determine how these companies build awareness and responsiveness to its multi-stakeholders leading to more sociable business quests. It has to be noted however, that most of the studies conducted dealt on corporate social responsibility and good corporate citizenship but not actually producing a model or strategy that leads to global sustainability approach.

### Theoretical and Conceptual Framework

Sustainability has become a favorite buzzword among development practitioners over the past decade. Sustainable has been used not only to characterize a desired future for communities and for society as a whole, but also to describe the desired impact of development interventions and the desired state of organizations working for sustainable future (Dacanay, 2004). Similar to the concept of corporate social responsibility, the term corporate sustainability is a broader term that creates long-term consumer and employee value by not only creating a "green" strategy aimed towards the natural environment, but taking into consideration every dimension of how a business operates in the social, cultural and economic environment. It is an evolution of a more traditional phrases describing ethical corporate practice. This study was anchored on a combination of several theories of Keith, Holt, Elkington, Hart, Senge and Daly.





## **Methods**

Descriptive method was used by the researcher to assess the level of corporate awareness and extent of involvement in environmental and social/community sustainability practices and the extent of sustainability integration into strategic business core of selected food manufacturing companies in the National Capital Region, Philippines. More so, it was used to identify the challenges encountered by the company respondents in pursuing sustainability practices. The study focused on the food manufacturing companies in the National Capital Region. Based on the list provided by the Philippine Chamber of Commerce and Industry (PCCI), 42 members are under the food manufacturing corporations' category as of May 2011. However, only 30 companies agreed to participate in the survey. The researcher distributed five sets of survey questionnaires to each company, the target respondents were the middle managers of the respective food manufacturing companies. From 150 instruments distributed, 104 were retrieved. The researcher obtained a CD-List of 2011 Philippine Chamber of Commerce and Industry (PCCI) member corporations. A letter requesting the approval of PCCI to help the researcher in the administration of questionnaire and data gathering were also submitted. While waiting for PCCI's approval and for questionnaire's content validation, the researcher conducted a pre-survey or dry-run to five (5) selected food manufacturing companies in Quezon City. The researcher also wrote and submitted letter requesting permission to conduct survey to 42 companies; these correspondences were addressed to company's presidents and or CEOs. After the approval was granted the researcher coordinated with the HR Department to set an appointment to personally distribute the questionnaires to the respondents. Follow up was made after a week the questionnaires were distributed. The retrieved instruments were then encoded, tabulated and processed in accordance with stated problems in the study. The results were interpreted, analyzed and summarized based on the stated problems of the study.

## **Results and Discussion**

The following are the findings of the study: With regard to profile of the food manufacturing companies in the NCR, and in terms of type of food manufacturing activity, majority of the food manufacturing companies are under the other food products category. This category includes cocoa, chocolate powder, macaroni, and noodles production. In terms of number of years in operation, majority were in the business for 11-20 years already. As to number of employees, majority employed 30 and below workforce.

In the assessment of the food manufacturing companies' level of corporate awareness to environmental and social sustainability practices, food manufacturing companies signified awareness and fully awareness levels. For environmental sustainability, when grouped according to type of food manufacturing activity, number of years in operation and number of employees, food manufacturing companies are fully aware in waste management program but weak on public environmental sustainability report. In social sustainability practices, when grouped according to type of food manufacturing activity, number of years in operation and number of employees, the study revealed that companies are fully aware in having a conducive workplace but weak on public social sustainability report. On the assessment of extent of involvement to environmental and social/community sustainability practices, food manufacturing companies were involved from great extent to very great extent of involvement but mostly with great extent of involvement thus, interpreted as done most of the time. When grouped according to type of food manufacturing activity, number of years in operation, and number of employees, the companies have great extent of involvement in waste management program but with the least involvement in recycling program. In social sustainability practices, when grouped according to type of food manufacturing activity, number of years in operation and number of employees, companies exhibited a great extent of involvement in having a conducive workplace but with the least involvement in producing public social sustainability report.

As regards to significant differences in the assessment of the company respondents on the level of corporate awareness and the extent of involvement to sustainability practices when grouped according to their company profile. When the food manufacturing companies were grouped according type of food manufacturing activity, the null hypothesis that there is no significant difference in the assessment of the respondents on the level of corporate awareness to environmental sustainability was rejected. Also the null hypothesis that there is no significant difference in the assessment of respondents on the extent of involvement to environmental sustainability was also rejected. The null hypothesis that there is no significant difference in the assessment of the respondents on the level of corporate awareness to social/community sustainability was rejected, the null hypothesis that there is no significant difference in the assessment of respondents on the extent of involvement to social/community sustainability was also rejected. When grouped according to number of years in operation, the null hypothesis that there is no significant difference in the assessment of the respondents on the level of corporate awareness to environmental sustainability was accepted. The null hypothesis that there is no significant difference in the



assessment of respondents on the extent of involvement to environmental sustainability was rejected. The null hypothesis that there is no significant difference in the assessment of the respondents on the level of corporate awareness to social/community sustainability was rejected, the null hypothesis that there is no significant difference in the assessment of respondents on the extent of involvement to social/community sustainability was accepted. When grouped according to number of employees, the null hypothesis that there is no significant difference in the assessment of the respondents on the level of corporate awareness to environmental sustainability was accepted. The null hypothesis that there is no significant difference in the assessment of respondents on the extent of involvement to environmental sustainability was also accepted. The null hypothesis that there is no significant difference in the assessment of the respondents on the level of corporate awareness to social/community sustainability was accepted and finally, the null hypothesis that there is no significant difference in the assessment of respondents on the extent of involvement to social/community sustainability was accepted.

On the assessment of company respondents' extent of sustainability integration into their strategic business core, the food manufacturing companies have a common response of high extent of integration of all four major areas: leadership, policy setting, program development and monitoring and reporting.

On challenges in pursuing sustainability with regard to factors that drive company to take action in sustainability, barriers in pursuing sustainability and the importance of embedding sustainability into strategic business core. Majority of the company respondents ranked the consumer/customer demand and expectation as main factor or driver to take action in sustainability; however, the cost implications limit the companies to pursue sustainability. Finally, the food manufacturing companies believed on the importance of embedding sustainability into their strategic business core.

### **Conclusion**

Based on the findings of the study, the following conclusions were made: (1) Most of the PCCI NCR members under food manufacturing corporations category are engaged in other food product, operating for 11-20 years already and employing around 30 and below workforce. These food manufacturing companies were considered as not so young and not so new to the food manufacturing industry. (2) In the assessment of the food manufacturing companies' level of corporate awareness to environmental and social sustainability practices, food manufacturing companies signified high level of awareness and at the same time a great extent of involvement to waste management program and having a conducive workplace, respectively. However, companies are weak in producing both environmental and social sustainability report. This can be attributed to the absence of company's corporate sustainability or CSR department and at the same lack of government monitoring and regulations imposing environmental and social sustainability practices. Also the misconception of the companies that sustainability practices and CSR is just philanthropic and voluntary in nature. (3) There was a significant difference on the assessment of level of corporate awareness and the extent of involvement to environmental and social sustainability practices among the food manufacturing companies in the NCR when they were grouped according to type of food manufacturing activity. There was no significant difference on the level of corporate awareness and extent of involvement to environmental sustainability when companies were grouped according to number of employees. However, there was a significant difference on the assessment of respondents on the level of corporate awareness to social/community sustainability practices but there is no significant difference on the assessment of the respondents on the extent of involvement to social/community sustainability practices. There were no significant differences on the assessment of the respondents on the level of corporate awareness and extent of involvement to environmental and social/community sustainability practices when grouped according to number of employees. (4) Food manufacturing companies viewed to have a high extent of sustainability integration to strategic business core areas namely, leadership, policy setting, program development and monitoring and reporting. Clearly, managers are considering sustainability practices seriously but not yet fully integrated to their strategic business strategies and are particularly weak in incorporating sustainability in program development. (5) Many manufacturing companies believed that the main factor in pursuing sustainability are consumers' demands and expectations; however, companies could not implement sustainability all the time due to cost implications. Thinking about the company's future, food manufacturing companies also believed that embedding sustainability into strategic business core is an important decision to take.

### **Recommendations**

Based on the conclusions, the following recommendations are provided: (1) The companies' level of awareness and involvement to environmental sustainability practices particularly on recycling program and to social community



practices must be reinforced by engaging themselves in partnership among government, community and other industry stakeholders. (2) Fulfilling the company's social and environmental bottom lines should not just be the sole function of HR or CSR department but must be everyone's concern, which means the involvement of everyone from all levels of the company. (3) To fully integrate sustainability into the mission, vision, goals and strategic practices of the companies, programs, systems and procedures incorporating sustainability practices must be developed. Communicate corporate sustainability to various stakeholders. Only few companies in the country disclose a public sustainability report. (4) A framework for environmental and social sustainability integration in all business' processes that particularly address the need of consumers, community and other stakeholders must be institutionalized. (5) Financial resources must be allocated to environmental and social sustainability practices which in the long run will reap rewards and benefits. (6) Other recommendations include further study particularly in the alignment of corporate financial performance and corporate sustainability performance. Sectoral or industry sustainability indicators of Philippine companies and businesses must be established by experts for better measurement of company's environmental and social performance.

Corporate sustainability strategy on the following areas is further recommended: (1) On corporate awareness and extent of involvement to environmental and social/community practices, the company's awareness and involvement in environmental sustainability practices particularly in the area of recycling program must be evaluated and quantified. Building a conducive and healthier workplace for employees must be pursued. However, companies are encouraged to disclose their environmental and social sustainability report to create awareness and provide opportunities to multi stakeholders to know their input into company's sustainability practices and programs. (2) On the extent of integration to strategic business core, corporations must develop a new breed of business leaders with clear environmental and social sustainability vision and accountability. A framework for sustainability practices incorporated in all business processes must be developed by business leaders and managers. (3) On the challenges encountered in pursuing sustainability, the community and multi-stakeholders for the existing and proposed sustainability practices of the company must be consulted. In addition, the company's sustainability performance must be regularly assessed and monitored. Finally, the best practices of other companies or industries in environmental and social sustainability implementation must be learned.

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# MEASURING TOURIST EXPERIENCE FOR HOMESTAY TOURISM IN AN EMERGING MARKET

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Tourism is a very important service sector in the emerging economies. One of the potential tourism products, the homestay programmes, requires more effective and efficient management process typically in the area of performance measurement and management for more effective income generation and sustainability of the programmes. However, scant attention had been given to the scientific performance measurement system and a unique competitive edge has yet to be identified for the measurement domains and process. Tourist experience is believed to be the potential key. A scientific enquiry on the homestay experience will be the potential differentiation tool for sustainable competitive advantage. This paper presents the empirical research which employed the qualitative and quantitative techniques to measure tourist experience for homestay programmes. The analysis was based on more than three hundred usable questionnaires and eight dimensions of tourist experience were found. Reliability analysis was done on the measurement items and thereafter an Exploratory Factor Analysis was performed. The items were loaded into eight dimensions, namely: Culture, Guiding Service, Food and Beverage, Environment, Cleanliness, Accommodation, Services and Accessibility. Thereafter, the Confirmatory Factor Analysis was done. The Measurement Model was developed and the fit indices were good. The Structural Equation Modeling for the causal model (Tourist Experience-Tourist Satisfaction) also showed a satisfactory model fit. The impact of tourist experience on tourist satisfaction was promising. Managerial and research implications of the measurement were discussed for more effective tourist experience management.

## Introduction

Tourism is contributing significantly to Malaysia's national income as it is one of the twelve National Key Economic Areas in the Economic Transformation Programme of the nation to drive the country towards high income and developed nation status by the year 2020. The government has planned various missions and developed strategies for the Tourism and Culture Ministry through various initiatives to stimulate a sustainable development for the industry. The sector is contributing to economy development of a country in both macro and micro levels (Bhuiyan *et al.*, 2013). At macro level, tourism is a foreign exchange earner, generating revenue, balancing of payment and contributing in gross domestic product (GDP). At micro level, the contribution of tourism is involving community, well-being of people, creating job, distributing income and sustaining regional developments (Bhuiyan *et al.*, 2013). Specifically, the eco-tourism and cultural-tourism are well-manifested in the homestay programmes and these programmes are potential income generators for the local communities (*e.g.*, Malays, Ibans, Bidayus, Kadazans, etc.). The effectiveness and competitiveness of homestay programmes if appropriately and systematically gauged, managed and thereafter enhanced will bring much social and economic benefits to the participating individuals, families and communities. This research aims to measure the tourist experience for better homestay service experience. The qualitative (*i.e.*, Focus Groups) and quantitative process (Structural Equation Modeling with AMOS) of developing the measurement cum management tool were scientifically done to develop the marketing construct (*e.g.*, Hair *et al.*, 1995, Nunally & Bernstein, 1994; Voon, 2006).

## Literature Review

### Service and its Characteristics

The consistent and continual offerings of new and beneficial services are critical in all service industries. The public and private service organizations have to keep on improving their service products and customer service to gain very high levels of customer satisfaction in order to create and sustain customer loyalty for optimum profitability. Superior service is commonly linked to increased profitability, and it is seen as providing an important competitive



advantage by generating repeat sales, positive word-of-mouth, constructive feedbacks, customer loyalty and service differentiation. Services are the products offered to the targeted customers and/or stakeholders and have their unique nature as compared to goods (Zeithaml & Bitner, 2000). It is normally characterized by intangibility, inseparability, heterogeneity or variability, and perishability. Most services are intangible as they are performances. The functionality and technical aspects of the service also need to be understood (Grönroos, 1982) as the more contextual specific domains are necessary to be managed to satisfy the technical needs of the customers (*e.g.*, facility, homestay packages, food and beverages). Cues had effects on service expectations (Sweeney, Armstrong & Johnson, 2016).

Qin & Prybutok (2008) suggested that customers were influenced by the physical environment, reliability of the service and attitude of the employees such as showing empathy to customer needs, being responsive, courteous, knowledgeable and trustworthy. Their study also suggested that food characteristics such as variety, cleanliness and freshness are influential factors in customers' choice of fastfood restaurant. Namkung & Jang (2008) identified three drivers of high customer satisfaction, namely, food, physical environment and quality of service.

### **Customer Experience**

As the competition in today's marketplace is becoming more intense and customers are increasingly demanding, more and more service firms started to recognize the importance of creating an outstanding customer experience as the key for success. Customer experience is a customer's personal interpretation of the service process and their interaction and involvement with it (Ding *et al.*, 2010; Johnston & Clark, 2008; Pullman & Gross, 2004). These interpretations or judgments will result in intention such as to repurchase, to recommend, to complain or may not result in action (Johnston & Kong, 2011). Customer experience is overwhelmingly important as it provides a new means of competition (Meyer & Schwager, 2007; Prahalad & Ramaswamy, 2004; Voss, 2003). A thorough review of the literature has revealed that an excellent experience yields considerable benefits to service providers including sustaining competitive advantage (Shaw & Ivens, 2005), affecting customer satisfaction (Liljander & Strandvik, 1997), delivering customer loyalty (Mascarenhas *et al.*, 2006), influencing expectations (Flanagan *et al.*, 2005), instilling confidence (Flanagan *et al.*, 2005), and supporting the brand (Berry & Carbone, 2007). Despite customer experience is widely acknowledged as a useful marketing tool to leverage customer loyalty, there is still limited amount of research compared to service related topics such as service quality.

### **Customer Experience in the Hospitality Industry**

A customer experience can play a greater role than any other factors in ensuring business success in this ever competitive business environment. A satisfactory and positive personal experience with a service-based transaction (*e.g.*, homestay tourism) will lead to repeat purchases from the same vendor (McKenzie, 2000). In fact, every stage of a service delivery should provide authentic experiences. Gilmore and Pine II (2007) hinted that the experience authenticity is crucial for effective management. They argued that such a unique experience, authenticity, should be the primary source of differentiation, which is the real value demanded by the customers. In hospitality industry, experience has been regarded as a useful marketing tool as well as a way to gain superior service performance (*e.g.*, Kim *et al.*, 2011; Kim & Moon, 2009; Qu, 1997; Woo *et al.*, 2009; Wong, 2004). Nevertheless, there has been scant attention and even less emphasis on an empirical research to investigate the customer experience and quality practices of the priority service sector such as homestay tourism. The hospitality and service practices of the homestay operators need to be understood and measured for effective and efficient management of the programmes to benefit the stakeholders especially the tourists.

The existing literature in services marketing mainly report on contemporary theories and studies related to hospitality and tourism management as well as marketing and management. Undoubtedly, businesses need to ensure that regular employees' interaction and continuing contact with suppliers and customers (Gardiner, 1996) provide that exclusive experience in trying to make customers happy and satisfied with the business relationships. Understanding the customers' needs and wants in homestay services, the experience of the customers towards their services, will go a long way to assist the homestay operators to overhaul and develop their businesses to face the competition. The experience aspect could be crucial to assist the functionality management. The experiences of customers need to be satisfied in the best possible manner, and the aspects such as food safety and cultural wholeness are responsibilities that homestay establishments must provide their patrons (Kuan, 2009).

Since a homestay establishment is more of service businesses, service experience is the service delivery subjective perception (Groth & Gilliland, 2001). Groth and Gilliland went on to suggest that customers evaluate those many instances of moments-of-truth to judge the service quality of the service provider. Andersson and Mossberg (2004) argued that certain elements affect the level of satisfaction of service experience which include

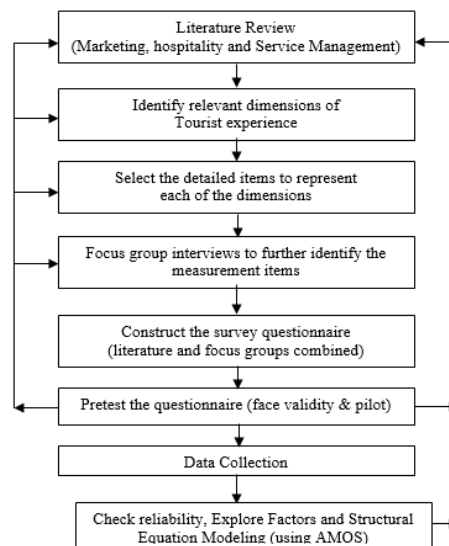


food, service, fine cuisine, restaurant interior, good company, and other guests. These elements are said to influence the level of arousal and thus the perception of the service experience. Service experience is also defined as the emotional feelings of the consumer during the service encounter (Hui & Bateson, 1991), where service encounters are tangible series of interaction between the consumer and the service setting, the environment. And it is noted that emotions are contagious in social situations (Soderlund and Rosengren, 2007). Many researchers tend to agree that the service experience will lead to better customer satisfaction and loyalty in the service sector (*e.g.*, Kim & Moon, 2009; Namkung & Jang, 2010; Qin & Prybutok, 2008; Voon *et al.*, 2012; Voon *et al.*, 2014; Woo *et al.*, 2009).

## Methodology

This measurement-based fundamental research aims to identify the key dimensions for tourist experience in homestay tourism. The research employed both qualitative and quantitative techniques. The qualitative phase which involved focus group interviews helped to capture the very satisfied and very dissatisfied experiences of the individual tourists. The main target population of the study was the tourists who had dined at the homestay establishments (*e.g.* kampungs, longhouses) for the past six months in Malaysia. The research started with a relevant literature review on services marketing and management, hospitality management, and service quality theories and measurements in order to identify the tentative critical dimensions for the customer and service experiences (Figure 1). This was followed by the focus groups and personal interviews. Four focus group interviews were conducted in different locations in Malaysia to discuss the service and living experiences for excellent homestay service delivery and management. Each focus group interview consisted of 8-12 participants representing the various selected groups of customers (by age groups, gender and race). All the group discussions were audio-taped and analyzed accordingly to generate the required dimensions and items for constructing the survey questionnaire.

The duly designed questionnaire was validated by a few experts in the field of services marketing and hospitality management and service quality management. The refined questionnaire was used and the printed sets of questionnaires were distributed to the respective respondents, selected through quota sampling technique (controlled characteristics include gender, age and types of tourist - local/foreign), who participated in the survey voluntarily. The tourists returned the duly answered questionnaires to an enumerator concerned at the respective homestay destinations in Malaysia. This was an anonymous survey where the respondents' answers would not be personally identified, to enhance the reliability and validity of the data. Reliability and exploratory factor analysis (EFA) were done (*e.g.*, Sureshchandar, Rajendran & Anantharaman, 2001; Voon, Abdullah, Lee & Kueh, 2014) on the survey data to identify the dimensions of the tourist experience. Structural equation model was developed to investigate the impact on tourist satisfaction. The numerous goodness of fit indices (*e.g.*, CFI, GFI, RMSEA) were used to confirm the goodness of the model.



**Figure 1: The Measurement Development Process**



## Findings and Discussions

The survey research managed to obtain 330 usable questionnaires for quantitative analysis. The respondents were carefully sampled in line with the target population based on some demographic characteristics as the controlled variables as quota sampling was employed. There were more female (53 percent) respondents who participated in the survey and most of the respondents were aged 21-30 years old. The foreigners accounted for seven percent and about 54 percent of the respondents were bachelor degree holders. But, they were from different walks of life (*i.e.*, Students–48 percent, Government servants–18.2 percent, Private sector–9.1 percent, Self-employed 10.3 percent and Unemployed only 4.5 percent). About 81 percent of the respondents earned RM3000 or less per month.

**Table 2: Dimensions and Items of Tourist Experience for Homestay Tourism**

	Dimensions/Items and Cronbach's Alpha Coefficients	Item-Total-Correlation	Factor Loadings
	<b><i>Culture</i></b> (0.84)		
1	The homestay cultural activities are very interesting. (37)	0.59	0.50
2	I enjoyed knowing the language of the people. (40)	0.64	0.66
3	I have an opportunity to learn their native language. (41)	0.65	0.78
4	The people of the homestay are special/unique. (51)	0.64	0.71
5	There is a unique culture for the homestay. (53)	0.69	0.62
	<b><i>Guide Service</i></b> (0.88)		
6	Sufficient information about the homestay before the trip. (1)	0.64	0.66
7	The person in charge of the trip understands my needs. (2)	0.74	0.74
8	The guide is friendly to me. (3)	0.72	0.68
9	The guide gives me individual attention. (4)	0.67	0.72
10	The guide is always willing to help me. (5)	0.69	0.68
11	The guide is knowledgeable about the homestay. (6)	0.60	0.58
	<b><i>Food &amp; Beverages</i></b> (0.83)		
12	There are many choices of food and drinks. (31)	0.66	0.73
13	I can get exotic (special) local food in the homestay. (32)	0.73	0.76
14	I can taste foods that I have never eaten before. (33)	0.67	0.65
	<b><i>Environment</i></b> (0.85)		
15	Good nature trail(s) is/are found near the homestay (24)	0.69	0.64
16	There is serenity (quietness) surrounding the homestay. (25)	0.74	0.68
17	Restful and relaxing atmosphere is found at the homestay. (26)	0.75	0.74
18	The homestay environment enables me to relax myself. (57)	0.55	0.63
	<b><i>Cleanliness</i></b> (0.82)		
19	There is clean environment surrounding the homestay area. (19)	0.64	0.67
20	Guestroom cleanliness is acceptable. (20)	0.67	0.63
21	Food and drinks served are hygienic. (21)	0.59	0.65
22	Bathroom and toilets are clean. (22)	0.66	0.59
	<b><i>Accommodation</i></b> (0.82)		
23	Enough bathroom/toilets to accommodate visitors. (10)	0.58	0.50
24	Do not have to spend much for the homestay accommodation. (11)	0.59	0.62
25	Sufficient electricity supply in the homestay. (12)	0.71	0.68
26	Water supply is enough for visitors' use. (13)	0.67	0.66
	<b><i>Services</i></b> (0.81)		
27	Good telecommunication services (e.g. telephone, internet). (48)	0.59	0.73
28	Tour guiding services are provided. (49)	0.71	0.71
29	Good homestay packages/programs are available. (50)	0.67	0.63
	<b><i>Accessibility</i></b> (0.81)		
30	The location of the homestay can be easily found. (16)	0.68	0.73
31	The homestay is easily accessible by the right mode of transport. (17)	0.67	0.72
32	The road condition along the journey is satisfactory. (18)	0.61	0.66







measurement tool to benefit the tourism sector in the emerging markets for a more sustainable competitive advantage. The multi-dimensionality of tourist experience found in this empirical research suggests that the homestay operators need to take care of their tourists in a holistic manner. All the components of the tourists' experience are important and need to be well-managed to create delightful and memorable experiences. The physical, natural, cultural, humanistic and facility aspects of the premises and programmes are essential in order to create good and memorable experiences for the visiting tourists. In fact, the homestay destinations ideally should be a 'living habitat' though on a temporary basis.

Future research can employ relevant quantitative techniques such as SmartPLS, logistics regressions and others to investigate more types of causal relationships and also identify items which will lead to greater satisfaction as well as higher level of tourist loyalty. Besides, samples from different cultural settings from other parts of the emerging markets or world can be used to understand the situations more contextually for effective tourist relationship management. It will be good if the critical experience attributes can be identified using quantitative methods such as kano modelling for effective kansei engineering. It is undeniable that the hedonic and emotional aspects of the tourist experiences most probably will determine their revisit intentions. The homestay operators will be able to focus their resources on improving the critical areas and benefit much.

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# A STUDY ON THE ACTIVATION OF INDUSTRY-UNIVERSITY COOPERATION – FOCUSED ON THE CASE OF GTEC IN SOUTH KOREA

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As a new economic paradigm of creative economy arrives, necessity of creating a new growth engine through “activation of industry-university cooperation” comes to the fore. To establish the national development and economic growth in the era of creative economy, this study is to reconsider the solution of activating industry-university cooperation through the case of Gyonggi College of Science and Technology (GTEC) in South Korea. The solution of activating industry-university cooperation by GTEC is to be determined, and the major accomplishment of industry-university cooperation is to be presented.

## Introduction

As a new economic paradigm of creative economy from industrial era, information era, and informational foundation economy arrives, necessity of creating a new growth engine through “activation of industry-university cooperation” comes to the fore (Cho & Jeon, 2011; Jung, 2014). In the era of creative economy centered on creativity and innovation based on “knowledge and technology” from traditional economic growth strategy through increase of labor and investment capital, the academic-industrial cooperation shall be invigorated for national development and economic growth. As uncertainty of technological innovation is increased, necessity of establishing virtuous cycle between academy and industry and cooperative businesses for reconsideration of innovative competence has been raised (Kim, Kim & Kim, 2014). In promotion of the strategy of technological innovation, the innovative resource by the external host of innovation (college, research institute, and corporation) shall be networked through the strategy. Furthermore, the establishment of virtuous cycle through innovative network between academy and industry and cooperative businesses is important. To establish the national development and economic growth in the era of creative economy based on knowledge, this study is to reconsider the solution of activating industry-university cooperation through the case of Gyonggi College of Science and Technology (GTEC), the representative community college in South Korea. In the section two, the solution of activating industry-university cooperation by GTEC is to be determined, and in the section three, the major accomplishment of industry-university cooperation is to be presented. At last in the section four, the conclusion is to be proposed.

## The Solution of Activating Industry-University Cooperation by GTEC

Since its establishment and continuous support in 1999 by the Ministry of Trade, Industry, and Energy, GTEC has performed the following activities to accomplish invigoration of industry-university cooperation. First, by administrating the specialized enterprise partnership system by GTEC, the college leads activation of industry-university cooperation. The enterprise partnership system refers to a comprehensive support system to support through “exclusive professor” for research and development, technology, management, and legal consultant, and use of experimental and test equipment. By operating the enterprise partnership system, a college supports information for new technology and industrial policy to industries. Also, a college supports for consultation and technological instruction through professors. From the industrial side, the employment agency for graduate is provided, OJT workspace for current student is provided, OJT for professor is provided, educational curriculum is advised to be improved for each program, and some join as affiliated professors in each major. Second, in administration of college, various policies for industry-university cooperation are being used. Above all, the specialization of industry-university cooperation for college vision is insisted on as the first strategy, and the importance of industry-university cooperation is acknowledged to all faculty members (Figure 1). Furthermore, in evaluation of professors, two tracks – regular and industry-university cooperation—are used to grant the motive to professors concentrating on industry-university cooperation.





**Figure 1. Green GTEC vision 2020**

Third, by using the division of industry-academy cooperation, or a specialized administrative structure for industry-university cooperation, activation of industry-university cooperation is being pushed forward continuously. The division of industry-university cooperation established in 2004 for the innovative system of industry-university cooperation reorganizes education and research system of college deviated from industrial workspace and is being operated to have practical industry-university cooperation. Especially, the small and medium business industry-academic cooperation center for cooperation with small and medium businesses and the business incubator center to support firms with excellent venture item including student venture firm are being operated in the division of industry-university cooperation. Fourth, the locational condition of having college is being used actively. GTEC is located about 30 km southwest from Seoul, the capital of South Korea. Sihwa-Ansan National industrial Complex, the largest one in South Korea, is located at this place. In this complex, over 300,000 employees work in over 20,000 small and medium businesses (KICOX, 2016). Since the largest national industrial complex is located near college, various industry-university activities are being performed with these firms.

#### **Achievements of Industry-University Cooperation by GTEC**

Since its foundation in 1999, GTEC has achieved the following performances in industry-university cooperation. At first, the total annual amount of order of business is 10 million dollars, showing an excellent performance and included in TOP 5 as a community college (Higher Education in Korea 2016). This is practical as it deviates from the conventional manual method of business order (business announcement → business application), directly explores a new item, promotes an aggressive industry-university cooperation marketing, and continues site-adherence industry-university cooperation activity. Second, the Ministry of Education, leading the school to achieve an excellent business performance, has selected it for various businesses. Our college has been selected for the specialized college of Korea for 5 years from 2014. This business reflects a strong will to promote high education of current government. Furthermore in 2012, for the first time among metropolitan colleges in Korea, our college has been selected for the “World Class College Business.” This business refers to a business to select and promote the best community colleges in Korea with continuous growth possibility and global job education competence. Third, the college has achieved the most number of selections by ordering total 26 projects (total 3 million dollars cost) from industry-university cooperation technological development business supported by the Small and Medium Business Administration. Due to this, our college has ensured the title of being selected for the most times for 5 consecutive years in the field of industry-university cooperation technological development business. This business uses excellent human resources and equipment from college and research institutes by the small and medium business to resolve difficulties of production site and to develop new technology and to become a technological innovation firm (SMBA, 2016).

#### **Conclusion**

In this study, to implement national development and economic growth in the era of creative economy under knowledge, the case and performance of industry-university cooperation by GTEC, the representative community college in Korea, were evaluated to reconsider the solution of activation industry-university cooperation. To invigorate academic-industrial cooperation, a comprehensive support system to promote industry-university cooperation shall be established. Through the exclusive structure to promote industry-university cooperation, free



information interaction between network and host of industry-university cooperation shall be implemented. Moreover, a college shall put effort for promotion of demand-oriented human resource promotion and technological development. And, a firm shall actively require and support requirements and necessary technology to colleges.

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# DOES FIRM CHARACTERISTICS AND ENTREPRENEURIAL PROFILE AFFECT PERFORMANCE OF MICRO AND SMALL ENTERPRISES IN CAMBODIA? – AN EMPIRICAL STUDY

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An attempt is made in this study to know whether firm characteristics and entrepreneurial profile affect the performance of the micro and small enterprises (MSEs) in Cambodia. To carry out the present study, from a randomly selected province of Cambodia, namely Svay Rieng province, all the registered MSEs with the Provincial Department of Industry and Handicraft were taken into account. While factors such as age of enterprise, number of current employees, forms of business enterprise, location of enterprise, sector of enterprise, level of technological advancement and availability of enterprise business plan were taken under the firm characteristics; factors like enterprise owner's age, gender, marital status, educational level, past experience and family background were considered under the entrepreneurial profile. The empirical results of the study show that both the set of characteristics of enterprise and entrepreneurial profile were responsible for considerable variation in MSEs' performance. Four firm characteristics such as location, sector, level of technological advancement and enterprise business plan and four factors of entrepreneurial profile, namely educational level, past experience, family background and age of enterprise owner had significantly affected the performance of selected MSEs. The implication of the study is that owners and managers of MSEs while developing suitable strategies should give importance to the factors affecting the performance of their enterprises.

## Introduction

In the present economic scenario, micro and small-scale enterprises (MSEs) as a prime driver for poverty reduction and employment generation, play vital role in ensuring sustainable economic development. In relatively poor developed areas, in addition to farm employment, MSEs create a large number of non-farm employments and income opportunities for the people. Microenterprise programs have the ability to reach low-income and disadvantaged populations effectively and to raise incomes and asset levels among the poor (Litzenberg, 1999). Though the business of microenterprises tend to be very small, yet their contribution towards socio-economic development is widely recognized. Thus, in many developing economies in the world, at present, the growth of microenterprise provides the most vibrant and growing economic activities (Dash, 2013).

MSEs generally require small capital and little sophisticated managerial and technical skills. In Cambodian context, MSEs are the seedbeds for a broad development of the private sector ensuring socio-economic development. International Finance Corporation (2010) viewed small and medium enterprises are a crucial part of Cambodian economy, contributing to both economic and social development. It has been felt that in rural Cambodia, individuals have been able to build their own microenterprises into operations that create not only just a livelihood for themselves and their families, but also to create employment opportunities for other members in their communities. Thus, fostering entrepreneurship is a crucial factor in energizing the rural economy (Petrin & Gannon, 1997).

The primary rationale to boost the entrepreneurs to create microenterprises in the rural areas is to reduce poverty. However, the performance of rural enterprise is often highly correlated with several entrepreneurial characteristics, managerial processes and effective support systems – the three dimensions deemed to collectively determine business success (Kanungo, 1998). Successful entrepreneurs and their firms seem to come in different shapes and sizes, but they appear to share some common characteristics, which are related to their personal qualities and integrated management of the firm in the context of a dynamic and competitive business environment (Edralin, 1998).

The performance of SMEs can be measured in various ways, and the most frequently suggested approaches include sales, employment, assets, market shares, physical outputs as well as profits. Bakar (2007) measured financial profitability, growth and satisfaction for the performance of SMEs success in the study on factors contributing to the success of biotechnology SMEs in Malaysia. Chong (2008) conducted a study on measuring



performance of small-and-medium sized enterprises and categorized the factors that affect their performance into five perspectives such as profits, revenues, returns on investment (ROI), return on sales, and return on equity (RoE).

Several researches have been carried out on the factors influencing the performance of micro, small and medium enterprises in different parts of the world. Veskaisri *et al.* (2007) investigated the linkage between strategic planning and growth of small and medium enterprises (SMEs) in Thailand which revealed that certain demographic factors such as age and education level are significantly and positively related to the decision to make strategic planning. Naituli *et al.* (2008) examined entrepreneurial characteristics of women owned enterprises in Meru North and Meru Central districts in Kenya, and how these impact on the growth of these enterprises. Findings from the study revealed that entrepreneurial characteristics such as age, education, attitudes and perception have a significant relationship on the growth of micro and small-scale enterprises in the study area. Other characteristics that were critical to the growth of MSEs include startup capital, environment, both business and regulatory. Woldie *et al.* (2008) aimed to explore the influence of the owner/manager and firm characteristics on the growth of the firm in Nigeria. Considering five locations, namely Lagos, Abuja, Ibadan, Anambra and Kaduna, the result of the study revealed that SME growth is largely influenced by firm characteristics such as age, sector, legal status and number of employees. Owner/manager characteristics proved to influence growth which include age, education, previous experience, and three motivation variables, namely finance, employment creation and self-fulfillment. Owner/manager characteristics such as gender and two motivational variables such as desire to be independent and job satisfaction were not seen to exert influence on SME growth. Kader *et al.* (2009) presented the determinants of small business success as perceived and experienced by rural entrepreneurs under the One-District-One-Industry (ODOI) program in Malaysia. The study found that the external factors are more dominant than the internal ones in contributing to the business success of the ODOI entrepreneurs. All the external factors extracted by factor analysis narrow down to the important role of the government in promoting small business success. Chittithaworn *et al.* (2011) attempted to identify factors that are affecting business success of SMEs in Thailand. The eight factors taken for study that influence the SMEs business success were SMEs characteristics, management and know-how, products and services, customer and market, the way of doing business and cooperation, resources and finance, strategy, and external environment. The result had shown that the most significant factors that affect the business success of SMEs were SMEs characteristic, customer and market, the way of doing business and cooperation, resources and finance, and external environment. Islam *et al.* (2011) examined the effect of characteristics of entrepreneur and firm on the business success of small and medium enterprises in Bangladesh and found out that entrepreneurs' characteristics have significant effect on business success of SMEs in Bangladesh. Further, Bangladeshi SMEs should have a strong social network and good government relationship in order to ensure their business success. Jasra *et al.* (2011) attempted to examine the role of key factors in the success of SMEs in Pakistan in different lines of business from service to manufacturing which revealed that financial resources, technological resources, government support, marketing strategy and entrepreneurial skill have positive and significant impact on the business success. The study carried out by Babajide (2012) in Nigeria found that firm level characteristics such as business size and business location have positive effect on enterprise growth. Ganyaupfu (2013) studied the effects of entrepreneur and firm characteristics on success of SMEs in Gauteng province of South Africa which revealed that managerial competence, educational qualifications, work experience, location, size of the firm, period the enterprise has operated and business sector have significant positive effects on the success of SMEs. Sarwoko *et al.* (2013) empirically tested the influence of entrepreneurial characteristics and competencies on business performance on SMEs in Malang regency East Java, which indicated that the entrepreneurial characteristics have a significant influence on business performance. In a study carried out in Cambodia by Dash (2013) revealed the association between individual and family characteristics with entrepreneurial behavior of the selected micro-entrepreneurs. Karel *et al.* (2013) made an attempt to determine the key factors influencing profitability in rural microenterprises in Poland in which it was revealed that the success of the rural food processing microenterprises in Eastern Europe is mostly related to its owner/manager (his/her age and risk-taking) and enterprise characteristics (location, size, ICT advancements and certificates for products). In Cambodian context, Dash (2014) attempts to study the differences in entrepreneurial competencies as factors leading to entrepreneurial success and examine the relationship between age, education, family type and migrant groups with entrepreneurial competencies of the selected micro-entrepreneurs in rural areas.

The literature reveals a number of factors such as characteristics of enterprise and entrepreneur, management functions, marketing factors, business environment and others have been influencing the performance of the micro and small enterprises. Considering the case of Cambodia, it is vital to understand the influence of firm characteristics and entrepreneurial profile on the performance of the micro and small enterprises (MSEs) for developing suitable governmental policies to strengthen the microenterprises as well as helping the enterprises to build their competitive strengths.



The paper is structured as follows: in section two and three the objectives and hypotheses of the study are respectively presented. In section four, the methodology adopted in the study is given and the section five examines the influence of firm characteristics and entrepreneurial profile on the business performance of the selected micro and small enterprises. Finally, in the last section, the conclusion of the study is presented.

### **Objectives of the Study**

The main objective of the study is to know the influence of firm characteristics and entrepreneurial profile on the performance of the micro and small enterprises (MSEs) in Cambodia.

### **Hypotheses of the Study**

Based on the objectives, the study intends to test the following null hypotheses:

*Ho 1: Firm characteristics (age of enterprise, number of current employees, form of enterprise, location of enterprise, sector of enterprise, level of technological advancement and enterprise business plan) do not significantly influence the performance of the micro and small enterprises in the study area.*

*Ho 2: Entrepreneurial profile (age, gender, marital status, level of education, past experience and family background of the entrepreneur) does not significantly influence the performance of the micro and small enterprises in the study area.*

### **Research Design**

Cambodia presently has 25 provinces including the capital city of Phnom Penh. For the present study, Savy Reing province was randomly selected. This province has its proximity to the border of Vietnam where great potential for business development exists. In addition, with its geographic advantages, the province has promoted industrial development through the establishment of four Special Economic Zones (SEZs). The economy of Svay Rieng province consists basically of agricultural farming, horticulture, fishery and garment production, etc. and in the recent past, a number of micro and small enterprises have grown in the province based on these economic activities. However, due to either the absence of or limited studies, it is unknown that to what extent the performance of such enterprises are related with the characteristics of the enterprises as well as with the entrepreneurial profile. Thus, in this context, the study has been undertaken at a micro level.

For the purpose of the study, all the 60 registered micro and small enterprises in the Provincial Department of Industry and Handicraft were taken into consideration. These enterprises were spread into two cities and six districts of the province. In order to determine the relationship between the characteristics of the MSEs as well as entrepreneurial profile with the performance of the MSEs (indicated by the level of profits), regression analysis has been carried out. Under the criterion of firm characteristics, factors such as age of enterprise, number of current employees, form of enterprise, location of enterprise, sector of enterprise, level of technological advancement and enterprise business plan were taken into account. Similarly, factors like age, gender, marital status, educational level, prior experience and family background of the enterprise owner were taken under entrepreneurial profile.

### **Results of the Study**

#### **Characteristics of the MSEs**

Among the 60 registered MSEs, around 42 percent had less than five years old and 80 percent had employed up to six persons to work in the enterprise. Besides, the highest percentage, *i.e.*, around 53 percent MSEs were found to be engaged in family business. While around 33 percent SMEs were engaged in the food, beverage and tobacco category, the non-metallic mineral and basic metal category enterprises were around 27 percent. Moreover, 77 percent MSEs were less technologically advanced and around 88 percent did not have any business plan.

#### **Influence of Firm Characteristics on the Performance of MSEs**

The regression result reveals that the characteristics of MSEs had played a significant role in determining their performance in the study area. The value of F (8.37, significant at 0.00 (one percent) level, suggests that the set of independent variables (age of enterprise, number current employees, form of business enterprise, location of enterprise, sector of enterprise, technological advancement, and enterprise business plan) as a whole was contributing to the variation in MSEs performance. The four factors which affected significantly to the performance of MSEs were location of enterprise (10 percent level), sector of enterprise (five percent level), technological



advancement (five percent level) and enterprise business plan (one percent level). The other three independent variables such as age of enterprise, number current employees and form of business enterprise did not significantly influence the performance of MSEs. Thus, based on the findings, the null hypothesis, *i.e.*, firm characteristics (age of enterprise, number of current employees, form of enterprise, location of enterprise, sector of enterprise, level of technological advancement and enterprise business plan) do not significantly influence the performance of the micro and small enterprises in the study area is hereby rejected.

**Table 1. Influence of Firm Characteristics on the Performance of MSEs - Regression Results**

Regression Coefficients/ Constant	Values of the regression coefficients/ constant	't' value	Level of Significance (P – Value)	R <sup>2</sup>	$\bar{R}^2$	F	Significance of F
$\alpha$	26383.38	3.12	0.00	0.53	0.45	8.37	0.00
$\beta_1$	45.64	0.55	0.58				
$\beta_2$	98.24	1.19	0.24				
$\beta_3$	-1525.75	-1.18	0.24				
$\beta_4$	-4770.25	-1.82	0.07				
$\beta_5$	-676.44	-2.08	0.04				
$\beta_6$	3134.53	2.29	0.03				
$\beta_7$	-10762.38	-4.54	0.00				

Note: Y = Dependent variable (performance of enterprise - profit)

$\alpha$  = Constant

$\beta_1$  = Regression coefficient of log X<sub>1</sub>, where X<sub>1</sub> is age of enterprise.

$\beta_2$  = Regression coefficient of log X<sub>2</sub>, where X<sub>2</sub> is number of current employees.

$\beta_3$  = Regression coefficient of log X<sub>3</sub>, where X<sub>3</sub> is form of enterprise.

$\beta_4$  = Regression coefficient of log X<sub>4</sub>, where X<sub>4</sub> is location of enterprise.

$\beta_5$  = Regression coefficient of log X<sub>5</sub>, where X<sub>5</sub> is sector of enterprise.

$\beta_6$  = Regression coefficient of log X<sub>6</sub>, where X<sub>6</sub> is level of technological advancement of enterprise.

$\beta_7$  = Regression coefficient of log X<sub>7</sub>, where X<sub>7</sub> is enterprise business plan.

Source: Own Computation

### Entrepreneurial Profile

Among the surveyed MSEs entrepreneurs, the highest, *i.e.*, 70 percent were in the age-group of 25 to 49 years and around 82 percent were male entrepreneurs. Further, around 92 percent were married and 52 percent had completed their secondary level of schooling. Regarding prior experience, it was revealed that around 82 percent had business experience and 90 percent had fallen in the nuclear family category.

### Influence of Entrepreneurial Profile on the Performance of MSEs

As revealed from the regression result the entrepreneurial profile had played a significant role in determining the performance of MSEs in Svay Rieng province. The value of F (11.79), is significant at 0.00 (one percent) level indicating thereby that the set of independent variables under the entrepreneurial profile (age, gender, marital status, educational level, previous experience and family background) as a whole was contributing to the variation in MSEs performance. The four factors which affected significantly to the performance of MSEs were age of owner (10 percent level), education level (one percent level), prior experience (five percent level) and family background (five percent level). The other two independent variables such as gender of owner and marital status did not significantly influence the performance of MSEs. Thus, based on the above findings, the null hypothesis, *i.e.*, entrepreneurial profile (age, gender, marital status, level of education, past experience and family background of the entrepreneur)



does not significantly influence the performance of the micro and small enterprises in the study area is hereby rejected.

**Table 2. Influence of Entrepreneurial Profile on the Performance of MSEs - Regression Results**

Regression Coefficients/ Constant	Values of the regression coefficients/ constant	't' value	Level of Significance (P – Value)	R <sup>2</sup>	$\bar{R}^2$	F	Significance of F
$\alpha$	-6143.05	-0.76	0.45	0.57	0.52	11.79	0.00
$\beta_1$	142.70	1.96	0.06				
$\beta_2$	-1561.87	-0.88	0.39				
$\beta_3$	-939.94	-0.56	0.58				
$\beta_4$	5917.77	6.55	0.00				
$\beta_5$	3833.01	2.02	0.05				
$\beta_6$	-5895.81	-2.39	0.02				

Note: Y = Dependent variable (performance of enterprise - profit)

$\alpha$  = Constant

$\beta_1$  = Regression coefficient of log X<sub>1</sub>, where X<sub>1</sub> is age of owner of the enterprise.

$\beta_2$  = Regression coefficient of log X<sub>2</sub>, where X<sub>2</sub> is gender of the enterprise owner.

$\beta_3$  = Regression coefficient of log X<sub>3</sub>, where X<sub>3</sub> is marital status of the owner.

$\beta_4$  = Regression coefficient of log X<sub>4</sub>, where X<sub>4</sub> is level of education of the owner.

$\beta_5$  = Regression coefficient of log X<sub>5</sub>, where X<sub>5</sub> is past experience of the owner.

$\beta_6$  = Regression coefficient of log X<sub>6</sub>, where X<sub>6</sub> is family background the owner.

Source: Own Computation

### Conclusion

MSEs play a vital role in the socio-economic development of a country through creation of employment, generation of income along with reduction of poverty. The performance of MSEs are, however, influenced by both firm characteristics as well as entrepreneurial profile. This study had attempted to examine the extent to which firm characteristics such as age of enterprise, number of current employees, form of enterprise, location of enterprise, sector of enterprise, level of technological advancement and enterprise business plan; and entrepreneurial profile such as age, gender, marital status, educational level, prior experience and family background of the enterprise influence the performance of MSEs. The empirical evidence shows that both firm characteristics as well as entrepreneurial profile significantly influence the performance of the micro and small enterprises in the study area. Thus, the findings have implications for practitioners, especially, for owners and managers of MSEs in ensuring a better performance of their enterprises by developing appropriate strategies in the competitive market place.

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# VIDEO SURVEILLANCE SYSTEM: CLIENTS, EMPLOYEES AND SUPERVISORS PERSPECTIVES

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The study was descriptive employing a quantitative-qualitative approach. The respondents were the clients, employees and supervisors of the said municipality. The extent of the implementation of video surveillance system as perceived by the clients indicated with services, accommodation and security and transparency, while on the employees it indicated role responsibility and employee behavior. Data were statistically treated, analyzed and interpreted to come up with quantitative analysis. To support the findings, interview data were transcribed and interpreted using thematic analysis. The study revealed that the extent of the implementation of Video Surveillance System as perceived by the clients and employees were very high. It was also discovered that the perceptions of the employees on the extent of the implementation of the video surveillance system does not vary significantly when they were grouped by department, gender and educational attainment. There was a significant difference on the extent of the implementation of the video surveillance system as perceived by the clients when grouped according to department and gender. However, when grouped by educational attainment of the clients, the perception did not vary significantly. The employees, clients and supervisors were very much in favor with the presence of CCTV for it improved the performance, security and safety, however, they emphasized that CCTV should have a clear policy from the top management as to proper management of recording and safekeeping, installation of high quality CCTV, and institutionalizing the Civil Security Unit.

## Introduction

### Rationale of the Study

The development of electronic monitoring and surveillance has increased dramatically over the last decade and now pervades all aspects of everyday life (Watt, 2009). According to Goldstein (2010), Video Surveillance System ensures the safety and security expectations of customers and employees, reduce and discourage illegal conduct, and limit the potential liability for damages due to fraud, theft or inappropriate operational procedures. Thus, this study will determine the extent of implementation of Video Surveillance System and its perceived effectiveness to the clients, employees and supervisors in the Local Government Unit of Monkayo.

### Research Objectives

The study aims to find out the extent of the implementation of Video Surveillance System as perceived by the clients in terms of services, accommodation, and security and transparency, and for employees on role responsibility and employee behavior; determine the significant difference on the extent of the implementation of Video Surveillance System when respondents are grouped according to gender, educational attainment and department; and, determine the feedbacks of the clients, employees and supervisors through an interview.

## Methods



**Figure 1. Data Gathering**



## Descriptive Design



**Figure 2. Data Analysis**

## Results and Discussion

**Table 1. Summary on the Extent of Implementation of Video Surveillance System as Perceived by Employees**

Indicators	Mean	Description
Role Responsibility	4.51	Very High
Employee Behavior	4.52	Very High
<b>Overall Mean</b>	<b>4.52</b>	<b>Very High</b>

The result implies that the employees of the Local Government Unit perceived the presence of the video surveillance system through implementing very well their role responsibility as employees and have shown very commendable behavior in dealing with their clients and co-workers as well. The result conforms to the theory of Coultrup & Fountain (2012), stating that the diffusion of computers and information technology will help organization in many ways.

**Table 2. Summary on the Extent of Implementation of Video Surveillance System as Perceived by Clients**

Indicators	Mean	Description
Services	4.67	Very High
Accommodation	4.65	Very High
Security and Transparency	4.63	Very High
<b>Over all Mean</b>	<b>4.65</b>	<b>Very High</b>

The result implies that the clients are able to observe that with the presence of the video surveillance, the employees of the Local Government Unit have provided them always the accuracy of the services, the accommodation has been manifested properly, and the security and transparency is assured.

### Test of Significant Difference

For employees, the perceptions of the employees on the extent of the implementation of the video surveillance system do not vary significantly when they are grouped by department, gender and educational attainment. And for clients, there is a significant difference on the extent of the implementation of the video surveillance system as perceived by the clients when grouped according to department and gender. However, when grouped by educational attainment of the clients, the perceptions do not vary significantly.

The emerging themes in the study for advantages of CCTV are: improvement on the services, lessen the violation of corruption and inefficiency, lead to a more productive workplace, channeling of work is done accurately, control gossips and personal matters, discourage theft, validate the performance of the employees, Enhance the safety and security, deterrent for bad behavior of clients and employees. However, the disadvantages of CCT are: privacy of the workplace and Costly. Suggestions to CCTV are: Install high-quality CCTV, add more CCTVs, proper management of recording and safekeeping, institutionalize the Civil Security Unit, incorporate CCTV in the performance evaluation system, and clear-cut policy on CCTV installation through the Office of the Mayor.



## Recommendations

The following are recommended: (1) The extent of the implementation of video surveillance system be maintained for it gives enhancement on the performance, behavior, safety and security of the workplace. (2) The video surveillance cameras and equipment must be upgraded and regularly checked up to ensure its capturability/extensive digital quality and efficient recording system. (3) The video surveillance be installed in all offices of the Local Government Unit. (4) The video surveillance be used to its full extent. This means by creating a Civil Security Unit under the Office of the Mayor and must be strengthened by assigning personnel whose tasks mainly is for CCTV monitoring, recording and apprising response to crimes, incidents or activity within all the offices of the municipal hall. (5) There must be a control room for the equipment embodying restrictions and policies to secure monitoring, recording and privacy of the workplace. (6) The video surveillance system must be incorporated in the employees' performance evaluation system in the LGU and must take part with the assessment and/or intervention from the Human Resource Management Unit. (7) Related study may be conducted.

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# EXPLORING THE ENTREPRENEURIAL CONDITION OF STREET FOOD VENDORS IN POBLACION, MONKAYO, COMPOSTELA VALLEY: A MIXED METHOD RESEARCH

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Street food vendors across the world are significantly recognized for their positive impact in the creation of new businesses and in providing employment or livelihood. In the essence of entrepreneurship, street food vendors foster creativity, innovation and self-employment towards alleviating poverty and in solving societal problems. Thus, this study in local setting will explore the entrepreneurial condition of street food vendors in Poblacion, Monkayo, Compostela Valley. It is descriptive design employing mixed method research (concurrent approach) to further examine and illustrate findings in tabular form and with the use of qualitative data to help the researcher achieve more concrete study through thematic analysis. Purposive sampling technique is being used in which the quantitative aspect made use of questionnaire on the level of entrepreneurial skills indicated with personal characteristics; building great relationships; making good decisions and creative thinking; and practical application. For in-depth interviews, five of them were selected. The result revealed that the level of entrepreneurial skills of street food vendors is very good. It was also discovered that the level of entrepreneurial skills does not vary significantly when respondents are grouped according to years of operation, sanitary compliance, means of capital and gross monthly income. As this converges qualitative data, the result implies that in doing business, street food vendors are mainly concerned on means of capital; customer relationship; food quality and safety; and business operation. In the difficulties and challenges while engaging business, the study revealed that unfavorable weather condition; ineffectual government support; copycat competition; constant fatigue caused by spending long hours in the sun and/or unpredictable weather conditions; customer count & off-season of business; erratic supply of raw materials; and no other source of income are the emergent themes. It is a main purpose of this study to create awareness about the multitude of opportunities that street food business can provide in the locality. It is hoped that policy makers will recognize such opportunities and provide a supporting and enabling environment for entrepreneurial sustainability and development.

## **Introduction**

Street food vending as a global phenomenon, is a vital community development tool because it plays a very important socio-economic success in many countries (Pill, 2011 & Njaya, 2014). It forms a social and economic life of a community, gives an occupation that existed for many years and considered as a cornerstone of many community's historical and cultural heritage (Nirathron, 2006). In the Philippines, street food vendors are small-scale operatives or micro-entrepreneurs who form a part range of food sold even in small communities (Draper, 1996). According to Fernandez (2002), they engaged mainly grilling, frying and steaming, while others simply require mixing of ingredients to prepare like fish ball, kwek-kwek, isaw, among others. As Monkayo College of Arts, Sciences and Technology is offering business administration education program, this study will explore their entrepreneurial condition and converge viewpoint to extend knowledge, ideas and methods in coping the challenges, improve business performance and sustainability for street food vendors through Community Extension Program. It is a main purpose of this study to create awareness about the multitude of opportunities that street foods can provide in the locality. It is hoped that policy makers and development personnel recognize such opportunities and provide a supporting and enabling environment for entrepreneurial development and sustainability.

## **Research Problem**

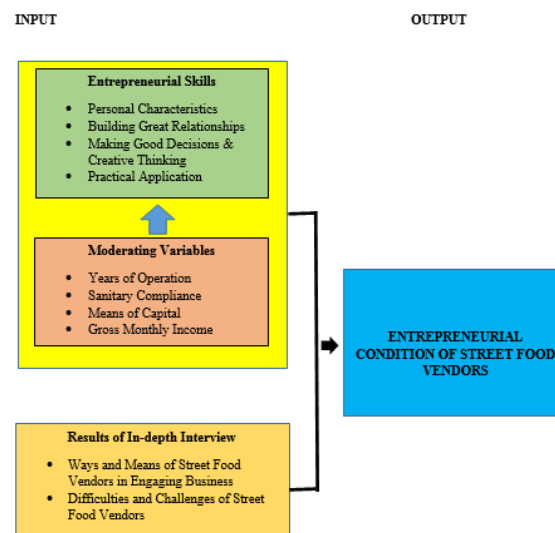
This study aimed to determine the level of entrepreneurial skills of street food vendors and describe their conditions in Poblacion, Monkayo, Compostela Valley. Specifically, it sought to answers to the following questions: (1) What is the profile of street food vendors in Poblacion, Monkayo, Compostela Valley?; (2) What is the level of entrepreneurial skills of street food vendors in terms of personal characteristics, building great relationships, making good decisions and creative thinking, practical application?; (3) Is there a significant difference on the level of entrepreneurial condition of the street food vendors when analyzed according to years of operation, sanitary compliance (with or without certificate), means of capital (personal or lending), gross monthly income (small, medium, or large); (4) What are the ways and means of street food vendors in engaging business?; and (5) What are the difficulties and challenges encountered by street food vendors? Our central hypothesis is that there is no



significant difference in the level of entrepreneurial skills of street food vendors when respondents are grouped according to years of operation, sanitary compliance, means of capital and gross monthly income.

### Theoretical and Conceptual Framework

This study was anchored on the Theory of Petty Trading and Economic Dualism by Karl Marx. Nirathron (2006) asserts that this theory states that petty commodity production is pre-capitalist and has low division of labor and little specialization. This theory identifies the activity of street food vendors based on the level of entrepreneurial skills and their prevailing conditions towards entrepreneurial development. Such theory is supported by the concept of Drucker that entrepreneurship was strongly associated with the creation of a business and therefore it was argued that the skills required to achieve this outcome could be developed through training, experience and other requirements. More recently entrepreneurship is being viewed as a way of thinking and behaving that is relevant to all parts of society and the economy, and such an understanding of entrepreneurship now requires a different approach to varied skills (Cooney, 2012). In this study, the level of entrepreneurial skills of street food vendors is indicated with personal characteristics; building great relationships; making good decisions and creative thinking; and practical application. Personal Characteristics, in this study, refers to own attributes that successful entrepreneurs tend to possess in profusion and usually it refers to being goal-oriented, committed to business, hands-on and willing to thrive on uncertainty and take risks. Building great relationships, in this study, refers to treating other people with kindness, regard, respect and to build and maintain great business relationships that will help entrepreneur find new opportunities and establish network. Making good decisions and creative thinking, in this study refers to the ability to find faster, better and smarter solutions to business concerns and problems including the ability to employ a variety of creative thinking techniques. Lastly, practical application, which means in this study is the life skills for business that needs technical, management and financial capabilities to operate the business. The indicators are adopted from Kauffman FastTrac Entrepreneurship Survey (2012) and the Entrepreneurial Skills Guide Questions published by Mind Tools Limited (1996-2016). The moderating variables are years of operation, sanitary compliance (with or without certificate), means of capital (personal or lending) and gross monthly income (small, medium, or large). Figure 1 displays the schematic diagram of the study.



### Methods

#### Research Design

The researcher's goal of this study is to explore an extensive, deep-rooted comprehension on the prevailing conditions while engaging business of the street food vendors in Poblacion, Monkayo, Compostela Valley. The researcher is using descriptive design employing mixed method research to further examine and recognize the detailed information regarding the problem. The use of mixed method is to focus on both gathering data on numerical and statistical calculation which will help to present and illustrate our findings in tabular form and the use



of qualitative data to help the researcher achieve more concrete study through thematic analysis. According to Creswell (2003), the researcher converges quantitative and qualitative data in order to provide a comprehensive analysis of the research problem through concurrent approach. In this design, the researcher collects both forms of data at the same time and then integrates the information in the interpretation of the overall results. Also, in this design, the researcher nests one form of data within another towards larger data collection procedure in order to analyze different questions or levels of units in a group of respondents.

### **Research Subject**

The respondents of this study are the street food vendors in Poblacion, Monkayo, Compostela Valley. The researchers chose them for they are known heavily on street food vending and to better understand their ways and means of engaging business, their difficulties and challenges and how these affect their conditions in entrepreneurial life. Purposive sampling technique was used in this study being the basic technique in the mixed method sampling strategy. This allows the researcher to discover and describe in detail characteristics that are similar or different across the group. The quantitative aspect made use of purposive sampling and as regards to samples for in-depth interviews, there were five out of them were selected. Mixed method is used as an aid to sampling with questionnaires being used to screen potential participants for inclusion in an interview program (Denscombe, 2008).

### **Research Instruments**

The lists of data collection affiliated with the quantitative inquiry are Questionnaire and for qualitative inquiry is interview. These data collection are presented and observed as follows: Questionnaire is the primary source of obtaining data in this research endeavor. In designing a questionnaire, the researcher ensure that it is valid, reliable and unambiguous (Richards & Schmidt, 2002) applying reliability and validity test. As quantitative aspect of the research, the questionnaire entitled Kauffman FastTrac Entrepreneurship Survey (2012) was adopted and the Entrepreneurial Skills Guide Questions published by Mind Tools Limited (1996-2016). The questionnaire on the level of entrepreneurial skills of street food vendors has the following indicators: personal characteristics, building great relationships, making good decisions and creative thinking and practical application.

The parameter scale used in determining the level of entrepreneurial skills is presented below:

Range Interval	Level	Interpretation
4.50- 5.00	Always	The level of entrepreneurial skills of street food vendors is excellent.
3.50-4.49	Often	The level of entrepreneurial skills of street food vendors is very good.
2.50-3.49	Sometimes	The level of entrepreneurial skills of street food vendors is good.
1.50-2.49	Rarely	The level of entrepreneurial skills of street food vendors is fair
1.00 -1.49	Never	The level of entrepreneurial skills of street food vendors is poor

Interviews were used as the second main type of data collection in the mixed method. Burns (1999) contends that Interviews are a popular and widely used means of collecting qualitative data. Flick (2006) adds that the purpose of interview “is to reveal existing knowledge in a way that can be expressed in the form of answers and so become accessible to interpretation.” There were five respondents included in the interviews.

### **Research Procedures**

The survey questionnaire for entrepreneurial skills was administered among the street food vendors in Poblacion, Monkayo, Compostela Valley. The researcher took charge of the survey and it took 2 weeks to gather the data. After the survey questionnaire was administered, In-depth interviews among the 5 participants were conducted. Quantitative data were statistically treated and analyzed and qualitative data through transcriptions from the interviews were sorted, coded and categorized accordingly.

### **Statistical Treatment**

This study used the mean in order to determine the level of entrepreneurial skills of street food vendors in Poblacion, Monkayo, Compostela Valley. It also used Anova or the Test of Variance to determine the significant difference in the level of entrepreneurial skills of street food vendors.

### **Ethical Consideration**

The ethical consideration was assured by way of hiding the identity of the individual subjects. As to proper organization of samples, coding system was applied so as to serve the purpose of confidentiality.



## Results and Discussion

Included in this part are the results and discussions. The data are presented in tabular forms. Interpretation follows every tabular form for quantitative and qualitative analysis.

**Table 1. Profile Distribution of the Street Vendors**

Demographic Variables	Frequency	Percentage
Years of Operation (mean $\pm$ se)	9.76 $\pm$ 2.48	
1 Month to 5years	7	46.67
6 to 10 years	3	20.00
11 to 15 years	2	13.33
16 to 20 years	2	13.33
More than 20 years	1	06.67
Sanitary Compliance		
With Certificate	11	73.33
Without Certificate	4	26.67
Means of Capital		
Personal	9	60.00
Lending	6	40.00
Average Monthly Gross Income (mean $\pm$ se)	26888.89 $\pm$ 4563.34	
6,000 – 10,000	4	26.67
11,000 – 15,000	2	13.33
16,000 – 20,000	2	13.33
More than 20,000	7	46.67

There are 15 respondents participated in this study and based on Table 1, the demographic variables are years of operation, sanitary compliance, means of capital, and average monthly income. For years of operation, 46.67 percent of the respondents engaged their street food business for one month to five years, followed by six to 10 years of operation with 20 percent, 11 to 15 years and 16 to 20 years with 13.33 percent and more than 20 years with 6.67 percent. For sanitary compliance, street food vendors with certificate is 73.33 percent and without certificate 26.67 percent. For the means of capital, personal capital is having 60 percent and from lending is 40 percent. Lastly, for the average monthly gross income, more than Php 20, 000 comprise 46.67 percent, followed by 6000-10000 of 26.67 percent, and with 11000-15000 and 16000-20000 with 13.33 percent.

### Level of Entrepreneurial Skills of Street Food Vendors

Table 2 shows the summary on the level of entrepreneurial skills of street food vendors. It can be gleaned from the data that the overall mean is 4.33 having a descriptive equivalent of very good. Data revealed that the four (4) indicators are having a descriptive equivalent of very good. Indicator personal characteristics, gets a mean of 4.46; building great relationships, gets a mean of 4.32; making good decisions and creative thinking, gets a mean of 4.22; while the practical application has mean of 4.32. The result implies that street food vendors has manifested the admirable level of entrepreneurial skills and their prevailing conditions towards entrepreneurial development is evident. This conforms to the Theory of Petty Trading and Economic Dualism by Karl Marx as identified by Nirathron (2006) and the theory of Drucker (Cooney, 2012).

**Table 2. Summary on the Level of Entrepreneurial Skills of Street Food Vendors**

Entrepreneurial Skills	Mean $\pm$ se	Description
Personal Characteristics	4.46 $\pm$ 0.11	Very Good
Building Great Relationships	4.32 $\pm$ 0.15	Very Good
Making Good Decision and Creative Thinking	4.22 $\pm$ 0.16	Very Good
Practical Application	4.32 $\pm$ 0.12	Very Good
<b>Overall Mean</b>	<b>4.33 <math>\pm</math> 0.14</b>	<b>Very Good</b>



### **Differences on the Level of Entrepreneurial Skills of Street Food Vendors when Grouped by Years of operation, Sanitary Compliance, Means of Capital, and Monthly Income**

Table 2 presents the test of significant difference on the level of entrepreneurial skills of street food vendors. Analysis of variance (f-test) used to determine the significant difference of the entrepreneurial skills when grouped according to years of operation and monthly income. Independent sample t-test was used to determine the significant difference of the entrepreneurial skills when grouped according to sanitary compliance and means of capital. The results revealed that there is no significant difference on the level of entrepreneurial skills when respondents are grouped according to years of operation, sanitary compliance, means of capital and monthly income. This leads to the acceptance of the null hypothesis stating that there is no significant difference on the level of entrepreneurial skills when respondents are grouped according to years of operation, sanitary compliance, means of capital and monthly income.

**Table 3. Significant Differences on the Level of Entrepreneurial Skills of Monkayo Street Vendors in Terms of:**

<b>Entrepreneurial Skills</b>	<b>Years of Operation</b>	<b>Sanitary Compliance</b>	<b>Means of Capital</b>	<b>Monthly Income</b>
	f-value (p-value)	t-value (p-value)	t-value (p-value)	f-value (p-value)
Personal Characteristics	0.66 (0.59)	1.53 (0.15)	0.76 (0.46)	0.11 (0.95)
Building Great Relationships	0.30 (0.83)	1.72 (0.11)	1.16 (0.27)	1.22 (0.35)
Making Good Decision and Creative Thinking	1.03 (0.41)	1.23 (0.24)	1.14 (0.27)	0.57 (0.65)
Practical Application	2.11 (0.16)	0.72 (0.49)	0.43 (0.68)	0.20 (0.89)

To best understand the research problem, aside from data collection that involves gathering numeric information (on instrument) it also employed text information (interviews) so that the final database represents both quantitative and qualitative information. Thus, for a thorough understanding of the qualitative data, the researchers organized the order of themes, tallied according to the most number of responses that the idea carries out. Each table corresponds to the research questions being answered and will be elaborated and on the following paragraph.

Table 4 indicates four themes of responses indicated by the respondents, summarizing the ideas as to the ways and means of street food vendors in engaging business.

**Table 4. The Ways and Means of Street Food Vendors in Engaging Business**

A. The Means of Capital
B. Customer Relationship
C. Food Quality and Safety
D. Business Operation

Most of the respondents have either from personal, from microlending or unlicensed lenders (5-6) used as capital. For assuring excellent customer relationship, unfortunately for most businesses, they are making lots of customer retention mistakes. They don't know how to create a customer experience that improves customer service and increases satisfaction. With the food quality and safety issues, street food vendors improved knowledge about sanitation, food hygiene and nutritional value of food. Unsuccessful ventures were attributed to factors such as lack of confidence, laziness, lack of business knowledge, which is not knowing what kinds of food to sell and routing problems. Vendors also pointed out that over-investment; lack of knowledge in cost-benefit calculation; sources of cheap materials; and knowledge on food were among factors that contributed to failure on business. In this case, the street food vendors, emphasized that they need to be good managers on their business.



**Table 5. The Difficulties and Challenges of Street Food Vendors in Engaging Business**

The table below indicates eight themes of responses indicated by the respondents, summarizing the ideas as to what are the difficulties and challenges of street food vendors in engaging business.

A. Unfavorable Weather Condition
B. Ineffectual Government Support
C. Copycat Competition/New Entrants
D. Constant Fatigue caused by spending long hours in the sun and/or unpredictable weather conditions
E. Customer Count & Off-Season of Business
F. Erratic Supply of Raw Materials
G. No Other Source of Income

When it is raining, extreme heat or even unpredictable weather conditions, the street food vendors take it as one of the difficulties in engaging business on streets. In the context of ineffectual government support, it is addressed that the government should take concerns of street food vendors by facilitating access to suitable spaces for vending, institutional credit, improved skills and social security linkages. The street food industry is a source of livelihood to thousands of the poor, technical support and services through training and additional capital must be available to them. For competition, street food vendors tend to provide same product consequently leading to too much duplication which sometimes led to closure of some businesses and even reducing prices as strategy to counter competition. On the level of work, constant fatigue caused by spending long hours in the sun and/or unpredictable weather conditions take a risk on health of the street food vendors. Off-season of business just like rainy season or summer will also affect the operation of business. It is a problem of many street food vendors in Poblacion, Monkayo also when the raw materials are not available locally.

### Recommendations

Findings of the study indicates the following six recommendations: (1) Strengthen the Monkayo Street Food Vendors Association and organize an annual Street Food Festival in Monkayo, Compostela Valley. (2) Seminar with Social Security System and Philhealth to come up with Life and Health Insurance. (3) All food preparation premises must be registered with the Municipal Health Office. Street food vendors coming into contact with food must have a series of food hygiene training including Health Certificate Issuance. Municipal Health Office should implement and maintain a documented food hygiene management system based on the principles of hazard analysis & critical control points. A health & safety risk assessment must be carried out by the street food vendors through regular monitoring of the Municipal Health Office. (4) In line with Republic Act 9003, the street food vendors should have a regular updates/seminar with sanitation and solid waste management. (5) Seminar-workshop in Product Development/Packaging, Adding Value to Products, Additional Ventures to create Multiple Streams of Income, Bookkeeping, Business Plan among others through the Community Extension Program of Business Administration of Monkayo College of Arts, Sciences and Technology for the Street Food Vendors. The Community Extension Project should be created and will be launched as Street Food Sustainability Project. (6) Coordinate with the Department of Labor and Employment and Department of Trade and Industry in terms of livelihood programs/capital assistance and review policies on awarding and monitoring.

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