EDITORIAL

Defining *Homo Economicus* nowadays is a challenging activity that generates many academic debates inside the discipline. The parameters of the analysis of economic behavior have radically changed in the last decades, under the influence of both external phenomena and internal reconfiguration. Managing huge quantities of information and knowledge, permanently striving for innovation, increasing overall performance and competitiveness are just some of the daily concerns in our society, society transformed also from a production-oriented one to a structure governed by consumption and hyper consumption.

In order to understand this new context, a series of neglected variables were reintroduced into the economic discourse: preferences (constitution and dynamics: fairness, selfishness, altruism, cooperation etc), feelings and emotions, non-cognitive skills, heuristics and cognitive biases, cultural influences, market inefficiencies and so on. Also, new research methodologies have been developed, stimulating the extension of new branches like experimental economics and neuroeconomics.

The International Journal of Economic Behavior (IJEB) intends to capture this paradigmatic shift, to explore its different meanings and representations across different research communities and to promote an interdisciplinary collaboration. The importance of such an initiative speaks for itself just by paying attention, in the real sense, to our common human and institutional interactions. If we try hard enough to see the whole picture and not only its pieces, we will clearly observe the acute need to extend the scope of concepts and tools considered in the study of economic behavior.

IJEB will publish state-of-the art research through which aims to create an intellectual environment and discussion forum that will actually help people choose what it is best for themselves and the society.

The papers collected in this inaugural issue reflect a complex and multidimensional exploration of human behavior, ranging from agricultural economics to leadership, education and labor markets. They all emphasize the need for broadening the standard economic model to a more proper structure fitting our real behavior, and most of them reside on three main insights from the emerging literature of behavioral economics: motivation triggers, attitudes and trust, rationality and decision-making.

Organizational structure, both internal and external, is a theme that reunites an important part of the papers, stressing out different perspectives of analysis. Firstly, Daniel May's paper helps us to understand how the formations of networks by small agricultural firms, and thus their

innovative activity, is influenced by goals and socio-psychological variables, trough a decision making multivariate model. The role of cognitive task and the theories of cognitive schemas are highlighted in Mihaela Rus's contribution, also with reference to managerial decisions but with a clearer psychological touch. Completing the framework, Abdelnaser Omran's paper distinguishes between two categories of leadership behavior: oriented towards task/production and towards relationship, while Olu Ojo examines the implications of performance appraisal on the overall performance of the organization. Adding culture as an essential variable, Suele Gerdhe' articles discusses on the direction in which differences in the level of power distance influence relations and patterns of behavior between managers and employees.

Adhering to this stream, but approaching higher education, Maria-Lavinia Popescu's paper on student's attitudes offers a snapshot view from a Romanian university, pointing out the development of systematic marketing research in this area.

From a macro perspective, the papers covering subjects like labor markets in a globalized environment (Rahmah Ismail et al.), the relationship between entrepreneurship and unemployment (S. Ghavidel et al.) and international joint ventures performances (Zheng Xiaosong) are also taking into account, along with the traditional factors and econometric models, the impact of variables like human capabilities, trust and preferences.

Not last, Rahutami and Kurniasari's work on cash transfers is of great interest through its innovativeness in addressing poverty and its extended sustainability, both financial and institutional.

We, the editors, believe that this first issue of IJEB represents an important step in redefining and rediscovering the path to a more healthy economic science, and we want to thank to the authors, the reviewers and the members of our editorial board for sharing the same belief. If you have any views or comments on the journal please feel free to contact us.

Rodica Ianole,
Managing Editor

UNDERSTANDING THE FORMATION OF NETWORKS BY SMALL AGRICULTURAL FIRMS

DANIEL E. MAY - Department of Rural Affairs/Environment,
HARPER ADAMS - University College, UK
GRAHAM J. TATE - Business School, University of Wolverhampton, UK
LESLIE WORRALL - Business School, University of Coventry, UK

Abstract

It is recognised that participation in networks in the agro-food chain provides farmers important opportunities to innovate. This is particularly important for small agricultural firms because these organisations face barriers that prevent them from innovate by means of some specific sources that are available in other industries. Surprisingly, no research has been developed to understand what motivates farmers to be involved in these networks. The paper fills this gap by proposing a decision making multivariate model. A probit analysis based on the proposed model revealed that farmers' decision on participating in networks depends on goals and socio-psychological variables.

Keywords: Network innovation; Small agricultural firms; Multivariate model

1. Introduction

Innovation is related to the creation of value by the application of knowledge in order to improve, change or develop specific activities (Edwards, *et al*., 2004). It also helps firms to create competitive advantages (Lawson and Samson, 2001).

Small agricultural firms in the UK face important barriers that prevent them from innovate by means of some specific sources that are available in other industries. For example, it is recognised the fact that rearranging organisational structures can facilitate the flow of information that is needed to innovate (Johnson *et al.*, 2001). However, because farmers in the UK operate on a family base (Ministry of Agriculture, Fisheries and Food, 2000), it is difficult to support the idea that changing this organisational structure can help farmers to innovate. This is because family members cannot be regrouped into different arrangements such as functional of divisional departments in order to favour the flow of relevant information. Strategic alliances, on the other hand, have been identified as useful tools to increase market power. Market power, in turn, helps farmers to access different markets having the information that is required to innovate (Hagedoorn and Duysters, 2002). In spite of the beneficial effects of the formation

of cooperative alliances on the capacity to increase negotiation power, these alliances are not common in the UK (Ministry of Agriculture, Fisheries and Food, 2000). According to Hingley *et al*. (2006), this is due to the fact that insider suppliers in asymmetric power relationships are not willing to form strategic alliances with other suppliers.

The formation of networks has also been identified as a strategy to innovate in agriculture. For example, Boahene *et al*. (1999) found that farmers benefit from their social networks because they help them to adopt either new product or new technologies. Likewise, Virkkala (2007) found that small farm businesses in peripheral rural areas obtain relevant knowledge on process innovations from their client located in the region and from their relationships with other firms.

Fortunately, network participation is a feasible strategy for small agricultural firms. Moreover, since other strategies are not available for farmers as it was explained above, the participation in networks becomes an extremely important determinant of innovation in agriculture. Surprisingly, while researchers have already identified the link between network and innovation, no study has been conducted to determine farmers' motivations to be involved in beneficial networks.

The objective of the present paper is to fill this gap by proposing a multivariate model that explains farmers' decisions on participating in networks. The proposed framework is based on the contributions of Bergevoet *et al.* (2004) and Willock *et al.* (1999). These authors found that some farmers' strategic behaviours (*e.g.* entrepreneurial behaviour of Dutch dairy farmers under a milk quota system and attitudes toward environmentally oriented farming) depend on both goals and socio-psychological variables referred to as non-economic drivers. Following this finding, the proposed multivariate model assumes that farmers decide to participate in networks considering non-economic drivers. The framework was applied to a sample of ex-Sugar Beet Farmers of the West Midlands of the UK (ESBF). A probit analysis was adopted to test the hypothesis that the participation in networks related to both free market (*i.e.* spot market) and contract market (*i.e.* forward market) depends on different goals and socio-psychological variables. Finally, significant non-economic drivers identified by the probit analysis were used to study how to encourage the formation of beneficial networks.

The paper is structured as follows. Section 2 describes the proposed framework. Section 3 shows the material and methods used in the investigation. Section 4 shows the results, and section 5 concludes the paper.

2. The proposed multivariate model

The proposed framework is based on the contributions of Bergevoet *et al*. (2004) and Willock *et al*. (1999). These researchers developed a framework that integrates two different approaches with the objective to include a large range of valid variables that can explain farmers' decision making. This integrative framework is referred to as multivariate model. One of the approaches considered by this model is the multiple goals approach which postulates that farmers consider non-economic targets when making their decisions (Gasson, 1973). The other approach corresponds to the theory of planned behaviour (Ajzen, 1985). This theory establishes that intention is a good predictor of behaviour, and that intention is determined by attitudes, subjective norms and perceived behavioural control. That is, a person will have an intention to behave in a particular way when she/he has a positive attitude toward this behaviour, when the people who are important for him/her think that he/she should perform this behaviour, and

when the person has the conviction that she/he will successfully execute a behaviour leading to a particular outcome.

The multivariate model proposed in this paper extends the contributions of Bergevoet *et al.* (2004) and Willock *et al.* (1999) with the objective to determine whether the motivation to participate in social networks is explained by farmers' goals, farmers' attitudes toward farming, perceived control, subjective norm, and market barriers (*i.e.* non-economic drivers). This model is shown in Figure 1.

Figure 1: Multivariate model of social network participation
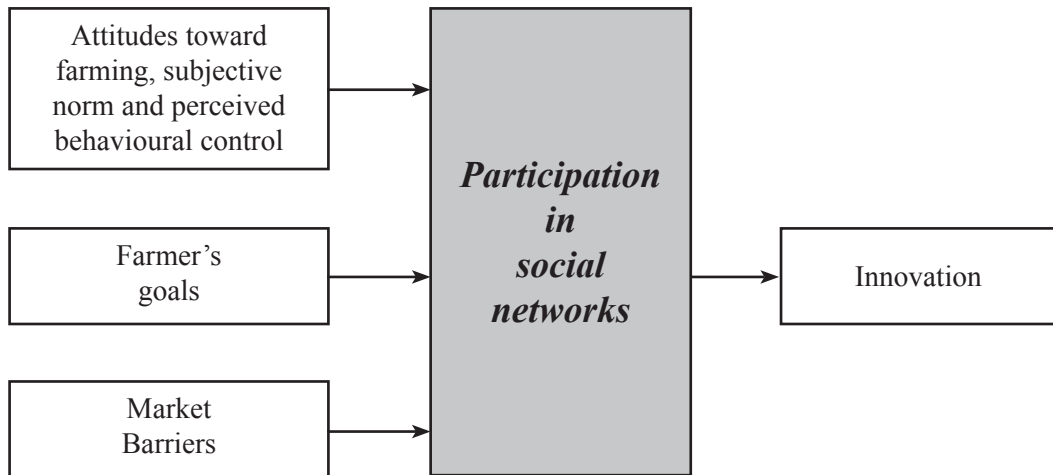
The present paper uses this framework to test two different hypotheses. The first one, named the Hypothesis of Free Market Networks (HFN), establishes that the participation in networks in the free market depends on non-economic drivers. In order to test the HFN, the following null and alternative hypotheses have been specified:

H_0: Farmers' participation in networks in the free market does not depend on non-economic drivers.

H_1: Farmers' participation in networks in the free market depends on non-economic drivers.

The second hypothesis, named the Hypothesis of Contract Networks (HCN), establishes that the participation in networks in the contract market depends on non-economic drives. In order to test the HCN, the following null and alternative hypotheses have been specified:

H_0: Farmers' participation in networks in the contract market does not depend on non-economic drivers.

H_1: Farmers' participation in networks in the contract market depends on non-economic drivers.

3. Methods and materials

The methodology used in this research is closely related to that developed by Bergeovet *et al.* (2004).

3.1 The questionnaire

A questionnaire was used to collect the relevant data on: (*i*) participation in networks in free and contract markets; (*ii*) different social and geographical variables; and (*iii*) statements on farmers' goals, attitudes toward farming, perceived behavioural control, subjective norms and market barriers that prevent farmers from choosing more profitable enterprises. A five point Likert scale was used for questions regarding statements. The statements used in the questionnaire are presented in Appendix A.

3.2 The sample

According to DEFRA statistics, the number of ex-sugar beet growers in the West Midlands region (ESBF) in 2005 was 592. The sample of the ESBF considered in the study consisted of 48 farmers which correspond to 8.1 per cent of this total, and this sample was visited in a period of six months.

3.3 Statistical analysis

The statistical analysis was based on two steps:

a) <u>Step 1: Factor analysis</u>. A factor analysis with varimax orthogonal rotation was employed with the objective to reduce the data concerning farmers' goals (Bergeovet *et al.*, 2004). Only Factors having an eigenvalue larger than one were considered (Bergeovet *et al.*, 2004, and Kobrich *et al.*, 2003). According to Stevens (1992), for a sample of 50 observations a loading of 0.722 can be considered significant. In line with Stevens' recommendation, the present research considered a loading of 0.73 because the sample used in this study had 48 farmers. Finally, in order to carry out regression analysis, goals that resulted to be related were replaced by variables created from the factor scores (Bergeovet *et al.*, 2004). The factors on goals obtained from the factor analysis are presented in Appendix B.

b) <u>Step 2: Probit analysis</u>. A probit analysis was used to determine whether the participation in networks depends on non-economic drivers. The statements "I have a contact network in the free market" and "I have a contact network in the contract market" were used as proxies of network participation. Farmers that responded agree or strongly agree were considered as having a contact network. These farmers were assigned a value equal to one. In contrast, farmers that responded either indifferent, disagree or strongly disagree to this statement were considered as not having a contact network. These farmers were assigned a value equal to zero. The variable p_i summarises this information. That is, $p_i = 1$ for farmer i means that this agent has a contact network. Conversely, $p_i = 0$ for farmer i means that this agent does not have a contact network. The probit model adopted to test the HFN and the HCN is presented as follows (see Dougherty, 2007, and Davidson and Mackinnon, 1993):

$$p_i = \int_{-\infty}^{z} \frac{1}{\sqrt{2\pi}} e^{-\frac{1}{2}Z^2} dZ \qquad (1)$$

where Z is a linear combination of farmers' goals (F_i), farmers' attitudes toward farming (A_j), perceived control (P_k), subjective norm (N_l) and market barriers (B_m), respectively (see Appendices A and B). That is, Z corresponds to:

$$Z = \beta_0 + \sum_i \beta_i F_i + \sum_j \beta_j A_j + \sum_k \beta_k P_k + \sum_l \beta_l N_l + \sum_m \beta_m B_m \qquad (2)$$

The probit model was estimated using Maximum Likelihood. Considering this model, the null and the alternative hypotheses of both the HFN and the HCN have been specified as follows:

$H_0: \beta_i = \beta_j = \beta_k = \beta_l = \beta_m = 0$
$H_1: \beta_i \neq 0,$ or $\beta_j \neq 0,$ or $\beta_k \neq 0,$ or $\beta_l \neq 0,$ or $\beta_m \neq 0$

In words, the null hypothesis establishes that none of the non-economic drivers is statistically significant. If this hypothesis is rejected when considering free markets, then the HFN holds. Likewise, if the null hypothesis is rejected when considering contract markets, then the HCN holds.

Let X_j be the non-economic driver j. In order to determine the marginal effect of each significant non-economic driver on the probability of participating in a network, the following transformation has been adopted (Dougherty, 2007):

$$\frac{\partial p}{\partial X_j} = \frac{dp}{dZ}\frac{\partial Z}{\partial X_j} = f(Z)\beta_j \qquad (3)$$

where $f(Z)$ is the standardised normal distribution:

$$f(Z) = \frac{1}{\sqrt{2\pi}}e^{-\frac{1}{2}Z^2} \qquad (4)$$

This latter was computed by evaluating at the mean values of the non-economic drivers in equation 2.

4. Results and discussion

54.2% of the farmers in the sample responded that they had a contact network in the free market, 37.5% responded that they did not have a contact network, and 8.3% did not respond the question. Regarding contract markets, on the other hand, 62.5% of the farmers in the sample responded that they had a contact network in this market, 29.2% responded that they did not have a contact network, and 8.3% did not respond the question.

4.1 Networks in free markets: testing the HFN
In order to test the HFN, the probit model described in equations 1 and 2 was estimated. The estimated model is presented in Table 1.

Table 1: Probit model of network participation in free markets.

Variables	Dependent variable p_i ($n = 44$)
Intercept	-11.57** (-2.78)
F1	-1.25* (-2.51)
Ae	1.38** (2.90)
Ah	-0.52* (-2.02)
Pb	1.30* (2.28)
Bg	0.96* (2.18)
WV	2.62** (2.71)
McFadden R^2	0.60
S.E. Regression	0.31

*$P < 0.05$, **$P < 0.01$, *** $P < 0.001$, z–ratios in parenthesis.

This Table shows that the McFadden R^2 for this regression presented a value equal to 60%. It also shows that the coefficients of some social-psychological variables were significant. This implies that the null hypothesis specified for HFN (see section 2) has been rejected. It is concluded, therefore, that the participation in networks in the free market depends on non-economic drivers.

The marginal effects for the relevant variables are presented in Table 2:

Table 2: Probit estimations and marginal effects.

Variables	Mean	regression coefficient (b)	Mean*b	f(Z)	bf(Z)
F1	6.25E-7	-1.25	-7.79E-7	0.39	-0.48
Ae	4.06	1.38	5.61	0.39	0.53
Ah	3.48	-0.52	-1.80	0.39	-0.20
Pb	2.98	1.30	3.86	0.39	0.50
Bg	3.34	0.96	3.22	0.39	0.37
WV	0.35	2.62	0.93	0.39	1.01
Intercept	1.00	-11.57	-11.57		
Z			0.26		

The variables identified in this study and their marginal effects are explained as follows.

a) *Goals*

Family farm (F1): According to Table 2, a one-decimal increase in this goal score decreases the probability to have a contact network in the free market by 4.8%. According to some farmers in the sample, they preferred to specialise in few traditional crops in order to have more free time to maintain family tradition (*i.e.* family farm, F1). They said, in addition, that specialisation not only allowed them to have free time but also additional gross margin as a consequence of economies of scale. If farmers cared about family tradition and if they were satisfied with the gross margin that they obtained from specialisation, then having contact networks could not have been an interesting option for them because the search for beneficial networks could be costly and time consuming.

b) *Attitudes*

I like to try new things on my farm (Ae): According to Table 2, a one-decimal increase in this attitude score increases the probability to have a contact network in the free market by 5.3%. This result is consistent with the argument establishing that social networks facilitate innovation in terms of either new products or new technologies (Chang, 2003, and Boahene *et al.*, 1999). In the case of free markets, this means that farmers who were interested to try new things were more willing to participate in social networks in the free market because it is here where they can obtain the information required to innovate.

Off-farm income is important for sustaining our farm (Ah): According to Table 2, a one-decimal increase in this attitude score decreases the probability to have a contact network in the free market by 2.0%. A possible explanation for this result is that farmers who developed off-farm activities had less available time to participate in social networks than those who worked exclusively in this sector. In addition, networks seen as an alternative way to increase gross margin could be considered as substitutes of off-farm activities. As a result, it is expected to find that farmers who obtained off-farm income were less motivated to participate in social

networks in the free market.

c) *Perceived behavioural control*

I can further lower the cost of my production (Pb): According to Table 2, a one-decimal increase in this variable score increases the probability to have a contact network in the free market by 5.0%. It is possible that the ability to lower production costs is a consequence of the participation in networks in free markets. That is, since contact networks facilitate the adoption of new technologies, and because a new technology is normally associated with higher efficiency and lower unitary costs, it is expected to find a positive relationship between the ability to reduce production costs and the existence of contact networks.

d) *Market barriers*

Retailers demand a volume that I cannot produce (Bg): According to Table 2, a one-decimal increase in this market barrier score increases the probability to have a contact network in the free market by 3.7%. It is interesting to notice that retailers of profitable crops have addressed the implementation of quality control and traceability by selecting more efficient farmers for specific categories (O'Keeffe and Fearne, 2002). Since contact networks correspond to an indirect way to innovate into more efficient technologies, farmers who were interested to get access to more profitable markets could have increased production per area of land by increasing their participation in networks in the free market. In addition, networks can help farmers to obtain partners interested to carry out collaborative alliances with the objective to produce a joint volume of more profitable crops. In fact, a particular farmer in the sample was able to produce carrots by forming a collaborative alliance with a producer located in another region in the UK. The farmer argued that contact networks and collaboration were both important factors explaining the success of his business.

e) *Other variables*

Proximity to the city of Wolverhampton (WV): According to Table 2, a one-decimal increase in this dummy variable score increases the probability to have a contact network in the free market by 10.1%. This result can reflect the fact that many retailers such as supermarkets are located in cities. Therefore, the proximity to big cities could be coupled with the existence of farmers having contact networks.

4.2 Networks in contract markets: testing the HCN

In order to test the HCN, the probit model described in equations 1 and 2 was estimated. The estimated model is presented in Table 3.

Table 3: Probit model of network participation in contract markets.

Variables	Dependent variable p_i ($n = 44$)
Intercept	14.99** (2.86)
F1	-2.17** (-3.00)
F3	-1.34** (-2.74)
An	-1.52* (-2.36)
Bi	-2.71** (-2.69)
McFadden R^2	0.70
S.E. Regression	0.25

*P < 0.05, **P < 0.01, *** P < 0.001, z–ratios in parenthesis.

This Table shows that the McFadden R^2 for this regression presented a value equal to 70%. It also shows that the coefficients of some social-psychological variables were significant. This implies that the null hypothesis specified for HCN (see section 2) has been rejected. It is concluded, therefore, that the participation in networks in the contract market depends on non-economic drivers.

The marginal effects for the relevant variables are presented in Table 4:

Table 4: Probit estimations and marginal effects.

Variables	Mean	regression coefficient (b)	Mean*b	f(Z)	bf(Z)
F1	6.25E-7	-2.17	-1.40E-6	0.08	-0.18
F3	-2.10E-7	-1.34	2.80E-07	0.08	-0.11
An	2.38	-1.52	-3.60	0.08	-0.12
Bi	3.54	-2.71	-9.60	0.08	-0.22
Intercept	1.00	14.99	14.99		
Z			1.78		

The variables identified in this study and their marginal effects are explained as follows.

a) *Goals*

Family farm (F1): According to Table 4, a one-decimal increase in this goal score decreases the probability to have a contact network in the contract market by 1.8%. This result has also been found in the case of networks in free markets, so the same explanation applies here.

Farming as a way of life (F3): According to Table 4, a one-decimal increase in this goal score decreases the probability to have a contact network in the contract market by 1.1%. Because this goal is related to the statements "Enjoyment of work tasks" and "Enjoy my work", this result is consistent with the opinion given by some of the farmers in the sample. These producers said that they enjoyed working with traditional low risky crops because this allowed them to have more free time and to use it with their families. These agents argued that working with more profitable crops is more stressful and this reduces the pleasure of working in the farm. Thus, because farmers who were specialised in the production of traditional crops did not need innovation to be viable, it is not surprising that the producers who enjoyed working in their farms were less willing to form contact networks.

b) *Attitudes*

I would seriously advise young people not to become a farmer (An): According to Table 4, a one-decimal increase in this attitude score decreases the probability to have a contact network in the contract market by 1.2%. Farmers who were not satisfied with the farming life were probably less willing to be involved in contact networks in the contract market. This motivational problem could explain this result.

c) *Market barriers*

Producing these crops implies collaborative alliances that are difficult to form (Bi): According to Table 4, a one-decimal increase in this market barrier score decreases the probability to have a contact network in the contract market by 2.2%. This result can also reflect a motivational problem. That is, farmers who believed that forming collaborative alliances is difficult were less interesting to form contact networks in the contract markets because this was probably considered a waste of time.

5. Comments and conclusions

The research on network and innovation in agriculture has focussed on the analysis of the mechanism by which social networks facilitate innovation. However, no work has been developed to understand what motivates farmers to participate in these networks. The present paper fills this gap by proposing a multivariate model that assumes that farmers' decision on being involved in beneficial networks depends on goals and socio-psychological variables referred to as non-economic variables.

The results obtained from the probit analysis revealed that the formation of networks in free markets is negatively influenced by farmers' non-economic goals such as maintaining farming tradition, and by the participation of farmers in off-farm activities (*i.e.* negative determinants). In contrast, the formation of networks is positively influenced by attitudes toward innovation, by the ability to reduce production costs, by the existence of market barriers in the interface producer-retailer, and by the proximity to large cities (*i.e.* positive determinants). The results allow concluding that it is possible to stimulate the formation of networks in free markets by affecting some specific determinants. For example, a motivational initiative could be introduced in order to increase farmers' interest to try new things in their farms. In addition, local development programmes could be introduced in order to maintain farmers in the field and, by this way, prevent them from looking for off-farm activities.

Regarding contract markets, the results revealed that the formation of networks in these markets is only determined by negative determinants. They correspond to farmers' non-economic goals, lack of motivation about farming, and the difficulty of forming collaborative alliances with other farmers. It appears that only the last determinant is suitable for policy intervention. That is, the incorporation of programmes to facilitate the formation of collaborative alliances could positively affect the formation of beneficial networks in contract markets because it is in these networks where farmers could eventually found suitable partners.

While the present research has considered the particular case of the ex-Sugar Beet Farmers of the West Midlands, it would be interesting to include in this analysis other types of farmers. This extension will be considered for future research.

Appendix A: Statements used in the questionnaire

Farmers' goals (G)
G1) Achieve an income as high as possible
G2) Enjoy my work
G3) Provide for next generations
G4) Have sufficient time for leisure
G5) Maintain nature and environmental value
G6) Produce a good and safe product
G7) Gaining recognition and prestige as a farmer
G8) Belonging to the farming community
G9) Maintaining the family tradition
G10) Working with other members of the family
G11) Feeling pride of ownership
G12) Enjoyment of work tasks
G13) Preference for a healthy, outdoor, farming life

G14) I enjoy having a purpose and value hard work
G15) Have independence and freedom from supervision
G16) Have the control in a variety of situations

Farmers' attitudes, perceived behavioural control and subjective norms

Attitudes (A)
A1) Achieve low debts on my farm
A2) My goals and objectives are clear
A3) I try to be among the highest producing farms
A4) I regularly negotiate with suppliers and buyers
A5) I like to try new things on my farm
A6) Keeping my farm up to date is very important to me
A7) In decision-making I take the environment into consideration, even if it lowers profits

A8) Off-farm income is important for sustaining our farm
A9) When making an important decision I ask for a lot of advice
A10) I take challenges more often than other farmers
A11) I use my equity capital as a risk buffer
A12) I try to minimise contract work
A13) Farming is still fun and satisfying
A14) I would seriously advise young people not to become a farmer

Perceived behavioural control (P)
P1) I'm well informed on the relevant legislation for my farm
P2) I can further lower my production costs
P3) Before I take important decisions I thoroughly inform myself
P4) When I need a new loan, I always go to the same bank
P5) I can increase the sales-price of my production
P6) Administrative obligations consume a lot of time on my farm
P7) I don't make plans because they don't work out in reality

Subjective norm (N)
N1) The way other farmers think about my farm is important to me
N2) I consider government policy unpredictable
N3) Legislation spoils the pleasure in my work
N4) The increasing amount of regulation interferes with my plans for the future

Market barriers preventing farmers from producing more profitable crops (B)

B1) The markets for these crops are very selective
B2) I am not familiar with the productive process of more profitable crops
B3) I am not interested in other alternatives
B4) My land is not appropriate to produce these crops
B5) I don't have the necessary capital and machinery to produce them
B6) Retailers demand quality that it is difficult to achieve
B7) Retailers demand a volume that I cannot produce

B8) Retailers have too much negotiation power

B9) Producing these crops implies collaborative alliances that are difficult to for

B10) I am not able to innovate to the extent required to enter the market

B11) I don't have the productive efficiency to the extent required to enter the market

Appendix B: Factorial analysis and the component of farmers' goals

Family farm (F1): This factor is composed of the variables "Maintaining the family tradition" and "Working with other members of the family".

Farm control (F2): This factor is composed of the variables "Have independence and freedom from supervision" and "Have the control in a variety of situations".

Farming as a way of life (F3): This factor is composed of the variables "Enjoyment of work tasks" and "Enjoy my work".

Quality of life and income (F4): This factor is composed of the variables "Achieve an income as high as possible" and "Have sufficient time for leisure".

Status (F5): This factor is composed of the variable "Gaining recognition and prestige as a farmer".

Self realization (F6): This factor is composed of the variable "I enjoy having a purpose and value hard work".

References

Ajzen, I. 1985. From intentions to actions: a theory of planned behavior. In J. Kuhl and J. Beckman (Eds.), Action-control: from cognition to behavior. Heldelberg: Springer. Pp.11-39.

Austin, E.J., Willock, J. Deary, I.J., Gibson, G.J., Dent, J.B., Edwards-Jones, G., Morgan, O., Grieve, R., and A. Sutherland. 1998a. "Empirical models of farmer behaviour using psychological, social and economic variables. Part I: lineal modelling", *Agricultural Systems* 58(2): 203-224.

Austin, E.J., Willock, J. Deary, I.J., Gibson, G.J., Dent, J.B., Edwards-Jones, G., Morgan, O., Grieve, R., and A. Sutherland. 1998b. "Empirical models of farmer behaviour using psychological, social and economic variables. Part II: nonlinear and expert modelling", *Agricultural Systems* 58(2): 203-224.

Bergevoet, R.H.M., Ondersteijn, C.J.M., Saatkamp, H.W., van Woerkum, C.M.J., and Huirne, R.B.M. 2004. "Entrepreneurial behaviour of dutch dairy farmers under a milk quota system: goals, objectives and attitudes", *Agricultural Systems* 80: 1-21.

Boahene, K., Snijders, T.A.B., and H. Folmer. 1999. "An integrated socioeconomic analysis of innovation adoption: the case of hybrid cocoa in Ghana", *Journal of Policy Modeling* 21(2): 167-184.

Chang, Y.C. 2003. "Benefits of co-operation on innovative performance: evidence from integrated circuits and biotechnology firms in the UK and Taiwan", *R&D Management* 33(4): 425-437.

Davidson, R., and J.G. Mackinnon. 1993. *Estimation and Inference in Econometrics*. Oxford University Press.

Dougherty, C. 2007. *Introduction to Econometrics*. Third edition, Oxford University Press. Pp. 464.

Dwyer, J., Ward, N., Lowe, P., and D. Baldock. 2007. "European rural development under the Common Agricultural Policy's 'Second Pillar': institutional conservatism and innovation", *Regional Studies* 41(7): 873-887.

Edwards, T., Battisti, G., and A. Neely. 2004. "Value creation and the UK economy: a review of strategic options", *International Journal of Management Reviews* 5/6(3&4): 191-213.

Gasson, R. 1973. "Goals and values of farmers", *Journal of Agricultural Economics* 24: 521-537.

Hagedoorn, J. and G. Duysters. 2002. "External sources of innovative capabilities: the preferences for strategic alliances or mergers and acquisitions", *Journal of Management Studies* 39(2): 167-188.

Hingley, M., Lindgreen, A. and B. Casswell. 2006. "Supplier-retailer relationships in the UK fresh produce supply chain", *Journal of International Food & Agribusiness Marketing* 18(1/2): 49-86.

Johnson, J.D., Donohue, W.A., Atkin, C.K. and S. Johnson. 2001. "Communication, involvement, and perceived innovativeness: test of a model with two contrasting innovations", *Group and Organization Management* 26(1): 24-52.

Lawson, B., and D. Samson. 2001. "Developing innovation capabilities in organisations: a dynamic capability approach", *International Journal of Innovation Management* 5(3): 377-400.

Macpherson, A., Jones, O., and M. Zhang. 2004. "Evolution or revolution? Dynamic capabilities in a knowledge-dependant firm", *R&D Management* 34(2): 161-177.

Ministry of Agriculture, Fisheries and Food. 2000. England Rural Development Plan 2000-2006-West Midlands Region. Available at: http://www.defra.gov.uk/erdp/docs/wmchapter/default.htm

McGregor (Eds.), Rural and farming systems analysis: European perspectives (pp. 193–212). Wallingford, UK: CAB.

O'Keeffe, M, and A. Fearne. 2002. "From commodity marketing to category management: insights from the Witrose category leadership program in fresh produce", *Supply Chain Management: An International Journal* 7(5): 296-301.

Perkin, P., and Rehman, T., 1994. Farmers' objectives and their interactions with business and life styles: Evidence from Berkshire, England. In J. B. Dent & M. J. McGregor (Eds.), Rural and farming systems analysis: European perspectives (pp. 193–212). Wallingford, UK: CAB.

Rehman, T., Garforth, C., McKemey, K., Yates, C, and R. Rana. 2007. "Farmers' behavioural inclinations and their influence on the anticipated response to the reform of the Common Agricultural Policy. *16th International Congress of the International Farm Management Association*: 100-124.

Robinson, M. A., 1983. "Including the human aspect within farm business appraisal", *Agricultural Manpower*, 7, 12–16.

Robinson, B., Freedaim, D., Bell. K. and Huda, S., 2003. Farmers' goal and values are knowable, but not simple (And why farmers and research are like the odd couple). In: Proceedings of the 11th Australian Agronomy Conference, available at http://www.regional/org.au/us/asa/2003/c/19/robinson.htm

Virkkala, S. 2007. "Innovation and networking in peripheral areas –a case study of emergence and change in rural manufacturing", *European Planning Studies* 15(4): 511-529.

Wang, C.L., and P.K. Ahmed. 2007. "Dynamic capabilities: a review and research agenda", *International Journal of Management Reviews* 9(1): 31-51.

Willock, J., McGregor, M.M., Sutherland, A., Edwards-Jones, G., Morgan, O., Dent, B., Grieve, R., Gibson, G., and Austin, E. (1999). Farmers' attitudes, objectives, behaviours, and personality traits: the Edinburgh study of decision making on farms. *Journal of Vocational Behaviour* 54: 5-36.

BEHAVIOURAL COMPETENCES'
AS AN EFFECTIVE FACTOR FOR PROJECT LEADERS IN THE LIBYAN CONSTRUCTION INDUSTRY

*ABDELNASER OMRAN, SALAHELDDIN MOHAMED
KHALIFA ALSADEY & ABDUL HAMID KADIR PAKIR
1School of Housing, Building and Planning, Universiti
Sains Malaysia, 11800, Minden, Pinang, Malaysia*

Abstract

The construction industry has focused mainly on management, and not on leadership. This is probably the reason construction project managers are not perceived as leaders and are mostly termed as managers. This paper is investigated on how behavioral competences can contribute to an effective leadership in the construction companies in Libya. Questionnaire was carried out by getting feedback from various ranged construction companies in Libya. Of 280 distributed questionnaires, two hundred and fifty five (255) useable questionnaires (91% response rate) were received and analyzed. This study has found that behavioral competences for both social/vocational and intraprofessional factors are shown to be positively significant only with the strategy management system of the participating companies.

Keywords: Behavioural competency, project leader, effectiveness, construction industry, Libya.

1.0 INTRODUCTION

Leadership has been an interesting topic for analysts and philosophers since ancient times (Müller and Turner, 2010). In contrast, researchers such as Daft (2005) state that scientific research on leadership began only in the 20th century. Scholars and researchers have proposed more than 350 explanations for leadership. In 1978, one authority on the subject, James MacGregor Burns, concluded that leadership "is one of the most observed and least understood phenomena on earth". Clarifying leadership has been a complicated and difficult problem, largely because its nature itself is complicated. Accordingly, different definitions of a leader and leadership are espoused by various researchers. For instance, Cole (1996) defines leadership as a dynamic process in which one individual influences others to contribute to the achievement of the group task. People who respond to the leadership process perceive this influence as fully legitimate. Murphy (1996) defines leaders as people "to whom others turn when missions

need to be upheld, breakthroughs made and performance goals reached on time and within budget".   Murphy further opines that leaders "transcend the problems of the moment to reveal the possibilities of human nature through intelligence and perseverance". Hickman (1992) adds that competitive advantage stems from the way the organization is managed and led by its leaders.

Daft (2005) considers leadership as both an art and a science. It is an art because many leadership skills, abilities, and qualities cannot be learned from books. Leadership takes practice and hands-on experience, as well as intense personal exploration and development. However, leadership is also a science because a growing body of knowledge and objective describes the leadership process and the way in which leadership skills attain organizational goals. Bennis and Townsend (1995) have restated their famous but controversial statement that "leaders are people who do the right things and managers are people who do things right". Leaders are interested in direction, vision, goals, objective, intention, purpose, and effectiveness or doing the right things. In contrast, managers are interested in efficiency or the how-to, the day-to-day, and the short run of doing things right. Leadership is an influential relationship among leaders and followers who aim for real changes and outcomes that reflect their shared purposes (Rost and Barker, 2000).

2.0 Behavioral Competence of Leadership

The next category of leadership skill requirements is referred to as interpersonal skill requirements because they involve both interpersonal and social skills relating to interacting with and influencing others (Katz, 1974; Marks et al., 2000). This category grows out of what previous research refers to as social capacities (Zaccaro, 2001) social judgment (Mumford, Marks et al., 2000), social complexity and differentiation (Hooijberg et al., 1997) and human relation skills (Katz and Kahn, 1978). Interpersonal skills involve social perceptiveness (Graham, 1983; Mintzberg, 1973; Yukl, 1989) to allow for an awareness of the reactions of others and understanding of why they react the way they do. The interpersonal category of leadership skill requirements also includes skills required for the coordination of actions of oneself and others (Gillen and Carroll, 1985; Mumford, Marks et al., 2000); negotiation skills to reconcile the differences among employee perspectives and to establish mutually satisfying relationships (Copeman, 1971; Mahoney, Jerdee, and Carroll, 1963; Mahoney et al., 1965; Mintzberg, 1973); and persuasion skills to influence others to accomplish organizational objectives more effectively (Katz, 1974; Mintzberg, 1973; Yukl, 1989). When formulating their theory of authentic leadership development, Luthans and Avolio (2003) begin with a discussion on how "leaders at all levels and types of organizations are facing the challenge of declining hope and confidence in themselves and their associates". The kind of leadership that can restore confidence comes from individuals who are "true to themselves" and whose transparency "positively transforms or develops associates into leaders themselves" (Luthans and Avolio, 2003). From the transformational leadership perspective, authenticity serves as a moral compass by which the intentions of transformational leaders can be determined (Bass and Steidlmeier, 1999). Therefore, for these authors, when transformational leadership is "true to self and others, it is characterized by high moral and ethical standards".

The construction industry has focused mainly on management, and not on leadership. This is probably the reason construction project managers are not perceived as leaders and are mostly termed as managers (Russell and Stouffer, 2003). Their day-to-day work involves management

of activities and achievement of the short-term goals of the project, such as conforming to the set budget, schedule, and quality. They are focused on the end goals and not the means to achieve the results. This mindset in construction project management makes the managers more production-oriented rather than relationship-oriented. They mostly end up managing their teams and their day-to-day work, rather than leading their people to achieve long-term objectives.

A study by Black and Porter (2000) indicates that traits are useful only when converted into behavior. As a result, they identify two distinct categories of leadership behavior. The first category refers to task- or production-orientated leadership, also termed as initiating structure. The second is people- or socio-emotional-oriented leadership, also referred to as relationship-oriented (Black and Porter, 2000). Task- or production-oriented leadership focuses on behavior such as planning of work schedules, performance standards, and production design (Black and Porter, 2000). Relationship-oriented leadership involves people and has a more socio-emotional approach. This type of leadership engages relationship behavior such as support, cooperation, display of trust and confidence in workers, as well as recognition of their achievements and concern for their welfare (Black and Porter, 2000). Although, presumably, effective leadership would necessitate high levels of performance in both categories, this has not been strongly supported by research. Effective leaders appear to demonstrate only moderate levels of both types of behavior, whereas subordinates are assumed to be more satisfied with leaders with high socio-emotional behavior (Black and Porter, 2000).   This finding has implications for feminized leadership, which is often aligned with strong socio-emotional skills. However, this implication remains contentious (Black and Porter, 2000). A leader is anyone who directs and controls a group of people in order to achieve a set purpose (Hicks and Gullet, 1975). However a social organization has many leaders operating at the same time. These leaders may be rivals; however, they share the various leadership functions of planning, directing, reviewing, and coordinating, among others. Circumstances may cause changes in leadership patterns, thereby leading to the classifications of leadership based on how this leadership is performed (Hicks and Gullet, 1975). Furthermore, Hicks and Gullet (1975) identify two types of leaders:

Unofficial leader: This leader is often not important in an organization, although the power ascribed to him or her may rise or fall.

Official leader: The individual holding this position is officially given charge over the subordinates who should be directed and controlled. These subordinates need to be led to value the rewards they obtain from work, which can be in the form of cash (money), friendship, status, approval, or a combination of any of these. In most cases, official leaders can be called supervisors or managers, and they reserve the power to reward or punish.

To a lesser extent, the success of such leadership depends on experience and virtuosity; however, but to a greater extent, success continues to depend on the management style of the leader.   According to Goldman (2006) early writers were of the opinion that leaders or managers are born and not made; they come from a specific family or lineage. Therefore, there is only one specific from of leadership style. Given this, the existence of a vast number of studies on how people acquire leadership abilities is unquestionable. However, the Aristocrats believe that leadership is inbred (in the blood), similar to the monarchy. Most known works attempt to describe leadership act and techniques, theorize why leaders emerge, and understand people and the dynamics of interpersonal relations. However, teaching this process can be

difficult because of the fact that leadership is a dynamic personal process (Gerhard, 2002). It is dynamic because it varies with the circumstances and individuals involved. It is also said to be personal because of the interpersonal influences allowed. However, this does not necessarily connote a direct contact between the leader and his or her subordinates. In business, excellent leadership ability is rare. This may partly be because great ability is rare. Employees can work without zeal and may be unable to handle changes; subordinates can also be lazy or be hindered by a union (Budhwar and Yaw, 2001). In such a situation, a manager does not need to use much leadership; therefore, he or she may depend on negative motivation and authority to command (Budhwar and Yaw, 2001). Budhwar and Yaw (2001) further stress that this situation is unfortunate and uncomfortable for both the superior and his or her subordinates. It leads to defensive and unsupportive behavior on the part of the subordinates.

The nature of the environment in which interpersonal group relationships occur also affects the quality of leadership. The environment is affected by the success and failures of the leader, which in turn are also affected partly by other external factors, such government policy (Cleland, 1998). One environmental factor is the hygienic factor. Supervision, working conditions, wages, policies, interpersonal relations, policies and job security are easy to come by during times of prosperity. However, during times of adversity, the hygienic factors may gradually reduce in volume, scope, and quality; benefits and salaries may be reduced. However, human relations and supervision may improve, certain efforts may yield better results than the others, and there may be shifts of attention as the case may be. At this point, reward and the self-development aspects of the motivation system should become prominent (Cleland, 1998). As explained by Donnelly (1999) adversity can enhance zeal. Some individuals prefer to be inefficient at every possible opportunity. Examples are the contrast between the zeal expressed by British workers during the 1930s and during the Second World War, or between American railroads workers before and after the changes made to Union and government regulations. In both cases, decisive leadership was demonstrated. However, in the former, the situation changed from desultory to brilliance, whereas the converse can be said of the later. Donnelly (1999) further explains that in the 1930s, the British were pacifist-minded; they chose political leadership, which promised security and sharing of wealth. However, during the critical challenge, they chose the preservation of their freedom above everything else. Therefore, a leader who can satisfy this need was chosen. As regards the American railroad, the employee morale was high in the years of construction. However, with the introduction of railroad unions and government regulations, employees took solace in others aside from their managers for the fulfillment of their needs. Whatever the environment, leaders emerge to make decisions and make positive effects. Strategic planning is very important in making decisions. According to Dubrin (2007) self-analysis of the company is needed to assess the previous performance and present position of the organization. Strategic planning is designed based on the realistic assessment of capacities (i.e., the strengths and weaknesses of the organization) that are of great managerial value (Dubrin, 2007). Therefore, this paper intends to identify on how behavioural competences can contribute to the effectiveness of leadership in construction companies in the Libyan Construction industry.

3.0 RESEARCH METHODOLOGY

The random sample was drawn from managers from the public and private sectors in the Libyan construction companies. The behavioral competence consisted of two items: social/

vocational and intra-professional (Figure 1). These have 17 variables. From the 280 questionnaires sent out, a total of 255 responses were received within four months. Data from the remaining 255 usable returned questionnaires were checked, edited, coded and analyzed. This way, 255 Libyan managers were contacted to fill up the questionnaires. Respondents were asked to rate the extent to which each of the 17 variables influenced the leadership performance of the construction companies in Libya using a five-point Likert scale, which ranged from 1 (not important at all) to 5 (very important).

Behavioural competence	Effective of
1. Social / vocational	Project Leader
2. Intraprofessional	

Figure 1. Conceptual Model of the relationships
between behavioural competence and the effective project leader.

The survey questionnaire was administered to the respondents in their work settings during normal working hours, and included with each packet was a letter indicating the general nature of the current research and assuring all respondents that their individual responses would remain anonymous. The feedback was obtained in 2 weeks time which started 12 January 2010 and ended on 30 January 2010. After all the raw data obtained, the data were then used as input and analyzed with the software Statistical Package for the Social Sciences (SPSS, version 15). The respondents characteristics involved in this study can be shown in Table 1.

Table 1. Presents the respondents' characteristics

Factor	Frequency
Designation in the company	
Director	38 (27.5%)
Manager	25 (18.1%)
Executive	39 (28.3%)
Non-executive	36 (26.1%)
Company legal status	
Sole proprietor	66 (47.8%)
Private limited	19 (13.8%)
Public limited	31 (22.5%)
Government link company	22 (15.9%)
Experiences	
1-5 years	66 (47.8%)
6-10 years	46 (33.3%)
11-15 years	16 (11.6%)
More than 20 years	10 (7.2%)
Quality or strategy management system	
ISO 9000	9 (6.5%)
TQM (total quality management)	10 (7.2%)
TPM (total project management)	22 (15.9%)
Conventional system	97 (70.3%)

Education	
Bachelor's	66 (47.8%)
Master's	22 (15.9%)
Doctor's	2 (1.4%)
Others	48 (34.8%)

4.0 RESULTS & DISCUSSION

The results presented in Table 2 show that some factors from social/vocational factors like committed (*p*-value=0.015), decisive (*p*-value=0.000), and punctuality (*p*-value=0.014) have statistical significance in relation to the designation of the company. The other listed factors do not show significance. Among the intraprofessional factors, only public relations (*p*-value=0.021) show significance. However, the rest of factors of intra-professional do not show any positive significance.

Table 2: Company designation versus behavioral competency factors

Factor	F	*P*-value
Behavioural Competence		
1. Social / vocational		
Self-confidence	0.451	0.717
Interpersonal	1.867	0.136
Calmness	0.736	0.532
Presentation skills	1.793	0.149
Analytical / investigative	0.884	0.450
Committed	3.580	0.015*
Logical	0.996	0.395
Comprehensive	0.486	0.692
Flexible	0.270	0.847
Proactive	1.495	0.217
Decisive	6.921	0.000**
Punctuality	3.624	0.014*
2. Intraprofessional		
Collegiality	1.843	0.140
Sensitivity to peers	1.595	0.191
Conformity to professional norms	0.050	0.985
Teamwork	2.638	0.050
Public relations	3.295	0.021*

*** *P*<0.001; ** *P*<0.001; **P*< 0.05 (level of significance)

In Table 3, social/vocational factors such as interpersonal (*p*-value=0.020), committed (*p*-value=0.005), proactive (*p*-value=0.001), decisive (*p*-value=0.014), and punctuality (*p*-value=0.001) are significant to the legal status of the company. Among the intraprofessional factors, conformity to professional norms (*p*-value=0.046) and public relations (*p*-value=0.003) are positively significant to the legal status of the company.

Table 3: Legal status of the company versus behavioral competence factors

Factor	F	*P*-value
Behavioural Competence		
1. Social / vocational		
Self-confidence	0.264	0.851

Interpersonal	3.338	0.020*
Calmness	1.911	0.128
Presentation skills	1.661	0.176
Analytical / investigative	0.973	0.406
Committed	4.426	0.005*
Logical	1.340	0.262
Comprehensive	1.427	0.236
Flexible	2.623	0.051*
Proactive	5.389	0.001*
Decisive	3.616	0.014*
Punctuality	6.101	0.001*
2. Intraprofessional		
Collegiality	0.699	0.554
Sensitivity to peers	1.279	0.282
Conformity to professional norms	2.713	0.046*
Teamwork	1.594	0.191
Public relations	4.658	0.003*

*** $P<0.001$; ** $P<0.001$; * $P< 0.05$ (level of significance).

Furthermore, social/vocational factors like calmness (*p*-value=0.042), analytical/ investigative (*p*-value=0.018), flexible (*p*-value=0.010), as well as proactive (*p*-value=0.002), are significant to working experience. Only sensitivity to peers (*p*-value=0.007) among the intraprofessional factors is significant to working experience (Table 4).

Table 4: Working experience versus behavioral competence factors

Factor	F	*P*-value
Behavioural Competence		
1. Social / vocational		
Self-confidence	2.255	0.082
Interpersonal	1.433	0.234
Calmness	2.778	0.042*
Presentation skills	2.178	0.091
Analytical / investigative	3.407	0.018*
Committed	2.173	0.092
Logical	2.017	0.112
Comprehensive	1.655	0.177
Flexible	3.869	0.010*
Proactive	5.244	0.002*
Decisive	2.086	0.103
Punctuality	1.275	0.284
2. Intraprofessional		
Collegiality	0.071	0.976
Sensitivity to peers	4.111	0.007*
Conformity to professional norms	1.449	0.229
Teamwork	1.961	0.120
Public relations	0.364	0.779

*** $P<0.001$; ** $P<0.001$; * $P< 0.05$ (level of significance).

From the results presented in Table 5 on social/vocational factors, presentation skills (p-value=0.001), analytical/investigative (p-value=0.011), committed (p-value=0.000), logical (p-value=0.003), and decisive (p-value=0.005) are significant to the establishment of the company in the construction industry. Among the intraprofessional factors shown in Table (5), collegiality (p-value=0.011), teamwork (p-value=0.007), and public relations (p-value=0.006) are clearly shown to be significant.

Table 5: Company establishment versus behavioral competence factors

Factor	F	*P*-value
Behavioural Competence		
1. Social / vocational		
- Self-confidence	0.829	0.479
- Interpersonal	2.086	0.103
- Calmness	0.761	0.517
- Presentation skills	5.764	0.001*
- Analytical / investigative	3.783	0.011*
- Committed	7.063	0.000**
- Logical	4.759	0.003*
- Comprehensive	1.332	0.265
- Flexible	1.598	0.190
- Proactive	1.258	0.289
- Decisive	4.435	0.005*
- Punctuality	1.084	0.356
2. Intraprofessional		
- Collegiality	3.782	0.011*
- Sensitivity to peers	0.450	0.718
- Conformity to professional norms	2.547	0.056
- Teamwork	4.118	0.007*
- Public relations	4.239	0.006*

*** $P<0.001$; ** $P<0.001$; *$P< 0.05$ (level of significance).

Table 6 shows that among social/vocational factors, self-confidence (p-value=0.000), interpersonal (p-value=0.020), calmness (p-value=0.002), presentation skills (p-value=0.007), analytical/investigative (p-value=0.001), committed (p-value=0.025), logical (p-value=0.000), comprehensive (p-value=0.001), flexible (p-value=0.010), proactive (p-value=0.000), decisive (p-value=0.020), and punctuality (p-value=0.004) are significant to the quality of management system strategy. Table 6 shows that among the intraprofessional factors, collegiality (p-value=0.003), sensitivity to peers (p-value=0.000), conformity to professional norms (p-value=0.001), teamwork (p-value=0.010), and public relations (p-value=0.000) have significance to the management system strategy.

Table 6: Strategy management system versus behavioral competence factors

Factor	F	*P*-value
Behavioural Competence		
1. Social / vocational		
Self-confidence	8.985	0.000**
Interpersonal	3.351	0.020*
Calmness	4.933	0.002*
Presentation skills	4.122	0.007*
Analytical / investigative	5.973	0.001*
Committed	3.177	0.025*
Logical	7.379	0.000**

Comprehensive	5.462	0.001*
Flexible	3.890	0.010*
Proactive	8.555	0.000**
Decisive	3.352	0.020*
Punctuality	4.604	0.004*
2. Intraprofessional		
Collegiality	4.710	0.003*
Sensitivity to peers	10.062	0.000**
Conformity to professional norms	5.920	0.001*
Teamwork	3.867	0.010*
Public relations	8.082	0.000**

*** $P<0.001$; ** $P<0.001$; * $P< 0.05$ (level of significance).

The results presented in Table 7 clearly show that several social/vocational factors show statistical significance to educational background. These factors are calmness (p-value=0.002), presentation skills (p-value=0.002), flexible (p-value=0.002), proactive (p-value=0.001), and punctuality (p-value=0.007). However, self-confidence, interpersonal, analytical/investigative, committed, logical, comprehensive, and decisive do not show significance to educational background. Based on the analysis of intraprofessional factors, only two factors show positive statistical significance with educational background. These are sensitivity to peers (p-value=0.006) and conformity to professional norms (p-value=0.045).

Table 7: Educational background versus behavioral competence factors

Factor	F	*P*-value
Behavioural Competence		
1. Social / vocational		
Self-confidence	0.517	0.671
Interpersonal	0.799	0.496
Calmness	5.030	0.002*
Presentation skills	4.902	0.002*
Analytical / investigative	1.945	0.123
Committed	1.164	0.324
Logical	0.518	0.671
Comprehensive	1.742	0.159
Flexible	5.003	0.002*
Proactive	5.848	0.001*
Decisive	1.621	0.185
Punctuality	4.111	0.007*
2. Intraprofessional		
Collegiality	0.950	0.417
Sensitivity to peers	4.233	0.006*
Conformity to professional norms	2.718	0.045*
Teamwork	1.334	0.264
Public relations	1.448	0.229

*** $P<0.001$; ** $P<0.001$; * $P< 0.05$ (level of significance).

5.0 DISCUSSION OF THE FINDING

As mentioned in the Analysis section, there are two types of behavioral competences:

social/vocational and intraprofessional.

5.1 Social/vocational

The factors tested under social/vocational competency clearly showed that the factors are indeed important for the Libyan construction companies because these serve as a guide for a successful leadership. The factors develop social perceptiveness among the members of the company, specifically in interacting with its members. This is in agreement with the ideas of Copeman (1971) and Mahoney *et al*., (1965) that the skills tested reconcile differences in perspectives among the employees and establish mutually satisfying relationship among the members of the company. Owing to these, the pursuit of the organizational objectives will be more effective and efficient.

5.2 Intraprofessional

A key characteristic in leadership is the ability to consider the importance of intraprofessional competency. It involves the development of relationship among the members of the company, that is, how the workers of the company function in conformity with the professional norm mandated by the company itself. Team building is therefore necessary in this aspect to achieve one common objective. It conforms to one of the aspects presented by Black and Porter (2000), who stated that this engages relationship behaviors such as support and cooperation and displays trust and confidence among the members of the company.

6.0 CONCLUSION

This study has considered behavioural competences as a prediction to test the leadership's effectiveness within the Libyan construction industry. These behavioral competences were consisted of two items, namely, social/vocational factors which included 12 items, and the other one is intra-professional factors which provided 5 items. From the analysis, however, behavioral competences for both social/vocational and intraprofessional factors are shown to be positively significant only with the strategy management system of the participating companies.

References

Andrew, J. Dubrin. (2007). *Leadership research findings, practice, and skills*. 5th edition. Houghton Mifflin Company.

Bass, B.M., & Steidlmeier, P. (1999). Ethics, character, and authentic transformational leadership behavior. The Leadership Quarterly, 10, 181–217.

Bennis, W., & Townsend, R. (1995). *Reinventing Leadership*. London: Piatkus.

Black, J.S., & Porter, L.W. (2000). *Management: Meeting New Challenges*. Upper Saddle River. NJ: Prentice Hall.

Budhwar, P. S., & Yaw, D.A. (2001). *Human Resource Management in Developing Countries,* Rout ledge publication.

Burns, J. M. (1978). *Leadership*. New York, NY: Harper & Row.

Cleland, D.L. (1998). *Project Management: strategic design and implementation*. McGrw- Hill. Professional Publishing.

Cole, G.A. (1996). *Management: Theory and Practice*. London, DP: Publications.

Copeman, G. (1971). *The chief executive and business growth*. London: Leviathan House.

Daft, R.L. (2005). *The Leadership Experience*. 3rd edition . Canada: Thomson- South Western.

Daft, R.L. (2005). *The Leadership Experience*. 3rd edition . Canada: Thomson- South Western.

Donnelly, M. (1999). *Britain in Second World War*. Rout ledge publication.

Gerhard, P.J. (2002). International Operations Management, Copenhagen Business school press.

Gillen, D.J., & Carroll Jr., S.J. (1985). Relationship of managerial ability to unit effectiveness in more organic versus more mechanistic departments. Journal of Management Studies, 22, 61−75.

Goldman, A. (2006). *Dysfunctional Leadership and organization*. Emerald Group Publishing Limited.

Graham, J.L. (1983). Brazilian, Japanese, and American business negotiations. Journal of International Business Studies, 14, 47−61.

Hickman, C.R. (1992). *Mind of a Manager, Soul of a Leader*. New York: John Wiley& Sons, Ltd.

Hicks, G.H., & Gullet, C.R. (1975). *Organizations: Theory and Behaviour*, New York: NY, McGraw-Hill, P. 245-259.

Hooijberg, R., Hunt, J.G., & Dodge, G.E. (1997). Leadership complexity and development of the Leaderplex Model. Journal of Management, 23, 375−408.

Katz, D., & Kahn, R. L. (1978). *The Social Psychology of Organizations*. 2nd edition. New York, NY: John Wiley and Sons.

Katz, R.L. (1974). "Skills of an effective administrator". Harvard Business Review, 52 (5), 90-102.

Luthans, F., & Avolio, B. (2003). Authentic leadership development. In K.S. Cameron, J.E. Dutton, & R.E. Quinn (Eds.), *Positive organizational scholarship:* Foundations of a new discipline. (pp. 241−258). San Francisco: Berrett-Koehler.

Mahoney, T.A., Jerdee, T.H. & Carroll S.J. (1963). *Development of Managerial performance: A research approach*. Cincinnati, OH: South-western Publishing Company.

Mahoney, T.A., Jerdee, T.H., & Carroll Jr. S.J. (1965). The jobs of management. Industrial Relations, 4, 97−110.

Mintzberg, H. (1973). *The Nature of Managerial Work*. Prentice-Hall, Englewood Cliffs, NJ.

Müller, R., & Turner, R. (2010). Leadership competency profiles of successful project managers. International Journal of Project Management, 28 (5), 437-448.

Mumford, M.D., Marks, M.A., Connelly, M.S., Zaccaro, S.J., & Reiter-Palmon, R. (2000). Development of leadership skills: Experience and timing. Leadership Quarterly, 11, 87−114.

Murphy, E.C. (1996). *Leadership IQ*. New York: John Wiley & Sons, Ltd.

Rost, J. C., & Barker, R. A. (2000). Leadership Education in Colleges: Toward a 21st Century Paradigm. Journal of leadership studies, 7(1), 3-12.

Russell, J.S., & Stouffer, B. (2003). "Leadership: Is it time for an educational change? Editor's letter". Leadership and Management in Engineering, 2–3.

Sekaran, U. (2006). *Research methods for business*: A skill building approach. New York: John Wiley & Sons, Inc.

Yukl, G. (1989). Managerial leadership: A review of theory and research. Journal of Management, 15, 251−289.

Zaccaro, S.J. (2001). *The nature of executive leadership: A conceptual and empirical analysis of success.* Washington, DC: American Psychological Association.

ROLE OF THE COGNITIVE TASK IN DECISION MAKING PERFORMANCE

RUS MIHAELA, Phd.
"Ovidius" University of Constanța
Faculty of Law and Administrative Sciences

Abstract

In organizations are being carried out extensive work processes, activities which vary according to whether why they are made for, but also according to the direct results obtained. One can speak thus, on the one hand, about executive processes, in which human resource acts on and / or uses material, financial and information resources in order to achieve targets and, on the other hand, about managerial processes, in which, a part of human resources (managers: top managers, middle managers, etc..) act on the other party, represented by employees, in order to attract the organization in accomplishing its objectives.

În the latest years, that has become the main preoccupation of several researchers: Cohen (1981), Barwise and Perry (1983), Klein et al. (1993) etc.. This research is wanted to highlight types of schemas, which are activated by managerial decision: cognitive or emotional schemas. The study is realized on 160 managers from the railway domain, developing activities at state and private institutions. The working methodology is represented by decisional cognitive targets, which the participants must analyze and solve, adopting a solving strategy and a questionnaire to identify the type of the cognitive schema. We have also underline the fact that there are individual targets, not group targets. The results put into evidence the cognitive schemas accessing, together with an existing saturation of emotional decisional schemas.

Key words:organization, cognitive task, performance, decision, management

Introduction

The key process of the managerial process in any structure is the **management decision**. This is because it is present in all **management functions**: thus, **planning** ends with decision making on achieving objectives and courses of action, **organizing** culminates in the decision making on organization forms and methods of training organizing, **coordinating** ends with decisions concerning harmonization of staff and activities, **motivating** ends with decisions on incentives that motivate the staff, while **controlling** ends with correction decisions in order to achieve.

Features of the management process

• The management process is **unified**, meaning that management functions are highly correlated, making a whole. Thus, from the organization's objectives established by the forecasting function, all activities are being organized. Changing the objectives entails significant changes in the organization.

• The management process is **typical**, meaning that functions that define its contents shall be exercised in all structures and all management levels.

• The management process is **contextual**, that is, principles, rules and methods must adapt the general context in which they are applied. Also, contextual approach supposes that, from the set of alternatives for solving a certain management problem must be chosen the one that meets the specific context of the organization.

• The management process is a people management **oriented**-process. Through the management process people are directly commanded, and through them, also the necessary activities to achieve main objectives.

• The management process is **continuous**. Similar to the work conducted, management is continuous. Being continuous, it proceeds in phases. A stage may consist of a period of five years, one year, a quarter or a month.

• The management process takes place in stages. Within each stage there are three phases: planning, operative, post-operative.

Rational decision vs. irrational decision

What distinguishes psychological facts of logical facts is not just the process of making judgments that are contrary to formal logic, with inclination to form inconsistent preferences, irrational conclusions and unfounded assumptions. An illogical decision, may be that decision type which is exemplified in studies such as Wason's selection task, where, the subject is faced with a lack of elements that makes the phenomenon not easy to understand and thus, determines providing a deductive application. A rational decision is that decision-tasks are much more representative even if the answer is right or wrong, but predictable.

P. Goodwin and G. Wright (1988) showed that people have an inclination for adventure, even if they have invested time, money or energy or even if it is contrary to common sense. They conducted a study with students at a college in Ohio, a scenario called Oregon, where they bought the tickets for a hypothetical ski trip with $ 100 to Michigan and with $ 50 to Wisconsin for the same weekend. Students are also allowed to believe by those who make the trip to Wisconsin, that it is more attractive than that of Michigan.

Literature review

Role of the cognitive task in decision making

In recent years this problem has become the main concern for many researchers. Cohen (1981), Klein, Orasanu, Calderwood, & Zsambok (1993) are those who have highlighted the fundamental difference between the decision-making process, studied and explained by the traditional theory of the decision and that observed in natural/ concrete social situations. The empirical result on decision theory, has described in detail, almost ethnographic,the studies on decision theory in specific areas. The resulting database was dense, especially in the form of prose and analysis.

Parallel to the empirical decision theory, the cognitive science researchers and human-

computer interaction (HCI) have developed more powerful analytical methods, which have been called **cognitive task analysis techniques**. The purpose of these techniques was to analyze and model the cognitive processes that have as a finality, achieving performance in human tasks in different areas, as a basis for building and evaluating computer systems.

Cognitive modeling and analysis is a relatively new topic and may have different meanings. Many analysis techniques have been developed of cognitive and decision processes (Meyer and Kieras, 1996), but there is no "standard " method appropriate for all situations and areas. It should, rather, exist a selection of the method based on specific requirements of the domain.

Cognitive complexity is another concept that correlates with the concept of managerial decision (Curşeu, 2001). The idea that people differ in terms of quality of internal representations of their self and of other important figures from their lives is widely analyzed. These representations have been characterized in many ways, especially in terms of schematic theory.

Cognitive complexity seen as flexibility and diversity of representation on individuals themselves and on others is an important cognitive variable that must be taken into account in organizations. This variable can have either a stimulatory effect or an inhibitory effect on the decision, depending on the difficulty of the decision to be taken (Curşeu, 2001).

Affective processes and decision

Historically, researches on decision-making proceedings have tried to explain in the first phase the informational deliberative process reason-basis for choice (Shafir, Simonson and Tversky 1993). More recent research provide particular importance to emotional and affective processes in decision-making.

Information in the decision-making appears as a process used in two modes of thinking: affective / experiential and deliberative (Epstein 1994, Loewenstein et al. Of 2003, Reyna 2004, Stanovich and West 2002, Kahneman, 2003), both ways of thinking being very important in decision-making. A number of studies suggest that affective processes provide both understanding and motivation of the election process. (Damasio, 1994)

Kahneman (2003) suggests that in the operation of a system, it is important the quality of the processed information and its impact on the behavior. In the hereby study full emotion is defined as those positive and negative feelings to external stimulus. These feelings can be associated with the object that produces justice, or experiential processes that produce conditioning (Staats and Staats, 1958), familiarity (Zajonc, 1980), priming (Murphy and Zajonc, 1993) and incorrect award (Schwartz and Clore, 1983). Emotion may also be relevant to the decision-making, but may also affect the decision out of the process, this condition being called accidentally emotion.

Theories of cognitive schema

In decision-making domain, a large number of researchers have proposed theoretical contributions as: Theory of rational action (TRA, Fishbein, 1967), Theory of planning behavior (Ajzen, 1985) and Accepted technology model (TAM, Davis, 1989). Most theories present sequentially, the relationship causal-effect and also the relationship external variables-beliefs-attitude-behavioral intention.

Several recent studies consider that additional relationship (Adams et. All 1992, Bhattacherjee 2000, Taylor and Todd, 1995, Venkatesh 1996, 2000). For example, Davis and Venkatesh (2000) tested how the user accepts technology and the investigation.

Bartlett (1932) first proposed the concept of schema as a mental representation for understanding, remembering and applying information in any existent context. The scheme is created based on experience with the world, with different personalities and cultures, including interactions with people, objects and events.

The assumption that people possess a repertoire of cognitive strategies adapted to the domains in which they are involved, remains a valid assumption. These strategies include logical inferences (Gigerenzer, Todd, & the ABC Research Group, 1999), preferential choice (Einhorn, 1970, Fishburn, 1980, Payne 1976, Payne, Bettman, & Johnson, 1988, 1993, Rapoport & Wallsten, 1972, Svenson, 1979), probabilistic judgments (Ginossar & Tropea, 1987), estimates (Brown NR, 1995 NR Brown, Who, & Gordon, 2002), categorization (Patalano, Smith, Jonides, & Koepp, 2001), cognitive resources allocation (Ball, Langholtz, Auble, & Sopchak, 1998), memory (Coyle, Read, Gaultney, & Bjorklund, 1998), mathematical skills (Lemaire & Siegler, 1995 Siegler, 1999), word recognition (Eisenberg & Becker, 1982) and social interactions (Erev & Roth, 2001, Fiske, 1992).

Moreover, the scheme theory helps us understand how personal perception about specific objects can be organized as a valid experience. We propose that the scheme can be divided into two types: rational scheme and emotional scheme.

Rational scheme depends on a priori knowledge which can be gained through education and professional experience.

The emotional scheme. The construct is formed according to the individual and cultural character. The three included variables: the decision to anxiety, propensity for truth, individualism, are external variables that describe the emotional scheme. The rational scheme refers to the accumulated professional experience and long term goals achieved through learning and education.

Research Objectives

The first general objective of this research aims to reveal cognitive schemes accessed in the managerial decision of the railway environment. To achieve this objective and to measure model variables it has been necessary to adapt the Questionnaire for identifying of rational vs. emotional schemes (QIRES), adapted after the model of Chang Kun Lee (2001).

The second general objective of this research aims to highlight significant differences in accessing cognitive schemes in decision-making process, according to independent variables: type of organization and management level. For this purpose, it was adapted the *Questionnaire of decision-making* (CDM), developed by French DJ, West RJ, Elander J, Wilding JM (1993), researchers from the Department of Psychology, Royal Holloway and Bedford New College, University of London , UK.

Research hypotheses

• HS1. cognitive factors involved in managerial decision influence the decision-making performance differently;

• HS2. cognitive schema type accessed, influences cognitive resonance.

Participants to the study

Subjects on which research was carried out are 160 managers from private and government

organizations, shipments industry, formal leaders through leadership positions in state organizations to which they belong, as well as private companies.

Table no. 1 Distribution of participants to the study after "the hierarchical level"

Organization	Hierarchical level	N valid
Public organization	Top management	7
	Middle management	18
	Unity managers	55
	Total	80
Private organization	Top management	8
	Middle management	21
	Unity managers	51
	Total	80

Questionnaire

The identification questionnaire of the rational versus emotional schemes. (see annexes for the final shape of the sample) adapted from Chang Kun Lee (2001). The constructs used by the author have been kept largely in the validation of the instrument on the population targeted by the study; we therefore wish to present them, before proceeding to analyze the validity and fidelity of the instrument.

The Rational Schema depends on a priori knowledge which can be gained through educational and professional experience.

The Emotional Schema describes the psychological process leading to a specific behavior or satisfaction. It can be noted that both types of schemas have intrinsic definitions; the rational schema systematically influences learning constructs, while the emotional schema is influenced by individual characteristics and cultural factors.

Decision-making questionnaire was developed by French DJ, West RJ, Elander J, Wilding JM (1993), researchers from the Department of Psychology, Royal Holloway and Bedford New College, University of London, UK (see Annex for the final form of the sample).

The adaptation of the questionnaire was conducted on a total number of 160 middle and senior level managers of the railway companies in public and private.

Analysis and interpretation of results

Regarding the hypothesis that the **type cognitive schema accessed influences the cognitive resonance and implicitly the performance**, we used linear regression in which we used as dependent variables (criteria) each dimension of the two schemes and as predictors (independent variables) the four dimensions of cognitive resonance.

Will therefore result a total of four regression models for each dependent variable, through which we test the two schema influence on factors.

Analyzing the first regression equation where we used as predictors variables of the two cognitive schemas and as a criterion the speed of decision, we realize that the models acquire significance from the third model ($F = 82.50$, $p < 0.01$). We note that the regression model acquires significance at the involvement of predictors of emotional type, which leads us to appreciate that the speed of decision, is determined by the appearance of emotional components.

Table. No. 2 Summary of the regression analysis: *independent variables*- variables of the cognitive schemes

DA (Anxiety decision), TP (Trust), IN (individualism), CS (own effectiveness in the decision), FC (conditions of facilities), SE (experience of the system) and dependent variable- decision-making speed

	R	R^2	R^2 adjusted	F	p
1=FC	,07	.00	-,00	0,892	,346
2=1+SE	,11	.01	,00	1,049	,307
3=2+DA	,78	.61	,60	242,57	,000
4=3+TP	,78	.62	,62	2,528	,111
5=4+IN	,78	.62	,60	0,749	,388
6=5+CS	,79	.62	,60	0,919	,339

Analyzing the summary of the predictive model we can see that the highest predictive value is held by the fourth model that explains 61% of the variance of speed in decision-making through facilitating conditions, own experience, decision anxiety and trust.

Significant change in the prediction appears at the inclusion of the third variable (anxiety of decision) - F (1156) = 242.57, p <0.01 - the variance explained by this being of 60.1%. (R^2 changed = 0.601). The other variables from the emotional schema introduced afterwards in the model reduces the power of prediction R^2 adjusted = 0.609 for five and six models.

Analyzing the second regression equation, where I used as predictors variables of the two cognitive schemas and, confidentiality as a criterion, we see similarly to the previous equation, from the above table that, the models derive significance starting from the third model (F = 17.98 , p <0.01). We therefore note that the regression model becomes significant at the involvement of predictors of emotional type, which leads us to appreciate that confidentiality is determined by the appearance of emotional components.

Table no. 3 Summary of regression analysis: independent variables - variables of the cognitive schemas

DA (Anxiety decision), TP (Trust), IN (individualism), CS (own effectiveness in the decision), FC (conditions of facilities), SE (experience of the system) and dependent variable- confidentiality

	R	R^2	R^2 adjusted	F	p
1=FC	,053	.00	-,00	0,452	,502
2=1+SE	,065	.00	-,00	0,214	,644
3=2+DA	,507	.25	,24	53,067	,000
4=3+TP	,520	.27	,25	2,823	,095
5=4+IN	,527	.27	,25	1,568	,212
6=5+CS	,527	.27	,24	0,011	,917

Analyzing the predictive model summary, we note that the highest predictive value is that of the fifth model, which explains 25.4% of confidentiality variance through facilitating conditions, own experience, decision-making anxiety, confidence and individualism. Significant change in the prediction appears always at the inclusion of the third variable (anxiety of decision) - $F_{(1,156)=}$53.06, p <0.01 - the variance explained by this being of 25.3%. (R^2 changed = 0.253).

The other variable from the emotional schema, subsequently introduced in the model lower its power of prediction to R^2 adjusted = 0.249 for model six.

Analyzing the third regression equation, where we used as predictors variables of the two cognitive schemas and as a criterion the reality of the decision, we note that the models achieve significance from the third model ($F = 13.64$, $p < 0.01$).

Tabel no. 4 Summary of the regression analysis: *independent variables* – variables of the cognitive schemas

DA (Anxiety decision), TP (Trust), IN (individualism), CS (own effectiveness in the decision), FC (conditions of facilities), SE (experience of the system) and dependent variable- decision realism

	R	R ²	R ²adjusted	F	p
1=FC	,068	.005	-,002	0,725	,396
2=1+SE	,081	.007	-,006	0,321	,572
3=2+DA	,456	.208	,193	39,629	,000
4=3+TP	,465	.216	,196	1,581	,210
5=4+IN	,469	.220	,194	0,752	,387
6=5+CS	,471	.222	,191	0,427	,515

Analyzing the predictive model summary, we noted that the highest predictive value is hold by the fourth model, explaining 19.6% of the variance of reality decision through the conditions of facility, its own experience, decision-making anxiety and trust. Significant change in the prediction appears always at the inclusion of the third variable (anxiety of decision) - $F_{(1,156)=}$39.62, $p < 0.01$ - the variance explained by this being of 20.1%. (R^2 changed = 0.201). Trust variable adds 0.8% information, that improves predictive power of the model but this information is not important.

Analyzing the fourth regression equation, where we used as predictors variables of the two cognitive schemas and as a criterion the decision consistency, we note that the models achieve significance from the third model ($F = 17.29$, $p < 0.01$). Starting with the third model, in the regression equation are being included variables of the emotional schema.

Tabelul no. 5 Summary of the regression analysis: *independent variables* –variables of the cognitive schemas

Source	F	P
Corrected model	7,04	,000
Interception	3694,60	,000
Organization	14,12	,000
Hierarchical level	3,20	,043
Organization * Hierarchical level	,076	,927

DA (Anxiety decision), TP (Trust), IN (individualism), CS (own effectiveness in the decision), FC (conditions of facilities), SE (experience of the system) and dependent variable- decision consistency

	R	R ²	R ²ajustat	F	p
1=FC	,025	.001	-,006	0,096	,758
2=1+SE	,143	.021	-,008	3,199	,076
3=2+DA	,501	.251	,236	47,910	,000
4=3+TP	,506	.256	,237	1,164	,282
5=4+IN	,516	.264	,240	1,682	,197
6=5+CS	,515	.265	,237	0,231	,631

Analyzing the predictive model summary, we noted that the highest predictive value is hold by the fifth model, explaining 24% of the variance of decision consistence through the conditions of facility, own experience, decision-making anxiety and individualism. The first two predictive models - those based solely on rational schema can not predict consistency of decision. Significant change in the prediction appears always at the inclusion of the third variable (anxiety of decision) - $F_{(1,156)=}$ 47,91; p<0,01 - the variance explained by this being of 23%. (R² changed = 0.23).

To examine the manner in which the management levels and organization type influence variables of the cognitive emotional and rational schemas we used the analysis of variance ANOVA.

Regarding the dependent variable "trust" as an indicator of the emotional schema, we observe the existence of main effects of the two independent variables: "type of organization" ($F_{(1,159)}$= 14.12, p <0.01) and "hierarchical level" ($F_{(2,159)}$=3.20, p <0.05).

Table no. 6. The effects of factors on the dependent variable "trust"

Note:R²=,186(R²adjusted)=,160

Dependent variable: trust

Regarding the management level, we note the existence of a significant difference between unit managers and middle management in terms of confidence level (Bonferroni = 1.74, p <0.01) in the sense that, unit managers have a significantly higher level of confidence compared with those in middle management.

Table No. 7. *The main effect of the independent variable "hierarchical level"*

(I) hierarchical level	(J) hierarchical level	t	p
top management	middle management	,38	1,00
	unity managers	-1,35	,497
middle management	top management	-,38	1,000
	unity managers	**-1,74**	**,027**
unity managers	top management	-1,35	,497
	middle management	**1,74**	,027

Note: Dependent variable: trust

Method Bonferroni

In terms of facilitating conditions we note the existence of a single main effect of organization type on the dependent variable ($F_{(2,159)}$=8.20, p <0.01).

Conclusions

The conclusions drawn from the analysis of the results obtained in solving cognitive tasks indicate that in the decision-making process, managers access cognitive schemas to choose the most desirable variant to make a correct decision.

Analyzing the impact of emotional and rational schemes on the performance of the managerial decision we can conclude the following:

• Anxiety of the decision is the most important predictor. This is a significant emotional predictor, always in direct and strong touch with the reality of the decision-making;

• Other predictors, namely, trust, individualism, facilitating conditions, own effectiveness, own experience.

Bibliografie

Ajzen, I. (1985). From Intention to Actions: A Theory of Planned Behavior, *in Action Control: From Cognition to Behavior, J.Kuhl and J.Beckmann (eds.),* New York: Springer-Verlag, 11-39.

Ball, C. T., Langholtz, H. J., Auble, J., & Sopchak, B. (1998). Resource-allocation strategies: A verbal protocol analysis. *Organizational Behavior & Human Decision Processes*, *76*, 70-88
Blair, E., &Burton, S. (1987). Cognitive processes used by survey respondents to answer behavioral frequency questions. . *Journal of Consumer Research, 14,* 280-288.

Boldur, Gh.(1973). Complex economic decision-making foundation, Scientific Publishing, Bucharest.

Damasio,H., Bechara, A.&Damasio , A.R.(2002). Do somatic markers mediate decisions on the gambling task? Nat Neurosci, 5(11), 1104

Donelson, Forsyth R.(2001). Leadership. Groups' dynamics. Base texts, Polirom Publishing House, Iaşi.

Hastie,R.(2001). Problems for judgement and decision making, in *Annual Review of Psychology*

R. M. Heilman (2006). The impact of emotions and individual differences upon economic decision-making: A review of experimental literature. *Cognition, Brain, Behavior*, 10 (3), 439-459.

R. M. Heilman, L. Crişan, D. Houser, M. Miclea, & A. C. Miu (2009). Emotion regulation and decision making under risk and uncertainty.

Loewenstein, G., & Lerner, J. S. (2003). The role of affect in decision making. In R. Davidson, H. Goldsmith, & K. Scherer (Eds.), *Handbook of affective science,* Oxford, UK:Oxford University Press, 619-642.

Rettinger, David & Hastie, Reid(2001). Content Effect on decision Making in *Organizational Behavior and Human Decision Processes*, vol.85, nr.2

Richard J. Norton and George E. Teague(2002). Cognitive Factors in National Security Decision Making, Newport RI: Naval War College faculty paper, March.

GLOBALISATION AND LABOUR DEMAND IN THE MALAYSIAN MANUFACTURING SECTOR

RAHMAH ISMAIL
University Kebangsaan Malaysia

RIANTI FADHILLAH
Universiti Kebangsaan Malaysia

ZULKIFLY OSMAN
Universiti Kebangsaan Malaysia

Abstract

The intensity of globalisation can be measured through the indicators of export-import to Gross Domestic Product (GDP) ratio, inflow and outflow of foreign direct investment (FDI), investment portfolio and payment made for transfer of technology. The current scenario indicates that the industrial activities have undergone major changes caused by globalisation through progress in communication and information technology (ICT). Consumption of modern technology and rapid changes in the production process from being labour- intensive to capital- intensive has contributed to several issues in labour market. This situation has brought about changes in the composition of the competent labour and increase in demand for skilled labour. This article has the objective to analyse the impact of globalisation on demand for skilled labour, namely, professional and management; and technical and supervisory in the manufacturing sector in Malaysia. Analysis is based on panel data from the Industrial Manufacturing Survey data collected by the Department of Statistics, Malaysia of 1985-2008. Analysis is done on the entire manufacturing sector and six subsectors, namely, manufacturing of sieved petroleum products; manufacturing of valves and electronic tubes and other electronic components; production, processing and preserved meat, fish, fruits, vegetables, oil and fats, manufacturing office equipment, accounting tools and calculators; manufacturing basic chemicals; and manufacturing basic iron based and metal products. Findings of the study demonstrate that FDI has positive and significant impact on the demand for both categories of labour, nonetheless, the economic openness and the number of technological agreements have negative impact.

Key words: globalisation, labour demand, professional and management labour, technical and supervisory labour, manufacturing sector

1.Introduction

Globalisation has narrowed the gap between countries and move towards a new level of economy, politics and culture in the modern era. In the ensuing process, globalisation has opened borders and changed the world into one unit. In this process, whatever that happens in one area has repercussions on the society in other parts of the world. This shows that the world is becoming more borderless. Globalisation enhances the dependency of countries through the value of trade crossing borders and inflow of international capital, and the rapid and wider transfer of technology. Globalisation also enhances interaction and integration of activities, especially in the economies of societies throughout the world. This on the other hand, expands the international trade, finance and information flow into the globally integrated market (International Monetary Fund 1997, Ajai 2001).

A more comprehensive and detailed picture is given by Duncan (2000), who defined globalisation as the process of economic integration between countries, integration of traded goods and services and in investment (both the fixed investment and investment portfolio). It can be summarised that globalisation as the distribution of global goods, services and capital including information and ideas. In this aspect, globalisation opens the economy, moves goods, services, capital, labour and technology physically. Economic globalisation is characterised by production, exchanges, distribution, and consumption of goods and services. Through the globalisation process, the capital moves with ease between countries, companies that manage production on a global scale in sourcing for cheaper cost and higher profit margin across the border. This results in global economic relations expansions that exist through international trade, investment, production, financial exchanges, labour migration, organisational practices and international collaborations (Waters 1995).

Hoogvelt (1997) characterised the concept of globalisation from the aspect of world compression as countries' interdependence on trade, ties and collaboration between countries and presence of international organisations and global awareness manifested through the exposure of the global community towards union of communication through spatial and time compression. Nevertheless, the reality faced by many developing countries is the capital barriers to generate growth and enhance development process. Capital interdependence on the capable parties has mooted the outflow of capital. FDI crossing borders mirrors the degree of involvement in globalisation in the manufacturing sector and the other sectors of the economy.

Globalisation has changed the production process of the manufacturing industry in Malaysia from the import-oriented industry to the export-oriented industry. The demands and commitment towards trade liberalisation and capital flow also move towards the establishment of the production system to fulfil the international demands. Liberalisation policy has enhanced trade and boosted the economic growth, technology transfer and the increase in productivity and competency in the international level. FDI inflow has contributed to Malaysian economic growth as a whole and specifically in the manufacturing sector. FDI has also directly brought in technology and expertise to the recipient countries. But the real problem is the capability of the host country to absorb and replace existing technology with the one brought in by FDI, seen through the angle of human capital, physical capital and the economic environment.

In this aspect demand for skilled labour in the country also changes with the globalisation process. FDI inflow can be a complement or substitute of the domestic skilled labour. In general,

technology coming in with FDI requires higher skills and complements existing higher level labour force. Nevertheless, this situation can change for varying subsectors due to difference in technological needs. Choice of suitable technology is crucial in ensuring its entrance does not jeopardise the domestic labour force absorption ratio. The Malaysian manufacturing sector is volatile as it is exposed to foreign influences; it is the highest FDI recipient and contributes the most towards export and import.

This article has the objective to analyse the impact globalisation on demand for skilled labour, namely, professional and management; and technical and supervisory in the manufacturing sector in Malaysia. Analysis is based on panel data from the Industrial Manufacturing Survey collected by the Department of Statistics, Malaysia between1985-2008. The paper is organised into five sections, with the following section discussing literature review, followed by methodology and model specification. This is preceded by a discussion on the impact of globalisation on demand for labour for the entire manufacturing sector and the selected six subsectors. Summary and conclusion of the findings are deliberated in the final section of this paper.

2. Literature Review

Globalisation indicator can generally be categorised into three important aspects, namely, economic openness, capital inflow and technology advancement. Previous studies that show the impact of economic openness include Fedderke et al. (1999), Alleyne and Subramanian (2001), and also Devadason and Wai Meng (2007). Empirical evidence on the impact of FDI towards labour demand can be found in the literatures of Devadason and Wai Meng (2007, Marián Dinga and Andiel Münich (2007), Pompei (2008), Elia et al. (2008), meanwhile, technological impact can be seen from studies by Berman et al. (1994), Learner (1994), Lewis and Ong (2001), Pappas (1998), and Chu (2003) .

Trade Liberalisation and Labour Demand
Fedderke et al. (1999) uses the dynamic panel data of South Africa in 1970-1997 to study the influence of trade liberalisation in the labour market. They concluded that liberalisation enhanced the demand for labour force in South Africa. Trade also made positive economic growth and labour earnings. Nevertheless, technology advancement contributed towards negative labour earnings. A more recent study by Alleyne and Subramanian (2001) looked at the relationship between trade in South Africa and labour market between 1989 and 1997. They concluded that trade in South Africa had capital spill over effects and the country became a net exporter of capital intensive goods. The higher ratio of capital-labour in commodity production showed the higher the possibility of the country becoming a net exporter. The results also show that a higher ratio of skilled workers is needed when the capital increases.

Using the industry data by selected states, Ramaswamy (2003) found that trade liberalisation had an impact on the elasticity of labour demand in India. Besides that, he also found that the elasticity for labour was higher in states with a less stringent labour rules and the impact of trade reformation. Finally, the researcher also found that after the reformation, productivity and output instability brought about higher wages due to higher elasticity of demand for labour. Yasmin and Khan (2005) studied trade liberalisation and elasticity of demand for labour in Pakistan using the panel data analysis for the three digit level of the manufacturing sector during the period before the trade liberalisation (before 1989-1990) and after the trade liberalisation (after 1989-1990). Results shows that trade liberalisation enhance elasticity of demand for

labour significantly. Study by Devadason and Wai Meng (2007) in the manufacturing sector in Malaysia using the time series data between 1983 and 2000 found that export has negative impact on the demand for skilled labour, but increased the demand for unskilled labour. Nevertheless, import has the impact of increase in the demand for both the skilled and unskilled labour.

FDI Inflow and Labour Demand

Devadason and Wai Meng (2007) showed that FDI does not have a significant impact on the demand for the labour. But study by Marián Dinga and Andiel Münich (2007), show different results. They found that the FDI inflow into Kolin district, Republik Czech between 1993 and 2006 reduced unemployment by 1.7 percent and increased work force by 3.7 percent. On the contrary, Perugini and Pompei (2008) using the panel data of 14 European countries, 8 industrial sectors and 7 years time series from 1995 to 2001 found that FDI is significant and negative in influencing demand for skilled labour. Elia et al. (2008) found that the FDI by Italian MNCs had negative impact on the demand for unskilled labour in the host country.

Technological Change and labour Demand

Berman et al. (1994) conducted a study on the labour market structure in the United States of America for the period 1960s to the 1980s. The results of their study show that technological change is skill augmented has contributed to the shift of labour demand from unskilled labour to skilled labour. In other studies Berman et al. (1994); and Lewis and Ong (2001) on the other hand, investigated if the changes of labour market structure in Australia between 1976 and 1996. It was found that as a whole the change in technology is the main contributor to the increase in demand for skilled labour and decrease in demand for unskilled labour. Leamer (1994) also notes that a change in technology will impact demand for labour and it will be biased towards sector and not skill. Using the same argument,

Pappas (1998) classified labour in Australia into three stages, cognitive, interactive and motor skills. The study found that technology is skill augmented which increasing demand for cognitive and interactive labour, and decreasing demand for motor skilled labour. In the long term, technological changes are expected to have de-skilling effect on the labour market, that is, the substitution of labour with machines (Acemoglu, 2002). Chun (2003) differentiated between technological change impact on labour demand in the short and long term labour market using the United States of America's data from the 1960s to the 1990s. Chun concluded that when technology is utilised wholly, firms would substitute skilled labour with unskilled labour to minimise cost.

ICT and Labour Demand

Other studies using specific technology indicators (Falk & Koebel 2004, O'Mahony, Robinson & Vecchi, 2007 and Falk & Koebel, 2004) show the impact of utilising office and computing machinery (OCM) towards demand for labour for workers with different levels of educational background in Germany. The education level was classified into three categories, university education, certificate and dual vocational system and those without any degrees from formal education. Sample studied was time series data for 35 industries (24 manufacturing industries and 11 non manufacturing industries) in West Germany from 1978 to 1994 obtained from the National Account. Input demand system equation was formulated and estimated whereby the three types of workers and the intermediate goods as variable factors, meanwhile,

two types of models, namely, the OCM model and a general model were used as a fixed-quasi input.

The results of the study show that the use of computers in both the manufacturing and the non-manufacturing industries had increased demand for skilled labour compared to unskilled labour. On the other hand, increase in computer usage in the non-manufacturing industry had decreased unskilled labour demand significantly. Besides that, the results also show that unskilled labour in the non-manufacturing sector using the OCM model was a substitute input. Nevertheless, there is no evidence to show substitution relationship between unskilled labours with the OCM model in the manufacturing industry.

Study by O'Mahony, Robinson and Vecchi (2007) gave an insight into the comparative perspective of information communication technology impact in the demand for skilled labour. They used the panel data for USA, England and France, comprising various skilled categories between the 1980s and the 1990s. The study considered whether the problem of skilled bias was temporary or permanent using the changes in time and differentiating highly skilled in the information communication technology work and other related jobs. The results show that the technological impact towards demand for skilled labour is positive, but it is negative for the unskilled labour.

Globalisation impact analysis on labour demand in this article takes into consideration all indicators above and focuses on high level labour, namely professional and management; and technical and supervisory. Both of these categories are important as they are skilled labour, possess highest level of human capital and contribute significantly to the Malaysian economic growth. Although inflow of foreign labour is an indicator of globalisation, nevertheless, in this paper it is not analysed separately as the labour force data, which act as dependent variable includes foreign labour.

3. Research Methodology

Discussion in this paper is focused on six main industries in the manufacturing sector with the three digit code sector selected based on the highest gross output, namely, manufacturing of sieved petroleum products (232); manufacturing of valves and electronic tubes and other electronic components (321); production, processing and preserved meat, fish, fruits, vegetables, oil and fats (151); manufacturing office equipment, accounting tools and calculators (300); manufacturing basic chemicals (241); and manufacturing iron based and metal products (271). The study also analyses the types of work according to the category of the manufacturing sector. The demand analysis focuses on professional and management; and technical and supervisory. All the types of work are analysed and estimated according to labour demand model.

Data used in this research is based on series data collected from the Industrial Manufacturing Survey, Department of Statistics, Malaysia for the years 1985 to 2008. The analysis uses panel data method for all the observations according to the industrial category (cross section analysis) and time series analysis. The combined data consists of 23 time series observations, starting from 1985 to 2008, and 6 cross sectional observations (subsectors).

In this study the dependent variable is the number of employment in the manufacturing sector. Meanwhile, the independent variables are the value of output, wages and globalisation indicators comprising export-import to GDP ratio, FDI, and total agreements for transfer of technology in the services sector. Estimation of the labour demand has also used two dummy variables. The first dummy variable is for the capital- intensive industry. The interaction term of

this dummy with FDI is also included to see whether FDI within the capital-intensive industry has different impact on labour demand. The second dummy is time after 1995, the year when Malaysia entered *World Trade Organization* (WTO) in 1995.

Labour Demand Function

The demand function for labour can be derived by minimising costs subject to the production function or the level of output given (Nicholson and Snyder 2008), as follows:

Min C   = wL + rK   …(1)

Subject to;

Q   = f (K,L)   …(2)

£ = wL + rK + λ [Q – f(K,L)]   …(3)

Where, C as total costs, Q is the total output, L is the labour quantity, K is the value of capital, w is wages and r is the price of capital. The input demand functions is obtained by differentiating equation (3) above with respect to capital, labour and output and equate them to zero. In general, the labour demand function can be written as:

L = f (w, r, Q)   …(4)

In term of model in logarithm form, equation (4) can be written as,

$$\ln L = \beta_0 + \ln\beta_1 Y + \ln\beta_2 r + \ln\beta_3 w + \mu \qquad \text{…(5)}$$

In this study, price of capital is not estimated as the price of capital is assumed to be constant for all the industries. The labour demand model in the manufacturing sector including the globalisation indicators and the dummy variables is shown as:

$$\ln L_{it} = \beta_{10} + \beta_{11} \ln Y_{it} + \beta_{12} \ln w_{it} + \beta_{13} \ln KE_{it} + \beta_{14} \ln FDI_{it} + \beta_{15} \ln T_{it} + \qquad \text{…(6)}$$

$$\ln L_{Pit} = \beta_{20} + \beta_{21} \ln Y_{it} + \beta_{22} \ln w_{Pit} + \beta_{23} \ln w_{TKit} + \beta_{24} \ln KE_{it} + \beta_{25} \ln FDI_{it} + \qquad \text{…(7)}$$

$$\ln L_{TKit} = \beta_{30} + \beta_{31} \ln Y_{it} + \beta_{32} \ln w_{TKit} + \beta_{33} \ln w_{Pit} + \beta_{34} \ln KE_{it} + \qquad \text{… (8)}$$

Where, L as the total number of workers in the manufacturing sector, Y is the nominal value of output. W is nominal wages, KE is the level of openness of the economy measured by the nominal export-import to manufacturing output ratio. FDI is the nominal value of FDI for the manufacturing sector indicated by the number of projects approved by MIDA according to industry at the nominal value. T is technology measured by the number of agreements by foreign investors with the government. P is the category of professional and managerial workers. Professional workers are those with professional certificates like engineers, architects, and accountants, meanwhile, managerial workers are department workers, finance accounting, marketing and related workers. TK is the category of technical and supervisory workers. Finally, *it* is the sub industry and *i is the year t* , D1 is the capital intensive industrial category dummy variable, D1FDI is the FDI interaction with dummy variable and D2 is the time dummy variable after the year 1995.

Three models can be estimated, *pooled least squares* model, *fixed effect mode*l and *random effect model*. Pooled model assumes intercept for the industry is identity, whereby:

$$\alpha_{it} = \alpha$$

The weakness in the estimation with the *pooled least square model* is the assumption that the intercept is always the same. Meanwhile, the fixed effect model assumes the intercept to be different for the *cross-section* unit, whereby:

$$\alpha_{it} = \alpha_{i, \text{ with } E(ai}\varepsilon_{it}) \neq 0$$

Random effect model assumes that the intercept as a random variable for all the pooled data until:

$$\alpha_{it} = \alpha_{+ui}, \text{ with } E(u_i\varepsilon_{it}) = 0$$

In this analysis, random effect model cannot be used as the total cross sections of the sectors (6) are smaller than the total regressor (9).

The first step to test the estimation model is to estimate the pooled model using the pooled least square with the assumption that the intercept is the same. The next step is the estimation of the model using the fixed effect model using different intercepts between industries. Fixed effect model is estimated using generalised least square. To test which model is best between the mixed and fixed effect model, F-test is done, whereby, the null hypothesis and the alternative hypothesis are as follows:

$$H_0 : \alpha_{it} = \alpha$$

$$H_1 : \alpha_{it} = \alpha_i$$

F-test statistics is given as (Greene 2003: 562):

$$F = \frac{(R_{fe}^2 - R_p^2)}{(1 - R_{fe}^2)} \frac{(nT - n - k)}{(n - 1)} : F_{n-1, nT-n-k}$$

If the null hypothesis is rejected, the fixed effect model is better than the pooled model.

4. Estimation Results

Table 1 shows descriptive statistics of the variables used in the estimation. The yearly mean number of labour is 48,270.93 and their mean wages is RM902, 013. The mean output value is RM 28,110 million. Ratio of economic openness has an annual mean value of 1.51 and FDI has a mean valve of RM14, 383.24 million per year. Meanwhile, the mean of technological agreements are 825 per year.

Table 1 Descriptive Statistics of Variables

Variable	Mean	Median	Maximum	Minimum	Std. Dev.	N
L	48270.93	21452.60	306330.0	1408.000	68087.38	144
W	902013.1	400709.5	5191536	976.2270	1225021	144
Y	28110.13	17221.32	121979.3	1847.851	27546.29	144
KE	1.516181	1.508897	1.657013	1.382244	0.063702	144
FDI	14383.24	13107.01	46098.77	959.2916	9668.871	144
T	825.3333	857.0000	1101.000	333.0000	176.7990	144

Estimation Results for Total Labour Demand Model

Table 2 shows the estimation results of the pooled model and the fixed effect model. Test to choose appropriate model is done using the Redundant Fixed Effects Test - Likelihood Ratio. The results of the tests demonstrate that the cross section fixed effect statistics in the equation (a) and (b) are 2.724 and 2.294. The values are significant at the significance level of 5 percent. Therefore, H_0 is rejected, indicating that the fixed effect model is better than the pooled model.

In the estimation model, autocorrelation problem is detected through the low value of Durbin Watson. To overcome this problem, White Cross Section method is used and the autocorrelation problem still occurs, therefore, the estimation model incorporates the auto regression variable (AR). Besides that, to overcome the heteroskedasticity problem, the Cross Section Weights method is used.

Table 2 Estimation Results of the Demand for Labour

Variable (log-linear function)	A		b	
	Pooled Model (6.1)	Fixed Effect Model (6.2)	Pooled Model (6.3)	Fixed Effect Model (6.4)
C	6.003 (1.7702)*	5.8038 (1.8351)	6.9902 (1.9770)*	6.7536 (2.0945)**
Y	0.2195 (2.0201)**	0.2206 (2.0377)**	0.2042 (1.9884)**	0.2054 (1.9842)**
w	-0.0278 (-1.1696)	-0.0255 (-1.1340)	-0.0309 (-1.2816)	-0.0285 (-1.247)
D1	0.3697 (0.3941)	0.3859 (0.4019)	0.0530 (0.0620)	0.0644 (0.0734)
D2	0.0534 (1.7423)*	0.0565 (1.9359)*	0.0609 (2.6300)***	0.0624 (2.9904)***
FDI	0.0794 (2.1333)**	0.0802 (2.1604)**	0.1092 (2.6300)***	0.1087 (2.6271)***
D1FDI	-0.0142 (-0.3520	-0.0148 (-0.3594)	-0.0014 (-0.0379)	-0.0018 (-0.0497)
T	-	-	-0.1622 (-2.9857)**	-0.1595 (-3.0506)***
CS Effect_1		0.4404		0.3906
CS Effect_2		-1.5457		-1.6602
CS Effect_3		-0.3087		-0.2811
CS Effect_4		-0.1310		-0.1189
CS Effect_5		0.1067		0.1808
CS Effect_6		1.4383		1.4888
R^2	0.97	0.97	0.97	0.97
R^2 Adjusted	0.96	0.96	0.96	0.96
N	132	132	132	132

Note: numbers in brackets show the t value
  * Significant at 10 significance level
 **Significant at 5% significance level
 ***Significant at 1% significance level

Cross Section Fixed Effects Test: a. (P value:0.023);b. (P value:0.049)
CS Effect_1 (151); CS Effect_2 (241); CS Effect_3 (232); CS Effect_4 (271); CS
Effect_5 (300); CS Effect_6 (321).

The R^2 value for the fixed effect model estimation, (6.2) and (6.4) is 0.97 which is 97 percent of variation in the demand for labour can be explained by the independent variable, meanwhile, the balance 30 percent is explained by factors not included in the model. The results of the estimation equation (6.2) illustrates that output is significant and positive at the significance level of 5 percent in influencing demand for labour. This means that every one percent increase in output, increases labour demand by 0.2206 percent. Meanwhile, the wages variable is found to be insignificant in influencing labour demand. FDI variable is found to be significant and positive at a 5 percent significance level. It shows that a one percent increase in the FDI will increase labour demand by 0.0802 percent. The results illustrate that technology brought by FDI will contribute to an increase demand for labour.

Dummy variable for the capital intensive industry is found to be insignificant, showing no difference between the capital intensive and labour intensive industry in influencing the demand for labour. The dummy interaction in with FDI also shows no difference in effect of FDI in the capital intensive and labour intensive industry in influencing the demand for labour. Meanwhile, the dummy variable for the time category (D2) is significant and positive in influencing the demand for labour. This means that the rapid globalisation process after the year 1995 in Malaysia has higher influence towards the demand for labour in the manufacturing sector compared with the period before the year 1995.

The results of the fixed effect model (equation 6.2) also shows the sixth industry, namely, industry (321) manufacturing valves and tubes for the electronic and other electronic components has higher influence towards demand for labour in the manufacturing sector compared with the other five industries in the study sample. Meanwhile, the chemical-based manufacturing industry (241) is an industry that has the least influence in demand for labour.

To investigate the significance of the globalisation variable in affecting labour demand, the agreement of technology variable is included in the estimation equation (6.4). The results of the estimation show the same results as the equation (6.2) showing output variable, FDI and time after the year 1995 still significant positively in influencing labour demand in the manufacturing sector. Nevertheless, the contrasting result is shown by the agreement of technology variable, which has a significant negative impact on demand for labour. This might be due to the measurement of technology by using the total number of agreements and some of these technological agreements have not been implemented fully.

Estimation Results for the Demand for Professional and Managerial Labour
Table 3 shows the estimation results of the pooled model and the fixed effect model for the professional and managerial labour demand model. The Redundant Fixed Effects Test shows that the statistics value by cross section fixed effect in the equation (a) is 1.048 and in the equation (b) is 1.031. The P value that is insignificant at the significance level of 5 percent. Therefore, the H_0 is accepted, meaning that the pooled model is accepted. Therefore, the analysis of the estimation results for the demand for professional and managerial labour will take from the pooled model of equations (7.1) and (7.3) with the assumption that the intercept for each industry in the research is constant. Estimation results for the demand for professional

and managerial labour show autocorrelation problem indicated by the Durbin Watson value nearing zero. Therefore the White Cross Section method and auto regressive variable (AR) are performed to overcome this problem.

Table 3 Estimation Results of the Demand for Professional and Management Labour

Variable (log-linear function)	A		b	
	Pooled Model (7.1)	Fixed Effect Model (7.2)	Pooled Model (7.3)	Fixed Effect Model (7.4)
C	20.0278 (0.9691)	20.3740 (0.8850)	18.0036 (1.2570)	17.9164 (1.1905)
Y	0.0103 (0.1399)	0.0201 (0.2757)	-0.0283 (-0.3958)	-0.0172 (-0.2456)
Wp	-0.3497 (-8.0393)***	-0.3486 (-8.0815)***	-0.3578 (-8.4522)***	-0.3572 (-8.5786)***
Wt	0.3707 (2.3567)**	0.3695 (2.3519)**	0.3063 (2.1619)**	0.3166 (2.2312)**
D1	-0.2318 (-0.1526)	-0.2627 (-0.1579)	-0.1494 (-0.0892)	-0.2102 (-0.1160)
D2	-0.0206 (-0.5316)	-0.0354 (-0.8552)	-0.0194 (-0.6223)	-0.0354 (-1.0938)
FDI	0.0709 (1.4661)	0.0706 (1.4558)	0.1203 (2.2864)**	0.1181 (2.2364)**
D1FDI	0.0106 (0.1576)	0.0119 (1.1613)	0.0065 (0.0874)	0.0090 (0.1122)
T	-	-	-0.0889 (-1.7264)*	-0.0923 (-1.8258)*
KE	-	-	-0.8704 (-3.1291)***	-0.8184 (-2.9720)***
CS Effect_1		-0.9753		-0.9463
CS Effect_2		-2.2326		-2.1186
CS Effect_3		0.0842		0.1001
CS Effect_4		-0.5117		-0.5408
CS Effect_5		2.0662		1.9843
CS Effect_6		1.5693		1.5214
R^2	0.98	0.98	0.98	0.98
R^2 Adjusted	0.97	0.97	0.97	0.97
N	132	132		132

Note: numbers in brackets show the t value
 * Significant at 10% significance level
 **Significant at 5% significance
 ***Significant at 1% significance level
 Cross Section Fixed Effects Test: a (P value:0.392); b (P value: 0.402)
 CS Effect_1 (151); CS Effect_2 (241); CS Effect_3 (232); CS Effect_4 (271); CS Effect_5 (300); CS Effect_6 (321).

The R^2 value for the equations (7.1) and (7.3) is 0.98, indicating that 98 percent of variation in the demand for labour is explained by the listed independent variables, meanwhile, the balance 0.2 percent is explained by other factors not included in the model. Results from the

equation (7.1) show that output is not significant in influencing demand for professional and managerial labour. Meanwhile, the wages of the professional and managerial labour are significant at the one percent significance level. The coefficient value is negative, corresponding to the economic theory that wages and demand for labour have a negative relationship. The results show that one percent increase in wages will reduce demand for labour by 0.3497 percent. On the other hand, wages for the technical and supervisory variable is significant at the 5 percent level and positively influences demand for professional and managerial labour. This shows that technical and supervisory labour is substitute with the professional and managerial labour (Nicholson and Snyder 2008:186).

The industrial category dummy variable is insignificant. This shows that there is no difference between capital intensive and labour intensive industry in influencing demand for professional and managerial labour. The dummy FDI interaction variable also shows no difference between FDI in the capital intensive and labour intensive industry in influencing demand for professional and managerial labour. The same result is also demonstrated for the dummy variable time (D2), showing no difference before and after 1995 in influencing demand for professional and managerial labour.

Estimation results of the pooled model equation (7.3) by incorporating the agreement of technology variable and openness of the economy are the same. The estimation results show that output is insignificant in influencing demand for professional and managerial labour but wages of professional and managerial labour is significant. Nevertheless, FDI is positive and significant. This shows that one percent increase in FDI approved by MIDA will increase demand for professional and managerial labour by 0.12 percent. The results show that technology brought in by FDI has positively influenced demand for professional and managerial labour. This indicates that FDI brings technology and expertise and can increase demand for professional and managerial labour by 0.12 percent.

The contradicting results indicate that the technology variable is significant at the significance level of 10 percent and negatively influences demand for professional and managerial labour. This is due to the weakness of the technology agreements data as a measure of technology, not specifying technology used in the manufacturing sector, possibly due to only a few technology agreements not fully implemented. The openness of the economy variable is also significant at one percent level and negatively influences demand for professional and managerial labour. This shows that export and import in the manufacturing sector in Malaysia has negative impact on demand for skilled labour as shown by Devadason and Wai Meng (2007).

Analysis of the Estimation Results for the Demand for Technical and Supervisory

Table 4 shows estimation results of the pooled model and fixed effect model impact for technical and supervisory labour demand function. As in other models before, tests to choose an appropriate model is done using the Redundant Fixed Effects Test - Likelihood Ratio method. The results show statistics value by cross section fixed effect in equation (a) is 1.774 with P value 0.12, which is insignificant at the significance level 5 percent. Therefore, the H_0 is accepted, indicating that the results from the pooled model (8.1) are used in the analysis. Meanwhile, the equation (b) test results show statistics value for cross section fixed effect is 1.774 with a P value of 0.09, significant at the significance level of 10 percent. Therefore, H_0 is rejected; indicating the results from the fixed effect model (8.4) are used in the analysis.

Table 4 Estimation Results of the Demand for Technical and Supervisory Labour

Variable (log-linear function)	A		b	
	Pooled Model (8.1)	Fixed Effect Model (8.2)	Pooled Model (8.3)	Fixed Effect Model (8.4)
C	10.3008	10.5185	12.0869	12.3581
	(4.2498)***	(4.3763)***	(7.4298)***	(8.0398)***
Y	-0.0005	-0.0062	-0.0647	-0.0713
	(-0.0068)	(-0.0822)	(-1.2996)	(-1.4116)
Wt	-0.1874	-0.1889	-0.32655	-0.3323
	(-1.3992)	(-1.4283)	(-2.8409)***	(-2.9375)***
Wp	0.0934	0.0939	0.0738	0.0722
	(1.2016)	(1.1895)	(1.0633)	(1.0214)
D1	1.0954	0.9900	0.8054	0.6461
	(0.7542)	(0.6876)	(0.5407)	(0.4400)
D2	-0.0583	-0.0583	-0.0557	-0.0573
	(-0.9799)	(-0.9692)	(-2.7886)***	(-2.8518)***
FDI	0.0542	0.0511	0.1463	0.1440
	(0.8403)	(0.8061)	(2.4137)**	(2.4118)**
D1FDI	-0.0446	-0.0399	-0.0342	-0.0272
	(-0.6950)	(-0.6285)	(-0.5194)	(-0.4197)
T	-	-	-0.2611	-0.2629
			(-4.3548)***	(-4.5232)***
KE	-	-	-0.9973	-1.0190
			(-3.8109)***	(-3.8729)***
CS Effect_1		-0.4044		-0.5854
CS Effect_2		-1.1963		-1.2044
CS Effect_3		0.1299		0.2399
CS Effect_4		-0.6935		-0.8410
CS Effect_5		0.7693		1.0986
CS Effect_6		1.3950		1.2923
R^2	0.96	0.96	0.97	0.97
R^2 Adjusted	0.96	0.96	0.96	0.96
N	132	132	132	132

Note: numbers in brackets show the t value
* Significant at 10% significance level
**Significant at 5% significance level
***Significant at 1% significance level
Cross Section Fixed Effects Test: a. (P value:0.12); b.(P-value:0.09)
CS Effect_1 (151); CS Effect_2 (241); CS Effect_3 (232); CS Effect_4 (271); CS Effect_5 (300); CS Effect_6 (321).

The estimation of equations (8.1) and (8.4) also encountered autocorrelation problem and it is solved by estimating auto regression models. R^2 values of equations (8.1) and (8.4) show that 96 percent of variation in demand for labour is explained by the listed independent variables, while the balance 40 percent is explained by factors not included in the model. The estimation results of the pooled model for the demand for technical and supervisory labour function in equation (8.1) show that output, wages of technical and supervisory labour, wages

of professional and managerial labour, and FDI is insignificant in influencing demand for technical and supervisory labour. Dummy variables are also insignificant in influencing demand for technical and supervisory labour. There is no difference between the capital intensive and labour intensive industry in influencing demand for technical and supervisory labour. FDI impact also has no difference between the capital intensive and labour intensive industry. The same result is found for the industry and interaction variable. Time dummy variable is also insignificant towards influencing demand for technical and supervisory labour. This shows that there is no difference in the time period before and after 1995 influencing demand for technical and supervisory labour.

To test the significance of the globalisation variable in influencing demand for technical and supervisory labour, in the fixed effect model equation (8.4) variable technology agreement and openness of the economy variable is included. The results of the estimation show that output is still insignificant in influencing demand for technical and supervisory labour. Meanwhile, variable wages of technical and supervisory labour is significant and negative at the significance level of one percent. The coefficient value is negative, showing an inverse relationship between price of labour (wages) and total number of workers or demand for labour. The results show that one percent increase in wages will decrease demand for technical and supervisory labour by 0.3265 percent. FDI variable is also found to be significant at the significance level of 5 percent and positively influences demand for technical and supervisory labour. The results show that one percent increase in FDI approved by MIDA will increase demand for technical and supervisory labour by 0.14 percent. This is ensured by the fact that the level of technology and expertise brought by FDI in high. Therefore, the demand for technical and supervisory labour is high to operate and manage technology and absorb the expertise brought in by FDI.

Contrasting results are shown for technological agreement variable, which is significant at the significance level of 1 percent, but negatively influences demand for technical and supervisory labour. The results indicate that increase in technological agreement variable will reduce demand for technical and supervisory labour. The contradicting results are due to the weak technology agreement data estimated in the equation and technology agreement did not reflect the actual use of technology in the manufacturing sector.

The results also found that economic openness variable was significant at the significance level of 1 percent and negatively influences demand for technical and supervisory labour. This means that one percent increase in economic openness, will decrease demand for technical and supervisory labour by 0.99 percent. This is due to the fact that export and import are assumed to increase demand for unskilled labour as noted by Devadason and Wai Meng (2007). They found that export has positive impact on demand for unskilled labour, while import has positive impact on both skilled and unskilled labour.

The dummy variable for time (D2) is found to be significant and negative, indicating that the period after 1995 has less influence on the demand for technical and supervisory labour compared to the period before 1995. This is because several industries estimated in the study after 1995 did not utilise technology that required technical and supervisory labour.

5. Conclusions and Implications

The FDI inflow brought in technology and expertise from the host countries has influenced the demand for labour in the manufacturing sector in Malaysia, specifically demand for professional and managerial labour; and demand for technical and supervisory labour. This

means that technology and expertise brought by FDI is biased towards expertise and capital. The question is why unemployment in still prevalent among the graduates in Malaysia? One of the crucial factors of unemployment is job mismatch.

It cannot be denied that FDI in the manufacturing sector has increased the capability of export oriented industries and contributed to increase in private investment. FDI inflow in the manufacturing sector also has impact on the increase in labour demand as a whole in the manufacturing sector in Malaysia. Technology and expertise brought in by FDI to the manufacturing sector shows positive impact in the increase of demand for professional and managerial labour and technical and supervisory labour. This means that technology and expertise via FDI is at optimum level and able to absorb skilled labour in tandem.

On the other hand Malaysia still faces the problem of unemployment of more than 80,000 graduates. To overcome this, the government has to relook into the curriculum of the institutions of higher learning to suit the needs of the technology and expertise brought in by the FDI. This will help absorb more labour force and reduce unemployment rate among the graduates.

The implication of the labour market approach must be used as a main reference for education policy reformation especially at the tertiary level. In light of the fact that FDI has positive impact in increasing growth of the manufacturing industry, and increasing demand for skilled labour then FDI inflow should be encouraged through specific FDI policies, that is tax incentives, zero tax for certain industries, etc.. Liberalisation in stages for market entry, regulations for recruiting expatriates, equity ownership and relaxing the rules and monitoring, and innovations in strategies in administration and processes to minimise costs to establish and conduct business in Malaysia. At the same time, the government should find ways to develop domestic technology, reducing costs and dependence on foreign technology. Development of local technology can also be a source for increasing employment opportunities and increasing the competitiveness level in Malaysia.

To achieve this objective, development of human resource must be emphasised as a main strategy in producing highly skilled labour that is innovative and competitive. In this aspect, the policy makers should ensure that priority is given to increase quality and relevant education and training opportunities especially in the science and information technology field. As mentioned earlier, firstly, the curriculum must be relevant to the current needs of the market. Therefore, a mechanism must be in place to establish a relationship and link institutions of higher learning, the industry and centre for research and development. This will also facilitate smooth technology transfer while the industry helps to ensure that the institutions of higher learning and research and development centres keep the potential labour relevant for the labour market.

To eliminate the negative impact from the economic openness, the government must increase export and reduce import. The current scenario shows that import of intermediate goods is high. When the government increases export, this will reduce the problem of payment imbalances and increase the openness of the economy. Furthermore, this will give a positive impact on the demand for labour.

Nevertheless, human resource development needs to be emphasised as the thrust of the strategy is to produce highly skilled labour that is more innovative and competitive. Through the highly skilled labour management, FDI technology and expertise absorption will be managed easily and furthermore facilitate developing more advanced domestic technology to reduce cost and level of dependency on foreign technology in light of globalisation.

Reference

Acemoglu, Daron. 2002. Directed technical change. *Review of Economic Studies.* Volume 69. Pp. 781-810.

Ajayi, S.I. 2001. What Africa Needs to Benefit from Globalization? *Finance and Development*, December, vol.38, no.4.

Alleyne, T. & Subramanian, A. 2001. What does South Africa's Pattern of Trade Say About Its Labour Market? *IMF Working Paper*, WP/01/148, October.

Au, Elisa., Hafez Baj & Joly Patrick. 2003. Technical change and the demand for labour in Canadian manufacturing: Evidence from the annual survey of manufacturers. *Industry Analysis Centre.*

Berman, E., John Bound & Zvi Grileches. 1994. Changes in the demand of skilled labour within US manufacturing: Evidence from the Annual survey of manufacturers. *Quarterly Journal of Economics.367-397.*

Chun, H. 2003. Information technology and demand for educated workers: disentangling the impacts of adoption versus use. *Review of Economic and Statistics.* 85:1, 1-8.

Devadason, Evelyn S., & Chan Wai Meng. 2007. Globalization of the Malaysian manufacturing sector: an agenda for social protection enhancement. *International Journal of Economics and Finance*, February, Vol 1, No.1, 86-97.

Devadason, Evelyn S. 2007. *Labour Demand and Trade in Manufacturers: Issues and Evidence from Malaysia*. Kuala Lumpur: University Malaya Press.

Dinga, Marián & Andiel Münich. 2007. The impact of territorially concentrated FDI on local labour markets: Evidence from the Czech Republic. *Labour Economics 17 (2010).* 354-367.

Duncan, R. 2000. Globalization and income inequality: an international perspective. Paper presented at the *Conference on International Trade Education and Research*. 26-27 October, Melbourne.

Elia, S., Ilaria Mariotti & Lucia Piscitello. 2009. The impact of outward FDI on the home country's labour demand and skill composition. *International Business Review*, 357-372.

Falk, Martin and Bertrand M. Koebel. 2004. The impact of office machinery and computer capital on the demand for heterogeneous labour. *Labour Economics II*, pp 99-117.

Fedderke, J. Shin, Y. & Vaze P. 1999. Trade and labour usage: an examination of the South African manufacturing industry, *ERSA Working paper no.15*, University of the Witwatersrand.

Greene, W.H. (2003). *Econometric Analysis*. 5th ed. Upper Saddle River: Prentice Hall.

Hoogvelt, Ankie.1997. The history of capitalist expansion dalam *Globalization and the Postcolonial World: the New Political Economy of Development.* Baltimore: The John Hopkins University Press, pp.14-28.

Interational Monetary Fund. 1997. *World Economic Outlook 1997*.

Leamer, Edward. 1994. Trade, wages and revolving door ideas. *National Bureau of Economic Research Working Paper.* 4761.

Lembaga Kemajuan Perindustrian Malaysia. *Laporan Tahunan.* Pelbagai Tahun.

Lewis, Philip E.T & Ong, Rachel. 2001. Globalization, technical change and employment. *CLMR Discussion Paper Series.* ISSN 1329-2676.

Nicholson, W. and Snyder, C. 2008. *Microeconomic Theory: Basic Principles and Extensions.* 10th ed. Australia: South-Western Publishing.

O'Mahony ,Mary., Catherine Robinson and Michela Vecchi. 2007. The impact of ICT on the demand for skilled labour: A cross-country comparison. *This paper was funded jointly by a grant from the 'Evidence Based Policy Fund' with contributions from HM-Treasury/DTI/DfES and the European Commission 'Fifth Framework' program.*

Pappas, N. 1998. *Change in the demand for skilled labour in Australia, in working for the future: Technology and employment in the global knowledge economy*. Melbourne: Victoria University Press.

Ramaswamy, K.V. 2003. Globalization and industrial labour market in South Asia: some aspects of adjustment in less integrated region. *Indian Journal of Labour economics,* 46(2), pp 253-274.

Waters, M. 1995. *Globalization*. London: Routledge.

Yasmin, Bushra and Aliya, H. Khan. 2005. Trade liberalisation and labour demand elasticities: empirical evidence for Pakistan. *The Pakistan Development Review* 44 : 4 Part II, pp. 1067–1089.

THE ATTITUDES IMPORTANCE FOR THE STUDENTS EDUCATION

POPESCU MARIA-LAVINIA
Faculty of Economics Science and Business Administration,
„Babeş-Bolyai" University

Abstract:

In this moment, the higher education entities, same as the other companies which are in market, carry on the activity in an extremely dynamic environment. Consequence of dimensions and rapidity of environment changes, the higher education institutions can not make abstraction by the reality which is present and they can not see each change as a distinct event, which can be studied individual for maximize the advantages and minimize the negatives effects which product him. Jim Knight said that: „the change is a present reality in the framework of this the educational institutions must to learn to operate or must to assume the failure risk". These evolutions impose changes in the way in which the managers understand the institution relation with the market whose they address. Similarly, the requests of higher education reform imposed by the transition at Bologna process impose of universities and in the same times of faculties the remarkable adapt efforts. Therefore, the institutions which supply services must to concentrate by quality, equality between sexes and by the instruction improvement, the development and the valorisation of opportunities for women's, the basis education to be free and obligatory by childhood. The early education by childhood provides the crucial base for their all education. The study it is based by primary quantitative research method by conclusive-descriptive nature based by the divided plans or transversal research how this is know in specialty literature. The dates collect method has been "face to face" investigation and the research instrument the questionnaire. The quantitative dates processed using SPSS.

Key words: education, student, attitudes, consumer behaviour, marketing research
JEL Classification:

1. Introduction

Starting with the XIX century, we assist at the growth of information importance as following of development of government forms more complexes, of concurrence intensification and of development of communications systems. This process has been increased in the lasts years by the development of telecommunications and of computers systems, by the globalization

process and by the intensification of concurrence by educational market, by the exchange and circulation liberalization, by the growth of complexity education institutions. The major part of higher education institutions confront with opportunities, threats and unprecedented changes in the those dimensions, and the accurate information's and obtained in time are essentials from to manage of these changes.

Most educational institutions now recognize that they must adapt their needs to market because the climate of competition for universities is one frequently a global, and substantial literature shows that impose the transfer of the practices and concepts of marketing from other sectors to higher education has been developed (Gibbs, 2002).

Every civilized society considers the education sector as a necessary indicator of economic and social advancement. Equal role of men and women can not be denied in developmental activity. It is necessary for human societies utilize its human capital to achieve social, cultural and economic prosperity (Goher, 2010, p. 167). Parveen (Parveen, 2008, p.30) concluded that development is not only characterized by the growth of production and income, and it is closed linked with necessitates the evolution and the transformation of economic and social structure, which results from the desire for change of the governments in power and the mobilization of national efforts.

 Binsardi and Ekwulugo (2003), claimed that "a centrally important principle of marketing is that all marketing activities should be geared towards the customer", also relied on the literature used in business sector marketing, and applied it to the context of higher education.

In a society in change all the time what pass through a transition period makes very rapid for the modern world, educational domain must not neglect. The deep changes which happen in today society impose of educational institutions new exigencies for qualifications of the young generation. Taking her the former responsibilities of people, those see obliged all the time to adjust oneself by new curricular projects at quick economical and social change which influence decisive the conception what regarding the role of education system. For this reason any entity for profit to a big notoriety, for use at maximum the opportunities offered by market and for neutralization the threats of external environment in the first place is necessary to invest in human component and in their perfection, the key of any success business. A special importance presents the adaptation capacity of educational entities to continuum improvement of them offers which to lead to essentials elements of concept super named "the new paradigm of marketing".

Thus, in the present competitive environment, the universities begin to recognize the increasing importance of services by which they offer and, in consequence, to concentrate by the meeting of students' needs and expectations. For have success a university must to identify which are the relevant aspects for students and in consequence to offer of students what they expect. In particular, in this new market, the school is encouraged to valuate with more attention the clients and customers needs, with the objective to satisfy with accuracy these needs. (Hanson, 1996) In this context, is important, to point out that the women higher education play a central role in the process of society develop and the higher percent of those in the educational process represents a particularity of higher education market in the last years in the major part of civilized stats.

The higher education institutions are focused by an increase of quality of education provided through the managerial techniques used for growth the efficiency and the quality of their offers. (Palihawadana and Holmes, 1999).

2. Literature review

Literature on education marketing, which originated in the UK and US in the 1980s was theoretical-normative in nature and was based on models developed for use by the business sector (Oplatka, Hemsley-Brown, 2004). At that moment, the educational marketing literature has been utilized as being by theoretical nature, including much more books and papers which given recommendations and marketing orientations for school/faculty (Gray, 1991). The literature included books and manuals on how to market institutions (Kotler and Fox, 1985; Gibbs and Knapp, 2001) and how to apply well-established above-the-line (advertising) and below-the-line practices (public relations) used in the business sector, to higher education (Davies and Scribbins, 1985; Keen and Warner, 1989).

Just a middle of 1990 years is published in the literature focused by education a base of empirical knowledge's in the aspects linked by marketing of life higher education institution and education administration (Bell, 1999; Foskett, 1998; James and Philips, 1995). Research that began to emerge in the 1990s interpreted marketing within the narrower definition of marketing communications, and was based on the assumption that in order for any higher education institution to market itself successfully managers would need to examine the decision-making process and potential students' search for information. Therefore, researchers have conducted studies of the content of the print communications available for applicants (Mortimer, 1997; Gatfield *et al.*, 1999; Hesketh and Knight, 1999). There was also much debate about who the customers of higher education can be either considered as customers (with courses as the higher education products) or as products with the employers being the customers" (Conway *et al.*, 1994, p. 31). There was also some resistance to the notion of students as consumers (Barrett, 1996, p. 70).

Later, it was recognized that higher education was not a product, but a service, and the marketing of services was sufficiently different from the marketing of products, to justify different approaches (Nicholls *et al.*, 1995). Mazzarol (1998) focused on the nature of services, and services marketing and he highlighted the key characteristics that provided a basis for services marketing: the nature of the service that education is "people based", and emphasized the importance of relationships with customers. Too, management experts have studied this problematic and they developed it. (Zeithaml et al., 1985; Parasuraman et al., 2004).

Most researchers (Berry and George, 1975; Fram, 1974-1975; Hollingshead and Griffith, 1990; Kotler and Fox, 1985; Krachenberg, 1972) focused by the application of general theoretical marketing principles of higher education context.

People make decisions every day, but most decisions involve a lesser degree of involvement. Decisions on the educational services are high because they involve decisions (Kotler & Fox, 1995, p. 245):

- the choosing a faculty has implications for their image and may have lasting consequences on the lives of potential students;

- the decision to purchase educational services requires personal sacrifices economic;

- personal and social risks in the case in which they take a „wrong" decision are perceived as being very high;

- there is considerable pressure from reference groups to choose a particular faculty or university, and the potential student is strongly motivated to meet the expectations of reference groups.

For to get over other market instigations, a lot of researches suggest that the institutions must to:

- intensify their efforts in the view of marketing integration in the management of today higher education institutions (Litten, 1980).

- perceive the students as educational services consumers (Barry et al, 1982; Green et al, 1989).

- be aware of the real gain obtained through the understanding and the intuition of students educational needs (Hampton, 1983).

- realize the importance of measuring students' satisfaction / dissatisfaction (Madden et al 1979; Morstain, 1977).

-gain much more through the understanding the students post valuation process (Ortinau and Anderson, 1986; Ortinau et al, 1987)

The marketing orientation of activity of each modern higher education institution has as premise the knowledge and the anticipation of movements which have place in her marketing environment (Javalgi et al, 2006, pp.13).

3. Theoretical background

The marketing research is the systematic activity by designing, collecting, analysis and reporting of important dates for a particular marketing situation which confront an organization. (Kotler, Armstrong, 2008) The purpose of research is to diminish the errors in decisions taking at the management level of one entity and to help with coaching and improvement those marketing decisions.

The research plans are by two vast types: explorers and conclusive. (Plăiaş, 2008). This paper achieved on the basis of punctual investigation represents photography for the time being of students at master for one year of study in the framework of FSEGA "Babeş-Bolyai" University, Cluj-Napoca, regarding their attitudes towards education. Total population (investigate universe) have 1400 subjects at masters. With the view to realize the research I extracted a pattern with 100 persons by population. I used the proportionally stratification investigation in function with the students percent in mother population and in same times in rapport with repartitions of section. One advantage of stratification investigation in report with others probabilistic method is the increase of accuracy of estimations made. Only the proportionally stratification investigation ("representative stratification") is which can be interpreted as a census (Chirouze, 1993). The interest of this investigation type is that number of persons asked having common characteristics is proportionally with layer population. The proportionally stratification investigation assures a investigation rate "n/N" in each layer equal with on the whole population "n/N".

4. The students attitudes in the higher education

The attitudes represent an expression of internal feelings which reflect if a person is favorable or not favorable with a bent at certain "objects", as would be a service, a brand, a product. The materials delivery necessaries with the view of carry on the course at begin is considered a good method by all the participants at study.

The attitudes are perceived by ones specialists that representing a general valuation. This evaluation would go from positive extreme at negative extreme. Then, is very important to

observe how the persons asked perceive the university preparation received, having in view the fact that the attitudes vary in intensity and favorability. Then, the students asked if would dispose by course support with less at week before begin this, the reason from which the most would go at course would be there for to obtain more information's with regard at studied subject (64%). A quarter between the populations studied would use the course support for search before the information, in this manner can have active participation of course carry on. A percent quite reduced (11%) would profit by this event for do not going to course.

The relevant attitudes from the purchase behavior are formed as result of direct experience with the product or the services, of information obtain by others and at exhibit at marketing actions. The attitudes reflect a favorable evaluation or a not favorable evaluation face to an object and these have a motivational quality, these pushing the consumer to a certain behavior. Creating attitude, mental bent of consumers for "purchase" those goods and services, the motivation which represents the mind state by tension which lead the fellow at purchase action, satisfying his needs and expectations are very important.

For a good understanding of the students' attitudes I used a Cluster Analysis. His objective is to group the cases (observations) in clusters (groups, categories). This statistic method is used for to group the multi-dimensional dates (so, "points" which represent cases or observations) in clusters algorithmic defined. This method is good for summarize a big quantity of information, each cluster representing much more points with similar characteristics. The distinct clusters are disjoints. In fact, Cluster Analysis is an algorithms collection which use more heuristics founded in the first place by our "visual" experience in the points clusters in "points cloud".

I realised a hierarchic cluster analysis using the Ward method with squared Euclidian distance as calculation method of distances by approximately 20% by the cases had. The hierarchical tree plot and the graph built on the base of the dates by the table "agglomeration schedule" indicate the presence of two clusters (annex no 1). Through cluster can observe that the groups number is sensitive reduced in the majority news classes formed entering two cases, only in seven between the groups entering a single case.

Table no.1: The correlation between the time for didactics activities and the students' mobility's

		N	Mean	Std. Dev.	Std. Error	95% Confidence Interval for Mean	
						Lower Bound	Upper Bound
Consider you that the time for didactics activities in FSEGA is very big?	female	83	0.06	0.24	0.03	0.01	0.11
	male	17	0.18	0.39	0.10	-0.03	0.38
	Total	100	0.08	0.27	0.03	0.03	0.13
Are you disposed to action thus to benefit by a student mobility?	female	83	0.71	0.46	0.05	0.61	0.81
	male	17	0.47	0.51	0.12	0.21	0.74
	Total	100	0.67	0.47	0.05	0.58	0.76

Table no. 2: ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
Consider you that the time for didactics activities in FSEGA is very big?	Between Groups	0.19	1	0.19	2.61	0.11
	Within Groups	7.17	98	0.07		
	Total	7.36	99			
Are you disposed to action thus to benefit by a student mobility?	Between Groups	0.81	1	0.81	3.75	0.06
	Within Groups	21.3	98	0.22		

By table results that F = 2,61 and the acceptance probability of null hypothesis, Sig = 0,11 > 0 ,05. The null hypothesis is not rejected representing that the people sexes influence not the answer at the question „Consider you that the time for didactics activities in FSEGA is very big?"
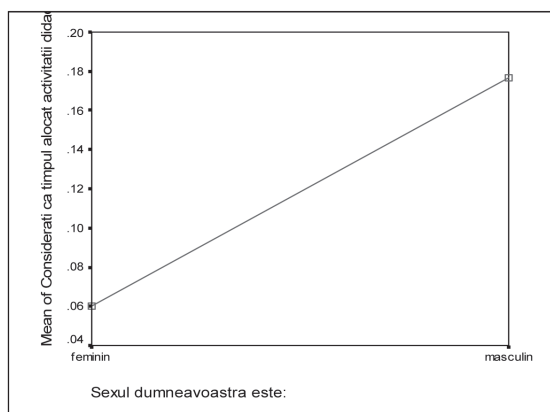
Figure no. 2

By table results that F = 3.75 and the acceptance probability of null hypothesis, Sig = 0,06 > 0 ,05. The null hypothesis is not rejected representing that the people sexes influence not the answer at the question „Are you disposed to action thus to benefit by a student mobility?"
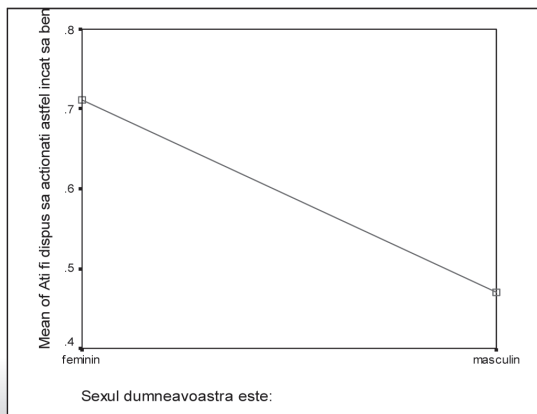
Figure no. 3

5. Conclusions

Studying the population direct implicated in process of professionally formed within the framework of university center of Cluj-Napoca with economic profile emerge the following conclusions: Then the consumers are free to action that they want foretell that they actions will be consistent with the attitudes. Often, though the circumstances change. Is necessary to consider too the influence of conjectural situation over the attitudes and behavior consumer.

The human motivations lead at activate a certain needs sets and different attitudes which various in function with the personality, by the capacities and previous experiences of each subject. For this reason and for attract a competition advantage it is very important to follow by systematic marketing research every action of higher education consumer.

References

Investing in people!
Ph.D. scholarship, Project co-financed by the SECTORAL OPERATIONAL PROGRAM FOR HUMAN RESOURCES DEVELOPMENT 2007 - 2013
Priority Axis 1. "Education and training in support for growth and development of a knowledge based society"
Key area of intervention 1.5: Doctoral and post-doctoral programs in support of research.
Contract nr.: **POSDRU/88/1.5/S/60185 –** "INNOVATIVE DOCTORAL STUDIES IN A KNOWLEDGE BASED SOCIETY" Babeş-Bolyai University, Cluj-Napoca, Romania
1. Barrett, L.R. (1996), "On students as customers – some warning from America", Higher Education Review, Vol. 28 No.3, pp.70-71
2. Barry, T.E., Gilly, C.M., Schucany, W.R. (1982), "Students as consumers: predicting satisfaction", in Walker, B.J. et al. (Eds), Proceedings of 1982 Educators Conference, No. 48, AMA, Chicago, IL, pp. 109-120
3. Bell, L., (1999), "Primary schools and the nature of the education market place", In Bush, T., Bell, L., Bolam, R., Glatter, R., & Ribbins, P., (eds.), "Educational management: Redefining theory, policy, practice", pp. 59-75, London: Paul Chapman
4. Berry, L.L., George, W.R., (1975), "Marketing the university: opportunity in an era of crises", Atlanta Economic Review, July/August, pp. 4-8
5. Binsardi, A., Ekwulugo, F. (2003), "International marketing of British education: research on the students' perception and the UK market penetration", Marketing Intelligence & Planning, Vol. 21 No.5, pp.318-327
6. Chirouze Y., (1993), "Le marketing: Les études préalables à la prise de décision, Enseignement Superieur Tertiaire", Ed. Elipses, Paris, 1993
7. Conway, T., Mackay, S., Yorke, D. (1994), «Strategic planning in higher education: who are the customers?», The International Journal of Educational Management, Vol. 8 No.6, pp.29-36
8. Davies, P., Scribbins, K. (1985), "Marketing Further and Higher Education", Longman Group Ltd, York
9. Fram, E.H., (1974/1975), "Marketing revisited: clarifying concepts and strategies", College Board Review, Winter, pp. 6-8
10. Foskett, N., (1998), "Schools and marketization", Educational Management and Administration, 26 (2), pp.197-210
11. Gatfield, T., Barker, M., Graham, P. (1999), "Measuring communication impact for university advertising materials", Corporate Communications: An International Journal, Vol. 4 No.2, pp.73-79
12. Gibbs, P., Knapp, M. (2001), "Marketing Higher and Further Education: An Educator's Guide to Promoting Courses, Departments and Institutions", Kogan Page, London

13. Gibbs, P. (2002), "From the invisible hand to the invisible hand-shake: marketing higher education", Research in Post Compulsory Education, Vol. 7 No.3, pp.325-338

14. Goher, F., (2010), „Female Education as a Determinant of Economic Growth - (a Case Study of Pakistan), Proceedings ICOAE 2010, TEI of Western Macedonia Press, Athens, 26-28 August, 2010, pp.167-172

15. Gray, L (1991), "Marketing education", Milton Keynes: Open University Press

16. Green, D., O'Shea, J. and Thomas, K., (1989), "Evaluating satisfaction with educational experience among part-time students", a report to CNAA, Birmingham Polytechnic

17. Hampton, G.M., (1983), "College student satisfaction: marketing's approach for evaluating higher education", 1983 AMA Educators Proceedings, AMA Chicago, IL, pp. 169-173.

18. Hanson, E.M. (1996*), "Educational administration and organizational behavior". Boston: Allyn and Bacon

19. Hesketh, A.J., Knight, P.T. (1999), "Postgraduates' choice of programme: helping universities to market and postgraduates to choose", *Studies in Higher Education*, Vol. 24 No.2, pp.151-163

20. Hollingshead, B., Griffith, J., (1990), "Mature Students: Marketing and Admissions Policy – Strategies for Polytechnics and Colleges", CNAA, London

21. James, C., Philips, P., (1995), "The practice of educational marketing in schools", Educational Management and Administration, 23 (2), pp.75-88

22. Javalgi, R.G., Martin, C. L., Young, R.B., (2006), "Marketing research, market orientation and CRM", Journal of Services Marketing, Vol. 20, No. 1

23. Keen, C., Warner, D. (1989), "Visual and Corporate Identity: A Study of Identity Programmes in the College, Polytechnic and University Environment", Heist Publications, Leeds

24. Knight,J.,(1997), „Strategic Planning for School Managers", Kogan Page Limited, London

25. Kotler, Ph., Fox, K., (1985), "Strategic Marketing for Higher Educational Institutions", Prentice-Hall, Englewood Cliffs, NJ

26. Kotler, Ph., Fox, K., (1995), „Strategic Marketing for Educational Institutions", Second Edition, Prentice-Hall, Inc., New Jersey

27. Kotler Ph., Armstrong, G., (2008)," Principiile marketingului", Teora, Bucureşti

28. Krachenberg, A.R., (1972), "Bringing the concept of marketing to higher education", Journal of Higher Education, Vol. 43, May, pp. 369-386

29. Litten, L.H., (1980), "Marketing higher education: benefits and risks for the American academic system", Journal of Higher Education, Vol. 51, January/ February, pp. 40-59

30. Madden, C.S., Little, E.L., Dolich, I.J., (1979), "A temporal model of consumer D/D concepts as net expectations and performance evaluations", in Day and Hunt (Eds), New Dimensions of Consumer Satisfaction and Complaining Behaviour, Department of Marketing, Indiana University, IN, pp. 79-83

31. Mazzarol, T. (1998), "Critical success factors for international education marketing", International Journal of Educational Management, Vol. 12 No.4, pp.163-175

32. Mortimer, K. (1997), "Recruiting overseas undergraduate students: are their information requirements being satisfied?", Higher Education Quarterly, Vol. 51 No.3, pp.225-238

33. Morstain, B.R., (1977), "An analysis of student satisfaction with their academic programs", Journal of Higher Education, Vol. 48, January/February, pp. 1-16

34. Nicholls, J., Harris, J., Morgan, E., Clarke, K., Sims, D. (1995), "Marketing higher education: the MBA experience", The International Journal of Educational Management, Vol. 9 No.2, pp.31-38

35. Oplatka, I., Hemsley-Brown, J., (2004), "The research on school marketing: Current issues and future directions", Journal of Educational Administration, 42(3), pp. 375-400

36. Ortinau, D.J., Anderson, R.L., (1986), "College students' post-purchase educational satisfaction/ dissatisfaction decision process: a conceptual model", Schimp, T.A. et al. (Eds), 1986 AMA Educators Proceedings,AMA, Chicago, IL, pp. 120-125

37. Ortinau, D.J., Anderson, R.L., Klippel, E., (1987), "The impact of students' involvement and expectancy beliefs on course/faculty evaluations", in Douglas, S. and Soloman, M. (Eds), 1987 AMA Educators Proceedings, AMA, Chicago, IL

38. Palihawadana D., Holmes G., (1999), "Modelling module evaluation in marketing education", Quality Assurence in Education, Volume 7, Number 1, 1999, pp.41-46

39. Parasuraman, A., Zeithaml, V., Berry, L. (2004), "SERVQUAL: a multiple-item scale for measuring customer expectations of service quality", Journal of Retailing, Vol. 64 No.1, pp.5-6

40. Parveen, S., (2008), „Female Education and National Development. As Viewed by Women Activists and Avocates Bulletin of Education&Research

41. Plăiaş I., (coord.), (2008), "Cercetări de marketing", Editura Risoprint, Cluj-Napoca

42. Popescu, M.L., (2009b), „Improvement Strategy of Economic University Quality Education of UBB Consumer of Educational Services Point of View", vol. Conferinţei Internaţionale „Industrial Revolutions from the Globalization and Post-Globalization Perspective", 16th Edition, Universitatea „Lucian Blaga", Facultatea de Ştiinţe Economice, Sibiu, 7-8 mai 2009, pp.78-84

43. Popescu, M.L., (2010b), „Higher Education Services - Marketing - Mass or Marketing Segmented", International Conference on Applied Economics 2010, Proceedings of ICOAE 2010, Athens, Greece 26-28 August, 2010, pp. 609-615

44. Zeithaml, V.A., Parasuraman, A., Berry, L.L. (1985), "Problems and strategies in services marketing", Journal of Marketing, Vol. 49 pp.33-46

Annex No. 1

The subjects' classification in two clusters:

Stage	Cluster Combined		Coef.	Stage Cluster First Appears		Next Stage
	Cluster 1	Cluster 2		Cluster 1	Cluster 2	
1	98	100	0	0	0	3
2	97	99	0	0	0	4
3	1	98	0	0	1	7
4	6	97	0	0	2	10
5	91	96	0	0	0	10
6	94	95	0	0	0	7
7	1	94	0	3	6	9
8	92	93	0	0	0	9
9	1	92	0	7	8	12
10	6	91	0	4	5	16
11	89	90	0	0	0	12
12	1	89	0	9	11	17
13	84	88	0	0	0	17
14	72	87	0	0	0	29
15	85	86	0	0	0	16
16	6	85	0	10	15	26
17	1	84	0	12	13	19
18	82	83	0	0	0	19
19	1	82	0	17	18	23
20	78	81	0	0	0	23
21	75	80	0	0	0	26
22	24	79	0	0	0	76
23	1	78	0	19	20	25
24	76	77	0	0	0	25
25	1	76	0	23	24	32
26	6	75	0	16	21	30
27	71	74	0	0	0	30
28	69	73	0	0	0	32
29	31	72	0	0	14	42
30	6	71	0	26	27	36
31	65	70	0	0	0	36
32	1	69	0	25	28	34

33	67	68	0	0	0	34
34	1	67	0	32	33	38
35	63	66	0	0	0	38
36	6	65	0	30	31	46
37	55	64	0	0	0	46
38	1	63	0	34	35	41
39	60	62	0	0	0	41
40	59	61	0	0	0	42
41	1	60	0	38	39	44
42	31	59	0	29	40	97
43	57	58	0	0	0	44
44	1	57	0	41	43	47
45	54	56	0	0	0	47
46	6	55	0	36	37	50
47	1	54	0	44	45	51
48	50	53	0	0	0	51
49	51	52	0	0	0	50
50	6	51	0	46	49	57
51	1	50	0	47	48	54
52	44	49	0	0	0	57
53	47	48	0	0	0	54
54	1	47	0	51	53	56
55	45	46	0	0	0	56
56	1	45	0	54	55	61
57	6	44	0	50	52	59
58	42	43	0	0	0	59
59	6	42	0	57	58	72
60	40	41	0	0	0	61
61	1	40	0	56	60	63
62	38	39	0	0	0	63
63	1	38	0	61	62	65
64	36	37	0	0	0	65
65	1	36	0	63	64	67
66	34	35	0	0	0	67
67	1	34	0	65	66	69
68	32	33	0	0	0	69
69	1	32	0	67	68	73
70	27	30	0	0	0	73
71	28	29	0	0	0	72
72	6	28	0	59	71	78
73	1	27	0	69	70	77
74	22	26	0	0	0	78
75	23	25	0	0	0	77
76	10	24	0	0	22	98
77	1	23	0	73	75	80
78	6	22	0	72	74	90
79	20	21	0	0	0	80
80	1	20	0	77	79	82
81	18	19	0	0	0	82
82	1	18	0	80	81	84
83	16	17	0	0	0	84
84	1	16	0	82	83	86
85	14	15	0	0	0	86
86	1	14	0	84	85	89
87	9	13	0	0	0	90
88	11	12	0	0	0	89
89	1	11	0	86	88	93
90	6	9	0	78	87	91
91	6	8	0	90	0	97
92	5	7	0	0	0	93
93	1	5	0	89	92	95
94	3	4	0	0	0	95
95	1	3	0	93	94	96
96	1	2	0	95	0	98
97	6	31	1	91	42	99
98	1	10	1	96	76	99
99	1	6	1.183	98	97	0

THE EFFECTS OF POWER DISTANCE ON PATTERNS OF BEHAVIOUR IN ORGANIZATION
(The case of Albania)

PhD. SUELA GERDHE
University "Fan. S. Noli", Faculty of Economy.
Korce. Albania

Abstract

Experiences have shown that social-economic and cultural developments bring the significant changes in the individual patterns of behavior in society and organizations. The managers must take into consideration cultural determinants which can influence their employees' attitude and behaviors. The aim of this paper is to present the direction of the influence of one of the national culture dimensions – power distance on the relations between managers and workforce which include employee participation and communication. The first part of this article presents the analysis of dimension before and after the communist's dictatorship in Albania. The remaining part of the paper is dedicated to presenting the results of the empirical study examining the power distance in workplace (public and private organizations). In particular, article show the direction in which differences in the level of power distance influence relations and patterns of behavior between managers and employees in practice.

Key Words. Transition. The power distance. Values. Behavior patterns. Relation.

Wanting to explore the model and the way how the culture with its dimensions effect the relationships in organization we focused the research in the field of organizational behavior. Researchers of behavior have two different approaches to the role of the national culture in the management. On the one hand representatives of the convergence approach perceive the management practices as the factor independent of the national culture and institutional context. The scientists representing this school of thought argue that in the management there are the same 'best practices' which could be used independently of the cultural and institutional environment. On the other hand, the second group, which represents so-called divergence

approach, emphasizes that management practices are culture bounded and their transfer is not possible in all situations – it depends on contextual factors. After the research in organizational behavior and human resource management articles Adler and Bartholomew stated that 70 percent of the articles include the concept of culture, and 98,3 percent of this kind of articles conclude that culture is important and caused differences to the organizational behavior and human resource management. (Tayeb 1994)

Amount of research assessed in advance some of the values and behaviours that dominate and are subject to specific national cultures. The treatment of values and practices in the workplace can not be seen and evaluated as separate from the general value's systems (individual, social and moral) that dominate a certain type of culture.

(Hofstede 2005)

National culture of a country and its dimensions become influential and determinants of values system of the individual in society. These values enriched or not are transmitted in the workplace and are the basis of perceptions and behavioral models for each employee. The culture of organization, operates as part of a national culture and in return, national culture influences all its activities. Wanting to support this connection, the study is concentrated to analyses the power distance and the effects that it have on the individual values in the workplace, the patterns of behavior and communication. The research is focused on these areas (1) the analysis of dimension before and after the communist's dictatorship in Albania, (2) the analysis of the power distance in the workplace, (3) and lastly the new behaviors, relations that encourage the change of the power distance to the employees. The paper concludes that the relationship between the distance of power personal values and the patterns of behavior is a close relationship. Any change in the extent of power distance reflects new values, behavior and relationships in the workplace.

Research methodology.

The methodology used to conduct the theoretical and practical research consisted in these directions. *First,* the research is supported on a specific model of search. *Second,* discuss the specific issues, to better understand the correlation: the power distance – values, patterns of behaviors, relations.

Research process on this study is partly deductive and confirmation, for testing a model of relationships, starting from the predictions of human relations that derived from theory. The paper adopts an interpretative analysis with arguments that show how organizational reality is closely related to social attributes. The interpretative research aimed at understanding the phenomenon, through the understanding of people associated with these phenomena. Data collection and the methods used to analyses, think that will enrich the validity of the findings in this area and will serve as a multiple methodological and interpretative search. Research focused on public and private organizations in Albania.

The Power Distance
(Power, Status, Hierarchy, Respect, Acceptance of Authority)

The most popular studies for culture are proposed by Hofstede who conducted research among IBM workers from different countries. He identified five dimensions: individualism/collectivism, power distance, masculinity/femininity, uncertainty avoidance and long-term

orientation. Among these dimensions there is one especially linked with relations between managers and employees, it is the power distance.

Refering [1]*Hofstede,* (2005), the power distance reflects the response of the same questions. Way some people are unequal? Way some people have more status, respect than others? Way the physical and intellectual capacity, the power, the wealth or status can not go together? These capabilities increase the differences between social classes of individuals. The author justifies the existence of power distance with statements "All animals are equal but some are more equal than others. " "Power distance is the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally"

Under the *"Bible"* the price of poverty is seen as a manifestation of the desire for equality, the same thing said by *Karl Marx* for the purpose of the "dictatorship of proletariat", but he never guessed that his revolution would lead to a class without power and that the exercise of power will pass from person to system.

[2]*Niccolo Machiavelli (1469-1527)* is the author who has extensively addressed the concept of power. He offers two models that the "lion" and "fox" and requires the use of their time. By linking these models with differences in power distance say that low power distance resembles the guile of the fox traps, and high power distance model "plays" so powerful among individuals depending on a society. The power distance is the extent to which inequality is seen as a fact of life.

The power distance in organization is closely related to the emotional distance that separates subordinates from their superiors. It shows the extent to which workers expect their supervisors to have more power. The extent to which workers believe that the decisions and thoughts of superiors are right or not, shows the distance of power. The power distance represents the willingness to accept the differences in status as something legitimate. In cultures with high power distance the superior and subordinates consider themselves unequal. The structure is centralized and aimed towards those flat, organic with a limited number of supervisory personnel. Decision-making is such and superiors are giver of orders, while implementing their subordinates. In cultures with low power distance that inequality falls. The parties feel comfort facing each other. What fulfills the authority, in these structures is realized by norms, values and culture of the organization. In cultures with large- power distance largesse are allowed, while in those with low distance largesse considered undesirable.

	Characteristics	Tips
High PD	• Centralized companies. • Strong hierarchies. • Lar ge gaps in compensation, authority, and respect.	• Acknowledge a leader's power. • Be aware that you may need to go to the top for answers
Low PD	• Flatter organizations. • Supervisors and employees are considered almost as equals.	• Use teamwork • Involve as many people as possible in decision making.

According to Hofstede's model about power/distance **(PD)**

---

1   "Cultures and Organizations, Software of Mind": Intercultural cooperation and its importance for survival (2005) p. 84-100

2   "The Ruler" Transleted by P. Rodd. p. 30- 40

According to Martin, J (2002) power distance is closely related to issues:
- Having little desire;
- The people always seek a middle way;
- Most employees try to be detached from the problems of the organization;

The extent to which power distance is distributed equally among people or not is reflected in many relationships as relationships superior - subordinate, parent-child, teacher-student.

This author also states that the distance of power determines how the information flows, communication patterns, the level of satisfaction and the differences in wages between workers and managers. In cultures with low power distance, the satisfaction in work, the performance and increased productivity are resulting from workers' participation in decision making. The cultures with high power distance concentrates the authority at the top of the structure and the managers rely on formalized roles coated with authority and the close control policies.

Wanting to judge the power distance and its dimensions in Albania's society, the analysis will be based on time. If we refer to developments in time, of the Albanian society, the picture presented us mixed relationships.

We are living in a unprecedented time and is intensifying the international communication. Will this lead us towards a world standard? Can we say that we are far away the extreme of high power distance? Authority in Albania is not obtained, but arose from the characteristics of the system itself. This pattern of relationships prevailed everywhere, in the families, the schools and the organizations.

Argued by [3]*Emine A, Vezaj* the respect and authority for the elderly has been virtue and this often made that the individual to required it. The children were totally dependent on the parent and not encouraged independent behavior of children. The respect and authority to parent remain so far as long as the parent was alive. The authority's formal difference persists even after children become masters of their lives. So we can rightly speak of a dependency model that is crossing all the relationships. The strong need of dependence do it one of the dominant values of the Albanian culture. It discourages the risk making process and encourage the contradictions.

Accepting that the family develops its culture in accordance with the norms of society, we say that the family's culture is a part of the landscape of the changes in the national culture. Today, the individuals in Albania generally shape themselves according to time, the experiences of other countries and less of the examples they receive from their elders. The dependence is replaced with the value of independence, the authority is replace with communication and open debate, coexistence of generations with individual lives. Such a change has influenced the values of generations and gender subcultures and believe it will dampen the differences between them, but will not eliminate them completely .[4]*Sartori,G (1993).*

In schools applied the same models. The parent-child model was replace with teacher-student model and the values transmitted from one area to another. The teacher-student inequality and the need for dependence was embedded in the minds of students. The process of education was orientated and had strict rules of communication. The new development programs on the education system and liberalization of system aims to reduce the polarization between the elite and the uneducated groups of people. This indirectly reduces the power distance and bring the

3　　　"The expanded family and modern challenges" Journal"Peace" Nr. 6. May 2007
4　　　"Once again the theory of democracy" Tirana 1993.

new values and behaviors. There are changes in the teacher-student relationship, their communication and the treatment of each other. The education has priority free initiative, self-development trends, open discussion and debate. The whole system is based on the student's need for independence. The value of independence is regarded as something good, because it serves the development of individual character and strengthening the values of superiority. The increase of personal investments at the university level and post graduate shows a decreasing trend of power distance and the reduction of polarization of society. ([5])

Ronald Inglehart, provides a new approach of the power distance. The corruption is indicative of transition from traditional authority - rational authority. The phenomenon of corruption in Albania not only affects the functioning of the state, but also that of private organizations. It appears in several forms, such as the use of power that gives the position and the purchase of cooperation with the authorities to meet goals. The high frequency of corruption by parliamentarians, government members, leaders, academics, shows the pallor of values as honesty, morality, conscience and replacing them with the values of selfishness and ambition sick.

So, the power tends to corrupt and the absolute power corrupts absolutely. The corruption results in loss of some individual values and replacing them with values and norms imposed by the power that the money gives. The Albanian society is based on unequal relationships between people. These relationships are governed by multiple obligations. Here, people accept inequality, but feel that the use of power is shaped by the sense of obligation .

Argued by [6]*Dervishi. Z,* the Albanian society entered in the course of democratic development while in her psych-cultural design was completely lacked a sense of respect for the hierarchy of real values. In such circumstances the Albanian society is facing the dilemma: either to structure on the real hierarchies of values or to experience an extended anarchic situation. More specifically: either to create the stable pyramids of professional, economic, political, social and cultural hierarchy or drowned in the tide of anarchy.

The power distance in the workplace.
Relations between the managers and the employees in the context of changes.

The Albania's society with a dictatorial system until 1990, has changed to a pluralist system, however, still find the combined elements of both systems. In Albania, the power derived from the skills of the use of force and military dictatorship.

The system allowed only one party and the political spectrum was characterized by strong rights. The labor unions were controlled by the state, even were ideologically based and involved in politics. All this, confirmed that a traditional authority today, only in some aspects are replaced by rational. This is shown somewhere - the freedom of press, speech, discussion of broad political, the political disputes and their outcomes in some cases with violence. The government scandals are expected and in many cases blame those who are in low levels of the hierarchy - but this is not justified by the use of power, the guaranteeing of individual against the law, and fact that power, wealth and status go together.

---

5 " The Education in Albania "Albania's Forum. 2003
6 «Hierarchies on the basis of values or anarchy» AIPR

How is reflected this dimension in the workplace?

Is the dimension responsible for the emergence of values, behaviors and new relationships in organizations?

The previous system inherited a huge incentive to obey the law. The degree of power distance reflected not only the values of leaders, but also those of followers. The authoritarian management style was the only style in all organizations in communism. Organizations centralized the power as much as possible in a few hands. Subordinates expect to be told what to do. There were a lot of superiority personnel, structured into tall hierarchies of people, reporting to each others. Salary systems show wide gaps between top and bottom in the organizations. There were the complete lack of participation in decision-making process (a competent group make decisions and required the implementation of them). The people work to live, the working environments were far from normal environments. There were the barriers between the levels of hierarchy, and the relationships were characterized by arrogance and ignoring. The membership in the political party and devotion to her was the only condition to occupy the senior positions, regardless of profession, the individual skills and experience.

The businesses, today in Albania, continue to be characterized by the large power distance, because many employees own a low status and are relatively uneducated. In these conditions they are weak, powerless and often require autocratic leadership. The uneducated workers require necessarily the close control. So, they encourage and support the power difference. "This tendency was made due to the emergence of the authoritarian values, those of submission and servility." [7]*Toci, M (2007)*

The acceptance and possession of authoritarian values and deception are present not only in public organizations, but private ones, because workers are afraid of disagreement with their leaders. The economic poverty and the lack of other alternatives in the labor market, makes difficult the relationship. This shows the centralization in the organization of work, the trend for increasing the number of hierarchical levels and privileges to the leadership. According to the dimension of power, we see a tight hierarchy, the lack of consultation in decision making and inequality. In such conditions people are often uninterested and disconnected with the problems of the organization. The characteristic behaviour of employees are the indifference, the lack of consciousness and the addiction.

The power of leadership today is not absolute, since this power is in most cases more institutional than personal. The businesses are organized and function with the hierarchical structures and less flexible ones. There are profound changes to rank among individuals, the lack of loyalty to one another and the willingness to try more individually than in groups. In terms of employment we can talk about a short life of working and the high turnover. This reduces the possibility for the intellectual preparation and development of employees and do not encourage the reduction of the power distance.

For several public organization, the reputation outside the organization is more important than that inside. The accomplishments are rarely evaluated and encouraged by management and often they are the result of individual requests. The status and authority in organizations, not always are influenced by level of education, background, or length of service. The higher salaries in the organization reflect the greater benefits, prestige, status. This way of assessing the competences and skills makes the employees to be insecure, bored, incredulous and uncommitted with the organization. An undeserved status and authority, in most cases promotes the value of distrust and the lack of courage to employees.

7   "Leadership. The role and its importance in organization" 2007

The relationships are not based on harmony for these businesses, may even blame someone even though you are not able to determine the real responsibility. Employees generally do not trust each other and the organization does not give the individual a full identity. Often we find poor ethics at work and did not find a connection between the ranking, respect, power, privilege and age. Also, human relations is to expand beyond the scope of the organization. Often subordinates consume their evenings talking about organization issues, but such a personal involvement, not always brings dedication and loyalty of an employee at the firm. So the people are uninterested and disconnected from the problems of organization.

Although, we found the powerless workers, the workers seeking autocratic leadership, the fearful workers from the changes, centralized decision-making, with the right we can notice another trend, which started in the public sector. Considering specialists they are starting to be addressed as part of the vertical hierarchy, they are encouraged by new positions in the organization, of good subordinate-superior relations or accommodation with technical expertise. The persons who possess the same position for several years are seen as specialists and are encouraged by the executive positions. So, the trend is a reduction of power distance, because managers are more satisfied with the superior participants, they are speaking for informal consultation and delegation of authority. We emphasize that these trends are in their infancy and more required by specialists.

As long as the power distance in organizations, will continue to be high and there will be centralization in decision making, we think that most employees will continue to be uninterested and unmotivated in order to be an important part of the organization. In such circumstances we can not talk to their maximum commitment. So, the question of creating and maintaining a culture may be the only cure that will boost the interest of employees. The culture of the organization will replace the high formalization (which is decreasing very slowly) with a range of ethical standards. The authority of leaders will be replaced with the authority of culture. The future of this dimension will develop new value as that of independence, trust, tolerance, communication and lack of obligation. These values will be accompanied by new patterns of behavior and communication.

Conclusions

We can draw two main conclusions from the research conducted.

- The first findings confirm that a traditional authority, today, only in some aspects are replaced by rational. Albanian culture is high power distance, which means that subordinates maintain a distance from their superiors and have a sense of respect or even awe of them. The degree of power distance reflected not only the values of leaders, but also those of followers. The power distance and the use of it is turning into a critical point for organizations, moreover, because the communication efforts of the leader followed by an audience often powerless, fearful, indifferent and unmotivated.

- A new trend has appeared and is growing in the public sector. Less fearful employees who require more initiative, considerations and cooperation. They require support from managers and complain of abuse of power. Is important to emphasize that these trends are in their infancy and more required by specialists who promote new values of independence, initiative, ambition, collaboration, accountability. In this context the planning of systems, procedures and policies, must stimulate new behavior in the workplace.

- A second general conclusion should be taken under consideration specially by practitioners. Replacement of the leader's authority with authority of the culture of organization should be evaluated as issue in perspective.

Reference

- Bond, M.H. & S.H. Wang. "Aggressive behaviors and the problem of maintaining order and harmony" In global perspective on aggression. New York. Pergamon. 58-73
- Dervishi. Z "Hierarchies on the basis of values or anarchy" AIPR
- DePree, M. "Leadership Is an Art" (New York: Dell, 1989) 50-54.
- Ellemers, B & Spears, N. R. 1995. "Perceived intragroup variability, as a function of group status and identification". Journal of Experimental Social Psychology.
- Inglehart, R. "Modernization and post modernization: Cultural, economic, and political change in 43 societies. (1997)
- Hall, E. T "Beyond Culture" (1976)
- Hofstede. G & Hofstede. G. J "Cultures and Organizations, Software of Mind": Intercultural cooperation and its importance for survival (2005) p. 84-100
- Hofstede. G. " The poverty of management control philosophy" Academy of Management. Review. 61-450.
- Hiltrop, J.M., 1996. A framework for diagnosing human resource management practices. European Management Journal, No. 13.
- Machiaveli. N "The Ruler" Transleted by P. Rodd.
- Martin, J "Organizational culture" (2002)
- Sartori.G "Once again the theory of democracy" Tirana 1993.
- Stephen P. Robbins "Organizational behaviour" Concepts, controversies and applications. (1989).
- Tayeb, M., 1994. Organizations and National Culture: Methodology Considered. Organization Studies, Vol. 15, No. 3.
- Toci. M "Leadership. The role and its importance in the organization»2007
- "The Education in Albania "Albania's Forum. 2003
- Vezaj.E "The expanded family and modern challenges" Journal"Peace" Nr. 6. May 2007
- Willmott, H "Studying managerial work: A critique and a proposal". Journal of Management Studies. (1987) 75-84.

The relationship between entrepreneurship and unemployment in developed and developing countries

S. GHAVIDEL
Department of Economic Azad University, Firouzkoh Branch, Iran
G. FARJADI
Department of Economic Azad University, Firouzkoh Branch, Iran
A. MOHAMMADPOUR
MA Student, Azad University, Firouzkoh Branch, Iran

Abstract

In this paper we investigated the relationship between entrepreneurship rate and unemployment rate in developed and developing countries for a panel of 23 OECD countries and 7 developing countries. We use data over the period 1995-2007. Method in this paper is simultaneous equation model with two-equation. The results indicate that, Schumpeter effect for developed and developing countries is established as a definite (impact of entrepreneurship rate on unemployment rate), but refugee effect (impact of unemployment rate on entrepreneurship rate) is not clearly. The other difference in this article showed the relationship of unemployment rate on entrepreneurship rate (refugee effect) has a square, the first it has increased and then decreased.

1. Introduction

The relationship between unemployment and entrepreneurship has received increased attention of researchers and policy makers, in particular as a reaction to the relatively high unemployment levels confronting developed and developing countries in the last decades (Baptista & Van Stel & Thurik, 2006). Entrepreneurship has been suggested as a remedy against high unemployment and stagnant economic growth (European Commission, 2003; Carree & Thurik, 2003; Thurik et al, 2008; Van Stel & Thurik & Verheul & Baljeu, 2007). It is important to investigate the relationship between entrepreneurship and unemployment in developed and developing countries and to see whether this relationship is similar to that in other OECD countries.

It is a complex relationship, where on the one hand entrepreneurship may lead to a decrease in unemployment, and on the other hand unemployment may lead to an increase or decrease in entrepreneurship (Audretsch et al, 2005; verheul & Van Stel & Thurik & Urbano, 2006). It is important to create a better understanding of the relationship between unemployment and entrepreneurship, in particular since the ambiguities within this relationship are frequently disregarded in the policy arena (Thurik, 2004; Baptista & Van Stel & Thurik, 2006; verheul & Van Stel & Thurik & Urbano, 2006).

In this paper we investigate the dynamics relationship between entrepreneurship (business ownership) and unemployment rates for 7 developing and 23 developed countries on the period 1995 - 2007. The structure of the paper is as follows. Section two shows the link between unemployment and entrepreneurship. Section three present methodology and model and finally we will have discussion and conclusion.

2. Linking Entrepreneurship and Unemployment

Entrepreneurial opportunities are not just the result of the push effect of (the threat of) unemployment but also of the pull effect of produced by a thriving economy full of opportunities (Parker, 2004; Thurik et al, 2008;   Van Stel & Thurik & Verheul & Baljeu,2007).The relationship between unemployment and entrepreneurship has been shrouded with ambiguity. There are many views on the relationship between unemployment and entrepreneurial activity (Audretsh & Carree & Van Stel & Thurik, 2005; Baptista & Van Stel & Thurik,2006). The simple theory of income choice, which has been the basis for numerous studies focusing on the decision confronted by individuals to start a firm and become an entrepreneur (Blau, 1987; Evans & Leighton, 1990; Evans & Jovanovic, 1989; Blanchflower & Meyer, 1994) suggests that increased unemployment will lead to an increase in startup activity on the grounds that the opportunity cost of not starting a firm has decreased. This effect has been referred to as the *'refugee'* or *'shopkeeper'* effect. However, the unemployed people tend to possess lower endowments of human and social capital and entrepreneurial talent required to start and sustain a new firm which may lead to early exit (Thurik,2007; Lucas, 1978; Jovanovic, 1982; Baptista & Van Stel & Thurik,2006) .High unemployment may also imply lower levels of personal wealth reducing the likelihood of becoming self-employed or the survival in the initial stages of business ownership (Hurst & Lusardi, 2004; Van Stel & Thurik & Verheul & Baljeu, 2007). High levels of unemployment may correlate with low economic growth leading to a low number of entrepreneurial opportunities (Audretsch & Thurik & Verheul & Wennekers,2002; Baptista & Van Stel & Thurik, 2006). A low rate of entrepreneurship may also be a consequence of the low economic growth levels, which also reflect higher levels of unemployment (Audretsch, 1995; Audretsch & Carree & Thurik, 2001).

While some studies find that greater unemployment serves as a catalyst for startup activity (Reynolds & Miller & Makai, 1995; Reynolds & Storey & Westhead, 1994; Hamilton, 1989; Highfield & Smiley, 1987; Yamawaki, 1990; Evans & Leighton, 1989 & 1990), but much of studies have found that unemployment reduces the amount of entrepreneurial activity (Audretsch & Fritsch, 1994; Audretsch, 1995; Audretsch & Carree & Thurik, 2001).

In addition to unemployment influencing start-up activity, it has been argued that entrepreneurship influences (un)employment. There is also a lot of claiming that start-up activity influences unemployment. The positive effect of entrepreneurship on economic performance has been referred to as the '*Schumpeter*' effect (Van Stel & Thurik & Verheul & Baljeu, 2007).

New-firm startups hire employees, resulting in subsequent decreases in unemployment (Picot et al, 1998; Pfeiffer & Reize, 2000a; Audretsch & Carree & Thurik, 2001).

Entrepreneurship may influence economic performance in different ways. Entrepreneurs often play a vital role in the early evolution of industries by way of introducing new products or processes and, in the long term, enhancing productivity through increasing competition (Van Stel & Thurik & Verheul & Baljeu, 2007).New entrants in the market may also create knowledge about what is technically viable and what consumers prefer by introducing variations of existing products and services in the market. The resulting learning process speeds up the discovery of the dominant design for product-market combinations. The learning does not solely apply to the experimenting entrepreneur (Baptista & Van Stel & Thurik, 2006). Knowledge spillovers play an important role in this process(Audretsch & Aldridge & Oettl, 2006; Audretsch,2007; Van Stel & Thurik & Verheul & Baljeu, 2007).Finally, self-employed individuals tend to work longer hours than wage-employed people and may be more productive as their income is more clearly linked to working effort (Van Stel & Thurik & Verheul & Baljeu,2007; Carree & Thurik, 2003; Carree & Verheul & Thurik, 2007).

The ambiguities found in the empirical evidence reflect these two conflicting forces. For example, Evans and Leighton (1990) found that unemployment is positively associated with a greater propensity to start a new firm, but Garofoli (1994) and Audretsch and Fritsch (1994) found that unemployment is negatively related to new-firm startups, and Carree (2001) found that no statistically significant relationship exists. Audretsch & Thurik (2000); show that an increase in the number of business owners reduces the level of unemployment. They identify a "Schumpeter" effect in terms of the positive impact on employment resulting from the entry of new firms (Audretsch & Carree & Thurik, 2001).

Thurik et al. (2007) examine the relationship between entrepreneurship and unemployment in Japan .They find that, although Japan's unemployment rate has been influenced by specific exogenous shocks, the effects of entrepreneurship on unemployment are not different when compared to other OECD countries. They find that entrepreneurship significantly lowers unemployment but that it takes a lag of four yearly data (VanStel & Thurik & Verheul & Baljeu, 2007).

VanStel & Baptista & Thurik, (2006), examine the relationship between entrepreneurship and unemployment, as measured by the variation in business ownership rates, and unemployment in Portugal. It concludes that Portugal has been a relative outlier in regard to the effects of entrepreneurship on unemployment when compared whit the OECD average. They found that the industrial re-structuring effects brought about by increases in business ownership rates probably do not have a significant impact on the reduction of unemployment.

Thurik (2003), the influence of industrial structure, more specifically of entrepreneurship, is investigated on the level of unemployment in the UK. It will be concluded that the UK is a relative outlier when using a simple model of the relationship between unemployment and the rate of business ownership. The model is calibrated using recent data of some 23 OECD countries. It underestimates the decrease in unemployment in the UK in the period 1982-1990.

Thus, while there are not just theoretical reasons, but also empirical support as well, that while unemployment leads to increased entrepreneurial activity, entrepreneurship leads to reduced unemployment. Unraveling the relationship between entrepreneurship and unemployment is crucial, because policy is frequently on assumptions that do not reflect this ambiguity (Baptista & Thurik & Van Stel, 2006).

3. Methodology and Model

The previous sections suggest two testable hypotheses: i) that increases in entrepreneurial activity lead to a decrease in subsequent unemployment; ii) that increases in unemployment lead to an increase in subsequent entrepreneurial activity (Baptista & Thurik & Van Stel, 2006). Environment variables can be accessed through a number of economic indicators (GDP, Inflation, exports, etc).more recently, researchers have also looked toward cultural factors to explain this variation(Uhlaner & Thurik,2003; Remeikiene & Startiene,2009).so, one of the factors explanting of unemployment is inflation, which based in litterateur tradeoff between unemployment and inflation to called Philips curve (see Mankiw; 1994), and GDP growth rate is one of the factors influencing on entrepreneurship rate.

This section shows the relationship model between unemployment and entrepreneurship rate. The fact that relationship between entrepreneurship and unemployment rate is dynamic, so we have to use a system as Vector Autoregressive (VAR) or Simultaneous Equation Model (SEM). for example Thurik et al (2007) estimate a two equation VAR model(Van Stel & Thurik & Verheul & Baljeu,2007). In this paper we use simultaneous equation model (SEM). When we have one or more of the explanatory variables endogenously, we have simultaneous equation model .Because one or more of the explanatory variables is jointly determined whit the dependent variable, typically through an equilibrium mechanism (Wooldridge, 2003). Model reads as follows:

$$U_{it} = \alpha_{11} + \beta_{12}E_{it} + \beta_{13}Inf_{it} + \varepsilon_{1it} \qquad (1)$$

$$E_{it} = \alpha_{21} + \beta_{22}U_{it} + \beta_{23}d\log GDP_{it} + \varepsilon_{2it} \qquad (2)$$

Where, U is unemployment rate, E is entrepreneurial activity, INF is inflation rate, dlogGDP is growth of GDP, i is a country-index, t is time. The expected sign of the joint impact of the β_{12}- coefficient is negative whereas that of the β_{22}-coefficient is positive.

Entrepreneurial activity rate, E is the number of business owners divided by total labor force. The number of business owners per country is only persons who are self-employed as their main occupation are included in the figures (COMPENDIA). Unemployment rate, U, are taken from IMF. Gross domestic product growth, dlogGDP, and inflation, INF, data are taken from WDI. We estimated two systems that defined above. First is estimated system for 7 developing countries in the period 1995 to 2007 and second for 23developed countries. Equations (1) and (2) of simultaneous model is estimated by 2SLS method. We present the results for the unemployment equation (eq1) in table1 and entrepreneurship equation (eq2) in table2. The AR variables in equations are modified for autocorrelation.

Table 1 shown in most cases for developed and developing countries the impact of entrepreneurship on unemployment rate is negatives, and significantly (*Schumpeter Effect*), while the unemployment coefficient in the second equation (*Refugee Effect*) in the most cases is not significant and same cases coefficient sign is not true. As already mentioned, Researchers in some cases have found that unemployment reduces the amount of entrepreneurial activity (Audretsch & Fritsch, 1994; Audretsch, 1995; Audretsch & Carree & Thurik, 2001). The refugee effect may not be true, when unemployment rate is very high. Thus the refugee effect is reverse.

For proof of this, we added square of unemployment rate to eq2.the result is shown that

square coefficient of, U^2 in developed and developing country is negative (table3).therefore the impact of unemployment rate on entrepreneurship(*Refugee Effect*) increased first and then decreases. Note that the unemployment rate, U coefficient is matching to literature, which is positive and significant.

4. Discussion and Conclusion

In This article was analyzed for the relationship between unemployment and entrepreneurship rate in 7 developing and 23 OECD countries during the period 1995-2007.Past studies indicated that this relationship as a dynamic. The Means that, increasing entrepreneurship rate reduce unemployment rate, so relationship is negative (Schumpeter effect). On the other hand, unemployment rate increased entrepreneurship rate (refugee effect). In this study using the simultaneous equations as a panel of data was for developing and developed countries is separately. While past studies have only to developed countries and the method used is also different. The result of our study shown, Schumpeter effect is established as a definite, but refugee effect is not clearly. The other difference in this article showed the unemployment rate on entrepreneurship is the first positive and then negative. Therefore, the unemployment rate can estimated, that after it the relationship is negative. Of course this article has not been estimated, and the next research is suggested.

Table1: Estimating of *Schumpeter effect* (eq1) for 23 OECD countries and 7 developing countries.

Depended Variable \ Explanatory Variables	U					
	OECD Countries				Developing Countries	
	Cross-Section Weights & A R (1)	No Weights & A R (1)	Cross-Section Weights & No AR (1)	No Weights & No AR (1)	Cross-Section Weights & A R (1)	No Weight & A R (1)
Constant	48.58** (15.03)	12.34*** (2)	5.24 (6.19)	-1.73 (6.50)	93.58** (37.90)	61.73* (35.36)
E	-3.34** (1.14)	-0.55*** (0.14)	0.11 (0.45)	0.62 (0.47)	-3.99** (1.76)	-2.46* (1.61)
INF	-0.15** (0.06)	-0.07*** (0.02)	-0.05 (0.04)	-0.03 (0.05)	0.015 (0.02)	0.001 (0.02)
AR (1)	0.84*** (0.02)	0.83*** (0.02)			0.84** (0.05)	0.75** (0.07)
R^2	0.84	0.95	0.90	0.74	0.53	0.73
Observation	276	276	299	299	88	88

Note:*denotes significance at 10%, **denotes significance at 5%, and *** denotes significance at 1% (Numbers in parentheses are standard error).

Table2: Estimating of refugee effect (eq2) for 23 OECD countries and 7 developing countries.

Depended Variable / Explanatory Variables	E							
	OECD Countries				Developing Countries			
	Cross-Section Weights & AR (1)	No Weight & AR (1)	Cross-Section Weights & No AR (1)	No Weight & No AR (1)	Cross-Section Weight & AR (1)	No Weight & AR (1)	Cross-Section tsWeigh & No AR (1)	No Weight & No AR (1)
Constant	13.1*** (0.24)	13*** (0.37)	11.10** (1.18)	11.00** (3.75)	21.80*** (0.72)	22.21*** (1.23)	28.35** (2.17)	28.10** (2.69)
U	-0.03 (0.03)	0.008 (0.05)	0.318* (0.20)	0.33 (0.59)	-0.09* (0.05)	-0.06 (0.13)	-0.68** (0.25)	-0.63** (0.30)
D Log GDP	0.05***	0.11***	0.11** (0.05)	0.12* (0.07)	0.0003 (0.01)	0.001 (0.02)	-0.09* (0.04)	-0.12 (0.07)
AR (1)	0.79***	0.47** (0.05)			0.87***	0.76** (0.06)		
R^2	0.99	0.98	0.99	0.97	0.99	0.98	0.98	0.93
Observation	276	276	299	299	89	89	96	96

Note:*denotes significance at 10%, **denotes significance at 5%, and *** denotes significance at 1%.

Depended Variable / Explanatory Variables	E	
	OECD Countries	Developing Countries
Constant	11.96*** (0.16)	21.28*** (0.75)
U	0.23*** (0.03)	0.29** (0.13)
U^2	0.006*** (0.001	-0.016** (0.006)
D Log GDP	0.127*** (0.018)	4.09E-05 (0.032)
R^2	0.99	0.97
Observation	299	97

Note:*denotes significance at 10%, **denotes significance at 5%, and *** denotes significance at 1%.

References

Audretsch, D. B. (2007). Entrepreneurship capital and economic growth. *Oxford Review of Economic policy*, 23(1), 63-78.

Audretsch, D. B., & Fritsch,M.(1994). The Geography of Firm Births in Germany. *Regional Studies*, 28(4), July, 359-365.

Audretsch, D. B. (1995). *Innovation and Industry Evolution. Cambridge, Mass.: MIT Press.*

Audretsch, D. B., & Thurik, A.R.(2001). What is New about the New Economy: Sources of Growth in the Managed and Entrepreneurial Economies. *Industrial and Corporate Change*, 19, 795-821.

Audretsch, D.B., Aldridge, T., & Oettl, A.(2006). The knowledge filter and economic growth: The role of scientist entrepreneurship. Discussion paper on entrepreneurship, Growth and public policy, #0611, Jena: Max Planck Institute of Economics.

Audretsch, D.B., Carree, M.A., Van Stel, A.J., & Thurik, A.R. (2008). Does Self employment Reduce Unemployment? *Journal of Business Venturing, forthcoming.*

Audretsch, D.B., Carree, M.A., & Thurik,A.R.(2001). Does entrepreneurship reduce unemployment? Tinbergen Institute discussion paper T IOL-074/30.Erasmus University Rotterdam.

Audretsch, D.B., Carree, M.A., Van Stel, A.J., & Thurik, A.R. (2005). Does Self employment Reduce Unemployment? Papers on Entry P, Growth and public policy # 07/2005. Max Planck Institute of Economics, Jena, Germany.

Audretsch, D.B., & Thurik, A.R. (2000).Capitalism and democracy in the 21 st century.From the managed to the entrepreneurial economy, *Journal of Evolutionary Economics* 10(1), 17-34.

Baptista,R., Thurik, R., Van Stel, A.J.(2006). The relationship between entrepreneurship and unemployment in Portugal. *Technological Forecasting & Social Change* 74, 75–89.

Blau, D. M. (1987). A Time Series Analysis of Self Employment in the United States. *Journal of Political Economy*, 95(3), 445-467.

Blanchflower, D., & Meyer, B. (1994).A Longitudinal Analysis of Young Entrepreneurs in Australia and the United States. *Small Business Economics*, 6(1), 1-20.

Carree, M., Van Stel, A.J., Thurik, R., & Wennekers, S. (2001). Economic Development and Business Ownership: An Analysis Using Data of 23 OECD Countries in the Period 1976-1996. Small Business Economics, forthcoming.

EIM (2000). COMParative ENtrepreneurship Data for International Analysis (COMPENDIA2000.1). EIM Business and Policy Research, Zoetermeer.

European Commission. (2003). Green Paper Entrepreneurship in Europe, Brussels: European Commission.

Evans, D. S., & Jovanovic,B. (1989). Estimates of a Model of Entrepreneurial Choice under Liquidity Constraints. *Journal of Political Economy,* 97(3), 657-674.

Evans, D. S., & Leighton, L. (1990). Small Business Formation by Unemployed and Employed Workers. *Small Business Economics*, 2(4), 319-330.

Evans, D. S., & Jovanovic, B. (1989). Estimates of a Model of Entrepreneurial Choice under Liquidity Constraints. *Journal of Political Economy,* 97(3), 657-674.

Evans, D. S., & Leighton, L.S.(1989). The Determinants of Changes in U.S. Self-Employment, 1968-1987. *Small Business Economics*, 1(2), 111-120.

Garofoloi, G. (1994).New Firm Formation and Regional Development: The Italian Case. *Regional Studies*, 28(4), 381-394.

Hamilton, R.T. (1989).Unemployment and Business Formation Rates: Reconciling Time Series and Cross Section Evidence. *Environment and Planning*, 21, 249-255.

Highfield, R., Smiley, R. (1987).New Business Starts and Economic Activity: An Empirical Investigation. *International Journal of Industrial Organization*, 5, 51-66.

Hurst, E.,&lusardi,A.(2004).Liquidity Constraints,Household Wealth and Entrepreneurship.*Journal of Political Economy,112(2),319-347*.

Lucas, R. E. (1978). On the Size Distribution of Business Firms. *Bell Journal of Economics*, 9, 508-523.

Mankiw, N. G. (1994). Macroeconomics. 2d ed. New York: Worth.

Parker,S.C.(2004).The Economics of Self-employment and entrepreneurship. *Cambridge: Cambridge University Press*.

Picot, G., Marilyn, E., Manser, & Zhengxi, Lin.(1998).The Role of Self-Employment in Job Creation In Canada and the U.S. OECD-CERF-CILN International Conference on Self-Employment, Burlington, Ontario, Canada.

Pfeiffer, F., & Reize, F. (2000a). Business Start-ups by the Unemployed - an Econometric Analysis Based on Firm Data. *Labour Economics*, 7(5), 629-663.

Remeikiene, R., Startiene, G. (2009). DOES THE INTERACTION BETWEEN ENTREPRENEURSHIP AND UNEMPLOYMENT EXIST? *EKONOMIKA IR VADYBA*, 14, ISSN 1822-6515.

Reynolds, P., Miller, B., & Maki, W.R. (1995).Explaining Regional Variation in Business Births and Deaths: U.S. 1976-1988. *Small Business Economics*, 7 (5), 389-707.

Reynolds, P., Storey, D. J., & Westhead, P.(1994).Cross-National Comparisons of the Variation in New Firm Formation Rates. *Regional Studies*, 28(4), July 443-456.

Thurik, A. R. (2003). Entrepreneurship and unemployment in the uk. *Scottish Journal of political Economy*, 50(2), 264-290.

Thurik, A. R., & Verheul, I. (2003). The relationship between entrepreneurship and unemployment: the case of spain (in spanish). In Urbano, D. ET AL. (eds.) , Entrepreneurship (Creacion de Empresas). Barcelona : Servi de Publications de la UAB, PP. 521-547.

Thurik,R., Verheul, I., Baljeu, L.,Van Stel, A.J.(2007). The Relationship between Entrepreneurship and Unemployment in Japan. Tinbergen Institute discussion paper TI-080/3. Erasmus Universiteit Rotterdam, universiteit uan Amsterdam, and vrije universiteit Amsterdam.

Uhlaner, L., Thurik R. (2003). Post-Materialism: A cultural Factor influencing self-employment across Nations. Available at < http://www. Spea. Indiana. edu /ids/bridge/2003 papers/z Mon-Thurik.pdf>.

Verheul,I., Stel, A.J.V., Thurik, A.R.,&Urbano,D.(2006).The relationship between business ownership and unemployment in Spain: a matter of quantity or quality?.*Estudios de Economia Aplicada*, 24(2), 435-457.

Verheul,I.,Wennekers, A.R.M., Audretsch, D.B., &Thurik, A.R.(2002).An eclectic theory of entrepreneurship:policies, institutions and culture, in: Audretsch, D.B., &Thurik, A.R., Verheul,I.,& Wennekers, A.R.M., Entrepreneurship: Determinants and Policy in a European-US Comparison, Boston/ Dordrecht. *Kluwer Academic Publishers*, 11-81.

Yamawaki, H. (1990).The Effects of Business Conditions on Net Entry: Evidence from Japan. In P.A. Geroski and J. Schwalbach (eds.), *Entry and Market Contestability: An International Comparison*, Oxford: Basil Blackwell.

Wooldridge, J.M. (2003). Introductory Econometrics: A Modern Approach, 2e.*Thomson, south-western*.

THE EFFECT OF TRUST ON INTERNATIONAL JOINT VENTURE PERFORMANCE IN CHINA

ZHENG XIAOSONG
Department of Marketing, University of Vaasa, Finland
Sydney Institute of Language and Commerce, Shanghai University, China

Abstract

The role of trust in international joint venture (IJV) performance has attracted a great deal of attention and trust has been recognized as a crucial factor in achieving both financial and non-financial success of IJVs. This paper examines the role of trust from two perspectives: the inter-organizational level and the interpersonal level, as well as their combinations in influencing the performance of IJVs. The paper develops a model of trust in IJVs, which is used to analyze the determinant factors of trust and the influence of trust on IJV performance. The results confirm that trust improves the performance of IJVs and outstanding performance also enhances the level of trust within firms. Results also reveal that Chinese employees hold less trust toward their foreign co-workers and great communication skills have positive influence on trust building. Furthermore, young employees are more inclined to trust people from different nationalities compared to the elders. Satisfactory level of compensation is not directly related to trust building. The findings provide important implications for communication and relationship building between foreign investors and local partners.

Key words: *trust, effect, performance, IJV, China*

1. Introduction

A joint venture can reduce transaction costs as an entry mode into a new market (Kogut, 1988). International Joint Venture (IJV) tends to perform better when firms face future uncertainty and inadequate information (Koza and Balakrishnan, 1993; Mjoen and Tallman 1997; Craig 2005). As a result, IJVs occupy the largest proportion of FDIs into the Chinese economy, which require much attention to put on their efficiency and effectiveness in China.

Trust has been studied in various fields, from psychology to anthropology, from sociology to management studies. In different fields, trust is defined and studied from different perspectives. In IJV research particularly, trust has been divided into the following categories: the parent level, the joint venture level, and the interpersonal level (Currall and Inkpen, 2002).

This study aims to contribute to the existing literature by investigating the trust perception between both parent companies and employees of IJVs and the trust-performance relationship. Several variables relating to trust are examined, i.e. life style, compensation and wage level, interpersonal communication skills, age and corporate performance. This study provides meaningful information on the characteristics of the parent companies, therefore contributing to the mutual communication understanding between foreign and local workers and parent firms. Also, it can help enhance the IJV performance located and operated in China and further examine the interaction between trust and certain organizational factors in a transitional economy context from the perspective of a local partner.

2. Trust and IJV Performance

2.1 Definition of Trust

Scholars from various disciplines have investigated the concept and nature of trust from different angles. In the 50s of last century, Deutsch (1958) saw trust as a dependent variable and proposed the famous 'prisoner's dilemma'. Deutsch's research towards source credibility, as well as Hovland et al. (1953), is regarded as the opening of psychological trust. However, there are critics based on considerations that other psychological status other than trust may lead to cooperation between partners. Rotter (1971) defined trust as "an expectancy held by an individual or a group that the word, promise, verbal, or written statement of another individual or group can be relied on". He pointed out that different individuals hold various degree of trust towards others because of their disparate life experience. Since then, the personality perspective, which views trust as an individual characteristic, is developed.

Lewis and Weigert (1985) stated that trust is caused by cognition and affection. Similarly, Kramer (1999) proposed the rational choice and relational choice in analyzing trust issues. Mayer et al. (1995) asserted that an individual's emotions give rise to trust, which challenges the rational choice viewpoint. In their study, trust is "the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor". Rousseau et al. (1998) suggested the definition as ''a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behavior of another.'' They also defined three kinds of trust, that is, the calculus-based trust, relational trust and deterrence-based trust. Calculative trust is based on economic benefit and relational trust is based on exchange history. Likewise, the rational trust perspective describes the development of trust in terms of an individual's calculative decision-making processes (Coleman, 1990; Gambetta, 1988). One party's decision to engage in trust is made on the basis of whether the probability of receiving benefits from the other party's actions is high enough (Gambetta, 1988).

The sociological perspective suggested that trust will develop or fade over time according to prior social interactions between exchange partners. Through ongoing positive interactions, exchange partners learn about each other and develop trust around norms of equity (Gulati, 1995). Similarly, Earle and Cvetkovich (1995) proposed the social trust concept and further divided trust into pluralistic social trust and cosmopolitan social trust. The former was built upon existing values while the later was based on emerging values and is built inside certain groups.

System level trust was also defined, which elaborated trust from a macro-perspective. Luhmann (1979) developed the interpersonal model and institutional model to further

distinguish the different trust source. As Luhmann (1979) notes, "trust has to be achieved within a familiar world," without a shared institutional foundation, neither calculative trust based on economic benefit nor relational trust based on exchange history is likely to occur (Rousseau et al., 1998). Similarly, Zucker (1986) divided trust into three levels through analyzing North American socio-economy developments, that is, the process-based trust, character-based trust and institution-based trust. Process-based trust is more suitable in small groups with frequent contacts. In the complex and changing society, individual's disposition to trust represents the primary driver of the establishment of trust in an unfamiliar environment. The institutional perspective focuses on situational factors (e.g., organizational and institutional structures and processes) to explain the development of trust. From institutional perspective, social institutions, such as regulations and laws, play the key role in trust building (Shapiro, 1987; Zucker, 1986).

It is proposed that trust development may be affected by the trustor's personality (personality model), cognition (rational choice model), affects (emotion model), exchange history (sociological model), and surrounding context (institutional model). More specifically, the role of life style, compensation level, communication skills and age on trust and trust-performance relationship, are examined in this research.

2.2 Trust in IJV

A great deal of attention has been paid to the performance of IJVs in recent years and trust has been identified to be a crucial factor that contributes to the success of IJVs (Currall and Inkpen, 2002; Inkpen and Currall, 2004; Madhok, 2006). Barney and Hansen (1994) pointed out that mutual trust between parent companies and employees is a major competitive advantage for a company. In cooperative organizations, trust augments profits due to resource commitment. Relationship building between partners is a challenge for all cooperative alliances (Dyer and Chu, 2000), especially for IJVs in emerging economies, in which trust is particularly hard to build due to the high degree of uncertainty and risk incurred by the cross-board differences with regard to culture, politics, and trade policy (Child and Faulkner, 1998). Fryxell et al. (2002) found that the reliance on formal control mechanisms and the perceptions of general managers of IJV performance are positively related in younger IJVs, but negatively related in more mature IJVs. This suggests that age and partner trust have effects on the relationship between control mechanisms and perceptions of performance.

Trust in IJV research should be measured from different levels, that is, the interpersonal level, the parent firm level and the organization level (Currall and Inkpen, 2002). Although most studies on trust have focused on interpersonal trust, Zaheer et al. (1998) asserted that interpersonal trust and inter-organizational trust are basically different constructs that have a reciprocal influence on each other. They found firm level trust to be of greater significance in generating favorable organizational outcomes than interpersonal trust, because interpersonal trust is vulnerable to changes in key personnel and the possible breakdown of interpersonal relationships (Dodgson, 1993). Boersman et al. (2003) developed a process model of trust building in IJVs, and found that different types of trust play different roles in the process. Whereas competence-based trust starts from public information, contractual-based trust and goodwill trust develop through direct personal interaction. In the early phases of an IJV, promissory-based trust predominates, while in mature phases competence-based trust starts to emerge. Goodwill trust is of importance throughout the process.

Inkpen and Currall 2004 tested the trust, control and learning evolution from parent company level. They built a theoretical framework to explore the relationship between trust and ownership in IJVs and how they influence the IJV process. Levels of trust differ across national borders, and hence the nature of trust and the institutional and cultural support for trust vary across national contexts (Zalteer and Zaheer, 2006). A model was developed which concludes that the effect of trust on firm performance is not always a direct relationship. In the article "How much does ownership really matter? Equity and trust relations in joint venture relationships", Madhok (2006) found out that the number of enterprises who shift their emphasis on ownership to relationship building was increasing. The dissatisfaction accompanied by the emergence of IJVs resulted from overemphasis on operating outcomes rather than social process of performance. Thus he reaffirmed the trust-centered perspective in enhancing corporate performance in IJVs.

Recently, research about trust-performance relationship in Chinese IJVs is emerging. In the article "The effect of trust on international joint venture performance in China", Ng et al. (2007) reexamined the role of trust between parent companies and it is suggested that trust not only influences performance but also moderates the relationship between performance and contextual elements such as cultural difference, local reliance and senior executive experience. The moderating effects of trust on the relationships between local reliance, experience of executives and performance were confirmed for the senior executive sample, but the moderating effect of cultural distance was not consistent between the firm-level and country-level measures. Wong, et al. (2007) examined the roles of those strategies – localization, communication, and control – and their combinations in building the trust of local senior managers in IJVs. The results revealed that the joint use of localization and communication represents a positive strategic combination for trust development. However, a localization strategy coupled with intense control inhibits trust building.

3. Model and Hypothesis

In the IJV literature, Parkhe (1993) specified the importance of trust on IJV performance. In certain instances, legal and ownership arrangements may not be as useful as mutual trust in controlling the speculative behavior of the other party. Yan and Gray (1994, 1996) suggested that trust may be helpful to achieve both financial and non-financial objectives of both of the parent companies in an IJV, and Baird et al. (1990) found the inter-partner working relationship, or trust, to be ranked first among the determinant elements that lead to success of IJVs in a study of Chinese and U.S. middle-level managers. As a soft variable, trust can be considered as a complement to other structural variables. In IJVs, trust can be seen as an informal control mechanism that supplements deficiencies in the formal control system (Luo et al., 2001). Recently, Li et al. (2006) also found that trust development between parent firms in emerging economies is important for IJV performance. Thus, in line with the literature, we assume that trust can be regarded as one of the key variables that determine successful achievement of corporate goals.

In general, we hypothesize that a higher level of trust between IJV parents will lead to better IJV performance.

Hypothesis 1: The level of trust between IJV parents is positively related to IJV

performance.

To explore this relationship further, several important contextual variables in IJVs are examined, namely, life style, compensation distribution, communication skills and age. Life style reflects one's terminal value and attitude towards living (Morris, 1956). More specifically, life styles can be reflected from clothes, entertainments, social interactions, and working attitudes etc. Employees with various life styles tend to understand and accept different ways of living and show more empathy towards others. We therefore hypothesize that employees with more individualistic way of living are more willing to trust employees from different cultural backgrounds.

Hypothesis 2: Employees who show individualism in living are more inclined to accept different cultures and values. These employees tend to show more trust in foreign coworkers than peers in drab living styles.

According to the Law of Chinese Labor force, employees with the same working quality and quantity should be paid the same. This statement aims to reduce social distributive inequity. However, the status quo is not optimistic, especially in some monopolistic state-owned enterprises (SOEs). Workers in some sectors such as electricity sector and oil sector earn much more than their peers in other sectors. Distributive inequity directly results in dissatisfaction in employees and low efficiency in production. Likewise, compensation distributive inequity exists in IJVs in China. While the job task is the same, employees from foreign partners and employees from local partners get different salaries (usually the foreign employees get more compensation than local employees). Notwithstanding other reasons for such high salaries, salary distributive inequity influences relationship and generates distrust between workers from different countries.

Hypothesis 3: When holding the same jobs, distributive inequity in salary results in distrust between employees from different partners.

Communication is meaningful, timely information sharing between partners, both formally and informally (Anderson and Narus, 1990). When communication between exchange partners becomes more effective, relevant information sharing augments, and partners get to understand each other better, which then engenders shared identification between those partners (Dutton et al., 1994). The shared identity such as similar beliefs and judgments about future developments, leads to mutual trust (Kogut and Zander, 1996). Moreover, when partners swap messages about plans, programs, expectations, and goal setting, they can achieve an integrative agreement and inhibit misunderstandings (Rapert et al., 2002). Communication thus reinforces trust by aligning the partners' perceptions and expectations, resolving disputes, and coordinating behavior (Das and Teng, 1998). Furthermore, communication enhances trust by reducing role ambiguity, which is the degree of discrepancy between the information available and the information needed to perform a job (Sigh and Rhoads, 1991). Finally, communication conveys affluent knowledge and provides cues for interpreting and understanding exchange partners' behavior and motivations (Dyer and Chu, 2000), which facilitates trust building and prevent opportunistic behaviors. Therefore, we hypothesize that

Hypothesis 4: Because of language similarity and communication style, employees with the same nationality understand each other more thoroughly and therefore enhancing trust between each other in an IJV.

According to GSS „General Social Survey" report, trust level decreases as one becomes elder. It is probably due to the openness of young people. The young are more open and acceptable to new things than the elders. The survey also suggests that for the employees, their innovation ability reduces as the age grows.

Hypothesis 5: The younger employees tend to hold trust in foreign workers than the elder employees.

The following Figure 1 illustrates the trust building model:
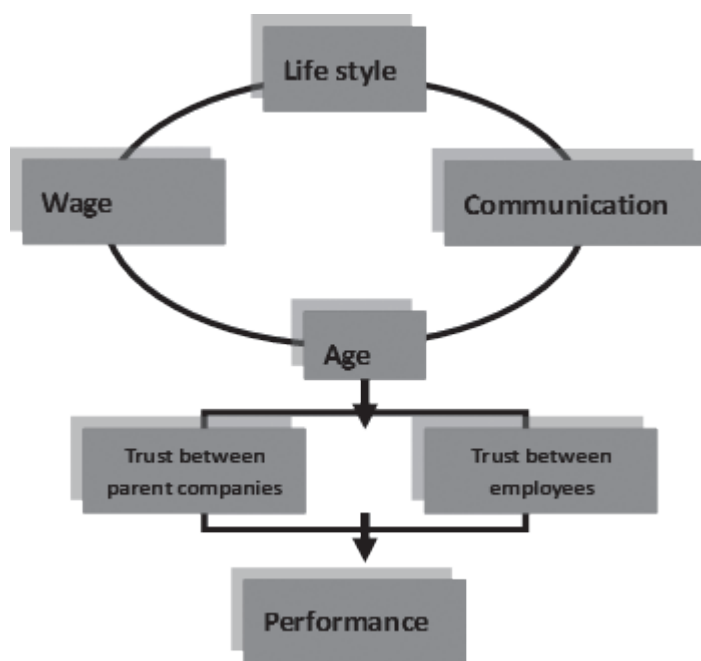
Figure 1. Relationship between trust and IJV performance

4. Sample and Data Collection

The study applies case study research methodology. Case study research methodology is appropriate to the study of determinants of trust and the role of trust in corporate performance. The aim of this research is to study international joint ventures as opposed to national joint ventures. Hence, the joint ventures should have at least one foreign partner. In order to reduce variation, we selected joint ventures with foreign partners from countries with quite similar cultural backgrounds. The foreign partners are from the U.S and U.K. They are both characterized by individualism. The cases are used to test the hypotheses.

4.1 The Companies

The first company interviewed is the world's largest soft drink company—the Coca cola company. Their products are distributed to over two hundred countries in the world. Statistics show that more than 16 billion cups of coca cola are consumed every day in the whole world. Coca-cola is by far the world's most valuable brand. It has been long since Coca cola Ltd. had its first establishment in China. Up to October, 2009, there have been 39 bottle-making companies and over thirty thousand employees in China, 99% of which are local Chinese (Coca cola, 2010).

Astra Zeneca Ltd. is a cutting edge biological medicine company which is driven by innovation. The head office of Astra Zeneca Ltd. locates in London, England. The company reached the net income of 328 billion dollars in year 2009. The biological company mainly research medicine in six areas, those are, the cancer area, the digestion area, the respiration area, anti-infection area, cardiovascular area, centre nerve area. The company devoted great effort in medicine research and development, producing and marketing. Every year the research

and development investment accounts for over forty billion dollars. There are around 62 thousand workers in the world, especially in emerging markets. As China's biggest multinational medicine making company, Astra Zeneca Ltd. locates its head office in Shanghai. There are over 3500 employees in China. The partners are from U.K, Sweden and China (Astrazeneca, 2010).

Table 1. A Comparison of corporate cultures of the companies

	Coca cola Ltd.	Astra Zeneca
Spiritual culture dimension	Make people feel refreshed and experience the feeling of free in body and spirit; Keep people feel optimistic and enthusiastic; Make things we touch more valuable	Respect characteristics and encourage diversification; Hold openness, honesty, and mutual trust towards each other; Stimulate leadership
Institutional culture dimension	Keeping the sales steady; Making profits; Managing employees – stimulate potential of employees; Product management; Cooperative partners – establish win-win strategies; CSR	Product management – supply and promote new medicines to markets; Employee management – stimulate diversification and creativity among workers; CSR
Material culture dimension	Corporate culture communication channels ☺ official websites, TV advertisements, posters, newspapers, etc.	Corporate culture communication channels: official websites

The corporate culture can be defined from three dimensions: the spiritual culture dimension, the institutional culture dimension, and the material culture dimension. The spiritual culture includes the company's core value, corporate spirit, corporate philosophy and company morality. The institutional culture consists of human resource notion, marketing and production notion. The material culture includes firm motto and culture communication. There exists relationship between the three kinds of culture. The spiritual culture is both the basis of institutional culture and material culture and cornerstone of corporate culture. The institutional culture constrains and regulates spiritual and material culture. Finally, the material culture conveys the spiritual culture and institutional culture. A comparison of corporate cultures of the two companies is presented in the above Table 1.

The sample of this study comprises two IJVs in China. As China is still in a period of economic transition and the business conditions are highly uncertain, trust is expected to make a crucial contribution to the success of IJVs. In addition, Chinese culture emphasizes trust and mutual respect, and the rule of man is promoted over the rule of law (Hofstede, 2001). Thus, Chinese IJVs are appropriate to test our hypotheses.

In this research, IJVs with parent companies from the United States and the United Kingdom are studied. It is statistically proven that over the last three decades most of the companies that have formed joint ventures in China have originated from the U.S, Japan, and European countries (Ng et al., 2007). Moreover, they represent a broad range of cultural distance from China, which facilitates the comparison of the implications of communication styles on IJV trust. To control for industry effects and firm size, only IJVs with more than 200 employees were included. Furthermore, only IJVs with three or more years of operational history in China were sampled to achieve a more valid assessment of inter-partner relationship and firm performance. Those two companies have both been operated in China for more than five years and already occupied mature management skills and marketing strategies (Astrazeneca, 2010; Coca cola, 2010).

In this research two sets of responses were received from the sampled IJVs: one from the senior managers of the parent companies and the other from the employees of IJVs. The responses from senior managers can be further divided into the responses of the Chinese managers and the senior managers from foreign parent firms. This approach not only reduces the common method variance that is caused by single source bias, but also provides more information with which to triangulate the findings. The parent sample also helps in the development of a more comprehensive understanding of the effect of trust on firm performance from the point of view of different constituencies. Both of the two sets of data were collected through questionnaire surveys that were conducted in person. The interviewees were selected randomly from the companies' personnel name lists. A total of 35 respondents were surveyed, and 31 valid responses were collected. Of these responses, 4 were senior managers from Coca cola Chinese parent company, 3 from Coca cola foreign parent company's senior managers. In responses from Astra Zeneca Ltd., 16 were from local employees, 3 from foreign employees, 3 from local parent company's managers and 2 from foreign parent company's senior managers. When the respondent from the Chinese parent company was also the senior executive of the IJV, the corresponding parent response was deemed invalid. The questionnaires for employees were designed to test the life style, wage distribution, communication style, age and trust relationships.

Due to time and resource restrictions, the data from the questionnaire survey are relatively limited, which may result in variations in results. To mitigate the negative influence, the answers to every survey are ensured and respondents' attitudes are positive. First, through channels like official website and employees within companies, we got a general idea of the corporate main product, organizational structure, corporate culture, etc. After that, the questionnaires are distributed and respondents are friendly informed of the utilization of the survey results to reduce their concern. Finally, a short telephone interview was made with the general manager to recheck the information validity and reliability.

4.2 Measurement

The Likert 5-item scale was used to capture the relationships between IJV variables. The respondents gave their answers according to their perceptions of the degree. The scale items are listed in the Appendices.

4.2.1 Trust Level between Parent Companies

Fourteen items adapted from the study of Sheppard and Tuchinsky (1996) were used

to measure the perceptions of trust between the Chinese and the foreign parents. The firm-level items are listed in Appendix 1. The respondents of these questions are senior managers from IJVs.

Trust among employees is measured from two dimensions: their willingness to cooperate with foreign employees; mutual appreciation with foreign managers. In prison experiment, Deutsch pointed out that trust results in cooperation, therefore herein cooperation is a reference indicator by mutual trust. Kramer (1999) asserted that in relation based trust, personal preference and instinct played a central role. Hence in this research, mutual appreciation is a reference index in trust degree. Details about those two reference dimensions are shown in Appendix 2.

4.2.2 Life Style
Those variables are measured by items in appendix 3. There are mainly two dimensions: the time spent together by foreign and local employees; the similarity of value and work attitudes. Those dimensions can reflect the life styles of the different employees. People with similar values hold similar life styles as the life style is representation of one's value (Morris, 1954).

4.2.3 Compensation Distribution
The variables are also measured by items in appendix 3. The wage distributive inequity will result in psychological unbalance in employees, therefore influencing trust level.

4.2.4 Communication Skills
These variables are measured by relevant items in appendix 3. There are many factors conducing ineffective communication, such as language system, psychological issues, different communication styles and distance, etc.

4.2.5
After comparing different ages and levels of trust, the trust-age relationship is therefore concluded. Degree of trust is measured by items in appendix 2.

4.2.6 IJV Performance
IJV performance was measured in terms of how well the interests of the parents were satisfied. As Yan and Gray (1994) suggested, an IJV may perform well in terms of financial criteria, but there may be discontent between the parents if the objectives of one have been overlooked. Based on previous work (Mjoen and Tallman, 1997; Yan and Gray, 1994), a composite measure was developed to cover the various possible objectives that are commonly set by the parents of IJVs in China. The respondents were asked to rate the degree to which their IJV had achieved these goals on Likert scale. The items were divided into financial and non-financial achievements. The financial goals included profit, sales in local and foreign markets, and market share, and the non-financial goals comprised product quality, the acquisition of management skills, technology transfer, and the promotion of cooperation among the parties involved.

4.3 The Data

The data are figured out by the following steps: first, the results are divided into three groups: the local and foreign employees, the salary above and below 6000 RMB per month, age between 25~30 and 31~40. We choose 6000 RMB because it is approximately the average salary level in these companies. We divide the age groups based on the classification of young people and in China people under 30 years old are normally regarded as young people. The mathematic mean of each group is calculated respectively. The second step is to categorize the results based on related topics, and compute the mathematic mean of each variable related question. The results are presented in the following Table 2.

The data in Table 3 are calculated in two steps: first, the mathematic mean is calculated separately in each of the two groups, that is, the local and foreign managers group; secondly, the mean is categorized by trust level and performance satisfaction.

Table 2. Results of trust level among employees and four variables

		Chinese employees	Foreign employees		Salary/month over 6000 yuan	Salary/month under 6000 yuan	Age	
							25~30	31~40
Trust level (high scores imply low trust level)		2.6727	2.75		3.075	3.1143	3.0909	3.25
Life style	Time Together (high Scores imply short time together)	2.2728	2.375					
	Value (high scores imply Low value acceptance	3.1364	2.625					
Communication skills☺high scores imply ineffective communication skills☺		3.0455	3.25					
Compensation distribution		Wage satisfaction	3			2.8571		
		Perception of fair and equality	2.125			2.2857		

Table 3. Trust level and performance satisfaction results

	Chinese managers	Foreign managers
Trust degree (high score implies low trust level)	2.6286	1.5714
Performance satisfaction (high score implies low performance satisfaction)	2.875	1.0825

4.4 Analysis and Discussion
4.4.1 Life Style

Conclusion 1: Chinese employees are more tend to spare time with Chinese employees compared to foreign employees.

Conclusion 2: Foreign employees are more inclined to assume that mutual value and principles are similar to each other than Chinese workers.

Conclusion 3: Foreign employees hold higher trust level to coworkers than Chinese workers.

Hofstede once pointed out that in communist societies, the mainstream value strengthens responsibility and tend to avoid uncertainty. China is a typical communist society and the Chinese employees like to spend time together and work together. In life style choice, western countries focus on individualism education while the east emphasize relationship building and realize potential and self-value in groups (Morris, 1956). Thus, Chinese employees are more restricted to group choice than foreign employees, which can be proved in the conclusions above.

In the companies surveyed, foreign employees are all from western countries whose individualism is high in Hofstede's culture dimension studies. Foreign workers tend to enjoy different kinds of life styles and hold open minds to different cultures. Conclusion 3 shows that foreign workers are more inclined to trust people from different nationalities, though the trust level is not significant. Thus H1 is supported.

4.4.2 Compensation Distribution
Based on the data above, the conclusions are as follows:

Conclusion 1. There exists no direct relationship between salaries and satisfaction.

Conclusion 2. Workers with low salary satisfaction possess higher trust levels than workers with high trust satisfaction.

Conclusion 3. Employees with higher salaries held higher trust levels than employees with lower salaries.

According to research, wage distributive inequity exists in the same job level in IJVs. There are various reasons for this phenomenon. The first reason is the different labor force value to the firm. Most IJVs correlate with bi-directional trade between Chinese and foreign partners. Foreign employees with language advantages, predominant and reliable education

backgrounds, creative thinking minds and superior communication skills are labeled with higher prices. The second reason is the demand and supply relationship in Chinese labor force market. Supply in local Chinese labor force market far exceeds the demand of it. The wage is relatively low and therefore appearing unattractive to foreign employees or managers. However, IJVs require not only workers from local markets but also from parent firms. Thus the prices for foreign labor force are much higher than local labors.

On the basis of the equity theory, people's satisfaction in salary is not only based on actual salaries, but also relate to the feeling of equity. Conclusion one proves the equity theory. However, the data is subjective in terms of the criteria of equal and the measurement of performance, etc. Thus the results are limited to a certain degree.

Conclusions show that the relationship between wage satisfaction and trust is as expected, but the wage level will affect the degree of trust between employees.

4.4.3 Interpersonal Communication
The data reveals the following conclusions:

Conclusion 1. Communications among employees from different countries are not as effective as communication among workers from the same country.

Conclusion 2. Employees perceive lower communication satisfaction in cross-border communications than unitary culture communication.

Communication refers to interpersonal information transmission. This kind of interpersonal information transfer is more than just verbal communication, it also includes body gestures and facial expression.

Among the two companies surveyed, culture shock exists significantly. Misunderstanding is easy to happen before two parts getting to know each other better. Based on the estimation of Wall Street Journal, tens of billions of dollars are losing every year because of communication ineffectiveness and deteriorating relationships between parent companies. In those cases, if two parts would change their position and show more comprehension and appreciation towards the other part, things might turn out to be more optimistic.

In this survey, the part with better communication skill tends to trust the other part, which is in support of H3.

4.4.4 Age
It can be concluded from the above data that young employees are inclined to trust coworkers from different nationalities than elder ones.

The globalization renders the new generation open minds and tolerance towards different cultures, especially for the young generation in China who act and think quite differently from the elders. They are no longer willing to be constrained by hierarchical bureaucracy and tend to be more aggressive and ambitious.

As one becomes older, stubbornness are more likely to evolve. Stubbornness might lead to selective perceptions in unfamiliar circumstances which are harmful for progress. The conclusion supports H4.

4.4.5 Performance and Trust
The conclusions are as follows based on the above data:

Conclusion 1: Chinese managers show lower satisfaction in performance than foreign managers.

Conclusion 2: Chinese managers show lower level of trust than foreign managers.

Conclusion 3: managers with higher performance satisfaction show more trust to partners.

The data show that foreign managers tend to show higher evaluation than Chinese managers. However, the feedback may be somewhat related to different culture customs. Besides, different countries have different perception of degree of trust. Thus, the results may consist of deviations. The conclusions are in support of previous research.

5. Conclusions and Implications

Our study investigated the determinants of trust and trust-performance relationship in IJVs. The findings of this research contribute empirical evidence to support the hypotheses that there is a relationship between performance and trust, and give support to the claim that there are certain factors contributing to trust in IJVs. The conclusions are summarized in the following Table 4.

Table 4. The relationship between the variables and trust

1.   The influence of life style on trust
Chinese employees tend to show more trust in Chinese colleagues rather than in foreign colleagues.
2.   The influence of compensation on trust
Employees with high salaries are inclined to trust in low-paid employees. There exists no direct relationship between wage satisfaction and trust.
3.   The influence of communication skills on trust
The better the communication skills, the higher the trust level is.
4.   The influence of age on trust
Young employees are inclined to trust coworkers from different nationalities than elders.
5.   Relationship between trust and performance
Trust will improve performance. Likewise, partners who possess high performance satisfaction are more inclined to trust each other.

The above conclusions are compatible with the hypotheses in terms of life style, interpersonal communication, age and trust-performance relationship. In the compensation variable, though the data are in accordance with equity theory, the data reveal that wage level rather than wage satisfaction poses influence on trust.

The findings provide important implications for foreign investors hoping to build trust among local senior managers in uncertain environments such as China. In terms of theoretical implications, several suggestions are proposed to increase trust levels and enhance performance. First, our comparison of life styles suggests that various activities should be encouraged. Those activities should increase contacts between foreign and local employees and therefore fostering pluralistic life styles in local employees. The second implication is to increase wages

of low paid workers who perform well in jobs, hence enhancing employees' feeling of equality in salaries and improving trust levels. The third implication is to set up employee consulting services for employees to express their inner feelings about the company. The next suggestion is to offer a platform for older workers to interact with young colleagues, thereby increasing their acceptance towards new things. Meanwhile, to improve trust level and performance between parent companies, the first and third suggestions are appropriate herein, that is, to encourage various activities and to establish and support consulting services.

A potential limitation of the research is the small size of our IJV sample, which gives rise to statistical tests with relatively low power in terms of reliability and generalizability. Therefore, the results should be viewed with caution. We would want to further explore whether or not, for example, the Japanese IJVs with similar cultural background with China. We would also want to examine how IJVs in China operate in areas other than Shanghai. Two of the variables adopted in this paper are related with culture distance. Though culture distance is pointed out in the article, it still remains abstract. In future research, the influence of corporate culture on employees' value and work attitudes should also be taken into consideration.

Our study on the measurement of trust level is of two levels: the firm level and interpersonal level. The distinctions between the criteria of the two levels are indefinite. The criteria of the firm level trust and the interpersonal trust level should not be identical (Currall and Inkpen, 2002). Therefore in future research, it is preferred to specify the level of trust and make results more accurate and precise.

Another potential limitation is in the data analysis for the life style variable. In the process, individual distinctions are neglected, which lead to indirectness in relationship between the two variables and trust level. The omission also exists in cultural differentiation between local and foreign employees.

References

Anderson, J. C. and Narus, J. A. (1990), "A model of distributor firm and manufacturer firm working partnerships", Journal of Marketing 54(1), pp. 42-58.

Astra Zeneca China (2010), available at: www.astrazeneca.com.cn, accessed October 20, 2010.

Atuahene-Gima, K. and Janet Murray (2007), "Exploratory and Exploitative Learning in New Product Development: A Social Capital Perspective in New Technology Ventures in China", Journal of International Marketing, 15(2), pp. 1-29.

Baird, I. S., Lyles, M. A. and Wharton R. (1990). "Attitudinal Differences Between American and Chinese Managers Regarding Joint Venture Management", Management International Review, Special Issue, pp. 53-68

Barney, J. B. and Hansen, M. H. (1994), "Trustworthiness as a source of competitive advantage", Strategic Management Journal, 15, pp. 175-190.

Beamish, P. W. (1993), "The characteristics of joint ventures in the People's Republic of China", Journal of International Marketing, 1, pp. 29-48.

Beamish, P. W. (2006), "Publishing international (joint venture) research for impact", Asia Pacific Journal of Management, 23, pp. 29-46.

Boersman, M. F., Buckley, P. J., and Ghauri, P. N. (2003), "Trust in international joint venture relationships", Journal of Business Research, 56, pp. 1031-1042.

Child, J. and Faulkner, R. R. (1998), Strategies of Co-operation: Managing Alliances, Networks, and Joint Ventures. New York: Oxford University Press.

Coca-cola China (2010), available at: www.coca-cola.com.cn, accessed October 25, 2010.

Coleman, J. S. (1990), Foundations of social theory, Harvard University Press, Cambridge, Mass.

Cook K. S., Hardin R. and Levi M. (2007), Cooperation Without Trust? Russell Sage Foundation Publications.

Craig, C. J. (2005), International Joint Venture Performance in South East Asia, Edward Elgar Publications.

Currall, S. C. and Inkpen, A. C. (2002), "A multilevel approach to trust in joint ventures", Journal of International Business Studies, 33, pp. 479-495.

Das, T. K., and Teng, B. (1998), "Between Trust and Control: Developing Confidence in Partner Cooperation in Alliances", Academy of Management Review, 23(3), pp. 491-512.

Deutsch, M. (1958) "Trust and suspicion", Journal of Conflict Resolution, 2, pp. 265-279.

Dodgson, M. (1993), "Learning, trust, and technological collaboration", Human Relations, 46, pp. 77-89.

Dutton, J. E., Dukerich J. M. and Harquail C. V. (1994), "Organizational Images and Member Identification", Administrative Science Quarterly 39, pp. 239-263.

Dyer, J. H. and Chu, W. (2000). "The Determinants of Trust in Supplier-automaker Relationships in the U.S., Japan and Korea". Journal of International Business Studies, 31(2), pp. 259-285.

Earle, T. C. and Cvetkovich, G. T. (1995), Social trust. Towards a cosmopolitan society. London: Praeger.

Fryxell, G. E., Dooley R. S., and Vryza, M. (2002), "After the ink dries: the interaction of trust and control in US-based international joint ventures", Journal of Management Studies, 39, pp.865-886.

Gambetta, D.(1988), "Can we trust trust?" In Gambetta, D. (Ed.), Trust: making and breaking cooperative relation, Basil Blackwell, New York, pp. 213-238.

Gulati, R. (1995), "Does familiarity breed trust? The implications of repeated ties for contractual choice in alliances", Academy of Management Review, 38(1), pp. 274-297.

Hewett K. and Bearden, W.O. (2001), "Dependence, Trust, and Relational Behavior on the Part of Foreign Subsidiary Marketing Operations: Implications for Managing Global Marketing Operations", Journal of Marketing, 65, pp. 51-66.

Hofstede, G. (2001), Culture's Consequences: Comparing Values, Behaviors, Institutions, and Organizations across Nations, Sage Publications, 2nd Edition.

Hovland, C. I., Janis, I. L. and Kelley, H. H. (1953), Communications and Persuasion: Psychological Studies in Opinion Change, New Haven, CT: Yale University Press.

Huotari, M. L. (2003), "Trust in Knowledge Management and Systems in Organizations", IGI Global.

Inkpen, A. C. and Currall, S. C. (2004), "The Co-evolution of Trust, Control, and Learning in Joint Ventures", Organization Science, 15(5), pp. 586-599.

Khosrowpour, M. (2001), "Managing Information Technology in a Global Economy", Idea Group Publishing.

Kogut, B. (1988), "Joint ventures: theoretical and empirical perspectives", Strategic Management Journal, 9, pp. 319-332.

Kogut, B. and Zander, U. (1996), "What firms do? Coordination, identity, and learning", Organization Science, 7(5), pp. 502-518.

Koza, M. P. and Balakrishnan, S. (1993), "Information asymmetry, adverse selection and joint ventures—theory and evidence", Journal of Economic Behavior and Organization, 20, pp. 99-117.

Kramer, R. M. (1999), "Trust and Distrust in Organizations: Emerging Perspectives, Enduring Questions," Annual Review of Psychology, 50, pp. 569-598.

Lewis, J. D., and Weigert, A. (1985). "Trust as a Social Reality", Social Forces, 63(4), pp. 967-985.

Li, J. J., Zhou, K. Z., Lam, S. S. K. and Tse, D. K. (2006), "Active trust development of local senior managers in international subsidiaries", Journal of Business Research, 59, pp. 73-80.

Luo, Y., Shenkar, O. and Nyaw, M. K. (2001), "A dual parent perspectives on control and performance

in international joint ventures: lessons from a developing economy", Journal of international business studies, 32, pp. 41-58.

Luhmann, N. (1979), Trust and Power, Chichester, Wiley.

Madhok, A. (2006), "How much does ownership really matter? Equity and trust relations in joint venture relationships", Journal of International Business Studies, 37, pp. 4-11.

Madhok, A. (2006), "Revisiting multinational firms: tolerance for joint ventures-- a trust-based approach", Journal of International Business Studies, 37, pp.30-43.

Mayer, R. C., Davis, J. H., and Schoorman, F.D. (1995), "An integrative model of organizational trust", Academy of Management Review, 20, pp. 709-734.

Mjoen, H., and Tallman, S. (1997), "Control and performance in international joint ventures", Organization Science, 8(3), pp. 257-274.

Morris, C.W. (1956), Varieties of Human Value. Chicago: University of Chicago Press.

Ng, P. W. K., Lau, C.M. and Nyaw, M. K. (2007), "The effect of trust on international joint venture performance in China", Journal of International Management, 13, pp. 164-186.

Parkhe, A. (1993), "Messy research, methodological predisposition, and theory development in international joint ventures", Academy of Management Review, 18, pp.227-268.

Rapert M. I., Velliquette A., Garretson J. A. (2002), "The strategic implementation process: evoking strategic consensus through communication", Journal of Business Research, 55, pp. 301–310.

Roderick, M. K. and Tom, R. T. (1995), "Trust in organizations: frontiers of theory and research", Sage Publications.

Rotter, J. B. (1971), "Generalized expectancies for interpersonal trust", American Psychologist, 26, pp. 443-452.

Rousseau, D. M., Sitkin, S. B., Burt, R. S., and Camerer, C. (1998), "Not so different after all: a cross-discipline view of trust", Academy of Management Review, 23(3), pp. 393-404.

Shapiro, S. P. (1987), "The social control of interpersonal trust", American Journal of Sociology, 93, pp. 623-658.

Shapiro, S. P. (2002), "Tangled loyalties: conflict of interest in legal practice", University of Michigan Press, pp.112-115.

Sheppard, B. and Tuchinsky, M. (1996), "Micro-OB and the network organization", in Kramer, R.M. and Tyler, T.R. (Eds), Trust in Organizations: Frontiers of Theory and Research, Sage, London, pp. 140-166.

Sigh J. and Rhoads G. K. (1991), "Role ambiguity in market oriented positions: a multidimensional, multifaceted operationalization", Journal of Marking Research 28, pp. 328-338.

Wang, K. Y. and Fulop, L. (2007), "Managerial trust and work values within the context of international joint ventures in China", Journal of International Management, 13, pp.164-186.

Wong, W. (2010), "Interpersonal communication and communication skills", available at: http://wenku.baidu.com/view/a4637a85ec3a87c24028c46b.html, accessed October 25, 2010.

Wong Y. T., Ngo, H. Y. and Wong, C. S. (2003), "Antecedents and Outcomes of Employees' trust in Chinese Joint Ventures", Asia Pacific Journal of Management, 20(4), pp.481-499.

Xu, X. (2005), "Distinctions and trends in Chinese-western culture value", Theory Discussion, 3, pp. 62-71.

Yan, A. and Gray, B. (1994), "Bargaining power, management control, and performance in United States-China joint ventures: a comparative case study", Academy of Management Journal, 37, pp. 1478-1517.

Yan, A. and Gray, B. (1996), "Linking management control and inter-partner relationship with performance in U.S.-Chinese joint ventures", In Child, J., Lu, Y.(Ed.), Management issues in China, Vol.2, International Enterprises, Routledge, London, pp.106-127.

Zaheer, A., McEvily, B., and Perrone, V. (1998), "Does trust matter? Exploring the effects of interorganizational and interpersonal trust on performance", Organization Science, 9, pp. 141–159.

Zalteer, S. and Zaheer, A. (2006), "Trust across borders", Journal of international business studies, 37, pp. 21-29.

Zucker, L. G. (1986), "Production of trust: institutional sources of economic structure", Research in Organizational Behavior, C.T: JAI Press, Greenwich, pp. 53-111.

Appendices

Appendix 1. Measurement of trust between parent companies
Please choose the best scale you think suits best (1-totally agree; 5-totally disagree).
Each parent knows that the other parents will consider its concerns when making decisions.
The quality of communication between the parents is extremely good.
The parents discuss the critical issues of their collaborative relationship well.
There is frequent contact between the representatives of the parents.
The parents have a long history of cooperative relationship.
Each parent expects to interact with the other parent for a long time in the future.
The goals of the parents are the same.
The parents share similar value and views with each other.
The parents will both benefit from the same objectives.
The parents deem the other part as members of the same group.
The parents both engage in many activities.
Each parent is familiar with the major constituencies of the other parent (e.g., the other parent's major suppliers).
The parents understand well the bases of each other's success.
The parents understand each other's primary problems at work.

Appendix 2. Measurement of trust between employees in IJVs
Please choose the best scale you think suits best (1-totally agree; 5-totally disagree).
- *Compared to colleagues from my own country, foreign colleagues are more trustworthy.*
- *When facing problems in my work, I prefer a colleague comes from my own country to answer my question.*
- *If I was promoted, it would be more likely that I was promoted by a superior from my own country.*
- *If it is required to form a project team, I would prefer to stay with colleagues from my own country.*
- *I appreciate superiors from other countries rather than those from my own country.*

Appendix 3. Measurement of determinants of trust
Please choose the best scale you think suits best (1-totally agree; 5-totally disagree).
- *Compared with other colleagues, my wage level is relatively fair.*
- *During lunch time, I prefer to stay with colleagues from my own country than with other colleagues who are not.*
- *My foreign colleagues view the world in a same way as I do.*
- *My colleagues who are not from my own country share the same attitude and principles towards work with me.*
- *I spend more time with colleagues from my own country.*
- *Compared with colleagues from my own country, my communication with foreign colleagues is quite well.*
- *I think trust is based on fairness rather than sharing the same value.*
- *Employees come from different countries speaks different languages, thus making it harder to establish trust compared to employees from the same country.*

Appendix 4. Measurement of performance
Please choose the best scale you think suits best (1-totally agree; 5-totally disagree).
- *Profit*
- *Sales in the local market*
- *Sales in overseas markets*
- *Market share*
- *Product quality*
- *Acquisition of management skills*
- *Technology transfer*
- *Promotion of cooperation among the parties involved*

Cash Transfer Programs: An Institutional Management Lessons from Semarang Central Java Indonesia

ANGELINA IKA RAHUTAMI and WIDURI KURNIASARI
Economics Faculty, Soegijapranata Catholic University, Indonesia

ABSTRACT

Social protection is one of poverty alleviation programs that is conceptualized as a set of public actions to address poverty. The most popular program is cash transfer. In October 2005, Indonesia government made an unpopular policy that removed fuel subsidy. The subsidy was changed to be Unconditional Cash Transfer (UCT) and Conditional Cash Transfer (CCT). This study is preceded for three purposes; they are (i) describing condition of cash transfer program in selected Asian countries; (ii) analyzing factors that affect cash transfer program ineffectively in Central Java; and (iii) analyzing assessment of cash transfer program in Central Java, based on government's perception. A summary of cash transfer schemes in selected Asian Countries showed that social protection scheme in Asian countries relied on cash transfer. Another concern was about the development of harmonized approach for the identification of poor households. The result of the study showed that reports of public dissatisfaction of cash transfer in some areas indicated that the program might experience problems.

Keywords: Institutional Management, Poverty, Cash Transfer Program, Central Java Indonesia

INTRODUCTION

The success or failure of government program is not only related to macroeconomics policy but also related to institutional management. Government should act as manager that

---

1   This paper has been presented in International Conference in Management Sciences and Decision Making, Tamkang University Taiwan on May 22, 2010

guide, assist, and adapt programs to suit local need to make the policy running properly. How to make a decision through policy is an important thing in institutional management. Nowadays, one of the main problems for developing country is poverty. Social protection is one of poverty alleviation programs conceptualized as a set of public actions to address poverty, vulnerability and risk throughout the lifecycle. The most popular program is cash transfer. Cash transfer (conditional and unconditional) can reduce monetary poverty through an increase in households' income. It also enables poor family to invest for their children, and it can play a redistributive role.

Because of strategic to economic crisis recovery and government expenditure reduction, in October 2005, Indonesia government made an unpopular policy that removed fuel subsidy. The subsidy was changed to be Unconditional Cash Transfer (UCT) to poor and near-poor families to compensate them for inflationary effects of the fuel price increase. This UCT was called by Bantuan Tunai Langsung (BLT). Every poor and near-poor household that has income under USD 15 receives IDR 100,000 (approximately USD 10) to improve their purchasing power. The main purposes of BLT are:

1) Reducing the poor household expenditure caused by fuel subsidy removing,
2) Alleviating poverty indirectly, and
3) Redistributing the gain effect of subsidy

Indonesian government also evaluated this program and found many inappropriate systems, implementations and poor household targets. The main reasons of this condition were:

1) Poor households data used was not current data but it was based on 2005 data
2) Data verification did not involve government apparatus optimally
3) There were many incorrect BLT targets caused by inconsistency of poor household criteria (Bank Indonesia-SCU, 2009).

Based on this fact, since 2008, government has modified the cash transfer program in health, nutrition, education and small business fund support. This lack of BLT program in Indonesia and the modifying cash transfer program are interesting to analyze because related to institutional management and decision-making problem in government level. This study analyzed more about stakeholders' perception to cash transfer program, and described how the government resolves the institutional management and decision-making problems.

PURPOSES

This study is proceeded in three purposes, they are:

1) Describing condition/best practices cash transfer program in selected Asian countries
2) Analyzing factors that affect cash transfer program ineffectively in Semarang, Central Java Indonesia
3) Making assessment of cash transfer program in Semarang Central Java Indonesia, based on government's perception.

CASH TRANSFER PROGRAM AND POVERTY REDUCTION

A central aim of social-welfare policies is to reduce poverty. Nowadays, the crucial

things to alleviate poverty are investing in the human capital of the poor and protecting households via social safety nets (Maluccio, 2007). The broad characteristics of poverty and vulnerability are multidimensionality, embracing both monetary and non-monetary aspects of poverty; and changes over the course of the lifecycle (UNICEF, 2009). One of investing in the human capital and social safety net kinds is social cash transfer.

Social cash transfer is assistance in term of cash money for the poor or near poor households and the vulnerable without transfer (Tabor, 2002). Social cash transfer can be given in form of social aids, insurance, tax reduction, and non-public transfer.   Based on ILO data, cash transfer is a main kind of social safety net that is used by eighty percent of industrialized countries, but only a little of developing countries used it. Cash transfers also enable poor families to invest in their children and thereby contribute to human capital development, create multiplier effects at the local level economy, and play a redistributive role (UNICEF, 2009)

The benefits of social cash transfer program are (i) do not distort price directly, (ii) stabilize macro-economic (only if cash transfer target increases when economy declines, vice versa, and (iii) cost of operation is cheaper than goods and services aids. Social cash transfer gives also more flexibility usage to poor households to improve their welfare than goods transfer. When the poor and vulnerable people improve their welfare, hence they enhance their capacity to cope with poverty. Samson (2009) found that social cash transfer is able to contribute to pro-poor growth by empowering poor households to lift themselves out of poverty.

Cash transfer programs have taken on an increasingly important role in the anti-poverty programs of middle income countries (Agauero, Michael, and Ingrid, 2006). Social cash transfer can be divided into unconditional cash transfer (UCT) and conditional cash transfer (CCT). Witteveen (2006) demonstrated the following possible benefits of UCT:

1. Cash provides households with greater degree of choice to choose on spending priorities.
2. Cost effective because it is cheaper and faster than alternatives commodity distribution.
3. Cash maintains people's dignity by not making them passive recipients of relief.
4. Induce economic recovery.
5. Meets a variety of needs.
6. Empowerment society

On the other hand, CCT programs represent a relatively new approach to social assistance by fostering demand-side use of social services. CCTs are aimed at complementing, not replacing supply-side interventions. Demand-side interventions, besides helping to make these services affordable for low-income families, motivate them towards changes in behavior to improve their health and education. CCTs aim at reducing poverty and improve human capital development by giving cash to selected beneficiaries with the requirement that they fulfill certain conditions (Rawlings and Rubio (2005), Schwartz and Abreu (2007), Schwartz (2007), Adato and Hoddinott (2007), and Janvry and Elisabeth (2005)).

CCT programs are transfer of cash to targeted beneficiaries, a required counterpart to receive the cash benefits, and decentralized administration. Beneficiaries are chosen through a targeting system that identifies the poor households. CCT program can vary in terms of design, targeting system and required conditions. Legovini and Regalia (2001) described that CCT are aimed at complementing, not substituting supply-side interventions. This demand-side program only works if the supply side works sufficiently well. The demand and supply-

side interventions have to work well together to decrease poverty, address social risk and reduce economic vulnerability.

Adato and Hoddinott (2007) explained that implementation of CTT is not easy because of many problems such as (i) there must be reasonable access to schools and clinics, (ii) governments and NGOs must be able to handle the costs and administrative requirement or adapt them to local circumstances, (iii) if poor people's preferences differ sufficiently from the conditions placed on their behavior by the government, the restrictions that conditionality imposes may actually reduce total welfare gains, (iv) poverty, culture, social exclusion, discrimination, and other historical processes may prevent people from participating in activities regardless of the benefits.

Cash transfer programs can be evaluated in terms of their relative efficiency in reducing poverty, as measured by the poverty headcount and the poverty gap (Barrientos and Jocelyn, 2006). Rigorous evaluations show that many, but not all, CCT programs have been successful in improving human capital outcomes (Adato and Hoddinott, 2007). Adato and Hoddinott (2007) found that CCT programs still affect communities—positively or negatively—depending on their design and implementation. Such experiences around the world show that cash transfers have a positive impact on the reduction of monetary poverty through an increase in household income (UNICEF, 2009).

Kenworthy (1998) explained that there are three reasons why social-welfare programs may fail to reduce poverty. One is that too little of the money reaches the poor, the second is that redistributive programs do in fact have detrimental effect, and fail to reduce the number of poor in the long run, even if they do provide some temporary near-term assistance.

Developing countries tend not to use cash transfer program because: (i) government resources are limited, hence government prioritizes the infrastructure programs, (ii) informal sectors tend to be dominant, consequently government cannot collect income and wealth information, and (iii) people distribution and limited social services infrastructures in rural increase administration cost of cash transfer program (Tabor, 2002). Even though social cash transfer is hard to implement in developing countries, nowadays social cash transfer is emerging in many developing countries as a leading social protection.

DESIGN OF EVALUATION, METHODOLODY AND VALIDITY

Semarang, the capital of Central Java, Indonesia was used as a research location. Semarang has 16 Kecamatan (small region) and 177 Kelurahan. The Semarang map can be seen below.

Research data were collected by questionnaire and in-depth interview to BLT beneficiaries and government apparatuses. Proportional random sampling was used to both of BLT households' beneficiaries and government apparatuses. This study used 10

Figure 1: Semarang Map

Kecamatan[2] [small region] that was chosen based on the biggest BLT households' beneficiaries.

2   Kecamatan (small region) that were used in this study are Semarang Barat, Semarang Utara,
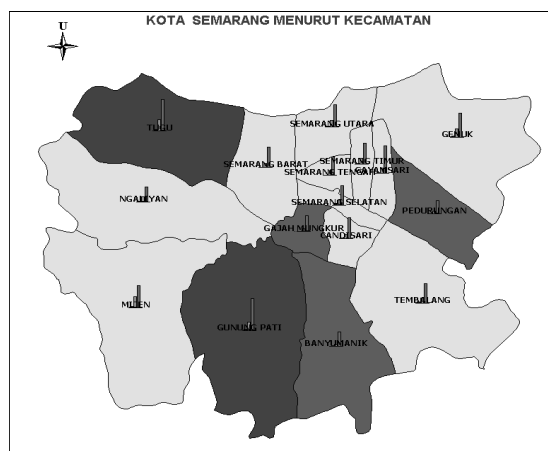
Total sample was 100 households and 67 government apparatuses. Secondary data was also used in this study to strengthen the in-depth interview results.

Data collecting used in-depth interview guideline that was distributed and interviewed by surveyor. The in-depth interview guideline asked about respondents' perspectives that are related to benefits, failures, process, system, and mechanism of BLT. Descriptive and qualitative analysis was used to interpret and analyze data systematically and comprehensively.

RESEARCH RESULTS

Condition Cash Transfer Program in Selected Asian Countries

Many international lessons of cash transfer program proved that implementing of well-designed and effectively managed programs is needed to reduce poverty and promote social development. Best practices of cash transfer program showed that the good cash transfer programs required:

1) Programs and needs matching. Government needs good assessment to choose suitable applicable programs that can fulfill the societies' needs (Tabor, 2002).
2) Beneficiaries' selection. Information approach is needed to select who are proper beneficiaries (Tabor, 2002).
3) Enrollment and targeting systems (Samson, 2009). The system needed to reduce fraud and promotes greater coverage.
4) Gender equality promotion. Social protection concerning with gender equality issues could give poverty alleviation effect better than without concerning.
5) Administrative ability development. Documentation processes must be flexible (Tabor, 2002, Samson, 2009). The poor documentation system and targeting mechanisms frequently fail to reach the poor and sometimes generate regressive outcomes.
6) Payment processes. Appropriate technology and sound management can create opportunities to expand the payment mechanism (Samson, 2009)
7) Pilot programs. Pilots serve more effectively to generate concrete evidence on how to implement social cash transfer programs (Samson, 2009).
8) Evaluation. Monitoring and programs evaluation is a must

Not all of Asian countries implement cash transfer schemes for poverty lessening. The next description showed some lessons from selected ASIAN countries about cash transfer programs (*www.ipc-undp.org/publications/cct/asia/CashTransferExperiences.pdf*, Bloom, 2009).

Table 1 Summary of Cash Transfer Experiences of Selected Asian Countries

No	Country	Cash Transfer experiences
1	Cambodia	There was no CCTs. The last poverty reduction program came from Japan Foundation namely Targeted Assistance for Poor Girls and Indigenous Children

Tembalang, Gunung Pati, Pedurungan, Genuk, Semarang Timur, Ngaliyan, Gayam Sari and Banyu-manik.

No	Country	Cash Transfer experiences
2	Bangladesh	There were many cash transfer programs such as Female secondary school Assistance, Local governance Support project, Cash for education, Fund for Natural Disasters, and so on
3	Brunei	The most popular program was for old age and disability pension
4	China	There were two main programs, Minimum Living standard guarantee scheme and five guarantees for elderly
5	India	National old pension scheme for elderly, natural rural employment that assures at least 100 days employing in rural area for at least one adult per household
6	Indonesia	Bantuan Tunai Langsung (a kind of UCTs), health and nutrition programs in kind of pre-natal care visits, iron tablet for pregnant women, complete immunization of children under, education program for primary and junior secondary school.

Source: *www.ipc-undp.org/publications/cct/asia/CashTransferExperiences.pdf*, Bloom, 2009

Design and Implementation of Cash Transfer in Indonesia

Poverty alleviation always is the one of development priorities in Indonesia year by year. The national poverty line in Indonesia is defined in terms of ability to afford a minimum food intake, and some non-food items. The poor are those who fall below this real income or consumption standard line. This is equivalent to US$ 1.55 per day which is stricter than the conventional $2 per day measure (ILO, 2006). Although many poverty alleviation programs have been designed and implemented on national wide since 1965 but poverty ranking in Indonesia did not show significance decreased (Royat, 2009). That is the one of reasons why government and any stakeholders continuously evaluate and prepare appropriate and accurate program design that can be effectively to decline poverty rate in Indonesia.

Indonesia has experienced cash transfer program since 2005 until now. The first program was Bantuan Tunai Langsung (BLT). This unconditional cash transfer (UCT) program is compensatory cash program or social safety net. BLT is a cash transfer program for the poorest, poor and nearly poor beneficiaries and compensates fuel subsidy reduction (Social Department, 2008). In 2008, BLT for the poor beneficiaries was IDR 100.000,00 per month for 7 months.

There are 14 poor criteria that are applied to select the beneficiaries, for example (i) households have no electricity, (ii) households use charcoal or firewood as fuel, (iii) the house floor is ground or low quality board, (iv) frequency of eating is under twice each day, (v) households cannot buy milk/chicken/meat in a week, (vi) households unable to go to doctor when the members are ill, and (vii) income per month is under IDR 600.000,00. Based on these criteria, society is grouped into three groups i.e. nearly poor (who meet with 9-10 criterions), poor (who fulfill to 11-13 criterions) and the poorest.

The goals of BLT program are:
1) Helping the poorest, poor and nearly poor people for surviving at least for complying their basic needs
2) Preventing the poorest, poor and nearly poor welfare because of economic difficulties

3) Improving social responsibility

BLT is given based on the fact that the poor households are economically vulnerable. The vulnerable households receive the biggest social impact of fuel subsidy reduction so that the protection program is required.

Since 2008, government has created more comprehensive cash transfer programs, namely:

1) Program Keluarga harapan (PKH)

2) Rice for the poor households (Raskin) that was valued approximately IDR 4.2 billions

3) Bantuan operasional Sekolah (BOS) is an educational cash transfer program

4) Jaminan Kesehatan Masyarakat (Jamkesmas) is a cash transfer program for health

5) Program Nasional Pemberdayaan Masyarakat (PNPM) Mandiri is a program for society development through Small Medium Enterprises empowerment. PNPM Mandiri is distributed via societies' Business credit (Kredit Usaha Rakyat – KUR) without collateral requirement

The new cash transfer programs are applied in order to reach more appropriate beneficiaries. The new cash transfer programs are designed based on more specific and tighter criteria.

Stakeholders' Perception of BLT

To seek more comprehensive results, this study does not only show the current study, but also make a comparison of related study in Semarang. There are two studies used to explain more detail BLT beneficiaries perception i.e. research of Bank Indonesia (The Central Bank) collaborated with Soegijapranata Catholic University (SCU) in 2008, and Widuri et.al. (2009). The comparison analysis is needed to compare and look for perception changing.

The comparison can be used because the poor criterion from BPS-Statistics Indonesia has not changed since 2005 until 2008. The beneficiaries sample in this study were daily workers (48%), ones who did not have a regular job (24%), small traders (8%) and drivers (7%). Most of them did not have fixed income and had to finance for 4-7 persons. Respondents who had income under IDR 500.000,00 were 64.63%. The maximum income of respondents was IDR 700.000,00. This respondents profile did not differ greatly with BI-SCU (2008) and Widuri et.al research (2009). 77% of respondents consumed meat/egg/fish/chicken/milk less than twice in a week, while 23% could consume 3-5 times. On the other hand, 50% of respondents said that they ate vegetables and fruits 3-5 times in a week, whilst 39% of them consumed it less than twice a week, others could consume it 6 times. This fact indicated that vegetables and fruit were cheaper food than meat or chicken. Their limited income made them could not afford protein food like meat/milk and egg.

Other poverty indicators showed that 62% of respondents did not have permanent houses and 35% of them had semi-permanent houses. 79% of respondents did not have ceramic floors or motorcycle and most of them had a terrible bathrooms and electricity.

Table 2 Accuracy of BLT Beneficiaries Target Based on BLT Criterion

Criteria	2009		2010	
	Not accurate	**accurate**	**Not accurate**	**Accurate**
House floor made from ground, bamboo, poor quality wood	14.17	85.83	21	79
No toilet	89.17	10.83	98	2

No electricity	68.33	31.67	100	0
Meat, milk, chicken consumption one times per week.	50.00	50.00	23	77
Clothing buying one times per year	100.00	0.00	100	0
Eating once or twice per day	100.00	0.00	100	0
Lack of health access ability	100.00	0.00	100	0
Income under IDR 600.000 per month	31.09	68.91	43	57

Sources: Widuri et.al. (2009), survey data (2010)

This study showed that accuracy of BLT recipients target in 2010 is not better than that in 2009 and 2008. Almost all the beneficiaries were not suited with poverty and BLT criteria. The previous study (BI-SCU, 2008; Widuri et.al, 2009) showed that many recipients could not be categorized as the nearly poor, poor or the poorest. Many of beneficiaries had a permanent house, ceramic floor, motorcycle, bathroom and electricity. This beneficiaries' incorrectness showed that government did not evaluate and control the BLT recipients' determination optimally.

Even though government tried to control the process, the appropriate BLT beneficiaries were still a big issue. Based on in-depth interview with government apparatus, the main problem was not in the BLT recipients' determination process but in the poverty and BLT criteria. Not all of poverty and BLT criteria were proper to urban and big city condition. Electrical property, bathroom, permanent houses, ceramic floors were not suitable criteria. Almost all of the households in Indonesia have electricity now because electricity has been a governmental program. Government needs to adjust their poverty and BLT recipients' criteria for seeking a more proper result.

The next problem was distribution process of BLT. Respondents of previous researches (BI-SCU, 2008, Widuri, et.al, 2009) and this study showed the most important aspect of BLT distribution if BLT recipients card is given to the head of household in their own home delivered by the post office clerk. This study showed that roughly 50% of them received the card at home, others received at the post office or Kelurahan office.

Based on the standard mechanism, BLT will be disbursed at post office. The obstacles of this process were beneficiaries could not show their identity or could not delegate to others. Distance of BLT recipient residence to the nearest post office was far, so it needed high transport costs. Another problem was the long queues for the fund disbursement. This problem appeared because the beneficiaries felt worry that funds was not enough. Respondents perceived queue factor as an inhibiting factor not only in 2010, but also in 2008 and 2009. This condition indicated that they felt not safe. Government should announce and give guarantee that BLT funds are sufficient. Other problems of BLT distribution were number of officers and lack of service.

Table 3 Inhibiting Factors of BLT Distribution

Answer	2008	2009	2010
	%	%	%
The number of officers at every post office is too small	25.00	17.81	10.00
The queues are too long for the release of funds	71.67	38.36	48.00
Distance of beneficiary's house is far	0.00	27.40	20.00
The lack of service	3.33	16.44	22.00
other	0.00	0.00	0.00

Sources: BI-SCU (2008), Widuri et.al. (2009), primary data (2010)

BLT disbursement of the post offices to beneficiaries has done without cutting occurs. However, there are various "illegal" charges. Some people who were asked to donate some money for other households are considered poor but they did not get BLT. They are also asked to fill the village treasury and officers' pocket. Government should design a more effective BLT distribution mechanism to cope these problems. Government can use not only post office, but also Kelurahan or Balai Desa as distribution offices.

As well as previous researches (BI-SCU, 2008, Widuri et.al., 2009), this study found that BLT was used by beneficiaries for reducing living-cost burden, but could not improve purchasing power and handle inflation effect. Based on survey data, beneficiaries tended to utilize BLT only for 1 to 2 weeks. The biggest portion of BLT used to consume (82%), pay their debt (10%) and pay their children school-cost (2%). If the purposes of BLT are to improve purchasing power and deal with inflation effect, the survey fact showed that BLT purposes failed. Government should give larger amount of BLT or give BLT in the same amount but for longer term. 82% of respondents said that IDR 150.000 -300.000 was a suitable amount of BLT, and 23% wanted to receive more.

This study also explored about beneficiaries' satisfaction related to all BLT process (starting with BLT socialization to BLT deliverance). Not all of respondents felt satisfied with BLT mechanism. This fact did not differ with the previous study. The previous study showed that more than 30% respondents felt unsatisfied with BLT determination, socialization, and deliverance. This condition showed that the method that government has developed and advanced the BLT mechanism was not optimal.

Table 4 BLT Beneficiaries' Satisfaction

Criterion	Answer	%
Satisfying with BLT beneficiaries determination	Very not satisfy	0
	Not satisfy	37
	Satisfy	62
	Very satisfy	1
Satisfying with BLT socialization process	Very not satisfy	5
	Not satisfy	50
	Satisfy	4
	Very satisfy	31
Satisfying with BLT deliverance	Very not satisfy	0
	Not satisfy	24
	Satisfy	70
	Very satisfy	6

Source: Survey data (2010)

Government Apparatuses' Perception of BLT

In 2008, BLT disbursement still used the old 2005 households target data. The old data was verified in each region by BPS-Statistics Indonesia apparatus accompanied by RT/RW (local government) apparatus. RT/RW apparatus had to validate the data because they know the real condition more than the BPS-Statistics Indonesia apparatus. After verification, data was sent to POSINDO for BLT card printing. The BLT card was named as Kartu Kompensasi BBM (KKB – Fuel Compensation Card). The next step, desa/kelurahan apparatus checked households target list correctness, and distributed the KKB. The last process was BLT disbursement in post office.

The previous research (BI-SCU, 2008) explained that RT/RW was not fully involved in the BLT process. Apparatus respondents (76.76%) said that they knew the data collecting process, but did not get involved in households target determination. Half of apparatus respondents stated that there was no coordination in the field. This previous facts confirmed that apparatus participation rate starting from data collecting into disbursement was still low.

In 2009, apparatus respondents still considered that the BLT process was not ideal. The ideal BLT mechanism based on apparatus perception (Widuri, et.al, 2009) described in figure below.
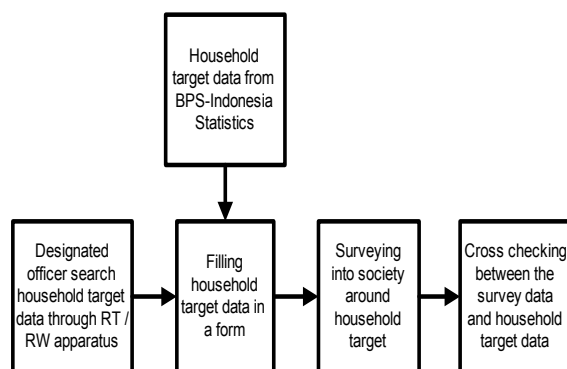
Source: Widuri et.al, 2009

Figure 2 The Ideal Data Collection Mechanism Based on Apparatus Perception

The mechanism was not applied well. Generally, data collection was more simple than the official procedure that involved three parties i.e. BLT household target, RT leader and RW leader. RT and RW leader tended to take over the BPS-Statistics Indonesia because they judged the data was invalid and they did not verify the current real condition. On the other hand, sometimes RT/RW received the BLT beneficiaries "quota" from kecamatan. This quota was usually more or less than the actual condition of poor household or raised BLT recipients' data inaccuracy.

The consequence of data collecting inaccuracy was more data recollecting. This study found that government tried to adjust and improve BLT mechanism. More than 90% of apparatus respondent stated that apparatus involvement in data adjustment and decision-making was better than in the previous period.

Cash Transfer Alternatives

There were pros and cons about BLT. Some people stated that BLT disbursement did not educate the poor because it created fund dependency. BLT was regarded as charity that could cause unproductive culture and instantaneous consumer culture. Although BLT was stated not productive, but respondents answering about BLT still indicated that respondents preferred economically improvement "shortcut". The data said that 42.50% of BLT recipient respondents still wanted BLT and they hoped that it was not replaced by another form. On the other side, 39.17% chose the subsidy in form of cheap basic food, and 10.83% of respondents preferred free school tuition per month. The detailed answers are as follows.

Table 5 Subsidies alternative

Answer	%
BLT (not change)	42.50
Goods subsidies in term of cheap food	39.17
Free health treatment per month	3.33
Free school tuition per month	10.83
Other	4.17

Source: Survey Data

BI-SCU study (2008) found that 36.67% apparatus inferred that BLT was contra productive for society empowerment. 20% apparatus respondents and 43.33 % of beneficiary respondents stated that BLT just like giving the fish and not the hook for society. This condition showed that BLT recipients needed aids not merely help to increase the instantaneous purchasing power, but also aids for small business development and productivity improvement. The business aids like working capital credit and bank access facilities would be more beneficial than unconditional cash transfer.

This apparatuses and BLT recipients' opinion was worth the attention of government. The poverty alleviation programs could not be a hit and run programs, but it needed a comprehensive program to encourage, leverage and empower the poor's potencies and resources.

Another cash transfer program that has been conducted in Semarang is Program Jaminan Kesahatan Masyarakat (JAMKESMAS). Jamkesmas is a health treatment subsidy program for society. In 2007, the distribution of Jamkesmas reached IDR 4.584 trillions, whereas in 2008 reached IDR 4.6 trillions. In 2009 the allocation was IDR 4.6 trillions for 76.4 million people using the same service system as in the 2008.

Program Bantuan Operasional Sekolah (BOS) also has been conducted in Semarang. BOS program is aimed to achieve the target of enforced education up to Junior High School for Indonesian children. In addition, BOS also directed to raise Indonesia's position in the Human Development Index (HDI). In 2008, BOS is distributed over IDR 11.9 trillions for 42 million elementary school students, and IDR 358.3 billions was for the BOS books. In 2009, the BOS funds per student in primary school was as much as IDR 400,000 per student per year, whereas IDR 575,000 was for each Junior High School student per year.

The last cash transfer program that has been run in Semarang was National Program for Community Empowerment (PNPM-Mandiri). PNPM-Mandiri was begun in 2007 and aimed to increase the effectiveness of poverty reduction and employment creation. PNPM-Mandiri involves elements of society, beginning from planning, implementation, monitoring and evaluating. Through the participatory development process, critical awareness and independence of the community, especially the poor, can be nurtured. So they are not as objects but as subjects of poverty reduction efforts.

Implementation of the PNPM Mandiri in 2007 began with Program Pengembangan Kecamatan (PPK) as the basis for community empowerment in rural areas. The supporting programs i.e. PNPM Generasi, Urban Poverty Reduction (P2KP) as the basis for urban community development; and Percepatan Pembangunan Daerah Tertinggal dan Khusus (P2DTK) for the accelerating development of remote, post-disaster and conflict area. Since 2008, PNPM Mandiri extended to Program Pengembangan Infrastruktur Sosial Ekonomi Wilayah (PISEW)

to integrate the centers of economic growth in the surrounding area. By integrating various community development programs into the PNPM Mandiri framework, development coverage is expected to be extended so that it could achieve the millennium development goals or the Millennium Development Goals (MDGs).

This study found that the desired type of assistance, except the BLT, were PNMP mandiri, BOS, Jamkesmas and BKM. PNPM Mandiri benefits could be experienced by the general public rather than individual beneficiaries. PNPM could improve road, social infrastructure and education. The apparatus also viewed that PNPM was more effective than BLT because it was not related with data collection and distribution obstacles. Almost the same reason was also addressed if aid in the form of BOS, Jamkesmas and BKM. The detailed subsidies preferred by apparatus were as follows.

Table 6 Other Subsidies Based on Apparatus Preference

Subsidy	%
PNPM	16.67
BOS	15.00
RASKIN	7.00
JAMKESMAS	5.00
BLT	36.67
BKM	13.33

Source: Survey Data

Lessons from Cash Transfer Programs in Semarang

Poverty alleviation is not just about how the funds are channeled to the community but also depend on government management. This study result showed that the community preferred getting instant funds than having to receive funds for productivity improvement. Since 2007, government has conducted BLT mechanism evaluation, but it was not enough to improve the existing system. Mismatch target and ineffective distribution process still occurs.

Economically, BLT utilization in Semarang also did not indicate that this subsidy could increase productivity. Other fact showed that BLT recipients chose subsidy in the form of BLT compared to other forms. Consequently, to correct inaccuracy that occurred in the past and design a better system in the future, it is necessary to implement good governance. The most important characteristic of good governance is participation (Osman, downloaded 2010). Participation will ensure all residents are considered sound. Policy makers should be transparent, objective and accountable in reflecting public opinion.

Based on this study results, the government should consider the following things:

1) Beneficiaries. Governments must have the latest data on the poor households. Determination of the poor families target must be based on poverty standards and improved continuously well-timed. Poor households target data collection should also involve government officials that know the actual condition of society

2) The program's goals. Each cash transfer program has different goals. If the government only wants to help reducing the burden of expenditure, UCT is the right program. But if the government wants to empower the people, then the CCT is much better.

3) Monitoring. Monitoring functions cannot be abandoned because the distribution of subsidies in the field does not always run smoothly. The government needs to appoint an agency to monitor the distribution of subsidies and guarantee that subsidies distribution runs by the rules.

4) Communities also must always be increased its awareness. Subsidy is only an assistance. Aid utilization must be done in an optimal manner so community does not grow lazy and only depends on the government. Utilization of funds must also provide the economic effects to the surrounding community.

CONCLUSIONS

Since 2005, Indonesia has made cash transfer programs to reduce poverty and help people to overcome the effects of inflation due to rising oil prices. The government provides cash transfer programs in the form of UCT and CCT. This study found that the BLT is still not on target, and have several problems in its distribution. The government has tried to manage these obstacles by performing an evaluation and making a more comprehensive mechanism, but has not been able to work optimally. Inaccurate BLT beneficiaries targeting, the use of funds for instant consumption, and inability to drive productivity are things that are important to note. Based on this condition, in 2007, the Indonesian government began to implement the CCT programs with a more clear targets.

Based on respondents' and government officials' perceptions, this study showed that the improvement system of cash transfer programs could not be partial. Good governance was needed to optimize the performance of the cash transfer program. Lessons about the cash transfer programs from Semarang showed that the determination of beneficiaries, the program's goals, and monitoring should be done by the government. On the other hand, public awareness must be developed, that the cash transfer program is part of government efforts to society empowerment. Development and empowerment of the poor potency cannot just depend on cash transfer programs, but must be integrated with the role and awareness of society itself.

REFERENCES

_____, *Summary Of Social Environment Protection And Cash Transfer Schemes In Selected Asian Countries,* available at www.ipc-undp.org/publications/cct/**asia/ CashTransfer**Experiences.pdf, Retrieved January 2011

_____ (2006). *Indonesia: Conditional Cash Transfer to the Poor. Social Security Extension Initiatives in South East Asia*. ILO Subreginal Office for South East Asia Working Paper. P.1-5

Adato, Michelle, and John Hoddinott, (2007). Conditional Cash Transfer Programs: A Magic Bullet For Reducing Poverty, *2020 Focus Brief On The World's Poor And Hungry People*. October 2007, P. 1-4

AgAuero, Jorge M., Michael R. Carter, and Ingrid Woolard (2006). *The Impact of Unconditional Cash Transfer on Nutrition: The South African Child Support Grant*. P. 1-33, www.cgdev.org/ doc/events/unconditionalcashtansfer.pdf, retrieved 8 May 2011

Bank Indonesia and Soegijapranata Catholic University (2008). *Survey of the Effectiveness of Bantuan Tunai Langsung in Semarang*. Research Report. Unpublished.

Barrientos, Armando, and Jocelyn Dejong (2006). Reducing Child Poverty with Cash Transfers: A Sure Thing?, *Development Policy Review*, 24 (5): 537-552.

Bloom, Karin Schelzig (2009). *Conditional Cash Transfers: Lessons from Indonesia's Program Keluarga Harapan*. 24 July 2009.

Janvry, Alain De, and Elisabeth Sadoulet (2005). Making Conditional Cash Transfer Programs More Efficient: Designing For Maximum Effect of The Conditionality. *University Of California At Berkeley Working Paper*. May 2005 P 1-32

Kenworthy, Lane (1998), Do Social-Welfare Policies Reduce Poverty? A Cross National Assessment.

Luxembourg Income Study Working Paper No. 188, P.1-40, September

Legovini, A., and Regalia, F. (2001). Targeted Human Development Programs: Investing in the Next Generation. Sustainable Development Department, Poverty and Inequality Advisory Unit, Washington, DC: Inter-American Development Bank *Working Paper*, 2001.

Maluccio, John A. (2007). The Impact of Conditional Cash Transfers in Nicaragua on Consumption, Productive Investments, And Labor Allocation. *ESA Working Paper*, No. 07-11, June 2007, P 1-32

Osman, Magued (2010). Knowledge Management To Build Trust In Government, Institutional And Regulatory Framework Issues", available at www.unpan1.un.org/intradoc/groups/public/ documents/unpan/unpan026619.pdf , retrieved in September 2010

Rawlings, Laura B., and Gloria M. Rubio (2005). Evaluating the Impact of Conditional Cash Transfer Programs. *The World Bank Research Observer*. Vol. 20, No. 1 (Spring 2005) 20:29–55

Royat, Sujana (2009). The PNPM Generasi: Conditional Cash Transfer for Poor People Driven by COmmuity for Better Health and Education in Indonesia. www.adb.org/documents/events/.../S-Royat-PNPM-Generasi.pdf. Retrieved in 1 May 2011

Samson, Michael (2009). Social Cash Transfers and Pro-Poor Growth. *Promoting Pro-Poor Growth: Social Protection Working Paper, OECD*.

Schwartz, Analice, and Gisleide Abreu (2007). Conditional Cash Transfer Programs for Vulnerable Youth: Brazil's Youth Agent and Youth Action Programs. CICE Hiroshima University. *Journal of International Cooperation in Education*. Vol.10 No.1 P 115-133

Social Department (2008). *BLT Distribution Technical Guidelines For Target Households.* Research report. Unpublished.

Tabor, Steven R.(2002). Assisting the Poor with Cash: Design and Implementation of Social Transfer Programs. *Social Protection Discussion Paper No. 0223.* World Bank, Washington, DC.

UNICEF (2009). Child Poverty: A Role For Cash Transfers?. *West And Central Africa Regional Thematic Report 3 Study*. UNICEF Regional Office For West And Central Africa, February.

Widuri, Kurniasari, Yusni Warastuti, Eva Maria S (2009). Effectiveness Bantuan Langsung Tunai Utilization. *Strategic Grant of National Priority Research Report*. Unpublished.

Witteveen, Ann (2006). No Small Change Unconditional Cash Transfers as a Response to Acute Food Insecurity, a Description of Oxfam's Projects in Malawi and Zambia from November 2005 – March 2006. Workshop: "Social protection initiatives for Children, Women and Families: An Analysis of Recent Experiences. October 30-31, www.unicef.org/uncoditional_cash_transfer_ as_a _response_to_acute food_insecurity.pdf. Retrieved in 1 May 2011

PERFORMANCE APPRAISAL SYSTEM AND ITS IMPLICATIONS ON ORGANISATION'S PERFORMANCE

OLU OJO
Department Of Business Administration
College Of Management And Social Sciences
Osun State University, Okuku
Osun State, Nigeria

ABSTRACT

This study aims at examining the implications of performance appraisal on the overall performance of the organisation. Empirical evidences emerging from previous studies from developed countries have left much to do on developing countries. There is a major gap in the relevant literature on developing countries which this research tries to fill especially as it relates to Nigerian organisations. Survey research design was used with the application of probability sampling technique in selecting our case study organisations and respondents. Primary data were collected through questionnaire. Data were analysed through descriptive statistics while regression and analysis of variance were used to test our hypotheses. It was discovered that performance appraisal system impacts corporate performance positively and recommendation was made that these organisation should continuing period performance appraisal of their employees.

KEY WORDS: Performance appraisal, Organisations performance, Organisation, Management.

1. INTRODUCTION

Appraisal is an essential part of good management. It stimulates a two way flow of useful information between managers and subordinates that continuously clarifies roles and objectives and engenders support in the pursuit of mutually agreed organisational goals. Since employees are of immeasurable value to the organisation, it is only proper for the organisation to pay close attention to the human resources, because the overall performance of the employee determines

the performance of the organisation as an entity. Performance appraisal is a management tool that aids the assessment of employees in an organisation to determine their effectiveness and efficiency with the aim of adding to their performance at work. The employees' input determines the overall output of an organisation; this is why it is so important to keep a close eye on the performance level of employees in the organisation because their input is equivalent to the output of the organisation.

Performance appraisal has been greatly researched by management scholars. For instance, Fletcher (2001) examines performance appraisal and management; Fletcher (2004) looks at how to make performance appraisal works; Scott and Einstein (2001) study strategic performance appraisal in team-based organisations; Taylor (2003) examines performance management and appraisal; Losyk (2002) investigates how to conduct a performance appraisal, while Chandra and Frank (2004) discuss utilisation of performance appraisal systems in health-care organisations. A quick perusal at the above-cited studies reveals that there is still much study to be conducted on performance appraisal. Besides, most of the studies conducted on performance appraisal were conducted in developed counties. This leaves much to be done on developing or underdeveloped countries. Furthermore, many reputable sources; researchers, management consultants, and psychometricians have expressed doubts about the validity and reliability of the performance appraisal process. Some have even suggested that the process is so inherently flawed that it may be impossible to perfect it. (Stone, 2002). At the other extreme, there are many strong advocates of performance appraisal. Some view it as potentially "... the most crucial aspect of organizational life" (Grote, 2002). Because of the above controversy, performance appraisal needs to be further studied.

From the foregoing, the primary objective of this study is the systematic discovery of the relationship between performance appraisal and organisation's performance. The specific objectives of this research study are to: (i) examine the effect of performance appraisal on employees' performance; (ii) identify the way performance appraisal helps employees to know what is expected of them in the organisation; and (iii) investigate how performance appraisal serves as an effective tool in enhancing organisation's performance.

In order to achieve the objectives of the study, the following hypotheses are advanced and tested in the course of this study.

Hypothesis 1: H$_1$: There is a significant relationship between performance appraisal and the employees' performance.

Hypothesis 2: H$_1$: Performance appraisal is an effective tool in enhancing organisation's performance.

Hypothesis 3: H$_1$: Performance appraisal helps employees' identify with what is expected of them in the organisation.

2. LITERATURE REVIEW

2.1 CONCEPTUAL FRAMEWORK OF PERFORMANCE APPRAISAL

According to (Hackett 1979), performance appraisal is the name given to regularly (or annually) formalised and recorded review of the way in which an individual performs in his job. Performance appraisal scrutinizes an employee's input and recognises strengths and weaknesses with the aim of making relevant decisions in the organisation. Redman (2001) defines performance appraisal as an organisational system, comprising deliberate processes

for determining staff accomplishments to improve staff effectiveness.

Overall performance appraisal is a highly interactive process which involves personnel at all levels and differing degrees with the view to determine job expectations, job descriptions, select relevant appraisal criteria, develop assessment tools and procedures; and collecting, interpreting, reporting results, all for the purpose of making judgments about staff that lead to better managerial decisions (Losyk, 2002).

Performance appraisal is not just a method of evaluating employees; it is also a method of getting acquainted with workers. Performance appraisal opens a way of improving the level of output of employees which determines the outcome level of the organisation. Performance appraisal also is an avenue of instilling discipline in the work environment. A manager has to be firm on employees who are slack or not result oriented and not conforming to the ethics of the organisation. Therefore, every method necessary to improve the employees, develop them and get the best out of them is very necessary. In the course of this study, **employees are** enlightened and also helped in discovering how much performance appraisal can revolutionise an organisation. This research is also set out to make people realise the need for performance appraisal as a management technique in organisation.

2.2 TYPES OF PERFORMANCE APPRAISAL

Merit pay: The first step to performance pay, merit pay means setting some basic salary according to the position and the rank of the employee and the variable part of the salary is based on the periodic performance reviews.

Profit Sharing: Sharing the profits of the enterprise with the employees as bonus.

Incentives and Performance Bonus: Rewards for special accomplishments or fulfilment of the targets set such as sales commission.

Gain sharing: Sharing of gains as a result of the increased performance of the employees with them.

Although performance related pay has always been a topic of discussions and controversies with many arguments against it, but it has also been proved that performance based pay motivates employees to perform better and earn, and encourages learning, innovation, creativity, problem solving and empowerment which can be facilitated through proper performance measurement and reviews (Marshall and Wood, 2000).

2.3 REQUIREMENTS OF AN EFFECTIVE APPRAISAL SYSTEM

Requirements for an effective appraisal system, according to Boxell and Purcell (2003) are as follows;

Relevance: This implies the periodic maintenance and updating of job analyses, performance standards, and appraisal system.

Sensitivity: Sensitivity implies that a performance appraisal system is capable of distinguishing effective from ineffective performers. If it is not, and the best employees are rated no differently from the worst employees, then the appraisal system cannot be used for any administrative purpose, it certainly will not help employees to develop. And it will undermine the motivation of both supervisors and subordinates.

Reliability: Reliability refers to consistency of judgment. Appraisals made by raters working independently of one another should agree closely. In appraising employees ratings made by supervisors tend to be more reliable than those made by peers.

Practicality: Practicality implies that appraisal instruments are easy for managers and employees to understand and use.

2.4 APPROACHES TO PERFORMANCE APPRAISAL

Traditionally, performance appraisal has been used as just a method for determining and justifying the salaries of the employees. Then it began to be used as a tool for determining rewards (a rise in the pay) and punishments (a cut in the pay) for the past performance of the employees. This approach was a past oriented approach which focused only on the past performance of the employees i.e. during a past specified period of time. This approach did not consider the developmental aspects of the employee performance i.e. his training and development needs or career developmental possibilities. The primary concern of the traditional approach is to judge the performance of the organisation as a whole by the past performances of its employees. Therefore, this approach is also called as the overall approach. In 1950s the performance appraisal was recognised as a complete system in itself and the modern approach to performance appraisal was developed (Armstrong, 2001).

The modern approach to performance development has made the performance appraisal process more formal and structured. Now, the performance appraisal is taken as a tool to identify better performing employees from others, employees' training needs, career development paths, rewards and bonuses and their promotions to the next levels. Appraisals have become a continuous and periodic activity in the organizations. The results of performance appraisals are used to take various human resource decisions like promotions, demotions, transfers, training and development, reward outcomes. The modern approach to performance appraisals includes a feedback process that helps to strengthen the relationships between superiors and subordinates and improve communication throughout the organization. The modern approach to Performance appraisal is a future oriented approach and is developmental in nature. This recognizes employees as individuals and focuses on their development.

2.5 LIMITATIONS OF PERFORMANCE APPRAISAL

Perhaps the most important limitation of appraisal is the reluctance of supervisors to take the pain of and trouble to prepare the periodic appraisals of each of their subordinates. Supervisors find it more problematic still to discuss the results of their appraisals with their employees.

According to McGregor (1954), this may be because many supervisors "are uncomfortable when they are put in the position of 'playing God'. Another limitation in practice is that performance appraisals are so often made, recorded, filed and forgotten." Later, personnel decisions are made without reference to these appraisals despite the fact that the whole purpose of performance appraisal is to improve employee performance and to reward such improved performance by promotions, favourable job assignment, merit wage and salary increase, among other forms of employee compensation. In addition, most of the indicators used for measuring the performance the employees are not quantifiable in nature, making it difficult to measure the performance. In addition, there is often a lot of bias and subjectivity involved in the ratings given by the superiors.

2.6 RELATIONSHIP BETWEEN PERFORMANCE APPRAISAL AND ORGANISATIONL PERFORMANCE

Performance appraisal processes are one of the central pillars of the performance

management which is directly related to the organisational performance and have a direct impact on it. Employee performance ultimately affects the organisational performance and objectives.

According to Wayne (2006) the evidence of high work performance practices is associated with increase in output (defined as output per worker). There are obviously many factors that influence the basic indices of organisational performance; some of them are government policies and even state of an economy. These factors are considered to be more potent in their effect can ever be. Nonetheless, performance appraisal has its own effects; the best indicator of their impact on organisational performance in the broadest sense is the extent to which the targets set for individuals are seen as being achieved (Fletcher, 2004). For an organisation to be effective, the goals, the standards and the action plans need to be planned well in advance. Thus, performance appraisal facilitates the achievement of organisational goals. It also facilitates the optimal use of the organisational resources. According to Fletcher (2004) there are obviously many factors that influence the basic indices of organizational performance, some of them are government policies and even state of an economy. These factors are considered to be more potent in their effect can ever be. Nonetheless, performance appraisal has its own effects; the best indicator of their impact on organizational performance in the broadest sense is the extent to which the targets set for individuals are seen as being achieved.

3. METHODOLOGY

In this study, survey research design was used. Data were collected from sampled employees of organisations selected for the study in order to determine the relationship between organisational performance (dependent variable) and performance appraisal (independent variable). This study examines Bureau of Public Enterprises where its staff constitutes the study population. Simple random sampling method was used in selecting our respondents. This method gives every employee of the organisation equal chance of being selected as part of the sample elements. The sample size selected is 72 employees out of which 60 respondents filled and returned the questionnaire for our analysis. This means that we have 85.7% response rate. To ensure the validity of the research instrument for this study, content validity which deals with item validity and sampling validity is used to ensure adequate by the instrument of the scope implied by the subject of study. In addition, experts in the field also helped in the evaluation of the question items of the instrument and adequacy of the sampled elements of the population by the measuring instrument used (Ojo, 2003). The judgement that an instrument is measuring what it is supposed to is primarily based upon the logical link between the questions and the objectives of the study. In this study, the test-retest reliability was used to check the degree of consistency of the instrument. This was done by distributing questionnaires on two different occasions to determine the level of consistency. The results obtained were not the same but highly correlated which implies that the research instrument is reliable for the research work. Data collected through the questionnaire were analysed using descriptive statistics while regression and analysis of variance were employed to test the hypotheses and establish the relationship between performance appraisal system and its implications on organisations performance.

4. HYPOTHESES TESTING AND DISCUSSION OF RESULTS

Relevant data gotten from the field through the questionnaire that deals with the objectives of the study were analysed and interpreted accordingly. The research hypotheses were also tested in order to determine their validity or otherwise. Each hypothesis was, however, tested separately to determine its relevance in the light of the available evidence from data gathered analysed in this study.

Hypothesis 1: H₁: Performance appraisal is an effective tool in enhancing organisation's performance.

Table 1: Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.315(a)	.099	.083	1.269

a Predictors: (Constant): Performance appraisal is a practical tool for enhancing organisation's performance.

b Dependent Variable: Organisation's performance is based on performance appraisal.

Table 1 above shows how much of the variance in the dependent variable (organisation performance is based on performance appraisal). From the model above, it is believed that performance appraisal is a practical tool for enhancing organisation's performance.

In this case, R square value is 0.99 expressed in percentage; this means that my model explains 99% of the variance in the dependent variable (organisation's performance) are enhances by performance appraisal.

Table 2: ANOVA (b)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	5.627	1	5.627	6.278	.015(a)
	Residual	51.085	57	.896		
	Total	56.712	58			

a Predictors: (Constant): Performance appraisal is a practical tool for enhancing organisation's performance.

b Dependent Variable: Organisation's performance is enhanced by performance appraisal.

Table 2 above shows the assessment of the statistical significance of the result. The model in this table is 0.15; this indicates the result is significant. Therefore, the alternative hypothesis should be accepted.

Table 3: Coefficients (a)

Model		Unstandardised Coefficients		Standardised Coefficients	T	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	3.578	.398		8.993	.000
	Performance appraisal is a practical tool for enhancing organisation's performance.	.235	.094	.315	2.506	.015

Dependent Variable: Performance appraisal is a practical tool for enhancing decision making

This explains which of the research objective is making a statistically significant contribution to the model. In this study, we are interested in the beta values which are used for comparison. The value is .315.The relationship between the variance explained in the model's controlled. It is obvious that this statement makes a significant contribution to the prediction of performance appraisal. The result of the analysis shows that performance appraisal is a significant tool in enhancing organisation's performance.

Hypothesis 2: H₁: There is a significant relationship between performance appraisal and employees' performance.

Table 4: Model Summary (b)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.405(a)	.164	.149	.794	2.258

a Predictors: (Constant), Performance appraisal system.
b Dependent Variable: Employees' performance

Table 4 above shows how much of the variance in the dependent variable (employees performance) is explained by the model. In case, R square is .164 expressed by a percentage, this means that the model explains 16.4% of the variance in the dependent variable. The adjusted R square 0.149, while the standard error of estimate indicates 2.258 which signify the error term that was not captured in the model.

Table 5: ANOVA (b)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	6.924	1	6.924	10.975	.002(a)
	Residual	35.327	56	.631		
	Total	42.251	57			

a. Predictors: (Constant), Performance appraisal system.
b. Dependent Variable: Employees' performance

Table 5 above shows the assessment of the statistical significance of the result. The model in this table is 0.02; this indicates the result is significant. Therefore, the alternative hypothesis should be accepted.

Table 6: Coefficients (a)

Model		Unstandardised Coefficients		Standardised Coefficients	T	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	2.459	.457		5.380	.000
	Performance appraisal is positively related to employees performance.	.328	.099	.405	3.313	.002

a Dependent Variable: Employees' performance is positively related with performance appraisal.

The relationships between the variance are explained in the model is controlled. It is obvious this statement makes a significant contribution to the prediction of how performance appraisal contributes to the level of employees' performance. Therefore, we accept our alternative hypothesis.

Hypothesis 3: H_1: Performance appraisal helps employees' identify with what is expected of them in the organisation.

Table 7: Model Summary (b)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.345(a)	.119	.104	1.250

a Predictors: (Constant):Performance appraisal system.
b Dependent Variable: Employees' are identified with the organisation's expectation.

Table 7 above shows how much of the variance in the dependent variable (employees identification of organisation's expectation) is explained by the model. In this case, R square is .345 expressed by a percentage which is 34.5%.The adjusted R square 0.119, while the standard error of estimate indicates 1.250 which signifies the error term that was not captured in the model.

Table 8: ANOVA (b)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	12.250	1	12.250	7.842	.007(a)
	Residual	90.600	58	1.562		
	Total	102.850	59			

a Predictors: (Constant), Performance appraisal system.
b Dependent Variable: Most employees are identified with organisation's expectation.

This table shows the assessment of the statistical significance of the result. The model in this table is 0.07; this indicates the result is significant. Therefore, the alternative hypothesis is accepted.

Table 9: Coefficients (a)

Model		Unstandardised Coefficients		Standardised Coefficients	T	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	1.800	.820		2.196	.032
	Performance appraisal helps employees' identify with what is expected of them in the organisation.	.500	.179	.345	2.800	.007

a Dependent Variable: Employees are identified with what is expected of them in the organisation.

In this table, we are interested in the beta values which are used for comparison. The value is .345; the relationship between the variance explained in the models' controlled. It is obvious this statement makes a significant contribution to the prediction that performance appraisal helps employees' to identify with what is expected of them in the organisation.

5. CONCLUSION

The conclusions that can be drawn from this study are: (i) That majority of the respondents are in support of performance appraisal system and they really believe in it as it is being practice in their organisations. (ii) That performance appraisal is an important instrument in managing and directing the employee toward self improvement and career development. (iii) That effective feedback from appraisals motivates employees to improve their performance and productivity. (iv) That organisations should put efforts into appraising their employees on a regular basis so as to enable the organisation know the effectiveness and efficiency of its employees in order to improve their productivity. (v) That organisation should also be aware of the appraisal technique that is suitable to assess their employees which can positively affect employee's attitude to work. (vi) That performance appraisal is an important instrument in managing and directing the employee toward self improvement and career development.

6. REFERENCES

Armstrong, M. (2001). *Human Resource Management Practice.* London: Kogan Page.

Boxell, P. and Purcell, J. (2003). *Strategy and Human Resource Management*. London: Palgrave.

Chandra, A. and Frank, Z.D. (2004). Utilization of Performance Appraisal Systems in Health Care Organizations and Improvement Strategies for Supervisors. *The Health Care Manager,* 23,   pp. 25-30.

Fletcher, C. (2001). Performance Appraisal and Management: Applying Complexity Theory to Performance Appraisal: *Journal of Occupation and Organizational Psychology,* pp. 437-483

Fletcher, C. (2004). *Appraisal and Feedback: Making Performance Review Work,* London: Charted Institute of Personnel and Development.

Grote, R. C. (2002). *The Performance Appraisal Question and Answer Book: A Survival Guide for Managers.* New York: American Management Association.

Hackett, P. (1979). *Success in Management Personnel.* London: John Murray.

McGregor, D. M. (1954). An Uneasy Look at Performance Appraisal: *Harvard Business Review,* 35, pp. 89-94.

Marshall, V. and Wood, R. (2000). The Dynamics of Effective Performance Appraisal: An Integrated Model. *Asia Pacific Journal of Human Resources*, 38(3), pp. 62–89.

Ojo, O. (2003). *Fundamental of Research Methods*, Lagos: Standard Publications.

Redman, T. (2001). *Performance Appraisal.* In: Redman, T. and Wilkinson, A.(eds) *Contemporary Human Resource Management.* London: Financial Times.

Roberts, G.E. (2002). Employee Performance Appraisal System Participation: A Technique that Works. *Public Personnel Management,* 31, pp. 333-342.

Scott, S.G. and Einstein, W.O. (2001). Strategic Performance Appraisal in Team-Based Organizations: One Size does not Fit All. *Academy of Management Executive,* 15, pp. 107-116.

Stone, R. J. (2002). *Human Resource Management* (4th ed.). Queensland: John Wiley & Sons.

Taylor, P. (2003). Performance Management and Appraisal. In M. O'Driscoll, P. Taylor, & T. Kalliath (Eds.), *Organisational Psychologyin Australia and New Zealand* (pp. 78-105). Melbourne: Oxford University Press.

Wayne, C. (2006). *Managing Human Resources,* New York: McGraw Hill Press.

Content