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**What is Project Success: A Literature Review**

Guru Prakash Prabhakar  
Bristol Business School  
University of the West of England  
Coldharbour Lane, Frenchay Campus  
Bristol- BS16 1QY, UK  
Tel: 44-117-328-3461   E-mail: guru.prabhakar@uwe.ac.uk

**Abstract**

Most of the projects we hear of in media are either over budget, late or are simply not good enough and still different lobbies of people claim that those projects have been successful. Neither the practitioners nor the academicians seem to agree on what constitutes project success. It seems to be a rather elusive concept. This paper attempts to put forth the points of views of different researchers in this field.

**Keywords:** Project Success, Project Manager

There is wide divergence of opinions in this field; the only agreement seems to be the disagreement on what constitutes ‘project success’. (Murphy, Baker & Fisher, 1974; Pinto & Slevin 1988; Gemuenden & Lechler, 1997 and Shenhar, Levy, and Dvir 1997).

De Wit (1988) and other writers distinguish between project success (measured against the overall objectives of the project) and project management success (measured against the widespread and traditional measures of performance against cost, time and quality). The second distinction is also important – it is the difference between success criteria (the measures by which success or failure of a project or business will be judged) and success factors (those inputs to the management system that lead directly or indirectly to the success of the project or business).

Rockart (1979) developed a three step procedure for determining which factors contribute to meeting organizational goals. His study reveals that many executives tend to link in terms of “what does it take to be successful” in their business rather than in terms of purposes, objectives, and goals. Consequently the key question in this method is, “what does it take to be successful in the business?” The three main steps in the process are:

1. Generate critical success factors (CSFs): The key question in this step is, “what does it take to be successful in the business?”
2. Refine (CSFs) into objectives: The key question in this step is, “What should the organization’s objectives and goals be with respect to the critical success factors?”
3. Identify measures of performance: The key question in this step is, “How will we know whether the organization has been successful on this factor?”

Rockart (1979) and his associates applied the CSF method at several different organizations. Table 1 below is an example obtained from Microwave Associates:

<table>
<thead>
<tr>
<th>Critical Success Factors (CSFs)</th>
<th>Prime Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Image in financial markets</td>
<td>Price/earnings ratio</td>
</tr>
<tr>
<td>Technological reputation with customers</td>
<td>Orders/bid ratio</td>
</tr>
<tr>
<td></td>
<td>Customer “perception” interview results</td>
</tr>
<tr>
<td>Market success</td>
<td>Change in market share (product wise)</td>
</tr>
<tr>
<td></td>
<td>Growth rates of company markets</td>
</tr>
<tr>
<td>Risk recognition in major bids and contracts</td>
<td>Company’s years of experience with similar products</td>
</tr>
<tr>
<td></td>
<td>“New” or “old” customer</td>
</tr>
<tr>
<td></td>
<td>Prior customer relationship</td>
</tr>
<tr>
<td>Profit margin on jobs</td>
<td>Bid profit margin as ratio of similar jobs in this product line</td>
</tr>
<tr>
<td>Company morale</td>
<td>Turnover, absenteeism etc.</td>
</tr>
<tr>
<td>Performance to budget on major jobs</td>
<td>Job cost, budgeted/actual ratio</td>
</tr>
</tbody>
</table>
Rowe, Mason and Dickel (1982) say that “Key result areas (KRAs) and critical success factors (CSFs) provide clues that help to answer the question of whether the organization is able to effectively mobilize its resources where there are conflicting sub goals, environmental uncertainty, and internal politics and constraints”.

Verma (1995, 1996) writes that communication, teamwork, and leadership are vital components of effective management of project human resources and are necessary to accomplish project objectives successfully. Crawford (2002) describes success in the following way:

“A perception… “And; “The project meets the technical performance specifications and/or mission to be performed, and if there is a high level of satisfaction concerning the project outcomes…."

Cleland (1986) suggested that "project success is meaningful only if considered from two vantage points: the degree to which the project's technical performance objective was attained on time and within budget; the contribution that the project made to the strategic mission of the enterprise."

Freeman and Beale (1992) provided an interesting example of the different points of view of people: “An architect may consider success in terms of aesthetic appearance, an engineer in terms of technical competence, an accountant in terms of dollars spent under budget, a human resources manager in terms of employee satisfaction, and chief executive officers rate their success in the stock market.” Freeman and Beale (1992) reviewed the project management literature, identified seven main criteria for measuring the success of projects; five of them are more frequently used than others:

Technical performance
Efficiency of execution
Managerial and organizational implications (mainly customer satisfaction)
Personal growth, and
Manufacturability and business performance

Project success may be assessed by different interest groups—stockholders, managers, customers, employees, and so on. Criteria for measuring project success must therefore reflect different views (Stuckenbruck, 1986).

Baccarini (1999) identified two distinct components of project success:

Project management success-- This focuses upon the project process and, in particular, the successful accomplishment of cost, time, and quality objectives. It also considers the manner in which the project management process was conducted.

Product success--This deals with the effects of the project's final product.

It is common for project management literature to confusingly intertwine these two separate components of project success and present them as a single homogenous group. In order to properly define and assess project success, a distinction should be made between product success and project management success, as they are not the same. Pinto & Slevin (1988) after sampling over 650 project managers, the researchers concluded that “project success” is something much more complex than simply meeting cost, schedule, and performance specifications. In fact client satisfaction with the final result has a great deal to do with the perceived success or failure of projects. Further, Baker, Murphy and Fisher (1983, 1988) conclude:

“In the long run, what really matters is whether the parties associated with, and affected by, a project are satisfied. Good schedule and cost performance means very little in the face of a poor performing end product.”

In the words of Baker et al. (1983): “instead of using time, cost and performance as measures for project success, perceived performance should be the measure.”

Clarke (1999) also states that by targeting the main problems and issues using the key success factors as a focus could make a significant difference to the effectiveness of project management. In order to ensure that a project is completed successfully, project plans need to be updated regularly.

He continues to profess that success will be measured more easily when the objectives are clearly stated at the outset of the project.

Ward (1995) opines that: “scope and objectives are the guiding principles that direct the efforts of the project team and they will determine a project’s success or failure”.

According to Radolph & Posner (1994), having a few key objectives focuses the team on the target and creates commitment and agreement about the project goals. Richardson (1995) & King (1996) think that none of the key success factors described in the literature are responsible, on their own, for ensuring a project’s success- they are all
inter-dependent and require a holistic approach to be taken. Groups of success factors and their interactions are of prime importance in determining a project’s success or failure.

Belassi and Tukel (1996) grouped the success factors listed in the literature and described the impact of these factors on project performance. They grouped the factors into four areas:

Factors related to the project
Factors related to the project managers and the team members
Factors related to the organization
Factors related to the external environment.

In their second part of the research with a total of 57 responses, many project manager related factors have been found to be critical. In contrast with a previous finding using 91 responses, a noticeable shift in ranking from organizational factors towards factors related to project managers and team members was witnessed with project managers related factors dominating over the organizational factors. They came out with some important relationships as well. For example, when time is used to measure project success, then a project manager’s skills and communication between the team members become critical.

―in previous studies it was assumed that if a project’s completion time exceeds its due date, or expenses overran the budget, or outcomes did not satisfy a company’s predetermined performance criteria, the project was assumed to be a failure. Today we know that determining whether a project is a success or failure is far more complex.‖

To come up with all possible critical factors that might affect outcome is impossible because of the diversity of projects. But to identify the groups to which the critical factors belong would be sufficient for better evaluation of projects.

Table 2. Seven lists of critical success factors developed in the literature tabulated by Belassi & Tukel (1996).

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Define goals</td>
<td>Make project commitments known</td>
<td>Project summary</td>
<td>Project manager’s competence</td>
<td>Clear goals</td>
<td>Top management support</td>
<td>Project objectives</td>
</tr>
<tr>
<td>Select project organizational philosophy</td>
<td>Project authority from the top</td>
<td>Operational concept</td>
<td>Scheduling</td>
<td>Goal commitment of project team</td>
<td>Client consultation</td>
<td>Technical uncertainty innovation</td>
</tr>
<tr>
<td>General management support</td>
<td>Appoint competent project manager</td>
<td>Top management support</td>
<td>Control systems and responsibilities</td>
<td>On-site manager</td>
<td>Personnel recruitment</td>
<td>Politics</td>
</tr>
<tr>
<td>Organize and delegate authority</td>
<td>Financial support</td>
<td>Monitoring and feedback</td>
<td>Continuing involvement in the project</td>
<td>Adequate funding to completion</td>
<td>Technical tasks</td>
<td>Community involvement</td>
</tr>
<tr>
<td>Select project team</td>
<td>Logistic requirements</td>
<td>Monitoring and feedback</td>
<td>Continuing involvement in the project</td>
<td>Adequate project team capability</td>
<td>Client acceptance</td>
<td>Schedule duration urgency</td>
</tr>
<tr>
<td>Allocate sufficient resources</td>
<td>Facility support</td>
<td>Market intelligence (who is the client)</td>
<td>Project schedule</td>
<td>Accurate initial cost estimates</td>
<td>Adequate feedback</td>
<td>Financial contract legal problems</td>
</tr>
<tr>
<td>Provide for control and information</td>
<td>Progress meetings</td>
<td>Project schedule</td>
<td>Minimum</td>
<td>Characteristics of the project team</td>
<td>Implement problems</td>
<td></td>
</tr>
</tbody>
</table>
One of the biggest ways to motivate people and make them more confident of what can be achieved, is through more effective communication. (Toney & Powers, 1997 and Larkin & Larkin, 1996)

As per Jiang & Klien et al. (2002), there are ten ways to improve project performance if enterprises in general and project teams in particular implement them:

1. bypass an obstacle
2. cause people to stretch, not break
3. focus on the goal
4. follow a standardized process
5. learn from the past
6. maintaining ongoing communications
7. record the work being done
8. reuse previous work
9. seek buy-in from all involved
10. seek simplicity, not complexity, in goal and path

Murray, J.P. (2001) describes the nine factors for IT project success that he thinks can make or break IT projects:

1. appropriate senior management levels of commitment to the project
2. adequate project funding
3. a well-done set of project requirements and specifications
4. careful development of a comprehensive project plan that incorporates sufficient time and flexibility to anticipate and deal with unforeseen difficulties as they arise
5. an appropriate commitment of time and attention on the part of those outside the IT department who have requested the project, combined with a willingness to see it through to the end
6. candid, accurate reporting of the status of the project and of potential difficulties as they arise
7. a critical assessment of the risks inherent in the project, and potential harm associated with those risks, and the ability of the project team to manage those risks
8. the development of appropriate contingency plans that can be employed should the project run into problems
9. an objective assessment of the ability and willingness of the organization to stay the project course

A study by Dong et al. (2004) cover most of the concerns of Chinese information systems’ project managers, for which they reviewed extensive literature. The most commonly cited set of CSFs are:
(a) Effective communication
(b) Top management support
(c) User involvement
(d) Project manager and team members
(e) Project definition
(f) Project planning
(g) Project control and change management
(h) Technology support

Therefore a major concern of the field of project management and a recurring theme in the literature is that of project success. The factors that contribute to the success of projects are known as success factors and the success on projects is judged by success criteria. On one hand, the competence of the project manager is in itself a factor in successful delivery of projects and on the other hand, the project manager needs to have competence in those areas that have the most impact on successful outcomes.

Project Success Criteria

According to Crawford (2002) project success is an important project management issue, it is one of the most frequently discussed topics and there is a lack of agreement concerning the criteria by which success is judged (Pinto and Slevin 1988; Freeman and Beale 1992; Shenhar, Levy, and Dvir 1997; Baccarini 1999).

A review of the literature further reveals that there is, in fact, a high level of agreement with the definition provided by Baker, Murphy, and Fisher (1988), that project success is a matter of perception and that a project will be most likely to be perceived to be an “overall success” if: …….the project meets the technical performance specifications and/or mission to be performed, and if there is a high level of satisfaction concerning the project outcome among key people on the project team, and key users or clientele of the project effort.

There is also a general agreement that although schedule and budget performance alone are considered inadequate as measures of project success, they are still important components of the overall construct. Quality is intertwined with issues of technical performance, specifications, and achievement of functional objectives and it is achievement against these criteria that will be most subject to variation in perception by multiple project stakeholders.

Project Success Factors

Murphy, Baker and Fisher (1974) used a sample of 650 completed aerospace, construction, and other projects with data provided primarily by project managers on the factors contributing to project success. Theirs have been the most cited, used, extensive and authoritative research in the area of project success factors. They found ten factors that were found to be strongly linearly related to both perceived success and perceived failure of projects, while twenty-three project management characteristics were identified as being necessary but not sufficient conditions for perceived success Baker, Murphy, and Fisher (1988).

Pinto and Slevin (1987, 1988) and Morris and Hough (1986, 1987) also did an important work on project success factors in the 1980s. While Morris and Hough (1986, 1987) drew primarily on literature and case study analysis of major projects, Pinto and Slevin (1987, 1988) based their findings on the opinions of a usable sample of 418 PMI members responding to questions asking them to rate the relevance to project implementation success of ten critical success factors and four additional external factors (Slevin & Pinto 1986).

Therefore, one can conclude that there are umpteen number of factors that may have a bearing on project success. They may differ from one project to another. Following section describes the role of a project manager in achieving project success.

The Project Manager as a Success Factor

Research has identified that people management drives project success more than technical issues do (Scott-Young & Samson, 2004). Despite this finding, there exists only a small body of research that examines the so-called soft project management, the people side of project management (Kloppenborg & Opfer, 2002).

The successful project manager should have the following skills and competencies: flexibility and adaptability, preference for significant initiative and leadership, aggressiveness, confidence, persuasiveness, verbal fluency, ambition, activity, forcefulness, effectiveness as a communicator and integrator, broad scope of personal interests, poise, enthusiasm, imagination, spontaneity, able to balance technical solutions with time, cost, and human factors, well organized and disciplined, a generalist rather than a specialist, able and willing to devote most of his or her time
to planning and controlling, able to identify problems, willing to make decisions, able to maintain a proper balance in use of time… (Archibald, 1976).

Turner & Müller (2004, 2005) have been studying the impact of project leader and his/her leadership style on project success. The research is still in progress. In the words of Turner & Müller (2005), “the literature on project success factors has largely ignored the impact of the project manager, and his or her leadership style and competence, on project success. This may be because most of the studies asked project managers their opinion and the respondents have not given due consideration to their own impact on project success. Or, it may be because the studies have not measured the impact of the project manager and, thus, not recorded it. Or, it may be because the project manager has no impact. However, that last conclusion is in direct contrast to the general management literature, which postulates that the leadership style and competence of the manager has a direct and measurable impact on the performance of the organization or business. Thus, the authors have been commissioned by the Project Management Institute to study whether the leadership style and competence of the project manager is a success factor on projects and whether different styles are appropriate on different types of projects.”

Almost everyone is familiar with projects perceived as successful by those involved in their implementation, while the very same projects have been poorly received by customers (Pinto & Slevin 1988). There are other projects that consumed excessive resources and were considered internal failures, but were later hailed as successful by their customers and become a source of revenue for the company for many years (De Wit, 1986). The combination of a changing organizational environment and changing project characteristics make the role of the project leader difficult (Krahn & Hartman, 2004). Within this environment, a competent project manager is frequently regarded as having a significant impact on overall project success (Ammeter & Dukerich, 2002; Smith, 1999; Sutcliffe, 1999) as well as being critical to other project elements, such as the success of the project team, including team members’ motivation and creativity (Rickards, 2001). This strong link with success ensures that project manager competencies are of particular interest.

Conclusion

Project manager is an important factor leading to project success. As discussed above, many leading authors agree with this point of view and are conducting research to substantiate this grounded theory. This paper has endeavoured to bring out the factors associated with project manager’s leadership style having profound impact on project success.

References


An Examination between the Relationships of Conflict Management Styles and Employees’ Satisfaction

Kim Lian Lee (Corresponding author)
Faculty of Management & Information Technology, University College Sedaya International
No. 1, Jalan Menara Gading, UCSI Heights, 56000 Kuala Lumpur, Malaysia
E-mail: kllee@ucsi.edu.my

Abstract
This study examined the relationships between conflict handling styles and subordinates’ satisfaction with supervision. Data from 139 respondents from major industries in Malaysia including service, manufacturing, mining and construction demonstrated that subordinates were more satisfied with their superiors’ supervision through their exercise of integrating, compromising, and obliging styles. On the other hand, subordinates who perceived their superiors as primarily utilizing dominating and avoiding style viewed them as incompetent in supervision and thus lowering their level of job satisfaction.

Keywords: Conflict Handling Styles, Satisfaction with supervision

1. Introduction
Conflict is known to be inseparable in all human interactions. In any organization, role differentiation acquires different use of conflict handling styles. Work direction, reward, supervision, discipline and performance review also involve the use of conflict handling styles. Organizational change and control may be viewed from a conflict perspective. In attempts to explain the nature or dynamics of a particular organizational phenomenon, conflict may be incorporated as a causal factor.

A great question confronting our industrial society is concerned with the issue on how can the skills of managers be enriched so as to make it possible for them to act with greater proficiency when their contributions are from dealing with and through people especially their subordinates? One way of looking into this issue is from the conflict perspectives. The attention to interpersonal relationships is due to our belief that sound superior-subordinate relationships are important and consistent with humanistic and cooperative work environment sought by contemporary managers. It is also believed that positive interpersonal relationship at workplace is able to increase subordinates’ satisfaction with supervision and subordinates with high levels of satisfaction are more likely to be committed to the organization (Brown and Peterson, 1993).

Differences in the perception of conflict possess implication in its own right. This is due to superior’s uses of conflict styles may be reinforced by subordinates’ responses or the superior may anticipate subordinates’ reaction to the use of conflict styles. It is worthwhile for the superior to be aware of the existence of multiple sources of conflict in work situations and how it promote subordinates’ job satisfaction since dissatisfaction itself could lead to many organizational dysfunctions such as decline in work performances, dissatisfaction, absenteeism, high turnover, and job stress (Churchill, Ford and Walker, 1976; Fisher and Gittelson, 1983; Van Sell, Brief and Schuler, 1981; Rahim and Buntzman, 1989).

1.1 Purpose and Significance of the Study
This research analyzes in general the distribution of conflict handling styles, and its consequences in terms of subordinates’ satisfaction with superior supervision in Malaysian companies. There have been few studies done to investigate the consequences of superior styles of handling conflict in the Malaysian settings. Achieving greater understanding of the styles of handling conflict and adopting the appropriate one will enable the superior to better achieve their objective in maintaining organizational harmony and good unity. This research is inevitably conducted in Malaysian cultural setting with its diverse social and organizational culture. It will be interesting to look at how Malaysian workforce responds to different conflict handling styles as social behavior is normally implanted and entrenched in the given society. Another reason of this study is to extend the validity of previous research findings regarding the relationships between supervisory conflict handling styles and satisfaction with supervision in a Malaysian work environment. This will provide an opportunity for comparing the consequences of conflict handling style in this region with those reported as occurring in the West.

1.2 Research Questions
The delineation of research question is to find out the various methods of conflict handling styles employed by superior in the Malaysian companies, what are the consequences of conflict handling styles and how it affects subordinates’ job satisfaction. Hence, this study seeks to answer the followings research questions.
• Are there any significant differences in subordinates’ satisfaction with supervision when subjected to different conflict management styles?

1.3 Scope of the Study

The foundation of this study rests upon the interaction among major variables as depicted in Figure 1 (Note 1). The primary data used in this study is secured through survey questionnaire. Cross-sectional data of respondents from Malaysian three industries namely, service, manufacturing, and mining and construction is subjected to quantitative analysis to test the conflict handling styles model.

2. Literature Review

This section reviews the relevant constructs and variables as well as their interactions involving: (1) Concept of conflict; (2) Typologies of conflict handling styles; and (3) Satisfaction with supervision.

2.1 The Concept of Conflict

Conflict is generally defined as a disagreement with regard to interests or ideas. It is a process in which one party perceives that its interests are being opposed or negatively affected by another party (Wall and Callister, 1995). Rahim, (1992) and Antonioni, (1999) identified conflict as an interactive process manifested in incompatibility, disagreement or dissonance within or between social entities. Conflict can occur between individual, groups, organizations, and even nations (Rahim and Bonoma, 1979; Rahim, 1983, 1986). As human being interacts in organizations, differing values and situations create tension. Conflict is thereby viewed as a situation in which two or more individuals operating within a unit appear to be incompatible.

Organizations are becoming increasingly dependent on groups as the central unit of work. While groups have the advantage of pooling their collective resources, their interdependent nature inevitability creates conflict (Green, Leslie and Marks, 2001). Conflict has historically been viewed as undesirable, something to be avoided (Esquivel 1997). Classical organization theorists believed that conflict produced inefficiency and was therefore undesirable, detrimental to the organization and should be eliminated or at least minimized to the extent possible. Views toward conflict changed with the emerged of social systems and open system theory. Several researchers such as Janis (1972), Wilson and Jerrell (1981), Rahim (1986), Cosier and Dalton (1990), Kolb and Putnam (1992), Hellriegel, Slocum and Woodman (1995), Van de Vliert (1997), and Cetin and Hacifazlioglu, (2004) supported the social and open system theory that conflict should be regarded as a positive indicator of effective organization management.

Thomas and Schmidt (1976) has reported that managers rated conflict management to be somewhat same level or greater importance than planning, communication, motivation or decision making. In support of this view, Lippitt (1982) suggested organization should treat conflict management as an important management-development activity.

Various models of conflict management have been developed throughout the years. Rahim and Bonoma (1979) differentiated the styles of handling interpersonal conflict along two basic dimensions: concern for self and concern for others. These dimensions explain the degree (high or low) to which a person wants to satisfy the concern for others. Studies by Ruble and Thomas (1976) and Van De Vliert and Kabanoff (1990) support these dimensions.

Applying good management principles in building quality relationships with people will help to prevent or at least lessen conflict. In spite of the best efforts at prevention, conflict does arise. The secret is to learn to cope positively with conflict, and not to see it as an enemy to peace, but an opportunity for growth in relationships (Laue, 1981, and Blome, 1983). In the past, management theorist used the term “conflict avoidance”, but today this phrase is increasingly replaced with the phrase of “conflict management”. Conflict management recognizes that while conflict does have associated costs, it can also bring with it great benefits. It is for this reasons that today’s managers seek not to avoid, but to manage conflict within the organization (Nurmi and Darling, 1997; Su-Mei Lin, 2003).

2.2 Typologies of Conflict Handling Styles

There are various styles of behavior by which interpersonal conflict can be handled. In order to manage conflict effectively, one style may be more suitable than the other depending upon the situation. Follett (1940) conceptualized five methods of handling conflict in organizations i.e. domination, compromise, integration, avoidance and suppression. Conflict management style has been continuously measured by a variety of different taxonomies. Researchers in social psychology and organizational behavior have proposed models that reduce the myriad tactics of conflict handling styles. One of the first conceptual schemes for categorizing conflict revolved around a simple cooperation-competition dichotomy followed the intuitive notion that styles can be arrayed on a single dimension ranging from competition or selfishness (Deutsch, 1949, 1973). However, doubts were raised over the ability of the dichotomy to reflect the complexity of an individual’s perceptions of conflict behavior. In other words, the limitation of single-dimension model is that it fails to encompass styles that involve high concern
for both self and other, and styles that involve neither high concern for neither self nor other (Ruble and Thomas, 1976; Smith, 1987, Thomas and Kilmann, 1974; Pruitt and Rubin, 1986).

Subsequent theorists then drawn on a new two-dimensional grid for classifying the styles as suggested by Blake and Mouton (1964, 1970) which is a self-oriented and other-oriented concern. Other authors have labeled the two dimensions differently (e.g., Thomas and Kilmann, 1974; Rahim, 1983a, 1986; Thomas, 1976; Pruitt and Rubin, 1986; Van de Vliert and Hordijk, 1989, but the basic assumptions have remained similar. Although it has also been debated that individuals select among three or four conflict styles (Pruitt, 1983; Putnam and Wilson, 1982), but evidence from confirmatory factor analyzes concluded that the five factor model has a better fit with data than models of two, three and four styles orientations (Rahim and Magner, 1994, 1995). While the conflict styles somewhat differ in terms of name, the general principles and basic descriptions of the styles appear very similar (Kozan, 1997). Each instrument has been utilized in numerous research studies, yet an examination of the results indicates many inconsistencies and contradictory outcomes. Such unequivocal invite a methodical, statistical analysis of all data in an attempt to determine a more valid overall picture.

For the purpose of this study, the researcher has chosen Rahim and Bonoma (1979), and Rahim (1983, 1985, 1986a, 2001) styles of handling interpersonal conflict on two basic dimensions: concern for self and concern for others. It is among the most popular styles of handling conflict used in research. In fact, Rahim and Bonoma’s (1979) model was based on Blake and Mouton’s (1964) grid of managerial styles as well as the Thomas-Kilmann MODE instrument (1974). Specifically, Rahim and Bonoma confirmed and refined the factor structure of the managerial grid through contact over 1,200 corporate managers across the United States (Rahim, 1983). This work leads them to identify five specific conflict styles as shown in Figure 2 (Note 2). Rahim (1983, 1986a, 2001) defines styles of handling conflict as integrating, obliging, dominating, avoiding and compromising. It was Rahim’s (1986a) idea that “organizational participants must learn the five styles of handling conflict to deal with different conflict situations effective” (p.30). The five conflict styles that emerge from various combinations of these two dimensions are described below:

2.2.1 Integrating Style

High concern for self and others reflects openness, exchange of information, and examination of differences to reach an effective solution acceptable to both parties. The integrating style concentrates on problem solving in a collaborative manner. Individuals with this style face conflict directly and try to find new and creative solutions to problems by focusing on their own needs as well as the needs of others. Lawrence and Lorsch (1967) found the problem-solving (integrating) style to be more effective than other styles for attaining integration of the activities of different subsystems. When the issues are complex, this style is suitable in utilizing the skills and information possessed by different parties to formulate solutions and successful implementations. Thus, the integrating style is believe to be both effective and appropriate in managing conflicts and, therefore, is perceived as highly competent. The integrating style is competent because it provides each disputant with access to the other person’s perceptions or incompatible goals, thereby enabling them to find solution that integrates the goals and needs of both parties (Tutzauer and Roloff, 1988).

2.2.2 Obliging Style

Low concern for self and high concern for others style is associated with attempting to play down the differences and emphasizing commonalities to satisfy the concern of the other party. Obliging is associated with accommodating behaviors that include putting aside one’s own needs to please the partner, passively accepting the decisions the partner makes, making yielding or conceding statements, denying or failing to express one’s needs, and explicitly expressing harmony and cooperation in a conflict episode (Hocker and Wilmot, 1998). These types of conflict strategies are indirect and cooperative (Blake and Mouton, 1964). It can be used as a strategy when a party is willing to give up something with the hope of getting something in exchange from the other party when needed.

2.2.3 Dominating Style

High concern for self and low concern for others style has been identified with win-loses orientation or with forcing behavior to win one's position. The dominating style relies on the use of position power, aggression, verbal dominance, and perseverance. This style is direct and uncooperative (Blake and Mouton, 1964). Within interpersonal context, the dominating (competing/distributive) style has been found to be associated with low levels of effectiveness and appropriateness. However, Papa and Canary (1995) suggested that the dominating style might be somewhat effective in organizational contexts when there are production-related goals. In this case, an individual might use power strategies and aggression to effectively accomplish a goal, even though these strategies may be seen as inappropriate at a relational level. Spitzberg, Canary and Cupach, (1994) term dominating style as the maximizing response to conflict, because it maximizes the importance of one’s own needs at the expense of the
other individual’s needs. Therefore, the dominating style may be seen as effective but not appropriate.

2.2.4 Avoiding Style

Low concern for self and others style has been associated with withdrawal, buck-passing, or sidestepping situations. An avoiding person fails to satisfy his or her own concern as well as the concern of the other party. This style is useful when the issues are trivial or when the potential dysfunctional effect of confronting the other party outweighs the benefits of the resolution of conflict.

2.2.5 Compromising Style

Intermediate in concern for self and others style involves give-and-take whereby both parties give up something to make a mutually acceptable decision. It may mean splitting the difference, exchanging concessions, or seeking middle-ground position. It may be appropriate when the goals of the conflicting parties are mutually exclusive or when both parties, who are equally powerful, e.g. Labor and management, have reached a deadlock in their negotiation. This style may be of some use in dealing with strategic issues, but heavy reliance on this style may be dysfunctional.

2.3 Satisfaction with Supervision

Satisfaction with supervision has received extensive attention in organizational research. In this study, satisfaction is defined as, “a pleasurable or positive emotional state resulting from the appraisal of one’s job” (Locke, 1976: 1,300). Work satisfaction is an important workplace construct and one that is of concern for effective management. Thus, numerous research findings suggest that conflict management style is related to various aspects of employee satisfaction are of interest and represent an important extension to the job satisfaction literature. These findings imply that satisfaction with supervision is one of the most important attitudinal issues in the workplace that managers face. Thus, the relevance of satisfaction with supervision in an organizational study needs no further explanation. It is a collection of feelings or affective responses of the organizational members which are associated with the job situation within the organization. Smith, Kendall, and Hulin (1969), in their well documented measure, the Cornell JDI (Cornell Job Descriptive Index) described five areas of satisfaction: the work itself, the supervision, the co-workers, the pay, and the opportunities for promotion on the job. Since the theme of the present study is on the superior-subordinate relationships, the job-facet satisfaction that is most relevant to our study is the satisfaction with supervision.

Furthermore, individual subordinate with higher levels of satisfaction with supervision demonstrates decreased propensity to look for other job (Sager, 1994) and decrease propensity to leave (Boles, 1997). Turnover is a major issue for many organizations (Simmons and Ruth, 1997). It is a problem of considerable importance because of the costs associated with hiring and training new personnel, as well as the costs associated with not having that individual contributing his/her work efforts toward organizational goals.

The conflict handling styles which superior uses in an organization in supervising their subordinates can have a broad impact on the subordinates’ attitude towards work, and the kind of relationships they have with the superiors. The amount of supervision and direction given to the subordinates will increase their satisfaction with supervision. Conversely, many studies recorded that supervision to the extent that the superior exercises dominating and avoiding is found to have a negative impact on the subordinates’ satisfaction (Kahn, Wolfe, Quinn, Snoeck, and Rosenthal, 1964; Likert, 1967).

The other aspect of supervising style is the quality and frequency of communication between the superiors and their subordinates. This includes the superior’s ability to communicate effectively his/her demands and expectations, company’s policies and procedures especially those concerning evaluation and compensation, informing of the subordinate’s performance as well as verbal and non-verbal rewards. Clearly, from human relations perspectives, supervisory satisfaction is related to the personality traits of the superior such as his/her temperament, openness, industriousness, pleasantness etc. The positive side of all of these traits can enhance satisfaction. Related to the personal resourcefulness, supervisory satisfaction is also dependent on the superior’s distinguishing qualities and abilities such as intelligence and knowledge.

3. Hypotheses to be tested

The hypothesis is those dealing with consequences of conflict handling styles upon subordinates’ satisfaction with supervision (H1a & H1b). More specifically, the following hypotheses were formulated which serve as focal points for the study.

Organizational conflict researchers (e.g. Rahim and Buntzman, 1989; Burke, 1970; Lawrence and Lorsch, 1967; Likert and Likert, 1976) generally assert that superior who exhibits integrating, compromising, and obliging styles are more prone to foster a cordial dyadic relationships among superiors and subordinates. These styles are related to an effective conflict management. Several studies on the integrating, compromising, and obliging styles of
handling conflict show consistent results in satisfaction with supervision (Korabik, Baril, and Watson, 1993; Tutzauer and Roloff, 1988; Wall and Galanes, 1986; Vigil-King, 2000). Likewise, other studies recorded that superior uses dominating and avoiding is linked to negative effect on subordinates’ satisfaction (Kahn, Wolfe, Quinn, Snoeck, and Rosenthal, 1964; Likert, 1967). Thus, it can be hypothesized that:

Hypothesis 1a: Superior’s integrating, obliging, and compromising styles have direct and positive effect on the subordinates’ satisfaction with supervision.

Hypothesis 1b: Superior’s dominating, and avoiding styles have negative effect on the subordinates’ satisfaction with supervision.

4. Research Methodology

4.1 Sampling Design

The sample for this study comprises of the executives, managers and professionals in services, manufacturing, mining and construction companies. This sample was selected for two reasons: (1) this represents the group of more educated people who are more aware of the kind of conflict styles with superiors and normally hinge more on the non-traditional organizational-based kind of relationship to sustain their interest in the organization, and (2) the industries are among the more dominant industries in Malaysia that contribute significantly to the Gross Domestic Product and labor employment.

The companies that met the above criteria were selected from the list of companies gathered from the Federation of Manufacturers Malaysia (FMM), Construction Industry Development Board (CIDB), and Malaysian Trade and Commerce Directory. Stratified random sampling was used in selecting the samples from the large database. Data subjects were obtained through survey questionnaire.

4.2 Research Instruments

All data used in the study consist of responses to questionnaire items. Measures of the relevant constructs were taken from previous studies are discussed here.

4.2.1 Conflict Handling Style

Conflict management styles were measure by using the Form C of ROCI-II (Rahim, 1983a). This multi-item instrument contains 28 items uses a 5-point Likert scale to assess subordinates’ perceptions on supervisor’s style of handling conflict. The ROCI-II was designed to measure 5 dimensions or styles of resolving conflict: 7 items for measuring integrating style, 6 items each for measuring obligating style and avoiding styles, 4 items for measuring compromising style and 5 items for measuring dominating style.

4.2.2 Satisfaction with Supervision

The instrument used to measure satisfaction with supervision is the updated version of the original Job Descriptive Index (JDI; Smith at el., 1969) which was later revised by Roznowski (1989). The instrument is made up of 18 items.

4.3 Data Analysis Techniques

Reliability and factor analysis was used to check the consistency and dimensionality of the scale items. Multiple regression analysis is performed to check the criterion-related validity of the scale items. Pearson Intercorrelation was used to measure the relationships among conflict handling styles and subordinates’ satisfaction with supervision. It allowed a straightforward interpretation of the hypothesized relationships.

5. Research Results and Discussions

5.1 Sample Characteristics

From the total of 145 responses received, data from 139 respondents were usable. By ethnic group, 42% of the respondents were Chinese, 38% were Malay, and 17% were Indian, while other races made up the rest. By gender, 53% were male and 47% were female. In terms of age, the highest proportion of respondents fell into the 23-30 years age group. They accounted for 63% of the total number of respondents. This was followed by the 31-40 years age group (33%), while those above 41 years old accounted for the remaining.

On the whole, the education level of the respondents was high. Nearly 84% of the respondents had education up to tertiary level. Only 1% of the respondents had no tertiary education. The high educational level was reflected in the position or the type of occupation held by the majority of the respondents i.e. 7 Directors/General Managers, 3 Senior Managers, 46 Departmental Manager/Assistant Managers and 83 Executives.

The average salary of the respondents was higher than the population’s average. The survey data showed that 27% of the respondents earned more than RM5000 per month, 14% earned RM4001 to RM5000 per month, 49% earned RM3001 to RM4000 per month, and 10% earned RM2001 to RM3000 per month.
On average, the respondents had worked in the present company for 4 years with a standard deviation of 3.6 years. It was noted that 59% of the total respondents had worked for 1 to 3 years in the present company, 25% had worked between 4 to 6 years, 12% had worked between 7 to 9 years, and 4% had worked between 10 and 13 years, while only 1% of the respondents had worked longer than 20 years in the present company. The degree of job mobility among respondents was reflected in the average number of previous jobs held by respondents i.e. 2 jobs. For the present sample, 20% responded that they had no previous job, 29% had one, 32% had two, 11% had three and the rest reported that they had more than 4 previous jobs.

In terms of the organizational size, the survey had selected sample which represents the medium to large sized Malaysian companies. It was found that 39% of the companies had 1 to 100 employees, 7% had 101 to 200 employees, 9% had 201 to 400 employees, 17% had 401 to 1000 employees and 29% had more than 1000 employees. Classifying the business according to the type of industry revealed that a greater portion of the companies are in services industries (55%), followed by manufacturing industries (23%) and 6% of mining and construction.

The survey revealed the following information about the respondent’s superior. A 76% superiors reported in the survey were males and 24% were female. A majority of them were holding medium to high management positions. Racial composition of the superiors was: 46% Chinese, 41% Malay, 8% Indian and 5% from other races. On average, the superiors had worked in the organization for 11 years with a standard deviation of 7.6 years - longer than the subordinates’ average. Only 1% had worked for less than a year, 30% had worked between 1 and 5 years, 29% had worked between 6 and 10 years, 17% had worked between 11 to 15 years, 13% had worked between 16 to 20 years and 10% had worked more than 20 years in the present company. The superiors were holding various positions in the company with 33% of them in the first hierarchical level, 30% in the second level, and 26% in the third level, while only a fraction of them were in the lower management positions. Their educational level was also predictably high, with 55% of them having had tertiary education. Only 6% had up to either primary or secondary education. By designation, 64 of the superiors were the directors/general manager/assistant general manager of companies, 23 were the senior managers, 50 were the departmental manager/assistant managers and the rest consisted of executives.

5.2 Validating the Scales

The standardized Cronbach Alpha and the inter-item correlation for each subscale are provided in Table 1 (Note 3). The internal consistency reliability coefficients for all the scales were satisfactory (Nunnally, 1978). All the scales had coefficient Cronbach Alpha greater than .78. The inter-item correlations for the five scales ranged between .14 and .82.

The data on the 28 conflict handling style items from the sample of 139 respondents were factor-analyzed. This was done to test the earlier postulation that the underlying set of data contained 5 distinct dimensions or factors (Steward, 1981). These initial factors were derived through the Maximum Likelihood analysis and the terminal solution was reached through Varimax Rotation and Kaiser Normalization using the SPSS computer package. The analysis extracted five factors. The selection of a factor and an item was guided by the criteria: Eigenvalue > 1.0 and Scree Plot and factor loading >0.4, respectively (Ford, MacCallum, and Tait, 1986). Based on these criteria, the first five factors were selected. The results are presented in Table 2 (Note 4). The order of items was altered to show the clustering of items more clearly. The factor loading of >0.4 are underlined to indicate the items finally selected to represent the five subscales.

Three of the factors extracted which represented integrating, dominating and avoiding conflict handling styles contained all items as earlier included in the scale. Factor which represented obliging style contained 4 items as against 6 items earlier included in the scale. Item “My superior generally tries to satisfy the needs of mine” was found to be poorly correlated with the rest of the obliging styles items. It also loaded more on the integrating style. This item is dropped from the scale. A closer examination of the responses to this item indicated that respondents tend to overstate their intention (mean score of 4.0) to have a good superior-subordinate relationship. The reason for this could be that most individuals especially the subordinates wished for harmony at work and would make an effort to maintain a good working relationship with their superiors despite difference between them. Item “My superior usually allows concessions to me” of obliging style item failed to meet the selection criteria and was thus dropped from the scale. Factor which represented compromising style contained 3 items as against 4 items earlier included in the scale. Item “My superior tries to find a middle course to resolve an impasse” was found to be poorly correlated with the rest of the compromising style items and not be suitable for inclusion here.

A multiple regression analysis was run to test the direct relationship between superior conflict handling styles and subordinates’ satisfaction with supervision. The result indicates that significant relationship exists and together the independent variables explained about 43.7% of the variation on satisfaction with supervision. The relations
between the five styles and “theoretically-related” dependent variable further reinforce the criterion related validity of the conflict handling scale. The result of analysis is shown on Table 3 (Note 5). The results showed that only integrating style has direct positive effect on satisfaction with supervision (Beta = .42; p < .0001). Also, it is noted that dominating style has direct but negative effect on satisfaction with supervision (Beta = -.32, p < .0001).

5.3 Testing of Hypotheses

Hypothesis H1a states that superior’s integrating, compromising and obliging styles have direct and positive effect on the subordinates’ satisfaction with supervision. The correlational analysis in Table 4 (Note 6) provided good support for H1a. The integrating, compromising and obliging styles of handling conflict showed positive relationships and highly correlated with satisfaction with supervision. These three correlations were significant beyond .01 level.

In the relationship of conflict handling styles to satisfaction with supervision, integrating style ranked highest among other style exercises (r = .62, p < .01). This was followed by compromising style and obliging style which had coefficients of correlation of .33, p < .01 and .29, p < .01 respectively. The ranking of intercorrelation was somewhat similar to the study of Rahim and Buntzeman (1989) conducted on respondents with post graduate working experience. It was expected that integrating, compromising and obliging style represents a high level of inner acceptance between superior and subordinate relationships. As Rahim and Buntzman (1989) found out, the integrating, compromising, and obliging style of handling conflict tends to foster a more satisfied, cooperative and prolonged relationships among superiors and subordinates.

Literature on organizational conflict also shows that integrating, compromising, and obliging styles are positively associated with supervision with satisfaction. Burke (1970) suggested that, in general, a confrontation (integrating), compromising, and obliging styles were related to the effective management of conflict that lead to supervisory satisfaction, while forcing (dominating) and withdrawing (avoiding) were related to the ineffective management of conflict that lead to supervisory dissatisfaction. Lawrence and Lorsch (1967) indicated that an integrating, compromising, and obliging styles dealing with inter-group conflict was used to a significantly greater degree in higher performing organizations than lower performing organizations.

A field study with a convenience collegiate sample by Rahim and Buntzman (1989) suggested that the integrating (problem solving), compromising and obliging styles of handling conflict is positively correlated with supervision with satisfaction. Likert and Likert (1976) strongly argued and provided some evidence to suggest that an organization that encourages participation and problem solving (integrating) behaviors attains a higher level of supervision with satisfaction. Several studies on the integrating, compromising, and obliging styles of handling conflict show consistent results. These styles result in high joint benefit for the parties, better decisions, and greater satisfaction with supervision (Korabik, Baril, and Watson, 1993; Tutzauer and Roloff, 1988; Wall and Galanes, 1986). Vigil-King (2000) study shows that superior that use more integrating conflict management styles are likely to have higher subordinates’ supervision with satisfaction than superior using less integrating styles.

Among subordinates, integrative style emerges as a very important cue for acceptance and recognition of the superior’s conflict management style as reflected in the present result. It most likely gains their compliance and least likely to provoke their resistance (Gross and Guerrero, 2000). Similarly, greater satisfaction with supervision among subordinates may lead to greater cooperation and heightened dependence. In the superior-subordinate interaction, subordinates frequently say what is acceptable rather than what they know is true. Therefore, an individual subordinate may use a more obliging style with superiors. This is due to subordinates are likely to withdraw from a conflict situation (Kahn, Wolfe, Quinn, Snoeck and Rosenthal, 1964).

As the present results supported the general view the integrating, compromising and obliging style has a positive effect on the superior-subordinate relationship. The high degree of intercorrelations among the integrating, compromising and obliging served to temper the previous discussions and tended to suggest that while integrating style emerged as the dominant explanatory of conflict handling style, its effective utilization might be tied to some extent, to the superior’s exercise of a combination of other style such as compromising and obliging style. 

Hypothesis H1b predicts that superior’s dominating and avoiding styles have negative effect on subordinates’ satisfaction with supervision. Both the dominating and avoiding styles showed relatively negative but significant correlation (r = -.50, p < .01; r = -.24, p < .01 respectively) with supervisory satisfaction. In the dominating style, subordinates’ responses tend to be dependent on the normative acceptance of the position and prerogatives of the organization at large including its leadership. The present result concurred with the conclusion made by Rahim (1986) and Burke (1970) that dominating and avoiding styles are less effective means of supervisory satisfaction.

The present result seems to support Hypothesis H1b. The study indicated that the dominating style perceived held by a superior was negatively associated with supervisory satisfaction. Past researchers supported this correlation (e.g. Van de Vliert, Euwema, and Huismans, 1995; Van de Vliert, 1997; Rahim and Buntzman, 1989; Gross and
Guerrero, 2000) have stated that dominating style which is derived from control over negative or punishing outcomes for others does not appear to be a suitable style for dealing with subordinates. It is negatively related with concern for the other party which will usually not improve the relationship (Sorenson, Morse and Savage, 1999). The traditionalists believed that dominating is ineffective and can lead to conflict of social interaction. Although it has been found in some studies that individuals can achieve substantive outcomes through forcing behavior (De Dreu and Van de Vliert, 1997; Rahim, 1992; Thomas, 1992) but people could not be forced into a deep-seated acceptance of organizational requirements.

6. Conclusion

Overall, the results of this study were consistent with the hypotheses based upon other organizational studies involving qualified and professional people. The research instruments used in this study were tested and found to be reliable in our Malaysian work environment. The results provided some tentative, but hopefully useful guidance for organizational administration.

Inter correlations among the five styles of conflict handling showed that the results are closely similar to Rahim and Buntzman (1989). The results revealed that integrating, compromising and to some degree obliging are found to be in association with each other. These intercorrelations may give rise to a favorable halo effect with respect to the perceived influence, for example if a superior is perceived as having integrating style, this will also augment other styles (e.g. compromising, obliging) at his/her disposal. On the other hand, dominating was the least correlated with all other styles and most often stands alone. Among all the conflict styles, dominating was most related to avoiding style. It indicates that dominating and avoiding style tend to be used interchangeably. Though not considered as a serious disadvantage, notable intercorrelations among the five styles of handling conflict denote the difficulty of finding conflict style typology which is both exhaustive and conceptually distinct.

The conflict management styles were also found to be associated to an individual perception’s of the source of conflict style. Superior who was perceived to exercise dominating style tends to exercise greater management control – giving little opportunity for the subordinate to be personally responsible for a meaningful portion of his/her works. In assessing the effectiveness of the various influence means, the results suggested that integrating, compromising and obliging should be emphasized to ensure subordinates’ satisfaction with supervision. Dominating style should be minimized in any influence attempt except in situations that call for such approach, such as time of crisis or low performance. Comparative studies revealed an interesting difference in the rank ordering of superior styles of handling conflict. Recent study by Rahim and Buntzman (1989) ranked integrating, compromising and obliging as the most favorable, and dominating and avoiding as the lowest among conflict styles in eliciting subordinates’ acceptance of supervision satisfaction. The results suggested a notion that the effectiveness of conflict handling style does relate to the situation and context of the job environment. Although the desirability of some conflict styles were obvious, it should be noted that they might not necessarily have same impact on all attitudinal and behavioral outcomes measures. For example, Rahim (1986), Bachman, Bowers and Marcus (1968) and Rahim and Buntzman (1989) discovered that integrating and compromising were more associated with organizational effectiveness, dominating style was the most important for complying with superior’s request and integrating, compromising and obliging were most related to supervisory satisfaction.

The challenge of the contemporary organization is also to encourage the use of the integrating/problem solving style of handling conflict among superior and subordinates. Employees should also be trained not to engage in win–lose or bargaining style of handling conflict. This can be done by strengthening the integrating conflict-management style and discouraging the use of an avoiding style. To attain this goal, training in conflict management of subordinates and superiors and appropriate changes in organization design and culture would be needed (Rahim, 2001).

References


Notes
Note 1. Model of Conﬂict Handling Style and Interactions
Note 2. The Styles of Handling Interpersonal Conﬂict
Note 3. Summary of Scale Items and Measure of Scale Reliabilities
Note 4. Factor Structure Matrix for Varimax Rotated Factor Solution
Note 5. Multiple Regression Analysis: Conﬂict Style and Satisfaction with Supervision
Note 6. Pearson Correlations among Key Variables

Table 1. Summary of Scale Items and Measure of Scale Reliabilities

<table>
<thead>
<tr>
<th>Scales</th>
<th>Inter-item Correlation</th>
<th>Cronbach Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conflict Handling Styles</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Integrating</td>
<td>.61 to .80</td>
<td>.95</td>
</tr>
<tr>
<td>Obliging</td>
<td>.51 to .74</td>
<td>.85</td>
</tr>
<tr>
<td>Compromising</td>
<td>.42 to .61</td>
<td>.78</td>
</tr>
<tr>
<td>Dominating</td>
<td>.53 to .82</td>
<td>.90</td>
</tr>
<tr>
<td>Avoiding</td>
<td>.14 to .55</td>
<td>.78</td>
</tr>
<tr>
<td>Satisfaction with Supervision</td>
<td>.29 to .64</td>
<td>.86</td>
</tr>
</tbody>
</table>
Table 2. Factor Structure Matrix for Varimax Rotated Factor Solution

<table>
<thead>
<tr>
<th>Item No</th>
<th>Conflict Styles/Items</th>
<th>IN</th>
<th>OB</th>
<th>CO</th>
<th>DO</th>
<th>AV</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>My superior tries to investigate an issue with me to find a solution acceptable to us.</td>
<td>.72</td>
<td>.26</td>
<td>.16</td>
<td>-.18</td>
<td>-.18</td>
</tr>
<tr>
<td>4.</td>
<td>My superior tries to integrate his/her ideas with those of mine to come up with a decision jointly.</td>
<td>.78</td>
<td>.20</td>
<td>.17</td>
<td>-.20</td>
<td>-.07</td>
</tr>
<tr>
<td>5.</td>
<td>My superior tries to work with me to find solutions to a problem which satisfy our expectations.</td>
<td>.84</td>
<td>.20</td>
<td>.18</td>
<td>-.13</td>
<td>-.14</td>
</tr>
<tr>
<td>12.</td>
<td>My superior exchanges accurate information with me to solve a problem together.</td>
<td>.72</td>
<td>.19</td>
<td>.25</td>
<td>-.27</td>
<td>-.13</td>
</tr>
<tr>
<td>22.</td>
<td>My superior tries to bring all our concerns out in the open so that the issues can be resolved in the best possible way.</td>
<td>.74</td>
<td>.15</td>
<td>.28</td>
<td>-.19</td>
<td>-.10</td>
</tr>
<tr>
<td>23.</td>
<td>My superior collaborates with me to come up with decisions acceptable to us.</td>
<td>.76</td>
<td>.19</td>
<td>.20</td>
<td>-.27</td>
<td>-.04</td>
</tr>
<tr>
<td>28.</td>
<td>My superior tries to work with me for a proper understanding of a problem.</td>
<td>.78</td>
<td>.20</td>
<td>.23</td>
<td>-.16</td>
<td>-.010</td>
</tr>
<tr>
<td>2.</td>
<td>My superior generally tries to satisfy the needs of mine.</td>
<td>.42</td>
<td>.50</td>
<td>.18</td>
<td>.13</td>
<td>.03</td>
</tr>
<tr>
<td>10.</td>
<td>My superior usually accommodates the wishes of mine.</td>
<td>.27</td>
<td>.85</td>
<td>.07</td>
<td>-.10</td>
<td>.17</td>
</tr>
<tr>
<td>11.</td>
<td>My superior gives in to the wishes of mine.</td>
<td>.19</td>
<td>.80</td>
<td>.14</td>
<td>.009</td>
<td>.11</td>
</tr>
<tr>
<td>13.</td>
<td>My superior usually allows concessions to me.</td>
<td>.12</td>
<td>.30</td>
<td>.18</td>
<td>-.12</td>
<td>-.16</td>
</tr>
<tr>
<td>19.</td>
<td>My superior often goes along with the suggestions of mine.</td>
<td>.29</td>
<td>.56</td>
<td>.13</td>
<td>-.04</td>
<td>.13</td>
</tr>
<tr>
<td>24.</td>
<td>My superior tries to satisfy the expectations of mine.</td>
<td>.25</td>
<td>.62</td>
<td>.08</td>
<td>-.07</td>
<td>.18</td>
</tr>
<tr>
<td>7.</td>
<td>My superior tries to find a middle course to resolve an impasse.</td>
<td>.23</td>
<td>.11</td>
<td>.37</td>
<td>.13</td>
<td>.13</td>
</tr>
<tr>
<td>14.</td>
<td>My superior usually proposes a middle ground for breaking deadlocks.</td>
<td>.30</td>
<td>.07</td>
<td>.60</td>
<td>.12</td>
<td>-.03</td>
</tr>
</tbody>
</table>
### Table 2. (Continued)

<table>
<thead>
<tr>
<th>Item No</th>
<th>Conflict Styles/Items</th>
<th>IN I</th>
<th>OB II</th>
<th>CO III</th>
<th>DO IV</th>
<th>AV V</th>
</tr>
</thead>
<tbody>
<tr>
<td>15.</td>
<td>My superior negotiates with me so that a compromise can be reached.</td>
<td>.31</td>
<td>.16</td>
<td>.76</td>
<td>.005</td>
<td>.005</td>
</tr>
<tr>
<td>20.</td>
<td>My superior uses “give and take” so that a compromise can be made.</td>
<td>.24</td>
<td>.18</td>
<td>.65</td>
<td>.05</td>
<td>.03</td>
</tr>
<tr>
<td>IV.</td>
<td><strong>Dominating Style (DO)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>My superior uses his/her influence to get his/her ideas accepted.</td>
<td>-.21</td>
<td>-.22</td>
<td>-.06</td>
<td>.86</td>
<td>.09</td>
</tr>
<tr>
<td>9.</td>
<td>My superior uses his/her authority to make a decision in his/her favor.</td>
<td>-.26</td>
<td>-.14</td>
<td>-.12</td>
<td>.82</td>
<td>.19</td>
</tr>
<tr>
<td>18.</td>
<td>My superior uses his/her expertise to make a decision in his/her favor.</td>
<td>-.12</td>
<td>-.05</td>
<td>.23</td>
<td>.62</td>
<td>.29</td>
</tr>
<tr>
<td>21.</td>
<td>My superior generally firm in pursuing his/her side of the issue.</td>
<td>-.18</td>
<td>-.03</td>
<td>.19</td>
<td>.75</td>
<td>.12</td>
</tr>
<tr>
<td>25.</td>
<td>My superior sometimes uses his/her power to win a competitive situation of a problem.</td>
<td>-.21</td>
<td>.08</td>
<td>.06</td>
<td>.77</td>
<td>.12</td>
</tr>
<tr>
<td>V.</td>
<td><strong>Avoiding Style (AV)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>My superior attempts to avoid being “put on the spot” and try to keep our conflict to himself/herself.</td>
<td>.10</td>
<td>.12</td>
<td>.01</td>
<td>.12</td>
<td>.47</td>
</tr>
<tr>
<td>6.</td>
<td>My superior usually avoids open discussion of his/her differences with me.</td>
<td>-.15</td>
<td>.14</td>
<td>-.14</td>
<td>.18</td>
<td>.54</td>
</tr>
<tr>
<td>16.</td>
<td>My superior tries to stay away from disagreement with me.</td>
<td>-.05</td>
<td>-.11</td>
<td>.07</td>
<td>.13</td>
<td>.62</td>
</tr>
<tr>
<td>17.</td>
<td>My superior avoids an encounter with me.</td>
<td>-.17</td>
<td>-.008</td>
<td>-.10</td>
<td>.16</td>
<td>.55</td>
</tr>
<tr>
<td>26.</td>
<td>My superior tries to keep his/her disagreement to himself/herself in order to avoid hard feelings.</td>
<td>-.09</td>
<td>.13</td>
<td>.12</td>
<td>.02</td>
<td>.69</td>
</tr>
<tr>
<td>27.</td>
<td>My superior tries to avoid unpleasant exchanges with me.</td>
<td>-.06</td>
<td>.03</td>
<td>.08</td>
<td>.05</td>
<td>.74</td>
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</table>

**Eigenvalues**

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<thead>
<tr>
<th></th>
<th>IN I</th>
<th>OB II</th>
<th>CO III</th>
<th>DO IV</th>
<th>AV V</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.7</td>
<td>4.2</td>
<td>2.4</td>
<td>1.6</td>
<td>1.2</td>
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</table>

**% of variance explained**

<table>
<thead>
<tr>
<th></th>
<th>IN I</th>
<th>OB II</th>
<th>CO III</th>
<th>DO IV</th>
<th>AV V</th>
</tr>
</thead>
<tbody>
<tr>
<td>30.9</td>
<td>15.2</td>
<td>8.6</td>
<td>5.7</td>
<td>4.3</td>
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</tbody>
</table>

N = 139, Figure in bold indicate high loading

Maximum Likelihood with Varimax Rotation and Kaiser Normalization
Table 4. Pearson Correlations among Key Variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Integrating</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Obliging</td>
<td>.493**</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Avoiding</td>
<td>-.203</td>
<td>.177*</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Compromising</td>
<td>.519**</td>
<td>.352**</td>
<td>.004</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 Dominating</td>
<td>-.429**</td>
<td>-.155*</td>
<td>.327**</td>
<td>.015</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>6 Satisfaction</td>
<td>.622**</td>
<td>.289**</td>
<td>-.238**</td>
<td>.331**</td>
<td>-.495**</td>
<td>1.000</td>
</tr>
</tbody>
</table>

* Correlation is significant at the .05 level (2 tailed)
** Correlation is significant at the .01 level (2 tailed)
ⁿ correlation is marginally significant at .10

Figure 1. Model of Conflict Handling Style and Interactions
Figure 2. The Styles of Handling Interpersonal Conflict

Note: Adapted from Rahim and Bonoma (1979)
The Measure and Control of Enterprise Marketing Risk in the E-business Environment

Lingbing Hu, Baoyin Zhang, Yu Wu
School of Management, Tianjin University, Tianjin 300072, China

Abstract
In this article, through analyzing the change of enterprise marketing mode and the characters of marketing risk in the e-business environment, we establish the 3D embedded random measure model which suits for the e-business enterprise marketing risk, define the combination rules of the risk index system of this model, establish the theoretical base to measure the marketing risk for e-business enterprises, and analyze the warning and control of enterprise marketing risk under the model.

Keywords: E-business, Marketing risk management, 3D embedded random measure model, Warning and control

As a relative new research direction in the marketing management domain, the marketing risk management has been obtained fully attentions in foreign and domestic market. However, the research to the marketing risk management in foreign and domestic academe still mainly stays on the layer of qualitative analysis to general risk management, and the integrated system research combining qualitative analysis with quantitative analysis still lacks. Furthermore, with the quick development and extensive application of information technology, e-business occurs. As sort of new marketing mode and business operation mode, it fully changes the traditional marketing mode by virtue of the information technology, and it increases the marketing risk of enterprise when it brings advantages and efficiencies to enterprise marketing and management (E-Commerce Risk Management, 2001).

1. The change and marketing risk of enterprise marketing mode in the e-business environment

1.1 The change of enterprise marketing mode in the e-business environment
As the electric trading market, e-business will exert very important function in future trading activities for enterprises. It is not only a sort of electric network form of enterprise marketing management activity, but also the comprehensive strategy which redefines traditional business activity model and maximizes client values and enterprise profits by virtue of the information technology. In the e-business environment, large differences exists between enterprise marketing activities with traditional marketing activities for the ideas, which mainly are represented in (1) from large scaled and popular marketing to popular customized marketing, i.e. one to one marketing, (2) from single marketing to mutual marketing, (3) the marketing management develops from disperse and independent process to uniform and cooperate full-process marketing. Again, as viewed from the marketing mode, in the e-business environment, the enterprise marketing needs implementing in real market and network market at the same time. This change of marketing activity will bring large uncertainties to the management and taking for enterprises, i.e. the enterprise marketing risk in the e-business environment.

1.2 The characters of enterprise marketing risk in the e-business environment
The concept of risk is very important to e-business enterprises, and many researches which take rational decision-making as base thought that the decision-making of purchase is based on the cost benefit analysis of risk adjustment, so the risk plays the important role in the e-business activities of enterprises, and the sources of risk can be divided into enterprise exterior risk and enterprise interior risk. However, the risk researches to e-business enterprise always stay in the technical layer or the credit layer, and considering that the e-business changes litter to the traditional management mode, the character that the e-business is the generalized enterprise marketing mode has not deserved necessary recognition. To establish the model that can analyze the marketing risk for e-business enterprise, according the enterprise marketing mode in the e-business environment, we first analyze the characters of enterprise marketing in the e-business environment.

1.2.1 The character of magnification
Because the information communication among marketing bodies is more direct and effective, the obstacle of space has been spanned, and the negative information spread of marketing is more extensive and convenient which would bring large loss and serious results, so the network marketing in the e-business environment can amplify the risk in the real market for enterprises and induce the enterprises which are not familiar with e-business underestimate the marketing risks facing by them.
1.2.2 The character of diversity

Because enterprise would face two markets including the network market and the real market in the e-business environment and possesses diversiform interior and exterior participation bodies, and the operation platform of e-business needs the diversity of management technology and information technology, so the sources of marketing risk will present the character of diversity in the e-business environment.

1.2.3 The character of process

The marketing activity of enterprises in the e-business environment needs the information flow, the logistical flow and the capital flow harmonize in time and space, and the implementation of every phase would company with the production of risks with difference characters, so the marketing risk in the e-business environment possess lively character of process.

1.2.4 The character of layer

As a sort of information system platform, the e-business mode possess the character of layer whether for the system structure of the platform or for the decision process of the marketing, and the marketing risk produced in every layer would bring different losses, and the decision-making risk always exceeds the occupational risk.

1.2.5 The character of technology

Comparing with traditional marketing mode, the enterprise marketing activity in the e-business environment more depends on the advancement of technology. First, the network security information technology is needed, because the network security technology problem will bring large losses for enterprise. Second, the exterior technical advancement would quickly influence the production distribution of enterprises through the network. And enterprises will suffer large losses if they turn a blind eye to these technical changes.

1.2.6 The character of uncertainty

Because the operation of e-business platform needs not only technical support but also the participation of the management layer, so the marketing activity in the e-business platform is a sort of non-structured systematic behavior, and under this mode, the enterprise marketing activity will face the risk with large character of uncertainty.

To help e-business enterprises better management the risk of marketing, we will establish the enterprise marketing risk random measure model in the e-business environment according to the characters of enterprise marketing risk in the e-business environment, and systematically and comprehensively identify, evaluate, warn and control the marketing risk for the e-business enterprises.

2. The identification and measure model of e-business enterprise marketing risk

2.1 The 3d embedded random measure model of e-business enterprise marketing risk

According to the general process of the risk management and the characters of enterprise marketing risk in the e-business environment, we adopt a 3D identification model to conform the risk factors in the phase of risk identification, adopt a 3D random measure model to measure the risk situation in the phase of risk evaluation, and establish the 3D embedded random measure model based on the above two models, and the basic structure of the model is seen in Figure 1.

This model includes two 3D models. The first 3D identification model is mainly used in the identification to the e-business enterprise marketing risk, and implements the qualitative risk identification and conform the risk sources and risk factors of the e-business enterprises and primarily judge the importance to these risk factors. The three coordinates of the model are composed by layer, flow and factor. When implementing risk identification, the layer dimension confirms the risk resources on the interior management space and exterior environment, mainly emphasizes the environment factors on different layers and the people on the posts in different layers, and generally, the management layer can be divided into the decision-making layer, the occupational layer and the operation layer, and the object is the group corporation, many fractal structured decision layer, occupational layer and operational layer may exist, and the layer of the environment can be divided into macro environment, industrial environment, and regional industrial environment, and lower environmental layer effects the enterprise marketing risk more directly. The flow dimension confirms the logic stage of risk from the logical sequence, and it mainly emphasizes the design factor of enterprise e-business activity operation flow when identifying the risk, and according to the character of the flow, it can be divided into the plan flow, the implementation flow and the control flow, and according to the main bodies involved by the flow, it can be divided into exterior flow and interior flow, and according to the objects involved by the flow, it can be divided into information flow, capital flow, human flow and material flow. The factor dimension confirms the risk sources from the view of risk factor and emphasizes the exterior environment factor and the interior resource factor of risk identification, and it can be divided into the
equipment resource, the technology resource, the knowledge resource, the information resource, the immaterial resource and the client resource.

Through various flows on the different management layers, or the factors analysis involved in the integrated flow on different management layers, we can confirm the risk source and the risk factor and establish bases for the risk identification.

The second model is mainly used in the evaluation of risk factor. Being different with the first 3D identification model, this model mainly solves the risk measure problem of e-business enterprise through quantitative computation. The traditional risk measure is computed by two factors including the probability which is used to estimate the possibility of risk occurrence and the price which is the cost paid by enterprises because of the occurrence of risk or the prevention of risk, and it measures the risk through confirming the probability and the price, i.e. \( R = Pr \times Pri \). However, this traditional risk measure method lacks the consideration of preference to risk assumption personnel or enterprise risk and can not completely reflect the essential meaning of the risk. To objectively measure the risk, we add the measure of utility, will and confidence of the risk assumption when the main body of risk assumption faces risk, i.e. the preference. These three indexes can completely measure the risk of enterprises, and we can find a sort balance relationship among them, and under the condition of balance, any two factors will automatically decide the third factor. For example, the price and probability are confirmed, we can deduce the preference, or the price and the preference are confirmed, we can confirm the probability. Through the present risk management practice only pay more attention to one of them or two of them, but this mutual function indicates that these three factors depend on each other. This dependent relationship can be described through the following definition.

2.2 The combination index system of e-business enterprise marketing risk

Definition 1: Supposed that the e-business enterprise marketing risk is a risk system \( S \) which aims are to reduce losses and actualize the increment of the enterprise, and \( S \) is the space composed by 3D vector layer \( a \), flow \( b \) and factor \( c \). And one e-business trading that enterprise completes once is a random course \( X(t,S) \), and the implementation of this event depends on the realization of 3D vector, and supposed that the 3D vectors in the enterprise system \( S \) can be listed and added, i.e.

(1) \( a \), \( b \) and \( c \) are incompatible and can not be replaced mutually, which can be presented as \( abc = \Phi \) (empty set) and \( a \cup b \cup c = \Omega \) (full set).

(2) The factors contained in every \( a \), \( b \) and \( c \) are incompatible and can not be replaced mutually, i.e. \( a_1a_2\Lambda a_n = \Phi \) (where \( a_i \in a \) is the layer factor), \( a_1 \cup a_2 \Lambda \cup a_n = \Omega \), and the other two dimensions are same with this one.

So the phase risk of the system in the i phase when e-business enterprises trade can be defined as \( R(X(t = i, a_1 \cup b_1 \cup c_1)) = R(a_i) \cup R(b_i) \cup R(c_i) = R(a_i) + R(b_i) + R(c_i) \). Through the analysis of layer, flow and factor, we can find the set of various factors involved in the e-business trading process, and we can analyze the index risk of single factor to various factors, and the computation of single factor index risk can be implemented through Definition 2.

Definition 2 (single factor index risk combination index): Supposed that the invalidation probability of the risk factor \( y_i(y_i \in \Omega) \) is \( Pr_o \), and the enterprise payment price when enterprises fail to prevent factor invalidation or the factor is invalidated is \( Pri \), and here, the enterprise assumption ability or will preference to factor invalidation is \( Pr_e \), so the risk combination index of the factor \( y_i \) can be defined as \( R(y_i) = f_i(Pr_e - Pr_o \times Pri) \). Where, \( || \) presents the Euclidian space distance and \( f_i(\bullet) \) presents the mapping of \( R^+ \to R \).

To the risk judgment of the single factor index \( y_i \), we can measure the risk according to the character of the function \( R(y_i) \) value. Supposed that the relationship that the mapping \( f_i(\bullet) \) describes is \( R(y_i) = Pr_e - Pr_o \times Pri \), and when \( R(y_i) = 0 \), the risk induced by the factor \( y_i \) equals to the risk of preference that the enterprise favors this factor, so it is in the status of balance, and the risk of this factor can be accepted by the enterprise, and when \( R(y_i) > 0 \), the risk induced by the factor \( y_i \) is smaller than the risk of preference that the enterprise favors this factor, and when \( R(y_i) < 0 \), the risk induced by the factor \( y_i \) exceeds the risk of preference that the enterprise favors this factor, and in these two situations, the risk acceptance degree of the factor can be adjudged by certain warning mechanism. The risk combination index of single factor index locally reflects the balance situation of e-business enterprise marketing risk, and it can not completely reflect the making risk status faced by the enterprise, so in order to comprehensively reflect the marketing risk when the enterprise completes once e-business trading, we need to combine the risk index of single factor index. According to Definition 1, when e-business enterprises trade,
the risk index in the i phase can be combined as the sum of single risk index, and to make this combination rules more reasonable and reflect the importance degrees of various factors, we should consider the weight factor when combining the index in the phase risk, in the process risk of the whole trading process and the comprehensive marketing risk of e-business enterprises.

Definition 3 (phase risk combination index): Supposed the risk factor set in the j phase is $Y_j = \{ y_{ij}, i = 1,2,\ldots,m; j = 1,2,\ldots,n \}$. The risk index of $y_{ij}$ is combined according to Definition 1, so the phase risk combination index $R(Y_j)$ in the j phase is

$$
R(Y_j) = \sum_{i=1}^{m} \alpha_i R(y_{ij}) .
$$

Where, $\alpha_i$ is the risk index weight of the risk factor $y_{ij}$. Similarly with Definition 3, we can define the process risk combination index $R(X_k)$ in certain trading process k and the e-business comprehensive risk combination index $R(S)$ as

$$
R(X_k) = \sum_{j=1}^{n} \beta_j R(Y_j) = \sum_{i=1}^{m} \alpha_i \beta_j R(y_{ij})
$$

$$
R(S) = \sum_{k=1}^{o} \gamma_k R(X_k) = \sum_{i=1}^{m} \sum_{j=1}^{n} \alpha_i \beta_j \gamma_k R(y_{ij})
$$

Similarly with the judgment of single factor index risk, the balance judgments of phase risk, process risk and comprehensive risk can refer to the judgment method of single factor risk.

3. The warning and control of enterprise marketing risk in the e-business environment

Through the risk identification and evaluation of e-business enterprise, we can compute the risk measure that the evaluation needs, and next work is the warning and control of risk. In the phase of risk warning, we need adopting two steps, and one is to analyze the balance status of three factors of risk according to the measure of single factor risk, and judge the risk acceptance degree of single factor index according to established balance conditions, and complete the risk warning to single factor index. And the second one is to compute the comprehensive risk index according to the risk measure value of single factor index and the above combination model of risk index (Definition 3), and judge the comprehensive risk acceptance degree of enterprises according the standard of comprehensive risk index.

The key part in the phase of risk control is to find key influencing factors through auditing and evaluating relative risk factors, and make enterprises spend minimum price investment and obtain the most effective risk control effect. According to anterior analysis, because the price investment of enterprises in the risk control will influence the occurrence probability of the risk and the risk preference of enterprises and induce the corresponding changes of enterprise comprehensive risk status, so the real time in the phase of risk control is the key to obtain the success of the risk control.

4. Conclusions

In this article, through analyzing the change of enterprise marketing mode and the characters of marketing risk in the e-business environment, we establish the 3D embedded random measure model which suits for the e-business enterprise marketing risk, define the combination rules of the risk index system of this model, and establish the theoretical base to measure the marketing risk for e-business enterprises.

Furthermore, through the example that this model is applied in the e-business marketing risk management practice in certain corporation, the model is recognized by all management personnel in the corporation and achieves good effects, and it not only optimizes the risk management flow of the corporation, but also reduce the cost of risk control and enhance the efficiency of risk management.

The problems needing to be further researched include the 3D measure mathematical statistical analysis of single factor risk index, the segment layer research of 3D identification model and the application and implementation program of this model in the e-business marketing risk management.

References


![Figure 1. 3D Embedded Random Measure Model of Marketing Risk](image-url)
Effective Government Intervention in Establishing Optimal Financing Frame for Transnational Operation of Private Enterprises

Bin Huang
School of Economics, Huazhong University of Science & Technology, Wuhan 430071, China
E-mail: hnpzhhhb@hotmail.com

Abstract
A government’s financing policies are essential to its private enterprises’ transnational operation and development. Many foreign governments have attached much importance to their private enterprises and supported them by formulating a series of preferential financing policies and providing corresponding conditions for them. In this paper, Chinese private enterprises’ financing statuses in domestic and international markets are analyzed, in order to increase the financing strength for the transnational operation of Chinese private enterprises from the view of emphasizing government support.

Keywords: Effective government intervention, Transnational operation of private enterprises, Optimal financing

1. Evaluation on the efficiency of chinese financing policies for private enterprises

1.1 Comparing the financing policies of China and those of foreign countries, we can find out the root of problems existing in China’s direct and indirect financing systems.

Apparently, difficulties in the financing of private enterprises are resulted from narrow financing channels, but actually, they are caused by inappropriate systems. The financing activities of private enterprises could develop only in a distorted form because the current financial and managerial systems with the public ownership as the mainstay fail to support the development of private economy. And the issuance of several supporting policies will be of no help if the present systems are not modified. Therefore, the abovementioned problem should be solved by innovating systems, that is to say, to eliminate all discriminations and take market efficiency and risk control capability as the principle for market access and withdrawal; to speed up legality building and unify the managerial systems of middle and small-sized enterprises (MSEs); and give policy support by cultivating the market competitiveness of MSEs. At present, it is urgent for China to develop a large group of local private financial institutions of middle and small sizes and multi-layer and diversified capital markets and to establish corresponding market systems and criterion. Since the key point that whether financial institutions have the capability to control internal risk is related to the clarity of property right system and the existence of owners rather than the nature of ownership system, the regulation of property right system and the perfection of corporate governance structure should be implemented.

1.2 Financing concept needs improvement

During their transnational operation in western countries, Chinese private enterprises encounter many obstacles in the transnational flow of production factors such as technology, capital and talents, and so on. The longstanding absence of equal international macro-environment makes it more difficult for these enterprises to perform financing and develop in international financial market. Shortage of capital, in particular shortage of exchange capital is a typical socioeconomic status in China. As the transnational operations of private enterprises happen in complex cultural background and changing market situation and with exchange rate risk, enterprise credit is especially important, however, currently, the foundation of business credit of the whole society is extremely vulnerable. The credit information concerning citizens and enterprises are scattered in each departments, resulting in imperfect credit sharing system and the lack of active constraint of breach of faith. The transnational operation of private enterprises is a long-term economic behavior, however, many private enterprises have no strategic insight that they resort to financing only when they face financial difficulties.

Therefore, the innovation of social financing system, especially of the capital policies for MSEs must be carried out. To gain external financing for transnational operation, private enterprises should improve the transparency and clarity of ownership so as to enhance bank credit, and the government should play a key role in establishing and maintaining a fair competitive environment as well as in encouraging loan to and investment in private enterprises.

2. Effective government intervention in establishing optimal financing frame for transnational operation of private enterprises

From the efficiency analysis of the financing policies for Chinese MSEs, effective government intervention is the
best approach to help these private enterprises to realize multiple financing modes, expansion of financing scale and optimal financing, for which the following aspects should be achieved:

2.1 The government should formulate specific measures to provide financing facilities.

The financing facilities include drawing financing plans of credit guarantee organizations, implementing different loan facilities according to different industrial development organizations, establishing special quick loan plans and additional clauses of commercial banks, and financing plans of specific fields (e.g. export financing). Take Malaysia as an example, it provides its private enterprises with buyer’s credit facility, overseas investment credit facility, buyer’s credit guarantee facility, supplier’s credit guarantee facility, export financing facility. Special government financing organizations may be established to provide credit service for private enterprises. Besides, the government should actively take part in negotiations on bilateral investment and in negotiating and signing agreements on avoiding double taxation so as to win more favorable international financing conditions.

2.2 The government should implement preferential financial policies as soon as possible.

It should conduct active intervention in state-owned large-scale commercial banks, and encourage Chinese-funded banks to carry out transnational operation and to cooperate with Chinese private enterprises to jointly enter international market. The government should develop middle and small-sized private commercial banks, and strengthen the opening up to foreign-funded banks and gradually lower the requirements on their entering Chinese financial market, so that middle and small-scale banks with good reputation may develop business in China successfully, bringing about more opportunities for Chinese private enterprises to do business and develop in foreign countries. The government should, conceptually and practically, actively offer private enterprises an all-round access to foreign markets. Good social credit system is necessary. The government may act as a guarantor in case private enterprises need loan services for transnational operation, provide favorable government financial credit, set up mutual risk investment fund, employee fund and security fund, and so on, and encourage private enterprises to issue stocks guaranteed by investment corporations. In addition, in order to help those with heavy debts, special loan for reinvestment may be established. For example, the Chinese government may learn from the regional professional guarantee systems run by American local governments. These guarantee systems are different in characteristics due to different situations. For instance, California founded its export credit guarantee system 12 years ago, aiming to help local small enterprises to expand export volume. It adopts government financial support and the cooperation with cooperative banks to share the loan risks of banks, so that banks will pay attention to both the cash flow and the future revenue of small enterprises, which enables small enterprises to become stable client of banks. Assisted by this regional guarantee system, many small enterprises have become successful exporters. While implementing the credit guarantee system for small enterprises, America also requires them to accept free charge training and consulting service offered by the government so as to improve their management level and reduce the risk that banks and non-governmental investors need to bear. It is obvious that, by means of guarantee, America establishes a MSE-oriented credit system to rebuild bank-enterprise relationship, improve the credit concept and quality of MSEs, and enhance social credit environment.

2.3 Using multiple financing modes to realize optimal financing for transnational operation of private enterprises

2.3.1 Short-term financing

There are short-term bank loan and overdraft, packing loan, negotiation under documentary credit, draft discount, factoring, forfeiting and open account. And most of them depend on settlement of account by letter of credit. As for BOT project financing, the combination of the short-term credit (e.g. loan and overdraft) and long-term project loan may solve the problem of current capital after the start-up of the project at relatively low cost. And for short-term financing modes such as negotiation under documentary credit, draft discount, factoring and forfeiting, their basic operation is that, after delivery, export enterprises sell their drafts with or without recourse to banks to pay back part or all loans. With the reduction of trading volume of letter of credit, foreign commercial banks are incessantly conducting innovation of these traditional financing modes. Chinese private enterprises also may seek proper financing services in foreign banks during transnational operation.

2.3.2 Middle and long-term financing

The Chinese government has intensified its support to enterprises in exchanging capital export for market, and the main modes adopted are just discount interest preferential loan and export credit. As regards policy, obvious support is given to high-tech projects such as communication and others.

Currently, export credit and preferential loan are major financing means taken by private enterprises for expanding overseas market, however, some restrictions must be broken, for example, the generally needed government guarantee. As for bond financing or stock financing, project financing modes such as BOT and financing leasing are good alternatives.
2.3.3 Financing leasing

Financing leasing, also referred to as finance leasing, is an assets financing mode, that is, the lessor provides credit for the lessee, and the latter accordingly acquires access to equipment. By combining financing and “substance raising”, financing leasing integrates trade, finance and lease to shorten project construction period. Financing leasing is flexible and simple in operation, and may facilitate technical reform, improve private enterprises’ financing effectiveness and technical advance. As to whether or not lease should be chosen as the source of debt capital for project financing, a comparison between optional lease financing modes and other debt capital modes should be carried out, and cost benefit analysis should be used to determine whether the lease mode adopted may bring about better comprehensive economic benefit, in such a manner, financing leasing could really solve bottle-neck problems of capital obtaining of private enterprises.

2.3.4 Overseas financing and listing and direct financing

As a kind of rare resource, capital is rather precious for Chinese private enterprises developing at a rapid speed and seeking scale expansion. In the aspect of overseas financing, Chinese private enterprises with quality assets may realize the following objectives:

1. Taking use of international capital, private enterprises may quickly enlarge their development scale;
2. Relying on international capital market, the products or services of private enterprises may be exported to international market;
3. The process of overseas financing is also the process of learning during which private enterprises learn from foreign management concept and enhance their levels of management;
4. If private enterprises choose overseas listing, then they may
   ① Raise a large amount of investment capital for development in a short period by selling part of the enterprise stocks. Due to factors like premium, often, private enterprises’ financing amounts are close to or even exceed their original total assets, which proves that overseas listing is the best choice for enterprises to gain actual increment.
   ② Establish conditions for long-term financing in stock market and obtain capital needed for further development by issuing stock dividends;
   ③ Sell the assets of controlling stockholders in stock market to build a platform for the withdrawal and increment of capital of entrepreneurs;
   ④ Regulate enterprise management, establish modern management systems, receive better social supervision and achieve stable development. By executing stock equity plans, private enterprises may strengthen their cohesive forces to attract more excellent talents;
   ⑤ Have more cooperative opportunities in international technology, market, management and talents, creating positive conditions for entering international market;
   ⑥ Win tremendous development and expansion capabilities and use less cash to merge target companies by equity swap;
   ⑦ Take full advantage of many financial products in the international capital market and achieve the goal of capital operation.

Therefore, the Chinese government could guide its private enterprises to obtain plentiful sources of funds from the international market and enter the international economic circle. Besides, it may consider helping domestic private enterprises with superior assets, solid mode of profit, products of development potential and a complete business planning to obtain fund needed by self-development from the international capital market. Moreover, the government can directly make an appearance to help private enterprises to obtain overseas financing, such as industry investment, strategic joint investment, and risk investment, directional private placement, overseas merger and acquisition as well as overseas listing, etc. Private enterprises choosing overseas financing shall be with a clear shareholding structure and explicit history and has no big problems on law. Although the direct financing is the mode adopted by most of enterprises, at present, Chinese private enterprises are restricted by many objective obstacles in this respect. Not all of the enterprises can undertake this mode since the cost of previous period is too high for financing at the stock market, especially for financing at the overseas capital market. However, direct financing will be an indispensable developmental direction for Chinese private enterprises in the future. With increasingly mature conditions, direct financing of overseas listing will be an important step for Chinese private enterprises to enter the international market successfully.

3. Conclusion

In conclusion, effective government intervention intensifies financing of transnational operation and greatly
promotes transnational operation of Chinese private enterprises by using flexible and various financing modes. At present, it is the best choice for Chinese private enterprises to actively develop using international financing channel, to make use of continuously updated financial instruments, to seek after matching of life of loan, reasonable combination of structure of varieties and effective prevention of exchange rate risk in order to realize optimal financing of transnational operation.

References
Comparative Analysis of Rural and Urban Indian Consumers’ Attitude towards Foreign Products

Jagwinder Singh (Corresponding Author)
Lecturer (Senior Scale), Dept. of Management, Dr B R Ambedkar National Institute of Technology (Deemed University) Jalandhar-144011, Punjab, India
Tel: 091 98885 03708   E-mail: jagwinpandher@yahoo.co.in

B B Goyal
Reader, University Business School, Panjab University Chandigarh-160014, India
Tel: 091 94173 07276   E-mail: ubschd@yahoo.co.in

Abstract
India has been acknowledged as one of the most promising and fastest growing economy of the world. Besides urban and semi-urban areas, rural India has a huge potential. Many foreign brands are dominating particularly in consumer durable category. The purpose of the study is to understand the comparative attitudes of rural and urban Indian consumers towards the foreign products against Indian products. Both rural and urban consumers have rated foreign products very high as compared to domestic products. Rural consumers were found more impressed than their urban counterparts with foreign products in terms of maintenance services, technical advancement, prestige, durability, quality/performance, and wide choice of size and model. No significant differences were observed between rural and urban consumers in terms of ‘good style and appearance’. Indian producers in the coming times are going to face a very strong threat from foreign brands, particularly in consumer durable category.

Keywords: Foreign brands, Consumer durables, Rural and Urban consumers, Attitude

1. Introduction
India is the world’s 12th-largest consumer market. By 2025, it is projected to be ahead of Germany, the fifth largest, according to a recent McKinsey (2007) survey. The biggest strength of Indian markets lies in the size, not in individual spending. With the rise in income, over 291 million people will move from desperate poverty to a more sustainable life, and India’s middle class will increase incredibly by over ten times from its current size of 50 million to 583 million people. Besides urban and semi-urban areas, rural India has a huge potential. Indian corporations have now recognized the importance of rural markets. It is evident from the efforts made by the companies like Coke, ITC (Indian Tobacco Company) and Hindustan Lever Limited. According to Rajan (2005), Coke, in India has doubled the number of outlets in rural areas from 80 000 in 2001 to 160 000 in 2003, and increased market penetration from 13 per cent to 25 per cent. ITC Limited and Hindustan Lever Limited (now Hindustan Unilever Limited) have initiated rural approach through strategic initiatives such as e-choupals and Project Shakti.

In case of white goods and automobiles, the differences between prices of national and foreign brands have been narrowed down. Majority of the companies have introduced number of services to induce the consumers. Bargaining power of consumers has increased tremendously than ever before due to intense competition. The phenomenal growth of media, availability of loans and lowering of interest rates have caused sudden rush for these products. Liberalization and opening up of the economy has exposed the middle class of the country to the quality products at the competitive prices. There is a huge flow of foreign brands into the Indian market. There have been major structural changes in the economy as a result of globalization. The competition has been intensified.

The state like Punjab gets a favorable ranking in terms of ownership of assets, consumer durables, two-wheelers, and cars in rural areas. In rural Punjab there are many families whose one or more family members have gone abroad. Their standard of living is even far better than many of the urban residents.

2. Literature Review
The gross domestic product (GDP) growth in India is hovering between 7-8 percent. India has been acknowledged as one of the most promising and fastest growing economy of the world. Today virtually all big MNCs are operating in India. LG and Samsung have burst into the consumer’s mind space (Vedpuriswar, 2006). The greatest challenge that India faces is that it has yet to join the rank of developed countries. Also the other major challenge is pulling the
population out of poverty. India has remained a ‘shortage’ economy for the last few decades. Still wheat is imported from foreign nations.

Foreign brands such as Hyundai (South Korea), Daewoo (South Korea), General Motors (USA), Ford (USA) are threatening the Indian car manufacturers, whereas Sony (Japan), Samsung (South Korea), LG (South Korea) have penetrated deeply into Indian television sets market. Whirlpool (US) is dominating in the washing machine segment. The other foreign brands like Nike and Adidas are also expanding in the Indian market at a very rapid pace. The foods chains like McDonalds, Domino, Pizza Hut, KFC (Kentucky Fried Chicken) have made their presence felt on the Indian soil. However Indian brands particularly in categories like tea, chocolates, ice-creams and toothpastes have put up a brave front against foreign brands.

A large number of firms have taken the advantage of positive image of their country-of-origin and have helped the marketers favorably (Papadopoulos et al, 1993). Though national reputations for products vary from country-to-country, yet consumers tend to generalize their attitudes and opinions across products from a given country, based on their familiarity and background with the country (Kinra, 2006). It has also been found that sometimes emotional component dominates over the rational aspect while evaluating the products. Consumers develop the country image through familiarity with their products. The country images with the existing products can also be transferred to new or unfamiliar products (Agarwal and Sikri, 1996). Country image may represent the overall perception about the quality of products made in a particular country (Crawford and Garland, 1988). The country of manufacturing and product quality strongly affect consumer decision making in globally available product categories. The image of the country is created by the representative products, national features of the country, economic and political background, history and traditions. The studies in western countries have revealed that the consumers of these countries have a tendency to favor the domestically made products over foreign goods. Highly ethnocentric consumers prefer those overseas products that are manufactured in culturally similar countries. The country-of-origin acts as an extrinsic cue that assures quality and minimizes the risk of the consumers (Cordell, 1992). Some studies have found that the extent of ethnocentricty depends upon demographic variables such as age and educational level. Doob (1964) has observed personality traits like patriotism or nationalism may not necessarily mean hostility to foreign countries. Similarly world minded consumers does not necessarily have lack of love for their own country. Therefore, buying foreign goods may not necessarily affect their spirit of nationalism. Kaynak et al (2000) found in their study that Bangladeshi consumers overwhelmingly preferred imported products from western countries, though their perception differed across product class. Ettenson (1993) have observed that country-of-origin has differential effect and greater than the effect of brand name. The military and economic rivalry between China and Japan reduces Chinese consumers’ willingness to buy a Japanese product (Klein et al, 1998). Bhuiian (1997) observed in Saudi Arabia more positive attitude of the consumers towards the products from USA, Japan, Germany, Italy, UK and France.

3. Methodology

The study has been carried out in Ludhiana district of Punjab state (India) and adjacent rural areas of the city during November-December, 2007. Ludhiana is the most centrally located and populated district of the state with about 12 per cent population of the Punjab state reside in this district. One hundred households (fifty each from rural and urban area) were selected for study on the basis of convenience sampling. Rural area corresponds to villages of the district and urban area corresponds to those who live in Ludhiana city. The sample does not cover people of semi-urban areas of the district such as towns/sub-towns that come in Ludhiana district. All respondents had their total household income in the range of three to five lac (1 lac= 0.1 million) rupees per annum. This means that they belonged to the dominating middle class of the country. The households were asked to respond to a set of statements pertaining to eight variables in terms of their agreement to the statements (strongly agree, agree, indifferent, disagree, and strongly disagree). A five-point scale was later used to evaluate statements using 5 for strongly agree and 1 for strongly disagree. The study has been carried out with a view to understand the comparative attitudes of rural and urban consumers towards the foreign brands in terms of following aspects of the consumer durable products such as cars, televisions, refrigerators, washing machines, and microwave ovens:

(1) Better Durability (Greater Life)
(2) Technical Advancement
(3) Wide Choice of Size and Model
(4) Good Style and Appearance
(5) More Prestige
(6) Maintenance Services
(7) Better Quality/Performance
(8) Greater Value for Money

The consumers were asked to respond whether foreign brands are much better in these aspects than their domestic counterparts. \( z \) statistics has been employed to check the level of significance between the differences of mean values of scores.

4. Scope of study

The study has a tremendous scope. As the Indian markets have been opened up, many foreign companies are gearing up to penetrate into the Indian markets. Urban markets are already saturated with large variety of products and on the other side the potential in the rural India is increasing at a very rapid pace. The study will help the overseas marketers to take advantage of the favorable image that they maintain in both the segments. The study is also of great use for domestic producers in terms of thinking strategies to combat the effect of ‘foreign made’. Further studies can be carried out by taking into account the demographic profiles of the consumers and the state of economic development of the foreign nations.

5. Limitations of the study

The study has few limitations. First limitation is that the sample size is too small to generalize the findings across the one of the most populous country like India. Second the image effects have not been associated to the demographic profiles of the consumers. Third the foreign countries have not been classified into categories such as highly industrialized or newly industrialized nations. In spite of the limitations, the study evokes thoughts that draw attention of the marketers, particularly belonging to foreign nations.

6. Analysis and Discussion

Overall importance given by both rural and urban consumers to the foreign products against Indian products has been summarized in Table 1. The data reveal that foreign products are far ahead than Indian products in the minds of the consumers in terms of style, appearance, prestige, wider choice and quality. Foreign products in comparison to Indian products have more positive image in the minds of rural consumers than urban consumers in terms of all the factors studied (Table 2). The differences between rural and urban consumers as regards to image of foreign vis-à-vis Indian products were found significant in all the factors studied except ‘good style and appearance’ of foreign brands. The difference was found non-significant in this factor. The differences were relatively less significant in case of factor – ‘greater value for money’ (Table 3).

The study reveals that both rural and urban consumers had given huge importance to foreign products over domestic products in terms of all the factors studied. Overall ‘good style and appearance’ was given the highest ranking. ‘Prestige’ and ‘wide choice of size and model’ were given second highest rating overall. ‘Maintenance services’ was given the lowest rating among all the factors studied. This is probably due to the outsourcing of maintenance services by the foreign firms with the local firms. Rural consumers had given the highest rating to ‘prestige’ whereas urban consumers had given the highest rating to ‘good style and appearance’. Urban consumers being style conscious therefore, probably are relatively less concerned about durability and maintenance services. This is so because style keeps on changing with time. Rural consumers of Punjab state are very prosperous as compared to the rural consumers of the other states. With the increase in agricultural output and increase in support prices of the crops, the income of the rural consumer has increased considerably. Moreover, there are large number of people from the rural Punjab have migrated to developed nations like USA, Canada, Australia, UK, and Western Europe. Their family members residing in the rural areas tend to increase their status by demonstrating prestigious products. Also they are familiar with the foreign products through their family members living abroad who either advice them to buy a particular brand or buy/present them during their visits to India. Urban consumers in general give greater importance to style and appearance than other attributes. This is probably due to their tendencies to relate products with their personalities. Therefore, they prefer to seek these attributes in the foreign products than Indian products as these help them in displaying their novel and global look.

Rural consumers have given the highest rating to all the factors studied than their urban counterparts in terms of superiority of foreign products over Indian products. This implies that rural consumers are more attracted to foreign products than urban consumers. The highest difference was observed in the feature ‘better maintenance services’ followed by ‘technical advancement’ of foreign products than Indian products. The ‘prestige’ of owning foreign brands, is the third ranked feature where differences between rural and urban consumers existed. However, no significant difference was observed between rural and urban consumers in terms of their rating to ‘good style and appearance’. The difference in terms of ‘greater value for money’ was though significant but comparatively lesser than other factors that differed significantly among these groups. Urban consumers have rated ‘better maintenance
services’ whereas rural consumers rated ‘greater value for money’ lowest among all the factors. Though the affordability of the rural consumer has increased considerably, yet they probably find foreign products expensive and thus rated ‘better value for money’ lowest among all the factors studied. Therefore differences were not relatively much in terms of ‘greater value for money’.

7. Managerial Implications

As the potential in rural India has tremendously increased, therefore both domestic and foreign products will try to invade into this segment. The foreign products may find the entry easier as they need not to spend much time and effort to overcome consumers’ nationalistic attitudes. The rural consumers are already attracted to foreign products and they are very much familiar about the credibility of these products through their family members living abroad. These family members living abroad being the source of their money therefore, possess tremendous influential power on their family members living in India. On the other side the domestic manufacturers will have to put in stringent efforts to make a breakthrough in their attitude. The Indian firms that are currently competing with foreign firms and positioning their products on maintenance, technology, and prestige need to either revise their product positioning or strengthen themselves further in these aspects before entering into rural markets. The companies focusing on style and appearance will not find any difference between rural and urban consumers’ attitudes towards foreign products against Indian brands. Thus any firm currently positioning on style and appearance in the urban market and willing to carry the same image in the rural market need not to change much of its marketing program.

Indian producers for the reason of remained protected over a longer time period neither offered many options to the Indian consumer nor cared about the intangible aspects associated with consumer durable products. Now with the increased income of both rural and urban consumer, the bargaining power of the consumer has increased. Therefore, they have become more style conscious, and seek prestige and variety in products. But it does not imply that there is no scope for improvement for the foreign players. They are still required to assure Indian consumers (both rural and urban) that they provide best value for money and offer excellent maintenance services than their domestic counterparts. This will help them to stay longer. On the other side, the domestic manufacturers may emphasize on improving maintenance services and providing better value for money to combat favorable image of foreign products. The increase in income of Indian consumer does not imply that they can throw money on any product. But Indian producers in the coming times are going to face a very strong threat from foreign brands, particularly in consumer durable category.

References


Table 1. Overall Importance to Factors of Foreign Products vis-à-vis Indian Products

<table>
<thead>
<tr>
<th>Factors</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Better Durability</td>
<td>3.76</td>
<td>.767</td>
</tr>
<tr>
<td>Technically Advanced</td>
<td>3.96</td>
<td>.695</td>
</tr>
<tr>
<td>Wide Choice of Size and Model</td>
<td>4.28</td>
<td>.604</td>
</tr>
<tr>
<td>Good Style and Appearance</td>
<td>4.32</td>
<td>.649</td>
</tr>
<tr>
<td>More Prestige</td>
<td>4.28</td>
<td>.569</td>
</tr>
<tr>
<td>Better Maintenance Services</td>
<td>3.60</td>
<td>.603</td>
</tr>
<tr>
<td>Better Quality/Performance</td>
<td>4.14</td>
<td>.532</td>
</tr>
<tr>
<td>Greater Value for Money</td>
<td>3.70</td>
<td>.611</td>
</tr>
</tbody>
</table>

Table 2. Rural and Urban Consumers’ Attitudes regarding Foreign Products vis-à-vis Indian Products

<table>
<thead>
<tr>
<th>Factors</th>
<th>Rural Mean</th>
<th>Rural Standard Deviation</th>
<th>Urban Mean</th>
<th>Urban Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Better Durability</td>
<td>4.12</td>
<td>.718</td>
<td>3.40</td>
<td>.639</td>
</tr>
<tr>
<td>Technically Advanced</td>
<td>4.32</td>
<td>.471</td>
<td>3.60</td>
<td>.699</td>
</tr>
<tr>
<td>Wide Choice of Size and Model</td>
<td>4.48</td>
<td>.646</td>
<td>4.08</td>
<td>.488</td>
</tr>
<tr>
<td>Good Style and Appearance</td>
<td>4.44</td>
<td>.577</td>
<td>4.20</td>
<td>.699</td>
</tr>
<tr>
<td>More Prestige</td>
<td>4.56</td>
<td>.501</td>
<td>4.00</td>
<td>.495</td>
</tr>
<tr>
<td>Better Maintenance Services</td>
<td>3.92</td>
<td>.565</td>
<td>3.28</td>
<td>.453</td>
</tr>
<tr>
<td>Better Quality/Performance</td>
<td>4.32</td>
<td>.471</td>
<td>3.96</td>
<td>.532</td>
</tr>
<tr>
<td>Greater Value for Money</td>
<td>3.84</td>
<td>.618</td>
<td>3.56</td>
<td>.577</td>
</tr>
</tbody>
</table>

Table 3. Difference in Rural and Urban Consumers’ Attitudes regarding Foreign Products vis-à-vis Indian Products

<table>
<thead>
<tr>
<th>Factors</th>
<th>Difference in Mean Values</th>
<th>z Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Better Durability</td>
<td>0.72</td>
<td>5.33**</td>
</tr>
<tr>
<td>Technically Advanced</td>
<td>0.72</td>
<td>6.10**</td>
</tr>
<tr>
<td>Wide Choice of Size and Model</td>
<td>0.40</td>
<td>3.51**</td>
</tr>
<tr>
<td>Good Style and Appearance</td>
<td>0.24</td>
<td>1.84</td>
</tr>
<tr>
<td>More Prestige</td>
<td>0.56</td>
<td>5.60**</td>
</tr>
<tr>
<td>Better Maintenance Services</td>
<td>0.64</td>
<td>6.40**</td>
</tr>
<tr>
<td>Better Quality/Performance</td>
<td>0.36</td>
<td>3.60**</td>
</tr>
<tr>
<td>Greater Value for Money</td>
<td>0.28</td>
<td>2.30*</td>
</tr>
</tbody>
</table>

** significant at both 0.01 and 0.05 significance levels
* significant at 0.05 significance levels only
Risk Identification and Evaluation in Trade Finance Innovation of Commercial Banks

Yijun Yuan, Shaopeng Tan, Dawei Li
Department of Economics, Dalian University of Technology, Dalian 116024, China
Tel: 86-411-8470-7230   E-mail: yjyuan@dlut.edu.cn

Abstract
Importance has been attached to trade finance innovation for it is essential for the competitiveness of commercial banks. Its risks mainly come from three aspects: market innovation, institutional innovation and portfolio innovation. These are the source of innovation risks. Based on the classification of innovation risks, identification framework and evaluation indicator system are introduced to manage the risks so as to ensure the success of trade finance innovation.

Keywords: Trade finance innovation, Risk identification, Risk indicator

1. Introduction
Trade finance of commercial banks is a financing business which is based on international commodity trading. Its major function is to bridge the financing gap for the applicant in the production process, from purchase of raw materials to recover funds. Most trade finance has actual transaction basis. It is of strong self-liquidation, has a clear transaction background and the source of repayment is based on actual trade transactions. Being a short-term, repeatable financing product, along with other distinctive characteristics, trade finance can generate steady and considerable profit for commercial banks. With the above advantages, trade finance has become one of the commercial banks' main focuses, especially as China's financial market is opening up to foreign banks. Faced with the increasingly fierce competition, commercial banks are required to maintain and increase market share through innovation, to enhance trade financing products competitiveness. Provide customers with more refined, more targeted service and support through trade financing innovation.

Commercial banks take "safety, liquidity and profitability" as their main business objective, in which "security" goes first. Trade financing has a short period, it also occupied fewer funds than other forms of financing, it is also a financing of high-income, and therefore, trade financing accords with commercial bank’s operating targets in liquidity” and “profitability”. Consequently, the "security" of the trade financing has become the primary objective of innovation. The process of trade financing innovation also creates new risks along with the new business. Compared with the traditional business, trade financing innovations have different characteristics in risk identification and evaluation. Trade financing innovations not only improve the competitiveness of commercial banks, but also brought new risks—the risks in banks’ judgment and ability to prevent potential risks. Therefore, the composition of a scientific and accurate method for risk identification and evaluation for trade financing innovation has become the key to success.

2. Risk Identification Framework of Trade Finance Innovation
There are three major innovation path in trade financing innovation: First, market innovation based on the supply chain, which expand the scope of financing business; the second is trade financing institution innovation, which optimize and streamline existing business processes and operational approach; the third innovation path is portfolio innovation by the split and combination of existing business portfolio, the development of new trade financing business provides customers with more specific and convenient financing services. Market innovation, institution innovation and portfolio innovation are three basic channels for trade financing innovation, as well as three major sources of risks in trade financing innovation. The establishment of a framework for risk classification and identification based on these three paths is the prerequisites of a risk evaluation system.

2.1 External risks in trade finance market innovation
Traditional transaction-oriented trade finance simply focused on the documentations related to the international goods transaction, the risk mainly comes from the authenticity of trading background and the credibility of parties concerned in the transaction. Market innovation based on supply chain entitled the bankers to deeper involvement in enterprise operations through trade financing. As the bankers’ involvements increase in operational process, the external risks appear as a side effect. In market innovation, the role of commercial banks expands along the supply chain; trade financing bankers will no longer be faced with the risk only in the point of international goods
transactions, the risks they faced will expand both upstream and downstream in the supply chain. Therefore, while continuing to focus on customers’ credit level and repayment ability, importance should also be attached to the goodwill of the upstream and downstream partners of the applicants at the same time. Financial status such as settlement method should be a factor of concern as well.

In addition, the financial analysis of financing applicants and their business associates entitles commercial banks to an early identification of potential risks. Traditional trade financing was often self-liquidating, since the bankers may control the goods and monitor the transaction process through documentations such as B/L and other customs documents. But as commercial banks are providing integrate financing to into the overall cash flow of enterprises, risk control has also spread from a single trade link to the entire enterprise business processes (Gong Fang, 2007). Therefore, it is necessary to perform a comprehensive analysis of the applicant and its related enterprises. By monitoring the financial statements and business operation, early identification and alert of the risks posed by innovation can be raised.

2.2 Internal risks of trade financing institutional innovation

External risks occur in the supply chain of the applicants, which banks can not directly control, while internal risk of trade financing process innovation occurred in the bank’s internal process reengineering, process management, risk control, and other fields, therefore, it is more controllable. As a result, the correct identification and evaluation of internal risk is an important prerequisite to ensure that commercial bank’s "security" objective. Business process innovation is a complex process, the risks are numerous. From different points of views, the understanding of risks will be different. P^MT model will be used to perform comprehensive internal risk identification from four angles (Richard Barovick, 2007)—process risks, personnel risks, risk management and technical risks.

P^MT (Process, Person, Management, Technology) model is a risk identification framework based on four dimensions—"process, personnel, management, technology". Therefore, the potential internal risks of institutional innovation should be analyzed by P^MT Model from four angles.

Trade financing process innovation is bound to improve the existing business processes and adjustment of process results in risks. After a long period of practice, the commercial banks have already set up a mature and sound system to identify and monitor the existing process risk in various aspects. However, the innovated new process and risks differ with those involved in traditional business. Therefore, effective identification of risks in new process is an important precondition to reduce the potential internal risks. When performing process reengineering, bankers should start with the most sophisticated and mature link. Monitor emerging risks in the course of the new process; adjust the process in accordance with the risk; establish dynamic risks identification and control framework.

As for the risk of personnel, banking employees need an adaptive stage to transit from the traditional business to innovated ones. While the new process is still in exploration and early practice, the training of staff for the new business and the establishment of appraisal system are still lagging. Lacks of assessment means for new process, as well as the job descriptions are not clear enough in handling new process could lead to employees’ lack of a sense of responsibility, even could result in handling errors. Therefore it is necessary to accumulate potential risks of the new processes in the reengineering stage; identify and prevent personnel risk through training and the establishment of
relevant rules and regulations.

With regard to management risk, along with trade financing innovation, and with commercial banks’ infiltration along supply chain in particular, more and more trade links on the supply chain has brought new uncertainty. If the risk factors are not accurately predicted by scientific methods, it may result in decision-making errors of financing management. In addition, risk management elements also include scientific studies on the new link, customer's credit assessment, and follow-up survey after the loan, etc.

Technical risk is the risk brought by the use of new technologies in the process of financing business innovation. The use of new technology for customers to build a comprehensive platform for trade financing to facilitate customers with the entire process of reporting, query, monitoring and other facilitation services. However, the stability and security of new technology platform should also be given adequate attention to prevent the emergence of technical risks.

The risks of process innovation mainly come from the risk of process, personnel, management and technology. On the basis of classification of these four aspects, risk identification can effectively prevent the internal risk. Since the controllability of bankers’ internal risks is relatively higher, precautions on risks of process innovation can significantly improve the success probability of innovation.

2.3 Derived risks of portfolio innovation

Trade financing innovation is not to create an entirely new process or business; many successful innovations are based on existing business. Existing businesses have long experience in practice, risk control mechanisms of these processes are relatively mature, and, therefore, innovations based on splitting and combination of existing business will become an innovative way with higher feasibility.

Split of the existing business portfolio is based on "safety, liquidity, and profitability" of the products. These three characteristics compose a three-dimensional space in which the innovation is performed. In innovation, first, "split" the existing product in accordance with its characteristics, then establish a new balance of the three characteristics within the innovative space according to the needs of the market. Combine these characteristics so that new finance products—new "portfolio" will be created on the basis of existing business. For example, a product Z is adopted by "split" and "combine" products X and Y based on the needs of the market, therefore Z is the combination of “liquidity and profitability” of original X and Y. Z has higher income than X, but lower liquidity, and compared to Y, Z is more liquid but lower in returns. The final composition of the new product is a new portfolio of "profitability, liquidity, safety". Portfolio innovation is also faced with new risks, manifested mainly in the following three aspects—operational risk, peer risk and legal risk.

Operational risk occurs in the concrete implementation of the innovation. In the practice of new business, operational risk is the possibility of errors or losses resulting from inappropriate operation due to bankers’ failure in grasp the potential hazard of new business. Generalized operational risk is the risk of whether the banks have the ability to provide new financing products and profit from them. This is decided by the bankers’ capacity of products innovation, operating cost control and risk management. Operational risk in narrow sense refers to the fault of bank staff in unregulated operations (Xu Hui, 2007, pp. 132-135).

Trade financing involves in the international logistics flow and flow of funds, under most circumstances, banks of one country can not deal with foreign customers directly, the transfer of funds between countries has to be completed through inter-bank transfers. Peer risk of trade financing innovation mainly comes from the possibility that innovated business can not be correctly understood by foreign commercial banks or agents. Product innovation does not occur at the same time within global range, but it is active commercial banks that take the lead. If the foreign correspondent banks failed to fully understand the new business processes, or they suffer a lack of experience in the business sessions, there will be errors that lead to risks in the implementation.
Besides operating risk and peer risk, portfolio innovation is also faced with potential legal risk in laws and international conventions. After years of practice, the existing trade financing business has been completely adapted to the relevant conventions and regulations, and even some international conventions and regulations are established upon these products. New business which roots from “split and combination” is the innovation of the original business; there is still controversial legal risk as to whether existing regulations can be applied to these new products. In the process of the implementation of trade financing, the design of new products has to be in line with international practices as well as the specific laws and regulations of different countries.

3. Risk evaluation index systems in trade financing innovation

All operations of commercial banks are accompanied by risks, facing new business scopes, new operating processes and new products, there will definitely be the emergence of new risks. Faced with these new risks, the commercial banks not only suffer a lack of experience but also a lack of necessary identification and evaluation system. Therefore, the establishment of a comprehensive risk assessment system is an important part of trade financing innovation risk management. A scientific and rational evaluation system based on innovative risk identification is the prerequisite for commercial banks to avoid risks and secure the success of innovation. Trade financing innovation risk identification system consists of two parts: the list system which assesses applicants’ credibility; and overall risk rating of trade financing innovative projects.

3.1 List system and the establishment of customer credit risk rating

List system takes trade financing’s extension on the supply chain as the theoretical basis; it is used mainly for the evaluation of the external risks in market innovation to evaluate the customer's credit and financial risks. List management is established as a risk evaluation system in order to meet the needs of trade financing innovation. Currently, this approach of evaluation system has been implemented in some commercial banks in trade innovative business (Han and Zhang, 2006, pp. 44-48). In particular, in trade financing innovation, commercial banks does not only provide financing to the simple trade link, as banks are playing a more and more important role in the supply chain, the focus of financial risks should not be confined to the refinancing applications itself, but should also include upstream and downstream partners of the supply chain as an important risk factor, assess risks of each link in the financing chain, evaluate every participants along the supply chain, so early warnings can be drawn for potential risks.

List management system shifts banks’ focus of attention from the traditional trade link to relevant parties along the chain. After the inspection of credit conditions as well as transaction history between the applicant and its business partners, a list can be drown based on these factors. Through the application of list system, on the one hand, enterprises within the list may have a higher financing limit, therefore financing efficiency can improve, and on the other hand, the list may also help bankers to have a clear understanding of enterprises’ situation and their credit risk, so that bankers can make reasonable financing risk expectations.

At present, commercial banks mainly measure the risk through quantitative analysis; quantitative analysis measures the expected extent of the losses in the sense of probability. It will seek the fuzzy expected probability, and classify the risks corresponding to the risk rating, which determines customer's credit rate. Depending on the credit rating awarded, credit provisions are set up (Han and Zhang, 2006, pp. 44-48). Specifically, usual operation is to use a large number of historical data to establish linear probability model, the use of financial data as a model input data to illustrate the credit risks and forecast the probability of default. In the model, company's credit situation falls into default category (recorded as 1) or non-default category (recorded as 0), and then estimate enterprise’s default probability through a series linear regression using financial data.

Table 1. Credit Risk Rating

<table>
<thead>
<tr>
<th>Default probability interval</th>
<th>Corresponding credit risk rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-0.1</td>
<td>AAA</td>
</tr>
<tr>
<td>0.1-0.2</td>
<td>AA</td>
</tr>
<tr>
<td>0.2-0.3</td>
<td>A</td>
</tr>
<tr>
<td>0.3-0.4</td>
<td>BAA</td>
</tr>
<tr>
<td>0.4-0.5</td>
<td>BA</td>
</tr>
<tr>
<td>Above 0.5</td>
<td>B or below</td>
</tr>
</tbody>
</table>

This evaluation method mainly based on the financial data of the enterprises; therefore, this rating system takes the safety of the principal as the core, which is whether the enterprise has the ability to repay the loan. In innovation, it should be considered from a higher perspective; enterprise’s credit risk should be considered from the perspective of
business operating. Factors such as corporate credit record, partners’ background should be considered along with the financial situation of enterprises to evaluate risks. In addition to the inspection of applicant, credit survey should also be carried out on relevant parties both upstream and downstream, develop the list based on the result, and use the list in future trade financing business to improve operational efficiency and reduce potential risks.

3.2 The selection of indicators in financing project risk evaluation

The main function of list system is to rate the credit of applicant and its associates, so that financing limits and scope can be set in accordance. However, trade financing project risk is relatively speaking in terms of commercial banks. Commissioner of the Department of the United States currency (OCC) divided credit risk into five levels, "LLL, LL, H, HH, HHH", which respectively means lowest, low, high, higher, highest five state (Zhong, 2006, pp. 42-43).

In addition, Chase Manhattan Bank developed a 10-level classification, a more detailed delineation of rating categories, grades 1-10 respectively means minimum, moderate average, acceptable, acceptable but should be given attention of, management concern, especially concern, not up to standard, suspicious, the loss (Huang, 2006, pp. 36-40).

In trade financing risk assessment, not only the traditional factors such as the safety of the principal, repayment sources should be taken into account, but also broader new factors should be considered from a broader perspective. Factors to be considered (major indicators) include: history of cooperation, settlement means between financing applicants and business associates; credit status, ability to make payments, as well as the liquidity of cargo. Specifically, if the two parties have a tight connection, have a good history of cooperation, have a good history of cooperation, financing risk for the project will be relatively low. But if the two sides are experiencing initial transaction, or have a bad record in the past, then bankers should be alert of the risk in advance. Settlement method is another important factor that impacts the extent of financing projects risks. Different method of settlement has different risks levels. The strong bargaining power of large enterprises may force the other party to deal with credit, but large multinational companies often have a good reputation, the return of fund can be guaranteed. Therefore, customer credit status, capacity to repay, means of settlement, etc. all these factors should be generally considered to assess the overall risk of trade finance innovation.

4. Conclusions

With the advantages of liquid and profitable, trade finance is a business that is actively promoted by commercial banks. Bankers wish to enlarge the business scope and increase market share through trade financing innovation. In this process, a large number of circumstances and problems that were not seen before would emerge. The process of business innovation is also a process of risks creation. New market, new institution, new portfolio are bound to be accompanied by new risks. Effective identification and evaluation of innovative risks are essential to the safety of commercial banks.

Market innovation, institution innovation and portfolio innovation are three major sources of innovative risks. Classification and identification of these risks can establish a framework for risks evaluation of trade financing innovation. Risk identification framework along with the establishment of risk evaluation indicator system will enable bankers to have an apprehensive understanding of the risks involved in trade financing innovation, and provide the bankers with early risk alert and guidance in the innovation.

References


Empirical Study on the Student Satisfaction Index in Higher Education

Linying Zhang, Zhijun Han, Qun Gao
School of Economics and Management, Nanjing University of Science and Technology
Nanjing 210094, China
Nanjing Institute of Industry Technology, Nanjing 210046, China
E-mail: z.ly@163.com

Abstract
Students are direct receivers and participators for the higher education service, and their study activities would influence their perceptions and satisfactions to the educational quality. Through studying on the effects of students’ activities to their satisfactions, in this article, we will establish the college student satisfaction model according to the theoretical frames of ASCI and ECSI, and the empirical research shows that the model possesses strong applicability.

Keywords: Higher education, Customer Satisfaction Index (CSI), Student satisfaction index

Since 1990s, with the adjustment and international development of China higher education structure, colleges are facing more and more challenges because of increasingly intense competition. Various colleges adopt various evaluation measures to prove their own education qualities and look for spaces in which they can continually be improved one after another. As participators in the process of higher education service, students have the most direct perceptions to the quality of education service. Therefore, the student satisfaction index is the important evaluation index for various college education evaluation and performance evaluation.

1. The development of customer satisfaction evaluation

The customer satisfaction is a sort of evaluation coming from customers, and it can not be observed directly. The evaluation to customer satisfaction usually adopts the SCSI model of Sweden, the ACSI model of US and the ECSI model of Europe at present. CSI is an evaluation system based on customer and it measure the quality of product and service according to customers’ consumption experiences, and it can be used to evaluate the performances of organization, industry, department and national economy. The CSI index on organized layer embodies the total evaluation that the market (customer) which it serves to the purchase and consumption, which includes the actual use situation of product and the expectation of product, and it is the more comprehensive and more basic evaluation index at past, at present and in future for the organization.

It must consider the influence of industrial structure to the satisfaction when using CSI to evaluate the customer satisfaction (Fornell, 1996, p.7-18), and the explanations of annotation and route for some concrete concepts must be adjusted necessarily. For example, the CSI of public sector (US, 2001) took out the variable of perception value in the former ACSI model and added three structured variables such as process, information and customer service to reflect different characters of public sector other than private sector. The higher education is the disposable service which has long period, and its customers (students) have main function in the implementation of higher education service. Therefore, the evaluation of student satisfaction can not simply apply mechanically present CSI model, and foreign and domestic scholars have carried through some groping researches. Anne M. D. (2001) adopted the comparative research method to respectively analyze various student satisfaction indexes in Babson College and other five colleges with different types. Bruno Chiandotto et al (2004) applied ESI to implement quality evaluation to the college education process through investigating college students’ satisfaction to those college students in one year after graduation. China scholars had also explored the student satisfaction evaluation, and Liuwu and Yangxue (2006) put forward to add the quality factor in the student satisfaction index model as viewed from adding the opening of the model. Ma, Wanmin (2007) considered the analysis of student satisfaction from the higher education service process.

From above researches to the student satisfaction evaluation, whether for the improvement to the present CSI model or for the empirical study to the direct application, scholars are basically to annotate the model variables in the mature CSI frame and can not consider the influences of student individual activity to the education quality perception and the student satisfaction. Furthermore, the understanding to the connotation of higher education student perception value is limited in the balance between price investment and quality for the product and service in
the industry or general service industry, and ignores students’ influences of non-price investment in the long-term study process. Based on the analysis to foreign and domestic research results to the student satisfaction, we think the differences of student actively influence their perceptions to the college education quality, influence their estimations to the perception value and further influence their satisfactions, and we put forward the new college student satisfaction index model, and empirically study on the model taking the junior students of certain college as the investigation objectives.

2. The student satisfaction index model

The college student satisfaction index model is seen in Figure 1. The model adopts the core concept and frame of ECSI, which includes college reputation, student expectation, perception quality, perception value, student satisfaction, and student loyalty. Comprehensively considering the key factor to influencing the implementation of higher education service, the model added the variable of student activity and its relative route to measure the influences of students’ subjective activities to perception quality, perception value and student satisfaction. Furthermore, in this article, we also develop the connotation of perception value in the domain of higher education.

2.1 Student activity

In the ACSI model and ECSI model, the embedded hypothesis in the routes such as customer expectation→ perception quality, customer expectation→ perception value and customer expectation→ customer satisfaction is that the customer expectation influences customers’ perceptions to the qualities of product and service, and the degree of customer expectation influences customers’ value judgments to the product and service and accordingly influences customer satisfaction. The premise of this hypothesis is the qualities of the product and service in the manufacturing and general service industry are decided by providers (enterprises), and the customers are only consumers who passively accept product and service. But in the implementation process of higher education, students are not only consumers to accept the higher education service, but they are the cooperative producers of education implementation (Guolla, 1999). Students’ study activity influences their perceptions to the quality of higher education service, and the education practices show that students’ learn desires are higher, the questions to the teacher are more, and the requests to the education are higher. In the study process, the different endeavor degrees that students pay determine different student results, which can explain why classmates’ study grades are different whey they accept same education service. Lesley Ledden (2007) studied on the relationship between student individual value and perception value and proved that the student individual behavior mode directly influenced the perception value. And Clara Cardone Riportella’s research (2001) showed that students’ devoted time and energy largely influenced the satisfaction to the higher education.

In this article, we take the student activity as the attributive variable to influence students’ perception quality, perception value and satisfaction, and in the model, we design three routes such as student activity→ perception quality, student activity→ perception value and student activity→ student satisfaction. The evaluation adopts three observation variables such as study objective, study endeavor degree and self-management degree which can reflect students’ activities.

2.2 Perception quality

The perception to the quality of higher education is students’ judgments to education service offered by the college. Hill et al (2003) thought that two factors that influenced students’ perceptions to the quality of higher education were the teacher’s quality and the quality of the student support system (including schoolmate, family, college service and the environment). But the concept of quality management thinks that the organization should “take customer as the focus of attention”. Therefore, in this article, based on the total quality evaluation, the customization evaluation and the reliability evaluation to ACSI, the measurement to the perception quality adds the perception measurements to the teacher quality and the sufficiency and convenient use to the education establishments.

2.3 Perception value

The perception value is the balance between customers’ perception obtainment and perception payout. To the industrial product and general service, customers’ payouts are mainly embodied as price, and ACSI uses two indexes such as the quality relative to price and the price relative to quality. In the accepting process to higher education service, students’ payouts are not only money, but a great lot time, endeavors and other non-price costs to realize the study objective (i.e. the result of higher education service), and the non-price costs far exceeds the price costs. At present, the charge standard of China higher education is constituted by the country and the differences among colleges and areas are less, and the price factor is not sensitive to the perception value. In this article, we use two indexes including the quality that students spend their individual time, endeavor and intelligence and the time, endeavor and intelligence relative to the quality as the observation variables of perception value.
3. Empirical analysis

3.1 The collection sample and data

In this article, we select the junior students of grade 2004 in certain college to implement investigation. The quantity of the questionnaire is 200, and the callback quantity of the effective questionnaire is 168, and the effective rate is 84%. The sexual ratio of the data sample is 30.95% of schoolgirl and 69.05% schoolboy. The proportion of student from country is 54.76%, and the proportion of student from city is 45.24%. The proportion of student with middle and high family earning is 4.76%, the proportion of student with middle family earning is 55.35%, and the proportion of student with low family earning is 39.89%. The proportion of student whose parents’ educational levels are above undergraduate course is 12.55%, the proportion of student whose parents’ educational levels are specialized course is 20.83%, and the proportion of student whose parents’ educational levels are below specialized course is 66.67%.

3.2 The design of questionnaire

The contents of the questionnaire include 21 observation variables, 5 population variables and 26 corresponding questions. Except for college reputation, other potential variables are measured by multipl observation variables which reflect subjective perception. The scale table adopts the Likert 10 grades scales, and the college reputation, student expectation, student satisfaction, student loyalty and other potential variables use some mature scale tales in the ACSI model and the ECSI model.

3.3 The analysis methods

In this article, we adopt VisualPLS1.04 to implement AVE analysis and model parameter estimation for the measurement data.

3.4 The analysis of result

3.4.1 The Reliability and AVE analysis for the data

The reliability and AVE of the investigated data are seen in Table 1.

The reliability means the coherence, stability and dependability of the questionnaire result. According to the similar measurement experience in psychology, the Cronbach Alpha coefficient must achieve above 0.7. The values of potential variable Cronbach Alpha are among 0.750-0.875, and they are above 0.70, which indicates that the measurements to various potential variables present good inner coherence and the index reliability can be accepted.

Effectiveness is the index whether the observation variable in the questionnaire can better reflect the potential variable. The AVE of potential variable denotes the variance percentage that certain potential variable can explain the observation variable. The value of AVE is requested to exceed 0.5 usually. From Table 1, the AVE values of various potential variables in the model are among 0.591-0.837, and they are above 0.5, which indicates the explanation of measurement index exceeds the error variance, and the measurements to various potential variables have enough clustering effectiveness.

The composite reliability represents the total error of the observation variable belonging to certain potential variable, and it is used to judge the inner coherence of the measurement model, and the ideal value should exceed 0.6. The composite reliability values of total 7 potential variables in Table 1 are among 0.858-1.000, which shows the inner coherence of the measurement model is higher.

3.4.2 The standard parameter estimation of factor load

The factor load standard parameter estimation result of the model is seen in Table 2. The boldfaces in the table are the load coefficient of the measurement variables, and they reflect the relative degree between structured variable and measurement variable and the relative importance of measurement variable in the structured variable.

According to general rule, when the sample quantity exceeds or equals to 50, it is thought notable that the factor load coefficient exceeds 0.3, and it is thought important that the factor load exceeds 0.4, and it is thought very important that the factor load exceeds 0.5. The load coefficient range of the model observation variable is in 0.65-1.00, which far exceeds the critical point.

3.4.3 Parameter estimation and result analysis for the model

The route coefficients among various structured variables in the model are seen in Table 3.

The data in the Table 3 show that the college reputation directly influences student expectation, student satisfaction and student loyalty, and the route coefficient of college reputation→ student expectation is 0.556, which reflects that students’ expectations to the quality of higher education are mainly decided by the college reputation and that accords with the character of disposable consumption of higher education.
The added variable in the model, the student activity is positive correlative with the perception quality and perception value, which accords with the basic hypothesis. The route coefficient between student activity and student satisfaction closes to 0, which can not prove the pertinence between both. And the route coefficients of student activity to the perception quality and perception value respectively achieve 0.330 and 0.286, and the values of T are respectively 3.96 and 3.50, which indicates that the student activity has notable direct influence to the quality perception and value perception of higher education, and its indirect influence to student satisfaction achieves 0.383, therefore, the model still hold the route from student activity to student satisfaction.

The route coefficients of college reputation, perception quality and perception value to student satisfaction are respectively 0.126, 0.680 and 0.169, and the direct effect of perception quality to student satisfaction is most, which indicates that the education quality of the college is the main factor to decide student satisfaction. To enhance student satisfaction, the colleges should first enhance their own education qualities.

4. Conclusions

Based on the analysis to the influencing factors for the implementation of higher education, this article improves the existing successful CSI model, puts forward the student satisfaction index model in higher education. The empirical research shows that the new variable, student activity, has important influence to the student perception to the education quality and the perception value. China higher education gives priority to public education, which is more restricted by the government and has certain monopolization. The measurement to the perception value in the article is just based on the understanding to this special position of China higher education, and with the improvement of higher education reform, the price factor must be the important balance facto for perception value. Therefore, the connotation and evaluation of perception value in higher education is the direction that we should study in future.

References


Table 1. Reliability and AVE of questionnaires

<table>
<thead>
<tr>
<th>Construct</th>
<th>Composite Reliability</th>
<th>AVE</th>
<th>Cronbach Alpha</th>
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</thead>
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<tr>
<td>College Reputation</td>
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<td>1.000000</td>
<td></td>
</tr>
<tr>
<td>Student Expectation</td>
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<td>0.671383</td>
<td>0.750675</td>
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<td>Student Activity</td>
<td>0.903822</td>
<td>0.701624</td>
<td>0.857514</td>
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<tr>
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<td>0.896198</td>
<td>0.591128</td>
<td>0.849901</td>
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<tr>
<td>Perception Value</td>
<td>0.933018</td>
<td>0.874448</td>
<td>0.856036</td>
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<td>Student Satisfaction</td>
<td>0.914364</td>
<td>0.780866</td>
<td>0.856015</td>
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<td>Student Loyalty</td>
<td>0.911356</td>
<td>0.837148</td>
<td>0.804974</td>
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</table>
Table 2. Correlative coefficients between observation variables and structured variables

<table>
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<tr>
<th>Scale Items</th>
<th>College Reputation</th>
<th>Student Expectation</th>
<th>Student Activity</th>
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<td>1</td>
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<td>3</td>
<td>0.4794</td>
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Table 3. Estimation table of model parameters

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<th>Route</th>
<th>Standard regressive coefficient</th>
<th>Value of T</th>
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<td>8.8203</td>
</tr>
<tr>
<td>Perception Quality-&gt; Student Satisfaction</td>
<td>0.6800</td>
<td>9.2804</td>
</tr>
<tr>
<td>Perception Value-&gt; Student Satisfaction</td>
<td>0.1690</td>
<td>2.3678</td>
</tr>
<tr>
<td>Student Satisfaction-&gt; Student Loyalty</td>
<td>0.5930</td>
<td>11.4069</td>
</tr>
</tbody>
</table>
Figure 1. Student Satisfaction Index Model
Relationship between Stock Prices and Exchange Rates: 
Evidence from Bangladesh

Md. Lutfur Rahman (Corresponding author), Senior Lecturer
Department of Business Administration, East West University, 43, Mohakhali, Dhaka-1212, Bangladesh
Tel: 088-02-9882308/277     E-mail: lutfur@ewubd.edu

Jashim Uddin, Senior Lecturer
Department of Business Administration, East West University, 43, Mohakhali, Dhaka-1212, Bangladesh
Tel: 088-02-9882308/274     E-mail: juddin@ewubd.edu

Abstract
In this paper we have investigated the interactions between stock prices and exchange rates in the emerging economy of Bangladesh. We have considered monthly nominal exchange rates of US dollar, euro, Japanese yen, pound sterling and monthly values of Dhaka Stock Exchange General Index for period of June 2003 to March 2008 to conduct the study. Empirical result shows that exchange rates and stock prices data series are non stationary and integrated of order one. Then we have applied Johansen procedure to test for the possibility of a cointegrating relationship. Result shows that there is no cointegrating relationship between stock prices and exchange rates. Finally Granger causality test shows that stock prices Granger cause exchange rates of US dollar and Japanese yen but there is no way causal relationship between stock prices and exchange rates of euro and pound sterling.

Keywords: Stock price, Exchange rate, Stationarity, Cointegration, Causality

1. Introduction
The recent liberalization of foreign capital controls and adoption of floating exchange rate regime in Bangladesh have widened the scope of studying the relationship between exchange rates and stock prices. Liberalization of foreign capital controls has opened the possibility of international investment and the adoption of floating exchange rate regime has increased the volatility of foreign exchange market. Thus detecting the association between stock prices and exchange rates has become crucial for the academicians, practitioners and policy makers.

The empirical debate regarding the interaction between stock prices and exchange rates has been started few decades ago. Since then a good number of empirical studies so far have been conducted to investigate the relationship between the variables. But the researchers have found contradictory results regarding the existence of relationship and the direction of relationship which has made the area disconcerted environs of finance literature. Some of the studies showed that there is a significant positive relationship between the variables, such as, Aggarwal (1981), Giovannini and Jorion (1987), and Roll (1992). But some of the studies counter this argument and showed a significant negative relationship between the variables, such as, Soenen and Hennigar (1988). Some other studies find that there is no significant relationship between the variables, such as, Franck and Young (1972), Solnik (1987), Chow et al. (1997), and Bhattacharya and Mukherjee (2003). Bahmani-Oskooee and Sohrabian (1992), Nieh and Lee (2001) found no long-run relationship between the variables. So there is no empirical harmony among the researchers regarding the interactions between stock prices and exchange rates which justify the need of more research in this area to contribute to the literature.

In a country like Bangladesh where the economy is still emerging and capital market is still in a vulnerable condition, according to our knowledge no study has been made so far to investigate the relationship between stock prices and exchange rates which encourages us to conduct the study to detect the relationship between the variables.

2. Data and Methodology
Data used in this study include monthly nominal exchange rates of US dollar (EXus), nominal exchange rates of Euro (EXeu), nominal exchange rates of Japanese Yen (EXjp), nominal exchange rates of UK Pound Sterling (EXuk) and monthly closing values of Dhaka Stock Exchange General Index (DSEGI) for a period of June 2003 to March 2008. All the exchange rates are expressed in terms of local currency Taka. Then we transform all the data series into natural log form.

The data series we have used in this study are time series data. Empirical work based on time series data assumes that the underlying time series is stationary (Gujarati, 2003). But many studies have shown that majority of time
series variables are non stationary or integrated of order 1 (Engle and Granger, 1987). Using non stationary time series in a regression analysis may result in spurious regression which was firstly pointed out by Granger and Newbold (1974). Thus before analyzing time series data in an empirical study we should make stationarity test which is commonly done by unit root test. There are a variety of unit root tests used in econometric literature principally Augmented Dickey-Fuller (ADF) test and Phillip-Perron (PP) test. In this study we have used both unit root tests to investigate whether the time series data used in this study are stationary or not.

Augmented Dickey-Fuller (1979) test is obtained by the following regression
\[ \Delta Y_t = \beta_1 + \beta_2 t + \beta_3 \Delta Y_{t-1} + \alpha \sum_{i=1}^{n} \Delta Y_{t-i} + \varepsilon_t \]
where \( \Delta \) is the difference operator, \( \beta, \delta \) and \( \alpha \) are the coefficients to be estimated, \( Y \) is the variable whose time series properties are examined and \( \varepsilon \) is the white-noise error term.

Phillips and Perron (1988) test suggests a non parametric method of controlling for higher order autocorrelation in a series and is based on the following first order auto-regressive AR(1) process:
\[ \Delta Y_t = \alpha + \beta Y_{t-1} + \varepsilon_t \]
where \( \Delta \) is the difference operator, \( \alpha \) is the constant, \( \beta \) is the slope and \( Y_{t-1} \) is the first lag of the variable \( Y \).

If two data series are integrated of the same order, it is useful to test for cointegrating relationship between the integrated variables. For this purpose we have employed the Johansen procedure (Johansen, 1988; Johansen and Juselius, 1990) to test for the possibility of a cointegrating relationship.

The Johansen method applies maximum likelihood procedure to determine the presence of cointegrating vectors in non-stationary time series as a vector autoregressive (VAR):
\[ \Delta Y_t = \sum_i \Gamma_i \Delta Y_{t-1} + \sum_i \Pi_i Y_{t-1} + \eta_t \]
where \( Y_t \) is a vector of non-stationary variables and \( C \) is the constant term.

In the absence of any cointegrating relationship between the variables, the standard Granger causality test base on Granger (1988) method can be applied. The Granger method involves the estimation of the following equations:
\[ \Delta SP_t = \beta_0 + \sum_{i=1}^{q} \beta_{1i} \Delta SP_{t-i} + \sum_{i=1}^{q} \beta_{2i} \Delta ER_{t-i} + \varepsilon_{1t} \]
\[ \Delta ER_t = \varphi_0 + \sum_{i=1}^{r} \varphi_{1i} \Delta ER_{t-i} + \sum_{i=1}^{r} \varphi_{2i} \Delta SP_{t-i} + \varepsilon_{2t} \]
in which \( SP_t \) and \( ER_t \) represent stock prices and exchange rates. \( \varepsilon_{1t} \) and \( \varepsilon_{2t} \) are uncorrelated stationary random process, and \( t \) denotes the time period.

If cointegration exists between \( SP \) and \( ER \), the VECM is required in testing Granger causality as shown below:
\[ \Delta SP_t = \beta_0 + \sum_{i=1}^{q} \beta_{1i} \Delta SP_{t-i} + \sum_{i=1}^{q} \beta_{2i} \Delta ER_{t-i} + \alpha \Delta Z_{t-1} + \varepsilon_{1t} \]
\[ \Delta ER_t = \varphi_0 + \sum_{i=1}^{r} \varphi_{1i} \Delta ER_{t-i} + \sum_{i=1}^{r} \varphi_{2i} \Delta SP_{t-i} + \lambda \Delta Z_{t-1} + \varepsilon_{2t} \]
where \( Z_{t-1} \) is the error correction term obtained from the cointegrating equation , so that changes in the variables \( SP_t \) and \( ER_t \) are partly driven by the past values of \( Z_t \). The first difference operator is marked by \( \Delta \). The error correction coefficients, \( \alpha \) and \( \lambda \), are expected to capture the adjustments of \( SP_t \) and \( ER_t \) towards long-run equilibrium, whereas the coefficients on \( SP_{t-i} \) and \( ER_{t-i} \) are expected to capture the short-run dynamics of the model.

3. Empirical Results
At first, we have run unit root tests on all the exchange rates and stock market index to test stationarity and order of integration in the level and in the first difference. We have used ADF test and PP test with constant and constant and linear trend as suggested by Eangle and Granger (1987). The lag length and bandwith in the unit root tests were allowed to vary across the exchange rates and stock index to correct any serial correlation in the residuals. The results of the tests are given in table – 1. Considering the results, it is clearly evident that with the exception of exchange rates of euro and Japanese yen null hypothesis of a unit root in the level is accepted in all other cases as
test statistics are lower than the critical values. The data series of exchange rates of euro is stationary at 10% level while considering constant and linear trend in case of both ADF test and PP test. The data series of exchange rates of Japanese yen is stationary at 10% level while considering constant in case of both ADF and PP test. As other alternative tests accept null hypothesis of a unit root, we can say that exchange rates and stock prices are non-stationary data series and integrated of order one, $I(1)$ (Note 1). Results also indicate that null hypothesis of a unit root is rejected in all cases when the data series are first differenced. So the first difference of the data series of the variables are stationary.

After determining stationarity of the data series and order of integration we made the use of cointegration test to find the presence of any cointegrating relationship between stock prices and exchange rates. The results of cointegration test are given in table-2. Results clearly reveal that both trace test and maximum eigen value test accept the null hypothesis of no cointegration in all the cases. Thus there is no long-term co-movement between stock prices and exchange rates and none of the variables is predictable on the basis of past values of other variable.

In the absence of any co-integrating relationship between the variables we have used standard Granger causality test to find out any causal relationship between stock prices and exchange rates. To find out the causal relationship between the variables which are non-stationary and non-cointegrated, the data series should be transformed into stationary (Oxley and Greasley, 1998). Because it has been confirmed that Granger causality test are well specified if they are applied in a standard vector autoregressive form to differenced data for non-cointegrated variables (MacDonald and Kearny, 1987; Miller and Russek, 1990; Lyons and Murinde 1994). Otherwise the inference from the F-statistics might be spurious because the test statistics will have nonstandard distributions. So we have transformed the level data series into the first difference data series and used them for causality test. The results show that there is a unidirectional causality from stock prices to exchange rates of US dollar and Japanese yen as F-statistic is significant at 5% level. But there is no way causal relationship between stock prices and exchange rates of euro and pound sterling. So we can say that stock prices influence exchange rates of US dollar and Japanese yen and past values of stock prices can be used to improve the forecast of future exchange rates of said currencies.

4. Conclusion
In this paper we have explored the association between two important component of an economy named as stock prices and exchange rates. First of all, we applied unit root test to find the stationarity of data series. The results show that all the data series of the variables are non stationary and integrated of order one. Then we applied Johansen procedure to test for the possibility of a cointegrating relationship. Result shows that there is no cointegrating relationship between stock prices and exchange rates. That means there is no long-term co-movement between the variables and none of the variables is predictable on the basis of past values of other variable. In the absence of any co-integrating relationship between the variables we move to standard Granger causality test to find out any causal relationship between stock prices and exchange rates. Results shows that stock prices Granger cause exchange rates of US dollar and Japanese yen but there is no way causal relationship between stock prices and exchange rates of euro and pound sterling.

There is a common belief among the investors that there is an association between exchange rates and stock prices and they are predictable on the basis of the values of other variables. But our result of no cointegration counters this belief and states that the variables are not predictable on the basis of the past values of other variables. The result of non-stationary of the data series reveals that there is no chance of profitable speculation in the stock market or foreign exchange market. As stock prices Granger cause the exchange rates of US dollar and Japanese yen, participants in the foreign exchange market can use information of stock prices to improve the forecast of exchange rates of said currencies.

References


Notes

Note 1. According to Engle and Granger (1987), identical results of all alternative tests are needed to conclude about stationarity of any time series. If even one test shows non-stationarity, the time series is treated as non-stationary.
Table 1. Unit root test results

<table>
<thead>
<tr>
<th>Variables</th>
<th>ADF Test results</th>
<th></th>
<th>PP test results</th>
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<tr>
<td></td>
<td></td>
<td>Level</td>
<td>First Difference</td>
<td>Level</td>
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<tr>
<td></td>
<td></td>
<td>Constant</td>
<td>Constant &amp;</td>
<td>Constant</td>
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<td></td>
<td></td>
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<td>linear trend</td>
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<td>EXtu</td>
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<td>-1.609129</td>
<td>-7.142503*</td>
<td>0.921113</td>
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<td>EXsu</td>
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<td>-3.27611</td>
<td>-6.96167*</td>
<td>-0.714695</td>
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<td>EXuk</td>
<td>1.098908</td>
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<td>-7.08755*</td>
<td>-0.987302</td>
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<td>DSEG</td>
<td>-0.754434</td>
<td>-1.223349</td>
<td>-6.227357*</td>
<td>-0.921113</td>
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</table>

Test Statistics

<table>
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<tr>
<th>Variables</th>
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<th>PP test results</th>
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<td></td>
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<td>Constant</td>
<td>Constant &amp;</td>
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</tr>
<tr>
<td></td>
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<td>linear trend</td>
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Critical Values

<table>
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<th>10 percent</th>
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<td>-3.568308</td>
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<tr>
<td></td>
<td>-4.152511</td>
<td>-4.152511</td>
<td>-4.152511</td>
</tr>
</tbody>
</table>

Notes:
2. Maximum lag length chosen using Schwarz Information Criterion (SIC).
3. * indicates stationarity at 1% level, ** indicates stationarity at 5% level, *** indicates stationarity at 10% level.
### Table 2. Cointegration test results

<table>
<thead>
<tr>
<th>Null hypothesis</th>
<th>Alternate hypothesis</th>
<th>Variables</th>
<th>Trace Statistic</th>
<th>5% Critical Values</th>
<th>Prob.</th>
<th>Max-Eigen Statistic</th>
<th>5% Critical Values</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>$r = 0$</td>
<td>$r = 1$</td>
<td>$E_{x_t}/DSEG1$</td>
<td>21.43638</td>
<td>25.87211</td>
<td>0.1617</td>
<td>16.45662</td>
<td>19.38704</td>
<td>0.1268</td>
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<td>$r = 1$</td>
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<td>$E_{x_t}/DSEG1$</td>
<td>4.950266</td>
<td>12.51798</td>
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<td>0.5992</td>
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<td>0.4804</td>
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<td>$E_{y_t}/DSEG1$</td>
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<td>12.51798</td>
<td>0.9282</td>
<td>2.518371</td>
<td>12.51798</td>
<td>0.9282</td>
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<tr>
<td>$r = 0$</td>
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<td>$E_{x_t}/DSEG1$</td>
<td>19.06167</td>
<td>25.87211</td>
<td>0.2771</td>
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<td>$r = 2$</td>
<td>$E_{x_t}/DSEG1$</td>
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<td>$r = 1$</td>
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<td>$E_{x_t}/DSEG1$</td>
<td>2.286937</td>
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<td>0.8886</td>
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<td>12.51798</td>
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</tbody>
</table>

**Notes:**
2. Considered lag length 2 according to LR (likelihood ratio) test

### Table 3. Granger causality test results

<table>
<thead>
<tr>
<th>Null Hypothesis</th>
<th>F. Statistic</th>
<th>Probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>LN_DSEG1 does not Granger Cause LN_DOLLAR</td>
<td>3.5696 *</td>
<td>0.02862</td>
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<td>LN_DOLLAR does not Granger Cause LN_DSEG1</td>
<td>0.3902</td>
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<td>LN_EURO does not Granger Cause LN_DSEG1</td>
<td>0.4003</td>
<td>0.67271</td>
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<tr>
<td>LN_DSEGI does not Granger Cause LN_EURO</td>
<td>0.80768</td>
<td>0.45239</td>
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<td>LN_FOUND does not Granger Cause LN_DSEG1</td>
<td>0.94014</td>
<td>0.39828</td>
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<td>LN_DSEGI does not Granger Cause LN_FOUND</td>
<td>0.59523</td>
<td>0.55581</td>
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<td>LN_YEN does not Granger Cause LN_DSEG1</td>
<td>0.67251</td>
<td>0.51509</td>
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<tr>
<td>LN_DSEG1 does not Granger Cause LN_YEN</td>
<td>4.76837 *</td>
<td>0.01335</td>
</tr>
</tbody>
</table>

**Notes:**
1. * indicates significant causal relationship at 5%
2. Appropriate lag length was determined by Akaike information criterion
The Reason Why Our Country’s Export of Textile Was Limited

Jin Zhang & Ruiqi Qin
College of Economics, Tianjin Polytechnic University, Tianjin 300384, China

Abstract
Our country is the biggest textile export country of the world. Now for the textile industry of our country, it is a period of facing the expansive world market, and getting a new opportunity to improve. But with the opportunity, we also face much more challenges. Seen from outside, EU and US set limits, which make textile companies into an austere condition? Setting limits, anti-dumping, and its chain-reaction, make textile export of our country face an austere and complicated international trade condition. Seen from inside, some relative policies which our country made to vindicate new trade orders, and some problems which the textile industry had, are also have influence on our country’s export of textile to some extent. The purpose of research of this essay is to find relevant countermeasures by investigating the reason of export restriction, then make sure that our country’s textile export can be carried though successfully.

Keywords: Textile, Export restriction, Quota cancelled, Rising exchange rate of RMB

1. Exterior reasons
1.1 Our country’s export of textile was limited by the EU and the US
The EU and the US are main market where our country exports textile, occupying 1/3 of the total amount. Since quota was cancelled, many western countries restricted our country’s textile export to decrease its import volume. There are some main reasons why our country’s export of textile was limited by the EU and the US. Firstly, economy of China grows up at a high speed, and EU and the US feel threatened. Economy of China has been grown up fast for many years. The whole scale of foreign trade enlarges fast, and now China has became the third biggest trade country, which break up the existing international economy situation. So some western countries scatter the threat from China wantonly to block Chinese economy development. Secondly, just like farm produce, textile product is always a kind of sensitive product in the international trade market. it is very easy to inter the textile industry, and the inters pace of textile market is comparatively large, so there are many textile companies all over the world. At the same time, the textile industry is a kind of industry which can provide considerable working opportunities for the society. Whether the trade of textile is in a good condition or not are directly related to the destiny of the textile companies and the workers of both side. In our country, in case the export of our country’s textile decrease 1 percent, the textile production of the whole country would decrease 0.5%, and there would have 3,6000 people lost their job. Thirdly, the trade gap between western countries and China is widening continuously. Many western economists, Keynes for example, approve of trade surplus and oppose trade deficit. With the trade between America and China progressing fast, the trade gap between western countries and China is widening continuously. In this condition, trade protection and force to raise the exchange rate of RMB are considered to be an efficient method to solve lopsided trade condition between America and China by many American people. So trade protection in America continues to develop, and make effort to push out the products from developing countries, including China. The same condition happens in the EU, in the last few years, the economy develops slowly, and the trade gap against China goes up year after year, which makes the pressure of trade friction against China even bigger. Our country has become the biggest resource country for the trade gap of the EU. So the EU wants to break away from the poor economical condition by restricting the import from our country. Lastly, the low price of our country’s textile products has threatened foreign markets greatly. The total requirement of textile products for the world market is limited, and the production of textile products has already been surplus. As a big textile country, our country has a comparative advantage of low cost of labor force, so the products are all in common. The textile companies of our country mainly produce medium and low class textile products. If the textile companies want to share more international textile market, they could only lower its price and enlarge the quantity of textile export with a few benefits. The low price and good quality of our country’s textile products have impacted the foreign markets a lot. Just like Bo xilai, minister of China commerce ministry, said China as a big textile country, has become the leading role and attracted sighted of the world. Many countries worry about that, and they are afraid that the Chinese textile products may affect domestic employment and trade gap. This is the ultimate reason why they restrict to export Chinese textile goods and arise many trade afflicts. Western countries used many kinds of methods to restrict our country’s textile export, and there are three kinds of methods which are the most representative. First, non-tariff trade barriers, such as technology barrier and green barrier, which are with pertinence and agility, can restrict import
more efficient and more cryptically. Non-tariff trade barriers make the market be more difficult for exporters to get in, which restrict our country’s textile entering efficiently. Second, anti-dumping, the amount of our country’s textile export increased, but the price decreased. This phenomenon caused that the EU launched a new anti-dumping research to our country’s textile export. What’s more, western countries will enhance the power of restricting our country’s textile export by anti-dumping and anti-subsidy. This will definitely do harm to the textile exporting market. It is obviously that many western countries want to restrict our country’s textile export by anti-dumping and anti-subsidy. If western countries enhance the action of anti-dumping and anti-subsidy, the textile export would face serious threat, and it could be more harmful than the number limit. Third, special guarantee, is the shortened form of special guarantee step. After the era of quota, special guarantee step is a sharp sword to Chinese companies, and the bad influence is obviously. When Chinese goods are exported to the member of WTO, and the amount is so large that the relative industry in these countries are badly hurt or have the possibility to be badly hurt, the member of WTO can separately adopt guarantee step to Chinese goods. The time when special guarantee step can be caught into execution is from dec.11th, 2001 to dec.11th, 2013. In the past few years, Chinese textile export has been trapped in the haze.

1.2 Rising exchange rate of RMB

Nowadays, the exchange rate of RMB keeps rising. From July, 2005 when China innovated RMB’s exchange rate generation system materially, the exchange rate of RMB increased from 8.27:1 in the time before reformation to about 7.57 :1 in July of this year. Seen from the trend of average rate monthly, the exchange rate of RMB went on increasing in the past 24 years after the exchange rate generation system was reformed. Our country is in the period when industrialization and city are quickly progressed. Integrative power of our country is strengthened continuously, and the influence on international society is more and more bigger. The policy of our country on foreign exchange that RMB becomes convertible gradually, will be continued, and the trend of slight appreciation will not be changed in a very long time in the future.

Rising exchange rate of RMB affects our country’s textile export greatly. The direct influence is that many goods are sold in domestic market, instead of export. At the same time, the competition in domestic market will be pricked up. As the relative organizations forecast, the amount of our country’s textile export decreases 10%, when the exchange rate of RMB increases 1%. Since this year, as a result of textile export being restricted by the US and the exchange rate of RMB increasing by 2%, the amount of our country’s textile export will decrease by about 2.5 trillion US dollars, and the progress speed of the total industrial production value will decrease by almost 3.5%. Adjusting the exchange rate of RMB is an important macroscopically economy policy, and it’s a inevitable result when domestic economy and international financial trend run to a certain extent. It influences consume, investment and foreign trade deeply. The most direct influence of exchange rate of RMB rising on export companies is that the export price is increased correspondingly, that is to say, the price advantage of Chinese goods in foreign countries is decreased. Due to the different export price elasticity, the influences of rising the exchange rate of RMB are different on different industries. The textile export occupies about 1/2 of the total amount of textile export of our country, which
is one of the largest proportions all over the world, so it is influenced by currency’s exchange rate fluctuation and international trade condition. What is more, it is with low price, low benefit, low export price elasticity, and cannot decrease the price sharply. So, price advantage of our country’s textile goods will be weakened in the international market. Though the companies have had some contemplation about the rising exchange rate of RMB, and have eliminated some negative influence by active negotiation for order and interior adjusting, according to the data from textile industry association, being affected by that, in the first eight months, the benefit whole industry lost is about 30.6 billion Yuan. Jifa group from Shangdong province is a large textile company which earns 5 billion Yuan per year. Because of the rising exchange rate of RMB, the benefit decreases by 0.109 billion Yuan in 2007, and it decreases by 318.5 million Yuan in the first two months of 2008, which makes the benefit rate decreases from 3% in 2007 to 1% in the first two months of this year. Because the rising speed of the exchange rate of RMB can not be forecasted, many companies do not dare to accept orders in a hurry, however, some other companies have to accept orders with the risk of being to the bad, in order to keep production. The cast of production resources, especially for rising cost of labor force, weaken textile company’s competing ability for export in the international markets.

1.3 The advantage of cheap labor force is weakened

Textile industry is traditional labor-intensive industry; our country’s competitive advantage is the cheap labor force. The reason why our country’s textile goods can occupy an important position is its low price. But, there are many low price suppliers now, and many developing countries are catching up with China. Now, the cost of labor force increases by almost 30% per year in Guangdong province and Zhejiang province in last two years. The result of latest research on the actuality of China textile industry made by China textile export and import chamber of commerce shows that, the cost will increase by another 10%-20% after the implement of new law of labor contract. Some people who engage in the industry figure out that affected by all kind of facts above, the integrate cost of textile export will at least increase by 20%. At the same time, some developing countries are becoming the most driving opponents to our country on producing common products with low benefit. Many foreign orders is transferring to some other countries, such as Vietnam, Indonesia, Bengal, Cambodia, and so on. Bengali has been the second biggest export country in American market. The bureau of the foreign economy and trade of Zibo province makes a survey to over 3,000 textile companies all over the province, and the result shows that over 30% of the orders has transferred to above countries. Though Vietnam is not a member of WTO, and can not enjoy the advantages of unity. But under the trade convention between America and Vietnam, the favorable treatment of no tariff and no quota make the textile products of Vietnam export to America freely, and the quantity is increasing. The most outstanding advantage of Vietnam is the low cost, 0.5 US dollar per hour, 50% time lower than China. In addition, the price of the earth of factory, water and electricity is very cheap. It only cost six or seven million yuan to set up a textile company with 1,000 people in Vietnam. However, if the same company is set up in China, the money spent would be several times more than that needed in Vietnam. So, Vietnam has become a very important producing place which could attract foreign investment to set up textile companies there. Indonesia has a large number of cheap labor force, and their salary is 0.32 US dollar per hour. In Asia, Indonesia and Vietnam are considered to be the potential competitive opponents, which are the most likely to instead of the position where China stands now in the textile market. Textile industry of our country is badly restricted by domestic and foreign trade surroundings, increasing cast and decreasing benefit. The benefit of our country’s textile industry is very low now. With a lack of electric resource, increasing raw materials price, decreasing export drawback rate and more right social guarantee system, the facts which increase the cast and decrease benefit are increasing. The way of exporting a large number of goods with low benefit is very hard to continue.

2. Domestic reasons

2.1 Concentrative export markets.

The number of export markets for textile increases to about 210 or 220, and the number are stable. But, the top ten export markets import 70% of the total amount of Chinese textile exporting. The top three markets are Hong Kong, Japan and the US. We have not change the situation that we depend too much on traditional markets, in this condition, our country’s textile export will be restricted in case a certain market limits import.

2.2 Low technology content and poor sense of brand.

At present, the textile goods we export are of low technology content. They are mainly medium or low class goods, and the export structure is not reasonable. Textile goods are mainly exported by decided brand and coming material processing, the design and development of our own goods and the export of brand goods start just now, and we are also a lack of named brand. Many textile companies only depend on foreign orders, and don’t cultivate their own brand, so they cannot face the international market directly. Although there are some brands which make figures in domestic market, such as younger, sans an, those brands cannot also do well in the international markets. At this
moment, the only rivalry feature of our country’s textile export is the large quantity. Large quantity but low benefit badly restricts the export of textile.

2.3 Monotonously way to compete.

After entering WTO, the amount of Chinese textile export increased sharply, but the quality and grade of textile goods are very poor just like before. Facing the furious international competition, Chinese textile companies mainly decrease price to compete. Domestic companies decrease their price to compete with each other, which makes the export price decrease continuously. In international market, the benefit that Chinese textile goods makes is as 1/2 as that the developed countries make, and the unit price of developed countries is two times higher than that of China. Low export price not only become the pivotal problem that restrict Chinese textile industry to improve international competitive ability, but also make Chinese textile industry repeatedly punished by anti-dumping in other countries or regions. In the new situation, the shortage of Chinese textile companies on independent innovation, original brand, modern management and the ability of industry conformity is exposed, which makes a great measure of benefit dominated by broker, brand owner and market monopoly.

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The Analysis of Trade Policy Formulation
From the Benefit of Producer and Consumer

Yue Zhao
School of Management, Southwestern University of Finance and Economics
Wenjiang District, Chengdu 611130, China
E-mail: zhaoyueyy@gmail.com

Abstract
The implementation of a trade policy will have different effects on the different interest groups. The benefits of producer and consumer are often opposite. In order to look out an appropriate trade policy, we should balance the benefits of producer and consumer when we formulate trade policy.

Keywords: Trade Policy, Producer, Consumer, Benefit

Whether the government takes up the freedom trade policy or the protective trade policy, it will affect two interest groups: one is the native produce corporation; the other one is the native consumers. Generally speaking, the free trade policy is better to the consumers, but this will bring big challenge to the native producers.

However, if the government implements protective trade policy to prohibit the foreign goods from coming into the native country, this will short down the supply of foreign goods and the consumers’ choices. This kind of policy makes the consumers have to spend more money on the import goods.

Every coin has two sides, so is the foreign trade policy. The enterprises’ and the consumers’ benefits are controversial, so the government should balance them, when the government sets up the foreign trade policy.

1. The introduction of the problem
The foreign trade policy can’t protect the producers’ and the consumers’ benefits at the same time, so when we set up the foreign trade policy, we should obey this principle: Maximize one’s benefit at the condition that the other one’s lest loss, in order to get overall benefit.

To an enterprise with low level of productive, it may hope to stand stable in the native market; however, to an enterprise with high level of productive, it may hope to get a large space in the international market. Therefore, the producer’s produce capability determines the producer’s benefit wanting.

The consumer’s income determines their benefit wanting. To a poor man, it must make sure that he can live a normal life firstly, at this moment, his benefit wanting is that he can buy his necessities at the lowest price; to a rich man, his economy level determines he can have more wanting. He may care about the price of articles of luxury, rather than that of food. So the rich one’s benefit wanting is quite different from the poor one’s.

The producer’s capability of productive and the consumer’s income are relative to the a country’s development of economy, so we can get a producer’s and consumer’s benefit wanting determinates chain.

![Figure 1. Producer’s and Consumer’s Benefit Demand Chain](image)

When the government sets up the foreign trade policy, it firstly should make out the country’s level of economy and the producer’s level of economy and the consumer’s consumption wanting in order to find out their own benefit wanting. The government then should compare the different interest group’s benefit wanting and sets up the
appropriate foreign trade policy under the principle: Maximize one group’s benefit on the condition that the other one has the fewest losses, in order to get the overall benefit.

2. The analysis of how to set up the foreign trade policy

2.1 Dividing the economic developmental stage

Walt Whitman Rostow was used to point out that the development of economy should be divided into six stages: Traditional society stage, Preconditions for take-off stage, Take-off stage, Drive to maturity stage, Age of High mass consumption and pursue quality stage.

However, Chenery, another American economist, advised to divide the economy into three phases: Initial stage of economy, Industrialization stage and Developed economy stage.

The Chinese economist, Li Yue divided the development of economy into five phases: Generation stage, the stage of development, growth stage, strong stage and mature stage. As Li Yue’s viewpoint was based on the Rostow’s and Chenry’s viewpoint, so this article will take the Li Yue’s theory to divide the development of economy.

2.2 Policy Suggestions at each stage

2.2.1 The first stage--Generation Stage

The agricultural sector is the main sector in the society. The producers are all small farmers in the unit of family. So at this stage, the producers are also consumers, and they need lots of food. However, due to the low productivity, there will be more need than supply. On the other hand, due to the constriction of nature condition, the native agricultural goods are very rare. So the government should take up the free trade policy in order to import some other agricultural goods.

2.2.2 The second stage--The Stage of Development

In this period, although the agricultural sector is still the main productive sector, the proportion of the agricultural sector in the GDP begins to decrease; some of the rural labor force are transferring to the city. During this period, the industrial sector will take the place of the agricultural sector, becoming the first sector. As the industry in the native country is in the early stage, it’s really very difficult for them to compete with the foreign companies, so the government has to take up protective trade policy to the industrial sector. In this period, as people’s salary is still at a low level, consumers still spend lots of money on the daily necessities, only a few consumers are in need of some kinds of industrial products. Therefore, the protective trade policy will not hurt the consumer’s benefit.

The level of mechanization in agricultural production is still very low, and the productivity and efficiency are also very low. The agricultural producer needs to be protected to resist the competition from the foreigners. Compared with industrial sector, the government should give some protection to the agricultural sector in the form of subsidiary etc.

2.2.3 The third stage--Growth Stage

In this period, the economy in the country has have made rapid progress and the ratio of revenue to GDP declines sharply, even less than that of service industry. However, with the development of industry, the level of mechanization in agricultural production has been improved obviously. The agricultural production can not only make the native people’s needs, but also have surplus. So the government can implement free trade policy to the agriculture and help it export aboard.

The enterprise in industry sector also gets an obvious progress and the ratio of industry sector to GDP has been further improved. Some enterprises become mature in the market, they are not in a totally passive situation when they compete with the foreign ones. However, they are eager to get lots of advanced technology for both production and management from the foreign countries. On the other hand, people's living standard and their quality of life are improved; consumers begin to have diversified demand on industrial products. However, in this period, the native enterprises may can’t make consumers’ high needs. So compared with the second stage, the trade policy can relieve some constraints on industrial products; and welcome the foreign enterprises to invest.

Service industry and tertiary industry have made great progress, but compared with the ones in developed countries, they still lack competitiveness. However, at this time, the need of industrial products is still much more than that of service, so the government can implement protective trade policy on tertiary industry. This policy will not bring lots of losses to the consumers and will protect the native enterprises.

2.2.4 The fourth Stage--Strong Stage

Actually, lots of medium-level developed countries are at this stage nowadays. Each industry in native country become mature, but still doesn’t have absolute advantage in the world. The industrial enterprises are possible to
withstand the competition of the foreign enterprises and their biggest difficulty is how to get a larger market space in the international market. Tertiary industry also makes a progress, most of the businesses are getting mature and some of them have the ability to compete with the foreign competitors.

During this period, the consumers have a higher level of income; they have more need in the service industry. So the government can take up free trade policy in the industrial sector, and try to help the native companies to go aboard. The government can further increases liberalization of services, in order to meet the consumers’ multifarious needs in the service industry.

2.2.5 The fifth stage-- Mature Stage

During this period, the service industry has become the economic backbone of the country. Enterprises begin to take the world as their objective market. The consumers don’t care about the prices of goods, as they have a high level of income. Therefore, the government should advocate the free trade policy.

We have analyzed the consumers’ and producers’ main feature in the former content and given lots of suggestion on the trade policy in each stage. However, we still believe that there isn’t a common trade policy theory to all the countries. The foreign trade policy should be changed according to the real situation of the country. Generally speaking, at the beginning of the development of economy and at the developed stage, the government can take up free trade policy. However, during the process of the economy, the government should try to use protective trade policy on each industry.

3. Suggestion on foreign trade policy in China

Nowadays, each industry is developing very fast. Specially speaking, compared with the developed countries, the production level in agricultural sector still lags behind, so china can not implement free trade policy on agriculture, on the contrary, we should make great efforts to it to improve the international competitiveness of agricultural products.

In industrial sector, a few enterprises have stepped toward foreign markets, but they still keep a pace with some of the foreign competitors. Consumers in China now begin to have diversified demands on industrial products, so we now can try to open some areas and help some weak businesses.

Service industry and tertiary industry are in the process of developing, the native enterprises can basically meet people’s needs. However some rich consumers’ needs are beyond the producer’s capability. So, the government should take up protective trade policy and reduce limitations to some products.

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Insight of Chinese Economics Culture in Malaysia

Pek Chuen-Khee
Department of Economics, Universiti Tunku Abdul Rahman, Selangor D.E., Malaysia
Tel: +6-012-682-3811   E-mail: peckk@mail.utar.edu.my

Abstract

The Chinese Economics Culture (CEC), a blend of the moral values of Confucianism and Taoism, though has long been instituted, its application is still valid in this globalized world. This unique economics culture comprises eight elements; personal connection (guanxi), intermediary (zhongjianren), social status (shehui dengji), interpersonal harmony (renji hexie), holistic thinking (zhengti guannian), thrift ( jiejian), “face” (mianzi) and endurance (chiku nailao) which co-integrate and synergise themselves holistically to smoothen the business arbitration processes.  The rising of China as an economic superpower has called for more emphasis on the awareness and application of the CEC in the business negotiation process both in the western and eastern countries, Malaysia inclusive. Past economic events have shown that the Chinese-owned companies in Malaysia were more resilient to economic and financial turmoil than businesses of other ethnic groups. With the emergence of these phenomena, this research using the survey instrument, intends to study the awareness and perception differences of the employees of small and medium enterprises (n=104) and multinational companies (n=108) in Malaysia on the importance of the CEC and its eight individual elements respectively in business negotiations. The results have shown that there have been no significant differences in the awareness and perceptions of the importance of this culture and its eight elements in ensuring successful business arbitration. Hence it will be encouraging if companies can adopt and educate their employees with this culture to face the multi-faceted challenges posed by the awakening of the Chinese market and the ever more globalized regional and world economy. In the Malaysian context, it is suggested that a blend of this Chinese culture with the culture of other ethnic groups is exercised to bring forth a truly Malaysian Economics Culture for the enhancement of the country’s competitiveness in the new economy.

Keywords: Chinese Economics Culture, Small and Medium Enterprises, Multinational Companies

1. Introduction

The Republic of China has an extensive and unique six thousand years of histories, numerous territories, seventy four dialects, fifty six nationalities, and an entire range of human personality differences (Huang et. al., 1994). Notwithstanding these differences, the Chinese has managed to develop a uniformed and unique business culture only identifiable to her own race. The business culture, forms the focus of this study, comprises eight elements which are co-integrating among themselves whilst setting the fundamentals for business negotiations. These eight elements are personal connection (guanxi), intermediary (zhongjianren), social status (shehui dengji), interpersonal harmony (renji hexie), holistic thinking (zhengti guannian), thrift ( jiejian), “face” (mianzi) and endurance (chiku nailao) which were blended from the Chinese moral values of Confucianism and Taoism.

Although instituted a long time ago, these moral values which were contemporary to each other, are still being practiced by the Chinese worldwide. Not only are these values becoming more popular among the Chinese but also with the non-Chinese, the application of the Chinese business negotiation skills is also at its pinnacle. The Chinese negotiators are very much process-oriented and hence would emphasise more on the ways results are achieved than focusing on the final output (Graham & Lam, 2003). The emergence of the new economic superpower, China, has contributed to the increasing awareness, need and application of this business culture in trade negotiations and transactions among associated business entities. In 1997, more than 40 percent of corporate equity in Malaysia was owned by the ethnic Chinese whose businesses during the financial crisis were generally affected but not to the extent as expected. Following that, the impression of the Malaysian community was the Chinese-owned enterprises were not as badly hit by the crisis when compared with companies owned by the other races (Lee & Lee, 2003). The resilience of these Chinese-owned corporations against the crisis had much contribution of the CEC, practiced overtly or covertly.

The above phenomena set the impetus for this study to identify the awareness of this CEC and its application in commerce negotiations among the Malaysian employees in both the category of businesses; small and medium enterprises (SMEs) and multinational companies (MNCs). The perception of the importance of this business culture and its eight individual elements in business arbitrations between the workers of the SMEs and MNCs are essentially important to be revealed for organizational development purposes. In tandem with that, the ranking of the culture’s eight elements in order of importance, between the human resources in both the category of businesses is interesting to be revealed.
2. Literature Review: Eight Elements of Chinese Business Culture

2.1 Personal Connection (Guanxi)

Personal connection (guanxi) is the mutually beneficial relationship between two or more individuals that provide an ongoing association. It involves the provision of assistance and the practice of reciprocity that extends mutual benefits to the members in the “guanxi” network known by Hutchings (2002) as the “Bamboo Network”. It is important to have “guanxi” to gain favour and goodwill from trade partners. An individual business negotiator has so many choices that he is capable of selecting his favourable target regardless the profits he may make. With the establishment of the “guanxi”, a person is able to access key sources of information, resources and other areas including smoothing transport arrangements, smoothing payment collection and building up the firm’s reputation and image (Davies et. al., 1995).

Undeniably, the term “guanxi” in Mandarin is very unrestricting and takes on multiple meanings. The common general idea across the definitions is that all of them refer to a certain type of interpersonal relationship, one that is personal and built on particularistic criteria. Jacobs (1979) viewed that a base for a “guanxi” exists when two or more persons have cohesion of shared attributes, identity, or origin.

Entrepreneurs often need political connections to develop their enterprises, obtain license, and building business opportunities. Lim Goh Tong, the former Chairman of Genting Group, first developed a strong reputation through construction business, and then it could be argued that he obtained his casino operation license through his close relationship with the late Prime Minister Tunku Abdul Rahman. The sugar king, Robert Kuok being the wealthiest Malaysian, (Malaysian Business, 1-16 February 2001) is a well known skillful cultivator of influential politicians, easing his path towards international investments to countries like Hong Kong and China (Lee & Lee, 2003).

China’s high context culture sees her people to be deeply involved with others and sharing information widely (Hall, 1976). Hence, the “guanxi” network is a key to Chinese custom and honing influential interpersonal relationships which will only allow the companies to be “just” sustainable without it (Buttery & Leung, 1998).

2.2 Intermediary (Zhongjian Ren)

Intermediary organizations refer to institutions or organizations which act as links between the government and enterprises, producers and distributers, or individuals and organizations. They provide market entities with any kinds of services such as consultation, training, brokerage activities, legal advice, sales distribution and etc. Intermediaries also help coordinate, evaluate, assess, inspect, negotiate and handle business activities. Intermediaries can be divided into five types which are self-disciplined industrial organizations, legal and financial services, consultancies, intermediate companies for market trading, and lastly market supervision and authentication organizations (china.org.cn., November 2003).

Self-disciplined industrial organizations include trade associations, trade guides, chambers of commerce and others that serve to provide enterprise members with economic information and services for market prediction, technical and investment guidance and etc. Legal and financial services consist of law firms, notary and arbitration organizations and etc which evaluate, and assess behaviours of companies. They also perform other duties such as supervision, ensuring the company competes fairly and neutrally, and minimising corporate fraud. Consultancies include information centres, research and consulting organizations and others which provide comprehensive information and consulting services to enterprises. They can help to gain economic benefits and achieve efficiency in resource allocation. Intermediary organizations for market trading comprise brokerage, pawn and auction firms, employment agencies and talents exchange centres which directly provide facilities and services for trading activities in the marketplace apart from helping to decrease transaction costs. Market supervision and authentication organizations include metrological verification agencies, commodity inspection agencies, qualifications verification agencies and etc that provide function on behalf of the government to provide some public products, such as defending customer rights and etc (china.org.cn., November 2003).
A business negotiator can employ cultural experts, translators, outside attorneys, financial advisors or technical experts in helping to make the negotiation process smoother. These experts can serve two roles, namely as an agent who replaces the negotiator at the negotiation table or as adviser who provides information and recommendation (Burke & Wingard, 1997).

2.3 Social Status (Shehui Dengji)

The Chinese are conscious of and place a high degree of importance on social status and respect of hierarchy. In contrast with the other cultural traits, hierarchy is strongly visible in Chinese business meetings (Woo & Prud’homme, 1999). Social status is about a person’s status, position and role, rank, and respect in a hierarchy organization. To stimulate cooperation, Chinese negotiators usually prefer to work and discuss with people who are of the same or higher level than them (Graham & Lam, 2003; Woo & Prud’homme, 2003). People of higher status are thought to bring a positive influence to an investment (VanDuijn et al., 1999).

Social status is an essential factor in the communication process in China. An American negotiator might well be met by a whole contingent of Chinese businesspeople. Though one person is expected to be the spokesperson for the team, a solitary American negotiator is at a disadvantage. It may be supposed that he lacks status, that no one supports him, and that he probably does not carry authority to speak for anyone but himself (Gilsdorf, 1997).

Confucianism stresses respect for hierarchy, status and others. Confucianism is so prevalent in Singapore that the local Malays are also practising the concept of respecting the higher authority during their business dealings (Cucullu, 1998). The Honkies Chinese are very conscious of a person’s social status (Runckel & Associates, 2003). Casualness does not play well in a country where the Confucian values of obedience and deference to one’s superiors remain strong (Graham & Lam, 2003).

2.4 Interpersonal Harmony (Renji Hexie)

“Harmony” is related to the teachings of Taoism and Confucianism. The Chinese society has been strongly influenced by the Confucian principles of harmony and hierarchy (Hofstede, 1980; Ting-Toomey, 1994). Confucianism consists of four principles that enable a society to survive and prosper: humanism (jen), righteousness (yi), propriety (li), and wisdom (chong) (Yum, 1988). These broad principles still guide Chinese people’s behaviour in seeking harmony in relationships with others and social integration (Ng, 1998, 1999). In dealing with people, Confucius introduced a number of virtues; courtesy, persistence, patience, and sincerity, that allow for open and harmonious interpersonal relationships.

Herrington (2001), on his website of “Living, Retiring, Travelling, Business in the Philippines,” points out that, under the impact of multi-cultural influence, the dominant cultural value of “smooth interpersonal relationships,” permeates and guides the daily lives and behaviours of the Filipinos. The goal of preserving harmony between individuals, among family members, and among the groups and divisions of society is embodied in the core cultural value. Harmony is “attuning” which is the combining and blending of two or more ingredients in a harmonious whole with benefit and enhancement that maximizes the possibilities of all without sacrificing their separate and particular identities (Hall et. al., 1987).

One of the key concepts in the study of harmony in pragmatics is “co-operation”, which, according to Grice (1981), provides the mechanism whereby speakers understand each other in conversational interaction. From a sociological perspective, co-operation can be defined as acting together in a coordinated way at work, leisure or in social relationship, in the pursuit of shared goals, the enjoyment of the joint activity, or simply furthering the relationship (Argyle & Michael, 1991).

2.5 Holistic Thinking (Zhengti Guannian)

Holistic thinking is the viewing as a whole of all smaller issues such as price, warranty, delivery, quality and so forth into a complex issue during negotiation business. The Chinese tend to think in terms of the whole, entire package. On the other hand, Americans are more likely to think sequentially and individualistically. They tend to break up negotiation topics into minor issues (Graham & Lam, 2003). The Chinese way of thinking everything as a “whole” makes it easier to understand the relationship between issues. They believe that nothing can be placed in a special category, as every issue is connected to each other (Dellios, 2001).

In Holistic thinking, it is necessary to view things as whole in order to grasp more information (Dellios, 1996). Holistic approach will prevent businessmen from making blind decisions and help them to act more intuitively. Holistic thinking, which can also mean “synthetic thinking”, assists businessmen in timing their business intentions, and strengthening their financial position (Peat, 1987).

However, Americans view “zhengti guannian” as “the failure to settle anything” because negotiators who practice holistic thinking are usually petty as they require long descriptions of background and context, aside from asking a lot
of questions during each negotiation (Graham & Lam, 2003). Besides, the authors also said that holistic thinking tends to involve long courting processes compared to the quick styles of American meetings.

There is a Chinese adage that says, “There is room for discussion in everything”. That is to say nothing is final and definite. Whatever that has worked out in written form [contract] can be changed (Wong et al., 1998). That is why the Chinese prefer to talk about issues as a whole instead of in a sequential manner. For example, after discussing on the price they move on to the transportation issue but they later return to settle the price issue.

2.6 Thrift (Jie Jian)

The practice of thrift can be seen in the Chinese culture of having high savings rate and the haggling or bargaining over prices (Blog, 2003). Thrift also means frugality, which is directly related to Taoism. According to Graham & Lam (2003), the Chinese tend to be thrifty and are always saving their household income. Thrift has been practiced by the Chinese due to China’s long history of instability which has taught them to save their money. Most Chinese businessmen love to bargain over the costs whenever they are involved in business talks. Chinese negotiators are famous for wiggling into room for more price cuts and giving price concessions with great reluctance.

According to Singapore’s former Prime Minister, Lee Kuan Yew, the belief in thrift, hard work and filial piety would determine a nation’s economic success or failure (Zakaria, 1994). Those who practice thrift and hard work, and others are likely to succeed much faster in business (Vatikiotis and Daorueng, 1998). Thrift or frugality is a survival tactic, which helped ethnic Thai-Chinese keep afloat during stormy economic waters. Doing business at a manageable size, being liquid enough, having sufficient cash reserves, and saving money in the bank is crucial for sustaining many businesses whether big or small through the challenging times. The former Prime Minister, Tun Dr. Mahathir also said that thrift, hard work and others are Asian values which have in fact contributed to the emergence of Asian Tigers and Dragons (Milner, 2004).

Thrift is very important as it could determine the fate of a person, a family or even a nation. Most overseas Chinese kept in mind that, “A coin should be separated into two before spending it,” particularly in the early days when they started business in foreign lands (Jiazhen et al., 1994). Economists have proved that high savings contribute to high growth. People become richer and are able to save more money especially during economic booms. These positive signs in turn promote investment and growth, thus generating a virtuous cycle (Jiang, 1999).

2.7 “Face” or Social Capital (Mianzi)

“Face” is the respect, pride, and dignity of an individual as a consequence of his or her social achievement and the practice of it (Goffman, 1972; King, 1993; Lam & Wong 1995). The “face” of an individual has a quantitative and a positional aspect (Hwang, 1982).

Most Asians are intensely concerned with their own status, integrity, and dignity. Thus, “face” is the perception of persons and identifies “who they are” in respect to everyone else. You must never cause one of your players the “losing of face”. Never deny them a request in front of their companions, do not create a situation that will turn into confrontation. Speaking too frankly is something to be avoided. Beating around the bush or avoiding unpleasantness is a basic communication skill in China. You must be extremely polite and even avoid unpleasant responses or decisions that can cause a player potentially to lose “face”. Therefore, if you create an atmosphere where a player can be confident that he be in casino where his “guanxi” is strong and he will be treated with great respect then he will develop a strong relationship with your operation (Nazarechuk, 2000).

From the “success stories entrepreneurship at its best” (Song, 2004), emphasized the importance of understanding traditional Chinese constructs such as “mianzi” and “guanxi” and applying them at different levels, at the right time and to the right person and hard work in order to be successful in doing business.

2.8 Endurance (Chiku Nailao)

In the context of Chinese “chiku nailao” means endurance, relentlessness, eating bitterness or enduring labour. The Chinese are famous for their work ethic in which they see “chiku nailao” or hard work as much more important and honourable compared to the Americans who place high value on talent as a key to success. The Chinese shows diligence during business negotiations primarily in two ways that is by working harder in preparation for the negotiation, or expecting longer bargaining sessions. Sometimes, this may include their jet lags and late night entertainment of clients, which is a different concept from that of the westerners (Graham & Lam, 2003)

Endurance is considered as the secret to the success of the ethnic Chinese abroad in the business world (Carruthers, 2003). Endurance, perseverance, and determination are the only ways to counter short term setbacks, while conveying a brighter future ahead (Pahlawan, 1998). Hard work is a universally acknowledged Chinese virtue. Nowadays, although many Jamaican Chinese are involved in various professions but they still feel that hard work is the key to a successful entrepreneurship. Historically, the Jamaican Chinese who operated small grocery shops and sold farming
tools relied on hard work to prosper. Due to their diligence, Chinese businesses became the pillars of early commerce in Jamaica (Zhao, 2004).

The Malaysian Prime Minister, Datuk Seri Abdullah Ahmad Badawi encouraged his people to embrace the culture of hard work in order to provide better services or products by improving skills and knowledge. He admitted that hard work is extremely important to be competitive (The Star, 17 December 2004).

3. Methodology and Research Design

To study the perception of the employees in both the SMEs and MNCs on the CEC, an exploratory research is employed. This research method is adopted because the population in the SMEs and MNCs may have incomplete knowledge about the CEC and its eight elements, especially the non-Chinese ethnic groups, if not the Chinese employees themselves. An exploratory research is a logical step towards improving the acquaintance of the employers and employees of the two category of business on the prevailing issues here. This study tries to reveal the importance given by workers of SMEs and MNCs on this culture and its eight individual elements in business negotiations.

3.1 Sample

The target respondents of this sample survey include employees of SMEs and MNCs from Peninsular Malaysia, particularly the states of the Federal Territory of Kuala Lumpur, Johor, Penang, Perak and Selangor. SMEs are enterprises in the manufacturing sector with full time employees not exceeding 150 or annual sales turnover not exceeding RM25 million and companies in the primary agricultural and services sectors with 50 or less employees and annual income below RM5 million (National SME Development Council, 2 December 2004). MNCs on the other hand comprise companies which operate actively in more than one country (Hill, 2005).

Employees working in either SMEs or MNCs located in Peninsular Malaysia were eligible to take part in the survey. 230 questionnaires were distributed with equal half to each category of business; SMEs and MNCs. The response rate was high at 92 percent. Out of the 212 questionnaires, 104 (49 percent) came from SMEs while the remainder 108 (51 percent) was collected from MNCs. The respondents came from various levels of the organisation hierarchy. Most of the interviewees were managers, supervisors, executives and businesspeople. A small percentage of them were engineers, salespeople, information technology analysts and auditors. Majority of the respondents came from the Chinese ethnic group and aged between 16 to 25 years old. The greater part of them was aware of the CEC and its application.

The majority of respondents from SMEs were male (54.8 percent) while the female made up the balance of 45.2 percent. In contrast, most of the MNCs participants were female (61.1 percent) and 38.9 percent was male. The age category was divided into five interval groups. There were 16 to 25, 26 to 35, 36 to 45, 46 to 55 and 55 and above. Most of the SMEs and MNCs respondents came from the 16 to 25 age group.

3.2 Pilot Test

The survey instrument was pre-tested. A total set of 35 questionnaires were distributed to contacts from various SMEs and MNCs in the Klang Valley. The pilot test allowed the observations on the way the respondents understood, answered and duration required in completing the questionnaire. Amendments were made based on the feedback of the respondents in order to improve the presentation of the instrument.

3.3 Statistical Analysis

Descriptive statistics, cross tabulation, Pearson Chi-square and Student-t tests were conducted to present the perception of the importance of the CBC and its eight individual elements in business negotiations among the workers in the SMEs and MNCs. Conclusion and recommendations are made based on the findings and analysis subsequently.

4. Research Findings and Discussion

The findings of the study is based on hypotheses drawn to check any perception differences between the employees of SMEs and MNCs on the awareness of the CBC and its application in business arbitrations, the importance of CBC in business negotiations and the importance of “guanxi”, “zhongjianren”, “shehui dengji”, “renji hexie”, zhengti guannian”, “jiejian”, “mianzi” and “chiku nailao” respectively in trade discussions.

From Table 1, it is shown that there is no significant difference in the awareness of the employees in both the SMEs and MNCs on the CEC and its application in business arbitrations. This shows that workers irregardless of whether they are from the SMEs or MNCs may either have similar awareness or ignorance of the CEC. From the study of the sample, it is indicated that the workers of the two categories of business are aware of the CEC.

The Student t-test, from Table 2, shows that there has been no significant perception difference in the importance of the CEC in business arbitrations between the employees of SMEs and MNCs, with equal variances, as supported by the Levene’s test.
The Pearson Chi-square tests were tested on all the eight individual elements of the CEC respectively to check on the perception differences of their importance, as an individual, in the trade negotiation process. The results from Table 1 show that all the eight elements have no significant perception differences between the two groups of employees on their influence in commerce discussions at the five percent level of significance.

The results of all the tests show that the Malaysian workers in general are indifferent in terms of their perceptions on the issues of this research. This may be contributed by the similarity of the background and profiles of the respondents, coupled with the majority of them being aware, in one way or another, of the significant influence of the Chinese community, armed with their unique business culture and strategies, on the industries and businesses of the country.

The respondents from the SMEs and MNCs rated “guanxi” as the most important elements in the CEC in determining the success rate of a business negotiation, followed by the “renji hexie” and the least important was “mianzi”. The rankings for the rest of the elements between the employees of the two business category were only of slight different. Table 3 shows the rankings of the eight elements between the two groups of employees.

Pye (1986), Tai (1988) and Osland (1990) agreed that the right “guanxi” can bring about assistance during problematic times and these aids are fundamentally critical for all sizes of businesses, to survive into the longer run. “Guanxi” has been ranked unanimously as the most important elements, as once one is networked with the connection, things can be done in arm length basis. The pool of respondents from both SMEs and MNCs appreciated “renji hexie” as the second most important elements as most human beings would prefer to work in a harmonious environment, providing less or no tension and workers who are truthful and earnest. These groups of workers have also agreed that “mianzi” is the least important among the eight elements as this is very much an issue of ego rather than business rationality.

“Chiku nailao” has been ranked a level higher in SMEs than MNCs as the workers in SMEs always believe that hard work is critically important for the growth of the company as compared to MNCs where the businesses are more a less stable or at their high momentum. “Jiejian” is also seen to take a higher ranking in SMEs than MNCs as cost saving has always been the number one concern of smaller businesses where their capital accumulation process may be more tedious than that of the MNCs, which are cash-rich. “Shehui dengji” and “zhongjianren” are ranked at the lower levels and reveal weak significant difference between the SMEs and MNCs as both these elements have been overshadowed by business rationalities and direct marketing and outsourcing respectively.

5. Conclusion and Policy Implication

With the emergence of the Chinese market, the international and domestic industries are posed with great opportunities and multi-faceted challenges now and in the future. Malaysia, a country with a significant composition of the Chinese ascendant, has some language and cultural advantages in luring investment interests from China. The domestic Chinese ethnic group who shares similar life principles have been seen successful in dealing with the economics of the country with heavy dependence on the belief of some of the elements like endurance, thrift and clout creation of the CEC, a shared concept among the Chinese worldwide.

Since Malaysians in general are seen to be exposed directly or indirectly to the importance of the CEC, coupled with the significant impact of the rising dragon, it is deemed essential to bridge further the utilisation and application of the knowledge of CEC to enhance a better business climate domestically and also to strengthen the bilateral trade with China. More exposure and explicit practice of the eight elements of the CEC may create a dynamic and productive working environment to ensure sustainability of the businesses and international ties with China.

The CEC will in the long run shape a business style and structure on the ways businesses are established, sustained and evolved both in Malaysia and overseas. Tapping on the advantages of this culture it is envisaged that one should give considerable attention to the eight elements of the CEC, utilize and craft them into competitive strategies to meet the ever more globalised world, predominated currently by the Chinese. Having to stress this, it is also important for the crafting of a real Malaysian Economics Culture that blends the business cultures of other ethnic groups into CBC, making it a more holistic and applicable in the local context and next to export it into the international market as a business model which is more universal but not just country or ethnic based.

References


Table 1. Pearson Chi-square tests

<table>
<thead>
<tr>
<th>Perception difference</th>
<th>Small and Medium Enterprises (SMEs)</th>
<th>Multinational Corporations (MNCs)</th>
<th>p-value</th>
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<tbody>
<tr>
<td>CBC awareness</td>
<td>0.559</td>
<td></td>
<td></td>
</tr>
<tr>
<td>“guanxi” awareness</td>
<td>0.935</td>
<td></td>
<td></td>
</tr>
<tr>
<td>“zhongjianren” awareness</td>
<td>0.427</td>
<td></td>
<td></td>
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<tr>
<td>“shehui dengji” awareness</td>
<td>0.102</td>
<td></td>
<td></td>
</tr>
<tr>
<td>“renji hexie” awareness</td>
<td>0.105</td>
<td></td>
<td></td>
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<tr>
<td>“zhengti guannian” awareness</td>
<td>0.827</td>
<td></td>
<td></td>
</tr>
<tr>
<td>“jiejian” awareness</td>
<td>0.317</td>
<td></td>
<td></td>
</tr>
<tr>
<td>“mianzi” awareness</td>
<td>0.616</td>
<td></td>
<td></td>
</tr>
<tr>
<td>“chiku nailao” awareness</td>
<td>0.371</td>
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</table>

Table 2. Levene’s Test for Homogeneity and Student t-test

<table>
<thead>
<tr>
<th>Perception difference</th>
<th>Levene</th>
<th>Student t</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBC awareness</td>
<td>0.076</td>
<td>0.394</td>
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</table>

Table 3. Ranking of the Eight Elements of CEC by employees of SMEs and MNCs

<table>
<thead>
<tr>
<th>Ranking</th>
<th>SMEs</th>
<th>MNCs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Personal connection</td>
<td>Personal connection</td>
</tr>
<tr>
<td>2</td>
<td>Interpersonal harmony</td>
<td>Interpersonal harmony</td>
</tr>
<tr>
<td>3</td>
<td>Endurance (chiku nailao)</td>
<td>Holistic thinking (zhengti guannian)</td>
</tr>
<tr>
<td>4</td>
<td>Holistic thinking (zhengti guannian)</td>
<td>Endurance (chiku nailao)</td>
</tr>
<tr>
<td>5</td>
<td>Thrift (jiejian)</td>
<td>Intermediary (zhongjianren)</td>
</tr>
<tr>
<td>6</td>
<td>Intermediary (zhongjianren)</td>
<td>Social status (shehui dengji)</td>
</tr>
<tr>
<td>7</td>
<td>Social status (shehui dengji)</td>
<td>Thrift (jiejian)</td>
</tr>
<tr>
<td>8</td>
<td>“Face” (mianzi)</td>
<td>“Face” (mianzi)</td>
</tr>
</tbody>
</table>
The Neglected Fluidity Control Tool: Short-term National Debt

Wei Shen
Industrial and Commercial Management College, North China Electric Power University
Beijing 102206, China
E-mail: Shenwei_1965@126.com

Abstract
In this article, we first analyze the process of the fluidity control of short-term national debt and think that the short-term national debt market with certain scale can reduce the impact of fluidity to commercial banks, then compare three tools usually used in open market operations, i.e. middle and long term national debt, central bank bill and short-term national debt and the results show that the control ability of fluidity of short-term national debt is better than middle and long term national debt and central bank bill. However, the finance function of short-term national debt has ignored in China for a long time, which induces the actuality that the scale of short-term national debt is too small, and this actuality has produced a series of restriction effects to the control of fluidity. Therefore, we advice that relative departments should emphasize the finance function of short-term national debt, perfect the issuance system of short-term debt, and fully exert the control function of short-term national debt.

Keywords: Short-term national debt, Fluidity, Open-market operations

At present, the durative inflation occurs in the operation of China macro-economy. To control the surplus coin quantity and restrain the inflation, China central bank has adopted a series of corresponding macro-economic control measures such as expanding the issuance scale of central bank bill, enhancing the required deposit reserve ratio and enhancing the interest rate. China Ministry of Finance also issued 60 billions Yuan special national debt to retrench the fluidity in order to help the macro-economic control in 2007. However, one main operation tool to control the fluidity in western countries with market economy, the short-term national debt is not fully utilized in China macro-economic control, so it can not exert its function in the macro-economic control, which cannot but be emphasized and considered by us.

1. The fluidity control process of short-term national debt

To clearly describe the fluidity control process of short-term national debt, we suppose two situations.

The first situation: suppose the finance investment channels of one country have only two sorts including putting money in commercial bank and purchasing stock in the stock market. And all investors in that country put 1/2 of cash capital (X) in commercial bank and use 1/2 of cash capital to purchase stock. When the stock market is in the downturn, investors sell part of stock and withdraw part of cash capital (\(\Delta X\)) and put them in the commercial bank to avoid the stock risk. When the above hypothesis comes into existence, the cash capital flow of investors in this country is seen in Figure 1.

From Figure 1, the capital amount \(\Delta X\) that flows from the stock market to commercial bank is more, the new-adding deposit absorbed by commercial bank is more, and under the function of deposit multiplier, the derivative deposit scale of commercial bank is more, i.e. the fluidity impact suffered by commercial bank is more.

The second situation: suppose the country adds a invest channel, the short-term national debt market. When the stock market fluctuates and the cash flows out from the stock market, part investors will use the cash to purchase short-term national debt. Thus the investor can not only avoid the stock risk, but acquire stable and safe benefit. And because the short-term national debt has good cash-ability, when the stock market gets better over again, investors can quickly cash their short-term national debt and invest these money into the stock market and acquire returns with high risk. Under this situation, \(\Delta X\) will not flow back to the commercial bank system. Suppose \(\Delta X=X_1+X_2\), where the new-adding deposit of commercial bank is \(X_1\) and the part absorbed by the short-term national debt market is \(X_2\), and only \(X_2\neq 0\), so there must be \(X_1<\Delta X\). That is to say, under the situation adding a short-term national debt market, only the short-term national debt market absorbs part of capital flow that returns from the stock market to commercial bank, so the fluidity impact of stock return capital to commercial bank will be reduced.

It is obvious that the coin quantity flowing from the stock market to commercial bank \(X_1\) is negative correlative with the coin quantity flowing from the stock market to the short-term national debt \(X_2\). If Central Bank wants to reduce the coin quantity flowing to commercial bank, i.e. reduces \(X_1\), and reduce the credit scale created by commercial bank, it can close out its short-term national debt with magnetic price in the short-term national debt market and make the capital flowing out from the stock market flow to the short-term national debt market, i.e. add
the accommodated amount of basic money flexibly. However, the deficiencies of central bank bill are obvious. First, bank can independently decide the issuance time and amount according to the demands, which is propitious to adjust in fact, both sides have very large differences. First, the central bank bill is issued by central bank, so the central exceed one year, and the central bank bill is also short-term usually, so both fluidity and marketability are good. But possess higher security. Second, for the term, the short-term national debt is the national debt that the term doesn’t range and power of control will be discounted. Second, the abundant central bank bill issuance will increase the loss because the range of holder is narrow (limited in banks and other finance institutions, and the public can not participate) and the term structure is single and it can not be cashed at any time, so the active degree of trade and the range and power of control will be discounted. Second, the abundant central bank bill issuance will increase the loss of central bank, and the capital is circulated in the interior of central back, the social benefits and the economic benefits are limited, and the payout of interest rate will also form putting of basic money. Third, the abundant central

2. Comparisons of fluidity control among short-term national debt, middle and long term national debt and central bank bill

In the country that the short-term national debt market is undeveloped, central bank always uses middle and long term national bank and central bank bill to replace the short-term national debt to develop the open market operations and control the fluidity, and that will acquire certain effects. But in fact, these three tools are very different to impact the effect of fluidity control.

2.1 Comparison between short-term national debt and middle and long term national debt

When central bank uses middle and long term national debt to control the surplus fluidity, some problems will occur. When the evidence of inflation occurs, the public will anticipate the market interest rate will be ascending and the national debt price will fall, so the public make for selling out national debt, and at this time, facing the pressure of inflation, central bank needs to deflate the money and also sell out middle and long-term national debt. As a result, the same-directional operations of central bank and the public may induce the bond sold by central bank can not achieve the anticipated sale quantity, and the intention of deflating the money will not be achieved certainly. To overcome above deficiencies, central bank may initatively reduce its own yield when it sells the bond, and enhance the purchaser’s yield in order to achieve the anticipated control objective. Thus the cost of open market operations will be enhanced invisibly.

If central bank uses short-term national debt to implement open market operations and control the fluidity, the effect will obvious better than middle and long term national debt. Because the short-term national debt has short term, high security and strong fluidity, it is regarded as “quasi-coin” by the public. For investors, the short-term national debt almost has any risk of interest rate, and its interest rate can fluctuate with the market interest rate and be adjusted in time, and investors will not suffer the lose of interest rate in the trade. Therefore, under the macro-economic background of surplus fluidity and inflation and the anticipation that the market interest rate will further rise, to avoid the risk of interest rate, investors always more use their leisured capital to purchase short-term national debt. Therefore, central bank uses short-term national debt to implement open market operations, which can not only excessively increase the cost of open market operations, but more flexibly adjust the sale direction and scale than middle and long term national debt to achieve the control objective with continual operation and small adjustment unconsciously. Above advantages of short-term national debts make it become into the first choice of tools in open-market operations. In US Federal Reserve, the asset of national debt occupies 80% of it total assets, and the proportion of short-term national debt in national debt assets can achieve about 43%. In 1980-2001, the proportion of the amount of short-term national debt purchased by US Federal Reserve in all purchase amount of national debt was averagely 58.62% in its open market operations.

2.2 Comparison between short-term national debt and central bank bill

On the surface, there are many similar characters between short-term national debt and central bank bill. First, for the credit class, though their issuance principal parts are different, i.e. one is issued by Ministry of Finance, and the other is issued by central bank, but their credit classes are same, and they all belong to state-class credit, so they all possess higher security. Second, for the term, the short-term national debt is the national debt that the term doesn’t exceed one year, and the central bank bill is also short-term usually, so both fluidity and marketability are good. But in fact, both sides have very large differences. First, the central bank bill is issued by central bank, so the central bank can independently decide the issuance time and amount according to the demands, which is propitious to adjust the accommodated amount of basic money flexibly. However, the deficiencies of central bank bill are obvious. First, because the range of holder is narrow (limited in banks and other finance institutions, and the public can not participate) and the term structure is single and it can not be cashed at any time, so the active degree of trade and the range and power of control will be discounted. Second, the abundant central bank bill issuance will increase the loss of central bank, and the capital is circulated in the interior of central back, the social benefits and the economic benefits are limited, and the payout of interest rate will also form putting of basic money. Third, the abundant central
bank bill has “extruding” effect to develop other finance tools, which goes against the developments of the coin market and the capital market.

In the next place, because the short-term national debt is issued by Ministry of Finance, so if central bank wants to use the debt tool to manage coin, it needs to communicate and harmonize with finance departments, which is different to the issuance of central bank bill, and central bank can self decide. However, as the tool of open market operations, the short-term national debt has many advantages that central bank bill can not assimilate. First, the holders of short-term national debt are extensive, the term is multiple, and the marketability and the fluidity are strong, which can make for trading and central bank can sell and purchase at any moment, implement continual operations and minimal adjustment to achieve the best control effects. Second, the capital to issue the short-term national debt will be associated with entity economy and produce certain social benefits and economic benefits whether it is used to fetch up deficit or invested into the economic construction. Third, the short-term national debt belongs to the financing tool in the coin market, so the issuance of short-term national debt is propitious to develop the coin market.

Because the short-term national debt and the central bill have respectively their characters, so when the administration of one country decides which one is the main operation tool of open market operations, it should consider whether the subjective conditions allow central bank to take short-term national bank as the operation tool in the short term, and it should consider which one in these two tools more suits for the control of coin policy and more makes for the development of finance market in the long term.

3. The actuality of China short-term national debt and its restriction to fluidity control

Because the short-term national debt possesses its special advantages to control the fluidity, the western countries with developed market economy very emphasize the issuance of short-term national debt. In US the short-term national debt implements roll issuance, the term variety is complete, and the issuance scale is large, which can achieve about 40% of total size of national debt issuance. Since China first issued short-term national debt in 1994, up to 2006, the average proportion that the issuance scale of short-term national debt in total scale of national debt issuance was only 9.9% (seen in Table 1). And in four years, the short-term national debt was not issued, and even in the year that the short-term national debt was issued, the real roll issuance was not formed.

Because the scale of short-term national debt in China is too small, this too small scale will form a sort of bottleneck effect, which will induce serious restrictions to many aspects of macro-economic control.

3.1 The restriction to the effect of open-market operations

When developed countries implement open market operations, most national debts are short-term national debts. The short-term bond has strong fluidity, and the central bank can purchase and sell at any moment, which makes the open market operations possesses characters of flexibility, mini-adjustment and continuity. Of course, central bank can buy middle and long term national debt through the mode of re-purchase to control the coin quantity in the circulation. But because the fluidity of middle and long term national debt is worse than the fluidity of short-term national debt and the risk is higher, so the operation effect is not better than short-term national debt. In China, because the scale of short-term national debt is too small, so central bank cannot but issue central bank bill to replace short-term national debt to implement open market operations. Because the issuance range of central bank bill is limited, so the public can not participate, and it has very limited function to the withdrawal of coin in the circulation. And because the issuance of central bank bill, central back has suffered heavy interest rate, so the issuance scale must be considered, and it is also restrained by the interest rate. Thus, the effect to control the fluidity through open market operations will be discounted largely.

3.2 The restriction to the fluidity guarantee of commercial bank

Commercial banks of China would purchase national debt with quite quantities to keep the capital fluidity and reduce the interest difference. But the proportion of short-term national debt in China is low, so most national debts conceived by commercial banks are long-term national debts. Because the long term national debt has long term, high risk and bad marketability, so the long term national debt is not far convenient than short-term international debt to complement the fluidity. Otherwise, China implemented the policy of low interest rate all along in recent years, which make the interest rate of long term international debt very low all the while. In 2001, the average interest rate level of five-year-national debt was only above 0.25% than the deposit interest rate at the same term, and in 2002 and 2003, the average interest levels of three-year-national debt and five-year-national debt were even lower than the deposit at the same term. Under this background of low interest rate, the profit space that commercial banks purchase long term national debt is very narrow and even the loss will occur, furthermore, the present deposit interest rate of China has begin to rise, which makes the price of long term national debt hold by commercial banks fall and the opportunity cost increase, so the commercial banks cannot but assume the interest rate risk because of
the rise of interest rate. If commercial banks hold the short-term national debt with certain quantities, so they can timely and conveniently adjust and quickly reduce the adverse influences brought by the invariance of interest rate according to the market. Therefore, it is very necessary to develop the short-term national debt market to strengthen the capital fluidity for commercial banks and prevent the interest rate risk that commercial banks hold single long term national debt.

3.3 The restriction to extend money market scale and reduce capital market risk

Comparing with the quick development of capital market, the development of coin market in China is relative lagged. To change this situation, first, abundant short-term national debts should be issued. The short-term national debt has high security, small ticket money, strong fluidity and few credit risk and market risk, so it is easier accepted by investors than business bill, cession deposit receipt and other coin market tools with high credit risk and market risk. Therefore, according to the actual situation of China finance market, the short-term national debt market should be quickly developed to drive the development of coin market, gradually drive the development of other short-term financing market, expand the scale of coin market, and promote the development of coin market.

The development of coin market can effectively detract the investment risk of capital market. The investment tools of capital market have long term, so they always have market risks with different degrees. Under the situation that the market has not short-mechanism and derivative tools to hedge the risk, the market risk accumulated in the capital market can not be released and detracted through reasonable channels. But to choose the financing toll of coin market, especially the short-term national debts to form the asset combination is a good path for investors. In a word, when the capital market develop to certain degree, if the there is no the development of coin market to support it, it is difficult to be further developed. Without corresponding coin market, the development of capital market will lack the adjustment mechanism to avoid risk and risk flow (Wu, Xiaqiu, 2002). At present, the narrow short-term national debt of China can not promote the extension of the scale of coin market, and can not detract the risk of capital market.

3.4 The restriction to the production of benchmark interest rate

In the capital market, only the interest rate of the finance product with low risk and strong fluidity has qualification to serve as the basic interest of investment, and can be regarded as the reference of pricing for other finance assets. In all finance tools, the short-term national debt is the most proper one to accord with the requirement. Therefore, in some countries such as US, Japan and German with developed market economy, the yield of short-term national debt is served as the basic interest rate of the market interest. But in China, the basic interest rate is served by one-year-deposit interest rate, which is related with that the stated commercial banks have the supports of national credit. With the deepening of reform, commercial banks will finally be turned into enterprises really, and the risk of one-year-deposit interest rate will gradually occur, and it is exit from the stage of basic interest rate. So, which one will replace its position? At present, the inter-bank rate and the re-purchase interest rate of national debt seem to be further developed to basic interest rate. However, the participators in the inter-bank market are mainly commercial banks, and the cover range of market main body is not extensive, so it is difficult to comprehensively reflect the demand of market capital, and the re-purchase interest rate of national debt is influenced by the serious intersected system in China national debt market, so it is also can not form uniform interest rate level. Therefore, at present, these two interest rates can not be standard basic interest rate, and both all need some subjective economic conditions to better implement the function of basic interest rate (Wenbin, 2004). At present, China is in the sort of status lacking in basic interest rate, and this status is just one key factor to restrain the marketization of interest rate in China (Liyang, 2004). Because of the deficiency of basic interest rate, the price various finance tools in the finance market is difficult to be estimated reasonably, and investors can not operate capitals through the reasonable anticipation to the investment yield. To increase the issuance scale of short-term national debt and gradually cultivate the interest rate system taking the yield of short-term national debt as the basic interest rate has important actual meanings to promote the marketization of interest rate in China and become compatible with the world.

4. Advices to extend China short-term national debt scale and enhance its fluidity control ability

4.1 Strengthening the cognitions to functions of short-term debt and optimizing the structure of national debt term

For a long term, the function orientation of national debt in China is to emphasize its finance function, i.e. to fetch up finance deficit and raise construction capital, but the financing function of national debt, i.e. to control the macro-economy as the measure of open market operations, is not emphasized enough. The term of national debt to realize the finance function is best to be middle and long, and the term of national debt to realize the financing function is best to be short. Therefore, under the background to emphasize the finance function of national debt, the term structure of national debt forms a sort of abnormal structure with too large middle and long term proportion and too small short-term proportion. In future, we should strengthen the cognition to the financing function of short-term
national debt and make the short-term national debt occupy a reasonable proportion in the total issuance scale of national debt.

4.2 Further perfecting the national debt issuance system and gradually realizing the roll issuance of short-term debt

Before 2006, China always adopted the annual circulation management system of national debt. Under this system, the annual circulation of national debt needed to be gradually examined and approved by National People’s Congress, and once it was approved, it couldn’t be easily changed. This system had been carried out in China for 24 years. Under this issuance system, the issuance of short-term national debt needs occupying the circulation of national debt in the same year. Therefore, as viewed from the bond distribution and relative interests, Ministry of Finance should issue more middle and long term national debt but not short-term national debt, and accordingly the short-term national debt was seriously lacked. Luckily, after 2006, China had begin to become compatible with the international method, and carried out the balance management system of national debt. Under this system, the compensative short-term national debt issued in the same year would not occupy the circulation of national debt, which creates conditions for the issuance of short-term national debt. But at present, because of the restrictions of various factors, the roll issuance system has not been formed. Various conditions to implement the roll issuance of short-term national debt should be created to make the issuance system of short-term national debt be perfected really. The roll issuance of short-term national debt is propitious to perfect the yield curve of national debt, and promote the marketization course of interest rate. The reference system of the yield curve of national debt is the necessary condition to reasonably price bond, credit and all finance products. However, because of the limitation of “small both ends” of term structure of national debt, the yield curve adopted by the market at present is obtained through the fitting of the statistical method, which is the main reason to induce bad veracity of product pricing in the bond market and difficult reasonable pricing of bank loan.

4.3 Strengthening the communication between China Ministry of Finance and China Central Bank, establishing the issuance harmony department of short-term national debt and constituting the issuance plan which can fulfill both demands

The short-term national debt is not only the tool of finance policy, but the tool of coin policy. Therefore, for the issuance scale of short-term national debt, the Ministry of Finance should strengthen communication and cooperation with central bank to make the issuance scale of short-term national debt can fulfill the demands of finance and financing at the same time. Based on this consideration, two departments can unite to establish the harmony institutions for the issuance of short-term national debt, constitute uniform issuance plan, and make the issuance scale of short-term national debt more reasonable and make the function of short-term national debt exerted to the largest extent.

References


Table 1. Short-term national debt scale (hundred million Yuan) and the total proportion in the issuance scale of national debt (%)

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<td>Scale of short-term national debt</td>
<td>132.35</td>
<td>117.87</td>
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<td>200</td>
<td>265.00</td>
<td>558.40</td>
<td>644.8</td>
<td>1396.5</td>
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<td>6105.62</td>
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<td>The total proportion in the issuance scale (%)</td>
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<td>7.8</td>
<td>22.3</td>
<td>4.3</td>
<td>4.46</td>
<td>8.9</td>
<td>9.15</td>
<td>28</td>
<td>32</td>
<td>9.9</td>
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Figure 1. Investor’s Cash Capital Flow

Figure 2. China Central Bank Controls the Fluidity
Managing Risks and Liquidity in an Interest Free Banking Framework: The Case of the Islamic Banks

BEN ARAB Mounira
Professor of Finance Lecturer in the University of Tunis Higher Institute of Management “Institut Supérieur de Gestion” ISG Tunisia
E-mail: mounira_benarab@yahoo.fr

ELMELKI Anas (Corresponding author)
PhD Student in the Higher Institute of Management “Institut Supérieur de Gestion” ISG Tunisia. Research and Teaching Associate ISAEG the High Institute of Business Administration of Gafsa Tunisia
E-mail: Elmelki-anes@laposte.net

Abstract
Risk and liquidity management are not just an interesting topic in Islamic Banking, it is a huge issue for all banks whether Islamic or not and for those who supervise these banks. Good risk management practices and processes do not have a religion or a colour or a country. There are plenty of good risk takers in Islamic Banks and some bad ones. It is the same in the conventional banking sector. Islamic banks have brought a new innovation in the banking industry whereby transactions must pass through owning real physical assets. Risk and liquidity management are of crucial importance in the overall banking environment, and they have clear relevance also to the specific environment of Islamic banking. In itself, Islamic banks are growing rapidly and have their own particular techniques on these issues, as elaborated on in this article. The use of profit-sharing modes in Islamic banks changes the nature of risks faced by these institutions.

In this paper we give a brief description of how an Islamic bank performs. We then try to clarify the risks that the Islamic banks are exposed to. We attempt after that to identify the practices of these banks for mitigating it with an emphasize on the liquidity risk and its challenges.

Keywords: Islamic banking, Profit and Loss Sharing PLS, Risk Management, Liquidity risk

1. Introduction
Islamic financial system is an important area of contemporary academic and policy Interest. It has received increasing attention in recent years and has become a well-developed and sophisticated one (Note 1). Its uninterrupted development continues, as reflected in the publication of countless journals, books, and research reports throughout the world. Individuals, universities, research organizations, and governments are all participating actively in this development. As a result of accelerated development, in recent years several studies have been undertaken to explain how the Islamic banks perform (Note 2). Most of these researches analyze the functioning of an Islamic banking system based on a Profit and Loss Sharing (PLS) principle, and discuss the possible impact of such a system on the mobilization of savings, on the allocation of scarce resources through banks, on investments, generation of real economic activity, and the effectiveness of monetary policy.

A vast literature (Note 3) has appeared on the subject of Islamic banking and the associated themes such as Islamic economics, Islamic finance, and Islamic monetary system and so on.

The Islamic banking system is currently spreading fast throughout the world. The success of this new system is indicated by the rapid growth in number of banks, branches, accounts, and sums of money it handles. Growth is being made in establishing an Islamic Capital and Inter-Bank Money Market, an Islamic Rating Agency and an Islamic Financial Services Supervisory Board. These developments mean that the Islamic financial industry has become systemically significant for the international financial system.

This huge success has been perceived as a profitable opportunity for some Western style commercial banks to generate new business by providing Islamic banking services in order to encounter increasing demands of a growing Muslim population in Western countries and all over the world.

Western glorious conventional financial institutions such as Citigroup, HSBC, JF Morgan, Barclays, Kleinwort Benson, Deutsche Bank, Lloyds, JP Morgan, Royal Bank of Scotland, Algemene Bank Nederland (ABN) AMRO, Goldman Sachs, American Express, ANZ, Grindlays, United Bank of Switzerland (UBS), Commerzbank, Société
Général and BNP Paribas have started introducing interest-free products to their customers (Note 4). Similarly, multinational corporations such as General Motors, IBM and Daewoo Corporation have begun to use interest-free services. European as well as American academic circles have taken interest in the subject. So far, a large number of PhD theses have been written on the subject in many Western universities (Note 5), prominent Western scholars and institutions (Note 6) are actively contributing books and articles in the area of Islamic finance.

Risk has remained an important area of research for conventional finance as well as Islamic one (Note 7). Conventional finance has already developed several tools for managing risk. Islamic financial institutions face a variety of types of risks related to Islamic modes of investments and finance (Note 8). Since, the business of Islamic banking has many distinctive features, the nature and magnitude of risk confronting such institutions may be significantly different.

The paper is organized as follows. In section 2 we give a quick review of the essential foundations of the Islamic finance followed by a short description of the Islamic banks operations in mobilizing and utilizing of funds, with some explanation on the Islamic modes of financing. In section 3 we clarify the special risks surrounding the Islamic banks and those which it has in common with the conventional banks. We then attempt to identify the practices of these banks for mitigating it with an emphasize on the liquidity risk and its challenges.

2. Islamic banking features

Surely, prohibiting the receipt and payment of interest forms the core of the Islamic banking, but it is supported by other principles of Islamic doctrine such as: advocating risk sharing, promotion of entrepreneurship, discouragement of speculative behaviour, a financial transaction should not lead to the exploitation of any party to the transaction, preservation of property rights, transparency and the inviolability of contractual obligations (Note 9).

Islamic finance is a form of financial innovation (Note 10). Most importantly, it demonstrates that business and Islamic laws considerations are not mutually exclusive.

The term “Islamic banking” refers to the conduct of banking operations based on Islamic principles. As a financial intermediary, the basic mechanism of the Islamic bank is to accept deposits from surplus persons on the liability side and offer financing on the assets side to the deficit persons. While conventional banking uses the interest rate mechanism to perform its task of financial intermediation, Islamic banking relies on profit/loss sharing for purposes of financial intermediation (Note 11). Therefore, instead of charging interest, for an Islamic bank the capital is rewarded with a variable rate of return depending on the profit or loss resulting from the use of the funds during a given period. The depositors also share in the profits of the bank according to a predetermined ratio. There is thus partnership between the Islamic bank and its depositors, on the one side, and between the bank and its investment clients, on the other. This is in contrast with a conventional bank, which mainly borrows funds paying interest on one side of the balance sheet, and lends funds, charging interest on the other (Note 12).

How can a bank operate without using the interest rate mechanism?

2.1 Principles Underlying the Islamic Banking System

Islamic banking is based on the Islamic teachings, in particular concerning the prohibition of interest. Islam forbids the charging of interest but encourage the earnings of profits. In this system investors are not guaranteed any prefixed amount of profit from the bank. Neither any predetermined income or interest, nor repayments of the principal deposit amount are guaranteed to those who invest within the Islamic system.

The factors which distinguish Islamic banking from conventional banking are:

**Interest:** All forms of contracts and transactions must be free from interest. Interest is generally understood to mean any return for the use of money. The basic principle is that within Islamic banking, it is not permissible to charge any return for the mere use of money (Note 13). Charging interest on loans is considered unjust since money is considered to be simply an intermediary between goods. There are differences between sale/trade and interest-based transactions. The first category of transactions is subject to the natural conditions of uncertainty and risk in relation to time and the second is not. Capital involved in trade may grow or decline through time, whereas, in interest-based transactions, capital automatically increases over time. Whereas conventional financial institutions “trade” in money with buying this later from depositors and selling it in the form of loans, Islamic financial institutions must trade in real assets or services. Many reasons have been advanced as to why usury has been forbidden, but perhaps the most important is the belief that capital should not generate profit unless combined with human effort or unless risk is involved. Thus interest on loans is an unfair payment since under conditions of uncertainty no borrower can guarantee that enough profit will be made to pay the interest due. Uncertainty about the future makes it unjust to guarantee return on capital or loan when no human effort has been exerted.

**Value of the money:** Under Islamic laws, money has no intrinsic value but merely serves as a medium of exchange effectively created to be sought not in itself but for other commodities. Money does not reproduce. It grows when it
is invested in a tangible economic activity. Money serves also as a measuring tool, a way of defining the value of a thing.

Uncertainty or Gharar (Note 14): it refers to acts and conditions in exchange contracts, the full implications of which are not clearly known to the parties. This is something very similar to “asymmetric information”. The concept of gharar generally refers to uncertainty (lack of knowledge) and also it implies deceit. All business transactions, which cause detriment in any form to any of the parties in a contract, are forbidden. It may be in the form of hazard, peril leading to uncertainty in any business, or deceit or fraud.

Maisar Pure Games Of Chance: has also been described as involving two parties in a combative game played for the sole purpose of winning at the expense of one's opponent. The gain accruing from such a game is unlawful, as is the act of playing it, for it diverts one's attention from productive occupation and virtuous conduct. Any transaction undertaken for purely speculative purposes are not allowable within Islamic banking. Allowable trading or investment transactions which involve the risk of incurring losses as well as earning profits are not included in this definition of speculation.

Prohibited activities or commodities: Islamic law prohibits using or dealing in certain commodities or activities. Islamic financing will therefore be inappropriate in financing any enterprise involved in any of the following types of activities or commodities: Pork, conventional Finance at interest, Tobacco, Gambling, Alcoholic liquor…

As it has been mentioned above, the Islamic banking system is based on the prohibition of interest which requires the replacement of interest-based modes of financing with new financial techniques. However, the prohibition of treading with interest rate does not mean that capital is costless in an Islamic system. Islam recognizes capital as a factor of production but it does not allow it to be remunerated by interest in any form. This obviously poses the question as to: what will then replace the interest rate mechanism in an Islamic framework? In this context Numbers of alternative financial instruments have been developed by the Islamic banks to provide various kinds of financial products. In Islamic banking, deposits are treated as shares and depositors purchase equity position regardless of where the bank invests their capital.

2.2 Mobilization of funds:

Just like conventional, Islamic banks are dependants on their depositors’ money as a major source of funds, with the exception that they are not allowed guaranteeing any rate of return on the basis of interest. Moreover, the nominal value of some deposits accounts cannot even be guaranteed, because they are reliant upon the profit- and loss-sharing scheme. This characteristic mainly applies to investment accounts. Islamic banks mobilize funds from their clients through three main different kinds of accounts: savings accounts, current accounts and investment accounts.

A. Current Account:

As with conventional banks, this account essentially provides for safekeeping of one’s deposits. Withdrawals from this deposit account, including checks drawn for and against it, are guaranteed by the bank. The depositor does not share in the risk or return in any form. Depositors are supposed to give their explicit approval to the bank to use their funds, without any return. The funds accumulating in these accounts can only be used to balance the liquidity needs of the bank and for short-term transactions on the bank's responsibility. The bank, however, should guarantee payment of these funds on demand.

B. Savings Account:

This deposit account basically serves the need for the safekeeping of one’s surplus funds. No return is expected in these accounts but the bank may at its absolute discretion pay the depositors a positive return periodically, depending on its own profitability. Such payment is considered lawful in Islam since it is not a condition for lending by the depositors to the bank, nor is it predetermined. The savings account holders are issued with savings books and are allowed to withdraw their money as and when they please. This type of account operates in two different ways. According to the first way, the Islamic bank requests permission from such depositors to make use of their funds so long as the funds remain with the bank, in return it guarantees to them getting the full amount back from the bank. However in the second case, savings accounts are treated as investment accounts but with less severe conditions as to withdrawals and minimum balance.

C. Investment Account:

Also known as profit and loss sharing (PLS) deposit or participatory deposit. The depositors and the Bank discuss terms of the contract according to it; depositor provides funds to be invested in assets and projects that the bank manages its operations. The Islamic banks cannot guarantee the capital of investment account holders. Profits,
generated by the business, if positive, are shared between depositor and the Bank as per a pre-agreed ratio. In case of loss, which is not due to negligence or misconduct of the entrepreneur, losses are absorbed by Depositors; effectively bringing down the value of the asset created with its investments and the value of the deposit. This participation of investment depositors in the risks of banking is unique to Islamic banking. However, the risks should be minimised through a proper management of the Islamic bank in order to maintain the confidence of the depositors in the system. These accounts reflect a divergence from the conventional banking system. Customers will be encouraged to deposit their funds in investment accounts on the basis of a predetermined profit-sharing ratio for a specified minimum period. The profit-sharing ratio is usually predetermined according to the nature of the deposit account, whether the distribution of profits is considered on a short or long-term basis. The long-term deposit accounts usually have a higher profit-sharing ratio because they are more stable and the bank may use the funds for long-term investments. Although depositors, of short or long-term, can withdraw their funds whenever they like. To share in the profits, they must keep their money in the bank at least for the contracted period. So, for example, no profit-share would be given for a six month deposit account if the depositor withdraws the fund after only five months. This feature exposes the bank to even higher liquidity risk if losses are expected, and to alleviate this risk, the bank may require that notices be given before withdrawals are allowed.

2.3 Uses of funds:
The financial techniques used by Islamic banks are mostly based on equity participation (Note 15). These techniques, with the closely comparable Western techniques, are:

A. Murabaha (mark-up):
Murabaha refers to contracts in which the Islamic bank purchases the specified goods upon the request of a client, who makes deferred payments that cover costs and an agreed-upon profit margin. Each Murabaha transaction must involve two separate contracts; one, in which the Islamic bank acquires the goods from a supplier, and a second, in which the bank sells the goods to the client. As a result, financing of the client by the bank does not occur through the transfer of money, but through the transfer of a tangible asset.

The condition of its validity is based on the fact that the bank must have the ownership and possession of the commodity before it can sell it to its client. Possession may be physical or constructive. The latter means a situation where the bank has not taken the physical delivery of the commodity yet it is in control of the commodity with all the rights, liabilities and risks including the risk of destruction. In modern day trade and commerce, physical possession may not matter in the presence of adequate documentation showing ownership and constructive possession. The order placed by the client is not a sale contract but it is merely a promise to buy. In cases where the promise is not binding on the client, the client even after putting an order and paying the commitment fee can rescind from the contract. The Islamic bank bears the risk of possessing the commodities until they have been delivered to the client.

in contrast to the interest system in which delayed payments would automatically mean increased interest payments, the late payments by the client cannot be penalized in Murabaha contract as Islamic banks cannot, in principle, charge anything in excess of the agreed upon price. Non-payment of dues in the stipulated time by the counterparty implies loss to banks. To overcome this problem, the Islamic banks can resort to what is called 'mark-down' which is the opposite of 'mark-up'. 'Mark-down' amounts to giving rebates as an incentive for early payments. Ownership resides with the bank until all payments are made. The Islamic bank may obtain some collateral from the client to ensure payment.

Critics can be addressed to Murabaha contracts. The mark-up added to the original cost of the good is equal to or, in some cases, even higher than the amount of interest that a borrower would pay in conventional banking practice. Besides this criticism, the timeline between the purchase and the sale is likely to be the time it takes to sign the two contracts. As a result, the bank experiences an extremely small amount of risk in exchange for a comparatively profitable return on an asset-backed basis.
B. Mudarabah (Silent partnership):
Mudarabah is a contract between an investment manager, the client, and the capital owner, the Islamic bank that acts as a silent partner. In this arrangement all the capital needed to finance the operation is provided by the Islamic bank while client provides the expertise, management and labour required for the operation. Mudarabah contract does not guarantee any fixed rate of return. The profits which results from this enterprise are shared between the bank and the client, entrepreneur, according to a prefixed percentage. In case of a loss, which doesn’t result from negligence or misconduct on the part of the entrepreneur, the bank has to bear all the losses and the entrepreneur’s loss lies in not getting any reward or compensation for his effort.

C. Musharaka (limited partnership):
Musharaka is an investment partnership where the Islamic bank joins another entity to set up a joint venture, both parties participating in the various aspects of the project in varying degrees. All providers of capital are entitled to participate in the management but not necessarily required to do so. The partner and the bank share in the profits according to the pre-agreed proportions, which may be different from the proportions of capital contributed. Any losses of the enterprise will be borne by the partner and the bank according to their capital contributions. Under a diminishing musharaka the partner client buys out the bank’s share after a period of time. A musharaka contract is similar to a mudarabah contract, the difference being that in the former both the partners participate in the management and the provision of capital.

In practice the Mudarabah and Musharaka contracts have real problems with moral hazard and asymmetric information which are serious in these kinds of arrangements. A trustworthy entrepreneur is the cornerstone of these arrangements. Consequently, the fact that the bank or investment account holder bears all the loss of the investment in the event of failure may encourage the entrepreneur to behave against the interests of the bank. Moral risk may arise when the entrepreneur declares a loss or a profit lower than the real; because of lack of honesty and integrity. The Islamic bank must have access at all times to the entrepreneur’s accounts to inspect and keep track of the accounts. If any misconduct, dishonesty or negligence is established against a client, he will be subject to punitive steps, and may be deprived of availing any facility from any bank in the country, at least for a specified period.

D. Ijara (operating lease):
Ijara is a leasing agreement whereby the bank buys an equipment or productive asset for a customer and then leases it back over a specific period. The client avoids initial capital outlay. In some cases, the customer is able to buy the item at the end of the contract. The Islamic bank retains the ownership of the asset with all the rights and the responsibilities that go with ownership.

The menu of instruments listed above does not exhaust the possible contracts that Islamic law permits. Any profit earned on money is a reward of bearing risks of the business. Thus, the Islamic bank will perform the typical functions of financial intermediation through screening profitable projects and monitoring the performance of projects on behalf of the investors who deposit their funds with the Islamic bank. A variety of services that are offered by conventional banks may be supplied by Islamic banks without any need for modification in the nature of the product, as long as, there is no debtor-creditor relationship involved in the process. Other banking services such as money transfers, bill collections, and trade in foreign currencies at spot rate where the bank's own money is not involved are provided on a commission or charges basis. (See Table 1)

One of the main functions a financial institution, is to effectively manage risks that arise in financial transactions. In the Islamic framework, the concept of undertaking business risks is encouraged, and the level of return is related to the level of business risks. The nature of Islamic financial instruments implies that Islamic banks face different types of risks associated with these instruments.

3. Does Islamic banking risk differ from the conventional banking risk?

The risk profile of an Islamic bank is almost similar to the conventional interest-based bank. However, the Islamic banks face two types of risks. The first type of risks they have in common with conventional banks such as credit risk, market risk, liquidity risk and operational risk. But due to specificities of the Islamic banks the nature of these risks may changes. The second type is of new and distinctive risks that the Islamic banks face as a result of their unique asset and liability structures. Consequently the processes and techniques of risk identification and management available to the Islamic banks could be set into two types standard techniques. The first set of techniques which are similar to those of conventional framework and not in conflict with the Islamic principles of finance and the second set of techniques which are new or adapted and are supposed to meet the Islamic law.

3.1 Risks specific to Islamic banks (Note 17)

Risk is legitimate when it is necessary for value creating. But when no value is added, it is a form of gambling. To be accepted in an Islamic view, the risk shall be inevitable and thus inseparable from real value adding transactions. Islamic banks face other types of risks different from those encountered by their conventional counterparts due to specific requirements to comply with the Islamic teachings:

A. Commodities and inventory risk

This type of risk arises from holding items in inventory either for resale under a Murabaha contract, or with a view of leasing under an Ijara contract. In a murabaha contract the client has a right to change his mind and may decide not to go ahead with the transaction. It’s probable that the client may go back on his terms in the murabaha or ijara contracts which will introduce an element of risk in the transaction. Once, this latter found, the bank will be responsible for the charge. In Ijarah contract, Islamic bank is exposed to the risk on the residual value of the leased asset at the term of the lease or if the client terminates the lease earlier (by defaulting), during the contract.

B. Rate of return risk

Rate of return risk differs from interest rate risk in that Islamic banks are concerned with the result of their investment activities at the end of the investment-holding period. Such results cannot be pre-determined exactly. This may increase responsibility in managing their investment deposit holders’ expectations and their liabilities to current account holders.

A consequence of rate of return risk may be the displaced commercial risk which arises from the probability of the bank not being able to compete with other Islamic or conventional banks. Therefore the Islamic bank may be under market pressure to pay a return that exceeds the rate that has been earned on assets financed by Profit Loss Sharing deposit holders when the return on assets is under-performing as compared with competitors’ rates.

C. Legal and Islamic laws compliance risk

In many countries where Islamic banks coexist with conventional banks, there is a pressure to apply to the same regulation for both types of banks and a common legal framework is generally developed. No separate regulatory laws have yet been set to govern the operations of Islamic banks, which have been trying to benefit from the support that the conventional framework can provide, expect three country which have their whole financial system Islamized with an Islamic central bank. Islamic banks are more exposed to the risk of changes in government fiscal
and monetary policies than the conventional banks as they participate in profit-and-loss of the business enterprises. They are also exposed to reputational risk arising from negative publicity about the Islamic banks' business practices, particularly relating to non-compliance to Islamic laws in their products and services, could have an impact upon their market position, profitability and liquidity.

D. Equity position risk in the banking book
Risks inherent in the holding of equity instruments for investment purposes. In particular, for Islamic Bank, the relevant instruments are typically those based on the Mudarabah and Musharakah contracts. A consequence of the equity position risk is the fiduciary risk which is resulting from the management of investment accounts. This type of risk refers to the probability of the bank being guilty of negligence or misconduct in implementing the deposit, investors' funds, through mudaraba or mucharakah contracts. Such legal liability would expose the bank to direct losses associated with breach of its fiduciary responsibility toward its depositors as well as indirect losses resulting from the decline in the market price of its listed shares. The depositors may, as a result, lose confidence in the bank and withdraw their deposits.

E. Withdrawal risk
Withdrawal risk arises in Islamic banks as they pay depositors a share of the profit that is not fixed ex ante. A variable return on Profit and Losses Sharing accounts introduces uncertainty regarding the real value of deposits. The Islamic banks are under pressure to give returns similar to other institutions, as they believe that the depositors will hold the bank responsible for a lower rate of return and may cause withdrawal of funds by the depositors. In order to increase the public’s confidence on the Islamic banks, the interests of depositors and other users of financial services need to be protected.

3.2 The most common areas of risks with conventional banks
Types of risks similar to the conventional and the Islamic banks could be set as follow:

A. Credit Risk
Credit risk happens when the counterparty fails to meet its obligations timely and fully in accordance with the agreed terms. It is the risk of loss due to the other party defaulting on contracts or obligations. This can lead not only to an increase in the liquidity crises but also declines the quality of the bank assets.

This problem may arise for Islamic banks especially when there is a problem of asymmetry of information. The uncertain honesty of the entrepreneur and his misdirected use of funds can lead banks into difficulty. The prohibition of interest does not permit Islamic banks to postpone debts on the basis of a re-negotiated higher mark-up rate. This can provide an incentive to their dishonest clients to default, thereby exposing these banks to additional credit risk.

B. Market Risk
The risk of adverse deviations of the market levels prices or rates of assets and liabilities due to the market factors, economic changes or external events. Islamic banks take up “risk sharing” funds, whereas conventional banks take “capital certain” deposits where repayment must be made. There is the implicit requirement for both parties to a given transaction to share in the loss as well as the profit.

C. Exchange Risk (Note 18)
This risk refers to the adverse exchange rate movements on foreign currency positions taken by the Bank which causes suffering losses. According to the Islamic teaching, currency transactions on a deferred basis are not permissible. Trading of currencies wherever undertaken by an Islamic bank is on a spot basis Letter of credit and trade finance for example often poses an exchange risk.

D. Operational Risk
Operational risk is the risk that arises from human error and/or deficiencies in information systems, internal processes or controls, resulting in direct or indirect loss. In the Islamic banking context, operational risks can impact just as much as in conventional banking, with the additional element of possible operational defects causing failure to comply with the Islamic laws. Also the Islamic bank may not have enough qualified professionals (capacity and capability) to conduct the Islamic financial operations.

E. Liquidity Risk
Such risk results from the mismatch between the maturities of the two sides of the balance sheet, creating either a surplus of cash that needs to be invested or a shortage of cash that needs to be funded. Also liquidity risk arises from either difficulty in obtaining cash at reasonable cost. As interest based loans are prohibited Islamic banks cannot borrow funds to meet liquidity requirement in case of need. Furthermore, the sale of debt is not allowed.
3.3 Risk Management

Identifying, measuring, managing and monitoring various risk exposures are among the main elements of risk management process. In order to do that, the Islamic bank must establish appropriate risk management environment and sound policies and procedures to control these risks. This can be done by:

(1) Creating a risk management environment by clearly identifying the risk objectives and strategies of the institution and by establishing systems that can identify, measure, manage, and monitor various risk exposures. To ensure the effectiveness of the risk management process, Islamic banks also need to establish an efficient internal control system: Adequate Internal Controls.

(2) Preparing a periodic risk reports such as credit risk reports, operational risk reports, liquidity risk reports and market risk reports.

(3) Setting up an Internal Rating System (IRS), Internal and external audit with management Risk information.

(4) Enhance transparency and comparability of banks through suitable disclosures about the quality of capital, accounting standards, risk exposures, and capital adequacy.

(5) Providing facilities and supporting institutions. These include a lender of last resort facility, deposit protection system, liquidity management system and legal reforms.

To counter the problems due to the asymmetries of information, Islamic banks can essentially get involved in the decision making and management of the firm by holding equity positions, extensive screening and information-gathering. As a result, the bank will be able to monitor the use of funds by the project more closely and reduce the moral hazard problem. Also Mudarabah or musharakah on a regressive scale can be adapted.

The Islamic banks shall clearly define their credit risk-mitigating techniques including, but not limited to, having in place:

A methodology for setting mark-up rates according to the risk rating of the counterparties, where expected risks should have been taken into account in the pricing decisions;

Permissible and enforceable collaterals and guarantees;

Clear documentation as to whether or not purchase orders are cancelable; and

Clear procedures for taking account of governing laws for contracts relating to financing transactions.

To mitigate the credit risk majority of the banks has credit limits for individual counterparty

In case of the client’s death the Islamic bank can avoid these risks by means of insurance which is to be bearable of course by the client, as it is a cost added to the murabaha expenses.

3.4 Liquidity Risk management in the Islamic banking framework (Note 19):

Liquidity is the ease by which an asset can be exchanged for another with little or no loss of value; usually cash. Liquid assets are those held in cash or are invested in instruments which can be converted rapidly into cash.

Monitoring and controlling liquidity is one of the most critical responsibilities of bank management. Islamic financial institutions, like their conventional counterparts, are subject to liquidity risk. Liquidity risk can arise in financial intermediation due to the different maturity profiles of liabilities and assets.

Liquidity can be divided into two types: Liquidity of assets: Inability to sell assets at current market prices, and the Liquidity Instability of Liability (LIL), which refers to the inability to assess sufficient funds to meet payment obligations in a timely manner (instability of deposit base over a long period of time).

The bank manager tries to maximize his/her bank’s return on total assets by investing as much of the cash available. However, the management is also challenged by the need to have enough liquidity to meet any mismatch of the term structure (maturity dates) of assets and liabilities.

The liquidity risk of Islamic banks, which mainly takes the form of mismatch between assets and liabilities, is, however, partly originated from the shortage of long-term funds.

Ways to manage liquidity risk:

A bank with a strong liquidity profile should generally be able to survive. Much of the funds of Islamic financial institutions come through PLS investment accounts without any fixed obligation attached to them. Rather the problem for Islamic financial institutions has been excess liquidity. Islamic banks need to be even more cautious about the maturity structure of their assets. In order to remain solvent, banks need to maintain assets of a short-term nature.
The cancellation of the *murabahah* contract increases the potential for liquidity problems. That’s why in the case when a customer cancels a non-binding purchase order the Islamic bank should monitor and control their exposures to suppliers, and especially during delivery between suppliers to the Islamic bank where a customer is acting as an agent; identify whether the risks associated with the assets will be borne by the supplier or the customer (which acts as agent and accepts the assets from the supplier). For example, the Islamic bank may enter into a purchase contract with a supplier on a “sale or return” basis, with an option to return the purchased item within a specified period.

The Islamic bank should create a right balance between the two objectives of safety and profitability because maintaining too much liquidity hurts the profitability objective.

The current use of secured commodity *murabaha* and short-term trade financing has enabled Islamic banks to invest their short-term surplus cash.

The Islamic bank should try not to depend on a few large depositors they should rather try to mobilize their deposits from a large a cross section of depositors as possible. Diversify their sources of deposits. There are two major types of fund providers: (a) current account holders; and (b) PLS deposit holders. These account holders require a degree of liquidity to be maintained by the Islamic bank to meet their requirements for withdrawals.

Surplus liquidity with Islamic banks cannot be easily transferred to conventional banks since the Islamic banks do not accept interest; however there is room for exchange of surplus funds among the Islamic banks especially when they are performing side by side with some other Islamic banks. The greater the number of Islamic banks and wider their activities, the greater will be the scope of cooperation in this field.

The maturities of their investments should be well studied through the identification of any future shortfalls in liquidity by constructing maturity ladders based on appropriate time. The Islamic banks classify cash flows, including behavioural methods, and may consider differentiating the types of cash flows as Known cash flows – the maturities and the amounts are known in advance. This category includes receivables from Murabahah, Ijarah, receivables and Diminishing Musharakah.

The Islamic bank should make periodical cash-flow analyses under various market scenarios and conditions. The scenarios may vary, depending on local market conditions, and may be based on (a) a “normal” operating environment (for example a steady state condition); and (b) scenarios of adverse circumstances (for example non-linear events and chaotic conditions). The analysis shall include assumptions about the repayment of invested capital to the PLS deposit holders. Islamic bank shall assess the effect of the level of their dependency on current account holders’ funds.

The Establishment of specialized institutions for managing liquidity risks has helped to solve the liquidity problems.

A. The Liquidity Management Centre LMC and the International Islamic Financial Market (IIFM)

The Bahrain Monetary Authority established the Liquidity Management Centre (LMC) in 2002 with the goal of allowing Islamic banks to handle their liquidity needs. The LMC (Note 20) is designed to establish a link between the existence of excess liquidity and the need for quality assets for Islamic financial institutions. The establishment of the LMC facilitates the creation of an Islamic inter-bank money market enabling Islamic financial services institutions to manage their liquidity as the conventional banks do.

In a similar vein, the Malaysian Inter-bank Islamic Money Market (Note 21) has been operating since 1994 with several Islamic instruments.

Also the International Islamic Financial Market (IIFM) is designed to facilitate a cooperative framework among the financial institutions involved with Islamic finance and to address the liquidity requirements of the industry. The introduction of equity funds which were compatible with the Islamic laws and the launch of Islamic asset-backed securities more commonly known as Sukuk.

B. Islamic investment certificates (Sukuk)

Conventional bonds that yield interest are of course prohibited under Islamic law. Sukuk is an Islamic bond which has similar characteristics to a conventional bond, the difference being that it is asset-backed and represents proportionate beneficial ownership in the underlying asset. The return on the sukuk derives from the yield generated by the client’s lease of the asset.

According to the *Accounting and Auditing Organization of Islamic Finance Institutions* (AAOIFI) the sukuk are “certificates of equal value representing undivided shares in ownership of tangible assets, usufructs and services or (in the ownership of) the assets of particular projects or special investment activities”. (AAOIFI Standard No. 17).

Currently, 14 different types of sukuk, which are traded on the *Scripless Securities Trading System* (SSTS) (Note 22), are recognized. The sukuk includes the right to some calculable rate of return as a share of profit *(secondary notes)*
and the repayment of the principal amount (primary notes). It reflects participation rights in the underlying assets. Although sukuks help in mitigation and managing risks, it carries certain types of risks. Sukuks transform different kinds of assets and contracts into financial certificates therefore each sukuk structure can have different risk transformation proprieties.

C. Non-bank financial institutions

Islamic Mutual Funds, Islamic investment companies, Islamic Insurance: Takaful Companies and the stock market can offer solutions to liquidity risks problems.

1) Islamic Mutual Funds:
- Short term investment funds: these can provide liquidity for specialized investments or provide an alternative to fixed deposits and other money market instruments offered by conventional players. These short term funds can be denominated in any of the major currencies.
- Leasing funds: there are also many leasing funds, as leasing has historically been an efficient and flexible Islamic instrument. The difference between these Islamic funds lies in the quality and diversification of the assets being leased, or the performance of the lessees, through various participative lease structures.
- Commodity funds: these give investors exposure to genuine commodity price risk in asset class that includes oil, livestock, grains and industrial metals.

2) Islamic Insurance (Takaful) Services:

Takaful (Note 23), which is an Islamic law-compatible risk intermediation industry, offers highly valuable services to individuals, families, businesses and the economy. Without takaful coverage, Islamic banks and asset management institutions are exposed to potentially insurable risks that add to operational costs and impair competitiveness.

3) Islamic Capital Markets:

Capital markets including both primary and secondary segments provide the financial sector with three vital functions: pricing of assets and risk management, liquidity management, and specialized services in resource mobilization and allocation. Development of a well-functioning capital market is therefore critical for a sound and efficient Islamic banking system.

Major Islamic Stock Indices now include: Dow Jones Islamic Market Indexes, FTSE Global Islamic Index Series, Global’s GCC Islamic Index and the Kuala Lumpur Shari’ah Index. The technology is expected to be gradually in common usage in major markets. As a result real-time data on the indices will enhance the market microstructures for the Islamic capital market.

Conclusion

This paper has attempted to shed light on some aspects of the risk management for the Islamic banks. While the conventional banks guarantee the capital and rate of return, the Islamic banking system, based on the principle of profit and loss sharing, cannot, by definition, guarantee any fixed rate of return on deposits. In some cases the capital is not guaranteed either, because if there is a loss it has to be deducted from the capital. Non-PLS modes of financing may appear less risky, but they do in fact carry special risks that need to be recognized.

This paper argues for the need for Islamic banks to strengthen risk management practices. Without an efficient capital market to operate within, Islamic banking finance will not continue to grow meaningfully. The market requires liquidity and price transparency to enhance a secondary market.

In addition to the many specific risks inherent to Islamic banks, there are a number of more general factors that make Islamic banking riskier than conventional banking. To begin with, Islamic banks have fewer risk-hedging instruments and techniques available, since the prohibition of interest disables Islamic banks from using conventional risk-hedging tools such as options, futures and forwards. Although Sukuks can be traded, most are held to maturity. The Sukuks even if they were traded and liquid are medium to long term. Perhaps "Financial Takaful (insurance)" seems to present solutions to this problem.

The preceding discussion makes it clear that Islamic banking is not a negligible or merely temporary phenomenon. Islamic banks are here to stay and there are signs that they will continue to grow and expand. The Islamic banks present some innovative ideas which could add more variety to the existing financial network.

Investments in research and development and financial engineering are more needed to develop product for resource mobilization, liquidity management and risk management as Islamic banks increase in view of their growing size and in response to the rapidly changing regulatory requirements and operating environment brought about by...
globalization and heightened competition. Also the establishment of specialized Islamic institutions for managing risks is needed.

References


(in internet)
http://www.islamic-banking.com/
Notes


Note 2. The Harvard Islamic Finance Information Program Database (http://www.hifip.harvard.edu] provides references including Country info Database, and publications database. Other web sites provide articles related to the Islamic Finance: see the References.


Note 5. Durham University, Loughborough University, the London School of Economics, university of Birmingham, in the United Kingdom, the Harvard and Rice Universities in the United States…

Note 6. International Monetary Fund, the World Bank, The Islamic Financial Services Board (IFSB), International Islamic Financial Market (IIFM), General Council for Islamic Banks and Financial Institutions (CIBAFI), The Arbitration and Reconciliation Centre for Islamic Financial Institutions (ARCIFI), The International Islamic Rating Agency (IIRA) et The Liquidity Management Centre (LMC).


Note 14. In contemporary financial transactions, the two areas where Gharar most profoundly affects common practice are insurance and financial derivatives. Jurists often argue against the financial insurance contract, where premium are paid regularly to the insurance company, and the insured receives compensation for any insured damages in the event of a loss. In this case, the jurists argue that the insured may collect a large sum of money after paying only one monthly premium. On the other hand, the insured may also make many monthly payments without ever collecting any money from the insurance company. Since “insurance” or “security” itself cannot be considered an object of sale, this contract is rendered invalid because of the forbidden Gharar. Of course, conventional insurance also suffers from prohibition due to Riba since insurance companies tend to invest significant portions of their funds in government bonds which earn them Riba.

Note 15. See Table 01 for more details.

Note 21. www.iimm.bnm.gov.my

Note 22. The SSTS is a system operated by the Bank Negara Malaysia (BNM)’s real time gross settlement/delivery-versus-payment system through which sovereign and unlisted corporate bonds are registered, cleared, and settled via the Real-time Electronic Transfer of Funds and Securities (RENTAS), Malaysia’s scripless book-entry securities trading and funds transfer system. SSTS also maintains securities accounts for financial institutions.

Note 23. Takaful is simply an Islamic alternative to the conventional insurance system. The takaful concept aims to provide services to policyholders by protecting the participants against inability to overcome future unwanted events and difficult times through the creation of a defined pool contributed out of their common resources. Takaful is based on the system of cooperation, mutuality and shared responsibility. However, in a case whereby the loss does not occur to the participants within this specific period, the participants are entitled for the whole amount of paid premium, together with the share of profits made out of the cumulated paid premium based on the principle of Mudharabah financing technique.

Table 1. (Note 16) Summary of main features of Islamic Financing Techniques

<table>
<thead>
<tr>
<th>Feature</th>
<th>Mudharabah (profit-sharing)</th>
<th>Musharakah (profit-sharing)</th>
<th>Ijara (leasing)</th>
<th>Murabahah (mark-up-based)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Role of capital provider in the management of funds</td>
<td>Nil</td>
<td>Full control the use of the finance</td>
<td>Full control the use of the finance</td>
<td>Full control the use of the finance</td>
</tr>
<tr>
<td>Risk bearing by the capital provider</td>
<td>To the full extent of the opportunity cost of capital</td>
<td>To the extent of the proportion of capital in the total investment of the enterprise</td>
<td>Same as in Musharakah</td>
<td>To the full extent of the capital</td>
</tr>
<tr>
<td>Uncertainty of rate of return</td>
<td>Complete Uncertainty</td>
<td>Same as in Musharakah</td>
<td>Same as in Musharakah</td>
<td>Uncertainty only for a short period</td>
</tr>
<tr>
<td>Cost of capital</td>
<td>Uncertain ex-ante</td>
<td>Same as in Musharakah</td>
<td>Fixed and predetermined</td>
<td>Fixed and predetermined</td>
</tr>
<tr>
<td>Type of risk</td>
<td>Definition</td>
<td>Institution</td>
<td>Depositors</td>
<td></td>
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<td>---------------</td>
<td>---------------------------------------------------------------------------</td>
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<td>----------------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td><strong>Transaction risks</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit risk</td>
<td>Credit risk is failure of counterparty to meet his or her obligations timely and on the agreed terms of the contract</td>
<td>The bank faces counter-party risks in the various forms of contracts such as, bay, mu'aja, mudaraba, musharaka, murabaha,</td>
<td>They face the risk that the bank does not honor requests for withdrawals at market value</td>
<td></td>
</tr>
<tr>
<td>Market risk</td>
<td>Market risk is the risk associated with change in the market value of held assets</td>
<td>The bank may incur losses if the benchmark rate changes adversely</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Mark-up risk is risk of divergence between the murabaha contract mark-up and the market benchmark rate</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Foreign Exchange risk is the risk of the impact of exchange rate movements on assets denominated in foreign currency</td>
<td>This exposes the bank to risks associated with their deferred-trading transactions</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Business risk</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Business risk results from competitive pressures from existing counterpart</td>
<td>Displaced commercial risk may adversely affect the value of the bank's capital. Return on equity goes down</td>
<td>Shareholders are exposed to the risk of not receiving their share of the bank's profit</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Displaced Commercial risk is the risk of divergence between assets' performance and expectations for returns on liabilities</td>
<td>Displaced commercial risk may adversely affect the value of the bank's capital. Return on equity goes down</td>
<td>Shareholders are exposed to the risk of not receiving their share of the bank's profit</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Withdrawal risk where the bank is exposed to the risk of withdrawal of deposits</td>
<td>Withdrawal risk exposes the bank to liquidity problems and erosion of its franchise value</td>
<td>Investment depositors may have to forgo receiving their murabaha share</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Solvency risk is the risk of a bank having insufficient capital to continue operations</td>
<td>Solvency risk may expose the bank to loss of its reputation</td>
<td>Solvency risk exposes the different stakeholders to counter-party risks</td>
<td></td>
</tr>
<tr>
<td>Type of Risk</td>
<td>Definition</td>
<td>Institution</td>
<td>Depositors</td>
<td></td>
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<tr>
<td>----------------------------------</td>
<td>---------------------------------------------------------------------------</td>
<td>--------------------------------------</td>
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<td></td>
</tr>
<tr>
<td><strong>BALANCE SHEET RISK</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asset &amp; Liability Management (ALM) risk</td>
<td>Asset &amp; Liability Management (ALM) risk is a balance sheet mismatch risk resulting from the difference in terms and conditions of a bank’s portfolio on its asset &amp; liability sides</td>
<td>This may adversely affect the bank’s capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liquidity risk</td>
<td>Liquidity risk is the risk of bank’s inability to access liquid funds to meet its obligations</td>
<td>The bank is exposed to risk of failure to honor requests for withdrawals from its depositors</td>
<td>They face the risk of not being able to access their deposits when they need to</td>
<td></td>
</tr>
<tr>
<td>Hedging risk</td>
<td>Hedging risk is the risk of failure to mitigate &amp; manage the different types of risks</td>
<td>This increases the bank’s overall risk exposure</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>GOVERNANCE RISKS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operational risk</td>
<td>Operational risk is the risk of failure of internal processes as related to people or systems</td>
<td>The bank incurs losses due to occurrence of that risk hence may fail to meet its obligations towards the different stakeholders</td>
<td>This risk adversely affects return on equity</td>
<td></td>
</tr>
</tbody>
</table>
| Fiduciary risk                   | *Fiduciary risk is the risk of facing legal recourse action in case the bank breaches its fiduciary responsibility towards depositors and shareholders.  
*Risk of loss of reputation | Legal recourse may lead to charging the bank a penalty or compensation. This may lead to withdrawal of deposits, sale of shares, bad access to liquidity or decline in the market price of shares if listed on the stock exchange. | This risk adversely affects return on equity |
<p>| Transparency risk                | Transparency risk is the risk of consequences of decisions based on inaccurate or incomplete information which is the outcome of poor disclosure | Losses may occur as a result of bad decisions based on inaccurate or incomplete information |                    |</p>
<table>
<thead>
<tr>
<th>Type of Risk</th>
<th>Definition</th>
<th>Institution</th>
<th>Depositors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Environment</td>
<td>Business environment risk is the risk of poor broad institutional environment including legal risk whereby banks are unable to enforce their contracts.</td>
<td>(Business environment risk increases banks’ exposure to counter-party risk as weak contracts are not easily enforceable)</td>
<td></td>
</tr>
<tr>
<td>Institutional Risk</td>
<td>Institutional risk is the risk of divergence between product definition and practices</td>
<td>(Institutional risk exposes the bank to counter-party risks due to the unsettled nature of the contract)</td>
<td></td>
</tr>
<tr>
<td>Regulatory Risk</td>
<td>Regulatory risk is the risk of non-compliance with regulations due to confusion, bad management or mistakes</td>
<td>(Banks may be penalised for non-complying with the rules or regulations. It could be an issue with the regulator or supervisor)</td>
<td></td>
</tr>
</tbody>
</table>

Analysis on Development Path of Tianjin Green Logistics

Qiaoli Chang & Ruiqi Qin
Colleges of Economy, Tianjin Polytechnic University, Tianjin 300387, China
E-mail: cam80@126.com

Abstract
The logistics serving as Tianjin’s pillar industry, to a certain degree, has developed very well, but it still needs to be strengthened. This article not only provides the evaluation standard of green logistics, but also analyzes the Tianjin’s present situation in this aspect. At the end of the article, some suggestions are put forward in hope of being helpful to the green logistics develop better and quicker.

Keywords: Green logistics, Standard, Path analysis, Present situation

With the rapid development of world economy and modern science, the modern logistics has become a strong growth point of economic development, as well as a nearly established pillar industry in the national economy, namely the development of the green logistics represents both a city’s modernization level and its comprehensive strength. Although the logistics promotes economic development, meanwhile, it causes many side effects on city environment, such as noise, gas pollution, traffic jam and improper waste disposal in production and life. Therefore, in the 21st century, we need to meet new requirements of logistic development, namely green logistics.

1. Concept of green logistics
The green logistics refers to plan, control, management and implementation the logistics system through the advanced logistics technology and environmental management, aiming to reduce the pollutant emission.

2. Evaluation standard of the green logistics
According to the logistics link, the evaluation criterions of enterprise green logistics are as follows:

(1) Green transportation. The green transportation refers to use a kind of fuel with the least pollution as the power to try to implement the multi-transportation and allocation mode. Correctly arrange the transportation can we reduce the pollution, lower the cost and raise the allocation level.

(2) Green storage. The green storage refers to adoption the mechanized operation in the process of goods-storing to save the manpower cost, adoption the environmentally-friendly products to sterilize the storage goods, adoption the method of centralized-stock to reduce the radialization to the surroundings and reduce the adverse effect of the warehousing on the environment.

(3) Green packing. The green package refers to a kind of commodity package that will not cause the environmental pollution. The packing materials should save the resources and reduce the packing waste, moreover, it is supposed to be recycled and regenerated after using, as well as occupies little land while burying in order to be decomposed easily.

(4) Reverse logistics. The reverse logistics is contrary to the traditional supply chain, it devotes to reasonably disposal or recovering the value by planning, managing and controlling the raw materials, middle stock, final products and relative information from consumer place to start point.

(5) Green technology. The green technology refers to adoption the information and communication technology, biological technology, monitoring technology and a variety of specific technologies in the process of logistics management. The application of the advanced technology enables the enterprise to improve management effectively.

According to the logistics environment, the evaluation criterions of city green logistics are as follows:

(1) Green logistics policy. The green logistics policy refers to a series of related policies that the government formulates in the process of implementation of green logistics. On one hand, it can restrict the enterprise’s behavior, attempting to comply with the sustainable development goal; on the other hand, it can stimulate the enterprise to implement the green management to conform to the goal which is to construct the harmonious society.

(2) The third party logistics. The third party logistics refers to the enterprises transfer their original logistics activities to specialized service enterprise in the form of commission for concentrating on their principal business., meanwhile, two parties always keep close contract through the information system to effectively manage and control the entire logistics process.

(3) Modern logistics human resource. Under the circumstances of modern logistics, the unified movement of the
goods, information and fund all in need of careful preparation and implementation, which only the qualified logistics talent could provide, therefore, the modern logistics talent must have solid theoretical foundation and rich in practice experience.

3. Present situation of green logistics in Tianjin

(1) In the perspective of the enterprise green logistics, Tianjin has expanded the logistics infrastructures in recent years, which has provided the powerful hardware support for Tianjin’s green logistics transportation. According to the investigation that conducted by modern green logistics research center in Nankai university in 2005, it showed that the Tianjin logistics enterprises mainly concentrate on the transportation, loading-unloading, warehousing and allocation, and few enterprises could provide comprehensive service. As for the logistics equipment and technical level, the van trucks accounts for 61.96%, the semi-trailer 21.38%, but the specialization carrier vehicle such as tanker, refrigerated truck are comparatively in a low proportion. The storage facilities that were left behind in the times of plan economy accounts for a large proportion, and most of which still continue to adopt traditional operation mode, while the specialized storehouse or the high-level warehouse, such as insulation warehouse, refrigerated warehouse and top shelf, only accounts for 7.44%. The enterprises that adopt modern logistics technology GPS and GIS merely accounts for 18.18%. So, in the aspect of enterprise green logistics, Tianjin’s logistics enterprise reluctantly conforms to the green transportation, storage and technology standard, but in the other two aspects of green packing and reverse logistics, it still needs improving.

(2) In the perspective of the city green logistics, Tianjin has released many polices to promote the logistics development, what’s more, it has formulated many rules and regulations to protect the environment, but it has neglected establishing the green logistics policy, which should combine the logistics industry with the environmental protection together. These years, among the 50 biggest international retail businesses, 2/3 have entered China, such as Wal-Mart, France’s Carefour and so on, these groups have set up many logistics distribution centers in Tianjin, and always keeping in line with the logistics concerning purchase. At present, the third party logistics center in Tianjin is still at the embryonic stage. In the aspect of logistics talent, the Tianjin modern logistics investigation shows that among Tianjin more than 20,000 logistics enterprises, the ratio between specialized logistics worked and the total number of staff is 1:20, in 51% logistics enterprises, the proportion of technical staff is below 20%, and about 76.9% enterprises without a single logistics specialist. So, we can conclude that, in the aspect of city green logistics, the logistics industry merely conforms to the third party logistics standard.

In summary, the Tianjin green logistics is still in a preliminary phase.

4. Development path of green logistics in Tianjin

(1) To set up the idea of green logistics. The beginning of green logistics is late in our country. The enterprises do not have adequate awareness for the importance of modern logistics. The establishment of enterprise logistics system mainly sets cost-reducing, benefit-raising and efficiency-improving as the goal. Most of enterprises know very little for the green logistics, some even perceive that “if the environmental protection is not economical, the green means a waste of money”. However, nowadays the environmental protection has become more and more important both in international and domestic markets. The enterprises only set up the environmental protection awareness and build green brand can acquire the advantages and obtain the sustainable development in the competition.

(2) To promote logistics informationization and standardization. The ISO14000 are a series of international environment management standards that are formulated by ISO/PTCZOT Environmental Management Committee, which was founded in 1993 by International Standardization Organization. Facing the green revolution waves and green barrier restrictions that formed on the basis of environmental standard competition, our logistics operators are supposed to create the conditions to positively apply for the ISO14000 Standard authentication of environmental management system, making use of the international standard to restrict our own logistics behavior, striving to set up green logistics image, and then enhance our competitivness in international market. To realize the enterprise logistics informationization, on one hand, is the demand of logistics market and development market, including the mobile demand between market and object, the demand of information, service and technology in logistics activity, on the other hand, it is the enterprise’s dependence and demand for logistics market, by this way, the enterprise will improve the logistics efficiency.

(3) To establish reverse logistics system. Microscopically, the reverse logistics has both visible and invisible effects on raising the consumer value, enhancing the competitive advantage, lessening the material cost, increasing the performance, improving the environmental behavior and building the enterprise image. Macroscopically, the reverse logistics is beneficial to the reasonable flowing of social resources; moreover, it can save the resources and improve the sustainable development of environment and economy. Consequently, the enterprise should establish the
independent logistics departments to manage and coordinate the logistics by the specialists. The specific methods include, firstly, establishing strategy partner with other enterprises on the same supply chain to reduce the unnecessary logistics recycling, secondly, taking recycling into consideration in the production design to control commodity and packing materials rationally, which will facilitate future recycling and regenerating, thirdly, establishing the recycling processing station, combining with the related information like the bar code technology and sort technology to strengthen the management skill.

(4) To strengthen the green logistics research and the personnel-training. For one thing, in view of the deficient theoretical research of logistics in our country, we should make every effort to strengthen the fundamental logistics research. The state Natural Science Fund, the Social Science Fund, the Ministry of Education as well as the Ministry of Technology should enlarge the sponsorship for logistics topic research, stimulating all the enterprises, universities and institutions to cooperate closely, aiming to strengthen the development and application of logistics technology. For another, we should implement the talent strategy positively. Firstly, we should develop the logistics knowledge education vigorously, construct and consummate the multi-level logistics education system to meet the needs of diversification for logistics talent. Secondly, we should strengthen the logistics vocational education to consummate the qualification authentication system. Finally, we should optimize the faculty abilities of logistics education to improve the education quality.

(5) To formulate the logistics environment policy. On one hand, because the logistics activities caused destruction to the environment to a certain extent, so the government should formulate policies to restrain the enterprise’s behaviors. Apart from formulating the explicit environmental control standard and method terms, we should also establish the license system and limitation on vacant vehicles to restrain the enterprise or individual behaviors. When formulate the corresponding laws and regulations, we must fully enforce the laws by publishing those enterprises that refuse to implement the green logistics to ensure its stable development. On the other hand, in order to realize the enterprise’s green management, the government could formulate the effective green incentive policy, such as subsidy policy, tax policy and government procurement policy, to promote the development of green logistics.

References

Malaysia's External Auditing: 
The Case of the Better Tool for Analysis

Azham Md. Ali
Faculty of Accountancy, Universiti Utara Malaysia, Sintok 06010, Jitra, Kedah Darul Aman, Malaysia
Tel: 604-9283917   E-mail: azham@uum.edu.my

Teck Heang Lee
Faculty of Accountancy and Management, Universiti Tunku Abdul Rahman, 43000 Kajang, Selangor, Malaysia
Tel: 6012-6366926   E-mail: leeth@mail.utar.edu.my

Abstract
Various rationales for external auditing appear to have limited application in the context of Malaysia where the auditors exist in an environment marked by little publicity and little public clamour for needed changes although the same environment is tarnished by numerous cases of corporate illegality, unaccountability and the use of questionable business practices. This situation is in marked contrast to that confronted by auditors in Anglo-Saxon countries and their counterparts from other developing countries in Asia such as India, South Korea and Singapore. Therefore, to appreciate "how" the social role of auditors is determined or "why" audit is executed in Malaysia, it is necessary to situate the interaction between "society" and the audit function within a proper "context" that includes history and environmental factors. It is accordingly suggested that a research conducted by applying the political economic theory - introduced by Tinker (1980) and refined by Cooper & Sherer (1984) to explain accounting experiences - driving an enlarged exogenous analytical framework of processual change analysis - developed by Smith (1973) and adapted to accounting by McKinnon (1986) - which in turn is supported by the qualitative case study research strategy that stresses the use of oral and documented evidence should be the more appropriate vehicle.

Keywords: Malaysia, Accounting History, Politic, Auditing

1. Introduction
Research into the desired, potential and actual roles served by auditing, conducted over a considerable period and in many different environments, has raised issues concerning the degree of correspondence between audit practice and expectations of the audit and the significance of professional structures in developing the contribution of auditing in particular contexts.

Rationales for auditing have typically been developed with reference to these restricted contexts; however, these resultant explanations have often been taken as valid across different localities and points in history. In the discussion which follows, the state of Malaysia's external auditing is reviewed briefly. This discussion should provide the picture that almost all of the various rationales for auditing that are summarily pointed out right after have little application in most cases in the context of Malaysia over the years. Thus, there appears to be a need for an alternative approach to provide the explanation for the question of "Why audit in Malaysia?"

2. Selective features of Malaysia's contemporary audit experience
Financial statements audit in the country is characterised by little publicity, little public clamour for needed changes and what appear to be no court cases where the auditors have to defend themselves from plaintiffs who sue them for damages. (Note 1) Even though company auditors make millions of ringgit annually as audit fees (Malaysian Business, 16 Aug. 1988, pp. 13-14), their work have attracted the attention of hardly anyone.

During economic recessions in the 1980s, when many businesses were forced to close down and cases of financial improprieties by directors and top management were disclosed, Malaysian auditors avoided being taken to court. The then Finance Minister Tun Daim Zainuddin was quoted as saying that "... it is a miracle that no member of the public or any interested party has sued auditors for being professionally negligent taking into account the various "swindle" cases recently ...." (NST, 12 Sept. 1987).

This picture is considerably different from that experienced by auditors in countries such as the United States, Britain, Canada and Australia. They are often criticised for the business failures and a number have had to pay large damages or settle out of court with plaintiffs accusing them of committing audit failures.
In the United States, accounting firms faced around 4000 lawsuits with claims amounting to US$30 billion (The Economist, 17 Oct. 1992, p. 22). Maloo (1993, p. 76) noted that as of 1 May 1993, in the United States, the federal banking regulators alone had 32 lawsuits pending against accounting firms, seeking US$2.5 billion for damages to government insurance funds from accounting malpractice.

In Britain, between 1982/3 and 1992/3, the number of annual claims against the six biggest audit firms together with BDO Binder Hamlyn and Grant Thornton increased from three to 210 (Accountancy Age, 3 March 1994, p. 10). By 1994, over 600 claims were still outstanding. In Australia, during 1992 alone, ten major claims against accounting firms totalled AS$2.8 billion (World Accounting Report, Nov. 1992, p. 2). In Canada, Coopers & Lybrand faced in 1993, 12 different claims valued at more than CS$500 million over its audits of Castor Holdings which collapsed in 1992 with debts amounting to more than CS1 billion (The Accountant, Jan. 1994, p. 12).

Besides the court, regulatory agencies and other groups have also played their part in demanding that the profession move in an expeditious fashion to meet its responsibilities as perceived by the public. In these countries even when external economic factors force businesses into liquidation and there is little proof of auditors' failure to conduct audit properly, the auditors nonetheless become implicated in the failure. Flint (1983, pp. 10-11) cites many remarks made by parties ranging from Department of Trade and Industry (1979) in the UK to that of the Cohen Commission (American Institute of Certified Public Accountants, 1978) in the US and the Adams Committee (Canadian Institute of Chartered Accountants, 1978) in Canada which show that audit needs to match wider societal expectations (see also Bruce, 1988; Humphrey et al., 1992; and Jacob, 1992).

Even when Malaysia's auditing experience is compared to others in Asia, the situation in Malaysia is a source of surprise. For example, in South Korea, in December 1991, alleged failure of the auditors to uncover significant liabilities of now bankrupt companies had led to the investors filing the first ever lawsuit against the auditors (International Accounting Bulletin, Feb. 1992, p. 3). Furthermore, in 1993, the country's Securities Supervisory Board (SSB), which regulates the nation's audit practice, issued warnings to seven of South Korea's audit firms for their alleged audit negligence (International Accounting Bulletin, 17 Jan. 1994, p. 4). This warning took place after SSB conducted a quality review of auditing practice of selected firms. Out of the seven firms warned, four were affiliates of the Big Six.

In Hong Kong, Deloitte Touche Tohmatsu was criticised by a Hong Kong inspector over audits it conducted for a group of companies which were under criminal investigation (International Accounting Bulletin, 8 Nov 1993, p. 1). The firm was alleged to have committed audit failure leading to the publication of misleading financial statements.

In India, as a result of the loss of US$1.5 billion through a securities fraud involving banks and mutual funds, the auditors were criticised by a Joint Parliamentary Committee (JPC) set up by the Parliament to investigate the case (International Accounting Bulletin, 14 March 1994, p. 3). Not surprisingly, the Reserve Bank of India (RBI) in 1993 dropped from its list of auditors for 1992/3 about 20 audit firms which acted as auditors for the institutions involved during the 1991/2 fiscal year (International Accounting Bulletin, 21 June 1993, p. 2). These firms which included all the Big Six were ordered to take a one year "period of rest".

Closer to home, in Singapore, the collapse of Pan-El, a property, salvage and hotel group, resulted in an unprecedented three-day closure of the Kuala Lumpur and Singapore stock exchanges in December 1985, the demise of six broking firms and the trial of three key figures in the Pan-El Group on charges ranging from criminal breach of trust to share forgery (NST, 6 June 1988). The uproar over the alleged failure of the auditors to conduct proper audit was brought to public attention in late 1986 when the Singapore Minister of Finance mentioned in his speech in Parliament that there was "an inexplicable audit failure" in the Pan-El affair.

In 1988 the former shareholders of Pan-El sued its group auditor, Coopers & Lybrand, for US$105 million. Early on in December 1987, a former partner of another accounting firm, acting as auditor for a number of Pan-El's subsidiaries, pleaded guilty to a criminal charge brought against him for issuing a misleading audit report. He was sentenced to two months in jail and fined for S$10,000. In 1987, the investigation undertaken by the Singapore Society of Accountants (SSA) culminated with Coopers & Lybrand publicly faulted for the quality of its audit work. In Malaysia, there may be a few lone voices asking the auditors to do a better job, but that seems to be where the "story" ends. Thus, a senior partner of the Malaysian Coopers and Lybrand, Oh Chong Peng (1989, p. 5) mentioned that "[t]he Malaysian investing public's attitude towards corporate financial performance has so far largely been one of apathy and indifference .... [t]he press too, have not placed emphasis on the contents of the auditor's report, even a qualified one".

Indeed, if there is any profession or group of people in the country which seems to be able to operate with little challenge to its practices, it is the so-called external auditors. Teachers/lecturers, government servants, politicians,
Malay rulers, nurses have all lately entered the limelight of adverse publicity. Other professionals, such as physicians and lawyers have also in recent years been confronted with adverse public scrutiny. (Note 2)

All this takes place in an environment when over a decade ago (July 1983), an (internal) auditor of the Bank Bumiputra Malaysia Bhd was found strangled to death in Hong Kong. The late Jalil at the time of his death was busy investigating the scandalous affairs of Bumiputra Malaysia Finance (BMF), the Bank Bumiputra's Hong Kong subsidiary, which had lent over two billion ringgits to the EDA and Carrian property groups. The scandal nearly brought down the Bank Bumiputra, the second biggest bank in the country. It did not collapse because another government enterprise, Petronas, bailed it out.

When the country was experiencing economic recessions in the 1980s, it appeared that nothing happened to the auditors, and for most of the last decade, the nation's economy has been strong which has meant that the auditors have experienced little pressure for change. It appears that there will continue to be voices of dissatisfaction with the auditor - but nothing more.

Newspaper headlines on the subject of adequate disclosure in companies' annual reports will no doubt continue to appear. They will only show that "something" is not quite right - that is at least with regard to what the auditors could probably have done to correct the situation. Examples of such headlines include "Act Responsibly, KLSE Firms Told" (NST, 3 Oct. 1990); "Accounts Review Finds Weaknesses" (NST, 21 Dec. 1991); "Need for More Voluntary Disclosures" (NST, 9 Aug. 1993); "Don't Withhold Info, Companies Warned" (NST, 20 Aug. 1993); "Annual Report Should Provide More Details" (The Star, 27 Sept. 1993); and "67,000 Companies Fail to Submit Annual Reports" (NST, 2 Jan. 1994).

It is not the intention here to advocate that greater court action against auditors should be encouraged in Malaysia. Rather the point is that given that the auditors seem never to have been made to answer hard questions during problems in corporations it is relevant to ask what sort of contribution is being assumed or sought from auditing in corporate life.

Why is it that auditors appear to be largely absolved of responsibilities? Whatever the answer may be, it appears that audit in Malaysia is a profession that has quietly grown from strength to strength through the years, (Note 3) seemingly unaffected by corporate illegality, unaccountability and the use of questionable business practices. Thus, another more basic question may be raised: Why audit in Malaysia? In seeking to answer this question it is appropriate first to refer to established rationales in the auditing literature which can inform the approach taken to researching Malaysian auditing development. (Note 4)

3. Audit rationales from the literature

The activity of auditing intervenes between the preparation of financial and non-financial information relating to a particular entity by management and the use by many different groups of users of this audited information.

A number of reasons for auditing have been put forward over the years. Thus it is not surprising to find Lee (1993, p. 4) noting that there is no one role played by the complex and technical function of company audit. Instead, there is a "composite" role where the social, economic, psychic and political roles all come together to produce the present form of company audit. The apparent roles played by audit include acting as a legitimating institution (Richardson, 1987), as a director of power flows (Hickson et al., 1971), as a source of control (Covaleski and Dirsmith, 1983) and as ritual (Gambling, 1987).

Sikka et al. (1989) argue that audit may be nothing more than a complex device by the accounting profession to maintain power relations in the name of the public interest. This explains why, they argue, the auditors have tolerated flexible accounting practices which management are very happy to select and apply in preparing financial statements. For the same reason they argue that the accountancy profession is inclined to inflate the importance of accounting or its contribution to national well-being and prosperity.

Wallace (1980), in her insurance hypothesis, in contrast to the above argument by Sikka et al. (1989) says that the auditor may also play the part of a "victim". She points out that the auditor has a role to play in society since shareholders/creditors and politicians need the auditors to provide protection from business risk and public criticism, respectively. Thus, the auditor is considered as having deep pockets to compensate aggrieved third parties such as shareholders when they lose money whether or not there is an audit failure. As for the politicians, the auditor could be used as a convenient scapegoat to bear the blame when businesses collapse or financial scandals erupt.

In addition to all these views, Jensen and Meckling (1976) stress that both owners (principals) and management (agents) need the auditor to lessen the possibility for the undervaluing of the firm by market as a result of information asymmetry and goal incongruence between the two parties. Information asymmetry takes place because a company's management has access to and controls all of the information regarding the company. As for the goal
incongruence, it emerges since the owners have the aim of increasing their investment value, while managers their pecuniary and non-pecuniary benefits. Though audit cannot be expected to eliminate information asymmetry and goal incongruence, it can diminish their adverse impact on a firm's value.

Mcmickle (1978, p. 135) identifies two reasons creating a need for external auditing. First, what he calls the auditant (the party who is the beneficiary of the audit work) is unable to do the audit him/herself directly for reasons which he calls "organisational distance". The second reason is the set of benefits that auditing can provide to the auditant. These are the confirmative, preventative and enhancive benefits.

Finally, still in the 1970s, the Committee on Basic Auditing Concepts of the AAA (1973) says that there exist four conditions - conflict of interest, consequences, complexity and remoteness - requiring the existence of auditing. It stresses that auditing provides added value to the management prepared financial reports. With the involvement of auditors who are free from any conflict of interest, the reports' users such as investors can have confidence in the quality of the data presented for their decision making.

The AICPA (1973) however separates the objectives of financial statements into the "economic" (related to management's effectiveness and efficiency) and the "legalistic" (related to the issue of custodianship, safeguarding or maintenance) roles of audited statements. In the former role, the audited statements are intended to provide reliable information that is needed for the well-functioning of the securities market. In this regard, Stamp and Marley (1970, pp. 168-9) argue that the role of the auditor in lending credibility to the financial statements is vital in establishing and maintaining confidence in the capital markets. They claim that without such confidence the whole basis of the capitalist system would be destroyed.

Wallace (1980) appears to link this view of the economic role of the audited statements to the information hypothesis: audit takes place with the investors being the causal agents of the demand for the audit. Audit is thus viewed as providing added value by enhancing the quality of financial information.

As for the legalistic role played by audited statements forwarded by the AICPA above, Wallace (1980) terms this the stewardship hypothesis: audit takes place with management acting as the causal agent due to the separation of ownership and control in a business entity. This entails the need for management to be voluntarily monitored with the benefits of doing so on the part of the management exceed costs.

The state comes into the process of formalising the audit function because the revenue and thus the stability of the nation depend on the economic performance of the audited companies. Lee (1993, p. 42) points out that audit plays the role of a political instrument of the government regulators and political executives who are acting as guardians of public interest. In other words, audit, in ensuring credible reporting by management, is a means of protection for members of society by the state.

Although the basis and legitimacy of auditing discourse and practice appear neat in theory, the practice is less straightforward. (Note 5) That however is not the focus of this study at this stage. What needs to be said at this time is that the agency theory, under which much of what was discussed above comes, basically says that individuals are motivated by profits.

This view however may not be valid in a society where greater weight is placed on the welfare of the group and not the individual and where non-wealth concerns have a greater influence over people's attitudes and behaviour, or when it is not quite a "liberal democratic society" that one is concerned with. Miller (1994, p. 29) makes the following interesting remark:

The growth and deployment of accounting, that is to say, can be understood in relation to the emergence of particular political systems, and particular ways of seeking to govern the conduct of individuals. For accounting is one of the key ways in which attempts have been made to exert influence on individuals through indirect means. Such modes of government can be regarded as characteristics of liberal democratic societies. In so far as such societies mark out the economy as a distinct sphere with its own laws and regularities, and make the individual a fundamental locus of responsibility, accounting has a central place. Understood as a mode of government of economic life, accounting can be appealed to as a way of seeking to act upon the conduct of individuals to remedy deficits of rationality and responsibility. (Emphasis added.)

While the kind of society one refers to is perhaps a crucial factor in understanding what type of auditing is in operation, the agency theory, founded on the assumption of an "arms-length" relationship between corporate managers as agents and shareholders and bondholders as principals has appeared also significant in portraying what is really going on in a certain society when this assumption does not hold true - at least when one gets down below the superficial and surface accounts of the so-called "business" transactions.
In other words, the economic based stewardship and information hypotheses and other auxiliary ones such as bonus compensation, debt covenants and political visibility (size) that agency theorists posit to have led to demands for external auditing may not be valid in socio-economic contexts different from those in Anglo-Saxon countries when the economic actors are rather inseparable in substance though they may appear on surface different in form. There are no real differences among these parties whose activities may very well be taking place in a choking political economy where the economic and political power are rested in the hands of the very few. Therefore, although different societies may exhibit similarities in audit infrastructure comprising among others the various actors i.e. auditors, regulators, users and preparers and mechanisms such as Companies Act and Generally Accepted Auditing Standards, the fact that the audit operates within different environmental influences over time and space may well ensure that its operation differs.

Accordingly, in order to appreciate "how" the social role of auditors is determined or "why" audit is executed in a place such as Malaysia, it is necessary to situate the interaction between "society" and the audit function within a proper "context" that includes history and environmental factors. (Note 6) The "context" where auditing is taking place, as pointed out by Tinker et al. (1991) in discussing the environment of auditing, is both complex and conflict-based. Willmott (1990) in particular claims that economic factors and market relationships have to be considered together with other elements in the social context such as political programmes and the state-auditor relationship.

In addition, Kirkham (1992) writes that the environment of auditing involves a multiplicity of factors which cannot be collapsed into a few sets of economic variables. She also mentions (p. 312) that the interactions among the players in the audit environment are in a fluid state "as they are constituted and reconstituted in broader social context". (Note 7)

In the end, perhaps, it will be seen that auditors, regulators, users and preparers and other parties involved in the external audit process in Malaysia (and perhaps elsewhere too) are historical actors whose interests and associated actions are continuously defined, organised and aligned rather than "externally given" either to themselves or other parties. Giddens (1984) has described it well by saying that instead of taking the preferences of the actors as given, it is necessary to consider how they have been and continue to be constituted by historical conditions which their actions serve to reproduce or transform.

4. Suggested solution

The works referred earlier appear to show that the auditor has functions to play in society. In the context of Malaysia, the utilisation of, in particular, the neo-economic model which the agency theory comes under appears to be inadequate to describe exactly what function is played out by its auditors.

Therefore, to find out what is really going on, it is herein suggested that a research conducted by applying the political economic theory driving an enlarged exogenous analytical framework which in turn is supported by the qualitative case study research strategy that stresses the use of oral and documented evidence should be the more appropriate vehicle.

4.1 Political Economic Theory

The proposed political economic theory is that introduced by Tinker (1980) and refined by Cooper and Sherer (1984) to explain accounting experiences. Tinker (1980) introduces a classical political economic approach to financial reporting. (Note 8) He proposes that the social relations of production work together with the economic forces of production as two related dimensions of capital shaping the social and economic life of a nation. He points out that in any society the coming together of the two modes of production is discernible in the particular socio-political and economic institutional forms and arrangements. Qualitative discussion of the social-political institutional forms and arrangements can be found in nation-specific sociological literature while quantitative economic discussion is found in the related macroeconomics literature.

The use of political economic theory that recognises the presence of social relations makes it less cumbersome to understand the economic forces of production that are operating at any particular time period and in any society. Tinker explains that such relations are reflected through a set of institutional forms and arrangements that are constructed to interact with economic relations (i.e. the type of economy). Therefore, in order to understand what is going on in the economic sphere, which may include the external audit function, researchers need to identify the related socio-economic and institutional environment. Interpretation of a nation's specific economic features will be less adequate if insufficient attention is given to the surrounding social and political processes. (Note 9)

In regard to accounting activity in particular, Cooper and Sherer (1984) point out that a political economy of accounting is useful for understanding how the accounting process interacts with its social, economic and political environment. They write (p. 208):
... the objectives of and for accounting are fundamentally contested, arises out of recognition that any accounting contains a representation of a specific social and political context. Not only is accounting policy essentially political in that it derives from the political struggle in society as a whole but also the outcomes of accounting policy are essentially political in that they operate for the benefit of some groups in society and to the detriment of others.

Thus, it is assumed that there exists no basic harmony of interests in current society. Accounting practice is viewed as favouring specific dominant interests in society and disadvantaging others. This view of accounting embedded in interests and conflicts points towards the need to supplement the marginalistic analysis of competitive markets with political and social concepts in order to gain real understanding of the functioning of audit in Malaysian society.

As noted by Cooper and Sherer (1984, p. 208), a political economy of accounting focuses on the institutional environment which supports the existing system of corporate reporting. In other words, it looks at the accounting function within the broader structural and institutional environment in which it operates. It stresses that political issues cannot be divorced from economic analysis in relation to social choices. It revolves around power and whose interests predominate in society which inevitably impact upon auditing.

Cooper and Sherer specifically identify the presence of three key variables which they claim affect the value of financial accounting reports: power-play in society, historical specificity and human agency. On the first variable of power-play, they argue that social-relations of power and conflict determine accounting's significance, which in turn affects such relationships. (Note 10) Instead of assuming a basic harmony of interests in society where power is widely diffused and which results with the unproblematic view of the social value of accounting reports, the political economy approach supports the following contrasting views: either that society is seen clearly controlled by a well defined elite or that there is a continuing conflict in society between antagonistic classes. Both views of elitist domination and pluralist anarchy signify the contested value of the accounting reports and practices. Thus, accounting reports are hardly impartial and objective, nor is the accountant in the position of a disinterested and innocuous historian.

Dye (1986) argues that a cohesive "power elite" exercise authority over a variety of institutions. This elite is comprised of a small group of dominant, authoritative individuals or entities. The elite functions through, among other things, interlocking directorships, interlocking institutional experiences and similar social backgrounds. However, instead of a single power elite, Dye says that a society may have different groups of individuals or entities which exercise power in its various sectors. Thus, leadership or authority is dispersed. More importantly perhaps it is not unusual for these elites to be in conflict with each other.

The second variable of historical specificity stresses the importance of the specific historical and institutional environment comprising the social and political structures and cultural values of the society that provide the context for the delivering of the accounting reports. There is recognition that "disequilibrium is a standard feature of the economy" as proven by the presence of a few large corporations dominating the economy and that the state plays paramount roles in various fields including that of intervening in the determination of accounting policies. The historical focus in particular should assist efforts to understand the changing roles of accounting practice and emphasises the importance of historical specificity for a fair assessment of the social value of these roles.

The final variable on human agency acknowledges the potential of people and accounting to change and reflect differing interests and concerns. In contrast to the neo-classical view of accounting as a passive function which responds to, rather than changes, the environment in which it operates, the political economy approach stresses the viable role of accounting in changing society. As noted by Lowe et al. (1991, p. 154), under the political economy approach, accounting has "no necessary class belongingness". Therefore, accounting practitioners and researchers can have legitimate concerns for the effects of accounting work on the surroundings where it operates. Acceptance of current institutions and practices ("status quo") is now changed towards being sensitive to the need for appropriate changes in things which are crucial to the work of accountants. (Note 11)

The political economy perspective provides an excellent format for studying the external auditing activity of a nation due to the fact that it is interested in giving deeper understanding of how the story has unfolded. This can result from directing attention to the power relationships within the society and stressing the specific historical antecedents and the socio-economic environment. In addition, it recognises both explicit and implicit purposes of auditing over the years. The explicit structural purpose provides the "right" functionalist kind of impression, while the implicit social relations purpose protects an underlying power arrangement in order to maintain the status quo. There is thus a difference in what the elite say and do and perhaps also what is in their mind in the matter of auditing and similar functions.
Overall, under the political economy approach, it is assumed that the implicit purpose modifies the structural objective. For the purposes of this study, it suggests that the environment and the related socio-economic and political institutions impinge on the development of an audit process viewed as an open, dynamic social system. The understanding viewed to be the result of this study may be said to be the outcome of focusing made not on separate and overt elements of the audit infrastructure and its technical outputs but through a more comprehensive and in-depth study of these and other items considered crucial to such an understanding under the enlarged exogenous interpretive framework. It is however recognised that the "story" told is most probable only one of many.

In summary, political economy approach recognises both apparent and hidden purposes underlying audit process taking place in a specific locale and time period. The apparent, structural purpose reflects the proclaimed needs of a society. The more hidden underlying purpose associated with social relations on the other hand ensures the maintenance of the status quo. In getting a clear understanding of an audit process a focus on the social relations purpose should be given greater importance, for it is assumed that in any locality and a specific time period the social relation goal is always successful in modifying the structural purpose.

4.2 The Enlarged Exogeneous Interpretive Framework

This manner of interpreting data collected in this study of auditing experience in Malaysia is developed by Smith (1973, 1976) and adapted to accounting by McKinnon (1986) who traced the historical development of the Japanese corporate reporting regulation and its present operational form. The enlarged exogenous framework provides a structure for applying the idea of political economy of accounting, particularly the social relations dimension, which views the social, economic and political environments and related institutions as having impacted upon the audit process and accordingly the audit needs to be considered not as a distinct and separable part of the total social system but as an integrated aspect of a unified social whole. The enlarged exogenous framework assists the analysis of the nature, structure and functioning of auditing in its socio-economic context.

This interpretative framework has its origin in social systems research (McKinnon, 1986, p. 6). McKinnon mentions that this research views social systems as open, complex and dynamic. Also, under the framework, the past is viewed to be as important as the present in analysing the shifting patterns of intra-system and trans-systems activity and in the continual interactions of systems with their environment over time. Utilising a longitudinal approach is intended to help answer questions of "how" and "why" a phenomenon exists in time (temporal dimension) and space (spatial dimension) in relation to its aspects of continuity and change. In other words, the social system research is about "change" experienced by a social system.

Smith (1973, 1976) describes two approaches in analysing social system change: "pure" endogenous and exogenous approaches. His "enlarged" exogenous framework compensates the exogenous approach by taking into consideration variables other than intrusive events in order to understand a process of change experienced by the object under study. These variables comprise the process investigated, its neighbouring systems and their surrounding environment. Smith explains that these three aspects interact, each influencing the other. Therefore, each has the potential to introduce process changes. To understand a process of change, an analysis of the interrelationships is crucial.

Smith's framework thus combines "exogenous premise" and "endogenous inputs" resulting in four interrelated components to be used as the basis for system analysis - the environment, intrusive events, trans-systems activity and intra-system activity - and views "change" in a social system to involve three phases: source, diffusion and reaction. A "change" is defined as the transformation (replacement or modification) of the pre-existing pattern in the system through the occurrence of a succession of historical events over time in the system. (Note 12) The components and terminology of the analytical framework are described below.

4.2.1 Historical Events

Not all events are of interest. The events viewed as relevant under the framework are those associated with a turning point or which mark a transition from one pattern to a new or modified pattern in the system. These events are divided into two types: intrusive and response events. (Note 13)

Response events could only be the results of the interactions within the elements of the system studied (intra-system activity) or between this focus system and neighbouring systems (trans-systems activity). Response events are proof of pattern transformations made possible by the occurrence of intrusive events. In other words, they provide the visible evidence of change and need to be identified before change can be analysed. Several response events may constitute a particular change. They are also the essence of the social relations dimension or implicit purpose of the social system.

A change consists of a series of response events normally clustered in time and space around what are known as central response events. The identification of these significant events and their use as "insight stimulating examples"
(Sellitz et al., 1976) allow examination to be made as to how and why change occurs. This examination leads to the identification of intrusive events to provide the starting points from which the spatial and temporal analysis of change can proceed. The examination would also help in finding out the common elements underlying the series of changes which have transformed the system over time and which may be inferred to underlie future transformation of the system.

Intrusive events are known as diffusions and defined by Smith (1973) as including the following five types: migration, missionary activities, invasion including conquest and extermination, trade and technological exchange and the spread of ideas and institutions. McKinnon (1986, p. 47) adds economic depression and inflation to the list of intrusive events, arguing that in a processual study of change they should be viewed not as environmental conditions but as at the same level as war or technological advance or exchanges.

McKinnon (1986) summarises what makes an event intrusive as either it is generated through trans-systems activity or it appears from the international environment. Also it has the ability to disrupt the pre-existing pattern in the focus system and neighbouring systems. In short, intrusive events activate changes in the focus system and come from external sources. (Note 14)

Finally an intrusive event takes place in the source phase though it can also occur during the reaction phase to either intensify or modify the transformation process. Since the span of the source and diffusion phase may overlap and the fact that intrusive events are frequently continuous in nature, the intrusive events may persist into and throughout the diffusion phase.

Harrison and McKinnon (1986, p. 239) note that the impact of intrusive events on the focus system is frequently indirect. That is, the impact would occur often through disruption to other systems with which the focus system interacts. Also they say that intrusive events explain why the system undergoes change. These events however are not able to explain the system-specific response to their stimuli. The explanation in this case should come from environmental influences.

4.2.2 Systems' Activities

The trans-systems activity, besides taking place between a neighbouring system and focus system, could also occur when two or more neighbouring systems interact. This activity embodies environmental influence which is conveyed to the focus system through the interaction between neighbouring systems and focus system.

Intra-system activity which is of a primary concern of this work takes place, as mentioned earlier, within the focus system. That is, the response events come about through interaction among the groups and individuals which comprise the structural elements of the focus system. The collective and individual responses of focus system components towards intrusive events are circumscribed by the interactions between the focus system and neighbouring systems. Therefore, the kinds of response events taking place within the focus system are influenced by the environment through the presence of the trans-systems activity which embodies this environmental influence.

4.2.3 The Phases

As mentioned earlier, the process of change is divided into three phases: a source phase where intrusive events play their part in activating the system towards transformation; a diffusion phase with its response events which accommodate and transfuse the intrusive events within the system; and a reaction phase which may comprise both intrusive and response events. The occurrence of these events in the reaction phase may be a direct result of what takes place earlier in the diffusion phase or as an intensification or moderation of intrusive events that take place in the source phase. Change is considered incomplete until all the necessary events in the reaction phase have taken place. In sum, under the enlarged exogenous framework, system change is the product of both intrusive events taking place in the source phase and the continuous trans-systems and intra-system activity taking place in the other two phases.

The kind of change taking place in the social system is shown in the response events generated through all these activities. This form of change is directed by, and therefore reveals, the environmental influences upon the system itself.

4.2.4 The Environment

The environment provides the spatial context within which all this activity takes place. It is the set of conditions which surrounds the focus system and all other systems within the nation and which is subject to only gradual change over time. In contrast to the various activities within the focus system and between systems, it does not generate events as data for change analysis. It instead serves to constrain or facilitate change through its influence on the nature of interactivity between and within systems. In other words, it sets parameters as to the extent of
interactions within and between systems. Indeed, what kind of environment is present is reflected by what is taking place between and within the social systems.

The environmental influence is also embodied in the interactions among the neighbouring systems and is conveyed to the focus system through neighbouring system interactivity with this system. This influence may be suppressed by the occurrence of certain intrusive events but would normally be apparent later on (McKinnon, 1986, Chapter Eight). Finally, by looking at the environment, one may see what form of change that has taken place in the focus system.

4.2.5 Central Response Events

The analysis requires the selection of the outcome of interactions both within the audit system and between the audit system and neighbouring systems known as central response events. These are the response events that point to the direction of the significant differences existing across different time periods and localities. In short, they are used as "insight stimulating examples" in the historical and environmental analysis of the Malaysia audit system. The determination of these events is made through examination of various documents and interviews with various parties.

In summary, the enlarged exogenous framework adopted in this study has the following characteristics: system's change flows in three phases of source, diffusion and reaction and four components - intrusive events, intra-system activity, trans-system activity and the environment - need to be considered at the same time in analysing that change. The utilisation of the enlarged exogenous framework of processual change would provide not just a structured interpretation against which the historical development stressed by a political economic theory could be examined, but also a manner of understanding the interaction between the environment and audit process in a society. This in contrasts with mainstream studies of audit practice which have proceeded on implicit prior assumptions about the motivation and behaviour of corporate managers, auditors, shareholders and other users of audited statements, regulators and other parties, and on the premise of an "arms-length" relationship among these parties. These studies give little regard to the specific environmental influences over audit practice.

4.3 A Qualitative Case Study Research Strategy

The qualitative case study method is chosen as the research strategy since the aim is to have a deep understanding on the impact of the environment and other factors on the audit process. Patton (1990, p. 54) mentions that case studies are particularly useful when the need is to understand a subject of interest in "great depth" and in context. Yin (1994, p. 13) in his well-received work on case study methods has the following definition for a case study: "... an empirical enquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident". Miles and Huberman (1994, p. 25) mention a case as "... a phenomenon of some sort occurring in a bounded context." They say a case is the researcher's unit of analysis. For the present study, the case referred to is the audit practice occurring over a forty-year period covering the history of Malaysia from independence in 1957 to 1997.

Yin (1994) has also clearly mentioned several other pertinent points in his introductory chapter which are applicable to the present research. All of them are concerned with the question of when it is appropriate to use a case study as the research strategy: first, when the "how" and "why" questions are the research questions being posed; second, when there are "many more variables of interest than data points" as a result of including the context of the subject as part of the study; third, when the research relies on multiple sources of evidence; and finally when the efforts in data collection and analysis are being guided by some theoretical framework.

Besides Yin (1994), numerous other works are available on the subject of case study research (see for example: Miles and Huberman, 1994; Ryan et al., 1992; Patton, 1990; and Scapens, 1990). Overall, these works agree that case study research is appropriate where the predominant research questions are those of "why" and "how", allowing the incorporation of a range of materials which may suggest different stories and the collection of data right away without already having determined the answer or even the form of the answer. (Note 15)

Utilising a case study approach involves collection of qualitative data. The data comes in the form of "words", "phrases", "sentences" and "narrations" which can provide a more complete portrayal of this subject under study than "numbers". Blumer (1978) describes "words" and similar data as being capable of providing the "rich", "full" and "real" story, rather than the thin abstraction produced by "numbers". Indeed, these are the data considered appropriate in explaining social aspects which cannot be quantified in a universal manner (Ryan et al., 1992).

For the present study, the data are to be gathered from primary and secondary source materials and from semi-structured, open-ended interviews of selected participants. (Note 16)During the interviews, limited participant observation is also to be executed to some extent. (Note 17)All these approaches towards data
collection are intended to put into practice the concept of triangulation to reduce systematic bias in research work. (Note 18) The literature refers to these various efforts as qualitative methods. (Note 19) Merino (1988, p. 188) stresses the significance of gathering data through these various ways:

... [historical] facts must be interpreted in light of the conditioning environment of the period and human agents' perception of the alternatives available to them and the resources available to them. This determination must be made by thorough examination of available evidence, including an evaluation of the credibility of the testimony of participant sources.

The importance of the interviews in particular is expressed well by Merino (1988, p. 188) as follows: "If historians are to provide valid explanations, then we must examine all available evidence, including the testimony of participant sources, to substantiate posited motives and causes" (see also Collins and Bloom, 1991 and Hammond and Sikka, 1996).

Filstead (1970, p. 4) says that the qualitative research approach in no way suggests that the researcher lacks the ability to be scientific while collecting the data. On the contrary, it merely specifies that for validity - and, consequently, for reliability - it is important to try to picture the empirical social world as it actually exists to those under investigation, rather than as the researcher imagines it to be.

In the accounting field, numerous scholars argue that qualitative research methods provide rich descriptions of the social world, particularly the meanings attached to actions in the language of actors. In short, they argue that qualitative methods help in understanding how accounting meanings are socially generated and sustained. To mention just a few, these scholars include Humphrey and Scapens (1996), Ryan et al. (1992), Ansari and Bell (1991), Scapens (1990), Covaleski and Dirsmith (1990), Smith et al. (1988), Kaplan (1983, 1984, 1986), Hopper and Powell (1985) and Hopwood (1983).

For the present study, the chosen enlarged exogenous interpretive framework to be described fully in the next chapter leads to the view of audit as a social system that is open to its environment and has the qualities of complexity and dynamism. A social system is a functionally differentiated group, composed of interactive entities. The process of auditing interacts with many social systems involving varying degrees of influence. Complexity lies in the multiple interactions which occur within the audit system and between the audit system and other relevant systems and in the continuous interactions of various social systems with their environment. As for the dynamism of the systems, it is reflected in the different patterns of interactions occurring over the different time periods.

Given complexity and dynamism providing the essence and reality of the subject under study, quantitative data collection is considered inappropriate due to its cross-sectional nature which entails the simplification of the system to a number of abstract variables which would give only a superficial version of the system. In other words, if the quantitative data collection is still used, it will divert attention from the essential basic or operational form of the system. One will end up getting to know merely the system's structural form and have little or no understanding of the flows of events and continuous interactions among the relevant constituencies. (Note 20)

To recapitulate, for a retrospective investigation of the audit process, viewed as a complex and dynamic system shaped by historical events and environmental factors, quantitative evidence collection and statistical data analysis are deemed inappropriate. This is due to their tendency to require abstraction to a degree which hinders the emergence of the very essence of the phenomenon that this research focuses on. Instead, qualitative data collection is to be used to capture the essence of the system.

Specifically, the collection of primary and secondary source materials yielding excerpts, quotations or entire passages and the in-depth interviews asking open-ended questions to allow participants to describe matters freely on their own terms resulting in direct quotations, form the basic sources of raw data. Thus, what people said is a major source of qualitative inquiry, whether what they said is obtained verbally through an interview or in written form through a document analysis.

The use of individual quotes deriving from the interviews and various documents to enrich the analysis may allow the possibility that meanings may be ascribed to words out of their context. This however appears unavoidable in the process of abstraction for such interpretive work. Rest assured, however, that a triangulation strategy is utilised to ensure that only quotes supported by other interviewees and/or documents have been chosen. Those which are not supported by other sources of evidence are to still be presented in some cases when they are considered appropriate to show the very complicated side of the subject under study.

In conclusion, the study of a complex phenomenon such as auditing in its historical and environmental contexts demands in-depth and detailed research work in and out of field. The decision to adopt the qualitative case study format fits with the everyday reality of human life marked by various complications, struggle and whatever other specifics that are part and parcel of the Malaysian life during the last forty years.
5. The importance of context and the subjectivity of historical approach

Both the political economy and enlarged exogenous analytical framework stress the need to take into account the context of the subject under study and the use of historical approach. Related to the former, Lehman (1985, Chapter 3) outlines two views on the manner in which knowledge of accounting is enhanced: the first views accounting with what Lehman (p. 59) calls "illusory concepts" such as "value free", "objective" and "fact"; (Note 21) the second considers the field as social practice imbedded in a socio-historical context.

Under this latter approach, accounting, the discipline and its research, is socially constituted. Illustrative of this approach, Burchell et al. (1980, p. 12) propose that accounting and reporting are "outgrowths of institutional processes .... shaped by the pressures which give rise to accounting innovation rather than any essence of the accounting mission". That is, there exist various forces that shape and direct accounting practice under different social regimes. In short, accounting is not a natural phenomenon that is independent of human beings, rather it is a man-made system that is continuously changing within its environment.

Of relevant to the present work, Burchell et al. also say (1980, p. 12): "The technical components of accounting regulation and specification [must] be seen as being embodied within a complex pattern of institutional and other influences and the search for technical solutions [should be] complemented by a search for institutional and political support". A similar view on the importance of context is raised by Puxty et al. (1987) who lament the lack of emphasis on social context in studying accounting.

Puxty et al. (1987, p. 273) argue that a concern with the social context is important if accountants are to understand their position and roles in society and if the significance of accountancy is to be assessed. They point out that the roles of accountancy in regulating economic and social activities in society and the manner in which the institutions of accountancy are themselves regulated are intertwined. They further claim appropriately that the institutions and processes of accounting in different nation-states cannot be understood independently of the historical and political-economic contexts of their emergence and development.


By examining its social, economic and political environments together with developments within auditing itself, it is hoped that the original, present and potential functions of auditing in Malaysia will be disclosed fairly - perhaps in the spirit of the following remark by Burchell et al. (1980, p.13): "... accounting, it would appear, is made to be purposive rather than being inherently purposeful."

The need to consider the right context is stressed throughout the study. In addition, the study is also historical in approach - that is, reconstructing the past by a process of sifting through the layers of time to discover how the present could have emerged from the past. The stress throughout is that in order to provide explanations and an understanding of the changing role of auditing, it must be examined in its historical and environmental contexts. Also, in order to understand the present auditing, there is a need to place the past auditing in its historical and environmental contexts.

In regard to the stress on historical approach, Bircher (1991, p. 30) mentions that any non-trivial history which tries to understand actions and practices in situ (rather than reading back interpretations from the present) goes beyond simple recording and becomes involved with analysis and interpretation. Thus, there is a need in the explanation of historical events and change for the guiding theoretical structure. Individual studies have used different theoretical tools to help such analysis and interpretations. The use of different theoretical perspectives to inform the interpretation of the past, however, suggests that there can be different histories, different interpretations. Therefore, history is radically and viciously subjective. There cannot be any histories which are absolutely objective. In fact, there may be different histories for the same events. The theory of political economy and the enlarged exogenous interpretive framework provide the needed theoretical perspectives for the chosen research approach.

6. Clarifying the alternative approach

The political economy of accounting theory is applied through an enlarged exogenous framework to describe and analyse audit process in Malaysia over a period of four decades. The enlarged exogenous framework emphasises the environmental influence upon interactions within and between systems that are placed under it. Thus, the focus for a study utilising such a view of the world is in interpreting and explaining what has gone on.

Under the political economy approach, the focus on social relations leads to the proposition that certain parties possess special interests that often influence the audit process. That is, what transpires in the audit process would be
in accord with their expectations or goals. A political economy approach attributes audit activities to the distribution of power in society and the social, political and institutional structure that mirrors that distribution of power. To understand the functioning of audit, there should be a focus on political, economic and social variables.

Thus, this approach attempts to show not only the manner that audit activities have taken place, but also tries to explain how these activities occurred as a result of institutional and social forces. In other words, the study by applying the enlarged exogenous interpretive framework attempts to link the nation's audit history with its social, economic and political history. A change analysis of the historical data is used to illustrate the link between the two.

The research approach adopted to study auditing in Malaysian environment as discussed above is an initial attempt to understand how political, economic and social conditions and related institutions have impacted the functioning of audit in Malaysia. In other words, auditing in Malaysia is understood here to be interrelated with the dynamics of the wider sociopolitical and economic context of which it is an integral part. Auditing in this respect is not understood as "technical" - a neutral set of practices - but as an integral to the sociopolitical structure of society. Auditing here is considered to be a mutable phenomenon, interacting with a dynamic, mutable context (Hopwood, 1987).

As a malleable phenomenon with potential consequences, auditing is interpreted as political in character and not as a (potentially) neutral device. It is a man-made system that is based on socially constructed reality and shaped by its different socio-political and economic environment. It is constantly changing and evolving within its dynamic environment (Hopwood, 1983; Chua, 1986; Hines, 1988; Morgan, 1988; Dillard, 1991; and Samuels and Oliga, 1982 mention this for accounting). In short, it is postulated that the Malaysian audit process is changing within a set of contextual conditions which may be expected to affect its development.

The above distinctive assumptions upheld in this research inquiry concerning the audit process in Malaysian society may be viewed to come under what is generally termed the interpretive research paradigm. Burrell and Morgan (1979) claim that all social scientists approach their subject through assumptions about social science and the nature of society.

Assumptions about social science or the study of human society can be thought of in terms of the subjective-objective dimension covering the four areas of ontology, epistemology, human nature and methodology. As for assumptions concerning the nature of society, they create another dimension comprised of concerns about the maintenance of social order with regulation and the need for radical change due to deep-seated structural contradictions in society.

The placing of these two sets of dimensions together result in four separate views of social theory, one of which is the interpretive approach. (Note 22) The interpretive paradigm is characterised by the intersection of subjective and regulatory dimensions and uses the notion of "understanding" as the method to study human world by reliving the experience of others. (Note 23) As Hopper and Powell (1985, p. 89) put it, "[t]he focus is on individual meaning and people's perceptions of "reality" rather than any independent "reality" that might exist external to them."

Thus, in a study of human society, the relevant ontological assumption that may be upheld ranges from the presence of complete objective world to that of totally subjective one creating realism-nominalism differences. The realists believe that there exists an objective world external to people where knowledge is considered hard, real and tangible. This results in a positivistic search for universal laws and generalisable relations believed to be the determining factor for human actions. They favour microscopic, narrowly defined research characterised by the hypothetico-deductive element and known as functionalist in approach. On the other hand, for the nominalists, reality is subjective - based upon personal experience and insight - and socially constructed. Thus, they seek to understand and explain human actions viewed as the result of free will. They tend to favour the holistic-inductive approach to research known as the interpretive paradigm.

Yanow (1994) explains that instead of the discovery of objective facts, the interpretist aims to understand human actions and interactions in their context due to his/her view that social institutions, policies, agencies, etc. are human creations, not objects independent of the humans. Also, she explains that the study of human meanings entails the discovery of multiple meanings or varieties of interpretations (by "situated knowers") of the subject of interest ("situated knowns"). The focus accordingly is on the carriers of meanings (known as the artifactual symbols) that come in the forms of symbolic objects, symbolic language and symbolic acts.

Chua (1986) points out that an interpretist considers "knowledge" to have the following qualities: a high degree of clarity and compatibility with the principles of logic, plausible or common sense meaning derived from parties involved in knowledge creation and consensually agreed upon by the actors concerned. The last two qualities show that the interpretist perspective recognises diverse understandings and the presence of societal relations entailing the
need to attain relevant parties' definitions of situations and analyse how such awareness is intermingled with a wider social, economic and political structure.

Thus, the perspective recognises the presence of a relative reality affected by changing social, economic and political environments. It is also concerned with actors' plausible or common sense views woven into a wider environmental context. A theory developed is assessed to be adequate when actors concur with the explanation of their intentions.

The interpretive approach is most appropriate in examining a nation's auditing practice because it recognises auditing as a socially constituted product, not a natural phenomenon. It also gives the opportunity to the researcher to provide a rich description of the audit experience and at the same time explain why such experience takes place and how it has all come to be the case.

Chua (1986) notes that case studies are among those strategies which fit with the utilisation of an interpretive research paradigm in order to obtain knowledge about the "everyday world of actors". She states that ideographic methods rather than hypothetic-deductive methods are needed to re-enact the actors' definition of the problem. This is reasonable due to the fact that in-depth study is needed, and this could very well be provided by the case study research strategy. For the present research, the case study format is accordingly chosen emphasising the gathering of qualitative data from personal interviews and relevant documents and literature.

With interpretivism and not functionalism as the line of inquiry, human activity is seen as "text" consisting of a collection of symbols which expresses layers of meaning. (Note 24) The theory of political economy applied in the context of the audit function in Malaysia is thus considered to provide such an avenue and is applied in the present study.

7. The relevance of the alternative approach

The neo-classical view of accounting applied in much research in accounting to date and which has strongly influenced accounting outputs may be viewed as a means of sustaining and legitimising the current social, economic and political arrangements (Cooper, 1980, p. 164). The status quo in consequence is maintained, for it is regarded as desirable or, in some other cases, as the only arrangement possible. In short, this influential view has prevented a good understanding of what society is like and the possibility of changing it.

What could stop this view from continuing its reign over accounting research and practice and thus give one point of relevance for the alternative approach is to have more and more conscientious accounting practitioners and researchers to adopt a more holistic approach to their work emphasising the interpretive as opposed to the supposedly "objective" aspects of the discipline to help broaden and deepen the accountants' contributions to economic and social life.

Another point of relevance of this research approach is that by enhancing understanding of the existing ("below the surface" rather than overt) audit functioning, perhaps some rough estimation can be made as to the direction of environmental influence over audit. Parties concerned may want to check whether they would really like to have the prediction to come true or to act swiftly and be proactive to ensure that instead of "events" influencing them it should be the other way around.

This view, that some kind of prediction could be made in regard to audit functioning, is based among others on remarks such as the following: "The traces of dynamic process at given points in time should be interpreted as the result of a complex interplay of historical development" (Hagg and Hedlund, 1979, p. 138). And as Fusfeld (1972, p. 1) has succinctly put it: "The processes of change are rooted in the past, operate in the present, and thrust into the future .... Social scientists have to develop a triple vision; they must look backward to the world we came from, analyse the world in which we live, and try to discern the future". Fusfeld (1977, p. 777) has also mentioned that the present is not totally isolated from the past: "If we think of the present as a point in space and time, we can examine the past in terms of how a variety of processes and forces contributed to produce the present situation" (see also Carnegie and Napier, 1996).

Thus, the present state of audit functioning is viewed as the current episode in a continuous process of change when earlier on it might well have been viewed as the future state as of that point in time. Needless to say, the present is also going to be viewed as the past of the future audit functioning. Perhaps by looking now to the future, pro-active arrangements could be made to have that future be less surprising or intimidating considering the fact that as much as the past has influenced the present, the present whenever that is is never the same as the past.

Still another point of relevance of the research approach is related to the remark made by Willmott (1991, p. 109) that the study of auditing "has been seriously neglected and marginalised, even as evidence of "failures" mounts and
doubts about the independence of auditors grow". He also mentions (footnote 1, p. 119) that the interest in auditing among scholars as a social phenomenon was limited to a few mavericks and moralists. It is thus hoped that the utilisation of this approach will be able to contribute in some small way towards enriching this very important area whereby the emphasis is on the perceptions and explanations of the actors themselves. (Note 25) By applying this approach too, it is hoped that the profile of auditing is raised in Malaysia to direct the attention of more influential parties (e.g. politicians and journalists) to ask probing questions about the operation and adequacy of the existing audit regulatory arrangements (Sikka et al., 1989; Willmott, 1985) with the focus also on other systems neighbouring to the audit practice.

The final point of relevance for this research approach concerns the lack of accounting studies in developing countries where accounting is regarded as a part of the wider socio-economic and political context. (Note 26) Although there have been numerous studies such as those by Enthoven (1977, 1973) on the role of accounting in economic development and others such as the effect of international transfer of accounting skills (Seidler, 1967; Needles, 1976), accounting is constantly seen as a technical activity which provides financial information for economic development. The scholarly works are invariably normative and are deemed located in the functionalist paradigm. Thus, they fail to examine how accounting is very much a reflection of the society it is located in. There appears always to be a lack of attention to developing countries' socio-economic factors which impact upon accounting resulting in suggestions that the transfer of western accounting technologies and ideas would be unproblematic and undeniably and automatically beneficial to these countries - though experience time and again appears to prove otherwise.

Therefore, the adopted approach is an attempt to help in rectifying such efforts. Specifically, it may be viewed as satisfying a need for research in financial reporting in developing countries where the supposedly technical tool of auditing is seen to intermingle with the various factors in the environment. Accordingly, it should lead to a broader if not an alternative conception of auditing compared to that written from a functionalist perspective in a normative manner. The expanding view of "auditing in action" may perhaps also encourage other researchers to do similar kind of work seeing perhaps how much more relevant such work is to the socio-economic environment of the developing countries.

8. Conclusion

There are at least two paths to better understanding of the auditor's role in society. One is the neo-classical conception of economic activity that appears to have had greater influence upon the beliefs, values and vocabulary of many generations of economists, politicians, policy makers, students and academics. In regard to most accounting research, Ahmed (1992, p. 163) notes that traditional microeconomic thought has influenced accounting to the point that it virtually ignores the purposive nature of human conduct and behaviour and hence the meaning and context of actions including the production and processing of knowledge (see also Baker and Bettner, 1997).

Ahmed claims that by accepting the objective and abstract form of knowledge and viewing accounting as merely a technical and natural service activity, accounting researchers have isolated the domain of accounting thought and inquiry from many issues of wider social and organisational significance. In other words, though its rhetoric and ideology may match the power of logic and mathematics, the conception of social reality by mainstream accounting is debatable.

The alternative path adopted in this study concerns the interrelation of the audit function with its environment viewed in an historical and social manner. This is in the very manner stated by Burchell et al. (1985, p. 382) who lament the neglect by accounting researchers of the intermingling of the accounting and the social: "... little is known of how the technical practices of accounting are tethered to the social, of how wider social forces can impinge upon and change accounting, and of how accounting itself functions in the realm of the social, influencing as well as merely reacting to it".

In order to place emphasis on the context of the audit function, an interpretive research approach is adopted in this study. This interpretive orientation is consistent with the socially constituted view of accounting. This research approach also influences the collection of data, although when it comes to data analysis, it is augmented with the use of an enlarged exogenous model and the related critical theory of the political economy of accounting.

The interpretive framework aided by qualitative data is most appropriate for examining a nation's audit practice because it recognises that audit is a cultural product, not a natural phenomenon. To understand audit in action, the perspective emphasises putting audit in its particular historical and environmental context. This would lead towards not only rich description of the audit practice in Malaysia, but also to explain and interpret why such practice exist and how it emerged.
To understand the structure, meaning and significance of the nation's audit practice it is necessary to probe the various components of the social, economic and political environments that surround auditing together with the actors of user, regulator, preparer and auditor who are closely involved with audit practice. The political economy of accounting theory utilised in the study drives an enlarged exogenous framework to describe and analyse auditing in Malaysia across a period of forty years. The framework attributes primacy to audit development in the unfolding of history. Audit development is viewed as located in society and is therefore related to changes in society. By focusing on audit practice situated in concrete social conditions, audit change can be understood dialectically, rather than as a mere outcome of mechanical determination by the market.

Therefore, this study on the rationale for external audit in Malaysia is inter-disciplinary. To isolate the economic study of audit practice from the sociological treatment of social class and racial conflict and from political science's attention to the state is to restrict artificially the depth and scope of social investigation and analysis. By identifying a variety of related factors which comprise the processual change of audit practice, the significance of societal specificity and historical sequence in social change is also underscored. Hence what is being attempted here is a historical case approach.

In particular, this approach analyses how general concepts - audit, state, companies - take on concrete social and historical meaning over time. The major variables of culture, market, state and organisation - to mention a few - bear differential explanatory weight through time, as a different balance of factors comes into play in different time periods.

Every country or economy or time period (of a country) has companies. Every country or economy or time period (of a country) has government. Every country or economy or time period (of a country) has auditors. It is only when all these and other elements are considered in interactive relationships with each other that a coherent and consistent pattern is found - to lead towards the emergence of an appropriate understanding. It is this collective patterning of variables, not the individual fragments of reality, that is being considered here.

Concentrating on the dominant units of auditing in action helps to overcome some of the problems of comparative accounting system analysis and forces one to consider how these particular kinds of units developed and become established in different kinds of ways over time. The factors said to be influential, such as the state's control of businesses, distinctive economic institutions such as banks and stock markets, are not singular in nature, universal in character and unambiguous in practice. They all reflect their spatial and temporal location. Moreover, these highly complex factors do not exert their influence in a vacuum, apart from other, equally complex factors such as the country's national attributes. As a result, all these factors do not interact in the same way in different locations and time periods.

To recapitulate, the objective of this study is to answer the question of "Why audit in Malaysia?" through tracing the historical development of the audit function since independence in 1957 and analysing the environmental influences on this development. Thus, the subject of the study is auditing and auditors generally, and auditing change particularly. The emphasis will be on discovering rationales for past and present auditing. Finally, by interpreting the past, the present may be understood in order to help in charting the future. The main and specific assumption held throughout is that the audit activities taking place within a certain length of time are associated with a unique configuration of social, economic and political conditions. The study in all probability provides the first comprehensive analysis of audit practice in post-independence Malaysia, utilising an analytical framework which employs a process orientation, recognition of environmental influences and a historical perspective.

References


**Notes**

Note 1. Noted Ooi Soon Kiam and Chuah Soon Guah (1989, p. 4): "To date there is no record of legal liability suit involving the work of auditors in Malaysia". From the field work conducted recently in Malaysia, it has been found that these views are incorrect. There is one case and it took place in the early 1960s.

Note 2. For example, the doctors recently have been bombarded by one negligence suit after another. Noted Malaysian Medical Council chairman Professor Datuk Dr Mahmood Mohd Noor, "[t]he number of medical negligence or malpractice suits in Malaysia is relatively few but the cases filed over the last two years were more
than the average for the previous five years) (NST, 29 Dec. 1994). As a result, it is reported that the Law Ministry is now looking into ways to introduce limits on the amount of money a plaintiff can claim (NST, 29 Dec. 1993).

Note 3. In 1993, there were over 800 audit firms in the country with over 250,000 companies demanding auditing yearly (Akauntan Nasional, Apr. 1993, p. 25). There were also 2,000 external auditors working in those 800 audit firms (Akauntan Nasional, Apr. 1994, p. 29). In 1991, the then MACPA president stated that of the 700 audit firms in Malaysia, 88 percent were small practices with fewer than 50 staff each (Business Times, 19 Oct. 1991). The larger firms are known to provide a wide-range of services besides auditing and all these services are bought by not only registered companies but also by others such as individuals, multi-national corporations, government departments and statutory bodies. The services offered besides auditing include tax consultancy, accounting, management advice, company secretarial services, receiverships and liquidations, mergers and acquisitions and executive recruitment. As for the small audit firms, see Adrian Yeo (1993), who in his 1990 study found that small firms defined as those with a maximum of 4 partners or a fee income up to RM 1.5 million, had as the main sources of their income the following: auditing (52 percent), taxation (19 percent), bookkeeping (10 percent) and secretarial work (10 percent). (However, with only 21 respondents, or a 16 percent response rate, and that from only small firms in four selected cities in Malaysia, his findings need to be treated with caution.) The big audit firms have tie-up with overseas firms. The link up takes place as the former can now benefit from transfer of expertise and technology and thus enhance their services. The tie-up is also considered to bring benefits to both sides since in exchange for a contribution to the overseas audit firms for joint expenses such as advertising, product development and liability insurance, the local big firms can gain instant credibility and access to multinational clients. Examples of link-ups include Jaffar Hussein with Price Waterhouse, Kassim Chan & Co with Deloitte, Haskins and Sells, Desa Megat & Co with KPMG Peat Marwick, A. Samad & Co, Hanafiah Raslan & Mohamad with Arthur Andersen, Lim Ali & Co and Larry Seow and Co with Arthur Young International, Mustapha Law with Touche Ross International and Nordin Hanifah & Co with Ernst & Whitney. For 15 years up to 1988, Hanafiah Raslan & Mohamad (HRM) was linked with Touche Ross International. Following the merger overseas between DHS and Touche Ross (and Tohmatsu Awoki & Sanwa), their local counterparts - Kassim Chan and Mustapha Law, respectively - also merged. The same also took place with their local counterparts when Ernst and Whitney merged with Arthur Young in July 1990 creating a total of 23 partners and almost 1,000 employees in 12 offices in Malaysia (NST, 16 July 1990). The MIA noted that these two mergers had saved the firms overheads on a smaller number of offices (Akauntan Nasional, Apr. 1993, p. 25). In 1989, it was estimated that the biggest eight firms then accounted for 90 percent of the audit fees of the KLSE listed companies (NST, 2 Sept. 1989). In 1988, Patrick Pillai reported that the experienced auditors he contacted estimated that the total cost of audit fees for the entire local corporate sector could be around RM 140-150 million (Malaysian Business, 16 Aug 1988, pp. 13-14). A major proportion - RM 120 million - went to the then big eight audit firms which had cornered more than 90 percent of the audit market for multinational and Malaysian listed companies. The non-big eight audit firms were left to cater to the needs of thousands of smaller companies. Among the big firms, in 1990, the three biggest in terms of number of professional staff were Price Waterhouse, Arthur Andersen/Hanafiah Raslan & Mohamad and Ernst and Young with 800, 886 and 900 employees, respectively (The Accountant, Aug. 1991, p. 17). Each also had 8, 17 and 13 offices, and 18, 20 and 22 partners, respectively. Another big audit firm in the country is Coopers & Lybrand which started operations in 1960 with a staff of 70. In 1976 it was "Malaysianised" and in 1990 it had a staff strength of 600 (NST, 27 June 1990). With more merging expected to take place, the MIA on 11 Feb. 1993 applied to the Registrar of Companies to lift the then limit of 20 partners to an unlimited number so that all the advantages of a merger and the opening up of branches could actually be realised (Akauntan Nasional, Apr. 1993, p. 24). In making the application, the MIA noted that the merging between firms had forced many partners to leave the enlarged firms and that since the public accounting profession in the country was expanding very fast the firms now had to open up branch offices all over the country. The opening up of branches demanded the placement of partners. Four years after these remarks were made, the NST (23 Apr. 1997) reported that legal and accountancy firms could now have more than 20 partners following the latest amendments to the Companies Act 1965 following amendments to Section 14(3)(a) of the Act that was gazetted on 17 Apr. 1997.

Note 4. The term "development" as it is used here, unless it is noted to the contrary, does not relate to evolutionary perspective of the functionalists. Instead, it relates solely to the historical development of the social system.

Note 5. See the reality of audit as dissected by Willmott (1991, p. 113). See also Kirkham (1992). And note what is pointed out by Okike (1994), Akathaporn et al. (1993), Soong Hyun Park (1990) and McKinnon (1984) in regard to audit practice in Nigeria, Thailand, South Korea and Japan, respectively.

Note 6. Kirkham (1992) mentions that appeal for this type of work has been made in the extant auditing literature and that a small growing body of researchers has embarked on such pursuit. She lists 16 relevant works.
Note 7. See the excellent writings by Briloff (1993) and Mitchell and Sikka (1993) which capture well these very interactions in the current audit environment in US and UK, respectively.

Note 8. Hudack (1989, pp. 16-17) mentions that Tinker's political economy is actually a re-birth of Ricardian economic thought in the early nineteenth century.

Note 9. Ahmed (1992, p. 191) writes that the neo-classical economists would consider factors such as political lobbying, political interest in a government policy and institutions of power and authority protecting and legitimating certain economic practices as rigidities or imperfections in the pursuit of optimal efficiency and rational decision-making. Thus, they would treat them as external factors which decision-makers are told to either ignore or work on reducing their impacts. See also Veblen (1984, pp. 174-175).

Note 10. Dahl (1967) defines power and conflict as the ability to impose one's will upon another and the existence of more than one interest, respectively.

Note 11. The focus for research on corporate accounting report now is on its impact on the welfare of the society as a whole. There is no more bias toward the shareholder and manager classes in society as in research based on neo-classical marginal economics related to the assessment of the usefulness of accounting reports for users.

Note 12. See Smith (1976, pp. 16-18) who discusses how a study of change may be differentiated into three types.

Note 13. Note that it is McKinnon (1986) and not Smith (1973, 1976) who suggests this division of events. See footnote five in Chapter Three of McKinnon (1986) for more.

Note 14. In Harrison and McKinnon (1986, p. 239), they however note that though the intrusive events "typically" originate from without the system, "they may have their origins within the system". They further write: "Thus, the potential of individuals and groups within the system to act in innovative, proactive way, or to seek to redefine their roles or influence within the system, may be regarded and examined as intrusive events in respect of the system as a whole".

Note 15. Scapens (1990) delineates the six steps to be followed in executing case studies.

Note 16. A purposive sampling approach is to be used rather than a simple random selection to locate interviewees. When the desired elements of the sampled population do not equally and universally exist in all units of the target population, when inclusion of exceptional and special units in the sampled population is essential for the completeness of the research, or when the universe includes a relatively small number of sampling units, a simple random selection may miss the more important elements and is therefore rejected (Foroughi, 1981, p. 222). Another manner of looking at this approach is that it signifies that the conduct of interviews is not to prove or refute a hypothesis. Also, there is no intention at all to say that the views of individuals who were finally interviewed represent any other group of people or institutions. Instead, the whole aim is to attain information-rich interviews which will illuminate the questions under study. In regard to the open-ended quality of the questions asked, the intention is to enable interviewees to express their own understanding in their own words. The interviewer never supplied and predetermined the phrases or categories that must be used by respondents to express themselves. The focus is on learning interviewees' viewpoints by recording their terminology and judgements and capturing the complexities of individual perceptions and experiences. As Patton (1990, p. 278) notes succinctly, the purpose thus is to allow the interviewer to enter into the participants' perspective using the assumption that the perspective of others is meaningful, knowable and able to be made explicit. In general, the interview guide used in the field work as a basic checklist of subject areas to ensure that all relevant topics were covered during the interview. It presumed that there was common information that should be obtained from each person interviewed, but no set of standardised questions was prepared in advance. The wording and the sequence of questions were also adapted to specific participants in the context of the actual interview (See Patton, 1990, p. 283 and Kvale, 1996, Chapter Seven). In short, the interview schedule used during interviews is actually put to use with a considerable degree of flexibility. That is, if an interviewee showed great interest in an issue and wished to develop it further, he or she is encouraged to do so. If on the other hand, he or she is not comfortable to say much or to claim to have little knowledge of the issue forwarded, the question is thus dropped. This led to the possibility that more information would be collected from some people than from others. Patton (1990, p. 286) mentions that for basic research such as the present one where the aim is to understand the holistic overview of a group of people, it is not necessary to collect the same information from each person. Not having a structured interview format is viewed to be a more effective way of establishing a better understanding of auditing within its historical and environmental contexts, due, among other things, to the implicit assumption behind the use of structured interviews that questions and responses are taking place in a context-free framework. Utilising structured interviews would also prevent participants from posing their own questions and introducing lines of inquiry not envisaged by the researchers. Nevertheless, there are limitations with semi-structured interviews. This is because of the tendency of certain individuals (even when it is agreed that they are not going to be directly identified in the report for views they expressed) to exhibit opinions that
are "politically acceptable" to others. Moreover, these types of interview do not negate the possibility that participants adopting a manipulative stance and, deliberately or otherwise, feed information for power-related or political purposes to the researcher. See Van Maanen (1979) for more. Also see Douglas (1976) who discusses various intervening steps that an interviewer could undertake in facing people in field sites who nearly always have reasons for omitting, selecting or distorting data and for deceiving the field worker (not to mention deceiving themselves). Note also that Miles and Huberman (1994) provide an extensive discussion on enhancing the validity and reliability of field data.

Note 17. This data gathering technique is to be utilised with no intention at all that the field work is turned into an ethnographic study. It is done everytime however due to two reasons. First, the researcher is there in the company of the interviewees who provide various postures in interacting with the former. Second, it allows the responses of the interviewees to be interpreted within their contexts. Note also that numerous informal talks with a number of people who are at the peripheries of the subject under study to avoid the so-called the "elite bias" (talking only to high-status interviewees) need to take place too.

Note 18. Patton (1990, p. 470) defines triangulation in research as a process by which the researcher can guard against the accusation that a study's findings are simply an artefact of a single method, a single source, or a single investigator's biases. Miles and Huberman (1994, p. 266) however mention that "[s]tripped to its basic, triangulation is supposed to support a finding by showing that independent measures of it agree with it or at least, do not contradict it." They also say that triangulation as defined by Denzin (1978) is a way to get to the finding in the first place. Neuman (1991, pp. 329-30) has interestingly suggested that triangulation is not only to increase the "sophisticated rigor" of the data collection and analysis, but also to help disclose the "richness" of social settings for a qualitative inquiry. He mentions that quantitative researchers would consider the inconsistent picture derived from data on the same social event collected by different methods, different researchers or at different times as "bias" or "error". This he says would not be the case for the qualitative researcher. He writes (p. 330): "But for a qualitative researcher such differences are anticipated and are a valuable source of information about social life. They are themselves an aspect of social life to be analysed". See also the very interesting work by Kvale (1996, Chapter 12) on this very subject. Note also in this regard what Kvale (1996, p. 14) says in regard to interview data in particular: "The aim of the qualitative research interview is not to end up with unequivocal and unquantifiable meanings on the themes in focus. What matters is rather to describe precisely the possibly ambiguous and contradictory meanings expressed by the interviewee. The contradictions of interviewees may not merely be due to faulty communication in the interview situation, nor to their personality structures, but may in fact be adequate reflections of objective contradictions in the world in which they live."

Note 19. See for example Van Maanen (1979, p. 520).

Note 20. This is not to deny however that the quantitative method could be utilised as a "useful adjunct" to the study of social system change which stresses on qualitative rather than quantitative features of the system. This is as shown by McKimmon (1986).

Note 21. Their view is associated with the method of inquiry called the "scientific method" that comes under the philosophical school of logical positivists. See Abdel-Khalik and Ajinkya (1979). See also Williams (1988, Part V) who claims that the accounting's "scientific method" is not quite scientific and should be renamed "logico-methematical method" or more aptly "pseudo-scientific method"!

Note 22. The other three are radical humanist, radical structuralist and functionalist. See Burrell and Morgan (1979) for more who in coming out with these four mutually exclusive research paradigms create a dichotomy between the subjective and objective approaches. Hopper and Powell (1985) disagree with the dichotomy and view subjective-objective dimension as a continuous with radical humanist and radical structuralist combined to create the radical paradigm.

Note 23. See Belkaoui (1987, pp. 56-8) and Patton (1990, Chapter Three) who describe various forms of qualitative inquiry. See also Hopper and Powell (1985, p. 88).

Note 24. "Meanings" people place on the events, processes and structures of their lives are defined by van Manen (1977) as people's "perceptions, assumptions, prejudgements, presuppositions".

Note 25. See Colville (1981), Otley (1978) and Tomkins and Grove (1983) who support this manner of studying a research subject. Hopper and Powell (1985, p. 91) appear to agree that the interpretive research method to study how accounting meanings are socially generated and sustained could result in better understanding of accounting.

Note 26. In other words, in the very notion of accounting propagated by Burchell et al. (1985). That is, the accounting processes and institutions are not so much influenced by the wider social, economic and political environments as "inter-twined" with them, and thus, as proposed by Hopper and Powell (1985, p. 93), need to be studied together.
The Implementation of Strategy Evaluation

Model and Index System Construction

Kailiang Chen, Wei Guo, Huirui Li
School of Management, Xi'an Polytechnic University, Xi'an 710048, China
E-mail: chenkailiang19@163.com

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Abstract

The implementation of strategy have been paid more and more attention at home and abroad, but research related to the academic community makes the understanding of the implementation of the strategy is not systematic and in-depth, and difficult to provide guidance to corporate management practice. In view of this, based on literature review, meaning of the implementation of strategy is defined in this thesis. Meanwhile, an academic model concerns the implementation of strategy is founded. This model is composed of adaptation of strategic environment, support of strategic implementation, control of strategic operation, and effect of strategic implementation. Furthermore, according to this model, an index system for the implementation of strategy evaluation is set up. Some related issues are explained as while.

Keywords: Implementation of strategy, Model construction, Evaluation system

1. Introduction

With competitive environment to accelerate the pace of change, enterprises are facing increasing pressure of competition, Accurate and effective implementation of the strategy has no longer give additional splendor, but impact on the survival and death of business directly. At present, many enterprises lack understanding of the importance of the strategic implementation, strategy for establishment and implementation of the strategic situation does not match very well. Every year, top management spent great efforts on development of the strategy plan, but the end of the day has been shelved; middle-level, grass-roots management lack understanding of strategy and clear direction for work, so resources can not be configured in accordance with the strategic planning which lead to strategy and daily operation of enterprises out of touch. Executives can not control the implementation of strategy; enterprises can not achieve a breakthrough on the key index, year-end results a far cry from the early goal. Difference between enterprise and their competitors is decreasing, the key competitive factor rest with their ability of implementation. Consequently, doing comprehensive and scientific evaluation for the implementation of strategy of organization becomes foundation and basis to develop and achieve strategic objectives.

2. Researches on the implementation of strategy

The implementation of strategy has been paid more and more attention at home and abroad. Due to the understanding of the implementation of strategy is different through the academic community, effective instruct and reference for organizational operation practice can not be afforded by related researches. According to review the related reference, scarcities in the research of the implementation of strategy has been summarized in this thesis as follows:

Firstly, lack of a unified understanding of the implementation of strategy. There are two representative points of view in present researches. One is created by Yunkui Xue,Huaning Wei,Daqing Qi(2005), through identify various steps in the process of the implementation of strategy, three major element: consensus, coordination and control will be made as a basis for describe the implementation of strategy. The other viewpoint is made by Larry Bossidy and Ram Charan (2007). Organization based on the actual situation, select key processes of strategic management---strategic processes, personnel procedures and management process as constituent elements of the implementation of strategy. These two views are both based on understanding that the implementation of strategy is a scheme, dynamic and control process where organization achieves its strategic objective. Ability of use existing resources and mechanisms or core process of strategic management is only focused on; what’s more, the implementation of strategy is a three-dimensional framework which is forming by a number of interrelated elements is overlooked. Thus, the implementation of strategy can not be recognized and measured fully and systematically.

Secondly, the attention to external environment of organizations is not enough. On aspect of strategic management research, scholars pay sufficient attention on the relationship between environment and the strategic. But for the implementation of strategic research is limited to the process of the integration of its own resources to achieve
organizational strategic objectives. Therefore, set external environment as a reality, or set changes in the external environment in line with forecasts in strategic development as a prerequisite, to consider a process of enterprises to achieve a strategic goal only in established businesses or foreseen circumstances.

Finally, many researches on implementation of strategy have paid more attention on implementation of strategy’s importance and meaning in management, reason for shortage of implementation and way of upgrade staff’s implementation, but short of systematic research on evaluate the implementation of strategy. The only few literatures about evaluation of implementation of strategy are mostly limited in specific enterprises qualitative research, and research results lack general applicability.

3. Definition of implementation of strategy

There has been no unified understanding of the implementation of strategic concept. Previous studies are mostly from the perspective of resources. Each concept relates to corporation’s main resource, and implementation is described as a capability to accomplish the strategic goal by use of resources. However, the emphasis on the use of resources only concentrate on the organization's internal, not taking into account of the organization’s external environment. Environmental factors sometimes even have a direct bearing on the strength of implementation of strategy. Based on this, the implementation of strategy is defined as a kind of synthetic capacity that organizations use all resources to achieve the strategic objectives in the process of dynamic enterprise development environment. Organizational implementation determines the implementation and operation results of organization strategy. It is the dynamic adjustment capability in order to adapt to the environment changes. It is core competitiveness of organization, and determines the development of organization.

4. Structure of implementation of strategy

In the actual process of business, strategic implementation is a complex processes which links both internal and external systems together and completed by multi-systems. Thus, implementation of strategy is made and decided by complex system of ability to adapt to the strategic environment, ability to support implementation of strategy, ability to control operation of strategy, and ability to impact the implementation. It is shown as below in table 1:

4.1 Ability of strategic environmental adaptation

Ability of strategic environmental adaptation refers that organization’s the self-adjustments and the impact on the external environment when it faces the complex and ever-changing strategic environment, consequently, organizations adapt to or even control the strategic environmental changes trend. Specific performance is ability of predictability and control for the strategic environment. Organization’s survival and development consist in a certain circumstance, but the direct affect of implementation of strategy is organizational strategic environment. During the process of strategic implementation, as there are more or less differences when the environment is expected during the environment changes and strategy formulation process, whether they can adapt to dynamic changes in strategic environment even impact this changes is the key to continuous development.

4.2 Ability to support strategic implementation

Ability to support strategic implementation is the ability to create condition and provide protection in the process of strategic implementation. This ability is the base of the strategic implementation, which security strategy can be expected to accomplish smoothly. Ability to support strategic implementation is consist of capacity of resource integration, capacity of organizational collaboration, capacity of organizational learning, capacity of organizational communicate. Solid and powerful strategic support system can provide essential condition to achieve strategic objectives, and to protect the strategic implementation process.

4.3 Ability to control strategic implementation

Strategic control in organization refers to the implementation of strategy process, doing effective tracking, feedback and adjustments in the process of implementation of strategy. And members will be examined according to performance appraisal system, so that the implementation of strategy will better consist with organization’s current internal environment, external environment, and strategic goals, thus ensure the organization development to a certain direction. Ability to control strategic implementation consist of capacity of performance management, capacity of information control, capacity of financial control, and capacity of cultural integration. Strategic control system is important to implementation of strategy. Tenor and effect of strategic implementation can be monitored and adjusted effectively by strategic control. The higher the quality of strategic control is, the better the effect of strategic implementation is.

4.4 Effect of strategic implementation

Effect of strategic implementation is that organization in the period planned by strategy, the achievement of strategic
objectives, whether the strategic help organization to bring up successful ability and consciousness in organization’s future. Based on this, balanced score card will be brought in this thesis as appraise index to scale the effect of strategic implementation. The index includes financial index, Customer Satisfaction, Organizational learning and growth, and internal process optimization.

5. Construction of evaluating index system for strategic implementation

Based on above analysis, the basic framework system of evaluation for organizational strategic implementation is presented in the thesis in table 2.

In order to get veracious data during the actual evaluation, relevant observing index can be set corresponding to each evaluation index, through the form of questionnaire to gain relevant data, at last, using Fuzzy comprehensive evaluation method to analyze and value the strategic implementation.

6. Conclusions

Based on analysis of the content and structure of strategic implementation, the evaluation of index system in this thesis is improved. Status of the implementation of strategy is estimated from 10 aspects of follow four dimensions: Capacity of strategic environment adaptation, the ability to support strategic implementation, the ability to control strategic implementation, and effect of strategic implementation.

Organizational strategic implementation can be appraised by this index system synthetically, and strategic implementation also can be appraised from three dimensions individually. So, it has good flexibility. This evaluation index can be used doing horizontal or vertical comparison for different organizations, or for different periods in one organization. At the same time, principal component analysis can be used in this index system to choose and decide each index, then, according to the AHP or Delphi method, indexes weight will be decided. Through the establishment of the index system, to some extent, the implementation of strategy can be quantified and compared. What’s more, this index system will be benefit to relevant researches too.

References


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Table 1. Construction of the strategic implementation

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Table 2. Strategic implementation index system

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Practical Meaning of Developing Warrant
In China Security Market

Hanfei Zhang
Department of Economics
Party School of the Central Committee of C.P.C.
Beijing 100091, China
Tel: 86-10-6280-9671   E-mail: hanfeizhang@126.com

Abstract

In all the finance innovations, warrant and its finance relative product will be the new direction. Warrant has the lower risk compared with others, and there is a large quantity of demand for it. In our inland security market, the condition for developing other finance product, such as stock futures and stock option is not mature, so it is a smart choice to choose warrant at first. Warrant is safe, efficient and possible choice. It is propitious to connect with the international market, to provide a new financial tool to investor, to active the market exchange; meanwhile to improve the competition ability of security companies in the international market.

Keywords: Warrant, Practical Meaning, China Security Market

1. Background

1.1 Definition

Generally speaking, warrant is a type of security voucher, which the publisher issues and the holds have rights to buy and sell the specific number security with a given price and in a specific period. The strict definition is that warrant publisher sell the stock buying rights to investors, in other words, the warrant holder has the right (not obligation) to buy a number of stock in the valid period and with the promissory price, and warrant publisher has to give the stock to the holder without any condition. It is a kind of call stock option essentially. In this paper, warrant is the later one if there is no explanation.

1.2 Classification of warrant

With the fast development of multiple innovations, it is the same like other finance products; the sort of warrant becomes multiple. We only introduce some main labels in this paper.

(1) According to the different main publishers, it could be divided into two kinds: Equity warrant and covered warrant. Equity warrant is published by asset publisher (normally it is listed company), the holder has the right to buy stock in the fixed period and with the promissory price from the list company, and the list company has to issue stock to the holder. Covered warrant is based on the exist stock, the stock is not new and has floated in the market, publisher must have the underlying stock and hold as guaranty, and the warrant will be kept by the independent assignee. Covered warrant publisher is normally the security company, investment bank, and it is a high requirement for publisher’s financing and the ability to resist the risk.

(2) According to the right content, it could be divided into put warrant and call warrant. Put warrant is a selling right: warrant holder has the right to sell the underlying asset under the fixed condition: fixed number, fixed period and the fixed price. Call warrant is a buying right: warrant holder has the right to buy the underlying asset under the fixed condition: fixed number, fixed period and the fixed price. Call warrant is a buying option, the proverb in Hong Kong is “friend turn”; on the contrary, put warrant is a put option, the proverb in Hong Kong is “light turn”.

1.3 The development history

Warrant first appeared in the U.S.A, and the first issuer date was 1911 by the American Lights and Energy Company. In 1930s’, warrant had been a financing tool to raise money in company’s merge and acquisition in USA. In 1960s’, bond with warrant was popular in American Company. And in 1980s’, the bond with warrant which was published by Japanese company was fashionable in Europe. It took an important role in oversea financing for Japanese company. Then, the company in Europe and Asia started to adopt this financing tool. Among this, Hong Kong market has become the largest covered warrant market all over the world. At this moment, warrant has been the most popular in the emerging security market. Nearly all the security market own warrant trading except Chinese inland. According to the data from WFE, among the 56 member exchanges, there are at least 42 exchanges which set up different warrant products.
1.4 The development history in oversea market

Warrant is more developed in Europe market and Asian-Pacific market, and the size in America is not large because option had been recognized and accepted by most investors. Frankfurt is representative in Europe market, warrant increased fast from 1999 to 2001, there are 10956, 16841 and 23133 kinds of new warrants which came into the market in the three years, and the covered warrant is in the majority. Warrant exchange separately occupies 1.8%, 1.2% and 2.4% in the market exchange. Hong Kong had 291 types warrant by the end of 2000, and worth 16000000000 HK$. The proportion warrant exchange took in the total market exchange is larger than both New York security exchange and Taiwan security exchange.

At the beginning of 1980’s, the warrant issued in Hong Kong is normally with company bond, and the main purpose is for money collection. In 1990’s, the covered warrant is brought in by the foreign institutions and developed fast. In the Hong Kong market, the warrant trade is quite active. According to the statistics from KBC, Hong Kong warrant market is the first all over the world. The number of warrants which came into Hong Kong market is 1262, and increased 86% compared with the number in 2003, and it is the new record in the history. Warrant market becomes more and more important in Hong Kong investment market. In 2004, the day average exchange in the whole year is 15.9 billion HK$, and it increased 53% compared with 10400000000 HK$ in 2003. The increase in the warrant market speeds over the whole market. The day average exchange is about 2.08 billion HK$ in 2004, the proportion increases at least 91%, which is more than 1.08 billion HK$ in 2003. The average for daily warrant exchange occupies 13.1% in the whole market; the highest exchange in one day takes 25.1%. With the requirement for warrant, other relative products come up. It brings the whole Hong Kong market to a new level, and establishes its unique status in the whole Asian-Pacific area.

From the warrant development history in Taiwan, during the period 1996-1997, foreign investors published the warrant out of Taiwan of which Taiwan stock is underlying. With the purpose of strengthening competition ability and satisfying the requirement, Taiwan security exchange started to develop warrant. The warrant market in Taiwan develops by referring the development experience in Hong Kong fully. So from the very beginning, the stock warrant was abandoned, and only covered warrant was issued. The development did not go on wheels in Taiwan warrant market from the first issue in 1978. In the early open days, the security market was bullish in Taiwan, so investors scramble for issuing security. In the Asian Financing Crisis, Taiwan was affected seriously, nearly all the warrant went down to the lowest, and as a result, investors were not confident in this financing tool. In 1999, stock market renewed, warrant market started to act again. In 2003, there are 19 publishers issued 321 warrants totally, and it was two times compared with 100 warrants in 2002; the issue sum increased from 12.149 billion (in Taiwan $) in 2002 to 30.984 billion Taiwan$. For the present moment, warrant has been the main approach for developing new finance product in Taiwan.

2. The possibility for developing warrant in China

2.1 The market becomes perfect gradually

Dr. Barclay and Mr. Noll (The Creation of Equity Derivative markets: Learning from Experience) research on the derivative market, the investigation result is that the dimension of the derivative market could be the criterion for scaling the derivative market. Stock market develops perfect, and it could be considered as the physical function for developing warrant. First, the proportion security sum takes in GDP goes up year by year. The proportion has increased from 2.93% in 1992 to more than 40% in 2003 and the trend still last and develops. There is a potential requirement for using the derivative product to control the risk in a developing stock market. Secondly, it is necessary to analyze the exchange need for developing the derivative product, the manpower resource and the investment, and a basic market is required. The market size could be from about 30000000000 US$ to 4400000000000US$ if conclude from the covered warrant market, e.g. the market size for developing covered warrant in Taiwan is 280000000000 US$, and now in our security market, the merchandise market size is around 5000000000000US$, it is enough to set up the warrant market.

2.2 The supervise and management system is perfect, the level improves much

The canonical operation and the high management level in our security market proved a firm foundation in building a warrant market. And in recent years, a series of law and code come up, and it forms a self-contained law system, the three-level management system becomes much better and perfect. This three-level contains the follows: the government’s and regulations legally, the self-control in the industry, and self-management in the exchanges.

2.3 Exchange medium and the technology condition are provided

Shanghai and Shenzhen security exchange adopt a suit of system to develop them which contains security trusteeship without paper, intangible trade model, dynamic and real time exchange regulation system and an
efficient information-spreading system. Advanced technology systems decline the market operational cost but improve the market efficiency. The high-automatically exchange supervise system regulation the security exchange in real time and analyze after the exchange, then the system will remind and alarm if there is a unwonted wave or exquisite exchange action, find and deal with the potential risky exchange, and maintenance the exchange order in the market. All these provide a nicer foundation for the exchange warrant.

2.4 The mature experience from other countries, the experiment in the early time

In the developed countries such as the security exchanges in America, England, Germany, especially CBOE, they have rich experiences in stock option market, so many new security markets such as Singapore, Hong Kong also provide the stock option and warrant markets which suit themselves much. All the successful experiences from other exchanges could help us to set up the warrant market in a high level. In our security history, there was a warrant exchange in a small scale, for example, Bao’an warrant issued in 1992, the allotment warrant issued in 1990’s and so on. Although the early warrants were not that satisfied, they still provided the practical experience on issue, list, exchange and regulation. Besides this, there were some institutions made a basic explore on issuing warrant, e.g. Junan security applied to issue Shen Fazhan-Junan 96 covered warrant in 1994, the bench bank of ICBC in Shenzhen applied to issue “Shenzhen ICBC treasury covered warrant” in 1994. Although it can not be issued for several reasons, the principal parts had made a deep research on the covered warrant, and it accumulates rich experience in setting up covered warrant.

3. The effect and meaning to investor

3.1 The jam for the investor in china

According to the security law, stock could only exchange in spot transaction, and fictitious transaction is forbidden. So stock exchange mechanism in China is unilateral call mechanism, and investors can only earn money when the price goes up, so it is a typical “unilateral market”. It may spur the investors over invest or arose short-term behavior, and the market will be in the “call” condition, so it had no choice but to keep on going up. However, the stock index went down when it arrived at the highest in 2001, and 45% had fell down. In the stock market, the failure investors have increased to 90% from previous 80%, and it is nearly bosh that the investors can share the stock development. So the investors do need a new investment tool to change their present trouble.

3.2 Warrant provides investor a new tool for avoiding risk and investment

Warrant can be used for avoiding risk. If the investor has some stock and the price was forecasted to go up, but there still some worries on the wrong, so to avoid the went down risk, the investor can buy a sold warrant with little money. When the underlying stock go down, his gained from the warrant can make up the lost in the fall. When the price goes up, the spot transaction had gained, and the loss is only the money which used to buy the warrant.

Warrant can be used to lock payoff. Just suppose that investor hold S stock and the price had gone to 90 from 80 Yuan, and the payoff is over 10%. There is still a good trend in the mid-long investment, but the investor is worried about the adjustment in the short line. So at this moment, the investor could sell the S stock in the price 90, and buy warrant with the price 5. Even though the price fell in the market, the most losing for investor is the cost for buying warrant--5. But locking the payoff comes true. If the stock still goes up, the warrant the investor has could gain the payoff from the long-term investment.

First of all, the investment consultation institution should have the ability to provide warrant consultation, besides, with the development of covered warrant product, it is propitious to the security businessman in china and training the person with ability in the institution; meanwhile improve the skill on risk management. Secondly, for the investor, there is still risk if invest in warrant. Warrant fluctuates much more over the stock market, if warrant is still out of the price when the deadline comes, then warrant won’t be implemented. The cost invested on warrant will be lost. It is quite complicated to analyze warrant value, because it requests that investor should improve the ability on analyzing risk perpetually.

From figure1, we can see directly an obvious advantage in investing warrant: the lost is fixed up (warrant money), and from the theoretical view, the income may be infinite. It shows the leverage avail in warrant. If the real stock price is lower than warrant price, the embedded value of warrant is zero, and investor will lose all the warrant cost. So buying warrant is a kind of high lever in stock investment, and investor could against others by buying warrant. The leverage in warrant is decided by its specialty.

The payoff model in the past is: buy the stock-the price goes up-sell the stock, and gain the income. When the stock market goes up, then investor can get the payoff only. Warrant could provide a flexible and abundant investment plan to the investor. The investment risk can be control well from the risk estimated angle, and the base line for the investment losing is the warrant price. Especially after developing warrant, the investor could still gain the payoff...
even if the price keeps fall down, and this increase the new model for payoff.

4. The effect and meaning to the warrant issuer

4.1 Meaning to the listed company

Warrant can be seen as a new way to finance for the listed company. The listed company can gain capital by issuing warrant; on the other hand, the capital collected could arrive by stages by issuing warrant in different time. Besides, if the stock price goes up, then investor could use his subscribe exertion so that the listed company can raise funds successfully by the market mechanism.

The financing cost on raising money on warrant is lower than the cost for bond. Warrant can attract investor and reduce the cost. Because if the investor get warrant, then company can negotiate with the investor or consignee when it issue bond or preference bond, so the company will gain the benefit of the low finance cost and the loose proviso. Especially for the corporation who had got a number of owes already, it is always to charged with the increased capital cost if it issues new bond or preference stock. Company can issue new bond or preference stock with attaching warrant so that it can issue without paying a high marginal cost.

Warrant can improve the company governance efficient. Manager’s incentive and restrictive problem could be describing as follow (use the information economic analyze framework): as the client, shareholder wants the manage (attorney) to act for his own benefit goal. Hemmer Kim Verechhia(2000) had proved that the optimization incentive contract is consisted with three parts when manager’s utility function is power function, and the relative risk aversion is 0.5. The three parts are as follow: a fixed income, a part which is relative with the stock price line and a part that income is the incentive part in the stock price increase function. The fixed income is the cash income which is not relative with stock price; the second part is mainly the stock holder in governors. The last part is the income the manager got is a function in the stock price increase. In other words, if the incentive contract evaluated by the stock price can arrive at the preference level, it must contain an incentive element which had protruded characteristic, so the contract is satisfied the request. Although there is a lot of incentive means that contain protrudes, the result in the real demonstration is management warrant. When issue warrant to the manager and connect the manager’s private income with company’s long-term benefit, the manager have not only to take care of the present, but also the company’s future. The theoretical logic is:
risk, the behavior on controlling the stock price for a high reward and the feedback on issuer behavior are the main volatility of underlying stock price reduce. At last, Chan and Wei (2001) think that the issuer behavior on avoiding the risk preference investor have the same function, extending the option can force the stock price going up, and the for using other stocks as the avoiding risk will result on the request for the underlying stock and price goes up; there out, the manager’s maximum private income had combined with the company’s maximum value successfully, therefore it formed a commutative dependence between the two, which ensure the high efficient and benefit in financing decision and implementation.

4.2 Meaning for security company management

Covered warrant provides finance institute, especially the security consignee a good chance to explore operation, and it helps to change the simple variety in security business, and then increase the income source. It contains: (1) It helps to increase the issue and the consign operation. Because the issue price for covered warrant is lower, the occupied capital is limited if there is exclusive selling condition; meanwhile, the lower price decides the limited fall space, thus the losing for the fall is limited; (2) extending covered warrant is helpful to act the security market, improve the fluidity in the market, explore the exchange in the market, so that increase the manage income;(3) increase the self-support income, meanwhile to use it as a tool to avoid risk, elude investment risk, reduce the possible lose in self-support.

In our security market, the single investment variety has existed for a long time, and there isn’t any facility to avoid risk, the only way for the investor is to follow the change in exchanges, and warrant issuer is the amplitude exchanger but not the in directional exchanger. The amplitude is very important for the issuer, and warrant can be considered as a kind of anticipant amplitude. Warrant issuer is double win in academic view.

The most important meaning for institute investor is the lighten security risk. Warrant is the best choice for dealing the risk of falling price, because it allows the holder to sell the stock with the appointed price, and it is advantaged for the holder who holds large number of stocks. The security businessman could also reduce his losing by issuing warrant.

As an important instrument for gaining operation, the security businessman still needs to issue security by exclusive selling balance. As a result, consignee might be forced to have exclusive selling balance. For solving the above problem, it is possible to allow security businessman to issue covered warrant which the exclusive balance has to be under lied. By issuing covered warrant, the security businessman could get the income for issuing warrant; it may abate the capital pressure that is from the exclusive selling; on the other hand, the held stock switched to monetary asset, it could be considered as collecting money and improving the fluidity. Security Company, as the warrant issuer, only needs to help the list company to issue warrant, whether the warrant holder implement warrant or not is not relative with Security Company. It is helpful to relax the risk from exclusive selling and the capital pressure.

5. The effect and meaning on the function and configuration of the security market

5.1 The microcosmic meaning for Chinese security market

The microcosmic configuration is an organic composing part in the exchange function, the microcosmic configuration in the second market will affect the price volatility, fluidity and potential investment and exchange amount. There are three main problems at present, the first is the low exchange fluidity; the second is lack of price finding function, the last is inefficient resource configured. The present condition increases the volatility in the whole market.

According to the reference from abroad, most of the research showed that option stock market might reduce the volatility in stock market. Option exchange open out the future exchange information, and the incentive for the new information increase, so the volatility for underlying stock will narrow. Nathan Associates (1974) researched on the 16 option warrant in CBOE, and he found that option warrant can stabilize the underlying stock. This result is proved by others later. The demonstration research from Haddad and Voorheis (1991), Detemple and Selden (1991), Skinner (1989), Damodaran and Lim (1991) show that, the volatility of underlying stock reduced after the option warrant coming into market. It does not only exist in America, but also be proved in England, Canada, Switzerland and Sweden.

The economist from oversea had explained the effect on the stock price. Ross (1976) first pointed out that the option market could add the market integrity, and the risk the investor faces could reduce, so the requested return will reduce, as a result, the price for underlying stock will go up; next, Harris and Gurel(1986) thing that if one part do not like to exchange in the market, then the other part must finish the exchange with a higher cost, it is called price pressure hypothesis; thirdly, according to the incomplete replacement proposed by Conrad (1989), the unacceptance for using other stocks as the avoiding risk will result on the request for the underlying stock and price goes up; fourth, Detemple and Selden(1991) pointed out under the GEM of single period, when the risk aversion investor and the risk preference investor have the same function, extending the option can force the stock price going up, and the volatility of underlying stock price reduce. At last, Chan and Wei (2001) think that the issuer behavior on avoiding risk, the behavior on controlling the stock price for a high reward and the feedback on issuer behavior are the main
three reasons to force the underlying stock price going up with the warrant issue.

The proved conclusion from oversea market had showed that warrant is valid for improving the underlying stock fluidity, and is helpful to activate the underlying stock exchange. When the investors carry out warrant, the underlying stock will move and float and this could solve some problems in the market. For the institutions who issue the covered warrant, it will do business in the underlying stock market for reducing the risk. It could also change the downturn condition in the market. The better the market condition is, the better the security market operation may works.

5.2 Perfect the market configuration and operation, decrease the finance risk

It is necessary to change the market operation from single financing operation to multiple operations, such as investment, risk management, preference combination and so on. Warrant may help the security market to finish the work. On the other hand, warrant could help us to perfect the exchange policy, and a short mechanism should be set up by the finance relative product. But it is quite difficult to extent it at this very moment in the security market, so we could use the finance relative product as an assistant, and then the risk can be avoided efficient.

Warrant has some price finding capability. Zhou Xingyi(1999) showed by researching Taiwan warrant market that warrant has price finding function, because option market has advantage on some aspect, new information can be reflected on the option price. Manaster and Rendleman (1982) analyzed daily closed price from April 1973 to June 1976, they find that option closed price includes some information which is not reflected in stock price.

After introducing warrant in refinancing, issuer will do their best to improve management quality to raise arranged capital. So we think warrant can make listed company assume some financing risk, restrain cheating trap. In addition to, those good quality listed company may introduce warrant to send signal to market, thus distinguish it with other listed company. So, warrant can bring screening function to play. Warrant can increase attraction of high-tech Company financing, provide convenience to high-tech small and medium enterprise.

5.3 In favor of opening and internationalization

Numerous derivatives are complex in pricing and risk-avoiding, so knowing derivatives well needs a procedure. Warrant is a fundamental instrument; many derivatives are devised on the base of warrant. So warrant is the first step to develop derivatives, developing warrant as soon as possible is advantageous to both security’s company and investor.

Warrant possesses forward, leverage, arbitrage and hedging function, so it is a suitable choice to introduce complex investment instrument to China market. At suitable time, developing warrant is in favor of increasing competitive capability and promoting internationalization.

6. The risk of warrant and avoiding

6.1 Investment risk of warrant

Investment risk of warrant mainly includes several aspects below: (1) credit risk. If warrant holder asks to balance the position, issuer has difficulty in finance, so investors confront credit risk. (2) price manipulated risk. It includes manipulating both underlying stock price and warrant price. (3) Missing expired time risk. If investors can not carry out warrant, then warrant will be cancelled. (4) out-of-the-money risk. If warrant lies in the out-of-the-money situations, the warrant will count for nothing. (5) Time risk. With maturity of warrant, its time value will decrease rapidly.

6.2 Influence and meaning to regulation

Issuing and trading warrant need relevant regulation and law. In the first, there must be a set of regulations, which should stipulate warrant’s attribute, intention, issuing mode and trading rule. At the same time, regulation department should designate special institution to be charged with concrete function, which includes credit inquisition, evaluating issuing scheme, regulating market risk, and controlling exerting phase.

6.3 Influence and meaning to exchange

If issuer is appropriate for various conditions stipulating by institution in charge, then he may apply for trading his warrant. At the moment, exchange should censor going market, which mainly includes going market standard, risk management etc. In addition, after warrant goes market, exchange regulation department need regulate and control according to relevant provision.

7. Conclusion

“Nine articles” requests to develop company bond market actively and reliably; research and explore new variety and its derivative product, which correlate with stock and bond; explore the security product which are low risky
and fixed income liking, so it could provide the investor a safe security variety. In all the finance innovations, warrant and its finance relative product will be the new direction. Warrant has the lower risk compared with others, and there is a large quantity of demand for it. In our inland security market, the condition for developing other finance product, such as stock futures and stock option is not mature, so it is a smart choice to choose warrant at first. Warrant is safe, efficient and possible choice. It is propitious to connect with the international market, to provide a new financial tool to investor, to active the market exchange; meanwhile to improve the competition ability of security companies in the international market.

References
It can be tough at the Top: Some Empirical Evidence from Public Library Leaders

John Mullins
Cork City Libraries, Grand Parade, Cork, Ireland
Tel.: +353-21-4924900 E-mail: john_mullins@corkcity.ie

Margaret Linehan (Corresponding author)
School of Business, Cork Institute of Technology Cork Ireland
Tel.: +353 21-4326542 E-mail: margaret.linehan@cit.ie

Abstract
This paper explores the topic of leadership as perceived and practised by public library leaders. Library leaders have a wide-ranging impact on society but have been largely overlooked as the subject of serious study. Prior to this study, only one small interview-based study and five survey-based studies have been undertaken on public library leaders/leadership — all in North America.

The current study is the most in-depth study to date. Thirty top-level public librarians from Ireland, Britain, and the east coast of the United States were selected for inclusion in this study. This study of the perceptions of senior public library leaders, across national boundaries, makes a theoretical contribution both to the limited extant literature on leadership in librarianship, and the broad corpus of organizational leadership literature. The particular focus of this paper is on the difficulties encountered by the interviewed librarians on public library leadership.

Keywords: Public librarians, Leadership difficulties, Library leaders, Library stereotyping

1. Introduction
This paper presents new findings on public library leadership, based on empirical data from in-depth interviews with thirty senior library leaders in Ireland, Britain, and the United States. The paper focuses on the centrality of leadership to effective librarianship and, in particular, presents a variety of difficulties and obstacles facing library leaders. This study is exploratory, because of the paucity of previous research specifically addressing the issue of leadership in the public library. Library leaders have a wide-ranging impact on society but have been largely overlooked as the subject of serious study. Prior to this study, only one small interview-based study and five survey-based studies have been undertaken on public library leaders/leadership — all in North America. No such study on the topic has been researched and published outside of North America.

Within the limited body of literature on leadership in librarianship, many scholars and practitioners emphasize the centrality of leadership to librarianship. Knott (1997) suggests, “the practice of librarianship is fundamentally a process of leadership” (1997: 30). Susan Goldberg Kent (1996), an American public library director, contends that one of the requisites for public libraries to ‘survive and prosper’ is ‘solid and sound leadership’ (1996: 213). She believes that the public library needs reasoned, outspoken, and well-articulated leadership if it is to flourish in a digital future. Goldberg Kent, however, believes that true leadership is difficult “in an institutional culture that abhors change, which is not an uncommon situation in many public libraries today” (1996: 213).

Wedgeworth (1989) found that library leaders endeavour to ‘make a difference’ rather than just be the ‘head of something’, and Bechtel (1993) suggested that librarians tend to serve the professional needs of others rather than their own work-related needs. Berry (2002) asserts that what distinguishes true leaders among librarians is that not only do they have strong convictions, they pursue them on the job and “they hold passionately strong beliefs about libraries and library service. They are driven by their professional concern that no one should be denied information because of his or her point of view, age, or nature of the information” (2002: 8). Illustrating such a commitment, the director of another American public library, Liz Stroup, for example, stated: “Client-centred service is my passion . . . I want every client treated as if she were my mother” (in Sheldon, 1991: 20).

Glogoff (2001) surmises that the path of librarianship over the first two decades of the twenty-first century does not guarantee that libraries will retain the esteem traditionally held for them by the public. He argues that it requires skilful leadership to pilot a course through the enormous challenges looming ahead. Similarly, Schreiber and Shannon (2001) suggest that libraries now require leadership which moves away from the bureaucratic
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This study of the perceptions of senior public library leaders, across national boundaries, makes a theoretical contribution, not just to leadership in librarianship, but also to the broader theory of library and information science, and to the broad corpus of literature on organizational leadership. The main aim of this work is to contribute to the existing body of literature on the topic of senior library leadership, addressing the acknowledged gap in that field, as the literature on librarianship had traditionally given very little attention to leadership within librarianship (Riggs, 2001; Winston and Neely, 2001).

2. Methodology

The key research question in this study focuses on senior-level public library leaders in Ireland, Britain, and the east coast of the United States. Thirty top-level public librarians were selected for inclusion in this study. Initially, the idea of investigating the perceptions of most (i.e. thirty) Irish city/county chief librarians was considered. In order to broaden the scope of the study, however, it was subsequently decided to include an investigation of library leaders outside Ireland. A decision was then taken to keep the same original total target number (thirty), but to broaden the geographic context by selecting fifty per cent of the interviewees from outside Ireland. While the interviews were subsequently spread over three countries, half of them, rather than one third, were conducted in Ireland for the sake of convenience. The rationale for choosing leaders in Ireland, Britain, and the United States was threefold: (i) their institutions have a long-established and historical culture of providing public libraries funded by public money, (ii) they, along with their peer institutions in other countries, constitute an under-researched group, and (iii) because of their relative convenience of access for the authors. The choice of librarians was influenced by factors such as (i) their relatively high profile nationally, as reflected by their career experience, seniority, public networking profile, and organizational role, (ii) geographic convenience to research itineraries undertaken by the authors, and (iii) availability and co-operation of the library leaders.

Initial contacts for inclusion in the study were made via e-mail. A criterion of qualifying as a research interviewee was that the librarian had to be the top leader, or at least the equivalent of a deputy leader, serving in a public library service. The thirty interviews were conducted in the countries where the participating library leaders worked. Thirty structured questions, based on a review of the relevant research literature, were asked of each of the thirty participating leaders. Most interviews for this study approximated one hour; the shortest was forty minutes and the longest ninety minutes. The thirty interviews were recorded on tape and transcribed to a word processor for subsequent analysis. For analysing the responses, a grounded theory approach to categorizing the data was used (Glaser & Strauss, 1967; Easterby-Smith et al., 1991). Coding in the current study was essentially indexing the interview transcripts, reducing the data to taxonomic classes and categories, and in some cases expanding and teasing out the data in order to formulate new questions and levels of interpretation. Segmenting and coding the data enabled the authors to think about the data, to break the data apart in analytically relevant ways in order to further scrutinize the data. This coding procedure assisted the authors to think creatively when using the data and generated theories and frameworks. The use of rubrics and colour codes facilitated the subsequent task of data reduction. From this process, nine broad thematic areas emerged from the findings. This paper, in particular, focuses on one of these themes, i.e., the obstacles to effective public library leadership.

3. Difficulties Associated with Leading

Heifetz and Linsky (2002: 65) declare, “to lead is to live dangerously”. Howard Gardner (1995) suggests that an exemplary leader “aims so high and carries such burdens” that he or she becomes more prone to the risk of failure, partly because “the greater the accomplishment of the leader” the greater the strain on the leader’s associates. Gardner reports, however, that the exemplary leader “is not thrown by apparent failures”, and must be realistic, because “Whatever our successes, we must all ultimately face our frailty and our limitations” (1995: 289). Hesselbein (1996) suggests that leadership entails “the willingness to remain highly vulnerable”, since “leadership is not a basket of tricks or skills”, but “is the quality and character and courage of the person who is the leader” (1996: 122).

In the current study, the interviewed leaders spoke of a range of difficulties associated with the post of chief librarian, which are analysed under the following headings:

- Paucity of leadership in many libraries
- Onus on library leaders to work long hours
- Leader as a vulnerable person
• Negative stereotyping limiting career prospects outside librarianship
• Toxic or negative leadership
• Miscellaneous difficulties for library leaders.

3.1 Paucity of Leadership in Many Libraries

Berry (1998) contends that “leadership is a relatively scarce quality” which may be due to a tension between a true leader and the organization’s rules, boundaries, and policies. He declares that “there are, alas, plenty of leaderless libraries and plenty of libraries that would be intolerant of that basic quality of the leader — that unwillingness to abide by the structure at hand, that unwillingness not to change”, before he concludes by declaring, “Many enterprises and libraries simply cannot tolerate or accept leadership” (1998: 6). Brosnahan (1999) suggests that the environment in which public sector leaders operate “is generally not conducive to encouraging leadership”. He believes this is due to “an inherent avoidance of risk in public organizations, which in turn tends to discourage innovation and risk taking” (1999: 13). A phenomenon outlined by the interviewees in the current study is the deliberate choice by potential leaders, or staff with obvious ability, not to pursue leadership. Interestingly, the negative responses concerning issues that might discourage librarians from pursuing top leadership positions in librarianship, and claiming that there is a paucity of true leadership among head librarians, were articulated by British interviewees only. The following extracts illustrate why some librarians deliberately choose not to become leaders:

I have a good member of staff who says she is not interested in becoming a leader. She is very intelligent and has a good handle on all of the issues that she manages in the six branch libraries she runs, but she does not want to be involved in strategic policies, or in politics because that is unpleasant sometimes. She has a better work–life balance. People in the next layer down see the challenges at this level and do not want to engage with those challenges. They know that my job has taken over my life, requires so much personal sacrifice, and it upsets my work–life balance. People see the toll pressure takes on their leader. Many people are too smart to want a leader’s job (British Librarian).

London libraries, in particular, have problems recruiting at the moment. There is a lack of leaders. It is partly because of the way the organizations have developed over the last ten years or so, and we have taken on a role of management in the second stage up. Often, where we have librarians at an enquiry desk and managers at a fairly high level, there is very little in the way of progression for people to come up the system. What tends to happen is that the highfliers fly, and have flown, while the low-fliers, the ones that don’t want to move out, stay where they are. Often, staff tend to be parochial within their library authorities. They do not want to move even short distances. People become settled (British Librarian).

Another interviewee suggested that good leadership is not necessary a corollary of good professional librarianship:

Some librarians are very good professionals but are lousy leaders. Leadership skills are distinct from the skills of librarianship; therefore, the assumption that a good library professional can be a good leader is not always true (British Librarian).

The scarcity of good librarians offering themselves for leadership positions, as reported in the study findings, might indicate a self-realization on the part of many library professionals that they may not have the capacity to become good leaders. Such perceptions, which may be founded on realistic self-assessment, together with personal lifestyle decisions not to pursue positions of leadership, might be a factor contributing to the reported dearth of quality leadership candidates.

3.2 Onus on Library Leaders to Work Long Hours

One in five of the interviewed library leaders related that they are effectively required to work inordinately long hours, in an effort to adequately or properly address what they considered as an expanding burden of duties. British librarians referred to the widening of their work portfolios since local government structures were reformed in the 1970s. That restructuring rationalized many local government posts, amalgamating diverse new functions, for example, for public librarians who assumed additional non-library functions, such as, responsibilities for arts, museums, and archives. Reductions in the number of strategic personnel in libraries also increased the need for longer workdays for chief librarians. The following extracts from some participants illustrate this:

I normally work sixty to seventy hours per week, but I get paid for only thirty-five of them, and that is the pace I work at. Everybody else works thirty-five hours. I work at the weekends, not in here, but maybe at a branch. I tend to come into work after 7.00 a.m. and often I work two or three evenings a week if I have a commitment to go to a work-related meeting or function. Running the public library service is one of the jobs that I do, but I also run community education and I run the museum service, school libraries, and the cultural sector. So, I have five areas.
I have some team leaders, but I have about two hundred staff altogether across those five service areas. I am a librarian that came up through the ranks of managing the public library service, and now, with the restructuring and the emphasis on lifelong learning being amalgamated, I ended up being interviewed for a job I got which brings all five service areas together. I don't like the multi-functional job I do now, because I am a chartered librarian and librarianship is what I am good at, but the job that I do now has become so diluted. I have five hats on at this level and it is the dilution of the things that I love with all of the things that I don't like (British Librarian).

My remit is wider than libraries; it includes museums as well. I work about fifty hours a week. I am trying to be a bit more sensible. I do take work home, but trying to get sufficient blocks of time outside the office is difficult (British Librarian).

I put in extra hours. Usually my days stretch beyond straightforward hours from 9.30 to 5.00, but that goes with the job. If there is something important going on after office hours I would be there for it (Irish Librarian).

Despite the fact that I am away a lot, none of my staff works longer than the amount of hours I spend working. Many people believe that the way I work, like putting in the extra hours, is not the way to work (Irish Librarian).

The commitment of participants to their careers effectively requires them to work long hours, as illustrated in the above quotations. As extra duties have been added to the post of chief librarian over the last number of years, there is a danger that inadequate time is available for strategic leadership of public libraries. This issue requires to be addressed by public library authorities. The above examples illustrate an increasing burden on chief public librarians, who also complained that an increased amount of administration dilutes their application both to librarianship and to leadership. Interestingly, none of the American participants mentioned anything about pressures of having to work long hours due to work demands. Further study should investigate if American staffing structures might have higher ratios of senior management staff to deal with strategic issues.

3.3 The Leader as a Vulnerable Person

Elliot Shelkrot, director of the Free Library of Philadelphia, who emphasizes the centrality of effective listening and interpersonal skills for gaining staff commitment, suggests that “Vulnerability is the key to good communication” and he admits to always having had a “certain lack of self-confidence — particularly when starting a new job” (in Sheldon, 1991: 25).

Avolio (1999), however, sees leader vulnerability as a positive challenge for leaders. He also believes that a leader’s management of vulnerability can foster transformational relationships. Various aspects of leader vulnerability were discussed by many of the participants in this study. The thirty interviewees affirm that the modern library leader is far from omnipotent when dealing with staff. Instead, vulnerability is seen not only as an attendant condition, but also as a desired quality of a library leader.

Being vulnerable is also a helpful thing as it helps leaders to avoid taking unnecessary organizational risks. If leaders do not feel vulnerable, they need to question what they are doing. Without feeling vulnerable, leaders are likely to go off on uncritical paths and then find themselves in troubled scenarios. I would always try to run ideas or plans through staff, to weigh up the pros and cons, before implementing plans. This contributes to participative leadership (Irish Librarian).

Interviewees who contributed to this study also spoke of the vulnerability of leaders before they gain experience at the top level. In the absence of a template for leadership, librarians need to learn their leadership skills in real situations, even if that means learning from mistakes:

Leaders learn best in the deep end. That is in the real situation after being appointed to a leadership position. When I was appointed librarian, I really wondered if I would be up to the job; I began to doubt by abilities. As time went on, however, I found myself learning leadership on the job. What one learns on the job is so important and it is something you can learn only when you are operating in the deep end. It is like driving a car; the only way to learn is when you are in the driving seat (Irish Librarian).

The more experience you have the better leader you are. I took that job of chief librarian when I was quite young and I learned some things the hard way, and I made some mistakes. I can see where I made mistakes now. I made mistakes with people and systems. I will not make them again (Irish Librarian).

The findings from the current study, regarding library leaders feeling vulnerable when at the receiving end of negative attention from staff, confirm Henington (1994) who reported similar experiences from America:

One of the things I have learned about being a Director is that you can’t please everyone and you have to understand that not everyone will like you. This goes with the job. If you have to make tough decisions, then
those decisions are likely to offend or upset one group or another. That’s life and that’s why we get paid the big bucks (Goldberg Kent, in Henington, 1994: 102).

3.4 Negative Stereotyping Limiting Career Prospects Outside Librarianship

Forty per cent of British interviewees expressed frustration over bureaucratic restrictions and they also raised the issue of their own failures to change to careers outside of librarianship. They had discovered, when applying for senior posts outside of librarianship, that they were not considered suitably experienced candidates for employment in those careers, due to negative stereotyping of librarians as organizational managers. Because of external stereotyping of library leaders, librarians argued that they are effectively limited from pursuing personal career development outside librarianship:

The head librarian’s post is not high status and it is not highly paid. Employers do not recognize the transferable skills that we have and people have the stereotypical image of the librarian as not being very dynamic, proactive, manager/leader material, charismatic, and all of those things that the private sector have. We are not blessed with that image, and that image is damn hard to shake off. People assume that the entrepreneurial spirit resides exclusively in the private sector, so we do not appear to portray or cultivate an entrepreneurial image in the public sector (British Librarian).

One American interviewee suggested:

Other librarians also reflected on difficulties associated with negative stereotyping of library leaders by private sector managers. The interviewees believed that this effectively forced librarians to remain in the same career, even if they found this frustrating due to financial constraints on service development:

Development of the service is constrained mostly through lack of staff and other resources, which encroaches on my time a lot because of the lack of staff. I wish I had many more professionals, including a programme director whose job I have to do (American Librarian).

Many people need library services, but community officials, legislators, and the general public are not willing to fund the service at the right level. A library service needs more than just a few thousand dollars. People just do not realize the cost of books, the cost of staff, and the demand for qualified staff. There are just so many things they do not understand and they just do not care (American Librarian).

A librarian in the London region mirrored the same lack of personal career prospects for library leaders outside the career of librarianship:

I enjoy what I do, but as I rise up the ladder it becomes more difficult to leave, since wherever else I go I would tend to go in at the bottom of any scale — and in the meantime I have a family to support, so that isn’t an option (British Librarian).

Interestingly, one librarian, who took five years out from the profession and worked in a private sector firm before returning to public librarianship, contended that training in the private sector was more demanding, as it was more proactively results oriented. He expressed a difference of approach between the private and public sector professions:

I worked in a private company, and working for a private limited company affects your mindset. It makes you become quite sharp at making decisions and looking at areas where we are wasting money or wasting time. That type of training has made me impatient, and it trained me to deal with the specific issue. Since then, I deal with a point and then move on (Irish Librarian).

In general, the participants reported that people working in the private sector typically do not associate organizational entrepreneurship with librarians. The participants believe that this contributes to negative stereotyping of librarians, particularly if they apply for careers in the private sector.

3.5 Negative or Toxic Leadership

Carson, Carson, and Phillips (1997) observed that, regardless of rank, there is always someone to whom people must answer to, but, “undoubtedly, one or more of these ranking administrators will be quite difficult to work with. In fact, one or more of them may be considered to have a difficult, if not a defective, personality” (1997: 158). The far-reaching, all-pervasive, and organizationally devastating impact of a defective leader was also articulated in the interview data. This brief quotation pithily sums up the immeasurable negative consequences of toxic leadership:

A bad leader can ruin a generation of staff (Irish Librarian).

This coincides with Ghoshal and Bartlett (1998) who contended that leaders have huge moral responsibilities over a generation of individuals and, therefore, make a major positive or negative difference to a society — a society of
staff, customers, and related stakeholders. While the library leaders in this study did not articulate negative concerns for their current superior officers, they did share accounts of defective leadership traits in other chief librarians, both among their current peers and previous bosses at chief librarian level. The following quotations illustrate these experiences:

*I had head librarians whose management style I would not agree with. I recall behaviours that I would not want to do or to replicate. I worked in organizations where you would be transferred from one service point to another in a day, and out of it again the next day. I worked in organizations where the leader sat inside a locked office at all times, and would not talk to you unless you were a senior member of staff. I worked in organizations where the so-called leader sat in her ivory-tower office and never left it to talk to staff in branches* (Irish Librarian).

The same interviewee affirmed the need for good leaders:

*While good leadership is a major factor in determining organizational success, if the leadership is not the right type of leadership, this has a seriously negative effect. . . . Where a leader is negative, negativity is transmitted throughout the organization* (Irish Librarian).

Critical comments on negativity from leaders were articulated by other interviewees also:

*An autocratic leader in a library service prevents the organization from working effectively* (British Librarian).

*Excessive exercising of power and control and not being willing to delegate are among the worst traits of a bad leader* (Irish Librarian).

Carson, Carson, and Phillips (1997) observed that a leader, rather than an employee, with a negative profile is much more damaging to an organization as they have “the legitimate power of their offices to influence an organization’s direction”, and they declare, “most people with sociopathic tendencies don’t typically wind up in prison — in fact, many wind up in the cushioned leather chairs of administrative offices” (1997: 158, 161). Carson, Carson, and Phillips add that, “trying to change sociopathic library administrators is impossible — it can’t be done”, and colleagues who attempt to change them can “be setting themselves up to be scapegoated, victimized, abused” (1997: 162).

As no system is in place to easily dismiss problem or negative leaders, such as where a chief librarian would normally be appointed only for a limited contractual period and would be required to compete for reappointment after a specified number of years, very little can be done to stop the tenure of a seriously negative library leader. This is a matter that might usefully be addressed by library parent bodies.

### 3.6 Miscellaneous Difficulties for Library Leaders

Various difficulties or challenges for leaders were articulated throughout the interviews. These challenges were too varied to classify under collective headings, but, some of these are represented in the following quotations from the interviewees. Professional frustrations arising from difficulties associated with the lack of effective internal communication were articulated:

*You can communicate lots but people do not necessarily hear or read what you communicate* (British Librarian)

*In every organization that I have worked in, including this one, our communications are far from perfect. Communicating is one of the things that we are worst at and it is one of the things that we recognize that we need to be good at, and it is one of the things we try to address, but communication is one of the things that we do not address sufficiently* (British Librarian).

Some of the miscellaneous difficulties facing today’s public library leaders arise from the larger external environment, such as cultural or societal changes, which have undermined traditional patronage and autocratic control, sometimes resulting in apathy:

*Nobody today is dependent on the director for their job. The Jack Welch style of strong leadership is difficult to use in modern contemporary library organizations. Challenges to a leader can result from labour unions, and other issues, like high levels of competencies, specializations and so on that strengthen other people’s relative positions in organizations* (American Librarian).

*Apathy from the general public is a major constraint on library development. There is a lot of apathy here in America today for the public library service. There is a lack of interest. There is a lack of commitment. There is a lack of understanding of what a library is and what it does* (American Librarian).

Increased leadership pressures also arise due to threats from external organizational environments:

*I do feel, all of the time, we are fighting a battle to bring more and more people into the library because there are so many other elements out there competing against us* (Irish Librarian).
Two British librarians complained of bureaucratic constraints that frustrate their efforts to develop their services:

*Our council is a controlled organization. Council management does not allow autonomy to librarians. Within the bureaucratic framework I try to empower staff, but there is not much room to manoeuvre* (British Librarian).

*Trying to carry things forward has been frustrating and I need to remind myself that I do not need to get frustrated* (British Librarian).

Another difficulty associated with leadership in the public sector is that financial or material bonuses cannot be offered to employees. One leader said that all she can do is to show appreciation and gratitude as a substitute for more concrete inducements. Overall, however, the leaders interviewed for this study were optimistic about leadership in public libraries, despite the variety of difficulties. The quotations on leadership difficulties above emerged at random throughout the research interviews, rather than from specific questions.

4. Discussion

The findings in this study suggest that leadership is a broad and complex phenomenon. The interviewed leaders articulated that leadership is an essential organizational skill but one without a formula, that is, with ‘no absolutes’. Analysis of the data revealed, overall, that respondents were not acutely focused on leadership as a phenomenon distinct from management. The findings suggest that some interviewees were focused on bureaucracy and management, rather than on innovation, creativity, vision, and other areas associated with classical leadership.

A core finding in this study supports arguments in the literature suggesting a widespread dearth of leadership practice in public librarianship. One Irish and five British librarians articulated that: ‘many head librarians are not making the changeover from librarians to leaders’, ‘Some library chiefs do not have the mental picture of themselves as real managers or leaders’, or ‘they are books people, sometimes they are authors, but they are not leaders’. Additionally, an increasing amount of administration duties for chief librarians is seen as diluting their application both to librarianship and to leadership.

All thirty respondents discussed constraints on their organizational leadership, but added that one of their functions was to challenge and overcome obstacles. One constraint common to all respondents was the lack of adequate financial resources and staffing levels. The participants argued that leadership ability counted for little in the absence of adequate resources. Overall, librarians complained about an increasing amount of bureaucracy, regulation and administration. Apathy from the general public was an issue that hampered greater investment in resources. Another reported difficulty was the lack of continuity arising from career changes among senior local authority personnel. Trade unions occasionally challenge leadership plans or decisions. Sometimes political constraint/interference could obstruct a librarian’s leadership strategies. Some respondents complained of inadequate time for attending to their workload. Staff incompetence was also seen as an issue that hampered organizational effectiveness. The apparent common acceptance of the relatively low public profile of libraries, despite libraries being such a widely used public institution, was seen as an obstacle to the adequate financing and development of libraries. The ongoing necessity of having to repeatedly remind suppliers and other stakeholders to respond to administrative requests was described as an obstacle that wasted much time and effort for leaders. Libraries that did not provide sufficient numbers of strategic posts were also seen to limit career development strategies for prospective library leaders.

The librarians saw public libraries, as ‘the bastions of social inclusion’, and as a key contributor to the well-being and development of society. All thirty respondents shared these sentiments, affirming that libraries ‘can make a difference in people’s lives in terms of improving their personal situation, whether that is in a better job, better health, or enhancing their lives generally’. Libraries were also seen as agents of local cultural change. This effect was also viewed as a counter culture to possible negative social environments, such as localized criminal cultures among young citizens. The librarians are very conscious that the future of libraries should be a catalyst for adding value to individual and societal worth.

When investigating the respondents’ professional priorities, one librarian replied, ‘You can reduce all library management to two things: people working in the library must love books and love people’. This view sums up the thrust of the responses from the thirty library leaders as, overall, they focused on serving the public an on supporting staff. While contributors agreed that ‘the two most important things about a library culture are delivery of service and inter-staff relations’, a constant theme underlying these priorities was the library’s traditional and staple service product: ‘Our core business is libraries, books, and information’. Despite a multiplicity of constraints articulated in the empirical findings, all participants expressed optimism for overcoming most obstacles through leadership skills.
5. Conclusions

Notwithstanding the variety of difficulties outlined above, but in agreement with Berry (1998), the findings conclude “When an organization has true leaders and can tolerate them, it succeeds like no other. I guess that is why leadership is still, as it should be, the holy grail of librarianship” (1998: 6). One of the objectives of this study was the exploration of current leadership theory in the context of public librarianship, subscribing to Bass’s (1990) assertion that “One cannot understand leadership in a vacuum” (1990: xii). Arguments throughout the study support the centrality of leadership for optimal strategic and operational practices in the field of public librarianship. The above findings, however, illustrate that there are many internal and external obstacles which public library leaders have to contend with on an ongoing basis.

Despite the variety of difficulties outlined above, the interviewed librarians typically expressed a determination to overcome whatever obstacles they encounter and to continue in a profession which they see as playing an integral and significant part in the social and economic development of their communities. Intrinsic worth of the public library service was articulated as a strong motivator for library leaders to overcome obstacles so that they might positively impact on people’s lives, through a career that they see as inherently enriching for themselves as well as the public they serve.

References


The Macro Determinants of M & A Timing in China

Jing Wang
Economic department, Ocean University of China, Qingdao 266071, China
E-mail: sophiafinance@163.com

Abstract
The timing of M & A is the important aspect of M&A theory. In recent years China's mergers and acquisitions rapidly developed, while there was rare in-depth analysis and scientific verification of the affecting factors of the increasing acquisition. In this paper, according to the subject research in the global, we do empirical test of the macroeconomic factors that may affect the corporate acquisition, and we find that economic growth, interest rates, money supply, exchange rates will affect the number of China’s corporate mergers and acquisitions, while the relationship between the M & A and the stock market and economy freedom are not significant.

Keywords: Corporate mergers and acquisitions, Macroeconomic, Empirical Study

1. Introduction
Since 1993 China launched the first M & A, up to now it has been almost 15 years. Especially since 1996, the number of M & A has grown significantly year after year. While the amount and scale of the Global M & A activity decreased largely, the rapid increase of China's M & A draws our great concern. As shown in table 1.

Table 1. The amount of Chinese enterprises’ M&A from 1995 to 2006

<table>
<thead>
<tr>
<th>year</th>
<th>amount</th>
<th>year</th>
<th>amount</th>
<th>year</th>
<th>amount</th>
</tr>
</thead>
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<tr>
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<td>1</td>
<td>1999</td>
<td>84</td>
<td>2003</td>
<td>170</td>
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<tr>
<td>1996</td>
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<td>1997</td>
<td>33</td>
<td>2001</td>
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<td>266</td>
</tr>
<tr>
<td>1998</td>
<td>70</td>
<td>2002</td>
<td>168</td>
<td>2006</td>
<td>1411</td>
</tr>
</tbody>
</table>

Data resource: <China security newspaper> 1996-2007

Fluctuations of the corporate mergers and acquisitions wave require mergers and acquisitions theory to make full explanation. As corporate mergers and acquisitions in the global economy are playing an increasingly important position, there is more and more analysis of the M & A macro-factors.

Nelson (1959), according to the data analysis from 1895 to 1956, found that there were significant relation between merger and acquisition activity and the economic cycle, the industrial output value, stock prices, stock transactions and the industry merger, and pointed out that in active merger and acquisition activity the positive relation between M&A and stock prices are more significant than it between M&A and the industrial output value.

Melicher, Ledolter, Antonio (1982) through the analysis found that the relevance between M&A activity and industrial output, the number of bankrupt enterprises were weak, while the relevance between the M&A activity and the stock and bond yield in the capital market were strong. High stock prices and low bond yields can predict the future as merger and acquisition activity indicators. Through the data analysis from 1951 to 1959 Michael Gort found that the correlation of the M & A activity and the stock price did not exist obviously.

In his doctoral thesis, Chung, Kwang S (1981) did empirical test of the conglomerate mergers from 1957 to 1977, and found that products expansion conglomerate merger can have a good explanation using the gross national product and the cost of capital, and the pure conglomerate merger depended more on high-risk enterprise risk premium and the degree of monetary tightening.

Becketti (1986) stated that the current M&A activity and the previous stock price index, capacity utilization and total debt related positively, while the M&A activity and the past discount rate of treasury note, gross national product were negatively correlated.

George Bittlingmayer (1987) treated corporate mergers and acquisitions as way of investment, and certificated that there were correlation between M&A activity and industrial production, research and development expense, productivity, and noted that in many countries there existed a positive correlation between the M&A activity and the overall amount of investment.

Globe, White (1993) according to the data analysis in 1895-1989, confirmed the M&A activity showed the characteristics of waves and pointed out that M & A activity was affected by the changes in the market, the cost of capital, the tax system, and other factors.
Geraldo, Rechard (1996) analyzed the cross-border enterprises M & A in the United States and Canada in 1982-1990, and found that bond financing costs and price-earnings ratio of companies made a greater impact on mergers and acquisitions, the impact of stock prices and exchange rate changes towards M&A were relatively small.

In China, the study of macro factors affecting M&A activity is relatively rare. Gu Wenjun (2003) compared the GDP and the two waves of enterprises M&A activity in 1953-1997, and found that in this period the acquisition of Chinese enterprises and the economic cycle showed a non-positive correlation. Li Ruihai, Chen Hongmin, and Zou Lirui (2006) did simple comparative analysis of the M&A above 1 million U.S. dollars and GDP growth, Shenzhen and Shanghai average index, the economic freedom in 1999-2004, and concluded that for China, M&A activity and economic growth rates, economy freedom were positively correlated, whereas the relevance between M&A and the stock price index was not significant. In his doctoral thesis Shaoxiang Tang (2006) made use of different time series analysis of the M & A transactions amount in 1998-2005, drew conclusion that from the long-term perspective, there were long-term balanced relationship between China's overall M&A activity and stock index, interest rates, Money supply and exchange rate, while in the short term, M&A shows negative correlation with stock index , significant negative correlation with interest rates, a weak positive correlation with money supply ,and negative correlation with the exchange rate, but not significant. But the article did not make a detailed explanation towards the transmission mechanism of the M&A and the exchange rate and money supply.

With previous research results, the paper does empirical analysis of China’s M & A amount from 1996 to 2006, with a view to reveal the macro factors affecting China's corporate M & A.

2. Variable selection, data and model description

2.1 Research assumptions

To facilitate the exposition, we make the following assumptions:

Assumption 1: M & A activity and economic cycle correlate positively. At the time of Economic prosperity, corporate remain optimistic attitude to future economic and market outlook, and actively expand its operations. Takeover of the target enterprises, as a low-cost quick investment, is welcomed by all enterprises. The economic downturn is just the opposite. Enterprises have little confidence towards the future prospects, will contract production, and reduce acts of mergers. Here the gross domestic product as representative of growth in the economy. Assumption 2: M & A activity and the stock market show a positive correlation. In general, when the stock market is in a bull market, investors have a good expect of the future operation of the listed companies, and the listed companies will have adequate will to expand its operations by M&A activity, and cash merger and shares merger will in turn promote the rise of stock index. Here we use the Stock Exchange composite index to reflect situation of the stock market. Assumptions 3: M&A activity and the degree of monetary tightening have a positive correlation. When the money supply is relatively tight, without sufficient funds, SMEs (small and medium enterprises) will face higher financing costs, while for large enterprises in good standing, the risk premium investors demanding is relatively small and the cash flow to them is consequently large. At this time, SMEs will often become acquisition targets. Here we use the money supply as the extent of monetary tightening. The smaller money supply shows the larger extent of monetary tightening. Assumptions 4: M & A activity and currency exchange rate changes have positive relations. Domestic currency appreciation, on the one hand would cause a large inflow of international capital, such capital through mergers and acquisitions to participate in the operation of domestic enterprises, with a view to obtaining profits, on the other hand the cost of foreign acquisition for domestic enterprises will also reduce, stimulating the acquisition of foreign companies. Assumptions 5: M & A activity and the level of interest rates correlate negatively. Investment opportunities depend on the cost of capital. High cost of investment means that fewer investment opportunities. The interest rate level reflects the price that the enterprises must pay for their finance. The higher interest rates, the higher cost the enterprises must pay for their M&A and the investment opportunities through M&A would also be smaller. Use semi-annual loan interest rates to reflect the level of interest rates. Assumptions 6: M & A activity and the degree of economic freedom are positively correlated. The higher level of a country's free market, the bigger possibility of the enterprises to effective allocate resources through M&A approach, then the more active the M&A between enterprises. Here use the economic freedom index co-prepared by the Heritage Foundation and the "Wall Street Journal," to indicate the degree of economic freedom.
2.2 Variable selection

Usually the overall deal size is demonstrated in two ways, namely, the number of mergers and acquisitions transaction amount. Due to data availability and comparability, we adopt the number of M & A transactions as the overall size of the acquisition.

According to this paper ideas and hypotheses, the interpretation and definition of the variables involved in the paper can be seen in Table 2.

<table>
<thead>
<tr>
<th>Variable</th>
<th>definition</th>
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<tbody>
<tr>
<td>MA</td>
<td>the number of enterprise M&amp;A activity</td>
</tr>
<tr>
<td>GDP</td>
<td>gross domestic product</td>
</tr>
<tr>
<td>STOCK</td>
<td>the average of the highest point of the Shanghai Exchange Index and Shenzhen Exchange Index within one year</td>
</tr>
<tr>
<td>M2</td>
<td>sum of narrow money and time deposits, savings deposits and foreign currency deposits</td>
</tr>
<tr>
<td>EXRATE</td>
<td>the medium price of 100 dollar exchange for RMB</td>
</tr>
<tr>
<td>R</td>
<td>six-month loan rates</td>
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<tr>
<td>ECFD</td>
<td>economic freedom index produced by US Heritage Foundation</td>
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</tbody>
</table>

2.3 Samples and data sources

We use the 1996-2006 annual data, after relevant data processing from "China Securities News". GDP data stem from the National Bureau of Statistics website. The data of interest rates, stock index, exchange rate and money supply come from the site of the People's Bank of China Annual statistics, with economic freedom from the Heritage Foundation website. We use SPSS13.0 for statistical analysis.

M&A data base on the date of the declaration. The inter-departmental merger study found that before several months the merger agreement announced the merger information will appear in the market. Therefore, we make average of the former and current value of all the independent variables. Furthermore, in order to facilitate the statistics, we will take all the variables of data on the number of natural log.

2.4 Model description

Based on the above assumptions, we establish the following regression model.

\[
\ln(\text{MA}) = \beta_0 + \beta_1 \ln(\text{GDP}) + \beta_2 \ln(\text{STOCK}) + \beta_3 \ln(\text{M2}) + \beta_4 \ln(\text{EXRATE}) + \beta_5 \ln(\text{R}) + \beta_6 \ln(\text{ECFD}) + \epsilon
\]

3. Empirical analysis and results

3.1 The description of the statistics characteristics

Table 3. The descriptive statistics of all the variables in the samples

<table>
<thead>
<tr>
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<td>STOCK</td>
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</tr>
</tbody>
</table>

3.2 The empirical result

3.2.1 Model fitting degree and significant test

Before we get the positive results, we must firstly determine whether the model is appropriate. According to fitting degree from the model (Table 4), the correlation coefficient \( r = 0.996 \), \( R^2 = 0.983 \), adjusted \( R^2 = 0.983 \), all of which
demonstrate that the sample regression model is highly representative. Furthermore, $F = 117.054$, $p <0.001$, the model is significant. We can conclude that these independent variables can explain the dependent variable. Therefore, we can use the model for analysis.

<table>
<thead>
<tr>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of The Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.996</td>
<td>0.992</td>
<td>0.983</td>
<td>0.172511</td>
</tr>
</tbody>
</table>

Table 5. Variance analysis table

<table>
<thead>
<tr>
<th></th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>17.418</td>
<td>5</td>
<td>3.484</td>
<td>117.054</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>0.149</td>
<td>5</td>
<td>2.976E-02</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>17.566</td>
<td>10</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), GDP, M2, EXRATE, R, ECFD
b. Dependent Variable: MA

3.2.2 Positive Results

Table 6 results show that at 1 percent of the significant level, the exchange rate level has significant impact to corporate mergers. The coefficient of -0.577 indicates that the appreciation of the RMB has positive relations with the enterprise merger activity, which verified that the assumption 4 is applicable in China.

At 5 percent of the significant level, the interest rate variable passed through the test. The regression coefficient of -1.561 told us that the level of interest rates and changes in merger activity showed reverse relation that is, the lower the interest rate level, the more active corporate merger activity, which assumed that the assumption is appropriate for China.

At 10 percent of the significant level, the independent variables of GDP and money supply also passed through the examination. The GDP regression coefficient is 4.015, showing that the higher level of the domestic economy, the more active merger activity, proved the applicability of assumption 1 in China. The money supply regression coefficient is -4.822, which indicates that the money supply and business merger activities came into a reverse relation. It means that the tightened money supply stimulated merger activity, which made the assumption 3 was verified in China.

However, assuming 2 and 6 did not pass the test. From Table 7 it can be seen that the Stock variables did not enter the equation, this shows that M & A activity is not significantly affected by the changes of stock market. Although economic freedom variable came into the equation, it did not pass significant test, which also showed that business merger activity has not significantly affected by the level of economic freedom.

Table 6. return to the correlation coefficient table

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>532.627</td>
<td>123.902</td>
<td>4.299</td>
<td>.008</td>
</tr>
<tr>
<td>GDP***</td>
<td>15.189</td>
<td>7.204</td>
<td>2.108</td>
<td>.089</td>
</tr>
<tr>
<td>M2***</td>
<td>-12.695</td>
<td>5.988</td>
<td>-4.822</td>
<td>-2.120</td>
</tr>
<tr>
<td>Exrate*</td>
<td>-72.599</td>
<td>15.182</td>
<td>-4.782</td>
<td>-3.816</td>
</tr>
<tr>
<td>R**</td>
<td>-9.564</td>
<td>2.506</td>
<td>-1.561</td>
<td>-3.387</td>
</tr>
<tr>
<td>Ecfd</td>
<td>-12.163</td>
<td>6.070</td>
<td>-2.48</td>
<td>-2.004</td>
</tr>
</tbody>
</table>

a Dependent Variable: MA

b Variables which enter into the equation are GDP, M2, EXRATE, R, ECFD. Variable which do not enter the equation is the variable Stock. *, **, *** were expressed at 1%, 5% and 10% of the level significantly.

Table 7. The variables which do not enter the equation
4. Conclusions and inspiration

After we looked back the past 11 years of mergers and acquisitions of Chinese enterprises, we found that:

(1) M & A activity responded to the gross domestic product. In recent years with the domestic economy rapid development, China’s merger and acquisition activity has greatly increased. This coincided with Nelson (1959), Chung, Kwang S (1981). It can prove that economic development will stimulate and promote merger and acquisition activity.

(2) Stock index and M & A activity showed an insignificant relation. It is totally different from Nelson (1959), Melicher, Ledolter, Antonio (1982), but similar to Michael Gort, Geraldo, Rechard (1996). We can interpret it from two prospects. Firstly, compared to the international capital markets mature, China's policy has strong influence on stock market, therefore stock prices can not be viewed as a business activity indicator. Secondly, before the split share structure reform, the stock market's outstanding shares are only small part of all company stocks, and consequently plays limited role in business decision-making.

(3) M & A activity and the money supply showed a negative relation, different from Tang Shaoxiang (2006). We believe that the money supply shortage means that the monetary tightened, and it makes Chinese SMEs more difficult to obtain bank loans, and direct financing channels are very limited, which makes them easily mergered by large enterprises.

(4) M & A activities and the exchange rate have a significantly positive relation, inconsistent with Geraldo, Rechard (1996), Tang Shaoxiang (2006). It is related with the currency appreciation cycle. On one hand due to expected appreciation of the RMB, a great amount of “hot money” flew into China, and the acquisition of foreign capital has suddenly increased, on the other hand, the appreciation of the RMB also stimulated the Chinese enterprises to go abroad to merge and acquire foreign enterprises.

(5) M & A activities and level of interest rates show an inverse correlation, consistent with Becketti (1986). In recent years in order to stimulate investment, China continued lowering interest rates. It reduced the cost of corporate mergers and acquisitions, making large-scale mergers and acquisitions more possible.

(6) The relation between M & A activity and the level of economic freedom is not significant. This is not consistent with our assumption before. This possible explanation is that the economic freedom index published by the Heritage Foundation's is not very good at reflecting the level of the true situation in China. The level of economic freedom in 2001-2005 was not as high as it in 1997, inconsistent with the actual level. This may be one of the reasons why it did not pass the test.

Through the above analysis we can draw that, in recent years China's rapid economic growth, excessive money supply growth, the appreciation of the RMB and a lower level of interest rates jointly promote the corporate mergers and acquisitions. And in the next few years, the expected appreciation of the RMB is likely to encourage enterprises to increase the merger activity, while under high inflation risk the uncertainty of the economy prospect especially, money supply tightening and high possibility of increasing interest rates may also be factors inhibiting the corporate merger activity.

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Categorizing Consumers’ Buying Behavior: A Factor Analysis in Consumer Durable Market

Bhagaban Das
Reader, P.G. Department of Business Management
Fakir Mohan University
Balasore, Vysa Vihar
Orissa 756019.
E-mail: bhagaban_fm@yahoo.co.in.

Sangeeta Mohanty
Associate Professor, Academy of Business Administration
Biju Pattanaik University of Technology
Balasore, Orissa.
E-mail: sangeeta_mohanty@rediffmail.com.

Nikhil Chandra Shil (Corresponding Author)
Senior Lecturer and Assistant Proctor, East West University
43, Mohakhali C/A, Dhaka – 1212
Bangladesh.
E-mail: nikhilacc@yahoo.com.

Abstract
Consumers' buying behavior is divergent and situational. For durable products, such behavior got different dimensions again. To make the study simple and informative, color television is used to represent the consumer durable markets. Television, as a product, is getting the status of essential commodity all over the world. The potential of TV market is indeed quite enormous. The Indian consumers were indifferent in choosing the brand since a lot of close substitutes were available in the market. However, they have changed ever since the India liberalized its economy. Choosing the right brand of television is difficult enough when there were half a dozen brands and all of these claimed to give excellent picture quality. Marketing managers are interested not only in the product but also the behavior of the consumers because it gives them the right orientations for product development and positioning. The level of consumer's satisfaction provides the scope for repeated purchases and brand loyalty that lead to optimum profitability. This research finds that consumers' perception on buying color television is mostly affected by the factors, such as, structural add-ons, words of mouth, technical features, durability, ground reality etc.

Keywords: Buying behavior, Factor analysis, Consumer durable market

1. Introduction
In today’s competitive scenario, business organizations in India are most worried about the future uncertainty. An increasing number of market planners are finding that growing complexity and uncertainty of the environment are difficult to cope up. Behavioral dimension added new complexity to marketing people. Still, there is no other alternative but to face this situation. Organizations are continuously facing new equations in their operating environment in every direction (Bettis & Hitt, 1995). Complex competitive status, vulnerable demand forecast, varying consumer preference, existence of too many brands, changing attitude of channel intermediaries, shortening of the product lifecycle, (Hammer, 1997) are making marketing decisions extremely difficult and risky. And here comes the role of multidimensional analysis of a particular field.

In television market, situation is no way better. Television, as a product, is getting the status of essential commodity inviting complicacies and uncertainties. TV market has also one unique problem. It is on a developing phase. A shift from rural to urban sector is continuously going on. Residential areas in metros, mini metros, cities, towns and
small towns are growing at faster rate. Industrialization, infrastructure development, and extension of areas under amusement and entertainment are creating huge scope for further market growth. Social developments of community and upcoming upper middle class with increasing purchasing power have marked this field as an area of additional complicacies and uncertainties. As a result, the TV market has been an ideal selection for strategic analysis. In view of the growing importance and market (Porter, 1980) it is proposed to carry out a study covering factors affecting the consumer buying behavior for television. In order to motivate our esteemed readers we have discussed different aspects of TV industry. A total of fifteen aspects have been identified and reduced to six through the use of factor analysis. These six factors influence the buying behavior of customers in CTV market. The method as used here can be easily replicated for other products in consumer durable market.

2. Consumer Durables Market in India with special reference to TV

Although the consumer durables sector does not count among the core sectors of the economy, it is immensely significant being a near precise indicator of the nation's economic well-being, especially as a pointer to the distribution of prosperity among different income segments. Excluding computers and communications products, the annual market share for consumer durables in India is currently valued at Rs.25,000 crore. This is relatively small compared to total market for goods and groceries, which is estimated to be at Rs. 8,00,000 crores per year. During the recent times, market growth in consumer durables has primarily in terms of quantity, but not in terms of value. The Table 1 indicates that during 2004-05, the sale of consumer durables increased by 9.9% in quantitative terms over its previous year. However, growth rate in terms of value is in between 1-2% only. This is primarily due to fall in prices as a result of increased competition. The table further states that the growth in numbers varies widely across product categories. For example, the annual increase in the sales of CTVs is 12.1%, and that of black and white TV suffers de-growth of 16.7% reducing the overall growth rate to 4.4% only. This growth rate is much below the average growth rate of consumer durables, which stands at 9.9% for 2004-05. The low growth rate of TV suggests that its demand has already reached at saturation point. In addition high manufacturing costs and taxes coupled with comparatively lower purchasing power, limit the growth rate of sales of TV sets.

(Insert Table 1 Here)

3. Leading Players in Indian Color Television Market

The Color TV market in India has seen a gamut of changes in the past one decade as liberalization set in the Indian subcontinent making its market highly competitive and consumer driven. Once badly fragmented, it is now witnessing a phase of market consolidation. Over the last 2 years, the top four players (LG, Samsung, Videocon group and Onida) have consolidated their position. Today, they account for 69 percent of the market (Table – 2), up from 43 percent a couple of years ago. Experts feel that the top four could well account for 85 percent of the industry in 3 – 4 years. Two or three factors have caused this change. BPL, once a leader with over 20 percent market share, has dropped to 5.2 percent. Second, multinational brands like Sony, Panasonic, Thomson, Grundig and Sharp have almost lost their ground. Third, regional brands like Oscar, Texla, Weston, and Beltek have lost market share. "They have been unable to keep pace with changes in technology," says Ravinder Zutshi, (Director of sales, Samsung). While the market is shifting to flats and plasma, they are still selling conventional TVs.

The Indian Color Television market is quite small (less than 6mn units) in size, as compared to other countries such as China (30mn units) and the US market (22mn units). Although the Color Television population is of 30mn sets in the country, it is still smaller than the Black and White television population of 59mn. However, this situation is fast changing with demand for Color Televisions registering double digit growth, while B&W TV sales are witnessing a de-growth.

(Insert Table 2 Here)

Further, out of 192 million urban and rural households those who have access to television, only 42% of them own a TV set. Furthermore, the positive sign is that the rural market is growing at much faster rate than its urban counterpart. All these indicate a huge potential market for color TVs in India. Under these circumstances, we feel our attempt to analyze the factors that influence the buying decision of the consumer in choosing the color TV set is fairly logical.

4. Selection of Brands

In general, the Indian consumers were indifferent in choosing the brand, since a lot of close substitutes were available in the market. Due to technological and knowledge up-gradation, today’s customers prefer to opt for...
branded product. This is because of an urge for getting proper value against payments made (Sheth, Newman and Gross, 1991). In the Indian color TV market LG, Samsung, Videocon Sansui, Akai, Toshiba, Sony, Panasonic, Thomson, Onida, BPL, Grundig, Sharp, Oscar, Texla, Weston, and Beltek are the leading players. All these brands as we know have one thing in common that they are established in the TV market very seriously. Each manufacturer has spent fortunes ensuring their brand is recognized worldwide as an exemplary product. If any one of these manufacturers had produced TV sets that were clearly inferior, it would be the death of a brand they have worked hard to establish. According to Upshaw (1995), building a brand identity is the foremost task of a seller to reduce the searching cost of the potential customers. The consumer’s product preference is influenced by the brand services that go with it. It is difficult to imagine that in a normal situation, a consumer will make a purchase without paying enough attention to his needs and desires. But when several brands of a particular product, which are similar in quality of performance and external appearance, are available to the consumers; the quality, style or pattern of the article, availability of discount and durability, previous advertising information and retailers’ recommendations create a preference in the minds of consumers. This is the reason that prompted us to make a study on branded CTVs only.

5. Types of TVs

CTVs are mainly two types, namely Flat-panel TVs and Front Projection TVs. On the basis of display mode, they are classified into LCD, Plasma, DLP, and SXRD or LCoS. The 14", 20" and 21" televisions are the most widely used which accounts for about 90% of the market in India. Flat screen television is the fastest growing segment. Keeping this in view we have restricted our study to these Flat-panel TVs only as Front-projection TVs are not televisions in the most obvious sense. The vital features that are considered by a consumer before buying a Flat-panel TV set includes: sound quality, DVD connection, remote control facility, discount availability, durability, built in stabilizer, foreign collaboration, proximity of dealers, price, picture quality etc. When more than a dozen brands are aggressively pushing for a larger chunk of the market claiming that they go well beyond picture quality and sound clarity; going for the right model is all the more tough.

Keeping this in view, the most important objective of this paper is to identify the consumer preferences and priorities for buying a CTV by analyzing the responses of the owners of CTV sets.

6. Factors Affecting the Choice of a right TV

Choosing the right CTV is difficult enough when there are half a dozen brands and all of these claims to give excellent picture quality. Nowadays the problem is to choose the kind of TV we want to watch it with. There is just a huge variety available in the market today— not just brands, but also product categories. Choosing the right CTV involves many different factors. These include, of course, the budget, picture quality, sound quality, remote control, facility for DVD connection etc. Here are some things to consider as we make our choice.

6.1 Price: The choice of TV mostly depends on the price of the TV. The more we pay; the better would be the facilities in the TV.

6.2 Picture Quality: To have a good view from any angle, the picture quality of the TV also matters. Direct-View televisions have amazing picture quality, while still being less expensive than flat panel types.

6.3 Sound Quality: While watching television we often forget about the quality of the sound, because we are concentrating on visual experience. With more and more consumers integrating televisions into their stereo and home theater systems, the ability for a TV to provide more in the audio area is becoming more important.

6.4 Remote Control Facility: When shopping for a television, we have to make sure that the remote control is easy to use. If we need to control several items with the same remote, it is compatible with at least some of the other components we have at home. Most TVs come with remotes that may be partial function or full function types. Partial function types are equipped with only simple features such as; channel up/down, volume up/down, auto search, auto tuning, sound mute, etc. Full function remotes, in addition to providing essential functions provide advanced functions such as, picture quality control, component control etc – not just the TV.

6.5 Add on Facilities: The TV, nowadays, is getting more attractive by some add-ons such as DVD players. The price of DVD players has dropped dramatically in the last couple of years. These entry-level players rival some of the best DVD players from only a few years ago in terms of both picture and sound quality.

6.6 Emotional Consideration: Often we are influenced by emotional considerations such as friends and neighbors. At the same time we cannot ignore the importance of the recognised dealers in this regard.

There are several units in the market that can be analyzed. Our main thrust in this study is the consumer and their perception towards choosing Television. Keeping all these aspects in view, we have analyzed the attitude of the
consumers on the basis of the attributes, preferable brand, sound quality, durability, recommendations, price, advertisement etc.

7. Methodology

Keeping objectives of the research in mind, 80 consumers were selected at random by using simple random sampling technique from the Balasore town of Orissa called as Sand City of India. In order to measure the perception of the consumers about the criteria of choosing a CTV and its underlying factors, a questionnaire on different items related to the attributes of preferring a CTV was constructed on 5-point Likert scale for all fifteen attributes (Table - 3). The statements were measured on the 5-point Likert scale where 5 indicates strongly disagree and 1 indicates, strongly agree. The maximum focus was given on quality, durability, advertisement, recommendations of friends and dealers. The questionnaire was pre-tested on a set of 10 respondents to assess its validity and reliability. The sampling size includes both male and female users from different occupation, age, and income groups. The data collected in the month of March 2007 was classified, tabulated and processed mainly to identify the group of determinants. However, the study has few limitations and that needs to be taken care of. As we have taken relatively smaller sample size of 80 and the respondents have been selected from Balasore town only, there is a risk of generalizing the results so obtained. However, it is seen that consumer behavior does not differ much with respect to the area on such topic under consideration.

8. Tools and Techniques used

Factor analysis is a general name denoting a class of procedures used for data-reduction and summarizing. It is a multivariate technique and is employed in our study for the purpose of analyzing the data. The Principal Component Method is considered appropriate, as the primary purpose is to determine the minimum number of factors that would account for the maximum variance in the data collected. The data is analyzed by using SPSS, version – 11. For this reason the results of the factor analysis using Principal Component Method are found out. Results of six factors being extracted from the data collected. Only factors with Eigenvalue(s) greater than 1 were retained and others were ignored. By comparing the Varimax Rotated Factor Matrix with Un-rotated Factor Matrix (entitled as component matrix), rotation has provided simplicity and has enhanced interpretability. From the rotated factor matrix in the Table-8, six factors have been extracted and listed in Table-10.

To supplement our analysis, Scree Plot, a graph of the eigenvalues against all the factors was constructed for determining the number of factors to be retained. The point of interest is where the curve starts to flatten (Figure 1).

9. Data Analysis

The factor analysis reveals that the consumers consider various aspects of Television which include Physical structure, Technical aspects, Quality, Price etc. 

Communalities shows how much of the variance in the variables has been accounted for by the extracted factors. By analyzing communalities (Table-5), it is found that the factor loading for Discount Offer \((X_{10})\) is comparatively low to the tune of 53.6% of the total variance. However, the remaining fourteen services were explained reasonably well as evidenced by the high factor loadings of above 0.6. The services like Remote Control Facility \((X_{14})\) and the Recommendation of Dealers \((X_{15})\) have the factor loadings of 81% and 87.1% respectively.

Table–6 explains the extraction statistics and the number of factors to be extracted in the succeeding level. By using the cutoff initial Eigenvalue of 1.00, six factors have been identified. The factor loadings pattern and percentage of variance for each of the factors have been derived by using ‘Orthogonal Varimax Rotation’. The first factor is accounted for 20.343% of the variance explained as compared to 15.6% in the rotated matrix.

To supplement the above, it can be seen from the Scree plot (Figure 1) that the curve begins to flatten between the factors 6 and 7. Moreover, Factor 7 has an eigenvalue of less than 1(Table–6). Hence only six factors have been retained.

Table 7 and table 8 simplify the data by grouping those under six factors. The factor solution was derived from the ‘Component Analysis’ with ‘Orthogonal Varimax Rotation’ of the fifteen variables listed for the purpose of the study. The idea of rotation is to reduce the number of factors on which the variables under investigation have high loadings. Rotation does not actually change anything but makes the interpretation of the analysis easier. Looking at the table 8, it can be noticed that Factor 1 \((F_1)\) has four significant loadings, while only one variable is included under \(F_2\) and \(F_6\), two variables are included under \(F_3\) and three variables are included under \(F_5, F_2\). These factors can be used as variables for further analysis.

The six factors extracted are labeled as Structural Add-Ons, Word of Mouth, Durability, Technical Features, Ground Reality, and Recommendation of Dealers (Table–10). The factors extracted not only reveal the important dimensions associated with a television but also reveal the sequence of their importance for the consumers.
9.1 Key Findings of the Study

The first factor extracted indicates that the consumers prefer to buy a CTV with the satisfactory sound quality, facility for the remote control, good advertisement and the technology with DVD connection. As the mean score for the variable ‘Sound quality’ is low (Table-3), it is clear that the consumers give much emphasis on the sound quality followed by the variable ‘Remote Control Facility’.

The second extracted factor indicates that, although the consumers’ general tendency is to collect the information from the friends or neighbors about the product, but they prefer to buy a television with a good brand image, having the lowest mean score (Table-3) among the group of variables such as Brand image, External appearance and Discount offer. It is interesting to quote here that the consumers are not attracted much by the discount offered by the dealers of the television.

The third factor signifies only the durability with a lower degree of mean score indicating the significance of TV with higher durability. The fourth factor indicates the importance of Stabilizer and the foreign collaboration while using TV, emphasizing the built in stabilizer the most.

The fifth factor pays attention on proximity of the dealers, the price and the picture quality of the TV. Similarly the sixth factor indicates that the consumers’ choice is based on the recommendation of a dealer but to a lesser extent having a high mean score.

10. Conclusion

Everyday, consumers and households make decisions about the goods and the services they purchase. The factors that influence this buying decision are commonly price, quality, advertisement, recommendation from near and dears etc. This research work finds that the consumers’ perception on buying color television is mostly affected by the factors such as “structural add-ons, Word of mouth, Technical features, Durability and Ground reality.”

The above results have far reaching implications for the Television marketers, dealers and advertising agencies as it gives insight into the minds of consumers and how they view their televisions. There are many dimensions associated with Television and their usage which need to be explored and understood. In view of this, a research study like this can serve as an ideal guideline and precedent for further research in any product in consumer durable markets. The factor analysis conducted in the study has important implications for further research which will be useful for marketing personnel to customize their products and services for the general people not only in Balasore, but also in the other parts of India.

References


Table 1. Sale of Some Selected Consumer Durables in India (in Lakhs of units)

<table>
<thead>
<tr>
<th>ITEMS</th>
<th>2003-04</th>
<th>2004-05</th>
<th>% Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Color Television (CTV)</td>
<td>82.5</td>
<td>92.5</td>
<td>12.1</td>
</tr>
<tr>
<td>B&amp;W TV</td>
<td>30.0</td>
<td>25.0</td>
<td>-16.7</td>
</tr>
<tr>
<td>Televisions</td>
<td>112.5</td>
<td>117.5</td>
<td>4.4</td>
</tr>
<tr>
<td>VCD/DVD Players</td>
<td>72.0</td>
<td>8.4</td>
<td>16.7</td>
</tr>
<tr>
<td>Refrigerators</td>
<td>37.0</td>
<td>38.9</td>
<td>5.0</td>
</tr>
<tr>
<td>Air-conditioners</td>
<td>9.8</td>
<td>12.3</td>
<td>25.1</td>
</tr>
<tr>
<td>Washing Machines</td>
<td>13.6</td>
<td>16.0</td>
<td>18.1</td>
</tr>
<tr>
<td>Micro-Ovens</td>
<td>2.8</td>
<td>3.5</td>
<td>27.3</td>
</tr>
<tr>
<td>TOTAL</td>
<td>247.6</td>
<td>272.1</td>
<td>9.9</td>
</tr>
</tbody>
</table>

Source: FICCI ‘consumer durable goods survey’ October 2005
Table 2. CTV Players’ Market Share (%)

<table>
<thead>
<tr>
<th>Brands</th>
<th>00-01</th>
<th>01-02</th>
<th>02-03</th>
<th>03-04</th>
</tr>
</thead>
<tbody>
<tr>
<td>MIRC Group (Onida &amp; Igo)</td>
<td>11.3</td>
<td>12.2</td>
<td>12.5</td>
<td>13.1</td>
</tr>
<tr>
<td>LG</td>
<td>6.4</td>
<td>5.6</td>
<td>14.9</td>
<td>19.0</td>
</tr>
<tr>
<td>Samsung</td>
<td>8.1</td>
<td>6.0</td>
<td>12.3</td>
<td>14.5</td>
</tr>
<tr>
<td>V’con Group (Sansui, Akai, Videocon &amp; Toshiba)</td>
<td>20.5</td>
<td>19.4</td>
<td>19.4</td>
<td>22.1</td>
</tr>
<tr>
<td>TOTAL</td>
<td>46.3</td>
<td>43.2</td>
<td>59.1</td>
<td>68.7</td>
</tr>
<tr>
<td>BPL</td>
<td>18.4</td>
<td>16.5</td>
<td>10.8</td>
<td>5.2</td>
</tr>
<tr>
<td>Philips</td>
<td>3.7</td>
<td>5.6</td>
<td>5.7</td>
<td>5.8</td>
</tr>
<tr>
<td>Panasonic</td>
<td>2.1</td>
<td>1.3</td>
<td>1.4</td>
<td>0.8</td>
</tr>
<tr>
<td>Sharp</td>
<td>3.7</td>
<td>2.1</td>
<td>2.1</td>
<td>2.0</td>
</tr>
<tr>
<td>Sony</td>
<td>3.1</td>
<td>1.8</td>
<td>2.8</td>
<td>2.9</td>
</tr>
<tr>
<td>Thomson</td>
<td>2.6</td>
<td>1.8</td>
<td>2.5</td>
<td>2.3</td>
</tr>
<tr>
<td>Others</td>
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<td>15.6</td>
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Table 3. Descriptive Statistics

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<td>Recommendation of friends and neighbors</td>
<td>80</td>
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<td>X8</td>
<td>External appearances</td>
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</tr>
<tr>
<td>X9</td>
<td>DVD connection</td>
<td>80</td>
<td>2.1000</td>
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<td>Discount offer</td>
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</tr>
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<td>Advertisement</td>
<td>80</td>
<td>2.3500</td>
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<td>Remote control facility</td>
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<td>X_2</td>
<td>X_3</td>
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<td>0.271</td>
<td>1.000</td>
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<td>-0.085</td>
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<td>-0.071</td>
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Table 5. Communalities

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<th>Extraction</th>
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<tr>
<td>X1</td>
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<td>Higher durability</td>
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<tr>
<td>X3</td>
<td>Sound quality</td>
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<td>.768</td>
</tr>
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<td>X4</td>
<td>Price</td>
<td>1.000</td>
<td>.795</td>
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<td>Built in stabilizer</td>
<td>1.000</td>
<td>.667</td>
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<td>X6</td>
<td>Brand image</td>
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<td>.639</td>
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<tr>
<td>X7</td>
<td>Recommendation of friends and neighbors</td>
<td>1.000</td>
<td>.730</td>
</tr>
<tr>
<td>X8</td>
<td>External appearances</td>
<td>1.000</td>
<td>.672</td>
</tr>
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<td>X9</td>
<td>DVD connection</td>
<td>1.000</td>
<td>.792</td>
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<td>Discount offer</td>
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<td>.536</td>
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<td>Proximity to a dealer</td>
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<td>.683</td>
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<tr>
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<td>Foreign collaboration</td>
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<td>.663</td>
</tr>
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<td>X13</td>
<td>Advertisement</td>
<td>1.000</td>
<td>.739</td>
</tr>
<tr>
<td>X14</td>
<td>Remote control facility</td>
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<td>.810</td>
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<tr>
<td>X15</td>
<td>Recommendation of dealer</td>
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**Extraction Method:** Principal Component Analysis.

Table 6. Total Variance Explained

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<th>Rotation Sums of Squared Loadings</th>
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<td>Total</td>
<td>% of Variance</td>
<td>Cumulative %</td>
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<tr>
<td></td>
<td>(Total % of Variance</td>
<td>Cumulative %)</td>
<td>(Total % of Variance)</td>
</tr>
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<td>1</td>
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<tr>
<td>2</td>
<td>2.602</td>
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<tr>
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<td>8.865</td>
<td>65.458</td>
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**Extraction Method:** Principal Component Analysis.
Table 7. Component Matrix

<table>
<thead>
<tr>
<th>Attributes</th>
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<th>F2</th>
<th>F3</th>
<th>F4</th>
<th>F5</th>
<th>F6</th>
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</thead>
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<tr>
<td>X1</td>
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<tr>
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<td>X5</td>
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<td>0.439</td>
<td>0.220</td>
<td>6.343E-02</td>
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<tr>
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<td>0.457</td>
<td>0.410</td>
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<tr>
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<td>0.457</td>
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<td>-1.97</td>
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<td>0.572</td>
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<tr>
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Table 8. Rotated Component Matrix

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<th>F4</th>
<th>F5</th>
<th>F6</th>
</tr>
</thead>
<tbody>
<tr>
<td>X1</td>
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<td>0.341</td>
<td>0.233</td>
<td>0.299</td>
<td>0.606</td>
<td>0.359</td>
</tr>
<tr>
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<tr>
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<td>0.433</td>
<td>0.364</td>
<td>0.109</td>
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<tr>
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<td>-8.595E-03</td>
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<td>-3.300E-02</td>
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<tr>
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<td>-0.207</td>
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<td>0.193</td>
</tr>
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**Extraction Method:** Principal Component Analysis. 6 components extracted

**Rotation Method:** Varimax with Kaiser Normalization. Rotation converged in 11 iterations.
Table 9. Component Transformation Matrix

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<th>6</th>
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</thead>
<tbody>
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<td>.124</td>
<td>-.388</td>
<td>.319</td>
<td>-.096</td>
</tr>
<tr>
<td>2</td>
<td>.447</td>
<td>.279</td>
<td>.665</td>
<td>.343</td>
<td>-.188</td>
<td>.356</td>
</tr>
<tr>
<td>3</td>
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<td>-.245</td>
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<td>.315</td>
<td>.670</td>
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<td>-.559</td>
<td>.668</td>
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<td>-.071</td>
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<td>-.096</td>
<td>.530</td>
<td>-.118</td>
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<td>-.421</td>
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<td>.720</td>
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</table>

**Extraction Method:** Principal Component Analysis.

**Rotation Method:** Varimax with Kaiser Normalization.

Table 10. Factors Influencing The Consumers Perception Towards Television

<table>
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<tr>
<th>Factors</th>
<th>Factor interpretation</th>
<th>Variables included in the factors</th>
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</thead>
<tbody>
<tr>
<td>F₁</td>
<td>Structural add-ons</td>
<td>Sound quality, DVD Connection, Remote control facility, Advertisement.</td>
</tr>
<tr>
<td>F₂</td>
<td>Word of mouth</td>
<td>Recommendation of friends and neighbors, Brand image, External appearance, Discount offer.</td>
</tr>
<tr>
<td>F₃</td>
<td>Durability</td>
<td>Higher durability</td>
</tr>
<tr>
<td>F₄</td>
<td>Technical features</td>
<td>Built in stabilizer, Foreign collaboration.</td>
</tr>
<tr>
<td>F₅</td>
<td>Ground reality</td>
<td>Proximity of Dealers, Price, Picture quality.</td>
</tr>
<tr>
<td>F₆</td>
<td>Recommendation of dealers</td>
<td>Recommendation of the dealers</td>
</tr>
</tbody>
</table>

Figure 1. Scree Plot
Analysis of Accounting Disclosure Mode for Strengthening Corporate Social Responsibility

Fang Han & Zhihong Zhang
School of Accounting, Shandong Economic University, Jinan 250014, China
E-mail: seefangfangsea@126.com

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Abstract
Corporate Social Responsibility (CSR) has become the social focus with the pressure of social problems. As we all know, accounting report and analysis have become an important instrument of strengthening CSR. The current situation and problems of Corporate Social Responsibility Accounting (CSRA) disclosure in China were analyzed firstly. Then, in the light of foreign feasible practice, the content, ways and future development of CSRA disclosure were presented. Finally, a mode of CSRA disclosure that fits Chinese enterprises was constructed. This mode attempts to strengthen CSR and promote the value of enterprises in China ultimately.

Keywords: Corporate Social Responsibility; Accounting Disclosure; Disclosure Mode

Along with the rapid development of economy in China, the social problems, such as unfair income distribution, increasing employment pressure, severe resource waste, and environmental deterioration, etc are getting obviously. Especially in recent years, some multinational corporations ask Chinese corporations in their supply chain to implement Social Accountability 8000 (SA8000) to strengthen CSR in China (Zhou, 2006, pp. 5-7). And accounting disclosure is one of the important instruments of strengthening CSR.

1. Current Situation and Problems of CSRA Disclosure in China
In China, the relevant studies about CSRA disclosure began with 1990, but there was still no comparatively perfect disclosure mode and systematic disclosure system. In practice, some corporations have attempted to disclose CSR information. But their content disclosed is a little and their ways of disclosure are non-standard. The purpose of strengthening CSR couldn’t be achieved through CSRA disclosure.

We can see that, at present, there are still many problems in CSRA disclosure for most enterprises in China. Then this situation would be illustrated in detail.

At first, the content of disclosure in China’s corporations is not comprehensive and is different greatly in various enterprises, evenly in the same industry. Nowadays, there are few corporations that disclose CSR information comprehensively. Many corporations just disclose their contributions to society but not the adverse effect on society.

Besides, because of the lack of uniform standards, there is a great difference in the content. Then CSR disclosure becomes a camouflage for enterprises in China in order to deal with some policies in some degree (Yang & Liu, 2006, pp. 66-67).

Then, the way of CSRA disclosure is single. At present, most corporations still use written narrative but not quantifiable method to disclose CSR. In other words, the qualitative disclosure is more than the quantitative disclosure, and the non-accounting ways are in the leading position (Liu & Kong, 2006, pp. 36-43).

Finally, corporations lack the consciousness of CSRA disclosure respectively. In practice, CSR information usually was reflected by traditional accounting subjects but not the corresponding accounting subjects based on social responsibility. There are few corporates compile “CSR Report” separately expect some multinational corporations in the last several years.

Due to the situation such as discussed above, Chinese CSRA disclosure couldn’t achieve the goal of strengthening CSR. In order to realize this and to promote the value of enterprises, a mode of CSRA disclosure that can be practiced in Chinese corporates should be constructed.

2. Construction of a Mode of CSRA Disclosure for Chinese Corporations
2.1 Goal of Disclosure
2.1.1 Goal of CSR
Why do corporations put CSR on their shoulders energetically now that high cost should be paid to bear the social responsibility?
On the one hand, performance of CSR could create social value. From the perspective of the sociology, corporate is more than an “Economic Man”, but is a “Social Man”. If corporates could exceed the goal of maximizing microcosmic interests, care about people's value in process of reproduction and their contribution to society, the “negative externalities” that issue from operation could be solved and the social welfare maximization could be achieved.

On the other hand, performance of CSR could promote the value of corporates. CSR is more than a kind of restriction for corporations, but is a necessary way of getting free in market economy. Indeed, bearing CSR costs corporations a lot, but it is also a way of showing corporate qualities and generating free advertising. By taking on CSR voluntarily, corporations could gain the public trust. At last continuous development can be achieved easily than before for Chinese enterprises.

2.1.2 Goal of CSR Disclosure

Now CSR not only could create social value but also promote the value of corporates, so corporates carry responsibility and to perform and disclose CSR actively. Along with the social problems getting obviously, corporations should come to realize that CSR should be the natural effect derived from business operation in the society but not an obligation imposed by external force. So corporations should strengthen the performance of CSR constantly. Effective accounting disclosure mode is one of the important instruments to realize this aim. Disclosure information on income as well as the information on performance of CSR in environment, human resources, product/service, social welfare and so on should be presented fully and clearly.

2.2 Content of Disclosure

In order to construct a mode of CSRA disclosure for Chinese corporations, the content of this mode must be made clear firstly.

2.2.1 Relevant Foreign Practice

Nowadays there is no unified standard in the content of CSRA disclosure internationally. Though the developed countries are involved early in the research on CSR, the content of disclosure is still different greatly between countries because of their different national conditions. For example, in France, disclosure of employee benefit is more concerned and "social balance sheet" is required to submit. In America, disclosure of environment, especially the soil contamination problem is emphasized. Britain pays more attention to the disclosure of human resources. Germany gives greater emphasis on corporate contribution to environmental protection and so on (Chang, 2005).

The representative aspects are the study of Social Investment Organization (SIO) in international studies. Many researchers pointed out that the text of CSR reporting should disclose information on the following ten projects. They are Environmental Performance, Labor Rights, Health and Safety Practices, Human Rights, Community Economic Development and Social Impacts, Corporate Governance, Corporate Payments to Governments, Stakeholder Engagement, Supply Chain Management, Corporate Planning and Policies (Dara, O’Rourke, 2004, pp. 1-47).

Though there is no unified standard, international studies and practices provide foundation for the content of CSRA disclosure. According to relevant studies, some illumination can be figured out. First, the content of disclosure should seek to increase the quality of CSR disclosed. Second, the content of disclosure should work to increase the uses of the information and the benefits to users of the information. Third, the content of disclosure should create mechanisms for learning and continuously improving disclosure systems. Only in this way, CSR could be strengthened really.

2.2.2 Practice Choice of China

It need utilize the relevant foreign practices to make clear the content of Chinese CSRA disclosure, in the meantime the actual circumstances of China should be concerned. So the content of CSR disclosure for China enterprises should include such five parts at least.

(1) The contribution made to income. Income is the important precondition for the performance of other CSR. Only the level of earning exceeds social average level, corporations could make certain financial resources to perform CSR. Therefore, the information on income is not only the content of traditional financial disclosure but also the prime content of CSRA disclosure.

(2) The contribution made to improvement of environment. The environment discussed here includes two types. One is “ecological environment”. Generally corporations operate to maximize their interests, but their activities often damage the ecological environment. So it is necessary for them to make effective measures to control pollution and maintain ecological balances. The other is “social economic environment”. Corporate development relies on their
social economic environment. So corporates should comply with commercial morality strictly to disclose CSR, thus make sure that the CSR information is reliable and build a fairer competitive environment.

(3) The contribution made to human resources. Knowledge economy makes human resources be the significant factor. Investment to Human resources can bring great economical benefit not only to corporations but also to human being which derived from the improvement of employee’s diathesis and their living conditions. Therefore, corporations should disclose information on development, utilization and protection of human resources. For example, the number of employees, recruitment of staff, manpower development, social education and so on (Anon, 2007).

(4) The contribution made to product/service. The quality of product/service is the critical weapon which corporates take advantage of to be successful in the intense market competition. So corporates should disclose their contribution to product/service, such as functioning property of product, durable year, security, fidelity of advertisement, degree of consumer satisfaction, after-sale service and so on, to increase brand awareness and establish a good corporate image.

(5) The contribution made to social welfare. Because the social resources consumed by corporates are limited, corporates have obligations to supply donation and help to society. This is corporate obligation as well as important mean of establish good corporate image. Therefore, corporates should disclose their contribution to social welfare. For example, developing public transport, medical and health services, and other public utilities; subsidizing education, PE and charity; giving equal employment opportunities to social vulnerable groups; paying tax in time and so on.

2.3 Ways of Disclosure

2.3.1 Relevant Foreign Practice

In the west, different countries and corporations disclose CSR in different ways. Even if the same corporate, it perhaps uses different ways when the content of disclosure is different. Usually, there are three ways used to disclose CSR (Wang, 2007, pp. 33-35).

(1) The way of written narrative. As the simplest way, it mostly makes use of written record to describe the positive and passive influences on society.

(2) The way of “cost outlay”. This is the way that uses “cost outlay items” to reflect the cost outlay of CSR. It usually adds expenditure items that could get cost data into the report, and it is the most wildly used way in environmental liability.

(3) The way of making independent report. This way could reflect the content of CSR well and could be quantized in money. But this way also bring a series of problems, sometimes it maybe mismatch the “cost-benefit principle”.

2.3.2 Practice Choice of China

In light of foreign practice and China’s conditions, Chinese corporations should use different ways according to different corporate scale in order to strengthen CSR.

(1) Small and partial medium-sized enterprises (SME) could use written narrative to disclose CSR. There are two reasons for SME to use this way to illustrate their CSR disclosure. One is that they bear limited CSR, and the other is the professional qualities of their accounting personnel have difficulty to meet high disclosure requirement. Therefore, SME should use some simple ways to disclose corporate influences on society. Some informal styles or words can be used to illustrate the influence of enterprises’ operation activities on society such as environmental statement, human resource inventory report and other specialized written report.

(2) Medium-sized and partial large enterprises could add some items of CSR into traditional financial reporting. For example, facilities used to environmental control can be listed in the assets section and future expenditure on pollution treatment can be listed in liabilities section of Balance Sheet (B.S.). In Income Statement, some items can be set up separately such as “environmental greening expense”, "public welfare and donation expenditure" and so on (Anon, 2007). Regarding to the unquantifiable information, corporations still need use the way of written narrative to disclose.

(3) Large business, especially the listed company, should make independent CSR Report. For example, “CSR Balance Sheet” can be used to reflect the quantity and composition of assets and liabilities on CSR; “CSR Income Statement” can be used to reflect accounts balance and profits on CSR; “CSR cash flow statement” can be used to dynamically reflect the changes of cash and cash equivalents on CSR. Besides, corporates could make supplementary statement, such as “Social Influence Report”, “Added Value Statement”, “Ratio Analysis Statement”, and could design the architecture of statement according to their own characteristics.
2.3 Innovation of Future Mode

Construction of CSRA disclosure mode is a dynamic process that needs continuous improvement. Along with the continuous innovation of Internet and computer technology, the future mode of CSRA disclosure should develop towards electronicalization and networking (Li, 2007, pp.48-49), thus provide new instrument of strengthening CSR.

Firstly, the ways of disclosure have been informative. With the help of Internet and IT, corporations could provide CSR information more easily and quickly. For example, by inserting searching function into networking CSR Report, users just need input relevant words to search related CSR information.

Secondly, disclosure should be in time. Corporates needn’t disclose CSR at the end of the year in the networking mode of information disclosure. They could disclose well-timed CSR according to own conditions and users’ requirements.

Lastly, diversified ways of disclosure can be presented. For example, corporates could make use of computer module to achieve man-machine interactive CSR disclosure, or make use of diagrams to reflect more intuitive CSR, or make use of image and sound to introduce CSR achievement and so on, thus make the interface of CSR disclosure more beautiful and humanistic.

From the point of above view discussed, a mode of disclosure that strengthens CSR for Chinese enterprises could be constructed as Figure 1.

3. Conclusions

Faced the large pressure from international market, dilemma of eco-environment, and the requirement about self-directed innovation, a mode of CSRA disclosure for China enterprises must be constructed to strengthen CSR and promote corporations to survive and develop. Firstly in the content of disclosure, corporations should fully disclose the information on traditional income as well as the information on improvement of environment, human resources, product/service, social welfare and so on. Secondly in the ways of disclosure, corporations should use different ways according to respective scale. SME could use simple ways and large business should make independent CSR Report to disclose CSR in detail. Lastly, a point should be noticed that the construction of CSRA disclosure mode is a dynamic process that needs to be improved continuously. Only gradually promoting and improving the mode in practice, could CSR of China be strengthened really and could corporate value be promoted ultimately.

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Figure 1. the mode of disclosure that strengthens CSR
Government Information Public Impact of Economic Growth

Qun Zhan
Wuhan University of Technology Library West China Hospital, Wuhan 430070, China
E-mail: zhanghfccps@126.com

Abstract
The era of information economy, benign information resources is scarce resources, information socio-economic activities is the most active factor. Information from the economics point of view, the transition economies in government information on the economic characteristics, economic function, pointed out that market imperfections and market information asymmetry, and the importance of open information market, namely the role of economic growth. And the unlimited demand for scarce resources of the conflict, through the allocation of resources and achieve the greatest meet the demand.

Keywords: Government Information Disclosure, Information resources, Economic growth, Asymmetry information, Game information

Mankind has entered the information society and the "digital economy" era. Technological advances greatly promoted the process of economic globalization, many countries stand to benefit. Promoting information technology as the engine of modern economic growth and social development of the modern equalizer. Information. The economy as a new economic forms, the most notable is a sign with information technology-oriented high-tech and the rapid development of the economy in a wide range of applications, has led to the sustained rapid economic development, and in an unprecedented rapid development Period of the "new economy" phenomenon. Promote the deepening of the global division of labor and economic restructuring, changing the world market and the pattern of world economic competition.

1. Market information asymmetry need the Government Information Disclosure
The information economy is relatively material economic terms, the essence of which is information technology, digital, the key is information structure. The incomplete market information, asymmetry and greatly hinder the development of social production. Information as a resource instead of material resources into the field of social production, greatly improving production efficiency. In economic life, asymmetric information market will shrink even some non-existent, the production efficiency is low, the market is not fair trade and unfair competition as well as producers and consumers of distortions, excess supply and inadequate supply of both the economy and a series of Consequences, resulting in inefficient allocation of economic resources and social welfare lower in political life and will have the information asymmetry Chief black-box operations, unfair administrative, civil government indifference, lack of enthusiasm for public utilities and other social problems. Therefore, asymmetric information on the socio-economic and political development are very negative. Government departments 90 percent of the flow of information and data is not not open, then the two channels of information supply is not smooth, only a small number of publicly listed company information. The serious shortage of supply of information and the prevalence of false information, and increase China's information market in the information asymmetry parties to the transaction level, resulting in the information society as a whole waste of resources and the lack of effective supply.

1.1 The Government Information Disclosure
Resources is the most important characteristics of availability. Information Resources in the community as a whole in the absolute proportion of the information contained in the immeasurable value of the state and society, full use of information resources, can create more material and spiritual wealth, accelerating economic development and social progress. Government Information Disclosure of information is actually the application of resources, both social and economic development, or the Government's reform and innovation, have substantial role in promoting. The so-called open government information, government agencies in accordance with legal procedures, forms, open to the public to realize their rights of information resources and allows users to query, copy, extracts, listening, watching, downloading the form of legitimate use. The public information law And its fundamental purpose is to confirm the information public in accordance with the law is the government's legal obligations, is the public's basic rights. Under the planned economy system, open information is not important. Because the major economic decisions are done by the Government, the Government Information System's main task is to lead to a higher-level services. However, in the market economy system, decision-making powers and assume the risk has been transferred to enterprises, at this time, the Government released the information to the community enhance the national economy has become operational efficiency, reduce investment risks of important social measures.
Government information resources and opening up the transformation of government functions is one of the core elements. Market transparency goal is to ensure the construction of market information needed to make timely, accurate and fair to open, minimizing the parties to the transaction of information asymmetry of information and agents rent. To achieve this objective, must be in the form of legislation to improve the information disclosure system, the smooth flow of information supply channels, to establish a highly efficient credit information management system. Require government departments and participation of the main markets did not involve commercial confidentiality in the case of full and open their own information and related data. Through market-oriented government and the cultivation of professional organizations, unimpeded supply of market information channels and transmission mechanism.

1.2 relatively free market in terms of market information asymmetry

Market information asymmetry of information relative to the market in terms of the symmetry. The so-called asymmetric market information, is on the market, the two sides involved in the transaction - or both customers and shippers do not understand anything, or both sides with full information, either by both sides with the practical applications of information is not completely identical The. However, in reality, because of the different division of labor, workers formed between a huge difference in the information industry; because of congenital or acquired a number of factors, but also caused people to obtain information capacity of different transactions each other with some misleading signals, Formed a market information asymmetry of objective reality. The asymmetry of information will cause economic and social advantages of the information in the information and the inferior side. With the development of social division of labour, the degree of specialization continue to improve in every area or industry professionals and non-professionals distribution of information between the asymmetry will continue to expand, members of the society on the information gap between the more and more Large. As information resources and the dominant position of the continuous upgrading, information superiority, who will get greater competitiveness, the difference between the information monopoly of the market on the possibility of greatly increased. At the same time, the asymmetry of information triggered the product quality of uncertainty.

Generally speaking, commodity-dependent businessmen in the mobile and changes in property rights in the course of time and space for poor to earn a profit. And the time and space is the real difference between supply and demand in the information poor. Economics, with the uncertainty of market information and access to information is necessary price. Therefore, fully competitive market - it's information market competition is only a basic model, the actual market are not entirely market. In incomplete market, the information is incomplete, and also offers a very important characteristic - the asymmetry of information. Information from the asymmetry of supply and demand side of the different pursue their own interests.

1.3 market-based information economy and social system

The material in terms of relative economic information economy is information technology as the economic characteristics of the high-tech form, knowledge, for the production of intellectual capital into the production sector, the traditional material and economic relations of production do not innovate will seriously hamper this "new economy" Development, social system that is innovative. In contrast technological innovation, and one country, the core competitiveness of the organization for the performance of system innovation, on the development of the system to change, adapt or not effective, involving the constitutional order, cultural traditions, ideologies, customs and habits, such as the Government preferred the impact of various factors, Showing a complex system track the changes. The real change occurred through the system depends on innovation may be greater than the profits of access to institutional innovation needed to pay the cost. Technological progress in line with the requirements of the system changes in the information economy develops to a certain stage in the economic system needs innovation gradually appear. As the information economy of the factors of production information, be asked to open, and the establishment of the corresponding system. Promoting the development of the information economy, while promoting the economic development of appropriate information systems to create.

2. Market leader, the pilot

Market economy (also known as a free market economy or free enterprise economy) is an economic system, in which products and services under the system of production and sale of complete freedom from the free market price mechanism to guide that the market leader. Instead of the planned economy in general by the state by the guide, with the pilot. In a market economy, there is no central coordination of the system to guide its operation, but in theory, the market will be products and services through the supply of and demand for a complex interaction, and making self-organization results. Incomplete information and information asymmetry of the universality of the market operation mechanism under the changes, the traditional price mechanism to achieve Pareto efficiency of the
effectiveness is questionable, to complete the private and marketization reform-oriented model (that is, "Washington Consensus ") Challenge.

2.1 market failure, government failure, and the market game

First, the monopolization of the market, asymmetric information Third, the external merchandise of four, the existence of public goods above factors are not the optimal allocation of resources, leading to inefficiency that is market failure. Under the conditions of perfect competition in the market economy in the process of running their own, rely solely on their own strength to the regulation of the community on the various existing resources are adequate and reasonable use of social resources to achieve the effective allocation of state. However, the market economy is not a panacea. Laissez-faire on the basis of market competition mechanism, is not in any field, any state are fully launched, while in other areas or occasions, even if the market mechanism can give full play, can not meet the requirements of the community as a whole with the right resources Targeted results. These problems of a market economy can not be overcome by its own inherent defect, or lack of a "market failure" (Market Failure). Regarding the failure of the Nobel Economics Prize winner Paul. Samuelson has been under such a definition, he said: "When the government policy or collective action can not be taken by means of improving the efficiency of economic operations or (leading to) the moral An acceptable income distribution, the Government will have failures. "We think the Government is the failure of the Government in order to rectify and make up for the shortcomings of market mechanisms function taken by the legislative, administrative and economic policy instruments, often in the implementation process will appear The results of various counterproductive, leading to government intervention in economic inefficiency and social welfare losses. Insufficient financial resources, imperfect system, and other factors, caused the Government should enter the field without entering into or not fully, the Government, the lack of regulation means, and control mechanism not working well, difficult to effect control in place, or the play of the market The role of the field, excessive use of administrative means to manage the economy, the Government should withdraw from the field and did not withdraw from or failed to completely withdraw from, the concentration of power, unlimited liability, the result was not only unable to compensate for the deficiencies market, but Yang short restrain long hampered Normal market mechanism play a role. Excessive government intervention led to the failure.

The objectivity of asymmetric information, trading activities can be regarded as psychological contest participants in the process, thereby promoting the depth of game theory. Game information in the market is an important factor, is the key to the outcome of a game. Market information is the "axis" and "life." Information is the effective functioning of the capital market internal factors, it is market participants to conduct market transactions, leading to the decision-making based on market intermediation; market participants are information needs, is also information providers, their trading activities are not only needs the information, Will produce and display information; commodity exchange market is a place where information is exchanged and where the game market information is not complete. This is because the market there are two aspects of uncertainty: First, the market status of the external environment of uncertainty. Second, the internal market of uncertainty. Market information is not complete, whether external or internal information, for each case of a Bo Yizhe are incomplete, the market is not entirely a game environment of uncertainty. Market information is the "axis" and "life." Information is the effective functioning of the capital market internal factors, it is market participants to conduct market transactions, leading to the decision-making based on market intermediation; market participants are information needs, is also information providers, their trading activities are not only needs the information, Will produce and display information; commodity exchange market is a place where information is exchanged and where the game market information is not complete. This is because the market there are two aspects of uncertainty: First, the market status of the external environment of uncertainty. Second, the internal market of uncertainty. Market information is not complete, whether external or internal information, for each case of a Bo Yizhe are incomplete, the market is not entirely a game competing for information; incomplete market information and asymmetries, not only Bo Yizhe direct impact on the economic interests of the difference, but will cause "bad-shares shares expulsion" of adverse selection and moral hazard, and other effects, is even more serious give rise to unfair trading in the market, reducing the efficiency of the operation of the market, caused Market shrink or even market failure. Information in the capital market requires us to the importance of funding the operation of the market, management and information system designed to give adequate attention to factors, establish and improve the mandatory information disclosure system in order to reduce the degree of market information asymmetry, the realization of fair market transactions and Orderly operation.

2.2 maintain the market order information

"Transition" or "transition" (Transition), are generally from non-market economy to the market economy, are in private ownership within the socio-economic system. China's "transformation" or "transition" is from the socialist planned economy to socialist market economy, public ownership and market economy. Attention to the law of value, but do not think the law of value in itself all the things we will be able to manage well, and everything to the market to control. If some resources are limited, and the waste generated, then the resources will be depleted. In a free market economy, and there is no mechanism to ensure that limited resources have been the most proper use. Market economy is the root of the decision-making based on the consumer market trading prices of the products provided by the intelligence. Market regulation mechanism of defects and failures, government intervention in economic activities so that a space, is precisely because of this, the Government's macroeconomic regulation and control, the modern market economy has become an integral part of the system. As well-known economist and Nobel Economics Prize winner Paul Samuelson said, "today nothing can replace the market to organize a complex
large-scale economy. The question is, the market had no heart, no mind, it does not Conscience, not thinking, no scruples. So. By the Government to formulate policies to correct some of the market by the economic shortcomings. " Therefore, the "modern market economy and government revenue, expenditure and regulation only visible hand of the mix." • Milton Friedman and many other individual economists believe that excessive government intervention and control will result in the transfer market intelligence obstruct or even stop was due to the normal operation of the market, he considered that this will cause many serious Government external issues such as inflation, recession and depression. • Milton Friedman that the Great Depression is in fact manufactured by the Government of the external triggered by. And the socialist market economy is adhering to market-oriented reforms, the Government must have effective regulation and intervention in the market to correct the deficiencies, there is a need to be coordinated plan guidance. Market economic system under the premise of "regulating plan" include: strategic guidance of the plan, the necessary government on economic management and control, and so on. Ensure that the balance of total economic output - the total demand, the supply of control: the restructuring of major issues, including the first, second and tertiary industries, consumption and accumulation, the processing industry and basic industries, and so on. Fair competition. Ecological balance, environmental protection and "not external economic" problem. Yixiang subjective and practical applications from. Sensitivity of the information poor, the failure will cause interference.

3. Market imperfections and the role of the government's public policy focus

Market failure, government failure and government intervention in the modern market economy, market regulation and government intervention, freedom of competition and macro-control, is closely linked, are intertwined, one can not do an important part. The market mechanism only in the complete validity of the hypothesis that strict conditions under which the establishment, and government intervention is also perfect with the only "good government" link. In other words, market regulation and government intervention is not a panacea, have inherent shortcomings and failures, the failure of the objective may be, the key is to seek economic and social development of the market mechanism with the best combination of government regulation and control, making government intervention in the remedy And correct market failures of the meeting, avoid and overcome the failures. There are shortcomings in the market, market failure is the root cause of information, the Government's focus on encouraging the production of information and ease the information asymmetry. Information of the most important faced by the system is bound by the special nature of the IT industry caused by the failure of the market system, the traditional market and non-market system is not inherent to the development of the IT industry. The need to carry out important non-market system innovation on the other hand, to promote market competition, the market system to play the basic role remains crucial. Non-market system of innovation and market system is complementary and not entirely replace the functions of the latter. To overcome constraints in the system, the Government is the most important non-market one of the innovation system, the Government must play in coordinating and providing public goods such as the active role.

Government intervention and the free market instead of two unrelated economic conditioning systems. Government intervention in economic activities is bound to play a role of the free market have a profound impact. Chinese are moving in the building of the socialist market economy path, the first time in history a socialist public ownership and market economy "with." Through the reform of enterprises, the state-owned enterprises into independent producers and operators, in public ownership economy as a market economy it must shape the microscopic foundation. Other areas of reform (such as fiscal, monetary, price, social security, etc.) must be compatible with it or services. In a market economy, the role played by the Government to the main types of social provision of public information services, to provide the public with information services, eliminating information asymmetries. In addition to the widespread problem of asymmetric information, positive information in the process of eliminating the digital divide. Actively provide government information, while also providing accurate and adequate product information, sufficient information and the real deal. To supply information to the public and specific requirements, the use of information superiority punishment unfair, unfair trade practices or administrative acts.

References


Flexible Working in an Irish
Public Sector Organisation: Still a Gender Issue

Deborah Harrington
Health Service Executive
Southern Region
Cork, Ireland

Dr Margaret Linehan
School of Business
Cork Institute of Technology
Cork, Ireland
Tel: 353-21-4326542
E-mail: mlinehan@cit.ie

Dr Christine Cross (Corresponding author)
Dept. of Personnel & Employment Relations,
Kemmy Business School,
University of Limerick,
National Technological Park
Limerick, Ireland
Tel: 353-61-202245
E-mail: christine.cross@ul.ie

Abstract
This paper examines the experiences of employees availing of flexible working arrangements across four different professions within an Irish public sector organisation. The paper investigates employees’ experiences of flexible working and their perceptions of the impact of flexible working arrangements both on their individual career development and their organisational commitment. Fourteen in-depth face-to-face semi-structured interviews were conducted. The results of the study illustrate that flexible working policies are highly gendered with more women than men opting to reduce their working hours. This, in turn, has implications for career development strategies for both female employees and the organisation. In terms of accessing flexible working arrangements the attitude and support of the line manager is seen as critical. Despite a reduction in hours, all interviewees demonstrated a high level of commitment to clients, colleagues, and the organisation.

Keywords: Flexible working, Public sector, Ireland, Organisational commitment

1. Introduction
Recent decades have witnessed a very significant increase in the number of women working in the paid labour force globally (ILO, 2004; ILO, 2007). A similar increase has been recorded in Ireland. In 1971, Irish women’s labour force participation rate was particularly low, at just 28%; while today, the numbers of women employed in all sectors of the Irish economy have reached numbers never previously experienced, currently standing at a participation rate of almost 59% (CSO, 2006). Associated with this rise has been a shift away from the perception of the family unit as consisting of a working father, stay at home mother and extended family providing support as required. Improved access to education for women and the women’s liberation movement were important factors in increasing not only the number of women entering the workplace, but also in improving their skills and qualifications.

This significant increase of female participation in the Irish labour market has been driven by several other factors. Economic factors, for example, have contributed to the demise of the traditional family structure. The high cost of
home ownership and lifestyle frequently demands a two-salary household. The changes to family structure have brought with them conflict between commitments at home and commitments to organisation and career. Societal changes including an increase in marital breakdown and an increase in single parent families have meant that more women are entering the labour force. Structural changes have also taken place in industry with the traditional male manufacturing sector experiencing a dramatic slump whilst the services sector has benefited from the Irish economic boom of the last decade. Finally, the developments in information and communication technology have assisted employees in working off-site.

Family friendly work polices and programmes have been developed at national and corporate level in Ireland in response to the growing number of women participating in the workforce, who are also attempting to balance their working lives with the traditional female role of raising children. The development of resources such as an annual National Family Friendly Workplace day in Ireland is indicative of the weight that is now being given at both political and business level to the development of family friendly work polices. Participation of the social partners has resulted in the enactment of legislation in the area of force majuere leave, parental leave, carers leave and extended maternity leave and entitlements providing workers with minimum statutory entitlements to enable them carry out their work and family responsibilities. Flexible working is seen as a positive organisational policy in allowing employees to balance their work commitments with family life or hobbies and interests.

The Irish public sector, in particular, has been at the forefront of the development of family friendly polices and providing ease of access to parental leave. It merits examining the realities of flexible working, however, from an employee perspective rather than merely quantifying the numbers of employees availing of flexible working arrangements and assuming that all such employees have positive experiences of reducing their working hours. Having an organisational policy on flexible working is viewed as a positive step towards providing employees with work–life balance. Having these policies, however, should not be construed as being an end in itself. These policies present organisations with further challenges such as ensuring equitable access, the involvement of line managers, the impact on service delivery and organisational culture. From a human resource practitioner perspective, understanding the relationship between flexible working arrangements and career development is important for the development of career management systems which are inclusive of employees who chose to reduce their working hours.

The aim of this paper is therefore to examine the experiences of employees who engage in flexible working arrangements across four different professions within one Irish public sector organisation. The paper will investigate employees’ experiences of flexible working and their perceptions of the impact of flexible working arrangements on both organisational commitment and individual career development

2. Flexible working

Flexible working options allow employees to balance career and lifestyle aspirations (Hogarth et al, 2001). Flexibility in working time includes a variety of arrangements for part-time work, job-sharing, flexi-time, fixed-term contracts, subcontracting and career/employment break schemes (Papalexandris and Kramar, 1997). Flexible working is the very basis of work-life balance (Felstead et al, 2002). The following working arrangements are typically classified as flexible working and may be provided by organisations on a discretionary basis—flexi-time, part-time working, compressed week, career breaks, term-time working and job-sharing. Organisations also have a statutory obligation to provide certain family friendly initiatives such as maternity leave and parental leave. Research conducted by Kodz et al (2002) identifies several difficulties experienced by staff who had opted to work reduced or different hours. These include slower career progression, lower status jobs, workload pressures, reactions of colleagues and managers. It is well recognised that family can impact negatively on work and vice versa. Flexible working arrangements may mediate those difficulties and are seen as an important feature of family friendly polices.

It is acknowledged that flexible working arrangements allow for the employee to better balance their commitments to both work and family. Economic, technological, social and family changes have encouraged the introduction of flexible working arrangements. (Papalexandris and Kramar, 1997). Baltes et al (1999) contends that flexible working arrangements are often introduced in response to employee demands and to promote employee morale. Their research concluded that flexibility in working arrangements has positive effects on productivity, job satisfaction and absenteeism. It has also been observed that flexible working arrangements can exert a positive impact on staff retention rates.

Research conducted by Drew et al (2003) concluded that work-life balance initiatives are highly gendered with more women than men opting for reduced working hours. O’Brien and Shemilt (2003) also reported that the use of flexible working practices is generally low among fathers. Benefits attributed to flexible working and work life
balance policies include easier service delivery (Hogarth et al, 2001) and enhanced service delivery (Lasch, 1999). Papalexandris and Kramar (1997) identify the following factors which influence the extent to which work and family have been successfully accommodated; the attitudes, expectations and priorities accorded to work and family roles by both partners, schedule compatibility and the opportunities available to spend time together as a family and time available to complete domestic tasks.

It is unclear however if family friendly initiatives provide value for money to organisations. Kodz et al (2002) advise that quantitative data relating to the cost and benefits of work-life balance initiatives are not readily available, as organisations are not systematically collecting the data needed to evaluate the costs and benefits of family friendly work arrangements. The success, or otherwise of flexible working arrangements is dependent on several factors, including line manager predisposition to the notion of flexible working, the prevailing culture within the organisation as well as the dispersion of power.

In an Irish context, a national framework for family-friendly policies was established under the Programme for Prosperity and Fairness, to focus on facilitating and supporting the unitary development of family friendly policies at the enterprise level (Fagan, 2003). Subsequently, the National Framework Committee on Family Friendly Policies was established to promote and raise awareness of family friendly working practices with the promotion of annual family friendly days. The focus has now shifted to the promotion of work-life balance days in an effort to include employees who do not have families.

2.1 Flexible working and career development

The objectives of the individual traditionally were expected to conform to the objectives of the organisation, thereby creating careers which emphasised vertical progression, with each progression providing increases in status, responsibility and reward (Hall and Mirvis, 1995). MacDermid et al (2001) suggest that working women today are not necessarily conforming to the traditional male organisational career pattern, preferring to negotiate alternative responsibility and reward (Hall and Mirvis, 1995). MacDermid et al (2001) suggest that working women today are not necessarily conforming to the traditional male organisational career pattern, preferring to negotiate alternative responsibility and reward (Hall and Mirvis, 1995).

While Pleck (1985) has contended that it is more acceptable for men to choose work over family and women to choose family over work. While the gender imbalance in flexible working exists, with more women choosing to reduce their working hours, women will find their career paths diverging significantly from the male, carrying with it significant costs in promotions, income, prestige, responsibility and authority (Fynes et al, 1996).

How family friendly work polices impact on the advancement of women’s careers is uncertain at best (Schwartz, 1996). Schwartz (1996) takes the view that career advancement is important to both the employee and the organisation. In terms of the employee it serves as economic and personal achievement; for the employer it contributes to the ongoing development of the organisation and generates a return on investment. Drew (2003) acknowledges that even though flexible working arrangements improve the reconciliation of work and family commitment, concern relating to career prospects may deter employees in choosing them. Men report that utilising flexible working arrangements is not acceptable within organisations, as it is perceived as a indicating a lack of career commitment, (Kodz et al 2002, Hogarth et al, 2001).

2.2 Flexible working and organisational commitment

Mowday et al (1979) have defined organisational commitment as the relative strength of an individual’s identification with, and involvement in, a particular organisation. Conceptually, it can be characterised by at least three factors: (a) a strong belief in and acceptance of the organisation’s goals and values; (b) a willingness to exert considerable effort on behalf of the organisation: and (c) a strong desire to maintain membership in the organisation. The feeling of attachment can bind the individual to the organisation and can lead to employees wanting to stay with the organisation, attending and performing (Hau-siu Chow, 1994).

Gaertner and Nollen (1989) were amongst the first to investigate the link between employees’ affective commitment and their perceptions of their organisations HRM practices. They found higher levels of psychological commitment in employees who felt they were seen as resources to be utilised by the organisation as opposed to commodities to be bought and sold (1989: 987). Their research also found that a policy of promotion from within can exert a beneficial influence on commitment levels and that commitment levels tended to be higher in employees who had been promoted within the organisation. In terms of generating commitment from employees, MacDuffie (1995) emphasised the importance of using “bundles” of HRM practices that are consistent with each other and also compatible to the organisation’s culture. These practices include selective recruitment, extensive socialisation, information sharing, extensive benefits, promotion from within (Agarwala, 2003).

Organisational commitment may vary over the course of an employee’s career (Allen and Meyer, 1993). Research suggests that age and tenure are positively associated with the development of both affective and continuance commitment (Allen and Meyer, 1993, Hackett et al, 1994). Conway (2004) proposes that HR practices aimed at increasing employee commitment should differ depending on the career stage of the employee. It must be
acknowledged however that commitment by employees is a complex matter and not easily prescribed for. There are many relationships between commitment and employee behaviour which may mediated by situational factors such as financial need, line management attitude, career stage or organisational policy (Mathieu and Zajac, 1990, Cohen, 1991).

Greenhaus and Callanan (1994) suggest that organisations should reconsider what commitment levels they can expect from employees in light of increased pressure on employees to juggle career and family. It is important to consider organisation commitment in terms of analysing careers because commitment affects the sequence of people’s work experiences. The breaking of the psychological contract, the subsequent disappointments and thwarted ambitions colour employees’ experiences of work (Arnold, 1997).

3. Methodology

In order to accomplish the aims of the study, one of the researchers met with the directors of this organisation and explained the purpose of the research and the desire to access staff of different occupations to participate in this research study. The directors expressed their interest in the study and their willingness to assist by approaching staff availing of flexible working and requesting that they participate in the study. All directors followed up by emailing the researchers with names and contact telephone numbers of staff who were availing of flexible working hours and had indicated their willingness to participate in the study. The researcher rang each staff member and arranged to interview them at a mutually convenient time in their place of work. An interview guide was emailed to participants prior to the interviews.

Interviews were subsequently conducted with fourteen staff members working in four main disciplines – Public Health Nursing, Administration/Management, Acute Hospital Nursing and Speech and Language Therapists. Interviewees were selected on the basis that they participated in flexible working arrangements which had been formally approved by their line managers. These flexible working arrangements were parental leave and reduced and alternative working hours. Employees varied in terms of their reasons for engaging in flexible working arrangements, number of children and length of time working in the organisation (Table 1). This variety in interviewees allowed for various trends within the sample to be uncovered. It also allowed for a broader analysis of the experiences of flexible working in different occupations.

Interviews were semi-structured and although the interview guide provided a degree of structure, the semi-structured approach allowed deviations to follow interesting lines of inquiry. Interviews covered the following five main topics: Reasons for availing of flexible working hours; Experiences in applying for flexible working hours; Benefits and drawbacks of flexible working arrangements; Flexible working arrangements and career development; Flexible working arrangements and commitment to the organisation.

3.1 Case Study

The Health Service Executive Southern Area is an Irish public sector organisation which is responsible for the provision of health and social services to the people of Cork and Kerry (two of the twenty-six counties in Ireland). Staff are employed in a wide range of occupations and professions including nurses, doctors, administrators, social workers, speech and language therapists etc. These staff are employed in a variety of settings including acute hospitals, psychiatric or community hospitals, primary care services and community services, intellectual disability services and corporate services. The Health Service Executive Southern Area is an organisation in a state of flux and transformation as a result of major structural changes in the Irish health service. This new organisation formally came into existence on 1 January 2005, when the Irish health service was transformed from twelve health board areas to one organisation, delivering services through four regions.

Flexible working practices are well embedded within the culture of the organisation. There are currently 4,709 employees availing of flexible working arrangements in the Health Service Executive Southern Area. This number represents employees who have reduced their working hours from the standard working week for their grade. The Health Service Executive Southern Area provides a wide range of flexible working arrangements to employees, both on a statutory and a non-statutory basis. Types of flexible working arrangements available to employees are: Flexible working hours (reduced and alternative working hours); Job-sharing; Parental leave; Carers leave; Term time leave and Career Breaks. These polices are disseminated to line managers and are widely available to all staff on the organisation’s intranet site. There are currently 110 employees availing of term time working, 109 of which are female and only one of which is male. Available figures also indicate that there were 627 employees on a career break during 2005.

4. Employees’ Reasons for Availing of Flexible Working Hours

4.1 Balancing work and children

Thirteen of the fourteen participants availed of flexible working hours to enable them to balance both work and family life. The interviewees believe that flexible working arrangements are an important factor in facilitating
women’s continued participation in the workplace. All of these thirteen interviewees had worked on a full-time basis prior to having children. Only three of the interviewees, however, had returned to work on a full-time basis after having children and these interviewees spoke of the difficulties of juggling both motherhood and a full-time work commitment. They recounted stressful experiences of trying to manage work and family. They also observed that when both partners pursue careers, although the rewards may be high, so too can the pressures:

*I was spending the weekends getting bottles, feeds, bibs, clothes for each day of the week organised. It was crazy. I wasn’t spending time with my son at weekends because a lot of the weekend was spent getting organised for the coming week* (Interviewee 1).

The work-family conflict experienced by this interviewee forced her to leave a private sector company to join the Health Service Executive Southern Area. She admitted that the option of flexible working hours was a key factor in this decision, thereby suggesting that work-family conflict is related to job dissatisfaction, high turnover and stress. This finding supports Greenhaus and Callanan’s (1994) concept of time-based conflict, which they suggested occurs when both family and work compete for the individual’s time. Time-based conflict is most likely to be experienced by employees who travel, work overtime and have inflexible work schedules. Their model posited that employees who experience the most extensive work-family conflict tend to be married, have young children, large families and spouses who hold responsible jobs.

The findings from the current study reveal that three employees who returned to work on a full-time basis, after having children, were not working for the Health Service Executive Southern Area, at the time of having their children, but were employed by private sector organisations. Two of these employees went on to have more children, while employed by the Health Service Executive, and subsequently returned from maternity leave on flexible working arrangements:

*The more you are at home, the more the children want you to be at home, and worse, the more I want to be at home. There was never an issue regarding flexible working arrangements before I joined the Health Service Executive. When I worked in the private sector I just had to work standard hours and that was the way it was* (Interviewee 2).

All of the eleven employees who had worked for the Health Service Executive prior to having children returned from maternity leave on flexible working hours. One interviewee commented that this practice was very much the norm within the organisation:

*I don’t think I know any colleague with young children who isn’t on some sort of reduced working hours. You just have to cut down your hours. It is impossible to manage otherwise* (Interviewee 13).

Interviewees revealed that although they wished to continue in employment, they did not want to be in a situation where they could not fully commit to their work or to their role as mothers to their satisfaction. The pressure of the dual roles of employee and mother resulted in one of interviewee’s deciding that a career break was the best alternative:

*I found before I took the leave of absence that I wasn’t doing either job properly, I wasn’t at home properly or I wasn’t at work properly. In the day unit where I worked, I might have to ring home at 6pm and say I won’t be home until 8pm because I might be waiting on an ambulance to transfer a patient to another hospital and that wasn’t suitable because the child minder might not always be willing to stay on* (Interviewee 12).

In summary, the findings illustrate that balancing work with caring for children is the primary reason why interviewees reduced their working hours.

### 4.2 Work–life balance

The interviewees admitted that by availing of flexible working arrangements they are attempting to achieve work–life balance. It is clear, therefore, that flexible working and work–life balance are inextricably linked with caring for family and children. Only one of the fourteen interviewees who availed of flexible working hours to improve her work–life balance did so without childcare being her main motive. Having previously worked as an acute hospital nurse in a non-health service executive hospital at managerial level, she experienced dissatisfaction not only with the long working hours, but was also troubled by a poor working relationship with her manager. She chose to change career direction and return to university for a year to train as a public health nurse and subsequently took up employment with the Health Service Executive:

*I needed a change. I really didn’t like what I was doing. I made the move from acute nursing to public health nursing and as soon as I could. I reduced working hours; I have a better lifestyle now, no question about it. I used to be very stressed when I worked in the hospital* (Interviewee 4).

This suggests that a stressful experience triggered a re-evaluation of both career and personal life and fostered a determination to find greater equilibrium between the two. Career decision making, therefore, is more than simply
deciding what type of occupation to choose. As illustrated, it includes the decision to re-train in order to achieve a greater balance between work and personal life, thereby highlighting that work–life balance decisions can be seen as a factor in career decision-making.

4.3 Facilitating childcare arrangements

Childcare considerations emerged as a key issue in the decision to reduce working hours for six of the interviewees. These interviewees reduced their working hours to facilitate their childcare arrangements. One interviewee further reduced her working hours from four to three days because once her second child was born; her childcare provider was unwilling to take two children on a four day basis:

_I got pregnant again and my child minder wouldn’t take my daughter as well as my son so I had to put her in a crèche. The crèche either took kids five or three days but not four. My childminder would take her for three days but four was too much for her. So I decided that three days was the ideal for everybody. It suited me to spend more time with the kids_ (Interviewee 1).

It can be suggested, therefore, the women devote more time to their role as mothers than men do to their role as fathers. Women are continually adapting their organisational lives to suit the needs of their families, whilst their male counterparts are not subject to the same pressure.

5. Employees’ Experiences of Accessing Flexible Working Arrangements

5.1 Line manager support

There is a strong culture of flexible working within the Health Service Executive Southern Area. All interviewees demonstrated a strong awareness of the various organisational policies on flexible working time, parental leave and term time working etc. Line managers, intranet and colleagues were identified as the main sources of information on these polices.

All fourteen interviewees reported varied and different experiences of gaining access to flexible working arrangements. The findings suggest that managerial support is a key factor to accessing flexible working arrangements. The response that an employee receives to a request for alternative work arrangements may depend on the manager’s personal beliefs and past experiences with balancing work and family. One interviewee observed that her line manager was unfamiliar with the range of flexible working options available to employees of the Health Service Executive:

_I don’t think my line manager understood the different working arrangement that were available in the organisation. The department was made up of men and younger women without children so I think maybe he hadn’t come across these types of requests before. It made the application process confusing for both himself and myself. Additionally, there is a lack of transparency in the application of flexible policies, for example, some employees work through their lunch and finish at 4.00p.m., but, that practice is not allowed in my section._ (Interviewee 2).

These sentiments echo the previous findings of Bish et al. (2004) who suggested that a lack of procedural justice can influence organisational members’ perceptions of justice within the organisation. Despite the fact that an overall policy on flexible working exists, it is interpreted and implemented differently, by different managers in different departments. Konovsky and Cropanzano (1991) also reported that perceived fairness of human resource polices is positively linked to organisational commitment so it is important that the implementation of the policy on flexible working is standardised across the organisation.

The findings from the current study strongly support the view that line managers have a distinct responsibility for human resource management in practice:

_I went to my boss while I was on maternity leave and asked for flexible working arrangements. I suggested working three flexible days and taking one day parental leave. He said ‘sounds good to me’, and gave me the application form. It really was as easy as that_ (Interviewee 1).

_I found applying for flexible working hours very easy, the line manager was very clued in_ (Interviewee 10).

The interviewees who were longest employed made comparisons in terms of accessing flexible working now and when they first joined the organisation:

_When I started in the 1980s the organisation was very inflexible, and it was much harder to gain access to reduced hours_ (Interviewee 12).

The organisation has subsequently altered its policy on flexible working arrangements in line with societal, legislative and labour market changes. The shortage of skilled and experienced workers has also necessitated a shift in policy and line manager attitudes to flexible working arrangements. The findings further indicate that in
terms of approving job-sharing arrangements line managers prefer to be approached by both employees who are applying for job-sharing, rather than having to look for a job-sharing partner for an employee:

In relation to applying for job-sharing, it was made easy for my line manager because my partner and I went to her with everything arranged. If I had gone on my own without a partner then things would have been more difficult as she would have had to go looking for someone to partner me, which might not have happened (Interviewee 4).

I have found from my own experience and from talking to colleagues that managers prefer if you apply for job-sharing as a couple. Otherwise it’s a headache for managers because it falls to them to try and find someone to be the other half of the job-sharer (Interviewee 14).

Line managers, therefore, are faced with difficulties in balancing the demands of employees with the demands of the service. A cause for concern, however, is that different line managers appear to interpret and implement the policy of flexible working in different ways. They face considerable pressure from employees to grant access to flexible working as this benefit is now seen as an entitlement. The findings indicate that employees have relational psychological contracts with the organisation and the expectations for the provision of flexible working hours on the part of the organisation are now central to that contract.

5.2 Bargaining power of employees in negotiating flexible working arrangements

A shortage of skilled employees in the labour market, particularly in the professions of nursing and speech and language therapy has resulted in employees having significant bargaining power when negotiating their preferred working hours. This suggests that some employees may wield significant power when it comes to the provision of flexible working arrangements by their organisation. Power plays a significant role in negotiating flexible working arrangements. When one interviewee was faced with not being transferred to her desired work location with working hours suitable to her family life, she threatened to leave:

I couldn’t get approval for the hours I wanted in the ward I wanted. I consulted with another colleague who said threaten to leave, tell them that you will take a year of absence. So I did, and I got what I wanted (Interviewee 11).

This suggests that organisations stand to lose valuable human resources if they fail to help their employees resolve difficulties in achieving balance between work and family responsibilities. Some interviewees revealed that they had engaged in negotiations with their managers to arrive at a mutually acceptable arrangement:

My child-minder didn’t want to mind three children so I when I came back from maternity leave after having my third child I did a deal with my boss. I wanted three days; he wanted four so we agreed on three and a half (Interviewee 5).

This suggests that managers who are faced with a shortage of staff are often forced to provide employees with working hours that are more suitable to the terms of the employees rather than the terms of the organisation:

When I came back from a career break three years ago the organisation would have liked me to do more than one day but that’s all I was willing to commit to and they accepted that (Interviewee 12).

It is clear that employees have considerable bargaining power when it comes to accessing flexible working, but this power is largely dependent on the profession or service in which the employee works. Staff shortages in areas such as speech and language therapy, and acute nursing means that managers may have to deal with losing staff members if their requests for flexible working are not accommodated.

6. Perceived Benefits of Flexible Work Arrangements

All of the interviewees strongly supported the availability of flexible working arrangements and perceived it as a valuable benefit to employees within the Health Service Executive. The interviewees believed that flexible working arrangements, rather than financial remuneration, attract potential employees

The job I applied for was advertised as a 35-hour week; that alone attracted me because I was used to working at least a 39-hour week in the private sector. The salary was less than I was earning but the salary scale would mean in the longer term my earnings would increase. But the main factor for me was getting parental leave the way I wanted and getting access to flexible working hours. My priorities had changed once I had children and I valued time with them more than money (Interviewee 1).

I took a 25% pay cut to come to the organisation, which was fine because I knew it meant a 25% reduction in time commitment. I knew that it was going to be 9am-5pm, and there were more opportunities in terms of flexibility – 32 days holidays versus 20 so from a balance perspective it made a lot of sense. With my previous employer, if you finished at 5pm most people would say ‘are you on a half day today?’ (Interviewee 5).

Some interviewees commented that without a flexible working policy, they could not have returned to work:
If I didn’t have my current working arrangements I probably would have had to give up work altogether (Interviewee 13).

Without a flexible working policy the organisation may have suffered from even greater staff and skill shortages than are currently being experienced. The interviewees also believed that flexible working arrangements exert positive effects on productivity, job satisfaction and absenteeism. They commented on their increase focus on their work and their more limited time than those working full-time. None of the interviewees, however, reported that this presented difficulties for them or resulted in ill feeling towards colleagues or the organisation:

I’ve found that I work a lot harder. I work a lot more in the evenings, I’m often here until 7pm (my finish time is 5pm), especially on the day that I am handing over to my partner. I really don’t mind. I just feel that when I finish them I’m off for four to five days again. I’m a happier employee. I don’t resent doing those extra hours and I’m more enthusiastic (Interviewee 4).

The interviewees also believed that flexible working arrangements contribute to lower rates of absenteeism and employee turnover. None of the interviewees indicated an intention to leave the organisation and highlighted flexible working, generous annual leave entitlements and job security as the main reasons for staying with the Health Service Executive. They also suggested that enhanced service delivery can be attributed as a benefit of flexible working. Two interviewees observed that being a parent and still being able to continue to practice as a speech and language therapist enhanced their practice:

I think that before I had children that I was perhaps unrealistic in what I expected parents to accomplish with their children. I probably expected too much in terms of the work that they should be doing with the children at home. Now I understand what is involved in working and raising a family. I think that makes me a better practitioner (Interviewee 7).

I think that ultimately I provide a better service to my patients because I am a happier employee. If I was working hours that didn’t suit me I think that would have a negative effect on my work (Interviewee 13).

7. Perceived Drawbacks of Flexible Working Arrangements

Unsurprisingly, given that the study is based on employees’ experiences, fewer difficulties than benefits were highlighted. The findings, however, indicate that participants considered that difficulties did arise from flexible working arrangements. Public health nursing interviewees, for example, commented that they sometimes missed following up on the outcome of a case:

I don’t get to follow through on patients. When I come back in the following Friday I might ask my colleagues what happened to a particular patient and they may have forgotten because it was a week ago. It would probably be nicer for the patient if I was there two days in a row rather than facing another strange face (Interviewee 12).

One of the interviewees who worked in speech and language therapy revealed that because of the shortage of therapists she worried about the impact her reduction of working hours would have on service delivery and commented that she felt guilty apply for flexible working hours. The interviewees also highlighted workload pressure as a disadvantage to flexible working. Some employees believed that they work ‘five days work in four’.

Information sharing was also highlighted by job-sharers as a perceived problem, but one which can be overcome by writing hand-over notes and by briefing each other over the telephone:

Next Tuesday when I handover I will spend a lot of time writing up notes for my partner. It’s the most efficient way though to handover. I find that if I want something and there is nothing written there can be an information gap, whereas if I was working full time I would know (Interviewee 6).

Additionally, some interviewees commented that colleagues treated them differently once they had reduced their working hours:

There is vast difference when I worked three-days a week compared to four. I was no longer a full-time employee who happened to be out one day a week. The feeling I got was that I was never there. The comments from my colleagues were - ‘are you in tomorrow?’, ‘what days are you on again?’ (Interviewee 1).

This suggests that in the longer term, flexible working arrangements may be damaging to team development.

8. Impact of Flexible Working Arrangements on Career Development

In terms of career development the Health Service Executive Southern Area has a long history of promotion from within. Interviewees did not believe that women who availed of flexible work arrangements may have to sacrifice career advancement. Over half of the interviewees worked in either supervisory or management positions within the organisation. The remaining interviewees were at basic or entry level positions within the organisation.
Interviewees were not concerned that availing of flexible working hours may damage their careers within the organisation. For example, Speech and Language Therapy Managers had progressed through the hierarchy, whilst on flexible working hours. It must be acknowledged, however, that employees had different career expectations and therefore differed in terms of their levels of career centrality. Seven of the interviewees revealed that they had no interest in further developing their careers because they wanted to enjoy their children and believed that to progress upward they would have to increase their working hours, which they were unwilling to do:

*I am enjoying time with my son, I have absolutely no intention of doing anything that would interfere with that time, including going for promotion* (Interviewee 11).

Other interviewees spoke of reducing their working hours even further to enhance their family life:

*I'm not really thinking about progressing at this stage. I'm considering term-time working and if that was approved it would make it much harder to go for promotion because I might not get that opportunity in another department* (Interviewee 2).

*I have no intention of going for promotion until my kids are grown up. I want to enjoy them. Reducing my hours further is what I want.* (Interviewee 11)

The findings support Ginzberg’s (1984) conclusion that the male model of career progression and choice does not fit the female prototype, as many women experience frequent shifts between home and work. The findings also indicate a high level of career ‘plateauing’ among interviewees, which might be detrimental to the provision of skilled staff in the future. Interviewees referred to their careers as being ‘parked’ for the next few years until their children are established at school. It is important for these interviewees to have reached senior positions in the organisation and be content to work at that level until such time they decide to ‘drive on’ again. These are conscious decisions to ‘plateau’ until the time is right for further career advancement.

Other interviewees also believed that they had ‘parked’ their careers while their children were young, but none of the interviewees saw any significant barrier to their careers ‘taking off’ at a later date. Some interviewees believed that they would have to increase their hours to accelerate their careers in the future. Others, however, observed colleagues who had successfully progressed in their careers while enjoying reduced working hours. Although on the surface interviewees do not consider that they are sacrificing career advancement, there is constant referral to ‘plateauing’ and dealing with career issues when children have grown. This finding suggests that a gender imbalance regarding flexible working exists, with far more women choosing to reduce their working hours than their male counterparts. These women also find their career paths diverging significantly from the careers of their male colleagues. Interestingly, interviewees did not consider that they were losing out in terms of promotions, income, prestige, responsibility and authority. They benchmarked themselves against female colleagues whom they used as role models, to illustrate the careers of women who are or had been partaking in flexible working arrangements and were successful in their careers. They did not benchmark against male employees in terms of career development. None of the interviewees spoke of the ‘traditional’ career with long term goal setting and clearly defined career objectives. Instead, what emerged was a belief that they would re-negotiate their career goals as time went on, particularly when their children had grown older. This suggests that rather than being age-related, phases of women’s career development may be more tied to the family life cycle. Interestingly, interviewees who had worked in the private sector reported that their colleagues in industry perceived that a move to the public sector and reduced working hours would ‘strike a death knell’ to their careers.

When asked about the career management systems within the organisation, three of the interviewees referred to the lack of adequate support for employee career planning. The organisation, due to its size and the grading structure, has a very large internal labour market which is defined by job ladders, providing employees with promotional opportunities with centralised pay systems. Employees, however, are not provided with guidance and support in how to capitalise on these opportunities:

*Anybody new who came in assumed that I was the secretary because I was working three days a week. Three days a week is not perceived as a career* (Interviewee 1).

Overall, the findings suggest that the male model of career preparation and choice does not fit the female prototype, because many women interrupt furthering their education and career, for marriage and child-rearing and experience frequent shifts between home and work. The findings support Gilligan’s (1982) model of female career development where women’s careers have to incorporate caring for others as their careers progress.

### 9. Flexible Working Arrangements and Organisational Commitment

Varied responses were elicited from interviewees when questioned about their commitment towards the organisation and whether they perceived their commitment levels to have been affected by their participation in flexible working arrangements.
arrangements. Some interviewees commented that their time commitment to the organisation was more defined. Interviewees who employed child-minders said that they had to operate to a strict timetable in terms of collecting their children and hence working longer hours was no longer an option for them:

*I’m quite clear now that I have to leave at 5pm, whereas before I would have stayed on and crammed in more. I’m clear that this is my time when I am here and I don’t come in early or bring work home with me anymore because I physically can’t do it* (Interviewee 7).

Working long hours, however, has not been highlighted as a feature of organisational citizenship behaviour and importantly some interviewees also revealed high levels of organisational citizenship, by changing their working hours to facilitate meetings and training. Many interviewees work beyond their official finishing time and make themselves available to staff and management on their day off:

*My boss will ring me at 8pm or on weekends, but I have no problem with that. To me, that’s part of the deal. It’s give and take; it is two-way flexibility. Often he cannot talk to me at all between 9am and 5pm because he is in meetings and I understand that* (Interviewee 5).

This suggests that flexible working plays an important part in generating organisational commitment and also forms part of a relational psychological contract, where two way flexibility is part of the deal. Some interviewees suggested that their colleagues believed that because they had reduced their hours, this in turn meant reduced commitment to their job. Interestingly, three interviewees reported that this perception was not as prevalent when they worked four days per week, but when they reduced to three days a week colleagues viewed them as ‘hardly in the workplace at all’.

A central finding in relation to organisational commitment is that interviewees engaged directly in service provision, such as speech and language therapy and nursing spoke more strongly of their commitment to their professions, colleagues and clients than to the organisation. The contribution of their line manager is also highlighted for generating commitment:

*I do feel loyal but that feeling is present within the department and fostered by the manager. I believe that the line manager and the organisation are good to me so I will pay that back* (Interviewee 7).

The majority of interviewees believed that they are ‘good citizens’ of the organisation. All of the interviewees revealed their willingness to flex their working hours to suit the organisation if a crisis arose or to cover for a colleague. Six of the interviewees reported staying back late to write up notes for their job-sharing partner, staying with a patient who was awaiting a hospital bed or transfer by ambulance to another hospital, or taking work related calls when scheduled on a day off. These behaviours of going ‘above and beyond duty’ and one’s job description are indicative of high levels of organisational citizenship behaviour as posited by Meyer and Allen (1997). Other organisational benefits resulting from flexible working hours include improved morale, commitment and higher productivity. Overall, the findings suggest that flexible working arrangements are important for the creation and maintenance of continuing commitment to the organisation, clients, and colleagues.

10. Limitations of the Study

It was not the initial intention to focus this study on women’s experiences solely. It would have been desirable to have a male viewpoint represented within the study. Despite trying several occupations within the Health Service Executive Southern Area, however, a man availing of flexible working arrangements in any form, could not be found. We believe that the contribution from male interviewees would have added to the richness of the study. Perhaps this limitation is indicative of the embeddedness of traditional gender roles within Irish society. In exploring employees’ perceptions of the impact of flexible working arrangements on career development, it must be acknowledged that interviewees will differ in terms of personality and in particular in levels of ambition and career centrality. Some interviewees will value career more than others, so may hold stronger views on the relationship between career development and flexible working.

The organisation is a large public sector organisation which offers a range of attractive benefits such as job security, good pension entitlements and generous annual leave. It may be difficult to isolate one factor such as flexible working arrangements as being the key factor in engendering organisational commitment. Additionally, because the Health Service Executive Southern Area is a public sector organisation with a large number of employees availing of flexible working arrangements, it may not be possible to generalise across other sectors of the economy.

11. Discussion and Conclusion

The organisation provides employees with a range of attractive flexible working arrangements, many beyond the statutory minimum. There is a distinct lack of synergy, however, between flexible working arrangements and career management activities in the organisation. What is problematic here is that the organisation is failing to
engage in any measurable way in career management, resulting in a one ‘sided approach’ to career development. Employees may take responsibility for their own career planning and use flexible working as a means to do this, but the organisation is failing to provide systematic career management activities which in turn may make it more difficult for women to progress their careers while availing of flexible working arrangements.

The Health Service Executive Southern Area does not have a strategic career management system. The organisation is lagging behind other Irish public sector organisations, such as the civil service and local authorities, in that a performance management system has yet to be introduced. Such a system would include the operation of personal development plans and agreed objectives for employees. Importantly, both line and senior managers would need to become involved in career management activities, a practice which appears to be severely lacking within the organisation. Without such a system, the organisation is in danger of not having sufficient skilled staff to meet future requirements. Although flexible working arrangements are beneficial to employees and employer, the high level of career ‘plateauing’ is a cause for concern. The majority of employees who took part in this study are allowing their careers to plateau. Some revealed low levels of career centrality and were content to remain at their current level and used flexible working as a means of alleviating work-family conflict. For those employees however, that saw their careers progressing when their children were older, the lack of a career management system within the organisation means that reviving their careers cannot be planned for.

Overall, the findings reveal that the provision of flexible working arrangements is something of ‘a golden handcuff’ benefit to employees, meaning that it is a highly valued benefit which ties employees to the organisation. None of the employees indicated that they intend leaving the organisation at any stage in the future. Flexible working arrangements are highly valued by all employees who avail of them. They are considered to be a non-financial benefit which strongly ties employees to the organisation, particularly as they are less available in the private sector. Flexible working arrangements are also critical in mediating the difficulties experienced by women within the organisation who wish to pursue both a career and a family life. Without flexible working arrangements, many female employees would be unable to progress their careers and the organisation would lose valued and skilled employees, which ultimately would impact negatively on the provision of services to clients and patients. Critically, the findings illustrate that there is a strong culture of employees moving to flexible working after returning from maternity leave. Of significant importance is the finding that flexible working has become an unspoken ‘condition’ of interviewees’ returning to work after having children.

Interestingly, the majority of participants demonstrated a high level of commitment to the clients within their service. Previous literature in the area of organisational commitment has explored commitment to the organisation and colleagues but has not uncovered the strong levels of commitment between front line employees and their patients and clients. The provision of flexible working arrangements and the notion of two-way flexibility is a key factor in generating this attitude among employees.

References


Table 1. Career profiles of interviewees

<table>
<thead>
<tr>
<th>No</th>
<th>Discipline</th>
<th>Grade</th>
<th>Working Arrangements</th>
<th>Time with the HSE</th>
<th>No. of children</th>
<th>Reasons for reducing working hours</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Finance</td>
<td>Grade 8 Manager</td>
<td>3 Day Week</td>
<td>3.5 years</td>
<td>3</td>
<td>Child/Family</td>
</tr>
<tr>
<td>2</td>
<td>Information Technology</td>
<td>Grade 7 Manager</td>
<td>4 Day Week + blocks of parental leave</td>
<td>3.5 years</td>
<td>3</td>
<td>Child/Family</td>
</tr>
<tr>
<td>3</td>
<td>Community Services</td>
<td>Grade 5- Supervisor/Administration</td>
<td>5 Day week -30 hour week</td>
<td>11 years</td>
<td>2</td>
<td>Child/Family</td>
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<tr>
<td>4</td>
<td>Public Health Nursing</td>
<td>Public Health Nurse – South Lee</td>
<td>2 Days week one, 3 days week 2 – Job sharer</td>
<td>3 years</td>
<td>0</td>
<td>Work/Life Balance</td>
</tr>
<tr>
<td>5</td>
<td>Finance</td>
<td>Grade 8 Manager</td>
<td>4 Day week</td>
<td>3 years</td>
<td>3</td>
<td>Child/Family</td>
</tr>
<tr>
<td>6</td>
<td>Public Health Nursing</td>
<td>Public Health Nurse – West Cork</td>
<td>2 Days week one, 3 days week 2 – Job sharer</td>
<td>9 years</td>
<td>4</td>
<td>Child/Family</td>
</tr>
<tr>
<td>7</td>
<td>Speech and Language Therapy</td>
<td>Senior Speech and Language Therapist</td>
<td>4 Day Week</td>
<td>8 years</td>
<td>2</td>
<td>Child/Family</td>
</tr>
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<td>8</td>
<td>Speech and Language Therapy</td>
<td>Speech and Language Therapy Manager</td>
<td>3.5 day week</td>
<td>18 years</td>
<td>2</td>
<td>Child/Family</td>
</tr>
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<td>Speech and Language Therapy</td>
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<td>4 day week</td>
<td>24 years</td>
<td>3</td>
<td>Child/Family</td>
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<td>10</td>
<td>Speech and Language Therapy</td>
<td>Senior Speech and Language Therapist</td>
<td>3.5 day week</td>
<td>21 years</td>
<td>3</td>
<td>Child/Family</td>
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<td>11</td>
<td>Acute Hospital Nursing</td>
<td>Staff Nurse</td>
<td>2 days per week (12 hour shifts)</td>
<td>7 years</td>
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<td>Child/Family</td>
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<td>12</td>
<td>Acute Hospital Nursing</td>
<td>Staff Nurse</td>
<td>1 Day per week</td>
<td>24 years</td>
<td>3</td>
<td>Child/Family</td>
</tr>
<tr>
<td>13</td>
<td>Acute Hospital Nursing</td>
<td>Clinical Nurse Manager</td>
<td>Night shift</td>
<td>12 years</td>
<td>2</td>
<td>Child/Family</td>
</tr>
<tr>
<td>14</td>
<td>Public Health Nursing</td>
<td>Public Health Nurse – West Cork</td>
<td>2 days week one, 3 days week 2 – Job sharer</td>
<td>5 years</td>
<td>2</td>
<td>Child/Family</td>
</tr>
</tbody>
</table>