

## Journal of economic behavior

**Call for papers**

The International Journal of Economic Behavior aims to publish research articles (both quantitative and qualitative), reports from the field, critical review paper, discussions concerning the main characteristics of the economic behavior and, consequently, decision and organization. Moreover, the journal seeks to discuss the manner in which some of the classical theoretical statements, practices and policy making in Economics, Business and Management are influenced by factors which are not proven to fit the well-known hypothesis of economic rationality. The interdisciplinary approach is required, as economics, management, organization, psychology, sociology, anthropology are domains that help in understanding the complex economic behavior and provide the researchers with complete tools for analysis.

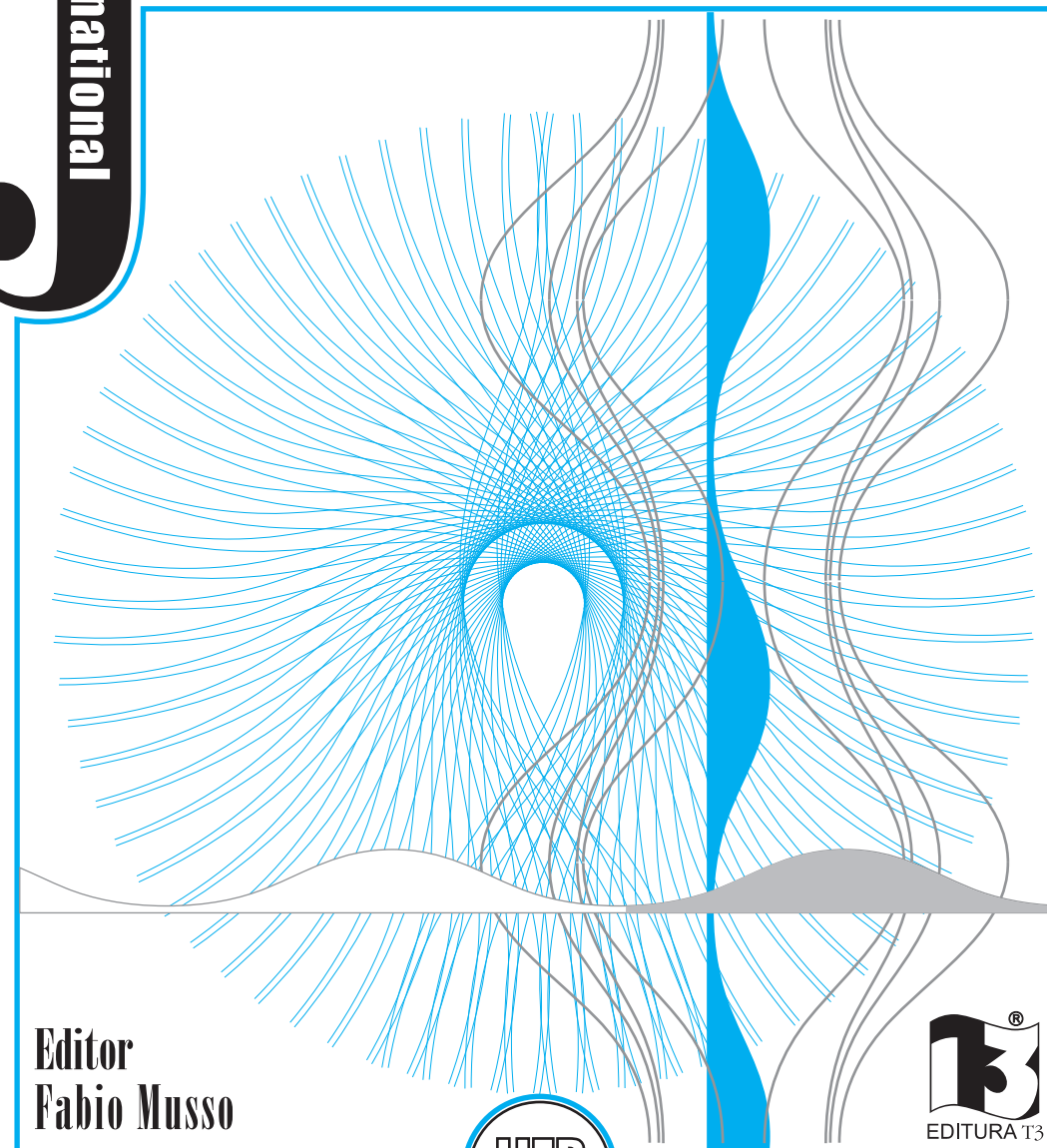
The main topics for JEB:

- Economic and socio-psychological determinants of individual behavior / - Factors influencing preferences, choices, decisions / - Consequences of decisions and choices with respect to the satisfaction of individual needs / - Economic and socio-psychological determinants of organization behavior / - Consumer behavior and digital marketing / - Branding/advertising issues and organization behavior / - Behavioral economics / - The impact of macroeconomic policies on individual and organizational behavior / - The overconsumption society: determinants and effects / - Wealth, consumption, happiness / - Consumption and environment / - Welfare economics / - Individual and organizational decision-making / - Experiments in economic psychology / - Evolutionary economics and psychology / - Behavioral factors influencing the supply and demand of health and health services / - Strategic decision making process / - Manager/entrepreneur characteristics, firm characteristics, environmental characteristics and the process of making decisions.

**Frequency of publication: Once a year, in June**

Prospective authors should note that only original and previously unpublished articles will be considered. All article submissions will be forwarded to at least 3 members of the Editorial Review Board of the journal for double-blind, peer review. Final decision regarding acceptance/revision/rejection will be based on the reviews received from the reviewers. All submissions must be forwarded electronically to Fabio Musso, Editor in Chief, at [fabio.musso@uniurb.it](mailto:fabio.musso@uniurb.it).

## Journal of economic behavior



**Editor**  
**Fabio Musso**



## Editorial Board

### Editor in Chief:

*Fabio Musso*, Carlo Bo University, Urbino, Italy

### Associate Editors:

*Elena Druica*, University of Bucharest, Romania

*Viorel Cornescu*, University of Bucharest, Romania

*Anatolie Caraganciu*, Lucian Blaga University, Sibiu, Romania

### Managing Editors:

*Barbara Francioni*, Carlo Bo University, Urbino, Italy

*Cristina Raluca Popescu*, University of Bucharest, Romania

### Scientific Advisory Board:

*Liviu Andrei*, National School of Political and Administrative Studies, Bucharest, Romania

*Marin Andreica*, Academy of Economic Studies, Bucharest, Romania

*Marisa Argene Valleri*, University of Bari "Aldo Moro", Italy

*Doinita Ariton*, "Danubius" University, Galati, Romania

*Shuvam Chatterjee*, Regent Education & research Foundation, India

*Thorsten Gruber*, Loughborough University, UK

*Victor Romeo Ionescu*, "Danubius" University, Galatz, Romania

*Perry Haan*, Tiffin University School of Business, USA

*Antonio Majocchi*, University of Pavia, Italy

*Cosmin Olteanu*, University of Bucharest, Romania

*Mirian Palmeira*, Federal University of Parana, Brazil

*Cosetta Pepe*, University of Rome "Tor Vergata", Italy

*Gheorghe Popescu*, Academy of Economic Studies, Bucharest, Romania

*Veronica Adriana Popescu*, Commercial Academy Satu-Mare, Romania

*Anca Purcarea*, Academy of Economic Studies, Bucharest, Romania

*Theodor Valentin Purcarea*, Romanian-American University, Bucharest, Romania

*Vasant H. Raval*, Creighton University, USA

*Mario Riso*, Niccolò Cusano University, Rome, Italy

*Marcello Sansone*, University of Cassino and Southern Lazio, Italy

*Francesco Scalera*, University of Bari "Aldo Moro", Italy

*M. Joseph Sirgy*, Virginia Polytechnic Institute & State University (Virginia Tech), USA

*Christina Suci*, Academy of Economic Studies, Bucharest, Romania

*Calin Valsan*, Bishop's University, Canada

*Arturo Z. Vasquez*, University of Texas - Pan American, USA



Tipărit la **Editura Explorator**  
Prahova, Ploiești, str. Erou Călin Cătălin nr. 5  
Tel: 0244-511244, fax: 0244-519466  
[www.crepuscul.ro](http://www.crepuscul.ro)

## EDITORIAL

In this issue of the International Journal of Economic Behavior several topics are presented promoting learning and contributing later to the creation of a new knowledge in the economic behavior and management field.

The first paper by Xiaofen Chen and Lin Zhang provides new explanations on China's household saving behavior. This paper finds support for the permanent income theory, but little evidence for the life cycle theory. The paper's unique contribution to the literature is the exploration of the possible presence of conspicuous consumption in China and its effects on household savings.

A quantitative research is undertaken by Orlando Lima Rua and Alexandra França, and explores the influence of entrepreneurial orientation in exploitation of knowledge of small and medium Portuguese enterprises of footwear associated with the Portuguese Footwear, Components and Leather Goods Association. The results indicate that the entrepreneurial orientation's dimensions have a positive and significant influence on knowledge's exploitation are innovation and risk-taking, and that on the contrary proactiveness has a negative and a not significant influence on it.

The third paper, written by Barbara Francioni and Giovanna Albanesi, has the main objective to consider the role of Made in Italy in foreign markets, especially in the German one. The focus is on the Italian sounding phenomenon, which is mainly affecting the Italian food sector.

The fourth paper, written by Ryu Keikoh offers an overview of recent developments in organizational ethical climate research by Western and Chinese scholars, with a particular focus on its application to Japanese enterprises doing business in China, and proposes various measures and strategies to help managers cultivate effective human resource practices.

The fifth paper authored by Mirian Palmeira aims to identify if there is a perception of prejudice and discrimination related to ageism, sexism, lookism and sexual orientation bias against customers in Brazil and Italy Seaside Retailing. The managerial implications are in the importance of developing training activities for face-to-face employees in order to reduce ageism, sexism, lookism and sexual orientation-related prejudice and discrimination practices against customers and to include these issues in the organization's strategic statements. Moreover, a theoretical contribution of this paper can be drawn for the development of protocols that can be useful to identify and evaluate ageism, sexism, lookism and sexual orientation phenomena in retailing. Its format and its methodology can be used to research different kinds of organizations, especially in the retail and services industries.

The sixth paper written by Gisela Alves, aimed at understanding the role of culture in the quality of the relationship between Portuguese exporting companies and their distributors in Angola. The findings show that culture has an impact on the quality of the business relationships between these matched pairs.

The main objective of the seventh paper by Rotimi A. Gbadeyan, Francis O. Boachie-Mensah and Olubunmi F. Osemene is to examine the effect of the supply chain management on hospital performance in Ilorin, Nigeria. Results indicate that the supply chain management has no strong nor direct impact on hospital performance, but it has indirect impact on the performance through competitive advantage. The paper concludes that an efficient supply chain management will result in more patient satisfaction and better competitive advantage.

The eight paper, written by Annalisa Sentuti aims to understand how the succession unfolds when the incumbent is a woman, and whether specific characteristics of women's style of leadership and management may facilitate the planning and management of the intergenerational transfer. Findings show that the female approach to the succession process is characterized by attention to relationships, cooperation, involvement, communication and sharing in the decision-making process.

Finally, the paper written by Mustapha, Yusuf Ismaila and Nafiu, Abdulrasaq Ishola, investigates the relationship between board size, board composition, CEO-duality and performance of listed manufacturing firms in Nigeria. The study recommends that firms should appoint more of outside directors than inside executive directors to enable maximization the benefits of board independence as well maintaining a two-tier board structure.

The Guest Editor wants to thank the Editor-in-Chief of the International Journal of Economic Behavior, Fabio Musso, the Managing Editor, Barbara Francioni and all the Reviewers and Authors involved in this Journal issue.

*Gisela Alves, University of Minho, Portugal*

*Guest Editor*

# WILL HIGH HOUSEHOLD SAVING IN CHINA PERSIST? AN APPLICATION OF THE CONSPICUOUS CONSUMPTION THEORY

*Xiaofen Chen*

*Truman State University, USA*

*Lin Zhang*

*Truman State University, USA*

Received: April 20, 2017

Accepted: June 26, 2017

Online Published: September 22, 2017

## *Abstract*

*Expanding from Veblen's conspicuous consumption theory, this paper provides new explanations on China's household saving behavior. Using provincial level data, it finds evidence that urbanization, increased mobility of the population, and a greater degree of openness all depress household saving, likely through higher conspicuous consumption. This result is robust with different estimators and specifications. Among the conventional explanatory variables, the paper finds support for the permanent income theory, but little evidence for the life cycle theory.*

**Keywords:** conspicuous consumption; household saving Chinese economy; cultural changes; international openness; urbanization; population mobility.

## **1. Introduction**

China's high national saving has captured much attention recently. As one of the leading current account surplus economies, it has been regarded as a source of the global saving imbalances and partly borne the blame for the 2007 subprime mortgage crisis in the U.S. for supplying cheap funds to the international market. As a component of national saving, household saving in China is also well above the world average. Calculated from the United Nations (UN) database, China's average gross saving rate between 1992 and 2009 reached 33%, while the world average was only 7.1% during the same period. The attention has sparked an academic enthusiasm for explaining household saving patterns in China, but the findings are mixed on what drives the high saving rates and the implications for the future trend.

Both Cristadoro and Marconi (2012) and Liu and Hu (2013) find evidence for the life cycle theory and the precautionary motive, while Cristadoro and Marconi (2012) also stressed the role of liquidity constraint, as in Zhou (2014), who observed siblings, particularly brothers, as

a resort of informal lending. Using the life cycle framework, Curtis, Lugauer, and Mark (2015) conclude that the higher saving rates are largely driven by reduced family sizes due to the population control policy, and future saving rates may decline as the population ages. However, Chamon, Liu, and Prasad (2013) discovered that the middle aged save the least, contrary to the life cycle theory, and they attribute this abnormality to shrinking public education and healthcare, and privatization of the housing sector. Their findings in relation to the life cycle theory are echoed in Chen (2017b) on the consumption of migrant households, who constitute a large portion of urban households. Similarly, Horioka and Wan (2007) only found weak support for the life cycle and permanent income theories, but contended that the high saving rates will persist provided that income growth remains high. The lack of consensus on the role of the age structure may also be partly due to old people's desire to leave bequests, as studied by Yin (2012).

While Wang and Wen (2012) maintained that increased housing price coupled with borrowing constraint and demographic changes contributed to higher saving rates, Li, Whalley, and Zhao, (2013) rejected such claims, in favor of a negative association between housing price and household saving. On the precautionary saving side, both Ang (2009) and Feng, He, and Sato (2011) found positive effects of the pension reform on household saving, but the result was reversed when the model was applied to data from India in Ang (2009). The introduction of a cooperative medical insurance scheme seemed to only affect middle income households, according to Cheung and Padiou (2015). Kraay (2000) acknowledged the role of future income growth in rural household saving, but the model performed poorly in explaining urban household saving.

Undoubtedly, the aforementioned papers have provided useful explanations of household saving patterns in China. However, the mixed results of applying the conventional theories suggest that current understanding of the determinants of household saving in China is far from adequate, and alternative explanations are worth exploring. In particular, the existing literature fails to capture recent rapid cultural and social changes in China, which are transforming consumer behavior, and may have brought about fundamental and widespread changes in household saving patterns.

This paper incorporates cultural and social factors in explaining household saving behavior that will shed light on the future trend of household saving in China as well as in other economies that are undergoing similarly transformations. It explores alternative theories on consumer behavior, Veblen's ([1899] 2007) conspicuous consumption theory in particular, to further explain household saving, since consumption and saving are essentially two sides of the same issue. According to Veblen, consumption is a way to display wealth with the purpose of achieving social status, and population mobility and large communities will enhance the importance of such conspicuous consumption. Although it has suffered criticism in the past, Veblen's theory is endorsed by recent researchers. For example, Bagwell and Bernheim (1996) derived theoretical conditions under which conspicuous consumption may arise. Dutt (2001) concluded that signaling status through conspicuous consumption is the most convincing motive for relative consumption effects. Both Trigg (2001) and Schor (2007) revisited Veblen's work and Bourdieu's (1984) related theories, and countered popular criticism of the conspicuous consumption theory.

The arguments in support of the conspicuous consumption concept are validated by recent empirical studies such as those by Heffetz (2011), who found higher income elasticities for wealth-signaling consumption expenditures, and Danzer, Dietz, Gatskova, and Schmitten (2014), who discovered elevated self-reported socioeconomic status through visible consumption for recent migrants. Guarneros, Narváez, and Vilar (2001) also observed that urbanization resulted in excessive pursuit of consumption by youth in Mexico. In the existing

literature on household saving, the most closely related research to this paper is a study by Chen (2017a), which extended Veblen's framework and showed that globalization contributed to the decline in household saving through several channels, including cultural and social interactions, increased population mobility and urbanization, international trade (via facilitating access to status goods) and international financial flows (via alleviating credit constraints).

The logical framework of this paper resembles Chen (2017a), but is applied to provincial level data in China, rather than worldwide cross-country data. It also expanded the explanatory variables, including internal population mobility (represented by passenger traffic turnover), communication intensity (represented by communication volume and per capita telephone units), and the share of state-owned enterprises, a factor of particular importance to China.<sup>1</sup> It finds that income per capita and its growth play important roles in household saving, as in the literature; however, there is little support for the role of the age dependency ratios and thus the life cycle theory. Weak evidence of increased precautionary saving is detected, indicated by the negative effects of government social spending (on education, healthcare, etc.) for rural households and the share of state-owned enterprises for urban households. Most importantly, there is consistent evidence in line with the extended conspicuous consumption framework. As in Chen (2017a), increased international openness (foreign direct investment and international trade volume) are found to depress household saving. Likewise, urbanization, population mobility, and communication intensity also have negative effects on saving to various degrees of consistency. The latter conclusion is unique, however, because in Chen (2017a), the urbanization ratio is dropped through model selection, population mobility is not modeled specifically, and communication intensity is part of the globalization index rather than a separate variable.

The structure of the rest of the paper is as follows. Section 2 examines social and cultural changes in China and their possible effects on household saving. Sections 3 and 4 present formal econometric analyses of factors determining household saving using provincial data, and examine the implications for the future trend of household saving. Section 5 contains final remarks.

## 2. Cultural and social changes and their effects on household saving

Since the beginning of the economic reform at the end of the 1970s, China has transformed itself from a near-closed status to a remarkably open society, economically, culturally, and socially. Figure 1 shows the degree of globalization in China in comparison with the world average, measured by the KOF globalization index, constructed using economic (36%), social (38%) and political (26%) indicators (Dreher, 2006; Dreher, Gaston, & Martens, 2008). China's overall globalization index was only about half of the world average in the late 1970s when it embarked its economic reform. By the end of 1990s, its globalization index already surpassed the world average.

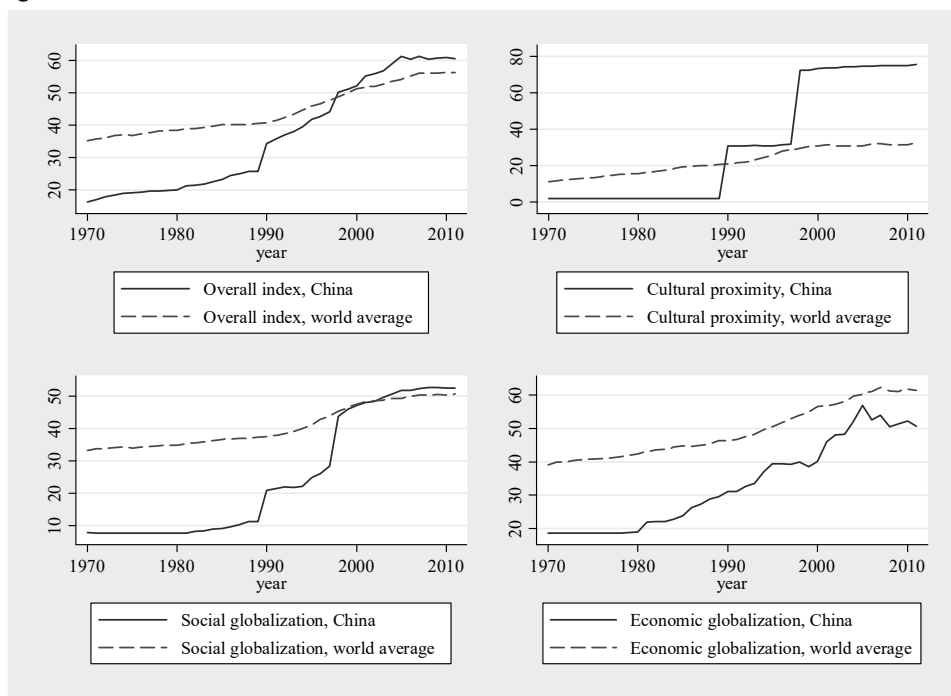
Among the components of the KOF globalization index, China's social globalization index exceeded the world average in the early 2000s; the gap with the world average in the economic dimension has also narrowed greatly. Most markedly, globalization in the cultural dimension, measured by the KOF cultural proximity index, exceeded the world average in the early 1990s and has been far above the average since the late 1990s. The cultural proximity index is constructed using three indicators: per capita number of McDonald's restaurants (45%), per

---

<sup>1</sup> Some of the variables considered in Chen (2017a) are not included in the model here, either because they are economy wide variables (for example, interest rate and terms of trade) or are unavailable (for example, corporate saving and household assets).

capita number of Ikea (45%), and trade in books as a percent of GDP (10%). Needless to say, the KOF measure of cultural proximity has its limitations. Nevertheless, in a country with a drastically different traditional culture from the West (including food, drink, and furniture styles), the proliferation of McDonald's and Ikea undoubtedly reflects Chinese consumers' willingness to accept and adopt different cultures. As additional evidence, Starbucks also acquired a sweeping presence in China recently.

Figure 1 – Economic, Cultural, and Social Globalization



During the process of globalization, different cultures may influence each other through trading goods and services, exchanging ideas, and consuming each other's products, particularly cultural products, such as books, movies, and music. As noted by researchers in marketing and management (See, for example, Kim, Forsythe, Gu, & Moon, 2002; Yuan, Song, & Kim, 2011), cultural values are important in shaping life styles and consumer behavior. It follows that influences from other cultures can lead to changes in consumption and saving behavior. As reasoned in Chen (2017a), since the West, represented by the U.S., has a comparative advantage in cultural products, their exports dominate the world market of cultural products. Thus, the influences of Western culture may outweigh those of other cultures. To a society with high initial saving rates, interactions with other cultures that discount the value of frugality may induce behavior changes in favor of higher spending and lower saving. In addition, international trade enables consumers to access more varieties of products, especially luxury goods, which are often perceived as status goods, or goods that can signal or elevate one's social status, such as iPhones, iPads, and BMW automobiles. Thus, globalization provides additional instruments for conspicuous consumption and hence may exert a negative effect on saving.



Anecdotal evidence of growing conspicuous consumption is abundant in China. Pursuing luxury brand goods is widespread, especially among urban consumers. Evidence of lavish spending abounds from rising demand for British butlers (Heatley, 2011), to buying luxury cars at costs two to three times the U.S. levels (Goldstein, 2014). Declarations like “rather cry in a BMW than laugh on the backseat of a bicycle” in a reality show is not an isolated incident (Lim, 2012), but an indication of a social phenomenon. Another extreme example is a case where a 17-year-old student willingly sold his kidney to buy an iPad and an iPhone (Guo, 2012).

As noted by many researchers in various fields (for example, Dutt, 2001), East Asia (including China) values collectivism as opposed to individualism. At first sight, conspicuous consumption may seem contradictory to a culture where collectivism is a defining characteristic. However, if social acceptance is not sacrificed, conspicuous consumption can also be rife in a society of collectivism. As a long-term advertising professional who believes that fundamental cultural differences remain between China and the West, Doctoroff (2012) observed that in China, “[l]uxury items are desired more as status investments than for their inherent beauty or craftsmanship.” He noted that luxury brands from abroad are especially desired and consumers are willing to pay high premiums if the products are consumed publicly. Display of luxury brands should ideally be “conspicuously discreet” to meet the need of projecting affluence while “fitting in.” In the meantime, popular products that are consumed privately are often cheap domestic brands, in line with the “conventional virtue” of frugality. His observation coincides with Bagwell and Bernheim’s (1996) theoretical results that “luxury” brands without higher intrinsic value than “budget” brands are priced higher at equilibrium, driven by consumer demand to display wealth.

As additional casual evidence, Japan and South Korea both experienced relatively rapid globalization deepening in the social and cultural dimensions and dramatic decline in household saving in recent years.<sup>2</sup> While the world average of the indicator increased from 33 to 51 between 1970 and 2011, Japan’s social globalization index increased from 26 to 67, and South Korea’s from 22 to 52. In the meantime, Japan’s average gross household saving rate (calculated from the UN’s database) dropped from 21.3% before 1990 to 8.7% after 2000. South Korea’s average net household saving rate plunged from 15.7% before 1990 to just 4.6% after 2000.<sup>3</sup>

**Table 1 – Averages of Provincial Urbanization and Distant Communication Indicators**

	1990	1995	2000	2005	2011*
Share of workers in urban areas (%)	32.0	33.6	29.4	30.8	45.7
Passenger to population ratio	6.94	9.42	11.14	13.26	25.11
Post and telecommunications volume (1000 yuan/person)	0.02	0.10	0.41	0.97	1.03
Number of telephone sets per person	0.02	0.05	0.17	0.68	0.84

Source: Calculations from China Data Online and the National Bureau of Statistics of China.

\* Data for number of telephone sets per person is for 2009.

<sup>2</sup> These are the only two East Asian economies in the UN and OECD databases with household saving data before the 1990s.

<sup>3</sup> Source: the OECD database. Gross household saving rate is unavailable for South Korea. The difference between net and gross saving rates is that the calculation of net saving rate involves subtracting depreciation (consumption of fixed capital) from both saving and disposable income.

China has also undergone other dramatic social changes. First, the speed of urbanization is unprecedented, largely due to high economic growth and the accompanied structural changes. Urban population only accounted for 13.7% of the total population in 1954, and is over 50% in 2011.<sup>4</sup> Nearly half of the workers are also in urban areas in 2011 (Table 1).<sup>5</sup> Second, population mobility also increased greatly, although restrictions still remain. Accompanying the increased mobility is the need to communicate through the mail, phones and other means. Table 1 also includes several measures indicating the rapid increase in population mobility and distant communication intensity.

These domestic changes may also have negative effects on saving. In the framework of Veblen's theory, conspicuous consumption becomes more important when the population is more mobile. This is because in a society with greater mobility, it is more difficult to observe leisure, an alternative means to project wealth; as a result, individuals are forced to rely more on consumption to acquire social repute. Likewise, residing in urban areas boosts the return of conspicuous consumption as one would be more likely to face a large number of transitory observers than in rural and small communities.

The rest of this paper will turn to annual provincial data from China Data Online,<sup>6</sup> which covers all 31 provinces, autonomous districts, and metropolises (all of which may be collectively referred to as provinces hereafter) from 1949 to 2011 (some have shorter coverages). Since provincial data on consumption of fixed capital is not available, net saving rates cannot be calculated. Ideally, both income and consumption should account for non-monetary transactions and transfers as well as goods and services produced for own consumption, and disposable income should adjust for the changes in net equity of households on pension funds (United Nations, 2009). However, due to lack of data, saving rates are calculated as the portion of disposable income that is not used as living expenditure. Three observations associated with unusually high saving rates are dropped, including one for urban households and two for rural households, all with more than 80% saving rates.

Table 2 – Disposable Income and Saving for Urban and Rural Households: Provincial Means

	Per capita disposable income			Saving rates		
	Urban (¥)	Rural (¥)	Urban/rural ratio	Urban (%)	Rural (%)	Urban/rural ratio
Mean	5253	1905	2.76	16.9	20.1	0.84
1949-1959	190	75	2.53	10.7	10.5	1.02
1960-1969	232	101	2.30	7.4	10.0	0.74
1970-1979	334	149	2.24	7.6	13.5	0.56
1980-1989	780	403	1.94	8.9	16.8	0.53
1990-1999	3,690	1,538	2.40	17.0	19.9	0.85
2000-2009	10,414	3,603	2.89	24.1	24.6	0.98
2010-2011	19,338	6,903	2.80	33.5	25.4	1.32

Overall, household saving increased during the last six decades (Table 2). Both urban and rural saving rates exhibit a positive relationship with disposable income (Figure 2), consistent

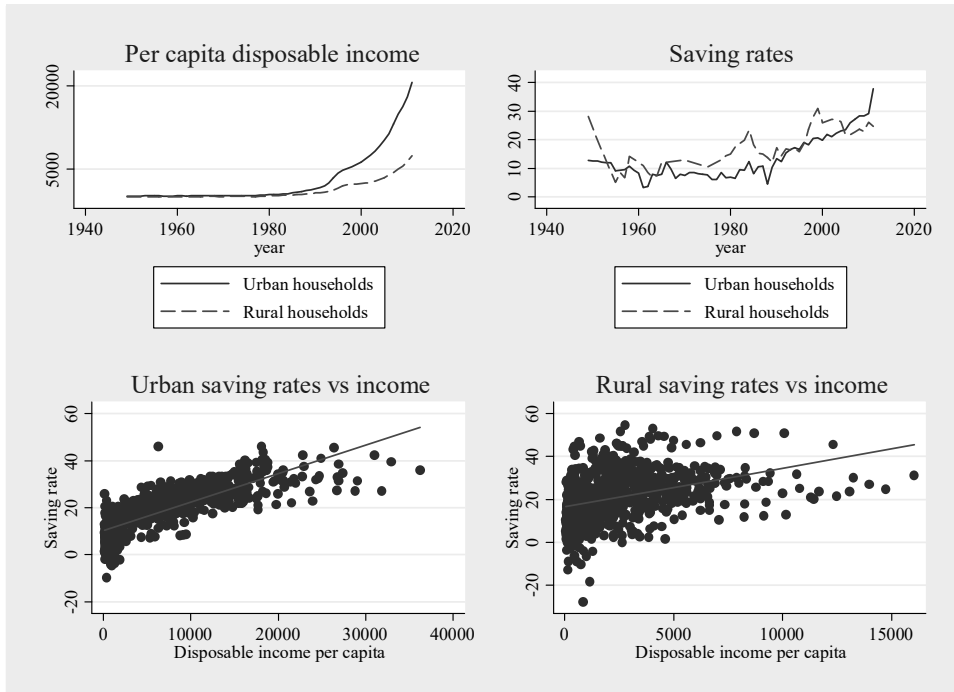
<sup>4</sup> Source: the National Bureau of Statistics of China.

<sup>5</sup> The temporary decline in urban worker share at the end of the 1990s may be caused by the slowdown in economic growth after the Asian crisis, when migrant workers from the rural areas returned home.

<sup>6</sup> Provided by the China Data Center at the University of Michigan.

with the standard theories on household saving. However, a comparison of urban and rural saving rates reveals a contradiction to the above observation. In spite of an average disposable income two to three times the rural level, urban households saved a smaller portion of their income than did rural households most of the time (Table 2 and Figure 2). Urban households' more stable income and lower consumption of self-produced goods and services could be factors behind the relatively low urban saving rates, but more prevalent conspicuous consumption in urban areas could be another factor.

Figure 2 – Disposable Income and Saving



A casual cross-province comparison of consumption and saving patterns also seems to support Veblen's theory. Coastal provinces exhibit lower saving rates consistently, especially in the South and Southeast, which tend to be more open internationally and attract more migrant workers. For example, in 2011, retail sales of consumption goods as percentages of household disposable income were 80% in Shanghai, 72% in Guangdong, and 67% in Fujian, much higher than those in such inland provinces as Jiangxi (44%), Hunan (55%), and Guizhou (31%). While disposable income seems to play a predominant role in rural saving, there are clearly other factors at play in the ranking of urban saving (Table 3). The eight provinces with the lowest urban saving rates include three of the four metropolises (Chongqing, Beijing, and Tianjin) and Guangdong, a province next to Hong Kong with the most and earliest national economic special zones and the longest history of openness, in spite of their high rankings in disposable income (except for Tianjin). In contrast, most of the eight provinces with the highest urban saving rates are inland provinces and none of them is a metropolis. The next two sections will present a formal model that identifies the individual effects of different determinants of household saving using provincial data.

Table 3 – Lower and Upper Quartiles of Saving

Urban households			Rural households		
Province	Saving	Disposable	Province	Saving	Disposable
	rate	income		rate	income
		ranking			ranking
<i>Lower quartile</i>			<i>Lower quartile</i>		
Chongqing	11.4	6	Hunan	4.3	12
Sichuan	12.1	28	Shaanxi	10.3	27
Gansu	14.2	31	Yunnan	11	29
Beijing	14.2	2	Sichuan	12.9	28
Yunnan	14.5	30	Qinghai	13.2	25
Tianjin	14.6	29	Guizhou	15.7	30
Qinghai	14.6	19	Gansu	16.4	31
Guangdong	15.0	4	Guangxi	16.6	20
<i>Upper quartile</i>			<i>Upper quartile</i>		
Hainan	18.9	7	Henan	25.4	17
Jiangxi	19.4	27	Shandong	25.4	6
Heilongjiang	19.9	11	Beijing	25.7	2
Shanxi	20.1	26	Heilongjiang	26.8	11
Zhejiang	20.1	3	Hebei	27.7	14
Xinjiang	20.5	20	Tibet	30.2	26
Shandong	20.5	8	Hainan	31.5	9
Tibet	21.1	12	Tianjin	36.1	13

### 3. Methodology

Because of the panel nature of the data, the following model is considered.

$$s_{it} = \beta_0 + \beta_1 s_{i,t-1} + X' \beta_2 + \alpha_i + t + \varepsilon_{it}$$

In the equation,  $s_{it}$  represents saving rate for province  $i$  in year  $t$ ;  $\beta_0$ ,  $\beta_1$ , and the vector  $\beta_2$  are parameters. The lagged saving rate is included as an explanatory variable because of possible inertia in consumption and saving behavior in the short term.  $X$  is a vector of explanatory variables.  $\alpha_i$  accounts for all time-invariant and province specific factors, such as local cultures affecting consumption and saving; the linear time trend  $t$  accounts for common time effects, which are time-varying but common to all panels, such as interest rate and other macroeconomic factors that affect the whole economy.  $\varepsilon_{it}$  is the idiosyncratic disturbance term. Because the data consists of relatively large numbers of panels, specification of heterogeneous time trends across provinces is not considered. However, heterogeneity in coefficients across urban and rural households is allowed by running separate regressions for the two samples.

The following is a list of the variables included in  $X$ . The data source is China Data Online, unless otherwise specified. All flow variables are logarized, including per capita disposable income, government social spending as defined as follows, and those in (5) and (6) in the following list.

- (1) Per capita disposable income and its growth. According to the permanent income theory of saving, they should have positive effects on saving if the increase in income is viewed as temporary income.
- (2) Old (65 years and older) and young (14 years and younger) dependency ratios. Data is available from 1990 onwards and is obtained from the website of the National Bureau of Statistics of China and its various printed editions of *China Population Statistics Yearbooks*. Since the sample sizes of the censuses, and hence the dependency ratio data, are drastically different in years 2000, 2005, and 2010 from those in the rest of the years, data for these 3 years are linearly interpolated. According to the life cycle theory, the middle-aged save the most; thus, the age dependency ratios should have negative effects on saving. However, the effects may be muffled if the middle-aged are keen on saving for their children's future education and are burdened by hikes in education and housing cost, and the old are frugal due to desires to leave bequest to their children and concerns about increased longevity.
- (3) Share of urban workers in state-owned enterprises and per capita government spending on culture, education, science, and healthcare (government social spending hereafter). Jobs in state-owned enterprises are viewed as more stable than in private enterprises, although to a lesser extent after privatization of state-owned enterprises started. Note that the share of workers in state-owned enterprises is not considered for rural household saving. Government social spending is considered since it may reduce households' precautionary saving. These two variables should have negative effects on saving.
- (4) Share of workers in urban areas as a proxy for the urbanization ratio. It is expected to have negative effects on both urban and rural saving. A higher urbanization ratio means households are more likely to live in larger communities and population mobility may also be higher. As a result, households are expected to engage in more conspicuous consumption and have lower saving rates. A higher urbanization level also means a higher portion of the rural areas are close to cities, and rural households presumably have more personal connections with urban households. As a result, rural households are also more likely to be exposed to transient observers and influenced by urban cultures. Note that this variable does not represent the differences between urban and rural households in such factors as income uncertainty, since the two samples will be estimated separately.
- (5) Passenger traffic to population ratio, per capita business volume of postal communications and telecommunications (communication volume hereafter), and per capita number of telephone units. These variables are not only directly and indirectly associated with the degree of population mobility, they also reflect the intensity of intra- and inter-community interactions. Higher population mobility exerts a negative effect on saving, according to Veblen's theory. The more intense the interactions are, the more likely a community will undergo cultural changes. The data source used to calculate these ratios is the website and the printed publications of the National Bureau of Statistics of China. Due to a high correlation coefficient (0.97) between per capita communication volume and per capita telephone units, these two variables are included in the regressions separately.<sup>7</sup>
- (6) Variables representing international openness, including per capita foreign direct investment inflows and per capita international trade volume (sum of exports and imports). These two variables measure economic openness and personal contact with

---

<sup>7</sup> Passenger traffic has relatively low correlation with these two variables, however.

cultures from abroad directly and indirectly. To be consistent with other variables, these variables are recalibrated to measures in Chinese yuan using annual exchange rates from FRED Economic Data, maintained by the Federal Reserve Bank of St. Louis. They should also have negative effects on saving based on previous reasoning. Since the correlation coefficient between them is high (0.85), they are also included in the regressions separately.

Per capita income growth was rising for both urban and rural households from the end of the 1990s to the end of the data period in this study. All other variables exhibited clear upward trends since 1990, except for the young dependency ratio and the share of urban workers in state-owned enterprises, both of which trended downward sharply. All variables are available for all 31 provinces for at least some periods, but the maximum length of over half of the variables is 21-23 years. As a result, the number of panels is considerably greater than the number of periods. Also note that since data availability varies for different variables, the sample size differs slightly when different covariates are included.

The Wooldridge test for serial correlation (Drukker, 2003) rejected the null of no autocorrelation in the idiosyncratic errors. The modified Wald test also detected the presence of group heteroskedasticity. As a result, robust standard errors will be used in all regressions. Cross-sectional dependence is also detected using the Pesaran's test (De Hoyos & Sarafidis, 2006); thus, the within estimator may be biased, according to Driscoll and Kraay (1998), and regressions with the Driscoll-Kraay standard errors will also be run as an alternative.

The dynamic specification may introduce bias to the fixed effect estimator due to correlation between the lagged saving rate  $s_{it,t-1}$  and the error term  $\varepsilon_{it}$ . This problem is magnified when the number of time periods is short relative to the number of panels, which is the case here. While the number of panels is 31, the panel length is only between 17 and 21, depending on which variables are included in the regressions. Thus, in addition to the fixed effect estimator, regressions are also run using the Arellano-Bond estimator as a better alternative, which corrects for this problem. The Sargan test of over-identifying restrictions failed to reject the joint validity of the instruments at the 1% level in two cases and at least at the 5% level in all other cases, even though heteroskedasticity may cause over-rejection of the test. The Arellano-Bond test results of autocorrelation in first-differenced errors are all satisfactory; that is, there is first order serial correlation in the disturbances, but not the second order.

#### 4. Results

Estimation results are presented in the tables in the Appendix. Table 1 shows the results for urban households using the within estimator. Lagged saving rate, disposable income and its growth are all positive and significant in most cases, as expected. Both young and old dependency ratios are insignificant, probably due to the reasons mentioned in the previous section. In addition, the relatively high correlation between the young dependency ratio and income per capita (correlation coefficients are -0.71 and -0.79 for urban and rural households respectively) may also skew the results.

The coefficients for government social spending and the share of state owned enterprises are not significant, and the signs are inconsistent or not as expected. However, estimations for the variables representing urbanization and population mobility are almost all negative, and are significant across the regressions, except for passenger traffic.

The results for rural households using the within estimator are generally similar (Table 2). However, the income elasticity of saving, indicated by the coefficient of disposable income, is much higher for rural households, probably due to their more cautious attitude towards increased income. That is, increased income is more likely to be treated as temporary income

by rural households. Unlike the regressions for urban households, the parameter for government social spending is negative and significant in one case for rural households. In addition, the coefficient for communication volume is no longer significant; however, those for the variables representing international openness (foreign direct investment and international trade) are both highly significant.

Since the data exhibits cross-sectional dependence, estimations with the within estimator are also obtained using a procedure written by Hoechle (2007) that adopts the Driscoll-Kraay standard errors. The results are reported in Tables 3 and 4. The estimated coefficients are similar in general, but the  $p$ -values are different for some variables. The biggest change is that disposable income growth is now insignificant for rural households. However, the variables affecting precautionary saving and conspicuous consumption (the variables in (3) – (6) in the previous section) are still negative in general. As in previous regressions, the urbanization ratio is again significant in most regressions. Government social spending, communication volume, per capita telephone units, foreign direct investment, and international trade are also significant in some regressions.

The estimation results using the Arellano-Bond robust estimator are reported in Tables 5 and 6 in the Appendix, along with the results of the Sargan test and the Arellano-Bond test. The results are largely the same as with the within estimator. For the variables in (3) to (6) in the variable list, the coefficients are generally negative, as expected, but the  $p$ -values for the vast majority of them are lower. Thus, there are more significant estimations for the urban household sample. The coefficients for urbanization and communication volume are consistently significant, and the share of state-owned enterprises, per capita telephone units, foreign direct investment, and international trade are also significant in about half of the regressions.

As a robustness check, regressions are also run with no time trend, a quadratic trend, and time dummies in lieu of a linear trend. Both components of the quadratic trend are insignificant in all regressions except for one, but the hypothesis that all time dummies are zeros is strongly rejected. The results are not drastically different from previous regressions (see Table 7 for some of the results using the Arellano-Bond estimator). Disposable income and its growth continue to have positive and significant estimates. Estimations for the age dependency ratios are still largely insignificant. The parameters for the variables representing urbanization, population mobility, and international openness continue to be negative and significant in many of the regressions.

In summary, the estimation results are robust using alternative estimators, explanatory variables, and specifications of the common time effects. Of all the explanatory variables, only two variables, disposable income and its growth, are estimated to have positive effects on household saving without ambiguity. These variables trended up in the past several decades, which were major factors for past increase in household saving. However, as economic growth slows down inevitably, the support of higher saving rates from disposable income increase is bound to fade in the future.

Little evidence is found for the life cycle theory through the results on the age dependency ratios. However, all other variables in the model are estimated to have negative effects on saving to various degrees of consistency. The estimations for government social spending (for rural households mainly) and the share of workers in state-owned enterprises (for urban households) suggest weak evidence of previous increase in precautionary saving. As households are weaned off government provided education and healthcare, precautionary saving may continue to increase, but only to a limited extent given that social welfare measures in rural areas are improving and the provincial mean share of state-owned enterprises already dropped to 14.4% in 2011.

Meanwhile, the variables that would enhance conspicuous consumption will most likely trend up in the future, including the urbanization ratio, the variables representing population mobility and interactions (passenger traffic, communication volume, telephone units) and international openness (foreign direct investment and international trade volume), further putting downward pressure on saving. Urbanization will likely accelerate as the government is considering it a priority to aid future economic transformation. Population mobility will continue to increase with the relaxation of restrictions on labor mobility. Status goods will become more readily available as international trade expands. Cultural influences from the rest of the world will permeate further and individuals' life styles will continue to transform as international openness deepens. Together, these factors can outweigh the positive effect of higher income, and the current high household saving may not persist.

## **5. Final remarks**

In addition to conventional theories, this paper considers the rapid cultural and social changes that are happening in China and incorporates non-conventional theories on consumption and saving that help explain China's household saving patterns. Among the conventional explanatory variables, the paper finds that per capita disposable income and its growth contribute to higher household saving, consistent with the permanent income theory. The young and old dependency ratios are generally insignificant with few exceptions, and the signs are not consistent. This insignificance may be caused by the custom of bequeathing, increased longevity, altruistic saving for children's education, increase in education and housing cost, and correlation between the young age dependency ratio and per-capita disposable income.

The paper's unique contribution to the literature is the exploration of the possible presence of conspicuous consumption in China and its effect on household saving. Expanding from Veblen's theory, it finds evidence that urbanization, increased population mobility, and a greater degree of international openness all depress household saving, likely through higher conspicuous consumption. The list of explanatory factors is further broadened from the perspective of precautionary saving, and there is evidence that while the decline in state ownership prompted urban households to save more, increased government spending on education and healthcare may have the opposite effect in rural areas.

Observations of conspicuous consumption as a potential contributing factor to declining household saving are certainly not confined to this research or to the Chinese economy, as reviewed in the first section of this paper. As international openness coupled with rapid economic development often leads to cultural shifts, swift urbanization, and increased population mobility, the findings on Chinese household saving could also shed light on household saving trends in other developing and emerging countries which are following the footsteps of China, such as India, Vietnam, and Cambodia.

As an important component of national saving, household saving is a critical source for financing investment, especially when the government and businesses engage in excessive borrowing, as China is currently experiencing, and many other emerging economies experienced in the past, such as those in predicament during the East Asian financial crisis. If excess status consumption becomes widespread and the competitive nature of conspicuous consumption is unleashed, the resulting decline in household saving can be self-reinforcing. The implications can be particularly grave for developing and emerging economies with their growth relying more on investment, but their ability to borrow from the international market far more limited than developed economies.

The policy implications of the findings in association with changing patterns of households saving can be far-reaching, ranging from taxation on luxury goods (see Bagwell & Bernheim, 1996), to evaluation of financing sources of investment, and long term growth strategies for



developing and emerging economies. The choice of policy regime leading to or away from a more egalitarian society also matters to saving and economic growth to the extent that wealth distribution influences the drive for conspicuous consumption, although the overall link between economic inequality and household saving is still much debatable, as Corneo and Jeanne (2001) and Roychowdhury (2017) showed.

Future avenues of further investigation may include incorporating provincial level data that reflects household assets, life expectancy, corporate saving, housing price indexes (ideally differentiating between the rural and urban housing markets), and other factors that may affect household saving. Moreover, it will be worthwhile to confirm the findings and further understand this issue using household level data. As empirical work on conspicuous consumption is still relatively rare and the topic remains inadequately researched, similar studies can be extended to economies that are also undergoing rapid changes economically and culturally.

## Appendix

Table 1 – Urban Households: the Within Estimator with Linear Time Trend  
(Dependent variable: saving rate. P-values in parentheses)

Variable	(1)	(2)	(3)	(4)	(5)
Lagged saving	0.43 *** (0.000)	0.31 *** (0.004)	0.43 *** (0.000)	0.31 *** (0.006)	0.31 *** (0.005)
Disposable income	3.90 ** (0.017)	6.70 * (0.071)	2.99 (0.115)	7.50 * (0.079)	9.59 ** (0.034)
Disposable income growth	0.06 *** (0.000)	0.05 *** (0.008)	0.05 *** (0.002)	0.05 *** (0.001)	0.05 *** (0.007)
Young dependency ratio	0.01 (0.798)	0.01 (0.809)	0.01 (0.824)	0.01 (0.827)	0.00 (0.974)
Old Dependency ratio	0.03 (0.780)	0.18 (0.312)	0.05 (0.663)	0.18 (0.287)	0.17 (0.305)
Government social spending	1.56 (0.165)	0.40 (0.835)	1.41 (0.221)	0.03 (0.989)	-0.38 (0.852)
Share of state-owned ent.	0.01 (0.709)	-0.05 (0.163)	0.03 (0.422)	-0.04 (0.279)	-0.02 (0.610)
Urbanization	-0.06 (0.112)	-0.22 ** (0.031)	-0.07 * (0.064)	-0.21 ** (0.028)	-0.21 ** (0.026)
Passenger traffic	0.17 (0.780)	-1.13 (0.308)	0.13 (0.831)	-0.92 (0.361)	-0.88 (0.405)
Communication volume	-2.07 ** (0.018)	-	-1.80 ** (0.023)	-	-2.83 *** (0.002)
Telephone units	-	-1.97 * (0.066)	-	-1.89 * (0.097)	-0.86 (0.376)
Foreign direct investment	-	-	-0.09 (0.677)	-0.34 (0.157)	-0.19 (0.441)
International trade volume	-0.74 (0.167)	-0.31 (0.700)	-	-	-0.78 (0.316)
<i>t</i>	0.49 (0.120)	0.04 (0.906)	0.47 * (0.089)	-0.06 (0.873)	0.43 (0.252)

\*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$

Table 2 – Rural Households: The Within Estimator with Linear Time Trend  
(Dependent variable: saving rate. P-values in parentheses)

Variable	(1)	(2)	(3)	(4)	(5)
Lagged saving	0.53 *** (0.000)	0.45 *** (0.000)	0.52 *** (0.000)	0.44 *** (0.000)	0.41 *** (0.000)
Disposable income	16.30 *** (0.000)	14.28 *** (0.000)	15.99 *** (0.000)	15.86 *** (0.000)	17.49 *** (0.000)
Disposable income growth	0.07 ** (0.024)	0.07 ** (0.045)	0.07 ** (0.035)	0.06 * (0.055)	-0.03 (0.489)
Young dependency ratio	0.03 (0.583)	-0.02 (0.809)	0.04 (0.439)	-0.03 (0.689)	-0.06 (0.494)
Old Dependency ratio	0.03 (0.863)	0.06 (0.806)	0.01 (0.967)	0.04 (0.881)	0.05 (0.831)
Government social spending	-1.65 (0.465)	0.54 (0.878)	-4.60 ** (0.040)	-5.78 (0.102)	0.18 (0.963)
Urbanization	-0.16 * (0.072)	-0.10 (0.116)	-0.24 *** (0.002)	-0.32 *** (0.003)	-0.24 ** (0.033)
Passenger traffic	-1.37 (0.280)	-0.70 (0.648)	-0.77 (0.451)	-0.83 (0.469)	-0.86 (0.417)
Communication volume	-0.97 (0.429)	-	1.15 (0.304)	-	-2.60 (0.195)
Telephone units	-	-0.29 (0.863)	-	0.21 (0.879)	0.74 (0.618)
Foreign direct investment	-	-	-1.17 *** (0.008)	-1.00 ** (0.042)	-0.11 (0.870)
International trade volume	-3.67 *** (0.007)	-4.66 *** (0.006)	-	-	-4.03 ** (0.035)
<i>t</i>	-0.25 (0.592)	-0.28 (0.589)	-0.76 (0.104)	-0.27 (0.560)	-0.22 (0.683)

\*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$

Table 3 – Urban Households: The Within Estimator with Driscoll and Kraay Standard Errors  
(Dependent variable: saving rate. P-values in parentheses)

Variable	(1)	(2)	(3)	(4)	(5)
Lagged saving	0.43 *** (0.000)	0.31 *** (0.002)	0.43 *** (0.000)	0.31 *** (0.002)	0.31 *** (0.002)
Disposable income	3.89 * (0.083)	6.70 ** (0.027)	2.99 (0.128)	7.50 *** (0.003)	9.42 *** (0.000)
Disposable income growth	0.06 ** (0.028)	0.05 * (0.085)	0.05 * (0.055)	0.05 * (0.076)	0.05 (0.120)
Young dependency ratio	0.01 (0.837)	0.01 (0.871)	0.01 (0.865)	0.01 (0.893)	0.00 (0.985)
Old Dependency ratio	0.03 (0.728)	0.18 (0.192)	0.05 (0.609)	0.18 (0.239)	0.17 (0.268)
Government social spending	1.56 (0.177)	0.40 (0.865)	1.41 (0.136)	0.03 (0.987)	-0.39 (0.854)
Share of state-owned ent.	0.01 (0.687)	-0.05 (0.144)	0.03 (0.324)	-0.04 (0.374)	-0.02 (0.595)
Urbanization	-0.06 (0.259)	-0.22 ** (0.017)	-0.07 (0.231)	-0.21 ** (0.021)	-0.21 *** (0.010)
Passenger traffic	0.17 (0.903)	-1.13 (0.478)	0.13 (0.928)	-0.92 (0.595)	-0.88 (0.595)
Communication volume	-2.07 *** (0.001)	-	-1.80 *** (0.001)	-	-2.83 *** (0.000)
Telephone units	-	-1.97 * (0.064)	-	-1.89 (0.138)	-0.86 (0.414)
Foreign direct investment	-	-	-0.09 (0.668)	-0.34 (0.132)	-0.19 (0.395)
International trade volume	-0.74 (0.322)	-0.31 (0.733)	-	-	-0.78 (0.265)
<i>t</i>	0.49 * (0.057)	0.04 (0.931)	0.47 * (0.084)	0.06 (0.920)	0.44 (0.404)

\*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$

Table 4 – Rural Households: The Within Estimator with Driscoll and Kraay Standard Errors  
(Dependent variable: saving rate. P-values in parentheses)

Variable	(1)	(2)	(3)	(4)	(5)
Lagged saving	0.53 *** (0.000)	0.45 *** (0.000)	0.52 *** (0.000)	0.44 *** (0.000)	0.41 *** (0.000)
Disposable income	16.30 *** (0.000)	14.28 *** (0.001)	15.99 *** (0.000)	15.86 *** (0.000)	17.49 *** (0.000)
Disposable income growth	0.07 (0.346)	0.07 (0.304)	0.07 (0.377)	0.06 (0.463)	-0.03 (0.565)
Young dependency ratio	0.03 (0.512)	-0.02 (0.791)	0.04 (0.487)	-0.03 (0.722)	-0.06 (0.385)
Old Dependency ratio	0.03 (0.859)	0.06 (0.820)	0.01 (0.969)	0.04 (0.895)	0.05 (0.844)
Government social spending	-1.65 (0.194)	0.54 (0.770)	-4.60 *** (0.000)	-5.78 *** (0.003)	0.18 (0.930)
Urbanization	-0.16 ** (0.034)	-0.21 (0.104)	-0.24 *** (0.005)	-0.32 ** (0.017)	-0.24 * (0.056)
Passenger traffic	-1.37 (0.293)	-0.29 (0.168)	-0.77 (0.605)	-0.83 (0.556)	-0.86 (0.499)
Communication volume	-0.97 (0.161)	-	1.15 (0.282)	-	-2.60 (0.199)
Telephone units	-	-0.29 (0.868)	-	0.21 (0.896)	0.74 (0.650)
Foreign direct investment	-	-	-1.17 ** (0.044)	-1.00 (0.149)	-0.11 (0.885)
International trade volume	-3.67 *** (0.001)	-4.66 *** (0.000)	-	-	-4.03 *** (0.000)
<i>t</i>	-0.25 (0.339)	-0.28 (0.603)	-0.76 ** (0.012)	-0.27 (0.659)	-0.22 (0.787)

\*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$

Table 5 – Urban Households: Arellano-Bond Estimator with Time Trend  
(Dependent variable: saving rate. P-values in parentheses)

Variable	(1)	(2)	(3)	(4)	(5)
Lagged saving	0.41 *** (0.000)	0.27 *** (0.001)	0.41 *** (0.000)	0.27 *** (0.002)	0.28 *** (0.001)
Disposable income	4.80 ** (0.003)	7.99 ** (0.016)	4.02 ** (0.031)	9.04 ** (0.030)	11.82 *** (0.004)
Disposable income growth	0.06 *** (0.000)	0.05 *** (0.008)	0.06 *** (0.000)	0.06 *** (0.001)	0.06 *** (0.002)
Young dependency ratio	0.00 (0.930)	-0.01 (0.870)	0.02 (0.528)	0.02 (0.595)	0.01 (0.708)
Old Dependency ratio	0.05 (0.650)	0.19 (0.205)	0.01 (0.915)	0.12 (0.313)	0.12 (0.302)
Government social spending	1.19 (0.319)	-0.19 (0.923)	0.99 (0.408)	-0.70 (0.734)	-1.08 (0.617)
Share of state-owned ent.	0.01 (0.876)	-0.09 *** (0.005)	0.02 (0.554)	-0.06 * (0.070)	-0.05 (0.121)
Urbanization	-0.08 * (0.090)	-0.21 ** (0.030)	-0.08 * (0.095)	-0.20 ** (0.023)	-0.19 *** (0.021)
Passenger traffic	0.35 (0.586)	-0.83 (0.486)	-0.00 (0.994)	-1.11 (0.381)	-1.02 (0.472)
Communication volume	-2.50 *** (0.006)	-	-2.09 *** (0.009)	-	-3.41 *** (0.001)
Telephone units	-	-2.29 * (0.051)	-	-2.46 * (0.081)	-1.21 (0.283)
Foreign direct investment	-	-	-0.15 (0.456)	-0.43 * (0.051)	-0.24 (0.285)
International trade volume	-0.89 * (0.063)	-0.75 (0.263)	-	-	-1.22 * (0.055)
<i>t</i>	0.55 * (0.094)	-0.06 (0.875)	0.53 * (0.080)	0.02 (0.951)	0.60 (0.153)
Sargan test	0.112	0.013	0.202	0.052	0.075
Arellano-Bond test					
AR(1)	0.023	0.029	0.020	0.024	0.031
AR(2)	0.269	0.354	0.246	0.358	0.352

\*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$

Table 6. Rural Households: Arellano-Bond Estimator with Time Trend  
(Dependent variable: saving rate. P-values in parentheses)

Variable	(1)	(2)	(3)	(4)	(5)
Lagged saving	0.52 *** (0.000)	0.45 *** (0.000)	0.48 *** (0.000)	0.41 *** (0.000)	0.44 *** (0.000)
Disposable income	16.81 *** (0.000)	14.30 *** (0.000)	15.77 *** (0.000)	15.42 *** (0.000)	17.38 *** (0.000)
Disposable income growth	0.07 ** (0.027)	0.07 ** (0.025)	0.04 (0.399)	0.03 (0.493)	0.06 (0.133)
Young dependency ratio	0.02 (0.710)	-0.03 (0.697)	0.04 (0.341)	-0.02 (0.786)	-0.01 (0.852)
Old Dependency ratio	0.02 (0.893)	0.03 (0.892)	-0.08 (0.613)	-0.07 (0.731)	-0.09 (0.662)
Government social spending	-1.58 (0.508)	1.03 (0.788)	-3.98 * (0.072)	-4.99 (0.203)	-0.50 (0.896)
Urbanization	-0.16 * (0.066)	-0.18 (0.136)	-0.23 *** (0.001)	-0.27 *** (0.002)	-0.18 * (0.061)
Passenger traffic	-1.75 (0.181)	-0.26 (0.878)	-1.66 (0.250)	-1.27 (0.422)	-0.42 (0.802)
Communication volume	-1.47 (0.274)	-	1.11 (0.369)	-	-3.39 (0.161)
Telephone units	-	-1.14 (0.534)	-	-0.22 (0.874)	-0.25 (0.881)
Foreign direct investment	-	-	-1.07 * (0.081)	-0.87 (0.207)	-0.32 (0.703)
International trade volume	-4.10 *** (0.001)	-5.17 *** (0.001)	-	-	-5.09 *** (0.002)
<i>t</i>	-0.08 (0.877)	-0.05 (0.934)	-0.75 (0.117)	-0.15 (0.763)	0.76 (0.232)
Sargan test	0.023	0.016	0.105	0.073	0.054
Arrelano-Bond test					
AR(1)	0.000	0.001	0.000	0.001	0.001
AR(2)	0.979	0.982	0.953	0.830	0.829

\*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$

Table 7 – Alternative specifications of common time effects with the Arellano-Bond estimator (Dependent variable: saving rate. P-values in parentheses)

Variable	No trend		Quadratic trend		Time dummies	
	Urban	Rural	Urban	Rural	Urban	Rural
Lagged saving	0.41 *** (0.000)	0.52 *** (0.000)	0.40 *** (0.000)	0.52 *** (0.000)	0.47 *** (0.000)	0.43 *** (0.000)
Disposable income	5.03 *** (0.003)	16.64 *** (0.000)	7.23 ** (0.023)	16.28 *** (0.000)	7.10 ** (0.046)	25.54 *** (0.000)
Disposable income growth	0.06 *** (0.000)	0.07 * (0.060)	0.06 *** (0.001)	0.07 ** (0.014)	0.20 *** (0.000)	0.24 *** (0.000)
Young depdency ratio	0.02 (0.610)	0.02 (0.684)	0.01 (0.844)	0.02 (0.734)	-0.04 (0.225)	0.12 * (0.085)
Old Dependency ratio	0.05 (0.628)	0.03 (0.885)	0.05 (0.663)	0.01 (0.969)	0.03 (0.762)	-0.30 * (0.076)
Government social spending	2.46 *** (0.006)	-2.17 (0.212)	-0.40 (0.854)	-1.02 (0.697)	-0.70 (0.747)	-0.86 (0.731)
Share of state-owned enterprises	-0.04 (0.231)	- (0.075)	0.00 (0.986)	- (0.079)	0.02 (0.675)	- (0.034)
Urbanization	-0.12 ** (0.015)	-0.14 * (0.075)	-0.08 * (0.079)	-0.16 * (0.079)	-0.00 (0.999)	-0.15 ** (0.049)
Passenger traffic	0.17 (0.782)	-1.82 (0.154)	0.23 (0.713)	-1.69 (0.230)	0.48 (0.318)	-1.65 ** (0.049)
Communication volume	-1.73 *** (0.003)	-1.34 (0.167)	-1.97 *** (0.009)	-1.80 (0.332)	-1.36 ** (0.044)	1.14 (0.445)
International trade volume	-0.91 ** (0.046)	-4.11 *** (0.001)	-1.00 ** (0.031)	-4.08 *** (0.004)	-0.12 (0.763)	-0.91 (0.342)
$t$	-	-	-0.02 (0.954)	0.10 (0.912)	-	-
$t^2$	-	-	0.02 (0.231)	-0.01 (0.710)	-	-

\*\*\*p &lt; 0.01, \*\*p &lt; 0.05, \*p &lt; 0.1



## References

1. Bagwell, L. S., & Bernheim, B. D. (1996). Veblen effects in a theory of conspicuous consumption. *American Economic Review*, 86(3), 349–373.
2. Bourdieu, P. (1984). *Distinction: A Social Critique of The Judgement of Taste*. London: Routledge.
3. Chamon, M., Liu, K., & Prasad, E. (2013). Income Uncertainty and Household Savings in China. *Journal of Development Economics*, 105(November), 164–77.
4. Chen, X. (2017a). Globalization and Household Saving: Is There a Link? *Applied Economics*, 49(29), 2797–2816.
5. Chen, X. (2017b). Why Do Migrant Households Consume So Little? *Asian Development Bank Institute Working Paper*, 727.
6. Cheung, D., & Padieu, Y. (2015). Heterogeneity of the Effects of Health Insurance on Household Savings: Evidence from Rural China. *World Development*, 66(February), 84–103.
7. Corneo, G., & Jeanne, O. (2001). Status, the Distribution of Wealth, and Growth. *The Scandinavian Journal of Economics*, 103(2), 283–293.
8. Cristadoro, R., & Marconi, D. (2012). Household Savings in China. *Journal of Chinese Economic and Business Studies*, 10(3), 275–299.
9. Curtis, C. C., Lugauer, S., & Mark, N. C. (2015). Demographic Patterns and Household Saving in China. *American Economic Journal: Macroeconomics*, 7(2), 58–94.
10. Danzer, A. M., Dietz, B., Gatskova, K., & Schmitten, A. (2014). Showing Off to the New Neighbors? Income, Socioeconomic Status and Consumption Patterns of Internal Migrants. *Journal of Comparative Economics*, 42(1), 230–245.
11. De Hoyos, R. E., & Sarafidis, V. (2006). Testing for cross-sectional dependence in panel-data models. *Stata Journal*, 6(4), 482–496.
12. Doctoroff, T. (2012, May 18). What the Chinese Want. *The Wall Street Journal*. Retrieved from <http://online.wsj.com/>.
13. Dreher, A. (2006). Does Globalization Affect Growth? Evidence from a new Index of Globalization. *Applied Economics*, 38(10), 1091–1110.
14. Dreher, A., Gaston, N., & Martens, P. (2008). *Measuring Globalisation – Gauging its Consequences*. New York: Springer.
15. Driscoll, J. C., & Kraay, A. C. (1998). Consistent covariance matrix estimation with spatially dependent panel data. *Review of Economics and Statistics*, 80(4), 549–560.
16. Drukker, D. M. (2003). Testing for serial correlation in linear panel-data models. *The Stata Journal*, 3(2), 168–177.
17. Dutt, A. K. (2001). Consumption, Happiness, and Religion. In *Crossing the mainstream: Ethical and methodological issues in economics* (pp. 133–69). Notre Dame: University of Notre Dame Press.
18. Feng, J., He, L., & Sato, H. (2011). Public Pension and Household Saving: Evidence from Urban China. *Journal of Comparative Economics*, 39(4), 470–485.
19. Goldstein, M. (2014, February 11). U.S. Targets Buyers of China-Bound Luxury Cars. *New York Times*.
20. Guarneros, V., Narváez, A., & Vilar, M. (2001). Consumption in a rapidly changing society: the Mexican case. In *Youth, sustainable consumption patterns and life styles by UNESCO and UNEP* (pp. 141–66). UNESCO and UNEP.
21. Guo, C. (2012, August 9). High Schooler’s Kidney for “Apples” Case Opens in Chenzhou. *Sanxiang City Post (三湘都市报)*. Retrieved from <http://sxdsb.voc.com.cn>.

22. Heatley, C. (2011, December 12). English Butlers Wanted For Super-Rich Clients in China, Russia. *Bloomberg News*.
23. Heffetz, O. (2011). A Test of Conspicuous Consumption: Visibility and Income Elasticities. *Review of Economics and Statistics*, 93(4), 1101–1117.
24. Hoechle, D. (2007). Robust standard errors for panel regressions with cross-sectional dependence. *Stata Journal*, 7(3), 281–312.
25. Horioka, C. Y., & Wan, J. (2007). The Determinants of Household Saving in China: A Dynamic Panel Analysis of Provincial Data. *Journal of Money, Credit and Banking*, 39(8), 2077–2096.
26. Kim, J.-O., Forsythe, S., Gu, Q., & Moon, S. J. (2002). Cross-cultural consumer values, needs and purchase behavior. *Journal of Consumer Marketing*, 19(6), 481–502.
27. Kraay, A. (2000). Household Saving in China. *World Bank Economic Review*, 14(3), 545–570.
28. Li, S., Whalley, J., & Zhao, X. (2013). Housing Price and Household Savings Rates: Evidence from China. *Journal of Chinese Economic and Business Studies*, 11(3), 197–217.
29. Lim, L. (2012, January 11). China Targets Entertainment TV In Cultural Purge. *National Public Radio*. Retrieved from [www.npr.org](http://www.npr.org).
30. Liu, S., & Hu, A. (2013). Household Saving in China: The Keynesian Hypothesis, Life-Cycle Hypothesis, and Precautionary Saving Theory. *Developing Economies*, 51(4), 360–87.
31. Roychowdhury, P. (2017). Visible Inequality, Status Competition and Conspicuous Consumption: Evidence from India. *Oxford Economic Papers*, 69(1), 36–54. doi: 10.1093/oep/gpw056.
32. Schor, J. (2007). In Defense of Consumer Critique: Revisiting the Consumption Debates of the Twentieth Century. *Annals of the American Academy of Political and Social Science*, 611(1), 16–30.
33. Trigg, A. B. (2001). Veblen, Bourdieu, and Conspicuous Consumption. *Journal of Economic Issues*, 35(1), 99–115.
34. United Nations. (2009). *System of national accounts 2008*. New York: United Nations.
35. Veblen, T. ([1899] 2007). *The theory of the leisure class* (Reprint. Edited with an Introduction and Notes by Martha Banta.). New York: Oxford University Press.
36. Wang, X., & Wen, Y. (2012). Housing Prices and the High Chinese Saving Rate Puzzle. *China Economic Review*, 23(2), 265–283.
37. Yin, T. (2012). The “Will” to Save in China: The Impact of Bequest Motives on the Saving Behavior of Older Households. *Japanese Economy*, 39(3), 99–135.
38. Yuan, X., Song, T. H., & Kim, S. Y. (2011). Cultural Influences on Consumer Values, Needs and Consumer Loyalty Behavior: East Asian Culture versus Eastern European Culture. *African Journal of Business Management*, 5(30), 12184–12196.
39. Zhou, W. (2014). Brothers, Household Financial Markets and Savings Rate in China. *Journal of Development Economics*, 111(November), 34–47.

# LINKING ENTREPRENEURIAL ORIENTATION TO KNOWLEDGE'S EXPLOITATION

**Alexandra França**

*Polytechnic Institute of Porto, Portugal*

**Orlando Lima Rua**

*Polytechnic Institute of Porto, Portugal*

Received: January 17, 2017    Accepted: September 26, 2017    Online published: September 29, 2017

## ***Abstract***

*The processes for exploitation of knowledge became an essential element for firms to adapt to changes in the competitive environment. The exploitation of this knowledge should be undertaken with proactivity, innovation and risk-taking. Building on well established theories, our research explores the influence of entrepreneurial orientation in exploitation of knowledge of Portuguese small and medium enterprises (SMEs) of footwear associated to the Portuguese Footwear, Components and Leather Goods Association (APICCAPS). Based on survey data from 42 firms, and employing the Partial Least Squares Structural Equation Modeling (PLS-SEM) technique, our empirical results indicate that the entrepreneurial orientation's dimensions that have a positive and significant influence on knowledge's exploitation are innovation and risk-taking, and that on the contrary proactiveness has a negative and a not significant influence on it.*

**Keywords:** entrepreneurial orientation, absorptive capacities, knowledge's exploitation, SMEs, Portuguese footwear industry, PLS-SEM.

## **1. Introduction**

In a dynamic and turbulent environment, knowledge represents a critical resource to create value and to develop and sustain competitive advantages (Teece, Pisano and Shuen, 1997). However, fast changing environments, technologies and competitiveness intensify the challenges firms face in attaining self-sufficiency in knowledge creation (Camisón and Forés, 2010).

Entrepreneurial orientation is a strategic orientation of a company that encompasses specific entrepreneurs aspects such as style, methods and decision-making practices (Frank, Kessler and Fink, 2010), constituting a capacity that can attract resources to exploit opportunities (Alvarez and Busenitz, 2001). Literature in the field of strategic management has focused on dynamic capabilities (for a review see Barreto, 2010). The firms' success depends not only on its' resources and capabilities, but also the ability to adapt itself to the industry

contingencies and the markets in which operates. Firms may possess resources but must display dynamic capabilities otherwise shareholder value will be destroyed (Bowman and Ambrosini, 2003). It is in this context that emerges the Dynamic Capabilities View (DCV) (Amit and Schoemaker, 1993; Teece et al., 1997) to support the adjustment to environmental change.

Some researchers are establishing the link between entrepreneurial orientation (EO)-knowledge, namely knowledge transfer (or sharing) (Hormiga, de Saá-Pérez, Díaz-Díaz, Ballesteros-Rodríguez and Aguiar-Díaz, 2017; Rezazadeh and Mahjoub, 2016), knowledge acquisition (Fuentes-Fuentes, Bojica and Ruiz-Arroyo, 2015; Song, G. Min, S., Lee, S. and Seo, 2016), or knowledge creation process (Yong-Hui, Jing-Wen and Ming-Tien, 2009). Thus, there is a gap in the literature regarding the relationship between entrepreneurial orientation and knowledge exploitation.

DCV is not divergent but rather an important stream of Resource-Based View (RBV) to gain competitive advantage in increasingly demanding environments (Ambrosini and Bowman, 2009; Barreto, 2010; Eisenhardt and Martin, 2000; Wang and Ahmed, 2007). Monteiro, Soares and Rua (in press) defend that in versatile markets the firms' capabilities should be dynamic and managers must display the ability to ensure consistency between the business environment and strategy in order to continuously renew skills.

Dynamic capabilities as a mind-set constantly integrate, reconfigure, renew and recreate its core capabilities in response to the ever changing environment in order to achieve and sustain competitive advantage (Wang and Ahmed, 2007). Moreover, these capabilities sense and shape opportunities and threats, seize opportunities, and maintain competitiveness by enhancing, combining, protecting, and reconfiguring the businesses' intangible and tangible resources (Teece, 2007).

Absorptive capacity (AC) has become one of the most significant constructs in the last twenty years. Absorptive capacity is the dynamic capability that allows firms to gain and sustain a competitive advantage through the management of the external knowledge (Camisón and Forés, 2010).

Building on well established theories, our research aims at exploring the influence of entrepreneurial orientation in exploitation of knowledge of Portuguese SMEs exporting footwear, by analysing the contributions of this capability in such construct.

## **2. Theoretical Framework**

### **2.1. Entrepreneurial orientation**

Entrepreneurial orientation emerged from entrepreneurship definition which suggests that a company's entrepreneurial degree can be measured by how it take risks, innovate and act proactively (Miller, 1983). Entrepreneurship is connected to new business and entrepreneurial orientation relates to the process of undertaking, namely, methods, practices and decision-making styles used to act entrepreneurially. Thus, the focus is not on the person but in the process of undertake (Wiklund, 2006).

Companies can be regarded as entrepreneurial entities and entrepreneurial behaviour can be part of its activities (Covin and Slevin, 1991). Entrepreneurial orientation emerges from a deliberate strategic choice, where new business opportunities can be successfully undertaken (Lumpkin and Dess, 1996). Thus, there is an entrepreneurial attitude mediating the vision and operations of an organization (Covin and Miles, 1999).

Several empirical studies indicate a positive correlation between entrepreneurial orientation and organizational growth (e.g. Miller, 1983; Covin and Slevin, 1991; Lumpkin and Dess, 1996; Wiklund, 2006; Davis, Bell, Payne and Kreiser, 2010; Frank, Kessler and Fink, 2010). Similarly, other studies also confirm that entrepreneurial orientation has a positive

correlation with export's performance, enhancing business growth (e.g. Zahra and Garvis, 2000; Okpara, 2009).

The underlying theory of entrepreneurial orientation scale is based on the assumption that the entrepreneurial companies are different from the remaining (Kreiser, Marino and Weaver, 2002), since such are likely to take more risks, act more proactive in seeking new businesses and opportunities (Khandwalla, 1977; Mintzberg, 1973).

Entrepreneurial orientation has been characterized by certain constructs that represent organization's behaviour. Starting from the Miller (1983) definition, three dimensions were identified: innovation, proactiveness and risk-taking, which collectively increase companies' capacity to recognize and exploit market opportunities well ahead of competitors (Zahra and Garvis, 2000). However, Lumpkin and Dess (1996) propose two more dimensions to characterize and distinguish entrepreneurial process: competitive aggressiveness and autonomy. In this study only innovation, proactiveness and risk-taking will be considered, as they are the most consensual and used dimensions to measure entrepreneurial orientation (e.g. Covin and Miller, 2014; Covin and Slevin, 1989, 1991; Davis et al, 2010; Frank et al, 2010; Kreiser et al, 2002; Lisboa, Skarmeas and Lages, 2011; Miller, 1983; Okpara, 2009; Wiklund and Shepherd, 2005; Zahra and Covin, 1995; Zahra and Garvis, 2000).

## ***2.2. Absorptive capacity of knowledge's exploitation***

In order to survive certain pressures, companies need to recognize, assimilate and apply new external knowledge for commercial purposes (Jansen, Van Den Bosch and Volberda, 2005). This ability, known as absorptive capacity (Cohen and Levinthal, 1990), emerges as an underlying theme in the organizational strategy research (Jansen et al., 2005). Cohen and Levinthal (1990) conceptualize ACAP as the firms' ability to identify, assimilate, and exploit knowledge acquired from external sources. As such, ACAP facilitates knowledge accumulation and its subsequent use. Thus, this ability access and use new external knowledge, regarded as an intangible asset, is critical to success and depends mainly on prior knowledge level, since it is this knowledge that will facilitate the identification and processing of new one. This prior knowledge not only includes the basic capabilities, such as shared language, but also recent technological and scientific data or learning skills. By analysing this definition is found that absorptive capacity of knowledge only three dimensions: the ability to acquire external knowledge; the ability to assimilate it inside; and the ability to apply it (Cohen and Levinthal, 1990). Zahra and George (2002) broaden the concept of ACAP from the original three dimensions (identify, assimilate, and exploit) to four dimensions (acquire, assimilate, transform, and exploit).

AC is a good example of a dynamic capability since it is embedded in a firm's routines. It combines the firm's resources and capabilities in such a way that together they influence "the firm's ability to create and deploy the knowledge necessary to build other organizational capabilities" (Zahra and George, 2002, p. 188).

According to Zahra and George (2002) AC is divided in Potential Absorptive Capacity (PAC), including knowledge acquisition and assimilation, and Realized Absorptive Capacity (RAC) that focuses on transformation and exploitation of that knowledge. PAC reflects the companies' ability to acquire and assimilate knowledge that is vital for their activities. Knowledge acquisition the identification and acquisition and assimilation is related to routines and processes that permit to analyse, process, interpret and understand the external information. RAC includes knowledge transformation and exploitation, where transformation is the ability to develop and perfect routines that facilitate the integration of newly acquired knowledge in existing one, exploitation are routines which enhance existing skills or create new ones by incorporating acquired and transformed knowledge internally.

Jansen et al. (2005) defend that, although company's exposure to new knowledge, is not sufficient condition to successfully incorporate it, as it needs to develop organizational mechanisms which enable to synthesize and apply newly acquired knowledge in order to cope and enhance each ACAP dimension. Thus, there are coordination mechanisms that increase the exchange of knowledge between sectors and hierarchies, like multitasking teams, participation in decision-making and job rotation. These mechanisms bring together different sources of expertise and increase lateral interaction between functional areas. The system mechanisms are behaviour programs that reduce established deviations, such as routines and formalization. Socialization mechanisms create a broad and tacit understanding of appropriate rules of action, contributing to a common code of communication.

Studying absorptive capacity offers fascinating insights for the strategic management literature and provide new information regarding how firms may develop important sources of sustainable competitive advantages (Jansen et al., 2005). In this paper the focus is on the exploitation of knowledge.

### 3. Hypotheses and Research Model

Dynamic capabilities refer to "the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments" (Teece *et al.*, 1997, p. 516).

Barreto (2010, p. 271) argued that a "dynamic capability is the firm's potential to systematically solve problems, formed by its propensity to sense opportunities and threats, to make timely and market-oriented decisions, and to change its resource base". On the other hand, dynamic capabilities enable companies to create, develop and protect resources allowing them to attain superior performance in the long run, are constructed (not acquired in the market), dependent on experience and are embedded in the company's organizational processes (Ambrosini and Bowman, 2009), not directly affecting the outputs, but contributing through the impact they have on operational capabilities (Teece *et al.*, 1997). These capabilities refer to a firm's capacity to deploy resources, usually in combination, using both explicit and tacit elements (such as know-how and leadership). For this reason, capabilities are often firm-specific and are developed over time through complex interactions between the firm's resources (Amit and Schoemaker, 1993). Maintaining these capabilities requires a management that is able to recognize adversity and trends configure and reconfigure resources, adapt processes and organizational structures in order to create and seize opportunities, while remaining aligned with customer preferences. Indeed, dynamic capabilities allow businesses to achieve superior long-term performance (Teece, 2007).

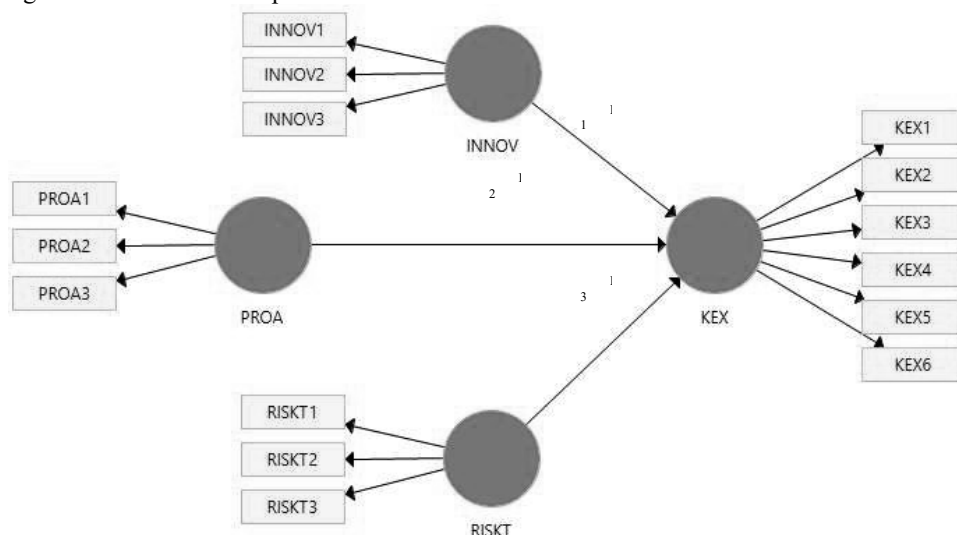
Firms, therefore, need to continually analyse and interpret changing market trends and quickly recognize new opportunities in order to create competitive products (Tzokas, Kim, Akbar and Al-Dajani, 2015). The AC construct encompasses an outward-looking perspective that deals with the identification and generation of useful external knowledge and information and an inward-looking component that is related with how this knowledge is analysed, combined with existing knowledge, and implemented in new products, new technological approaches, or new organizational capabilities (Cohen and Levinthal, 1990).

Ultimately, the following hypothesis is tested:

- H1: *Innovation influences positively knowledge's exploitation.*
- H2: *Proactiveness influences positively knowledge's exploitation.*
- H3: *Risk-taking influences positively knowledge's exploitation.*

We present in figure 1 the theoretical model that will be explored in this research, which represents the explanatory variables (innovation, proactiveness and risk-taking) and explained variables (knowledge's exploitation).

Figure 1 - Research conceptual model



Key: INNOV – Innovation; PROA – Proactiveness; RISK – Risk-taking; KEX – Knowledge's exploitation.

## 4. Methodology

### 4.1. Setting and Data Collection

To test the hypothesis a sample of Portuguese footwear companies was used, that meet the following criteria: companies in which at least 50% of income comes from exports of goods, or companies in which at least 10% of income comes from exports of goods and the export value is higher than 150.000 Euros (INE, 2011).

Data collection was implemented through electronic questionnaire, associating a link to the survey that was online. To reduce misunderstandings, the questionnaire was validated by the research department of Portuguese Footwear, Components and Leather Goods Association (APICCAPS).

We were provided with a database of 231 companies (company name, telephone contact, email, economic activity classification, export markets, export intensity and capital origin). Only 167 companies fulfilled the parameters, and were contacted by email by APICCAPS to respond to the questionnaire. Subsequently, all companies were contacted by the authors via e-mail and telephone, to ensure a higher rate of valid responses. The questionnaires began on April 22 and ended on July 22, 2014. After finishing the data collection period, 42 valid questionnaires were received, representing a 25% response rate. This response rate is considered quite satisfactory, given that the average of top management survey response rates are in the range of 15%-20% (Menon, Bharadwaj, Adidam and Edison, 1999).

In this investigation we chose a non-probabilistic and convenient sample since it respondent were chosen for being members of APICCAPS.

#### 4.2. Measures

For assessment of entrepreneurial orientation was used Covin and Slevin's scale (1989), that consists in nine items: three for innovation, three for proactiveness and three for risk-taking, having been used a five point Likert scale, where 1 means "strongly disagree" and 5 "strongly agree".

To measure of knowledge's exploitation, and based in Jansen *et al.* (2005), it was operationalized the company's ability to explore new external knowledge into their current operations, through six questions (e.g. Jansen *et al.*, 2005; Zahra and George, 2002). A five point Likert scale was used to measure each item, where 1 means "strongly disagree" and 5 "strongly agree".

### 5. Results

#### 5.1. Descriptive analysis

Findings show that the sample is mostly composed by small firms, where 93% are SMEs and 7% micro businesses. Regarding their experience in foreign markets, we found that 69% have exported for over 15 years, 19% between 11 and 15 years, 5% between 6 to 10 years, while only 7% have less than 5 years' experience. Regarding their sales, more than 50% revenues are from exports. SMEs in our sample export up to 6 or more countries (67%), being Europe the main market, followed by Asia and Africa.

Table 1 – Mean, standard deviation and correlation coefficients

Item	(1)	(2)	(3)	(4)
(1) PROA	1.000			
(2) INNOV	-.016	1.000		
(3) RISKT	-.064	-.056	1.000	
(4) KEX	.161	.532*	.161	1.000
Mean	3.97	2.83	2.74	3.87
Standard deviation	.764	.671	.946	.736
N	42	42	42	42

\* All relationships are statistically significant at the  $p < 0.01$  level.

Table 1 presents descriptive statistics and the correlations between the items. We have used a non-parametric test, Spearman correlation, due to the nature of variables (ordinals), data and sample size (Marôco, 2011; Pestana and Gageiro, 2008). Even though correlations being an indicator of items convergent validity, we proceed with the process of properly validate the scale.

#### 5.2. Reliability analysis

In order to verify the reliability of overall variables we estimated the stability and internal consistency through Cronbach's alpha ( $\alpha$ ). Generally, an instrument or test is classified with appropriate reliability when  $\alpha$  is higher or equal to 0.70 (Nunally, 1978; Chin, 2010). The result of 0.855 achieved for all variables is considered excellent, confirming the sample's internal consistency (Pestana and Gageiro, 2000). Table 2 show all constructs largely achieved the required level.



Table 2 - Cronbach's Alpha of multidimensional variables

Construct	Cronbach Alpha	p values
INNOV	.825	.000
PROA	.852	.000
RISKT	.821	.000
KEX	.898	.000

### 5.3. Exploratory factor analysis

Factor analysis is a technique whose primary purpose is to organize the structure of a large number of variables by defining sets of variables that are highly interrelated, known as factors. These groups of factors are assumed to represent dimensions within the data. The general purpose of factor analytic techniques is to find a way to summarize the information contained in a number of original variables into a smaller set of new dimensions with a minimum loss of information (Hair, Black, Babin and Anderson, 2014; Pestana and Gageiro, 2008).

Common method bias (CMB) is one of the main sources of measurement error. This error threatens the validity of the conclusions about the relationships between measures (Podsakoff, MacKenzie, Lee and Podsakoff, 2003; Podsakoff, MacKenzie, & Podsakoff, 2012). Harman's single factor test is one technique to identify CMB (Podsakoff et al., 2003). Factor analysis of all latent variables limited the number of factors to "1". According to Mat Roni (2014) the first component of "Total Variance Explained" should be less than 50%. Hence, in this study the measurement instrument is free from significant CMB effects since the variance value is 35.518%.

#### *Entrepreneurial orientation*

Concerning the factor analysis of *Entrepreneurial orientation's* construct, with Varimax rotation, we got a scale with 9 items, distributed by 3 factors, and there was no need to delete items, that explained 77.09% of total variance, with 35.52% of variance explained by the first factor - *Proactiveness* (saturation range between 0.887 and 0.786), 27.48% for the second factor - *Innovation* (saturation range between 0.856 and 0.840), and 14.09% by the third factor - *Risk-taking* (saturation range between 0.918 and 0.770). Analysing the internal consistency of the three factors, we found that Cronbach's Alphas have a reasonable internal consistency. KMO test indicates that there is a reasonable correlation between the variables (0.695). Bartlett's sphericity test registered a value of  $\chi^2(36, n=42)=171.176, p<0.05$ , therefore it is confirmed that  $\chi^2>\chi_{0.95}^2$ , so the null hypothesis is rejected, i.e. the variables are correlated.

#### *Knowledge's exploitation*

Factor analysis, with Varimax rotation, of these construct reveals that we got a scale with one factor and there also was no need to delete items. A scale with 6 items was obtained, which explained 66.57% of total variance, whose saturations range between 0.821 and 0.533.

The internal consistency is excellent ( $\alpha=0.898$ ). KMO test point to a good correlation between the variables (0.866). Bartlett's sphericity test registered a value of  $\chi^2(15, n=42)=140.869, p<0.001$ , therefore is confirmed that  $\chi^2>\chi_{0.95}^2$ , so the null hypothesis is rejected and the variables are correlated.

### 5.4. PLS modeling

The structural equation model is a multiple regression analysis, with reflective indicators that are presented as an image of the unobserved theoretical construct, representing observed variables or measures, with the objective of strengthening the relationship of influence between the constructs (Maroco, 2010). The simple correlation between these indicators with their

construct must have a value equal to or higher than 0.707 so that the shared variance between the construct and their indicators is higher than the error variance (Carmines and Zeller, 1979).

*Partial Least Squares (PLS)* is a technique that best fits predictive applications (exploratory analysis) and theory development when it is not soundly established (Roldán and Cepeda, 2014). This technique, on one hand, maximizes the explained variance of the dependent variables (latent or observed, or both) and estimates structural models with small samples (Chin and Newsted, 1999; Reinartz, Haenlein and Henseler, 2009). On the other hand, it estimates reflective and formative measurement models without identification problems (Chin, 2010). PLS appears to be a preferable option for researchers with samples below 250 observations (42 in this study) (Reinartz *et al.*, 2009).

We also use the composite reliability coefficient to assess construct validity (Chin, 1998). This coefficient reflects construct adequacy for a level higher than 0.6 using confirmatory factor analysis (Gefen and Straub, 2005), as in our case. Table 3 illustrates that the studied constructs (all multidimensional) highly exceeded the minimum required for a good fit.

Table 3 - Composite reliability coefficient of multidimensional variables

Construct	Composite reliability	<i>p</i> values
INNOV	.895	.000
PROA	.908	.000
RISKT	.881	.000
KEX	.922	.000

For validity assessment, two subtypes are usually examined: convergent and discriminant validity. Convergent validity implies that a set of indicators represents one and the same underlying construct (Henseler *et al.*, 2009). Fornell and Larcker (1981) suggest using the *Average Variance Extracted* (AVE) criterion and that an AVE value of at least 0.5 indicates sufficient convergent validity. Table 4 demonstrates that only entrepreneurial orientation is below the minimum required.

Table 4 - Convergent validity

Construct	AVE	<i>p</i> values
INNOV	.740	.000
PROA	.767	.000
RISKT	.713	.000
KEX	.665	.000

Discriminant validity is the degree to which any single construct is different from the other constructs in the model. To have discriminant validity a construct must exhibit weak correlations with other latent variables that measure different phenomena. There are two measures of discriminant validity in PLS. The Fornell–Larcker criterion (1981) recommends that the AVE should be greater than the variance between a given construct and the other with which it shares the model. The second criterion suggests that the loading of each indicator is expected to be greater than all of its cross-loadings (Henseler *et al.*, 2009).

We can observe the explanatory power of each variable in the model. Entrepreneurial orientation is the only purely explanatory variable and reputational resources and absorptive capacity of knowledge exploitation the explained variables. Chin (1998) distinguishes the explanatory power from moderate to substantial. Table 5 expresses the good results in terms of discriminant validity of the research model, confirming that constructs do differ significantly.

Table 5 - Discriminant validity

Fornell-Larcker Criterion	INNOV	KEX	PROA	RISKT
INNOV	.860			
KEX	.506	.815		
PROA	.276	.310	.876	
RISKT	-.100	.323	.331	.844

A mere comparison of the regression coefficients is not valid to evaluate the importance of each independent variable models, since these variables have different magnitudes. Thus, it is essential to use standard variables, known as Beta ( $\beta$ ) coefficients, in the models adjustment so that the independent variables can be compared.

Beta coefficient allows a direct comparison between coefficients as to their relative explanatory power of the dependent variable. Table 6 shows that the variables that have higher contribution to knowledge exploitation are *Innovation* ( $\beta=0.445$ ) and *Risk-taking* ( $\beta=0.325$ ).

Table 6 - Standardized beta coefficient<sup>a</sup>

Variables	Beta	Sig.
ENTREPRENEURIAL ORIENTATION		
Innovation	.445	.002*
Proactiveness	.076	n.s.
Risk-taking	.325	.021*

\*  $p < 0.05$ .

n.s. – non significant.

a. Dependent variable: Knowledge's exploitation.

In order to determine the significance of the studied relationships and the confidence intervals of the path coefficients, we used bootstrapping technique. The weighted coefficients indicate the relative strength of each exogenous construct. According to Chin (1998), relationships between constructs, with structural coefficients higher than 0.2, are considered robust. From table 7, we thus conclude that the original model does present only a non-significant path (PROA  $\rightarrow$  KEX).

Table 7 - Model's Path Coefficients

Hypotheses	Original Sample (O)	Sample Mean (M)	Standard Error (STERR)	T Statistics ( O/STERR )	p values
INNOV $\rightarrow$ KEX	.529	.514	.139	3.798	.000*
PROA $\rightarrow$ KEX	.044	.082	.148	.299	.765***
RISKT $\rightarrow$ KEX	.361	.345	.203	1.781	.075**

\*  $p < 0.001$ ; \*\*  $p < 0.10$ ; \*\*\* n.s. – non significant.

The significance of structural coefficients and the magnitude of the total effects enabled us to test the research hypotheses, having registered the following results:

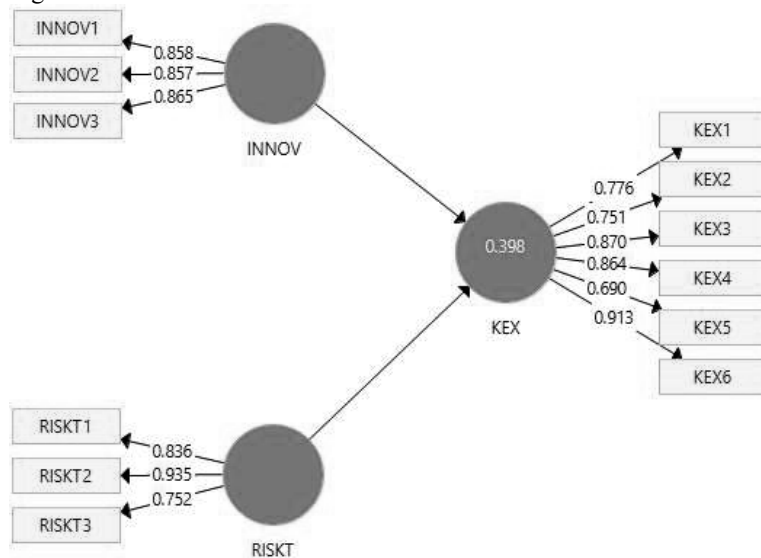
H1. INNOV  $\rightarrow$  +KEX – This hypothesis was supported.

H2. PROA  $\rightarrow$  +KEX – This hypothesis was not supported.

H3. RISKT  $\rightarrow$  +KEX – This hypothesis was supported.

Figure 2 presents the final research structural model with the (direct) effects and explained variance of latent variables.

Figure 2 - Research structural model



## 6. Discussion and Conclusions

The main purpose of this study is to analyse the influence of entrepreneurial orientation on knowledge exploitation. We conducted an empirical research based on a sample of 42 companies, which were applied a questionnaire in order to exploit data to test hypotheses, using proceedings and statistical techniques. It is important to note that companies evaluated entrepreneurial orientation and exploitation of knowledge relative to their major competitors in the export market(s), so the results should be interpreted based on these two aspects.

The Portuguese footwear industry faces considerable challenges, not only concerning the international markets crisis, but also regarding consumption patterns. The reduction of shoe design lifecycles has consequences on the offer. On one hand, the products have to be adapted to different segments specific needs and tastes (custom design, new models in small series, etc.), on the other hand, manufacture processes must be increasingly flexible, adopt just-in-time production, invest in the brand, qualified personnel, technology and innovation (APICCAPS, 2013).

This study demonstrated that the company's innovation and risk-taking have a positive and significant influence on knowledge's exploitation. The analysed companies are able to exploit knowledge through informal knowledge gather, clear definition of tasks, analysis and discussion of market trends and new product development, among others.

Dynamic capabilities can take a variety of forms and be involved in different functions, but the most important common characteristics are that they are higher level capabilities which provide opportunities for knowledge gathering and sharing, constant updating the operational processes, interaction with the environment, and decision-making evaluations (Easterby-Smith, Lyles and Peteraf, 2009). However, the existence of common features does not imply that any particular dynamic capability is exactly alike across firms, rather they could be developed from different starting points and take unique paths (Eisenhardt and Martin, 2000).

In fact, according to the industrial organization, a company should find a favourable position in its industry from which it can better defend against competitive forces, or to influence them in his favour through strategic actions such as raising barriers to entry, etc.

(Porter, 1980). This perspective is consistent with Eisenhardt and Martin (2000) regarding the uniqueness of paths. The results of this study confirm that knowledge's exploitation enable firms to achieve superior long-term performance (Teece, 2007).

### **6.1. Theoretical and practical implications**

It is known that strategy includes deliberate and emergent initiatives adopted by management, comprising resource and capabilities use to improve business performance (Nag, Hambrick and Chen, 2007). The findings are a contribution to clarify the influence of entrepreneurial orientation on the company's knowledge exploitation. This study also enabled a thorough analysis of a highly important industry for national exports, such as footwear industry, allowing understanding that entrepreneurial orientation, as an industry strategic determinant, enhancing exploitation of knowledge.

Jansen *et al.* (2005) defend that companies need to develop organizational mechanisms to combine and apply newly acquired knowledge in order to deal and enhance each absorptive capacity dimension. In this study is notorious the importance of knowledge absorptive capacity to business performance. It is essential that business owners are able to interpret, integrate and apply external knowledge in order to systematically analyse change in the target market and to incorporate this knowledge in their processes to enhance performance.

In addition, the results provide guidance to business practitioners; because they indicate entrepreneurial orientation as a predictor for exploitation of knowledge. Companies are a bundle of resources and capabilities (Peteraf, 1993), it is essential to understand and identify which resources are relevant to gain competitive advantage and superior performance. In this study it is obvious the importance of entrepreneurial orientation to the firms' exploitation of knowledge. Business owners must be able to interpret, integrate and apply external knowledge in order to systematically analyse the changes that arise in their target market(s) and to incorporate this knowledge into their processes, to identify the present and future needs and market trends, anticipate changes in demand and seek new business opportunities.

By building on the literature of entrepreneurial orientation, absorptive capacity and exploitation of knowledge, this study aims to support the strategic development of business management policies designed to increase firms' performance in foreign markets and add value to the current context of change.

### **6.2. Research limitations**

The main limitation of this study is related to the sample size, since it was difficult to find companies with the willingness to collaborate in this type of research. The sample is non-probabilistic and convenience and cannot be used to infer to the general population. The study findings should therefore be analysed with caution.

The fact that the research does not consider the effect of control variables such as size, age, location and target market of the respondents can be seen as a limitation.

Finally, the fact that this study considered only exploitation of knowledge as an absorptive capacity can also be appointed as a limitation.

### **6.3. Future lines of research**

In future work, we suggest that the model is used in a sample with a higher number of observations to confirm these results.

We further suggest pursuing with the investigation of strategic management in Portugal, focusing in other sectors of national economy, so that in the future one can make a comparison with similar studies, allowing realizing and finding new factors that enhance absorptive capacity.

Finally, the moderating effect of strategic variables (e.g. intangible resources, competitive advantage, environment hostility, level of international engagement) in the relationship between entrepreneurial orientation and knowledge's exploitation should be studied.

## References

1. Alvarez, S. A., & Busenitz, L. W. (2001). The entrepreneurship of resource-based theory. *Journal of Management*, 27(6), pp. 755-775.
2. Ambrosini, V., & Bowman, C. (2009). What are dynamic capabilities and are they a useful construct in strategic management? *International Journal of Management Reviews*, 11(1), pp. 29-49.
3. Amit, R., & Schoemaker, P. (1993). Strategic assets and organizational rent. *Strategic Management Journal*, 14(1), pp. 33-46.
4. APICCAPS (2013). *Footure - Plano Estratégico - Cluster do Calçado*, APICCAPS: Associação Portuguesa dos Industriais de Calçado, Componentes, Artigos em Pele e seus Sucedâneos.
5. Barreto, I. (2010). Dynamic Capabilities: A Review of Past Research and an Agenda for the Future. *Journal of Management*, 36(1), pp. 256-280.
6. Bowman, C., & Ambrosini, V. (2003). How the Resource based and the Dynamic Capability Views of the Firm Inform Corporate level Strategy. *British Journal of Management*, 14(4), pp. 289-303.
7. Camisón, C., & Forés, B. (2010). Knowledge absorptive capacity: New insights for its conceptualization and measurement. *Journal of Business Research*, 63(7), pp. 707-715.
8. Cohen, W. M., & Levinthal, D. A. (1990). Absorptive Capacity: A New Perspective on Learning and Innovation. *Administrative Science Quarterly*, 35(1), pp. 128-152.
9. Covin, J., & Miles, M. (1999). Corporate entrepreneurship and the pursuit of competitive advantage. *Entrepreneurship: Theory and Practice*, 23(3), pp. 47-63.
10. Covin, J., & Miller, D. (2014). International Entrepreneurial Orientation: Conceptual Considerations, Research Themes, Measurement Issues, and Future Research Directions. *Entrepreneurship Theory and Practice*, 38(1), pp. 11-44.
11. Covin, J., & Slevin, D. (1989). Strategic management of small firms in hostile and benign environments. *Strategic Management Journal*, 10(1), pp. 75-87.
12. Covin, J., & Slevin, D. (1991). A conceptual model of entrepreneurship as firm behavior. *Entrepreneurship: Theory and Practice*, 16(1), pp. 7-25.
13. Davis, J.L., Bell, R.G., Payne, G.T., & Kreiser, P.M. (2010). Entrepreneurial Orientation and Firm Performance: The Moderating Role of Managerial Power. *American Journal of Business*, 25(2), pp. 41-54.
14. DeVellis, R. F. (2012). *Scale Development - Theory and Applications* (3rd ed.). Chapel Hill, USA: SAGE Publications, Inc.
15. Easterby-Smith, M., Lyles, M. A., & Peteraf, M. A. (2009). Dynamic Capabilities: Current Debates and Future Directions. *British Journal of Management*, 20(S1-S8).
16. Eisenhardt, K.M., & Martin, J.A. (2000). Dynamic capabilities: what are they? *Strategic Management Journal*, 21(10-11), pp. 1105-1121.
17. Frank, H., Kessler, A., & Fink, M. (2010). Entrepreneurial orientation and business performance-a replication study. *Schmalenbach Business Review*, 62(2), pp. 175-199.
18. Fuentes-Fuentes, M., Bojica, A. M., & Ruiz-Arroyo, M. (2015). Entrepreneurial orientation and knowledge acquisition: effects on performance in the specific context of women-owned firms. *International Entrepreneurship and Management Journal*, 11(3), pp. 695-717.

19. Hormiga, E., de Saá-Pérez, P., Díaz-Díaz, N. L., Ballesteros-Rodríguez, J. L., & Aguiar-Díaz, I. (2017). The influence of entrepreneurial orientation on the performance of academic research groups: the mediating role of knowledge sharing. *The Journal of Technology Transfer*, 42(1), pp. 10–32.
20. Jansen, J.J.P., Van Den Bosch, F.A.J., & Volberda, H.W. (2005). Managing Potential and Realized Absorptive Capacity: How Do Organizational Antecedents Matter? *Academy of Management Journal*, 48(6), pp. 999–1015.
21. Khandwalla, P.N. (1977). Some top management styles, their context and performance. *Organization and Administrative Sciences*, 7(4), pp. 21–51.
22. Kreiser, P., Marino, L., & Weaver, K. (2002), "Assessing the psychometric properties of the entrepreneurial orientation scale: A multi-country analysis", *Entrepreneurship Theory and Practice*, 26(4), pp. 71–94.
23. Lisboa, A., Skarmeas, D., & Lages, C. (2011). Entrepreneurial orientation, exploitative and explorative capabilities, and performance outcomes in export markets: A resource-based approach. *Industrial Marketing Management*, 40(8), pp. 1274–1284.
24. Lumpkin, G., & Dess, G. (1996). Clarifying the entrepreneurial orientation construct and linking it to performance. *Academy of management Review*, 21(1), pp. 135–172.
25. Mat Roni, S. (2014). *Introduction to SPSS*. SOAR Centre Graduate Research School Edith Cowan University Joondalup, Australia.
26. Marôco, J. (2011). *Análise estatística com o SPSS Statistics* (5ª ed.). Pêro Pinheiro: ReportNumber, Lda.
27. Menon, A., Bharadwaj, S.G., Adidam, P.T., & Edison, S.W. (1999). Antecedents and consequences of marketing strategy making: a model and a test. *Journal of Marketing*, 63(2), pp. 18–40.
28. Miller, D. (1983). The correlates of entrepreneurship in three types of firms. *Management science*, 29(7), pp. 770–791.
29. Mintzberg, H. (1973). Strategy-making in three modes. *California Management Review*, 16(2), pp. 44–53.
30. Monteiro, A., Soares, A. M., & Rua, O. L. (in press). Entrepreneurial orientation and export performance: the mediating effect of organisational resources and dynamic capabilities. *Journal of International Business and Entrepreneurship Development*.
31. Nag, R., Hambrick, D., & Chen, M. (2007). What is strategic management, really? Inductive derivation of a consensus definition of the field. *Strategic Management Journal*, 28(9), pp. 935–955.
32. Nunnally, J. C. (1978). *Psychometric theory*, New York: McGraw-Hill.
33. Okpara, J. (2009). Entrepreneurial orientation and export performance: evidence from an emerging economy. *Int. Rev. Bus. Res. Papers*, 5(6), pp. 195–211.
34. Pestana, M. H. and Gageiro, J. N. (2008), *Análise de Dados para Ciências Sociais - A complementaridade do SPSS* (5ª ed.), Lisboa: Edições Silabo.
35. Peteraf, M. (1993). The cornerstones of competitive advantage: A resource-based view. *Strategic Management Journal*, 14(3), pp. 179–191.
36. Podsakoff, P. M., MacKenzie, S. B., Lee, J.-Y., & Podsakoff, N. P. (2003). Common method biases in behavioral research: A critical review of the literature and recommended remedies. *Journal of Applied Psychology*, 88(5), pp. 879–903.
37. Podsakoff, P. M., MacKenzie, S. B., & Podsakoff, N. P. (2012). Sources of Method Bias in Social Science Research and Recommendations on How to Control It. *Annual Review of Psychology*, 63(1), pp. 539–569.
38. Porter, M. (1980). *Competitive Strategy*, New York: Free Press.

39. Rezazadeh, A., & Mahjoub, M. (2016). Alliance entrepreneurship and entrepreneurial orientation: The mediating effect of knowledge transfer. *Gadjah Mada International Journal of Business*, 18(3), pp. 263-284.
40. Song, G. Min, S., Lee, S., & Seo, Y. (2016). *The effects of network reliance on opportunity recognition: A moderated mediation model of knowledge acquisition and entrepreneurial orientation*. Technological Forecasting & Social Change, Elsevier Inc.
41. Teece, D. J. (2007). Explicating dynamic capabilities : the nature and microfoundations of (sustainable) enterprise performance. *Strategic Management Journal*, 28(13), 1319–1350.
42. Teece, D. J., Pisano, G., & Shuen, A. (1997). Dynamic capabilities and strategic management. *Strategic Management Journal*, 18(7), pp. 509–533.
43. Tzokas, N., Kim, Y. A., Akbar, H., & Al-Dajani, H. (2015). Absorptive capacity and performance: The role of customer relationship and technological capabilities in high-tech SMEs. *Industrial Marketing Management*, 47, pp. 134–142.
44. Wang, C., & Ahmed, P. K. (2007). Dynamic capabilities: A review and research agenda. *International Journal of Management Reviews*, 9(1), pp. 31–51.
45. Wiklund, J. (2006). The sustainability of the entrepreneurial orientation–performance relationship. In P. Davidsson, F. Delmar, & J. Wiklund, J. (eds.), *Entrepreneurship and the Growth of Firms* (pp. 141–155), Northampton, MA: Edward Elgar.
46. Wiklund, J., & Shepherd, D. (2005). Entrepreneurial orientation and small business performance: a configurational approach. *Journal of Business Venturing*, 20(1), pp. 71–91.
47. Yong-Hui, L., Jing-Wen, H., & Ming-Tien, T. (2009). Entrepreneurial orientation and firm performance: The role of knowledge creation process. *Industrial Marketing Management*, 38(4), pp. 440–449.
48. Zahra, S., & Covin, J. G. (1995). Contextual influences on the corporate entrepreneurship–performance relationship: A longitudinal analysis. *Journal of Business Venturing*, 10(1), pp. 43–58.
49. Zahra, S., & Garvis, D. (2000). International corporate entrepreneurship and firm performance: The moderating effect of international environmental hostility. *Journal of Business Venturing*, 15, pp. 469–492.
50. Zahra, S., & George, G. (2002). Absorptive capacity: A review, reconceptualization, and extension. *Academy of Management Review*, 27(2), pp. 185–203.



# THE ITALIAN SOUNDING PHENOMENON: THE CASE OF GERMANY

**Barbara Francioni**

*Carlo Bo University of Urbino, Italy*

**Giovanna Albanesi**

*Carlo Bo University of Urbino, Italy*

Received: April 12, 2017      Accepted: September 10, 2017      Online Published: September 26, 2017

## *Abstract*

*The main objective of this paper is to consider the role of Made in Italy in foreign markets, especially in the German one. The focus is on the Italian Sounding phenomenon, which is mainly affecting the Italian food sector. To deeply understand this phenomenon and its consequences, an online survey has been carried out in Germany. By analyzing results, the fact that consumers do not pay attention to the label while purchasing has been confirmed. In this way, the strategy of Italian Sounding damages both the perception of Made in Italy goods and the whole Italian economy. For those reasons, the Italian Sounding should be minimized by using specific marketing activities, until consumers understand the real quality of the authentic Made in Italy.*

**Keywords:** Italian Sounding; Made in Italy, Country of Origin, Germany.

**JEL Classification:** M3

## **1. Introduction**

In recent years, attention has increasingly been drawn on the origin of goods, especially in the food sector, driving consumers' choices while purchasing. Among many parameters to consider, it is important to mention extrinsic factors like country of origin, used by consumers to evaluate products. In brief, in respect of other studies and the literature, the country of origin is usually abbreviated as "COO", which refers to the country that manufactures, designs or assembles a product or brand with which it is associated (Lee & Lee, 2009). The country of origin effect has indeed a strong impact on purchasing decisions.

A particular aspect related to COO is the Italian Sounding phenomenon, which consists in exploiting names, colours and images to imitate real Italian products, but having nothing to do with the original Made in Italy quality, culture and tradition. The implementation of the sounding strategy constitutes a threat not only to the Italian exporting companies but also to consumers: damages are caused to Italian producers by references being made to well-known

Italian brands or by the use of specific wordings which give the impression that a product is Italian when it is not, thus misleading consumers. Italian Sounding is a tangled issue, especially because nowadays global sourcing is a common practice: supply chains are frequently spread across countries, thus, determine the true Country of Origin (COO) of a product is more complicated than before. Interestingly, some authors precisely suggest that companies located in countries that do not benefit from a positive country image, can take advantage of the positive perception associated to another nation (Zeugner-Roth, Diamantopoulos & Montesino, 2008). The present paper is meant to provide an overview of the positioning of the Made in Italy in foreign markets, through the analysis of the consequences of the so-called Italian Sounding phenomenon. Starting from a literature review concerning the COO effect, the paper will provide a deepening in the Italian Sounding phenomenon. Moreover, an online survey has been carried out in Germany, and people have answered questions regarding their behavior in supermarkets and their expectations about Made in Italy goods. Feedbacks and data from German consumers have been considered to better analyse the Italian Sounding phenomenon, evaluating both risks and opportunities.

## **2. Literature review**

### **2.1. Country of Origin**

COO has been defined by Nagashima (1970) as the picture, reputation or the stereotype that businesspersons or consumers attach to products of a specific country. In addition, country image is one of the first variables that researchers test in accordance to foreign product and carry on in international business and consumer behavior studies (Kotler, 2011).

Moreover, it is highlighted how the image of the country of origin is affected by national characteristics, as well as the economic and political background, the history and tradition of the country. According to Papadouloulus and Louis (1993) this principle is the result of the perceived national identification or affiliation of a product by consumers regardless of any explicit or implicit and real or false claims inherent in the product or its associated promotion. The COO of a good or service is simply whatever a consumer perceives it to be. Moreover, the COO serves as an indirect indicator of the product quality, as it attests benefits and performances, ensuring costumers expectations.

Therefore, information relating to the origin of products plays a crucial role in developing positive or negative prejudices on goods, driving consumers purchasing choices (Bursi et al., 2012). The COO effect can have a positive or negative impact on customer intention, per every effect that the country of manufacture has on the perception of the buyers (Thakor and Lavack, 2003). As claimed by some academics, if the image of a country is perceived in a positive way from the target, a company can take advantage of this situation, using the image as a mean to add value to the product in the commercialization phase (Speece & Nguyen, 2005). Therefore, information concerning products' origin influence the purchasing decision: the COO undertakes a prominent role and for this reason, companies should consider consumers' perceptions in developing marketing activities.

Another important factor to consider is the push towards globalization, which is not affecting the prominent position of COO, as the territorial identity acts as an intrinsic factor, enlarging or diminishing the product value. As Nardin (2012) states, COO is an important informative factor, as territories became a symbol of identity in a globalized market. Globalization does not flatter, but indicates a degree of difference among products instead. Thus, the origin became a quality mark, which represents all the companies operating in the same territory.

The so-called Halo effect takes place when consumers evaluate a country's unfamiliar product using their perceived country image that is based on whatever knowledge they have about the country itself (Bertoli & Resciniti, 2012). The halo effect is therefore a concern of great importance, especially for Italian Small and Medium-Sized Enterprises (SMEs) which have limited resources and competences to set appropriate communication policies to reach foreign markets; on the other hand, they can take advantage of the origin of products to better communicate the quality and reliability level, differentiating their products in globalized markets.

## **2.2. *Made in Italy***

Italian products have gained a widely-recognized reputation over the years, which made it possible to obtain a commercial advantage to Made in Italy products. In general, Italian products are characterized by a high creative content of the industrial process, validating the term "Italian style". To the Made in Italy concept are related the sensory experiences of consumers, as well as common stereotypes of the COO, which significantly affect the consumers' decision making process (Dona, 2009).

Moreover, the Italian specialization in food, furniture and clothing sectors have reached high standards all over the world. These specific skills are considered as core competences of Made in Italy, even more than technical qualities and technological performances (Guerini & Uslenghi, 2006). It is therefore possible to state that COO exerts a special influence on consumers when referring to specific sectors.

The problem arises, and indeed exists, for small business which are affected by legislation: on one hand, large business groups save money by outsourcing certain production steps; on the other hand, small businesses produce entirely on the Italian market, affording high costs for maintenance and labor. SMEs are indeed overpowered by large business groups which can cope with the present economic situation, granting a competitive price but providing the same quality standards as the one of SMEs. However, the halo effect helps SMEs to be competitive as much as multinationals and in building relations with foreign markets.

## **2.3. *Italian Sounding***

The Chamber of Commerce of Parma (Magagnoli, 2013) defined Italian sounding as a phenomenon based on the capability of offering products with Italian features, regardless of quality, taste and place of production. In addition, Magagnoli (2013) stressed the fact that it is important to distinguish Italian sounding from counterfeiting, which is legally enforceable and it consists in illegal imitations of brands and designs identified as Italian products but effectively produced in other countries. Moreover, the possibility of legally pursuing these actions considering the Italian Sounding is often precluded. Foreign companies adopting the sounding strategy misuse distinguishing signs and informative descriptions which lead to the Italian country, using market techniques that can mislead consumers, competing in an unfair way in the market, gaining a competitive advantage with respect to the whole competition. This especially happens in product categories where a country excels in expertise and traditions, as the Italian agri-food products.

The sounding strategy can allow firms to meet the demand, guaranteeing high profits and it is in fact used when importing an original product which is too expensive and therefore not competitive. On this respect, Coldiretti (2014) underlines that the common denominator in cases of counterfeiting and imitation is the opportunity for a foreign company to obtain in its reference market a competitive advantage by unduly associating the image of Made in Italy to its products, having no real connections to the Italian productive system and competing in an unfair way with Italian producers, who are committed to ensuring high quality standards.

In respect of this phenomenon it is considered appropriate to specify three different imitation categories. The first one is referred to the use of non-registered Italian recipes: it should be made clear to consumers that specific wordings on the label such as “Bolognese sauce” are just a reference to the Italian country and not a real Italian product. Although the use of even real Italian recipes may not be prohibited, it represents a useful mean for the enhancement of real Italian products. The second category is related to markings which induce the idea of Italy, such as the Italian tricolor, pictures of locations and famous monuments. The last one concerns the use of Italian names and surnames addressed to both products and brands, aiming to recall the Italian country (Canali, 2013).

The implementation of the above-mentioned practices is a clear herd behavior and an abusive use of the Italian products’ reputation that misleads consumers. Consequently, this information asymmetry represents an opportunity for companies to modify their supply strategies, addressing their offer to foreign markets and not to the domestic one, because they are prompted by the need of cutting production costs. This is therefore a risk both for the agricultural Italian sector (in economic and employment terms) and for consumers who based their purchasing choice on prices because they are not able to distinguish between a real Italian product and a fake one.

If on one hand a legislation to protect intellectual property and Trade Dress exists, it is impossible on the other hand to have a law in a wider sense: if a single producer can register its brand, packaging or design in more than one country, nothing can be done when the same brand is implied in another country to represent another product category, or in the case where a competitor produces a given good using a similar name.

The term Trade dress refers to the overall commercial image of a product that indicates or identifies the source of the product and distinguishes it from those of others. It may include the design or configuration of a product, product labeling and packaging and even the décor or environment in which services are provided. Moreover, Trade dress can consist of elements such as size, shape, color and texture, to the extent that such elements are not functional. If a competitor markets a product with a packaging that is similar to the original one, the recourse to trademark legislation is necessary.

The Italian Chamber of Commerce for Germany presented a statement describing different criteria for Italian sounding judgement: fake designation of origin is an element that is sufficient to lead the court to issue a measure against the producer, whereas elements such as fake Italian recipes, Italian tricolor, packaging with typical Italian images, names or specific Italian wordings are judged in different ways, depending on the situation; the thing that matters the most is the general impression created in consumers’ mind by the packaging of a given good.

### 2.3.1. Market data

The Chamber of Commerce of Parma indicates that, despite the economic crisis, in 2013 Made in Italy food products represent one of the major contribution to the total national export (7%). Three years later, in 2016, the agri-food exports continue to be one of the most dynamic components of the Italian economy, reaching for value 9% of the total exports, as stated Iotti (2016).

However, this data cannot be considered positive if compared to the total annual turnover of products sold through the sounding strategy. According to data gathered in 2012 by Federalimentare (the Italian food industry Federation), market share of Italian sounding detraction from Italian industry is estimated at around 61 billion euro per year. This phenomenon assumes a great importance at world level, especially in Europe and North America, where the 97% of pasta-sauces are imitations of Italian products; moreover, Nomisma

(2015) stated that in USA, for each dollar earned by real Italian products, 11 dollars are earned thanks to imitative goods.

If on one hand data confirmed a huge appreciation of Made in Italy food, on the other hand there is a great potential for Italian export expansion. As the myth of Made in Italy food is everyday more rooted abroad, foreign producers attempt to implement the sounding strategy, causing high risks for Italian production; related to this trend, Coldiretti reported that now two out of three products sold in the international market are fake products.

### 2.3.2. Solutions

The Ministry of Italian economic development reported some solutions that have been implemented to contrast the Italian sounding phenomenon: the DGLC-UIBM, in collaboration with Federalimentare, was concerned in the period 2011 - 2013 with two projects: the first one began in June 2011, directed at Canada on the occasion of Italy's taking part in the "SIAL" show in Toronto. This project aimed at promoting and enhancing the products of the agri-food supply chain of Italian origin, educating the end consumer to recognize the origin and the difference in quality of the Italian product, carrying out promotional activities at the outlets of the mass retailers and a publicity campaign in the principal cities: Montreal and Toronto.

The second project, which was motivated by the positive experience in Canada, was carried out in Russia in 2013. The choice of Russia derived from the market's growing interest in the Italian food industry, arising from the increasing appreciation by Russian consumers of the quality of Italian products. On this occasion, as well as promoting the image of original Italian products, information seminars were held by the most famous chefs from Italian restaurants in Moscow, in order to educate the Russian consumer, with the intention of fighting back against the imitation of Italian food products.

Moreover, custom and excise agency, together with Coldiretti carried out the "Falstaff project" whose objective was to inform the young target about dangers arising from the purchase of non-compliant products, which are a real threat for both health and safety of consumers.

The "Food Act" project, promoted and advanced by the Italian government, is part of the legacy left behind by Expo Milan 2015. As well as above-mentioned projects, also in this case the aim is to promote "Made in Italy" and increase the level of quality of Italian cuisine abroad, through the Italian know-how in the food sector. It must be mentioned that, according to Gentiloni (2016), exports in the Agri-Food sector are worth about €37 billion per year and that this number is bound to increase thanks to the effort spent by the Italian Ministries of Agricultural Policy and Economic Development through the Plan for the Extra-Ordinary promotion of Made in Italy.

One of the most complete solution is the one proposed by Federalimentare (2012) composed by the following issues: the strengthening of legislative instruments worldwide, the reintroduction of anti-counterfeiting desks in countries where the phenomenon is more widespread, the implementation of products protection clauses in bilateral free trade agreements, the strengthening of relations with foreign markets through participation in fairs and the realization of informative social campaigns to better communicate the high value of real Italian products, in order to educate the end consumer. Regarding counterfeiting, Iotti (2016) reported what the President of Federalimentare Luigi Scordamaglia argued, in other words, the goal is not only to sell products, but also to stress the importance of Italian history, values, know-how, tradition as well as the increasing innovation and advanced technology behind real Italian products.

Another corrective action carried out by the Italian government is the Plan for Made in Italy Promotion, which aims to inform and promote Italian productive system abroad, to reinforce

italian products identity all over the world. In addition, a successful example is the association of Italia Del Gusto: as Volpe (2015), the Italian general manager explained, manufacturers of various product categories have decided to get together and present a united front to reach foreign markets.

Despite all these actions, it must be clear that the abolition of the Italian sounding does not automatically imply an increase in export sales: on this purpose, Nomisma (2015) argued that as the Italian business fabric is mostly composed by SMEs which struggle to export, it is in any case difficult to face the global market. For this reason, the main solution needed is to act on both fronts: the dimensional growth of enterprises and their commercial aggregation on one side, and trademark protection and tariff barriers limiting Italian export on the other.

Positive results came from Auricchio, an Italian company that implement a three-key point's strategy to increase revenue abroad. The CEO of the company explained during an interview (2015) that the strategy consisted in acquiring local importers and other companies in order to broaden the offer, fighting Italian sounding and realizing a Made in Italy system. In this perspective, the dairy sector, the company acquired its importer in the United States in 2015, as the American market accounts for a fifth of its turnover, supporting distributor with domestic staff. However, these operations are not implementable everywhere for economic reasons.

### **3. Research methodology**

#### **3.1. Market selection**

With regard to Ismea and Cogea-Databank (2005) analysis relative to Made in Italy positioning in foreign markets, it has been highlighted how Italian agri-food is positioned as up-market products. The strength points of Made in Italy are related to both organoleptic quality and aspects concerning the public imagination, thus the country of origin effect. On the other hand, the only weakness identified is the high price of goods.

According to Istat data of 2007, Germany turns out to be the first importer of Italian products at World level, with 14.8% of Italian export shares.

According to Federalimentare (2015), in 2014 Germany has been confirmed as the major target market for Italian export concerning the agri-food sector, as well as in 2015, with a share of 19,1% with respect to other target markets, as reported by Istat (2016).

With particular reference to the product "pasta", Italy is the leader in terms of sales in Germany, well above the average of other countries; same results are reported for fruits and vegetables. Moreover, German agents ascribe a prominent role both to notoriety and price: brand reputation is the most important element in the decision-making process, immediately followed by the price. As data shows, the German market is characterized by a strong presence of Made in Italy products, appreciated for their quality, origin and brands notoriety (Ismea and Cogea-Databank, 2005).

Made in Italy export of agri-food is one of the main component affecting the Italian balance of trade in a positively way. However, it is from this huge economic value that imitation and counterfeiting problems arise; foreign producers try to take advantage of this situation and of the great appeal Italian products exert on consumers, making quick profits.

#### **3.2. Data collection**

The Italian origin represents a strong incentive to buy for a German consumer, but this is not reflected in supermarkets where it is common to find imitation of Italian products. On this respect, the Italian Chamber of Commerce for Germany explained that in Germany, unlike other countries, the protection against counterfeit constitutes exclusively a tort, meaning that there is

no intervention of public authorities. So, the Italian producer is asked for individual activity for the involvement of the German producer in the proceedings; on the contrary, if the same situation occurs in Italy there is the possibility of Antitrust intervention.

To better understand the Italian sounding phenomenon in the German market an online survey was carried out. The main objective of the research was to identify how the sounding strategy affects the market and if consumers are aware of it. Respondents indicated their perceptions about Made in Italy and their purchasing behaviors in supermarkets. Moreover, the research allowed to detect the work of associations for the safeguard of both consumers and companies settled in the considered territory.

The questionnaire was divided into four parts: personal data, image of Italy and its products, evaluation of Italian products and Italian sounding phenomenon.

The final sample consisted in 118 persons, 36 men and 82 women, aged from 15 and 72 years old, mostly single. In addition, 80% of the sample identified its tax bracket between 0 – 20,000 euros per year. Finally, 105 persons out of 118 have been at least one time in Italy.

#### 4. Results and discussion

The first relevant results showed the Made in Italy consideration and the relative impact it has on the decision-making process in supermarkets, with particular reference to agri-food products. Respondents were asked to use a five point Likert Scale, where 1 indicated “not at all” and 5 “a lot”.

With reference to Table 1, it is clear the positive way in which products are considered: the mean of values assigned to certain characteristics was between 3 and 4 points out of 5. By analyzing results, respondents gave positive values to the above-mentioned characteristics: in particular, the technological and innovative level of Italian products is considered to be quite high, with a medium score of 3.04 and 2.97 out of 5. Moreover, German consumers identified Made in Italy as an exclusive feature: 63.6% assigned 3 points and 16.1% assigned 4 points out of 5. The highest medium value goes on the adjective “reliable”, with a medium score of 3.14 out of 5 points.

Table 1 – Made in Italy products: characteristics

Question	Score					Avg value
	1	2	3	4	5	
Italian products are:						
Technologically advanced	1.7%	19.5%	51.7%	27.1%	0.0%	3.04
Innovative	3.4%	24.6%	47.5%	20.3%	4.2%	2.97
Reliable	4.2%	16.1%	43.2%	33.9%	2.5%	3.14
Exclusive	3.4%	10.2%	63.6%	16.1%	6.8%	3.13

Moreover, positive values were assigned to the quality of Made in Italy products: the 55.1% of respondents evaluate them as “high quality”; this issue is connected to the one relative to the price of Italian goods, considered “very expensive” from the 47.5%. These data show the up-market positioning of Made in Italy, that can be considered as a niche product if compared to the low prices of sounding goods.

A key point is represented by the same evaluation on price that has been made by respondents identified in the upper income brackets, meaning that Italian products are characterized by high prices for all the population.

As concerns the brand notoriety, even if not in line with the wide spreading sounding phenomenon, the 75% can identify real Italian brands in supermarkets, meaning that Italian SMEs have effectively gained foothold on the German market.

Finally, consumers have been questioned about which Italian products they buy, considering different sectors: results show that food is what they associate and buy the most, followed by clothing, cosmetics and electronic products. Relevant data gathered in the third part of the survey concerned the evaluation of Italian products (Table 2). Positive values have been assigned to Italian products, with a medium value of 3.85, which are considered to be definitely better than the German ones by 33.1% of respondents. However, consumers would not pay a premium price for real Italian pasta: all consumers assigned values between 1 and 2 points out of 5 to this question. The reason behind this result could be ascribed to the high prices of Made in Italy products, respondents may not want to pay a lot for essential goods.

**Table 2 – Made in Italy products: evaluation**

Questions	Score					Avg value
	1	2	3	4	5	
1) Do you assign positive value to Italian products?	0.8%	1.7%	26.3%	54.2%	16.9%	3.85
2) Do you consider Italian food to be better than the German food?	2.5%	4.2%	23.7%	36.4%	33.1%	3.93
3) Do you feel like an Italian person when you eat pasta?	8.5%	9.3%	38.1%	26.3%	17.8%	3.36
4) Would you pay more to have a real Italian pasta package?	56.8%	43.2%	0.0%	0.0%	0.0%	1.43

The last part of the questionnaire referred specifically to the Italian sounding phenomenon: results highlighted the fact that German consumers did not always check the label to understand the real origin of goods. Therefore, if the brand is not known and the origin is not checked, the possibility to be misled by the packaging is considerably high, in addition if the variable of the price is considered in the decision-making process, the possibility of buying a sounding product is even higher. Thus, 65% of respondents confirmed that they have involuntarily bought a sounding product at least one time.

The products affected by the Italian sounding strategy the most are pasta, cheese and sauces. Moreover, to confirm the results of the previous parts, it has been asked which are the features that characterized the most Made in Italy goods and once again the 60.1% identify Italian product as high-qualified, with high price (36.5%) and safe (3.4%).

In the last part of the questionnaire there were two images of sounding products marketed in Germany, and people were supposed to recognize the real origin. Both brands implement the Italian sounding strategy but results are slightly different.

Regarding the first figure, it is possible to say that the reason behind the fact that fewer people than expected have been misled by the strategy is the brand notoriety. However, 24%



did not recognize the real German origin, because of the presence of specific wordings, colors and other elements related to the sounding strategy.

The first element to consider is the name, which is typical Italian and captions state “the original” as well as “with original dressing”. Moreover, the Italian flag is well visible on the packaging.

The production site and a caption stating “inspired by the Italian recipe” are written with a small font on one side of the package. The intent of the German producer is therefore clear to imitate a real Italian product, so that more hasty consumers will buy the product expecting to find characteristics reported on the packaging.

The second image is a sounding product but in this case the brand is not known and therefore the 52% of respondents believed this product as a real Italian, as it is a glaring example of the implementation of the Italian sounding strategy. Also in this case, there are evident references to the Italian country, as the tricolor, the Italian name and a caption stating “authentic Italian”.

## 5. Conclusions, limitations and future research directions

The Italian sounding phenomenon is based on the sounding strategy which implies as key points a low price and Italian graphic elements misleading consumers (Dona, 2009), and it can be described as a way of counterfeiting products as it consists in giving Italian features to food products that are not truly Italian (Cembalo, Cicia, Del Giudice, Scarpa & Tagliaferro, 2008).

There is a market share where the demand is not completely met, therefore foreign producers take advantage of this situation to attract the attention on sounding products, which apparently have the same characteristic of Italian goods but with a lower price.

The situation is difficult to resolve, but asking for intervention on some points, such as the removal of the Italian flag from cheeses, as well as to veto the use of any graphics on the packaging that recall Italian country. The Italian sounding is also due to wrong strategies made in the past, focused on export ‘second choice’ products. Today it is not so: the best products are exported, because to succeed abroad the main way is to focus on excellence.

Another important issue is to offer a full range of products, because a company that has a large range is more credible in the eyes of the foreign customer.

According to Link (2016), Italy has set itself the ambitious goal to increase Agri-food product export to 50 billion euros by 2020, representing a potential benefit not only for Italian products consumers, but also for import and distributing companies. As Link (2016) explained, there is concrete commitment of the Italian Government, which in the 2015 budget law provided a significant allocation of 220 million euros related to the propagation of “Made in Italy”. In particular, the Italian investment aims to focus on high-potential geographic markets, USA and Canada in the first place; to activate promotional campaigns intended to influence opinion leaders and to involve importers and large retail chains and support SMEs that often lack in skills and resources to soundly access foreign markets. Italian companies should therefore organize themselves in order to grab every opportunity that foreign markets offer and that the huge turnover of Italian sounding seems to testify.

Data gathered through the survey conducted on the German market showed how the phenomenon acts, and also the way in which Italian producers lose their potential market shares. The studied phenomenon confirmed that the real Made in Italy agri-food sector can be wider than it is now, and potential market shares stolen by sounding products could have a great impact on the total Italian export, affecting Italian economy positively.

The United States, Canada and Mexico are the biggest consumers of products made locally but carrying Italian-sounding names. But the phenomenon is also growing in crisis-hit Europe, where local consumers spend a total €21 billion per year on fake cheap food against €13 billion

on original Italian cheese, pasta sauce and other popular meals, according to figures by agriculture and food organization Coldiretti. Italy sought support from several countries ahead of a possible international agreement discussed during Expo 2015. But some countries have been reluctant to agree on such a delicate issue, which raises protectionist fears and affects domestic economic interests.

COO food labelling is also one of the contentious issues at the heart of negotiations for an ambitious bilateral free trade deal between EU and the US, also known as Transatlantic Trade and Investment Partnership, but US has not yet formally agreed to his proposal to create a common front against fake food, as reported Lombardy region governor Maroni in 2014 during an interview.

Latest data exposed by Cavestri (2017) show that in total, the “Made in Italy” sector in the US is worth €40 billion, up 10.5% compared to €36 billion in 2015. Meanwhile in 2014 Italian exports were close to €30 billion, up 10% compared to 2013. This was a progression that analysts had forecast also for 2017-2019 (with an annual increase of more than 7%). According to Italian food sector association Federalimentare, of more than €38.4 billion of food and farming exports in the world, Italy sells €3.8 billion in the US. Even though an agreement has not been reached yet, looking at the list of the roughly 90 products on which the US administration could impose tariffs up to 100%, more than 75 are food-related products.

The Italian sounding should be minimized through information and education campaigns, marketing activities aimed at promoting the real Italian quality, know-how and tradition, in order to be fully appreciated and recognized all over the world.

## References

1. Bursi, T., Grappi, S. & Martinelli, E. (2012). *Effetto “Country of Origin”*. Un’analisi comparata a livello internazionale sul comportamento d’acquisto della clientela. Bologna: Il Mulino.
2. Camera di commercio italiana per la Germania. (2013, April 29). *Come tutelarsi dall’Italian sounding? Ecco le possibilità legali per difendersi dalla contraffazione*. Retrieved from <http://itkam.org/2013/04/come-tutelarsi-dallitalian-sounding-ecco-le-possibilita-legali-per-difendersi-dalla-contraffazione/> (Accessed 20 October 2016).
3. Camera di commercio Parma. (2013, January). *Italian sounding e contraffazione nell’agroalimentare*. Retrieved from <http://www.pr.camcom.it/comunicazione/riviste-e-pubblicazioni/contenuti-riviste-e-pubblicazioni/parma-economica/archivio-parma-economica-2013-1/italian-sounding-e-contraffazione-magagnoli> (Accessed 20 October 2016).
4. Canali, G. In: De Filippis, F. (2013). *L’agroalimentare italiano nel commercio mondiale. Specializzazione, competitività e dinamiche*. Roma: Quaderno del Gruppo 2013, Edizioni Tellus.
5. Carlin, S. (2016, June 14). *L’italian sounding è una sfida culturale*. Retrieved from <http://corrieredibologna.corriere.it/bologna/notizie/economia/2016/14-giugno-2016/italian-sounding-sfida-culturale-240554389653.shtml> (Accessed 20 October 2016).
6. Cavestri, L. (2017, March 31). *Trump tariffs threaten 13% of Italy’s US food exports, and some iconic brands like Vespa*. Retrieved from <http://www.italy24.ilsole24ore.com/art/business-and-economy/2017-03-30/tariffs-against-vespas-153548.php?uuid=AEjnlVw> (Accessed 22 April 2017).
7. Cembalo, L., Cicia, G., Del Giudice, T., Scarpa, R., & Tagliaferro, C. (2008). Beyond agropiracy: The case of Italian pasta in the United States Retail Market. *Agribusiness*, 24(3), pp. 403 – 413.

8. Dona, M. (2009). *La spesa alimentare tra sicurezza, qualità e convenienza. Atti del Premio Vincenzo Dona, voce dei consumatori 2009*. Milano: Franco Angeli.
9. Federalimentare (2015). *Focus export l'atlante geografico del food Made in Italy nel mondo*. Retrieved from <http://www.cibusexpo2015.it/wp-content/uploads/2015/02/atlante-geografico-federalimentare.pdf> (Accessed 23 April 2017)
10. Gentiloni, P., & Martina M. (2016, October 26). *A Game plan to enhance made in Italy cuisine*. Retrieved from <http://www.italy24.ilsole24ore.com/art/business-and-economy/2016-10-25/a-game-plan-to-enhance-made-italy-cuisine-133418.php?uuid=ADp0zxiB> (Accessed 22 April 2017).
11. Guerini, C., A. Uslenghi (2006). *Valore del Made in, Identità di marca e comunicazione di marketing nelle imprese distrettuali italiane*. Luic.
12. Iotti, R. (2016, November 7). *Food exports increasing 3.1% to €24.5 bn in the first eight months*. Retrieved from <http://www.italy24.ilsole24ore.com/art/business-and-economy/2016-11-02/the-food-industry-reaches-245-billion-share-31percento-153345.php?uuid=AD9EypnB> (Accessed 22 April 2017).
13. Ismea, Cogea – Databank, con il contributo del Ministero delle Politiche Agricole e Forestali. (2005). *Il posizionamento del Made in Italy agroalimentare all'estero*. Ismea.
14. ISTAT. (2016). *Rapporto Annuale 2016*. Retrieved from [http://www.crea.gov.it/wp-content/uploads/2016/07/commercio-2015\\_WEB-2.pdf](http://www.crea.gov.it/wp-content/uploads/2016/07/commercio-2015_WEB-2.pdf). (Accessed 23 April 2017).
15. Kotler, P. (2011). *Philip Kotler's Contributions to Marketing Theory and Practice*. Review of Marketing Research: Special Issue–Marketing Legends, 8, pp.87-120.
16. Lee, J. K., & Lee, W. N. (2009). Country-of-origin effects on consumer product evaluation and purchase intention: the role of objective versus subjective knowledge. *Journal of International Consumer Marketing*, 21(2), pp. 137-151.
17. Link-Italian Food Experts. (2016, June). *50 billion Euros of Italian Agri-food export by 2020. Great news*. Retrieved from <http://www.italianfoodexperts.com/50-billion-euros-of-italian-agri-food-export-by-2020-great-news/782>. (Accessed 20 October 2016).
18. Matarazzo, M. (2013). Country of Origin Effect: research evolution, basic constructs and firm implications". In: Bertoli, G.; R. Resciniti. *International marketing and the country of origin effect. The global impact of "made in Italy"*. Bertoli.
19. Ministero dello sviluppo economico. (2013, March). *Contrasto all'Italian Sounding*. Retrieved from <http://www.uibm.gov.it/index.php/la-proprieta-industriale/utilita-pi/servizi-prop-ind/contrasto-all-italian-sounding> (Accessed 20 October 2016).
20. Ministero dello sviluppo economico. (2014, June). *La Lotta Alla Contraffazione In Italia Nel Settore Agroalimentare*. Retrieved from [http://www.uibm.gov.it/iperico/home/rapporto%20iperico-%20lotta%20alla%20contraffazione%20nel%20settore%20agroalimentare\\_definitivo.pdf](http://www.uibm.gov.it/iperico/home/rapporto%20iperico-%20lotta%20alla%20contraffazione%20nel%20settore%20agroalimentare_definitivo.pdf) (Accessed 20 October 2016).
21. Nagashima, A. (1970). A comparison of Japanese and US attitudes toward foreign products. *The Journal of Marketing*, pp. 68-74.
22. Nardin, G. (2012). "L'effetto Coo e la globalizzazione". In: Bursi, T., S. Grappi, E. Martinelli (2012). *Effetto "Country of Origin". Un'analisi comparata a livello internazionale sul comportamento d'acquisto della clientela*. Bologna: Il Mulino.
23. Nomisma. (2015). *Il futuro del made in Italy risiede nell'export*. Retrieved from <http://magazine.expo2015.org/cs/Exponet/it/economia/giulio-santagata--il-futuro-del-made-in-italy-risiede-nell-export>. (Accessed 20 October 2016).
24. Papadopoulos N. and Louis A.H. (1993). *Product and country images: Research and Strategy*. New York: The Haworth Press.

25. Speece, M. & Nguyen, D. P. (2005). Countering negative country-of-origin with low prices: a conjoint study in Vietnam. *Journal of Product & Brand Management*, 14(1), pp. 39–48.
26. Thakor, M. V., & Lavack, A. M. (2003). Effect of perceived brand origin associations on consumer perceptions of quality. *Journal of Product & Brand Management*, 12(6), pp. 394–407.
27. Zeugner-Roth, K. P., Diamantopoulos, A., & Montesino, M. A. (2008). Home country image, country brand equity and consumers' product preferences: An empirical study. *Management International Review*, 48(5), pp. 577 – 602.

# THEORETICAL RESEARCH ON ORGANIZATIONAL ETHICAL CLIMATE: APPLICATIONS AND PRACTICES OF JAPANESE ENTERPRISES IN CHINA

**Ryu Keikoh**

Waseda University, Japan

Received: August 8, 2017

Accepted: September 26, 2017

Online Published: October 2, 2017

## *Abstract*

*Organizational ethical climate, a concept first developed by Bart Victor and John Cullen nearly 30 years ago based on Renato Tagiuri and George Litwin's theory of organizational climate, continues to serve as an important predictor of employee behavior as well as individual and organizational performance. With greater emphasis placed on business ethics, the theory of organizational ethical climate has also been receiving tremendous attention in China primarily in the context of psychology and management research. This paper offers an overview of recent developments in organizational ethical climate research by Western and Chinese scholars, with a particular focus on its application to Japanese enterprises doing business in China, and proposes various measures and strategies to help managers cultivate effective human resource practices.*

**Keywords:** organizational ethical climate, organizational commitment, anti-ethical behavior, organizational performance, human resource management.

## **1. The Theory of Organizational Ethical Climate**

Generally speaking, the theory of “organizational climate” is concerned with the objective circumstances of an organization’s environment as perceived by individuals working in the organization (Tagiuri & Litwin, 1968). According to Tagiuri and Litwin, organizational climate influences decision-making by generating certain beliefs about the consequences that will follow from specific actions. In 1981, other theorists expanded on this theory by claiming that an organization’s ethical climate may also have an impact on the ethical behavior of individual members (see, e.g., Murphy, 1981).

The notion of “organizational ethical climate” thereby came to embody the commonly shared experiences of an organization’s members concerning what constitutes ethical behavior, as well as the ways in which ethical issues are addressed by the organization itself (Trevino, 1986). Then, in 1987, a revolutionary study was conducted which contextualized organizational ethical climate by explaining how individuals come to understand their “expected behavior”

over the course of their efforts to adapt to the organization's environment (Victor & Cullen, 1987).

For Victor and Cullen, the concept of organizational ethical climate refers to both the jointly-held beliefs of individual members with respect to what constitutes ethical behavior, as well as the process through which ethical issues are addressed by the organization. Under this theory, different organizations have different ethical climates, which in turn leads to differences in how they go about resolving ethical conflicts through various management practices<sup>1</sup>. Numerous studies have since explored the concept of organizational ethical climate based on Victor and Cullen's research, with their findings summarized in the table 1.

Table 1 – Definitions of Organizational Ethical Climate

Research	Definitions
Victor & Cullen (1987)	Defines organizational ethical climate as the jointly-held cognitive and behavioral perceptions of an organization's employees concerning what constitutes ethical behavior, as well as the organization's approach to addressing and resolving ethical issues.
Wimbush & Shepard (1994)	Defines organizational ethical climate in terms of how employees as a group handle ethical dilemmas and make ethical decisions, as opposed to individual feelings or attitudes, based on a normative approach to moral conduct.
Falkenberg & Herremans (1995)	Defines organizational ethical climate as an informal system of dealing with personal and organizational problems involving ethical issues, in which the influence of such a system eclipses that of an organization's official guidelines and standards.
Malloy & Agarwal (2001)	Defines organizational ethical climate as a psychological perception structure focused on the ethical behavior of individual members, which can be used to enhance employees' understanding of shared values involving what constitutes ethical and unethical behavior, ways to address and resolve ethical problems, as well as their awareness of personal responsibility.

Source: Author's collection

As evident from the above, the theory of organizational ethical climate is generally concerned with the perceptions shared by an organization's individual members, as well as its effect on organizational decision-making, rather than any written codes of conduct or standards for judging morality. As such, it is focused on a shared awareness of what ethical conduct is and how to resolve ethical problems, which necessarily varies across different organizations and which informs the attitudes, beliefs, motivations and behavior of individual members, including colleagues, partners and superiors (Malloy & Agarwa, 2001). As for its practical applications, the theory can be used to strengthen and improve the social and ethical culture of an organization by developing management practices and codes of conduct to promote effective decision-making. In effect, by encouraging specific types of ethical behavior through various human resources management strategies, organizations should be able to cultivate an ethical climate more conducive to higher levels of employee satisfaction as well as individual and organizational performance.

---

<sup>1</sup> Other approaches are also worth noting, such as the notion of ethical climate as the status linking the thoughts, emotions and behavior of an organization's individual members, as measured by their morale, attitudes and cohesion (Denison, 1996), as well as its impact on members' attitudes and behavior as a prediction of individual and organizational performance (Wu Hongmei, 2005).

## 2. The Typology of Organizational Ethical Climate

The typology developed by Victor and Cullen (1987) divides organizational ethical climate into nine categories based on ethical criteria and locus of analysis. In terms of ethical criteria, this typology draws heavily from Lawrence Kohlberg's theory involving stages of moral development, which characterizes ethical standards in terms of egoism, benevolence and principles. While "egoism" seeks to maximize the pursuit of self-interest at the expense of others, "benevolence" is concerned with the common interests of the community, and "principle" emphasizes the adherence to regulations and procedures. These three criteria, which Victor and Cullen treat as standards of moral judgment, necessarily determine the different types of organizational ethical climate.

As for locus of analysis, Victor and Cullen make use of Alvin Gouldner's cosmopolitan-local framework, which posits that organizations and its members take various considerations into account when making ethical decisions. Specifically, just as "individual" considerations such as moral beliefs can form the basis of ethical decision-making, such decisions can also be based on the "local" organization's code of ethics, regulations and policies, as well as "cosmopolitan" considerations derived from other organizations and individuals (which itself stems from the sociological theory of reference groups and their role in the social system for shaping different behaviors and attitudes). Therefore, depending on the various ethical criteria and locus of analysis discussed above, the typology developed by Victor and Cullen is composed of nine distinct ethical climate types, as set forth in table 2.

Table 2 – Victor and Cullen's Theoretical Framework for Organizational Ethical Climate

Ethical Criteria \ Locus of Analysis	Individual	Individual	Individual
Egoism	Egoism	Egoism	Egoism
Benevolence	Benevolence	Benevolence	Benevolence
Principle	Principle	Principle	Principle

Source: Victor and Cullen (1987); Victor and Cullen (1988).

Based on the above findings, Victor and Cullen also developed an Ethical Climate Questionnaire (ECQ) in order to better understand individual members' perceptions concerning an organization's ethical climate. A series of surveys conducted by Victor and Cullen in 1987, 1988 and 1993 indicated that "efficiency" plays an insignificant role and that "friendship" and "team interest" are regarded as one and the same, which led them to conclude that only seven out of the nine ethical climate types above have practical implications.

Following additional research, these seven types were further refined into the following five dimensions: instrumentalism, caring, independence, rules, and laws and codes.

"Instrumentalism" refers to a belief in the supremacy of individual and/or organizational interests as maximized through business activities and with no consideration for the consequences; "caring" refers to an emphasis on altruistic principles in which both managers and employees are focused on maximizing their collective interests; "independence" enables individual members to develop their own standards of morality based on personal value judgments which are respected by the organization and immune to the influence of others; "rules" require strict adherence to the rules, procedures and codes of conduct established by the organization, whose interests necessary take precedence over those of individual members; while "laws and codes" require obedience to laws and professional standards developed outside of the organization, which takes a backseat approach to regulating the conduct of its members.

### **3. Empirical Studies on Organizational Ethical Climate**

Empirical studies performed on the basis of this theoretical framework have broken down organizational ethical climate into independent, intermediary and moderating variables, each of which are discussed below and applied to Chinese enterprises.

#### ***3.1. Independent Variables of Organizational Ethical Climate***

##### ***3.1.1. The impact of organizational ethical climate on ethical behavior***

In terms of their impact on employees' ethical decision-making, organizational ethical climate and individual moral behavior are closely related (Trevino & Youngblood, 1990). According to Trevino (1986), since employees' perceptions necessarily determine their behavior, cultivating an awareness of what constitutes ethical behavior is of primary importance, while Murphy (1993) and others have emphasized the effect of unfavorable ethical climates on unethical behavior. In either case, studies clearly show that changes to an organization's ethical climate tend to cause corresponding changes in individuals' ethical behavior.

More specifically, numerous studies have demonstrated a positive correlation between a caring organizational ethical climate and the ethical behavior of individual members (see, e.g., Murphy, 1993; Wimbush & Shepard, 1994; Loch & Conger, 1996; Peterson, 2002). A study by Okpar (2002) concluded that organizations with more caring ethical climates tend to have employees who exhibit higher levels of job satisfaction and engage in less anti-ethical behavior. Researchers in China have also reached similar conclusions. Wang Chunyan (2010), for instance, has shown that caring ethical climates have a positive influence on organizational citizenship behavior, in which employees share a stronger sense of community and are more likely to help each other accomplish organizational goals. At the same time, as demonstrated in a study by Chao Gang (2013), a caring ethical climate can also have a chilling effect on ethically deviant behavior while encouraging employees faced with ethical decisions to take the interests of others into account.

Organizational ethical climate based on independence, rules and laws and codes have also been shown to have a significant impact on the ethical behavior of individual members. A study conducted by Wimbush (1997) found a negative correlation between independent ethical climates and anti-ethical behavior. As for ethical climates characterized by laws and codes, Craig (2006) and others have also found relatively high levels of moral conduct and few instances of anti-ethical behavior among employees (see, e.g., Fan Liqun, 2006; Domingo & Ma Lu, 2014).

With respect to instrumentalism, however, an analysis of the connection between organizational ethical climate and individual behavior by Wimbush and Shepard (1992) showed that the overriding focus on egoism tends to result in greater violations of ethical standards and behavioral norms. Therefore, unlike the climate types discussed above, there appears to be a strong positive correlation between instrumental ethical climates and immoral behavior, with the level of immorality increasing along with the degree of instrumentalism. For example, Vardi (2001) found that anti-ethical behavior such as cheating is more common with instrumental climates, while Sackett (2006) concluded that employees working under such climates are less subject to ethical constraints on their behavior. According to Li Dengyue (2012), however, instrumental ethical climates can be further subdivided into "organization interest-oriented" and "personal interest-oriented," with only the latter shown to encourage deviant behavior. This makes sense, as an ethical climate in which the pursuit of self-interest is paramount necessarily allows individuals to pursue their own goals at the expense of other individuals, groups and organizations.



### 3.1.2. The impact of organizational ethical climate on employee job satisfaction and organizational commitment

A considerable amount of research has also focused on the various ways in which organizational ethical climate can impact employee job satisfaction and organizational commitment. Studies by Vitell and Davis (1990) and Kroeck and Sims (1994), for instance, concluded that organizational ethical climates more in line with the preferences of individual employees tend to contribute to greater job satisfaction and organizational commitment. A study on Taiwan's banking sector by Xie Kaixu (2010) also found a positive correlation between employees' agreement with an organization's ethical climate, job satisfaction and organizational commitment, while interviews with managers from a large non-profit organization conducted by Deshpande (1996) showed that changes in an organization's ethical climate can significantly impact job satisfaction.

As with the impact of organizational ethical climate on individual behavior discussed above, research by Kelly and Dorsch (1991), whose findings have since been corroborated by Cullen (2003) and others, has suggested a positive correlation between caring ethical climates and organizational commitment, and a negative correlation between instrumental ethical climates and organizational commitment. Similar studies have also shown that rule-based ethical climates have a positive impact on the organizational commitment of professional's study, while instrumental ethical climates tend to negatively correspond with job satisfaction and relationships between colleagues (see, e.g., Deshpande, 1996; Woodbine, 2006). Finally, a cross-cultural study on the organizational ethical climates of US, Chinese and Japanese banks found that all three exhibited a positive correlation between caring ethical climates and external job satisfaction, Chinese and Japanese banks showed a positive correlation between caring ethical climates and internal job satisfaction, and US and Chinese banks showed a positive correlation between ethical climates based on laws and codes and external job satisfaction.

Perhaps not surprisingly, such research has also overwhelmingly demonstrated a positive correlation between job satisfaction, organizational commitment and ethical climates based on collectivism, rules, efficiency, independence and compassion, and a negative correlation between organizational commitment and ethical climates based on egoism and instrumentalism. According to a study by Heng Shupeng (2008), for example, ethical climates driven by altruism tend to enhance employee job satisfaction as well as emotional commitment to the organization, while Liu Feng (2010) found a significant positive correlation between caring ethical climates and affective and moral organizational commitment.

### 3.1.3. The relationship between organizational ethical climate, individual- organization fit, and individual and organizational performance

As Sims and Keon (1997) have pointed out, if the ethical climate of an organization reflects individual employees' ethical standards and beliefs, the level of individual-organization fit will be improved. Valentine and Barnett (2003) have also found a positive correlation between organizational ethical climate and individual- organization fit based on a strong employee preference for favorable ethical climates, while a study by Lopez (2009) concluded that the type of ethical climate cultivated by an organization has a significant impact on perceptions involving individual- organization fit. Taking it a step further, recent research by Yang Chunjiang (2014) has also found that caring and rule-based ethical climates, as opposed to climates based on the pursuit of self-interest, can both lead to significant improvements in individual- organization fit and employee job satisfaction, thereby enhancing the interaction between organizations and their members.

Through there are few studies focused specifically on China, research has also shown a similar correlation between organizational ethical climate and individual and organizational

performance. Wimbush and Shepard (1994), for example, found that altruistic ethical climates help improve organizational performance by promoting ethical behavior among employees, as opposed to climates based on self-interest which contribute to anti-ethical behavior and diminish performance. Moreover, according to a study on the relationship between organizational ethical climate and the ethical traits of successful managers, employees of organizations with a caring ethical climate tend to associate ethical behavior with professional achievement, while employees working under instrumental climates attribute success to a lack of ethical behavior (Deshpande, 1996). This is why Henry Silverman (2000) has suggested that incorporating ethics into the management and development strategies of organizations is essential for enhancing its competitiveness.

### **3.2 Intermediary and Moderating Variables of Organizational Ethical Climate**

A study involving a chain of U.S. convenience stores indicates that personal morality only plays a role in determining employee's ethical decision-making and behavior under specific ethical climates, suggesting that organizational ethical climate has a direct impact on employees' job satisfaction and organizational commitment (Herndon, 1992). According to Tim and Chery (2000), social responsibilities as well as law and code-oriented ethical climates also play an important role in regulating employees' ethical decisions and behavioral intention. At the same time, studies have shown that job satisfaction can affect individual productivity as well as corporate profit margins (see, e.g., Zhang Qiuhui & Sun Xin, 2010). Therefore, not only does organizational ethical climate have a direct effect on job satisfaction, it may also have an indirect impact on organizational performance.

### **3.3 The Role of Organizational Ethical Climate in China**

As evident from the above, Western scholars have made enormous progress in developing the theory of organizational ethical climate, which has generated great interest in China. That said, cultural differences between China and the West should not be ignored, and the role of ethical climate in Chinese enterprises necessarily differs from that of their Western counterparts. In order to account for these differences, Chinese scholars have therefore proposed a number of changes to the theory as formulated by Victor and Cullen. According to Heng Shupeng (2008), based on a comprehensive analysis of the internal structure of Chinese culture, organizational ethical climate in China can be divided into five components: "self-oriented," "altruistic-oriented," "organization-oriented," "independent-oriented" and "law and code-oriented," the first three of which roughly correspond with the "instrumentalism," "caring" and "rules" under Victor and Cullen's typology. Based on a study of private enterprises in Wenzhou, Liu Feng (2010) has more recently reconfigured these categories into: "regulation-oriented," "caring-oriented," "independent-oriented," "organization-interest oriented" and "self-interest oriented," thereby collapsing the "rules" and "law and code" components of Victor and Cullen's formulation into a single category ("regulation-oriented") and subdividing "instrumentalism" into two separate categories ("organization-interest" and "self-interest oriented"). This typology was adopted by Li Dengyue (2012) in his study of the relationship between organizational ethical climate and employees' deviant behavior.

Research has shown that, out of the five categories discussed above, the organizational ethical climate of Chinese enterprises tends to be largely regulation-oriented. According to a study on high-end Chinese hotels by Yu Zhiyuan (2009), employees of Chinese enterprises are subject to an extensive system of laws, rules and codes which define and delineate what should be considered ethical behavior. A study by Liu Feng (2010), in which questionnaires were handed out to employees of small and medium-size enterprises (SMEs) in China, similarly suggests an organizational ethical climate dominated by rules, codes and regulations, albeit with

some evidence of independent-oriented, organization-interest oriented and self-interest oriented climates, and little to no evidence of caring-oriented climates.

Several studies have also concluded that different organizational ethical climates can coexist within the same Chinese enterprise, which is consistent with research involving Western companies. Heng Shupeng (2008) found that regulation-oriented and independent-oriented climates tend to coexist, with their respective impact on employee job satisfaction and organizational commitment dependent on the level of altruism within an organization. Where this altruism is lacking, even in a regulation-oriented climate involving enforced compliance with strict rules, job satisfaction and organization commitment will remain low. According to Liu Feng (2010), independent- oriented climates also tend to coexist with organizational-interest and self-interest oriented climates, while Jing Runtian and Liu Wenbin (2010) have found that employees largely regulate their ethical behavior based on the dominant ethical climate despite the presence of other climates within the same organization.

#### **4. The Organizational Ethical Climate of Japanese Enterprises in China**

The management and operations of Japanese-funded enterprises in China have undergone enormous changes since China's adoption of the reform and opening up policy in 1978. During the initial phase of the policy between 1978 and 1995, China's market potential was restricted by low income levels and market imperfections, while Japanese investment in China focused primarily on taking advantage of its preferential policies and cheap labor to establish production facilities. During the second phase from 1996 through 2001, Japanese enterprises' interest in China gradually expanded from production to the establishment of promotional, pricing and sales channels which laid the foundation for subsequent growth. Then during the third phase between 2001 and 2008, known as the market development period, efforts by Japanese enterprise to expand their footprint in China were driven by the establishment of nationwide merchandise networks. At this point, a wide range of products and services, from cars, electronics and furniture to medicine and food, became an indispensable part of China's economic development. More recently, the global financial crisis of 2008 along with increasing labor costs led to a decline in the number of Japanese production facilities in China, though Japan's interest in the Chinese market as a whole has shown no signs of slowing down. According to data released by Japan's Ministry of Economy, for example, in 2011 there were 5,878 Japanese enterprises in China (including Hong Kong and Macau), accounting for 30.5% of all overseas Japanese corporations, which increased to 7,700, or 33% of all overseas firms, in 2012.

Though Japan was one of the first countries to express an interest in the Chinese market, research on Japanese-funded enterprises in China did not begin until the third phase of the reform and opening up period in 2001. Moreover, early studies focused primarily on issues involving localization and diversification, and were therefore ill- equipped to address some of the more pressing problems currently faced by Japanese enterprises operating in China. While many of these problems stem from political tension between the two countries as well as Japan's economic downturn, they are also a reflection of Japanese companies' failure to adapt to China's changing policies on investment, environmental protection, technological innovation and foreign trade as part of its increasing focus on sustainable development. Of course, corporations from around the world have all had to adjust their strategies to adapt to these changes, but Japanese enterprises continue to face fierce competition from China as well as South Korea and Europe. As discussed below, one way to effectively improve their prospects is through a greater emphasis on ethics and culture, of which additional research on organizational ethical climate is essential. First, while the two countries are geographic

neighbors, differences in traditional Chinese and Japanese culture should not be ignored. Efforts must therefore be made to strengthen understanding between Japanese enterprises and their Chinese employees, with a particular emphasis on maintaining a positive corporate culture while enhancing the cultural sensitivity and adaptability of individual employees. In this respect, it would be productive for Japanese enterprises to identify the types of organizational ethical climates preferred by Chinese employees, which will help improve individual-organization fit and reduce turnover while increasing job satisfaction and organizational commitment.

Second, while the cultures of both countries have to some extent emphasized collectivism over individualism, Japan's so-called "collectivist culture" remains central to the growth and development of Japanese enterprises. For Japanese employees, this sense of collectivism means that they are expected to maintain a loyal and selfless devotion to the organization while fulfilling their individual potential. In China, however, work is simply viewed as a source of livelihood, which means that employees prefer to spend more time with their family and enjoying leisure activities (Jin Cheng, 2011). This suggests that in order to prevent unethical behavior, Japanese enterprises in China must do more than cultivate a caring ethical climate more in line with Chinese cultural norms, and that offering Chinese employees emotional support and intellectual stimulation is not enough. In a survey of 43 Japanese enterprises in China, Xue Jun and Nishimura Howe (2006) found that dissatisfaction with income and benefits remains the most common reason for Chinese employees to quit. Measures must therefore be taken to ensure that these employees are paid well enough to support themselves and their families.

Third, Yu Zhiyuan (2009) has argued that independent-oriented ethical climates tend to promote organizational commitment among employees. Yet for most Japanese enterprises doing business in China, there is little opportunity for promotion among Chinese employees, with most senior management positions being filled by Japanese. Yin Jinghui (2006) has similarly noted that the corporate culture of Japanese enterprises continues to be characterized by an overriding emphasis on Japanese identity which is coupled with an underlying mistrust of non-Japanese employees, a finding which has been corroborated by various other studies (see, e.g., Song Deling & Yue Dazhi, 2006; Kim Yong, 2007; Niu Jing, 2008). This failure to grant Chinese employees equal rights and promotional opportunities has prevented the development of a positive ethical climate, while hampering individual productivity and organizational commitment. Japanese enterprises must do more to enhance cultural inclusiveness through education and training, while cultivating an ethical climate which strives to satisfy the needs of all employees.

Finally, commercial enterprises need to realize, if they haven't already, that they can no longer afford to limit themselves to the pursuit of profit above all else, and that business ethics, along with an emphasis on social progress and development, has become central to their success. Yet several Japanese enterprises with operations in China have been mired in ethics scandals involving everything from substandard quality and safety failures to employee strikes over overtime and unequal pay. The safety problems reported by Toyota in 2010 and the Toto strikes of 2014, for example, directly reflect ongoing problems with the organizational ethical climate of Japanese enterprises as well as their failure to fully integrate into Chinese society. According to Liu Songbo (2013), effective moral leadership can help counteract employees' perceptions of a self-interest oriented ethical climate and reduce anti-ethical behavior. Japanese executives must therefore do more to cultivate climates which place a greater emphasis on social development and the need to pass on positive values to their employees. Additional research on how the existing ethical climates formed, as well as effective mechanisms to

improve related management practices, should also help ensure the sustainable long-term development of Japanese enterprises in China.

## **5. The Development of Organizational Ethical Climate and Challenges to Human Resource Management**

While numerous studies have confirmed the existence of a strong correlation between ethical climate and individuals' behavior, attitude and performance, research into human resources management practices has largely ignored the theory of organization ethical climate. This clearly needs to change, and the following recommendations are intended to address the various ways in which human resource managers can foster more positive ethical climates.

As a preliminary matter, the concept of individual-organization fit must be made more of a priority, which requires that organizational ethical climate be more in line with individual employees' perceptions. As discussed above, studies have shown that ethical behavior is largely determined by ethical perceptions, and that when the ethical climate reflects these perceptions, levels of job satisfaction, organizational commitment and ethical behavior tend to be higher (see, e.g., Vitell & Davis, 1990; Sims & Kroeck, 1994). Moreover, because these perceptions necessarily depend on employee training and other human resource practices, human resource management systems play an important role. Managers must therefore make an effort to better understand the ethical climate of their organization through interviews, questionnaires and/or employee attitude surveys, and then seek to strengthen those management policies and practices which can have a positive impact on it through employee education and training.

Second, the development of an ethical climate more conducive to the promotion of ethical behavior among employees is essential. As discussed in greater detail above, studies have shown that levels of individual ethical behavior, attitudes and performance tend to be higher under both caring and law and code-oriented ethical climates, with instrumentalism more likely to promote anti-ethical behavior. In terms of human resources management, this means that performance evaluations should be geared toward providing employees with positive reinforcement as well as more opportunities to feel appreciated and gain a sense of accomplishment in their work. In particular, outcome-oriented evaluations should be replaced by more comprehensive incentive systems in an effort to minimize the role of instrumentalism as a component of organizational ethical climate.

Third, employees should be granted enough discretionary authority to be able to use their own independent judgment at work. Studies have shown that independent ethical climates tend to enhance employees' emotional commitment to the organization (Yu Zhiyuan, 2009), and that if they feel more trusted and respected in the workplace, individual performance will likely be enhanced. Management should therefore arrange for ethics lectures and other training opportunities geared toward developing independent thinking and judgment among employees. And given that independent judgment in itself is not enough, they should also empower employers by offering them greater discretion with respect to daily decision-making opportunities. This will help increase their emotional commitment to the organization while improving both individual and organizational performance. At the same time, the establishment of human resource departments focused exclusively on the enforcement and promotion of a consistent code of ethics is also required. A study by McDonald and Zepp (1990) found that the effective enforcement of an organization's ethics rules and policies is essential for the regulation of ethical behavior. Human resource managers should therefore put in place effective systems for monitoring and identifying unethical behavior, while ensuring that ethics investigations are carried out in an unbiased and transparent manner.

Finally, executives and other senior managers must do their part to cultivate a positive ethical climate by serving as both advocates and practitioners of an organization's ethical policies. One of the unwritten responsibilities of executives and managers of organizations is to serve as an ethical role model through their words and actions, which are then emulated by employees. While anti-ethical behavior is more likely to arise under ethical climates based on instrumentalism and self-interest, as discussed above, studies have shown a negative correlation between anti-ethical behavior and superior moral leadership (Liu Songbo, 2013). By downplaying employees' perceptions concerning the role of self-interest in the workplace, executives can help deter anti-ethical behavior, thereby contributing to the long-term and sustainable development of both individuals and the organization.

## References

1. Cullen, J. B., Parboteeah, K. P. & Victor, B. (2003). The effects of ethical climates on organizational commitment: A two-study analysis. *Journal of Business Ethics*, 46(2): 127-141.
2. Denison, D. R. (1996). What is the difference between organizational culture and organizational climate? A native's point of view on a decade of paradigm wars. *Academy of Management Review*, 21(3): 619-654.
3. Deshpande, S. P. (1996). Ethical climate and the link between success and ethical behavior: An empirical investigation of a non-profit organization. *Journal of Business Ethics*, 15(3): 315-320.
4. Deshpande, S. P. (1996). The impact of ethical climate types on facets of job satisfaction: An empirical investigation. *Journal of Business Ethics*, 15(6): 655-660.
5. Falkenberg, L. & Herremans, I. Ethical. (1995). behaviors in organizations: Directed by the formal or informal systems. *Journal of Business Ethics*, 14(2): 133-143.
6. Fan Liqun, Zhou Zucheng. (2006). Empirical Research on the Relation between Corporate Ethical Climate and Unethical Behavior. *Soft Science*, 2006,04:117-121.
7. He Shupeng, (2008). An Empirical Study on the Organizational Ethics Climate. Henan University, 2008.
8. Herndon, N. C. (1992). Perceived corporate ethicalness and salesforce turnover: a new rationale for more ethical corporate behavior. *Proceedings of the Academy of Marketing Science*, 44-49.
9. Jin Cheng. (2011). Blocism and the Cross-cultural Management of Japanese Enterprises. *Journal of Nantong Textile Vocational Technology College*, 2011,04:87- 90.
10. Litwin, G. H. & Stringer, R. A. (1968). Motivation and organization climate. Division of Research, Graduate School of Business Administration, Harvard University.
11. Liu Feng. (2010). On relationship between enterprise ethical climate, organizational commitment and organizational citizenship behavior: a case of private enterprises in Wenzhou City. *Journal of Shenyang University of Technology (Social Science Edition)*, 2010,04:366-374.
12. Liu Songbo, Li Yuhui, Du Xiaolin. (2013). The Relationship between Ethical Leadership and Unethical Behavior: The Mediating Role of Ethical Climate. *An Academic Edition of ManaMaga*, 2013,09:31-41.
13. Liu Wenbin, Jin Runtian. (2010). An Empirical Research of the Relationship between Organization Culture and Counterproductive Behavior --- the perspective of organizational Ethical Climate. *China Soft Science*, 2010,09:118-129+139.
14. Loch, K. D. & Conger, S. Evaluating ethical decision making and computer use. *Communications of the ACM*, 39(7): 74-83.
15. Lopez, T. B., Babin, B. J. & Chung, C. (2009). Perceptions of ethical work climate and

- person–organization fit among retail employees in Japan and the US: A cross- cultural scale validation. *Journal of Business Research*, 62(6): 594-600.
16. Ma Lu, Du Mingfei, Wei Huimin. (2014). The Theoretical Model and Influence Factors of Employee's Anti – Ethical Behavior. *Commercial Research*, 03:107- 114.
17. Malloy, D. C. & Agarwal, J. (2001). Ethical climate in nonprofit organizations: Propositions and implications. *Nonprofit Management and Leadership*, 12(1): 39- 54.
18. McDonald, G. M. & Zepp, R. A. (1990). What should be done? A practical approach to business ethics. *Management Decision*, 28(1).
19. Murphy, K. R. (1993). *Honesty in the Workplace*. Thomson Brooks/Cole Publishing Co.
20. Niu Jing. (2008). Research of the Key Factor of Obstructing Administrative Staff's Localization of Japan-owned Enterprise. *Soochow University*.
21. Okpara, J. O. (2002). The influence of ethical climate types on job satisfaction of IT managers: Implications for management practice and development in a developing economy. Academy of Business and Administrative Services Seventh International Conference, July 6-8.
22. Peterson, D. K. (2002). Deviant workplace behavior and the organization's ethical climate. *Journal of Business and Psychology*, 17(1): 47-61.
23. Sackett, P. R., Berry, C. M. (2006)., *et al.* Citizenship and counterproductive behavior: Clarifying relations between the two domains. *Human Performance*, 19(4): 441-464.
24. Silverman, H. J. (2000). Organizational ethics in healthcare organizations: Proactively managing the ethical climate to ensure organizational integrity//HEC forum. Springer Netherlands, 12(3): 202-215.
25. Sims, R. L., Kroeck, K. G. (1994). The influence of ethical fit on employee satisfaction, commitment and turnover. *Journal of Business Ethics*, 13(12): 939-947.
26. Song Deling, Yue Dazhi. (2006). Human Resource Management: An Example of Chinese Enterprises in China. *International Economic Cooperation*, 11:51-54.
27. Tagiuri, R., Litwin, G. H. & Barnes, L. B. (1968). *Organizational Climate: Explorations of a Concept*. Boston, MA: Division of Research, Graduate School of Business Administration, Harvard University.
28. Trevino, L. K. (1986). Ethical decision making in organizations: a person-situation interactionist model. *Academy of management Review*, 11(3): 601-617.
29. Trevino, L. K., Youngblood, S. A. (1990). Bad apples in bad barrels: a causal analysis of ethical decision-making behavior. *Journal of Applied Psychology*, 75(4): 378.
30. Valentine, S. & Barnett, T. (2003). Ethics code awareness, perceived ethical values, and organizational commitment. *Journal of Personal Selling and Sales Management*, 23(4): 359-368.
31. Vardi Y. (2001). The effects of organizational and ethical climates on misconduct at work. *Journal of Business Ethics*, 29(4): 325-337.
32. Victor, B. & Cullen, J. B. (1987). A theory and measure of ethical climate in organizations. *Research in Corporate Social Performance and Policy*, 9:51-71
33. Victor, B. & Cullen, J. B. (1988). The organizational bases of ethical work climates. *Administrative Science Quarterly*, 101-125.
34. Vitell, S. J. & Davis, D. L. (1990). The relationship between ethics and job satisfaction: An empirical investigation. *Journal of Business Ethics*, 9(6): 489-494.
35. Wang Chunyan. (2014). A Study on the Relationship between Organizational Ethical Climate and Organizational Citizenship Behavior. *Commercial Times*, 03:114-116.
36. Wimbush, J. C. & Shepard, J. M. (1994). Toward an understanding of ethical climate: Its relationship to ethical behavior and supervisory influence. *Journal of Business Ethics*, 13(8): 637-647.

37. Wimbush, J. C., Shepard, J. M & Markham, S. E. (1997). An empirical examination of the relationship between ethical climate and ethical behavior from multiple levels of analysis. *Journal of Business Ethics*, 16(16): 1705-1716.
38. Wimbush, J. C., Shepard, J. M. & Markham, S. E. (1997). An empirical examination of the multi-dimensionality of ethical climate in organizations. *Journal of Business Ethics*, 16(1): 67-77.
39. Woodbine, G. F. (2006). Ethical climate types and job satisfaction: study of Chinese financial institutions. *International Review of Business Research Papers*, 2(1): 86-99.
40. Wu Hongmei. (2005). A Study on the Organizational Ethical Climate of Western Organizations. *Foreign Economies and Management*, 09:32-38.
41. Xu Zhiyuan, Zhu Yuhua, Zhang Xi. (2009). Research on the Impact of Organizational Ethical Climate on Organizational Commitment in Hotels. *Tourism Science*, 04:50-56.
42. Xue Jun, Nishimura Howe. (2006). Analysis on the Localization of Japanese Businessmen in China. *Japanese Studies*, 01:71-80
43. Yang Chunjiang, Li Taoran, Lu Ye. (2014). Organizational Ethical Climate and Voluntary Turnover: An Empirical Study on Job Embeddedness Theory. *Chinese Journal of Management*, 03:351-359.
44. Yin Jinghui. (2006). Study on Development of Human Labor Resource of Japanese Enterprises in Shanghai. *East China Normal University*.
45. Zhang Qiuhui, Sun Xin. (2010). A Research on the Influence of Organizational Ethics on Job Satisfaction. *Human Resource Development of China*, 05:97-100.



# PREJUDICE AND DISCRIMINATION IN SEASIDE RETAILING. COMPARATIVE ANALYSES BETWEEN BRAZIL AND ITALY

**Mirian Palmeira**

*Federal University of Parana, Brazil*

Received: November 14, 2016

Accepted: May 15, 2017

Online Published: October 2, 2017

## ***Abstract***

*This paper focuses on the phenomena of prejudice and discrimination among the interactions of frontline employees and customers in retailing spatial environments. The aim is to identify if there is perception of prejudice and discrimination related to Ageism, Sexism, Lookism (ASL) and Sexual Orientation bias (SO) against customers in Brazil and Italy Seaside Retailing. Through quantitative research and descriptive study, data from Curitiba-Parana-Brazil and Urbino-Marche-Italy are collected, using sampling by convenience. Likert Scales have been used to evaluate ASL+SO. Findings: One statement (4.2 “The frontline male employees are nicer to younger female customers”), out of 15 shows that the interviewees from both countries had presented a highly agreement perception, which is the reinforcement that they had perceived that gender, age and appearance have influence on frontline employees’ behaviour. However, considering the results of the majority of the statements, an overall conclusion can highlight that the respondents do not perceive ageism, sexism, lookism or sexual orientation bias against customers when the seaside retail companies provide face-to-face services. A theoretical contribution of this paper can be drawn for the development of protocols that can be useful to identify and to evaluate ASL+SO phenomena in retailing. Its format and its methodology can be used to research different kinds of organisations, especially in the retail and services industries. The managerial implications are in the importance of developing T&D to reduce ASL+SO practices against customers and to include these issues as subjects in the organisation’s strategic statements. Also it would be suitable designing more efficient procedures of queueing management. These practices could avoid that dissatisfied customers reduce purchasing and consequent falling sales and profits.*

**Keywords:** prejudice, discrimination, seaside retailing, ageism, sexism, lookism, sexual orientation bias.

## **1. Introduction**

In today’s marketplace prejudice and discrimination are becoming hot topics and – as such – are receiving a great deal of attention by researchers. Previous literature has analysed different

forms of prejudice and discrimination in many contexts including workplace, communities, and consumption, but not specifically in the interactions among frontline employees and customers in retailing spatial environments. Sociology and Psychology are the fields that usually study prejudice and discrimination phenomena. The Marketing discipline is becoming very interested in the understanding of customer behaviour through the lenses of those two traditional grounds.

The subject is very complex to be researched due to people's negative reaction to what is different. Despite the so-called open-mind behaviour in the first decade of the 21st century, it is possible to observe prejudiced and detrimental evaluations among people. Some research on prejudice and discrimination in retailing has been previously published (Palmeira, Palmeira & Santos, 2012; Palmeira, Santos & Palmeira, 2012, and Palmeira, 2014). In the first study (Palmeira, Palmeira & Santos, 2012), there was an analysis of how customers perceived prejudice and discrimination from frontline employees during the face-to-face retail service process in different retail business, such as fashion shops, shoe shops, restaurants, fast food restaurants, IT stores, and so on. In the second and third researches (Palmeira, Santos & Palmeira, 2012, and Palmeira, 2014), the frontline employees of the types of retail companies with the highest scores have been interviewed about their self-perception of ageism, sexism and lookism against customers, and they had admit that this type of bias does indeed exist in both the Fashion and Food retailing sectors.

In this study the focus is on retailing within tourist seaside areas. The tourism industry is one of the most important services sectors nowadays. "The total economic impact of travel and tourism on the global economy was 7.58 trillion U.S. dollars and the direct economic contribution was 2.36 trillion U.S. dollars in 2014" (Statista, 2015). And the revenue of the global hotel industry was 457 billion U.S. dollars in 2011. People are more willing to travel due to less expensive costs of fares and hotels. Besides, many countries have been trying to improve their hospitality capacity, as well as putting their best efforts to improve their rankings in governments' advisory web sites, such as, UK foreign advice office (2016). This study was conducted with a survey in two phases: a first stage in the Brazilian southern seaside areas, and the second stage in the Italian coast locations along the Adriatic, Mediterranean, Ionian and Tyrrhenian Seas.

Comparative analyses related to prejudice and discrimination of these two different realities, Brazil and Italy seaside retailing, has been produced, through the use of sample by convenience. Italy and Brazil have been chosen to be the focus of this research due to their potential for improving revenue and competitiveness in tourism industry and to the easy access for research. Besides there are three reasons to focus on their tourist sector: (1) Italy and Brazil are not in the top ten's safest countries to travel (Global Peace Index, 2015). Italy is in the 36<sup>th</sup> position with 1.669 points of score (22<sup>nd</sup> position in local rank), higher than the region average, which is 1.566. Brazil is in the 103<sup>rd</sup> overall position with 2.122 points, also higher than the average of South America region, which is 2.053 points and in the 9<sup>th</sup> level of the regional rank. Both countries need to improve their scores.

More tourists, higher the tourism revenue. (2) Italy is in the 8<sup>th</sup> rank (with 4.98 points) in the Travel & Tourism Competitiveness Index Ranking (2015) and Brazil is in the 28<sup>th</sup> position (with 4.37 points). And, (3) according to National Geographic ranks (2015), only Rio de Janeiro is the only Brazilian beach city in the rank of Top 10, occupying the 6<sup>th</sup> position. None of the Italian beach cities are mentioned in the different Top 10 classifications. Which are the motives that countries with so many vast areas of seaside do not appear in those rankings?

Tourist activities are characterized by providing services, which level of quality depends especially on frontline employees' motivation, expertise and commitment, because they are the ones who deliver the services to the customers. If the levels of motivation, expertise and commitment are not in balance and with high standards, the perception of good service would

be jeopardized through the eyes of the vacationers. If the staff have some kind of attitude or even behaviour that make the customers believe that there is prejudice or discrimination against them, this perception would affect how the travellers are going to evaluate the services in tourist retailing.

Since those ideas have been crystallized in the travellers' minds and hearts, it would be very hard and expensive to try changing this perception related to the business, its employees and its services. This issue becomes more critical when customers arrive in a retailing spatial environment when there is not a clear queuing system. Which one should be the first to get the service? Which are the criteria that frontline employees are going to choose to which customer they are going to provide the service before? Is there prejudiced behaviour from frontline employees against customers related to people's age, gender, appearance and/or sexual orientation? Would the customers perceive the bias? Considering this context, the central objective of this study is to identify if there is perception of prejudice and discrimination related to Ageism, Sexism, Lookism (ASL) and Sexual Orientation (SO) against customers in Brazilian and Italian Seaside Retailing.

The operational objectives are three: (a) to describe the travellers' (customers) profile: social segment that includes data on income, professional occupation, education level, and size of home residence; gender and age); (b) to identify the seaside locations and the types of face-to-face seaside retailing the tourists usually attend during their summer vacations; and (c) to evaluate the perception of prejudice and discrimination against customers related to ASL and SO in retailing if there is not a clear queue system.

## **2. Literature review**

The subjects of this research are presented in three groups: prejudice and discrimination; types of prejudice and discrimination (ASL and SO bias); Seaside retailing and frontline employees. They are of great importance when it comes to helping companies to realize that the customers' perception related to how they evaluate frontline employees' behaviour when providing services in seaside retailing imprints a good or an unfavourable image of the business and how hard and expensive is to keep a good evaluation or to change a negative one. The importance of how frontline employees behave without showing prejudice or discrimination against consumers is one of the key factors to impress the customers, to improve the business and to guarantee the company's surviving in a very competitive field of tourist industry.

### **2.1. Prejudice and discrimination**

Prejudiced behaviour can be part of the human's nature. For survival, people depend on their inner commands-in-action, to run or to fight since primeval times, or to relate among pals, to beat or avoid competitors, and to climb in the corporate ladder nowadays. Prejudice is related to attitudes and values, not to behaviours and actions. Prejudice is a set of inner comparison procedures in people's mind in order to evaluate, positively or negatively, an object or person that they had confronted, helping them decide if they are in favour or against this object or individual. Prejudice is related to thoughts and feelings. This final decision can lead people to show discrimination, which is the concrete result of prejudice.

Discrimination is related to spoken words, behaviour and any recognizable element from the other people's point-of-view, that can be produced (or not) in front of the object or individual that had been assessed, under the prejudiced set of values of the beholder. Although prejudice is related to attitude, it does not necessarily drive to discriminative behaviour. Sociology and Psychology are the fields that usually study prejudice and discrimination phenomena. The Marketing discipline is becoming very interested in the understanding of

customer behaviour through the lenses of those two traditional grounds (Solomon and Rabott, 2009; Eisend, 2010), considering age, sex roles (Johnson, 2008), body image, race and ethnicity, for instance. The most common target groups of negative bias are different race and ethnicity, women and the elderly, especially the one that socially are not considered with suitable appearance and/or adequate behaviour. Gays, lesbians and gay-friendly's groups are also the ones that can suffer from not favoured evaluations under prejudice and discrimination.

## 2.2. Types of prejudice and discrimination

Commonly, the types of prejudice and discrimination do not come alone. Usually they are combined, but for clear understanding purposes, they are presented separately.

*Ageism* is a set of prejudice and discriminated values against people's age in a way to undermine age groups that are not considered suitable or productive from the society's point-of-view, typically the elderly, and especially in Western cultures (Abrams, 2005; Abrams *et al*, 2011; Haralambos & Holborn, 2008; Solomon & Rabott, 2009). It is "discrimination or the holding of irrational and prejudicial views about individuals or groups, based on their age" (Scott & Marshall, 2009, pp. 11). The definition of Ageism used in this study is "prejudice or discrimination against individuals or groups, based on their age" (Palmeira, 2014).

*Sexism* is a distinct bias against people's gender, frequently negative against women (Scott & Marshall, 2009:686). Sexism reproduces "social inequalities based on race, gender and class" (Williams, 2006). Sexism is the "prejudice or discrimination against individuals or groups, based on their gender" (Palmeira, 2014).

*Lookism* is related to the appearance and all sets of elements that aesthetically identify and differentiates an object or individual. It refers to the "right look" for a specific group or society and whether the person presents the suitable visual and behavioural characteristics chosen by those groups, to praise or to blame them. Commonly, Lookism is related to the prejudice and discrimination against a person or individuals, based on their phenotype (Palmeira, 2014). There are previous works related to ageism (Hsiang-Fei & Sheng-Hshiung, 2011; Brennan *et al*, 2007), as well as sexism (Dirks, 2004; Prasad, Prasad & Mir, 2011) and lookism (Waring, 2011), but the main focus is on the workplace and how the issue impacts behavior among peers. There is another group of research that focuses on the advertisement stereotypes, related to sex roles (Solomon and Rabott, 2009).

*Sex Orientation* bias is related to people's choice of intimacy partnership, especially homosexual. Although it is linked to gender's issues, it is connected to the prejudice and discrimination against recognizable behaviour of close relationship between persons of the same sex and even against gay-friendly people. Sexual Orientation has influence from Heterosexism, which is "a diverse set of social practices –

...from the linguistic to the physical, in the public sphere and the private sphere, covert and overt – in an array of social arenas (including work, school, church) on which the binary distinction of homosexual (attracted to members of the same sex) versus heterosexual (attracted to member of the opposite sex) is at work in such a way that heterosexuality is privileged (Scott and Marshall, 2009:307).

Sexual Orientation is connected to sex role identity which "is a state of mind as well as body. A person's biological gender (i.e. male or female) does not totally determine whether they will exhibit sex-type traits, or characteristics that are stereotypically associated with one sex or the other" (Solomon *et al*, 2010:154). To this study, Sexual Orientation, detected through an "observed" behaviour, characterises the people's choice related to which gender they would like to share intimacy, focusing on homosexual partnership. If frontline employees in seaside retailing show any kind of prejudice and discrimination, they are disrespecting the customers

and damaging the business. Even in Tourism references, Ageism is there “masquerade” as theory when the description of elderly has been developed in a prejudiced way (Santos and Sala, 2013).

### 2.3. Seaside retailing and frontline employees

Retailing in leisure areas is part of the tourism industry, especially in seaside which is almost synonymous of relaxation and fun time. Seaside retailing is the group of activities in seaside areas that involves the process of selling products and services directly to the customer as a way of fulfilling one’s personal needs. Tourism Industry is the set of companies that provides hospitality goods and services to customers in their leisure and discretionary time. Hospitality can be understood as the “act, practice or quality of offering a generous welcome to guests or strangers” (Rabone et al, 2009:163). Leisure market can be segmented according to the geographic environment (Ignarra, 2011) from the offer point-of-view. The tourist’s places are based on (1) seaside (with beaches and harbours) and other summer locations, (2) mountains and other winter sites, (3) water-related places (as sea and river cruising), and (4) urban or countryside areas.

To this study, frontline employees are any kind of people that interact face-to-face with customers in a spatial retail environment, which is a retailer area that includes a physical space (Palmeira, 2014), that can be hotels, restaurants, pubs and bars, and any kind of retail stores: clothes stores, bakery, ice cream kiosks, drugstores, markets, open markets, art crafts shops and malls (Musso & Druica, 2014). In these physical spaces, customers come into contact with frontline employees. One of the important elements of spatial retailer area is the queue management used to organise the process of providing the services to customers. It should be simple and understandable to staff and consumers. Queueing system or waiting line is not only for check out procedures (Allen, 1990). Its concepts can increase productivity in different types of retailing (Little, 2015), for instance (1) to help restaurants and pubs organise the sequence of services when customers arrive in the premises without booking and the sequence of food orders; (2) to improve the services in groceries, bakeries and kiosks through the use of passwords or numbers; and (3) to help the welcoming process and check out in hotels. The frontline staff should provide hospitality in the tourism industry.

If the frontline employees have not been trained to have suitable competences they may develop some bias when supplying a service to customers of a different age, gender, appearance and sex orientation because they are unable to respond with proper emotions, even if these sentiments are not true (Delcourt, Van Riel, & Van Birgelen, 2009; Lovelock & Wright, 2007; Palmeira, Palmeira & Santos, 2012). If the customers perceive prejudiced behaviour against them, probably they would be dissatisfied with the retail business and reduce purchases, causing sales and profits falling. In synthesis, the main concepts of this research can be seen in Table 1:

Table 1 – Main Concepts

Ageism	Prejudice or discrimination against individuals or groups, based on their age.
Discrimination	A clear unfavourable action towards a person or groups considering one’s age (Ageism), and/or gender (Sexism), appearance (Lookism) and/or sex orientation.
Frontline employees	Any kind of people that interact face-to-face with customers.
Hospitality	Act, practice or quality of offering a generous welcome to guests or strangers.
Lookism	Prejudice or discrimination against individuals or groups, based on their appearance (phenotype).
Prejudice	Learned beliefs and values that lead an individual or group of individuals to be biased for or against members of particular group.

Seaside retailing	Group of activities in seaside areas that involves the process of selling products and services directly to the customer as a way of fulfilling one's personal needs.
Sexism	Prejudice or discrimination against individuals or groups, based on their gender.
Sexual Orientation	It characterises the people's choice related to which gender they would like to share intimacy, focusing in homosexual partnership.
Spatial retail environment	Retailer area that includes a physical space where customers come into contact with frontline employees.
Tourism Industry	It is the set of companies that provides hospitality goods and services to customers in their leisure and discretionary time.

Source: adapted from Palmeira (2014) and Rabone et al, (2009).

### 3. Research Methodology

The methodology includes the nature of the research, and the population and sampling (Gil, 2002; Malhotra, 2012; Mattar, 2007; Siegel and Castellan, 2006; Spiegel, 1971; Wonnacott and Wonnacott, 1981). Considering that the study is a non-random work, it presents research questions (not hypotheses) related to the operational objectives of the study: (1) which are the elements of the travellers' profile? And do demographics (age, gender, and social class) influence the results of customers' perception of prejudice and discrimination in seaside retailing? (2) Which are the seaside locations and the types of face-to-face seaside retailing the tourists usually go during their summer vacations? And (3) are customers' responses similar in both Brazilian and Italian samples related to the perception of prejudice and discrimination against customers concerning to age, gender, appearance and sexual orientation in seaside retailing if the is not a clear queue system?

#### 3.1. Nature of the research

This investigation is a quantitative study (Gil, 2002), based on a survey for data collection. Through the use of comparative analyses between both Brazilian and Italian groups (Creswell, 1998) the results were assessed. Rattam (1998) protocol was used to create social classification, based on the level of education, income, spatial residential area, size of residence and professional occupation. The Rattam social classification Model (Rattam, 1998) is based on the idea that education level, size of residence, and occupation are more important than income in order to format customer behaviour and to classify the social segments in five levels: A, B, C, D and E. Details on the criteria of classification are provided in Appendix 1.

The protocol was used to identify in which segment the respondents were classified. Interaction with the respondents was face-to-face. The interviewer supplied the questionnaires, the respondents answered the questions and they returned the document as soon as they filled in the forms. Simple statistical analyses were used to describe the travellers' profile and some cross tabs analyses to produce their responses. Cross tabs analyses examine the associations between variables, but it does not study their causes (Malhotra, 2012:373). The perception of ASL and SO bias in the chosen face-to-face seaside retailing services were measured on 4-point Likert-type scales (+2 = strongly agree, for positive responses, and -2 = strongly disagree, for negative replies) (Mattar, 2007, pp. 111; Ferguson, 1941). A four-point scale (from 1 to 4) has been used to avoid *hallo* effect when the respondents answer the questionnaires, although the position "zero" appeared in the analyses. The format of Likert scales is adapted from the Fishbein Multiattribute Model scales (Engel, Blackwell & Miniard, 1990). A list of 15 statements (Table 5) has been used to assess the sampling perception showing the level of agreement or disagreement of the different groups, Brazilian and Italian ones. Findings have been compared between the two groups. For this study, scores upper than +0.8 (> +0.8) are viewed as high agreement level thus high perception of prejudice and discrimination. Scores

lower than -0.8 ( $< -0.8$ ) present higher disagreement therefore low perception of prejudice and discrimination. Neither the SPSS nor the Mann-Whitney tests were used to analyse the data, but they could be applied when working with larger samples (Wonnacott and Wonnacott, 1981). The data collected are organized to meet the objective of this article.

### 3.2. Population and Sampling

The population of the research is made up of all the Brazilian vacationers of seaside face-to-face retailing services as well as the Italian ones. The samples have been selected by convenience in Curitiba, Parana, Brazil and in Urbino, Marche, Italy, both inland cities. Respondents have been selected within University students' classes from different programmes: in Brazil, they were from the Business School of Federal University of Parana and in Italy, the sample units were from the Foreign Languages Programme of the University of Urbino. Considering the focus of the study is on travellers, the process of collecting data from people in inland cities increases the numbers of respondents that have been in seaside areas as tourists during their summer vacations, not as residents. The number of respondents that had spent their summer vacation in a seaside location was 190 in Brazil, but only 89 in the chosen seaside of Brazilian Southern region, and the sample in Italy was 156, although only 112 in Italian seaside. The focus of the study was on the chosen seaside sampling. Table 2 shows the samples' structure. The survey was conducted after summer vacations in 2014 (March in Brazil and October in Italy).

Table 2 –Sample structure

Sampling	Brazilian Phase		Italian Phase	
People...	Frequency	%	Frequency	%
... travelling to Seaside	101	53.16	44	28.21
... travelling to Chosen Seaside*	<b>89</b>	46.84	<b>112</b>	71.79
Total	190	100.00	156	100.00

\* Brazilian Southern Seaside and Italian Seaside

Source: survey, 2014.

Although a random sample is technically more superior to produce precise results that explain the population, some reasons addressed the selection of a sample by convenience (Mattar, 2007): (1) a database to list the population's members and to produce a random sample was not available; (2) the ASL and SO bias are taboos, and potential respondents avoid answering the key-questions of the questionnaire; therefore a face to face interview was necessary in order to support interviewees in answering; and (3) financial and human resources were limited for adopting a random sampling process.

## 4. Results

The findings of the surveys are presented in three sections: (1) the travellers' profile of chosen face-to-face seaside retailing (social segment, gender and age); (2) types of face-to-face seaside retailing the tourists usually attend during their summer vacations; and (3) Likert Scale's evaluation on perception of prejudice and discrimination of retailers' employees related to age, gender, appearance and sexual orientation of tourists, particularly in cases where there is not a clear queuing system.

#### 4.1. Travellers' profile

From the Brazilian sample of 89 respondents that had spent their summer vacations in Southern Seaside, 86.52% (77/89) are from "B" social segment (medium-high) which is going to be scrutinized from now on. Italian seaside 111 sample units are from segment "B" (39/111) and "C" (medium social segment) (72/111), both groups included in the following analyses, considering that Rattam (1998) model would be appropriate for Brazilian reality, but it would not be completely reliable for Italy. In Table 3, information on the social segments of both chosen seaside groups of vacationers is reported. The social segments have been considered in this research since their social context may influence the way in which prejudice and discrimination in seaside retailing are perceived.

Table 3 – Social Segments from Chosen Seaside (Rattam, 1998)

Social Segments from chosen Seaside	Brazilian Seaside		Italian Seaside*	
	Frequency	%	Frequency	%
A	4	4.49		
B	77	86.52	39	35.14
C	8	8.99	72	64.86
D	0	0.00	0	0.00
E	0	0.00	0	0.00
TOTAL	89	100.00	111	100.00

Source: survey, 2014.

\*1 person has left more than 2 categories without indication.

According to Table 4, in Brazilian units, there is some balance between both genders (51.95% of masculine gender and 48.05% of feminine sampling), one of the characteristics not only from the sample, but also from the population. On the other hand, Italy presents a predominantly number of feminine units in both social segments, "B" (82.05%) and "C" (77.78%). The perceptions of feminine and masculine clusters concerning to prejudice and discrimination are evaluated separately. As regard age, basically the respondents are young, under 30 years old, in both groups: 94.81% in Brazilian sample and 100.00% in both Italian social segments.

Table 4 – Gender and age of social segments from chosen seaside

Gender and age of social segments	Brazilian Seaside		Italian Seaside			
	"B"		"B"		"C"	
	Frequency	%	Frequency	%	Frequency	%
GENDER						
Masculine	40	51.95	7	17.95	16	22.22
Feminine	37	48.05	32	82.05	56	77.78
Total	77	100.00	39	100.00	72	100.00
AGE						
Up to 30 years old	73	94.81	39	100.00	72	100.00
Older than 30 years old	4	5.19	0	0.00	0	0.00
Total	77	100.00	39	100.00	72	100.00

Source: survey, 2014.



#### 4.2. Types of face-to-face seaside retailing

Respondents indicated a large range of types of retail businesses that provide face-to-face services, which they have been to in their last summer vacations. The results can be seen in Table 5. In the Brazilian sample, being in seaside retailing was mainly for shopping (39.48%) and eating (30.04%). The Italian groups showed preference for eating (31.53% for “B” class and 30.41% for “C” class) and fun (drinking - 27.93% for “B” segment and 26.80 for “C”, and partying - 8.11% for “B” and 10.82%). The retailers where customers go more frequently are high-profile products and/or services providers. Clothes are related to self-image, as well as shoes and accessories (Grose, 2012). Restaurants normally are places to see and to be seen, not only for gastronomy issues. So, these retailers are very important to reinforce the social status and it is possible to mention that customers are more willing to judge the frontline employees’ behaviour when they deliver the service.

Table 5 –Types of face-to-face seaside retailing attended by social segments

Types of face-to-face seaside retailing	Brazilian Seaside		Italian Seaside			
	"B"		"B"		"C"	
Multiple Choice	Frequency	%	Frequency	%	Frequency	%
SHOPS - Clothes, Bakery, Ice Cream, Drugstore, Market, Open Market, Art crafts, Malls.	92	39.48	19	17.12	31	15.98
RESTAURANTS - Restaurants, Pizzeria, Diners, Food Kiosks.	70	30.04	35	31.53	59	30.41
PUBS and BARS	37	15.88	31	27.93	52	26.80
HOTELS - Hotels, hostels.	24	10.30	17	15.32	31	15.98
OTHERS - "Parties", Night Clubs, Shows.	10	4.29	9	8.11	21	10.82
Total	233	100.00	111	100.00	194	100.00

Source: survey, 2014.

#### 4.3. Likert Scale’s evaluation on perception of prejudice and discrimination

As explained in the methodology section, scores upper than +0.8 ( $> +0.8$ ) have been considered as high agreement level thus high perception of prejudice and discrimination. Scores lower than -0.8 ( $< -0.8$ ) present higher disagreement therefore low perception of prejudice and discrimination. Through the analyses of data reported in Table 6, although the majority of respondents had disagreed with the statement 4.1 (“Well-dressed younger women receive face-to-face retail services prior to everybody else if there is not a clear queuing process in the retail spatial environment area”), they presented a highly agreement perception on statement 4.2 (“Frontline male employees are nicer to younger female customers”), which is the reinforcement that they had perceived that ASL have influence on frontline employees’ behaviour.

This second statement is the only one with positive scores showing an agreement perception from all respondents, higher in Brazil than Italy. In statement 4.2, it is also possible to observe that the levels of agreement in Italian sample between feminine and masculine groups of each social segment are similar (78.12% feminine and 85.71% masculine in social class “B” and 59.00% feminine and 43.75% for class “C”). Some statements get the lowest levels of disagreement from all groups, such as, 4.3, 4.5, 4.7, 4.9 and 4.10. The other subjects of the Likert’s Scale do not show results that help to come to conclusions; they just present medium values. There are not too many differences between Brazilian and Italian groups’

responses of the statements 4.4, 4.6, 4.8 and 4.11, only the latter with the Italian masculine of social segment “C”, which presents a high score of disagreement (-1.000), although it is necessary to be cautious to interpret this number, because of the low quantity of respondents.

Table 6 – Perception of prejudice and discrimination (percent of agreement or disagreement responses and avg score of total responses)

Statements	Brazil		Italy			
	Fem B	Masc B	Fem B	Masc B	Fem C	Masc C
4.1 “Well-dressed younger women receive face-to-face retail services prior to everybody else if there is not a clear queuing process in the retail spatial environment area”.	48.65% -0.0541	50.00% 0.0250	93.75% -0.7317	71.43% -0.3636	62.50% -0.4217	50.00% -0.1000
4.2 “Frontline male employees are nicer to younger female customers”.	93.55% <b>0.8378</b>	70.00% 0.7500	78.12% 0.6098	85.71% 0.4545	59.00% 0.4578	43.75% 0.2000
4.3 “Frontline female employees are nicer to younger male customers”.	-0.3784	-0.1750	-0.5366	0.0000	-0.2530	-0.3500
4.4 “Frontline female employees are nicer to younger female customers”.	-0.5946	-0.4000	-0.2683	-0.6364	-0.3253	-0.4000
4.5 “Frontline female employees are nicer to mature female customers”.	-0.1622	-0.4000	-0.3415	-0.2727	-0.2289	-0.2500
4.6 “Frontline female employees are nicer to middle-aged female customers”.	-0,5676	-0.3000	-0.1220	-0.3636	0.0000	-0.2500
4.7 “Frontline female employees are nicer to mature male customers”.	-0,2973	-0.1500	-0.1463	-0.1818	-0.0120	-0.1000
4.8 “Frontline female employees are nicer to middle-aged male customers”.	-0,5946	-0.0750	-0.5610	-0.4545	-0.0843	-0.1500
4.9 “Frontline male employees treat the mature female customers better than the others”.	-0,2703	0.0250	-0.2195	0.3636	-0.4940	-0.6500
4.10 “Frontline male employees treat the middle-aged female customers better than the others”.	-0,4595	0.0500	-0.2683	-0.0909	-0.3976	-0.3000
4.11 “Frontline male employees treat the mature male customers better than the others”.	-0,7297	-0.5750	-0.6829	-0.4545	-0.6386	87.50% <b>-1.0000</b>
4.12 “Middle-aged female customers are going to be the last to receive face-to-face retail services if there is not a clear queuing system”.	75.68% <b>-0,9189</b>	87.50% <b>-1.500</b>	100.00% <b>-1.2683</b>	100.00% <b>-1.0909</b>	91.07% <b>-0.9518</b>	87.50% <b>-0.9500</b>
4.13. “Male staff provide a better treatment to young male customers”.	89.19% <b>-1,0811</b>	-0.6750	90.62% <b>-0.9512</b>	-0.3636	85.71% <b>-0.8313</b>	100.00% <b>-1.1500</b>
4.14 “Male staff provide a better treatment to middle-aged male customers”.	81.08% <b>-1,0000</b>	-0.6500	81.25% <b>-0.8780</b>	-0.6364	92.86% <b>-0.9157</b>	-0.6500
4.15 “Gays, lesbians and gay-friendly persons, of any age, gender or appearance, are the last to have the face-to-face service, if there is not a clear queuing system”.	72.97% <b>-0.8378</b>	90.00% <b>-1.4000</b>	93.75% <b>-1.1707</b>	57.14% -0.2727	83.93% <b>-0.8554</b>	75.00% -0.8000

Source: survey, 2014.

Even with all the dissimilarities from the samples, being from different countries and realities, Brazilian and Italian responses related to the statement 4.12 ("Middle-aged female customers are going to be the last to receive face-to-face retail services if there is not a clear queuing system") and 4.15 ("Gays, lesbians and gay-friendly persons, of any age, gender or appearance, are the last to have the face-to-face Retailing service, if there is not a clear queuing system") show the same trend of highly disagreement level. Considering the Likert scale, the scores are lower than -0.8, the feminine as well as masculine groups show high level of disagreement and low perception of prejudice and discrimination in these matters. The only exception is the Italian masculine group from social segment "B" with a low score, but still a disagreement response, because the result is negative (-0.2727 in the statement 4.15).

The analyses show that in the statements 4.13 ("The male staff provide a better treatment to young male customers") and 4.14 ("The male staff provide a better treatment to middle-aged male customers"), Brazilian and Italian feminine groups present the same trend of higher disagreement therefore a low perception of prejudice and discrimination, considering the negative scores. The masculine groups present negative medium values, with the exception of the Italian masculine respondents from social segment "C", which follows the feminine responses in the statement 4.13, although, again, like statement 4.11, it is necessary to be careful due to the low number of respondents in this group. The Likert scales' results can be visualised in Appendix 2.

## 5. Conclusions, limitations and future research directions

The results of this study provide information about the perception of prejudice and discrimination in Brazilian and Italian seaside retail businesses due to age, gender, appearance and sexual orientation. The types of face-to-face retailing that the interviewees have attended in their summer vacations were shops, restaurants, pubs, hotels/hostels, parties, shows and night clubs. Likert scales were used to evaluate the perception of Ageism, Sexism, Lookism (ASL) and Sexual Orientation bias (SO) in Brazilian Southern and Italian seaside retailing. Male and female segments, as well as medium and medium-high social segments showed the same trend the way they perceived prejudice and discrimination. Based on the highest negative scores, it seems that they did not believe that either "middle-aged female customers" or "gays, lesbians and gay-friendly persons of any age, gender or appearance" are the ones to be the last to receive face-to-face retailing services if there is not a clear queuing system. For both genders, the statement "the frontline male employees are nicer to younger female customers" presents positive scores, which is the only one with positive scores showing a common perception from all respondents, higher in Brazil than Italy. An overall conclusion can highlight that respondents did not perceive prejudice and discrimination against customers concerning their age, gender, appearance or sexual orientation when the seaside retail businesses provide face-to-face services.

The managerial implications are in the importance of developing training activities for face-to-face employees in order to reduce ASL and SO-related prejudice and discrimination practices against customers and to include these issues in the organization's strategic statements. Moreover, a theoretical contribution of this paper can be drawn for the development of protocols that can be useful to identify and evaluate ASL and SO phenomena in retailing. Its format and its methodology can be used to research different kinds of organisations, especially in the retail and services industries.

This study has some limitations. First, considering that discrimination is a kind of taboo, respondents are reluctant to express their opinion concerning this subject. Therefore direct interviews could be not totally suitable for this subject and other methodologies, such as experiments or observations, could be adopted. Second, the sample was by convenience and was not representative of the population. Considering that perceptions of prejudice and discrimination could be affected by age, culture and social condition of customers, a more representative sample was necessary. Finally, the Rattam model adopted for social segments, which was used in both samples, has been developed for Brazilian society, and it could be not completely suitable for Italian society.

Future research on the field analysed could be addressed to: (1) produce comparative analyses of prejudice and discrimination based on ASL and SO in seaside retailing in different countries; (2) deepen the research on the influence of different social segments, income, professional occupation, level of education on the perception of prejudice and discrimination related to the subjects; (3) compare seaside residents' perception to tourists' perceptions; (4) use local (national) models for social segments classification to avoid possible bias in the results; (5) to analyse how perceived ASL+SO can affect the customer level of purchase intention and loyalty; and (6) to use more quantitative statistical methods for justifying the validity and reliability of the ASL and SO scales.

## APPENDIX 1 - Rattam Protocol (Rattam, 1998): criteria for social segments classification

To produce social segments, it is necessary to consolidate the amount of the four categories. The average score of each category has been used in case the respondent did not fill out the proper data for up two categories. Cases with more than two categories without indication, the questionnaire has been withdrawn from the sample.

LEVEL OF EDUCATION - Avg score: <b>28</b>	
1. Unschooled, incomplete school level	0
2. Complete school level, incomplete high school level	13
3. Complete high school level, incomplete undergraduate	27
4. Complete undergraduate level, incomplete graduate	40
5. Complete graduate level	56

N. OF BEDROOMS IN HOME RESIDENCE - Avg score: <b>21</b>	
1	0
2	6
3	15
4	21
5	30
6 or more	42

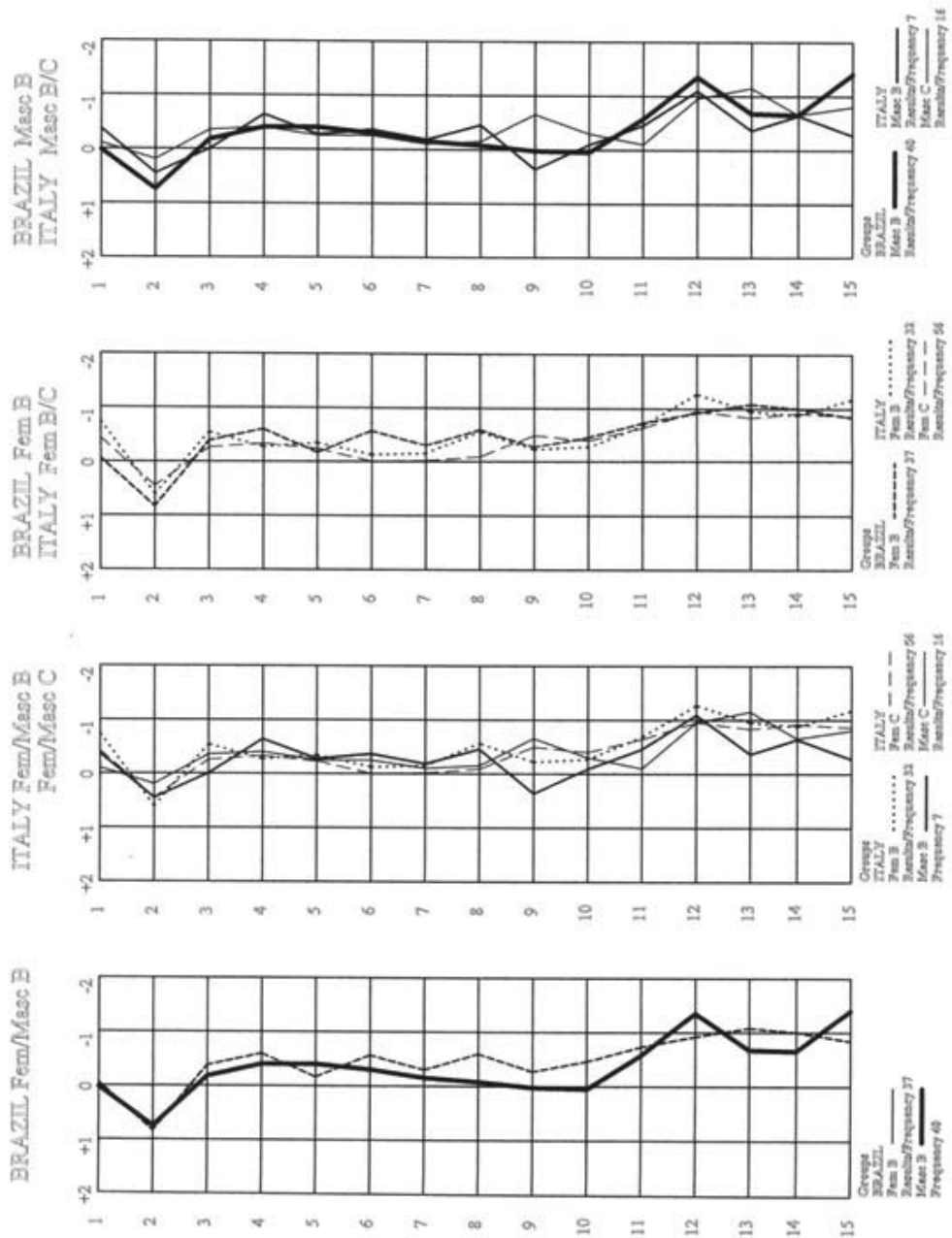
AVERAGE MONTHLY INCOME - Avg score: <b>7</b>	
1. Up to 500 €	0
2. Over 500 € up to 1000 €	4
3. Over 1000 € up to 1500 €	6
4. Over 1500 € up to 2000 €	8
5. Over 2000 € up to 2500 €	10
6. Over 2500 € up to 3000 €	11
7. Over 3000 € up to 3500 €	12
8. Over 3500 € up to 4000 €	13
9. Over 4000 €	14

JOB OCCUPATION (if retired, job ranking when still working) - Avg score: <b>14</b>	
1. Housewives, students, unemployed for more than 6 months, unhealthy or disable people and the ones that depend on social services.	0
2. Workers in non-formal activities without a job ranking.	3
3. Blue collars workers/employees with no expertise.	6
4. Blue collars workers/employees with some job expertise.	10
5. White collars workers/employees and micro-business (less than 10 employees) owners.	15
6. Middle level managers.	18
7. Small business owners (companies with 10 up to 100 employees).	21
8. Owners of middle-sized business (companies with more than 100 up to 500 employees), executives of middle-sized companies, lawyers, accountants, and any other liberal or independent professionals, with moderate level of success, and university professors.	24
9. Large companies' owners, CEOs of large companies, high level government staff, lawyers, accountants, and, any other liberal or independent professionals highly succeeded.	28

### Total scores for classification

SOCIAL SEGMENTS	SCORES
A. High segment	118 or higher
B. Medium-high segment	67 to 118
C. Medium segment	33 to 66
D. Medium-low segment	16 to 32
E. Low segment	0 to 15

## APPENDIX 2 - Likert Scales Seaside Retailing (I will fix the title in the figure)



## References

1. Abrams, D. (2005). You're considered old when you reach 49. *Evening Standard*. 06 Sept p.16.
2. Abrams, D., Russell, P.S., Vouclair, C-M., Swift, H. (2011). Ageism in Europe – Findings from the European Social Survey. *European Research Group on Attitudes to Age Report*. Age-UK. Retrieved November 30<sup>th</sup>, 2013, from [http://www.ageuk.org.uk/Documents/EN-GB/For-professionals/ageism\\_across\\_europe\\_report\\_interactive.pdf?dtrk=true](http://www.ageuk.org.uk/Documents/EN-GB/For-professionals/ageism_across_europe_report_interactive.pdf?dtrk=true).
3. Allen, A.O. (1990). *Probability, Statistics and Queueing Theory with computer science applications*. San Diego – California – USA – Academic Press, Inc. 2<sup>nd</sup> edition.
4. Brennan, C, Carmichael, F., & Ingham, B. (2007). Ageism and Employment: A Survey of the Literature in the Context of Current Research Agendas. *University of Salford, European Social Fund project on Ageism and Employment*. Retrieved February 12<sup>th</sup>, 2012, from <http://www.mams.salford.ac.uk/PWO/Projects?Ageism-Employment>.
5. Creswell, J. W. (1998). *Qualitative Inquiry and Research Design: Choosing among five traditions*, California – USA: SAGE Publications, Inc.
6. Delcourt, C., Van Riel, A., & Van Birgelen, M. (2010). Linking Frontline Employees' Emotional Intelligence to Customer Perceptions in a Service Delivery Context. *European Institute of Retailing and Services Sciences Conference – EIRASS 2009*, Toronto, Canada.
7. Dirks, D. (2004). *It comes with the territory: Women Restaurant Workers' Experiences of Sexual Harassment and Sexual Objectification*. Unpublished doctoral dissertation. Graduate School of the University of Florida
8. Eisend, M. (2010). Investigating the Relationship between Gender Stereotyping in Advertising and Gender-related Values in Society. *European Marketing Academy Conference – EMAC 2010*, Copenhagen, Denmark.
9. Engel, J., Blackwell, R., & Miniard, P. (1990). *Consumer Behavior*. Orlando – Florida: The Dryden Press.
10. Ferguson, L.W. (1941). A Study of the Likert Technique of Attitude Scale Construction. *Mead Project*. Connecticut: Department of Psychology, University of Connecticut. Retrieved November 24<sup>th</sup>, 2013, from [http://www.brocku.ca/MeadProject/sup/Ferguson\\_1941.html](http://www.brocku.ca/MeadProject/sup/Ferguson_1941.html).
11. Gil, A. C. (2002). *Como elaborar projetos de pesquisa* [How to do research projects]. Sao Paulo: 4. ed. Atlas (in Portuguese).
12. Haralambos, M., & Holborn, M. (2008). *Sociology – Themes and perspectives*. London – UK: 7.ed. Collins.
13. Hsiang-Fei, L. & Sheng-Hshiung, T. (2011). Customers' perceptions of service quality: do servers' age stereotypes matter? *International Journal of Hospitality Management* 30(2011) 283-289.
14. Ignarra, L.R. (2011). *Fundamentos de Turismo* [The Basics of Tourism]. Sao Paulo – SP: Cengage Learning (In Portuguese).
15. Institute of Economics and Peace (2015). *Global Peace Index*, Sidney, New York and Mexico City.
16. Johnson, L. (2008). Re-placing gender? Reflections on 15 years of Gender, Place and Culture. *Gender, Place and Culture*, Vol. 15, No. 6 (Dec), p. 561–574.
17. Little, T.A. (2015). *Queueing System or Waiting Line*. Thomas A. Little Consulting (Report). Retrieved June 24<sup>th</sup>, 2015, from <http://www.managementstudyguide.com/waiting-line-management.htm>
18. Lovelock, C., & Wright, L. (2007). *Servicos: marketing e gestao*. [Services: marketing and management]. Sao Paulo: Saraiva (in Portuguese).

19. National Geographic (2015). *National Geographic Ranks*. Retrieved April 3<sup>rd</sup>, 2016, from <http://travel.nationalgeographic.com/travel/top-10/beach-cities-photos/>
20. Malhotra, N. K. (2012). *Pesquisa de marketing: uma orientacao aplicada* [Marketing Research: an applied approach]. Porto Alegre: Bookman (in Portuguese).
21. Mattar, F. N. (2007). *Pesquisa de Marketing* [Marketing Research]. Sao Paulo: 6<sup>a</sup> ed., Atlas (in Portuguese).
22. Musso, F. & Druica, E. (2014) *Handbook of Research on Retailer-Consumer Relationship Development*. Hershey-USA: IGI-Global.
23. Palmeira, M, Palmeira, D., & Santos, C. (2012). A Perception of Prejudice in the Face-to-face Retail Services: comparative analyses of age and gender. *International Journal of Applied Behavioral Economics*, 1(4), 22-40, October-December.
24. Palmeira, M, Santos, C. & Palmeira, D. (2012). Frontline Employees' Self-perception of Ageism, Sexism, and Appearance Discrimination – comparative analysis in Fashion and Food Retailing. *British Academy of Management Conference – BAM 2012*. Cardiff, UK.
25. Palmeira, M. (2014). Frontline Employees' Self-perception of Ageism, Sexism and Lookism. In Musso, F. & Druica, E. *Handbook of Research on Retailer-Consumer Relationship Development*. Hershey-USA: IGI-Global.
26. Prasad, A., Prasad, P., & Mir, R. (2011). One mirror in another': Managing diversity and the discourse of fashion. May 2011 vol. 64 no. 5, pp. 703-724. Retrieved February 12th, 2012, from <http://hum.sagepub.com/content/64/5/703.short>.
27. Rabone, P., Bamunuge, H., Brindley, P. Clark M., Dennis, A., Eeles, T., Garwood, D., and Mills, F. (2009). *Hospitality, Supervision & Leadership*. Scotland: Heinemann-Pearson.
28. Rattam, E. (1998). '*Novo modelo de estratificacao socioeconomica para marketing e pesquisas de marketing*' [New Social Classification Approach for Marketing and Marketing Research] (In Portuguese). [On line]: Retrieved July 1st, 2008, from <http://www.anpad.org.br/enanpad/1998/dwn/enanpad1998-mkt-27.pdf>.
29. Santos, F., & Sala, S. (2013). O Design de Produtos Turisticos para a Terceira Idade. [The Touristic Products' Design for Senior People]. In Ruschmann, D., and Tomelin, C.A. *Turismo, Ensino e Praticas Interdisciplinares*. [Tourism, Learning and Interdisciplinary Practices]. Barueri – SP: Manole (In Portuguese).
30. Scott, J., & Marshall, G. (2009). *Oxford dictionary of sociology*. 3.ed. Oxford – UK: Oxford University Press.
31. Siegel, S., & Castellan Jr, J. (2006). *Estatistica Nao-parametrica para ciencias do comportamento*. [Nonparametric Statistics for the Behavioral Sciences]. Porto Alegre: 2.ed, Bookman (in Portuguese).
32. Solomon, M.R. & Rabolt, N. J. (2009). *Consumer Behavior in Fashion*. New Jersey – USA: Pearson Education.
33. Solomon, M.R., Bamossy, G., Askegaard, S., & Hogg, M.K. (2010). *Consumer Behavior – a European perspective*. Essex – England: Pearson Education Ltd.
34. Spiegel, M. R. (1971) *Estatistica*. [Statistics]. Rio de Janeiro: McGraw-Hill do Brasil (in Portuguese).
35. STATISTA (2015), *Statistics and Market Data on Travel, Tourism & Hospitality*. Retrieved April 3<sup>rd</sup>, 2016, from <http://www.statista.com/topics/962/global-tourism/>
36. UK Foreign Advice Office (2016). *Foreign Advice*, Report, United Kingdom, Retrieved April 3<sup>rd</sup>, 2016, from <https://www.gov.uk/foreign-travel-advice/italy/safety-and-security> and <https://www.gov.uk/foreign-travel-advice/brazil/safety-and-security>
37. Waring. P. (2011). Keeping up appearances: Aesthetic Labour and Discrimination Law. *The Journal of Industrial Relations*. April 2011. Vol. 53 n°2, pp. 193-207.



39. Weforum (2015). Travel & Tourism Competitiveness Index Ranking. Retrieved April 3<sup>rd</sup>, 2016, from <http://reports.weforum.org/travel-and-tourism-competitiveness-report-2015>
40. Williams, C. (2006). Shopping as Symbolic Interaction: race, class, and gender in the Toy Store. *Symbolic Interaction*. Vol. 28, Issue 4, pp. 459-472.
41. Wonnacott, T.H., Wonnacott, R.J. (1981). *Estatística Aplicada A Economia e a Administracao* [Applied Statistics for Economy and Business]. Rio de Janeiro, Brazil: LTC Publishers (in Portuguese).



# A MULTICULTURAL STUDY ON THE IMPACT OF CULTURE ON THE QUALITY OF THE RELATIONSHIP BETWEEN EXPORTERS AND LOCAL DISTRIBUTORS

**Gisela Alves**

*University of Minho, Portugal*

Received: April 15, 2017

Accepted: July 28, 2017

Online Published: September 23, 2017

## ***Abstract***

*This research is aimed at understanding the role of culture in the quality of the relationship between Portuguese exporting companies and their distributors in Angola. This study is particularly important because it is based on an analysis of exporting distributor pairs (matched pairs) i.e. Portuguese export companies and their distributors in Angola. This study aims to understand how culture has an impact on the quality of trade relationships established between companies in the internationalization of the business context. Also, note that in international contexts, the impact of the similarities/cultural differences on the relationship structures have not been particularly studied. In terms of methodology, we have chosen a qualitative analysis: five case studies of Portuguese exporting companies and five case studies of Angolan distributors were examined. Interviews with Directors/CEO of Portuguese exporting companies and boards responsible for export activities were carried out and the corresponding Angolan distributors in order to answer the research questions. The selection of the Portuguese companies was based on a list of the fifty largest exporters to Angola, provided by the Agency for Investment and Foreign Trade of Portugal, EPE (AICEP) in August 2011. In general, the results show that culture has an impact on the quality of the business relationships between the Portuguese exporting companies and the Angolan distributors.*

**Keywords:** international marketing, culture, cross-cultural marketing, Exporters, distributors.

## **1. Introduction**

Increasing globalization, intensified competition, and an advance in transportation, communication, and information technologies have been responsible for the phenomenal growth of international business (Keegan, 2009).

This research is of great relevance since the literature review indicates that in terms of studies conducted so far there is a gap when it comes to analyzing both sides of a commercial relationship; furthermore, research on emerging/developing markets is scarce, and to date, to

the best of our knowledge, none analyzes the specificities of the Angolan market. It should be noted that the "process of initiating buyer-seller relations, negotiation and results are different from country to country" (Wiley et al., 2006), cited by Saleh, Ali & Andaleeb (2014, p. 46) which greatly hinders the generalization of results from empirical studies and makes the analysis of each country idiosyncratic.

On the other hand, the impact of similarities and cultural differences on relationship structures has not yet been adequately researched, as has the approach of relationships of trust and commitment in international contexts.

Increasingly, Portuguese companies are not only confined to the national market, but seek new markets to ensure their survival. Thus, it is pertinent to analyze the quality of relationships and culture in relationships between Portuguese exporting companies and their respective distributors in the Angolan market. The choice of the Angolan market is due to the fact that it is a developing/emerging country, a market in expansion, one of the most promising countries of the African continent.

In terms of methodology we chose a qualitative analysis: five case studies of Portuguese exporting companies and five case studies of Angolan distributors were analyzed. Interviews with the managers/CEO of the Portuguese exporting companies and the employees in charge of exporting activities were performed, as well as their corresponding Angolan distributors, to obtain the answers to the research questions. The selection of the Portuguese companies was based on the list of the fifty largest Portuguese companies exporting to Angola provided by the Agency for Investment and External Commerce of Portugal, EPE (AICEP) in August 2011.

## **2. Literature review**

### **2.1 Culture**

Culture guides people's behavior and, as such, has an impact on all aspects of management (Tsoukatos, 2007). It can be said that the more the managers know about culture, the better they will perform in the exercise of their functions, especially when culture has several idiosyncrasies as is the case of Angola.

Usunier (2000, p.573) states that "in some cultures" my word is my blind commitment "and trust is a personal matter, which contrasts with the" put in writing "mentality in that trust is more impersonal ". Particularly interesting for the present investigation is the same author's statement (p. 574) that in African cultures "written documents are presented either as irrelevant to day-to-day social practices or as an anti-social practice"

Usunier (2000, p. 572) states that "... many cultures are more relationship-oriented than business-oriented." The cultural dimension Universalism versus Particularism (Turner & Trompenaars, 1993) precisely asks: "What is more important: universal rules or relationships?"

Marshall (2003), Anderson & Weitz (1990), Anderson & Narus (1990), Schurr & Ozane (1985) define trust as a belief, while Mohr & Nevin (1990) & Nielson (1998) also define commitment as a conviction. Sojka & Tansuhaj (1995, p. 7) define culture as "a dynamic set of socially acquired patterns of behavior and meanings common to members of a particular society or human group, including the key elements of language, artifacts, beliefs, and values.

"It thus seems natural that, if culture includes the convictions of a society, and resulting trust and commitment of convictions, these constructs depend on national cultures. The notion of sharing common convictions is central to the Latin concept of trust (Usunier, 2000). This author (p.554) argues that "when people do not share the same codes there may be problems in assessing the credibility/trustworthiness of their partners"

It should also be noted that Kroeber & Kluckhohn (1951) (cited by Hofstede, 1984) include, in their definition of culture, "relationship models" which reinforce the idea that culture affects relationships and, inherently, trust and commitment. The evidence that national culture affects trust is embodied in the existence of high trust and low trust societies (Parkhe, 1998). Other authors, such as Child (2001), argue that cultural differences can undermine the development of trust.

Usunier (2000, p. 547) states that "trust in an international sale or business venture is heavily dependent on culturally coded signals, and can ultimately be removed precisely because these cultural codes have been ignored. These difficulties in interacting ... are deeply rooted in the human cultural and social background of business people. People with different cultural backgrounds often do not share the same basic assumptions. This can destroy the process of building and maintaining trust between culturally unequal partners. "The same author (p. 548) states that "there are great obstacles to establishing trust in an intercultural perspective: 1) people do not always share the same style of communication; 2) they may not share the same convictions. The "reference to context" (Hall, 1973, 1977 & 1990) can be invoked on the style of communication and admit that the establishment of trust differs as we are in the presence of a country with a high context or a low context.

Geyskens et al. (1998), based on a significant number of articles, present the back ground of the construct trust, including culture and cultural similarity.

In this regard, Ha et al. (2004) refer that the effects of similarities and differences between the cultural backgrounds of exporters and distributors on channel relationships can be explained through cultural distance and behavioral transparency.

Although there are several definitions of the concept of culture, the study by Schmiedel et al. (2013) states that the concept of culture is mainly defined through invisible values. In fact, many academics have identified shared values as the central element of culture (Straub et al., 2002), and the sharing of values is precisely one of the five forerunners of relational commitment proposed by Morgan & Hunt (1994).

The cultural dimension "Exclusionism versus Universalism" (Minkov, 2011) shows a contrast between cultures where friends and next of kin exchange favors and privileges, but exclude strangers from this circle and, on the other hand, cultures where people are not normally treated based on the group to which they belong. Usunier (2000, p.557) states that "cultures place a stronger or weaker emphasis on belonging to the group as a prerequisite to being considered a trusted partner." Conway & Swift (2000) refer to trust "for what they are." For Usunier (2000), in different cultures the status is evidenced in different ways and influential people are different. It is therefore plausible to admit that the cultural dimension "exclusionism" has an impact on the way trust is attributed.

The "orientation for the future" cultural dimension, one of the dimensions of the Globe Study (House et al., 2004), can be defined as the extent to which members of a society or an

organization believe that their current actions will have Impact on their future, believe in planning for the future, and look at the distant future to assess the effects of their current actions. If we consider that the definition of commitment of Gundlach et al. (1995) explicitly states that commitment is designed to understand a time dimension and that it only means something in the long run, and Morgan & Hunt's (1994) definition of commitment that it is worth working on a relationship to ensure that it lasts indefinitely, it becomes easy to admit that culture, especially the conception of time, has an impact on the commitment of the relationship. The same reasoning applies if we consider the cultural dimension "temporary orientation" (Hofstede, 1991). Usunier (2000, p.550) states that "the parties exchange implicit or explicit (written or oral) signals of their willingness to continue the exchange relationship." Furthermore, Skarmas et al. (2002) conclude that an exporter's cultural sensitivity has an impact on the distributor's commitment to the relationship.

Compiling several authors, it can be said that "culture refers to attitudes, values, roles, assumptions and convictions, meanings, behavior patterns, rules, norms, patterns of perception and relationship, problem solving, standard forms of thinking, feeling and reacting, artifacts, language, art, morals, customs and habits acquired, traditional ideas, knowledge, social stimuli, common associations that are rooted, apprehended, acquired, shared and transmitted (social heritage) by a Social group, which in this way is distinct from another that shares a different culture. Briefly, it can be said that culture is the collective programming of the mind, the part of the environment made by man that he must know and believe in order to act in a manner which is acceptable to the group" (Alves, 2014, 53-54).

Exports provide the traditional means of access to foreign markets (Navarro-Garcia, Arenas-Gaitán & Rondán, 2014). "When people started to exchange goods and services they also started to interact in relationships" (Gummesson, 2017, p.4).

## ***2.2 Quality of the relationship***

Some authors have considered trust and commitment as indicators of the quality of the relationship (eg, Garbarino & Johnson 1999; Ulaga & Eggert 2006).

Gilliland & Bello (2002) argue that firms may be linked by economic factors and social factors. When the priority is a long-term partnership between two companies, the second type of relationship is revealed through the development and maintenance of social bonds, social factors, and in this type of relationship, trust and commitment are vital. "Trust has been studied for 30 years in several disciplines and continues to attract the interest of researchers in business-to-business (B2B) marketing" (Akrou, H., Diallo, M. F., Akrou, W., & Chandon, J.-L., 2016, p.269).

If, on the one hand, according to Obadia (2008), in an international context, where legal differences between countries hinder the execution of contracts (Zhang et al., 2003), the existence of trust is even more important, on the other hand, commitment has been referred to as an important component of close relationships in business to business marketing (Chang, et al., 2012) (quoted by Schmiedel et al., 2013).

The theory of Morgan & Hunt (1994) is taken as prominent in explaining the relationship between exporters and distributors, based on the concepts of trust and commitment. For these authors, relationship marketing implies a positive relationship between commitment and trust.

Trust, by reducing perceived risk and vulnerability in a relationship, leads to a greater commitment to the relationship (Ganesan, 1994).

Relationships between firms are guided by relational factors such as commitment standards, which are based on trust (Achrol, 1991; Cambra-Fierro & Polo-Redondo, 2011; Riel et al., 2011).

Just like Morgan & Hunt (1994), also Buttle (1996), Siguaw et al. (1998), Conway & Swift (2000) & Narayandas & Rangan (2004) consider that trust precedes commitment.

"Trust is the basic mechanism used to build and maintain a relationship and to promote long-term orientation in marketing relationships" (Li et al., 2007, p.33). Trust is used as a basis for strengthening the commitment relationship in organizational sciences (Cambra-Fierro & Polo-Redondo, 2011).

However, on the contrary, other authors consider that commitment is a determinant of trust (e.g. Gundlach et al., 1995, cited by Hewett et al., 2002). Gundlach et al. (1995), consider that the behavioral aspect of affective commitment is fundamental in terms of trust building.

### **3. Research methodology**

#### ***3.1. Population of the study***

The sample of exporting companies is constituted of five Portuguese companies, namely: (Petróleos de Portugal-Petrol. SA (Galp Energia, SGPS, SA - [GE]) e Unicer Bebidas- União Cervejeira, SA - [Unicer], Efácec Energia, SA ((Grupo EFACEC) - [Efácec PT]), Martifer - Construções Metalomecânicas, SA - [Martifer PT] e Acail - Indústria e Comércio de Ferro e Aços, SA - [Acail PT].

The sample of Angolan distributors is constituted of five companies, distributors of Portuguese companies: Mota & Tavares, Lda - [M & T] and Importangola SA - [Importangola], Efácec Angola, Lda - [Efácec AG], Martifer - Construções Metalomecânicas Angola, SA - [Martifer AG] and Acail Angola SA - [Acail AG].

The criteria for the selection of the case studies were in the case of exporting companies, the Portuguese companies which were successful in exporting to the Angolan market and exporting to the Angolan market through an Angolan distributor. In the case of Angolan companies, in the other five case studies, they are distributors of Portuguese companies in Angola.

The geographical context of this study includes Portugal and Angola. Given the nature of this (intercultural) study, the specific nature of these markets is taken into account.

#### ***3.2 Study design***

Regarding the "design of the study", this research uses a qualitative methodology, namely through interviews. One of the advantages of in-depth interviews is that they allow interviewees to speak freely and the interviewer to explore themes without interruption (Robson, 2002).

Interviews to the managers/CEO of the Portuguese exporting companies and to the employees in charge of exporting activities were performed, as well as to their corresponding Angolan distributors, to obtain answers to the research questions. A total of 15 valid interviews

were carried out. The interviews conducted for this research lasted from about forty-five minutes to one hundred and fifty minutes, when they were allowed to be recorded and were fully transcribed, making up approximately 200 pages of tape scripts.

The data collected were treated according to qualitative content analysis (Bardin, 2011).

Since trust is one of the categories, and the subcategories are honesty (Anderson & Narus (1990); Dwyer & Oh (1987) citado por Geyskens et al. (1998); Doney & Cannon (1997)), benevolence (Geyskens et al. (1998); Boersma et al. (2003)); Doney e Cannon (1997)), competence (Helfert et al. (2001); Walter et al. (2003); Boersma et al. (2003)), perceived credibility (Doney & Cannon (1997); Boersma et al. (2003)), and the trust of calculation: reputation (Doney & Cannon, 1997). Another of the categories is commitment in which the subcategories are commitment of attitude (commitment of calculation and commitment of loyalty) (Gilliland & Bello (2002); Brown et al. (1995) citado por Gilliland & Bello (2002); Morgan & Hunt (1994)), commitment of continuity (Kim & Frazier (1996); Skarmeas et al. (2002)), behavioral commitment (Skarmeas et al. (2002)), commitment of collaboration (Selnes & Sallis (2003)), commitment of credibility (Gundlach et al. (1995); Gilliland & Bello (2002)) and affective commitment (Sanzo et al., (2003)). Finally the last category is culture and its subcategories are language (Ghemawat, 2001), habits (Jain, 1993), the use of time (Hall (1973,1977, 1990); (Hofstede (1980 e 1991); Trompenaars & Turner (1997); House et al. (2004); Minkov (2011)), the distribution of power and authority (House et al. (2004); Trompenaars & Turner (1993); Hall (1973,1977, 1990); Hofstede (1980 e 1991)), the emphasis on groups or individuals (Minkov (2011); House et al. (2004); Trompenaars & Turner (1993); Hofstede (1980 e 1991)) and personal and social control (Minkov (2011); House et al. (2004); Trompenaars & Turner (1997); Hofstede (1980 e 1991)).

In short, the data collected are treated according to qualitative content analysis. This research used qualitative methodology, an inductive method, the paradigm is constructivist and there is a triangulation of sources.

#### **4. Results and discussion**

Common language, habits, customs and social practices, the notion of time, social hierarchies, national pride and its expression, the existence of cultural empathy, the values of the people, the expression of masculinity and business ethics, have a major impact on trade relations between Portuguese exporting companies and their Angolan distributors. In other words, the analysis of the data collected in the case studies of Portuguese exporting companies in the research question, i.e. how cultural differences and similarities affect the quality of the commercial relationship between the Portuguese exporting company and its local distributors, it can be pointed out that cultural similarities in language and customs, from the colonization period, contribute positively to international trade, giving Portugal a competitive advantage when competing with other countries, as indicated in literature by Ghemawat (2001). In addition to the cultural similarities described above, it is important to refer to the habits (Jain, 1993), low individualism (Hofstede, 1980 & 1991) and the high context (Hall, 1973, 1977 & 1990) of both countries.

Even when there are cultural differences to a greater or lesser extent between Portugal and Angola, the high level of aversion to uncertainty in Portugal and, in the case of Angola, only a



high one, the low masculinity of Portugal and the average masculinity of Angola, the low temporal orientation of Portugal (Hofstede 1980 and 1991) and the hypometropia of Angola (Minkov, 2011) and exclusionism (Minkov, 2011), the high territoriality (Hall, 1973, 1977 and 1990) and particularism (Turner & Trompenaars, 1993) of Angola, contribute to generate trust, as reported by the interviewees' testimonies, thus revealing the cultural impact on the quality of the relationship. According to several researchers, such as Garbarino & Johnson (1999) and Ulaga & Eggert (2006), commitment and trust are elements of the quality of the relationship. According to Boersma et al. (2003), trust has three bases - promises, competence and benevolence - which are mentioned in the testimonies of the cases of Portuguese exporting companies, and according to Gundlach et al. (1995) (cited by Hewett et al., 2002) commitment is a determinant of trust. Gundlach et al. (1995) consider that the behavioral aspect of affective commitment is fundamental in terms of developing trust.

The following are some testimonies of the data collection on the research question with regard to Portuguese exporting companies and Angolan distributors.

"(Interviewer: What are the essential characteristics of the relationship of your business with Angolan companies, in your point of view?) The first one that is essential is that we perceive and understand the Angolan culture. The EFACEC alliance has experiences in many countries, our marketing says that more than 65 countries and each country is a different country ... "[Efacec PT]

"... Angola has its own things, its own cultures, and therefore, the EFACEC people in Angola, the first concern is to adapt to this culture that is a culture which is different to the Portuguese culture. The Angolan companies are different in different aspects of things that the Portuguese get. Therefore, this cultural issue is first and I think it is essential. "[Efacec PT |

"(Interviewer: In your opinion, do you think it is important for an Angolan distributor ... the fact that the exporter is Portuguese?) I think that language ... culture is an important factor. The fact that EFACEC is a Portuguese company I think gives us some privileges, and therefore, this is very positive compared to other countries, and therefore, the fact that it is Portuguese, in this case in Angola, I think it has a competitive advantage compared to other foreign countries. "[Efacec PT |

"The Portuguese-speaking component of Galp Energia operates as another facilitator of the relationship of cultural affinity between the parties ..." [GE]

"All decisions are taken together and are transparent." [Martifer PT]

"... there are 2 or 3 criteria that seem fundamental to me. One is the seriousness with which we go there (Angola), we must have consistency, patience, seriousness ... "[Martifer PT]

"In Angola, we have a great facility that is the language ... we are part of the management of this country as a colonizing country. All the good things of this proximity of countries is essential and it is an advantage that we as a Portuguese company ... "[Martifer PT]

" The creation of myths about the brand has also been crucial to the success of the product." Super Bock has become known in the Angolan market as the GTI, beer with power for the shock troops. That is, through "rappers" and expressions of contemporary Angolan popular music, a myth has been created that responds to the masculinity desires in society and corresponds to the diffusion of the belief that Super Bock is a strong beer, only for those who have power, those who are virile, hence Super Bock for the shock troops ... Virility displays are

a way of building trust or getting closer to partners. This is an example of how knowledge of cultural realities at the consumer level can be used in strategy of communication of a product/brand, but this requires knowledge of the idiosyncrasies of local consumers and the culture that shapes their behavior."|Unicer|

"Most of the relationships in Angola are defined outside the legal context in force." There is a prevalence of personal relationships and networks. They have created creative ways to make money that sustain a whole subsistence economy. Without knowledge of the rules in force in the informal sector, where a substantial part of the distribution networks of consumer products are based, one cannot succeed in business in Angola. "|

"(Interviewer: What are the essential characteristics of the relationship to do business with Angolan companies? I think it is good service, quality, speed and seriousness.

"Exactly. It is to fulfill what one agrees on, not to let the client down when he makes a contract with us. Fulfill that contract exactly, even if it could bring us more costs, for some momentary need that has arisen. "

"(Interviewer: In your opinion, do you think it is important, for the Angolan distributor, that the exporter is Portuguese?) I think so, they believe in the quality of Portuguese products very much, they believe in the Portuguese word, the same is not the case with the Chinese, they no longer believe in quality, and they think they are there, they only give jobs to the Chinese themselves, they do not employ Angolans, we give jobs to Angolans, they do not like Chinese or Cubans, but they like Portuguese. There is a relationship history, there are always those who are more racist. That foreigners should not be there. They are a minority, so it is not significant. "|Acail PT| The following is a summary of the data collection on the research question to the Angolan distributor (s)

"... We are a serious company" |Acail AG|

"... businessmen, it's more like work, more like a greeting. The portuguese are compliant. "| Acail AG |

"It is a problem ... (Angolans) create difficulties to sell facilities." (Note: "*gasosa*") "... there is no way to print now, there are no ink cartridges, this in public entities. If you do not have paper, you cannot print "| Acail AG |

"Angola was at war until 2004. And so, there are many values that this society had before, even in the time of the Portuguese, which it does not have today. Because during the war everything counted ..., so this issue of respect, honor, is something that for them is little or nothing at this time. "Efacec AG |

"... the importance of the language, the importance of the products, the importance of Portuguese quality was so great ..." |Efacec AG |

"... in principle, I would buy a Portuguese product precisely for the purposes of communication, after-sales, dialogue, philosophy .... Same cultural affinity helps a lot and most of all it has weight. "|Efacec AG|

"Two obvious cultural influences between the exporter and the distributor: the language and the legal landscape, whose own identities have many similarities or common points." |Martifer AG|

"I think a little bit of everything. Because when we do business we talk about the same things, I mean we speak the same language, we are used to working together, often the same people in other places." |Martifer AG|

"No matter how much we speak of a global economy, which is indifferent to buying from a Chinese or Japanese or Brazilian supplier, in everyday life I think that the language barrier, feeling the language, the other side wants to feel trust more and more feel. ... because we already have a relationship of many years .... In one way or another we feel more trust." |Martifer AG|

"... The culture is the same, because the Portuguese have a culture of many years of qualities and customs with Angola, the food, the dress codes are the same. Now what happens is that sometimes both sides are not properly prepared to make things easier, and then things go wrong. But the culture is the same, there are no differences. Angolan and Portuguese habits, customs are the same and you cannot change them. |M & T|

"One of the main bases is honesty ..." "... because of this, Angola prefers to work with the Portuguese than with anybody else, this is known ...." Most moral values are the honesty of both parties. Knowing that I will deliver a product and the customer will be satisfied with the product, he will not be poorly served: This is the main basis, do not sell customer "*gato por lebre*" / cat by hare. This is the main basis in moral values. |M & T|

"... with Unicer it was, therefore, almost an empathic question." |Importangola|

"Trust and loyalty above all, and transparency." |Importangola|

"No, I think it's different (negotiating with a Portuguese company and with a French company) the French, the Spanish, the Americans, even the Brazilians are undervalued, lower competitive advantage because Portuguese companies have the capacity to adapt." |Importangola|.

Various definitions of culture consider language as one of its constituent elements. Given that language is one of the key elements of culture, it was the object of analysis of this research. Of the five case studies of Portuguese exporting companies, there are testimonies from |GE|, |Martifer PT|, and |Efacec PT| of how the same language is central to the realization of commercial relations between Portugal and Angola, given that it facilitates cultural affinity as stated by the |GE|, even creating a competitive advantage for Portuguese companies, as emphasized by |Efacec PT|.

Regarding Angolan distributors, in all case studies, (|Efacec AG|, |Martifer AG|, |M & T|, |Importangola| and |Acail Angola|) consider the same language an important factor, coming to |Importangola| to explicitly express that "it is an advantage, we speak the same language" and also that "it is also the ideas that are expressed by the phrases whose translation is not language. There is a whole advantage in negotiating with the Portuguese ...". Thus, in the light of the case studies analyzed in this research, the fact that Portugal and Angola share the same language is considered an advantage for Portuguese companies when they intend to establish trade relationships with Angola. According to the testimony of |Martifer AG| it is clear that "feeling the language on the other side (Portugal) ... increasingly feeling more trust"; according to several authors, the presence of trust and commitment are elements of the quality of the relationship (Garbarino & Johnson, 1999 and Ulaga & Eggert, 2006).

According to Ghemawat (2001), mentioned above, the attribute that has the most impact on international trade is the colony-colonizer relationship. According to the data collected for

the Portuguese exporting companies in this area, [Martifer PT], [Acail PT], [Unicer] consider the colony-colonizer attribute to be relevant, and the [Martifer PT] states that "it is an advantage for us as a Portuguese company". However, [Unicer] informs of the danger of being perceived as neocolonial and [Efacec AG] goes so far as saying that sometimes the imputation of colonizers is used to treat and cover the current situation in Angola. Despite this, on the side of the Angolan distributors, [Martifer AG], [Acail AG], [M & T] and [Efacec AG] explicitly consider that the relationship of colony and colonizer is important in the commercial relations between these two countries. A [Martifer AG] even indicates that "we already have a relationship of many years ... in one way or another we feel more trust"; we can thus deduce that the colony-colonizer relationship contributes to generate more trust, which is, according to several authors, together with commitment, an element of the quality of the relationship.

We can deduce that common habits and customs (Jain, 1993) result from the period of colonization. According [M & T] there were 500 years, "created a family of 500 years, which is almost impossible to separate"; this has the direct consequence, in economic terms, of consumption of Portuguese products, as evidenced by the testimonies of the various interviewees, and, in emotional terms, the creation and/or maintenance of greater empathy between Portuguese and Angolans for sharing something in over the years. As we can see from the testimony of [Efacec PT] "Portuguese products, I do not know if still out of admiration, are products that have an acknowledged brand in Angola ... for example Super Bock is the beer that is most drunk in Angola." It should also be noted that according to [Importangola] the "brand imported from Portugal has a lot of power", therefore much more economic value.

It can therefore be concluded from the analysis of the case study data of the Portuguese exporting companies, [Efacec PT], [Unicer], [Acail PT], [Martifer PT], that there is a preference for Portuguese products and that these are associated with quality. On the side of the Angolan distributors, [Importangola], [Efacec AG], [Acail AG], [M & T], they share the same opinion, as we can see from their testimonies. It should be noted that, in addition to the reason given above, [Efacec PT] indicates that "Portuguese brands, the result of the work that some have done for many years, have a certain ease because there is a whole image of quality associated with the Portuguese in Angola." Thus, we can conclude that, and citing an [Efacec PT] statement, "any Angolan distributor is more likely to promote a Portuguese brand than a French brand or a Chinese brand."

A [Martifer PT] refers that the Portuguese's capacity for adaptation is greater due to the past reality (colonization period). Portuguese exporting companies that claim to understand the Angolan culture are the [Unicer], a [Efacec PT], a [Martifer PT] and a [Acail PT]. In the light of what Labahn & Harich (1997, p. 31) state, national cultural business sensitivity is defined as understanding a business and adapting to the partner's national business practices as perceived by the partner. As we can see from the testimonies of the Angolan distributors, the adaptability of the Portuguese, or, in other words, their sensitivity to the Angolan culture, is the reason for the realization of business given the cultural empathy defined by Philips et al. (1994) (cited by Swift, 1999), such as the ability of one seller to position himself as a buyer, from another culture. This is evidenced by the testimony of [Importangola], "with Unicer, so it was almost an empathic question."

There is an extremely relevant feature in Angolan culture that should be taken into account when conducting business, since its lack of consideration may mean, in the light of the testimonies obtained from Portuguese exporting companies (|Unicer| e |Acail PT|) and of the Angolan distributors (|Efaced AG| and |Acail AG|) the non-realization of business. In other words, according to |Efaced AG| "nothing is done in Angola without gas (bribery)." The existence of corruption is one of the characteristic features of societies in which exclusionism prevails (Minkov, 2011).

Trust is composed by honesty (Anderson & Narus, 1990; Doney & Cannon, 1997; Dwyer & Oh, 1987 cited by Geyskens et al., 1998), benevolence (Geyskens et al., 1998; Boersma et al., 2003; Doney & Cannon, 1997) competence (Helfert et al., 2001; Walter et al., 2003; Boersma et al., 2003) and perceived credibility (Doney & Cannon, 1997; Boersma et al., 2003). Honesty means keeping one's word, being reliable and sincere. Benevolence presupposes that one is genuinely committed to one's interests. Competence refers to competence in benefit of the relationship and perceived credibility means one's word, i.e. the partner's perceived statement that they are reliable. As we can see from the statements of all the Portuguese exporting companies present in this research (|Acail PT|, |Martifer PT|, |Unicer|, |GE| and |Efaced PT|) these are key characteristics to making business with Angola. For the Angolan distributors (|Importangola|, |M & T|, |Acail AG| and |Martifer AG|), the fact that the Portuguese have a behavior, based on the above mentioned characteristics, is decisive when buying from the Portuguese. In other words, in short and citing |M & T|, "one of the main (things) is honesty ... because of this, Angola prefers to work with the Portuguese than with anyone else, this is known" and, citing |Acail AG|, "They have more trust in Portuguese companies."

Commitment integrates the commitment of attitude (Brown et al., 1995, Morgan et al., 1994), commitment of continuity (Kim & Frazier, 1996; Skarmeas et al., 2002), behavioral commitment (Skarmeas et al., 2002), commitment of collaboration (Selnes & Sallis, 2003), commitment of credibility (Gundlach et al., 1995, Gilliland & Bello, 2002). The statements of Portuguese exporting companies, |Acail PT|, |Unicer|, |GE|, and |Efaced PT| and the Angolan distributors (|M & T|, |Importangola|, |Martifer AG| and |Efaced AG|) reveal that it is essential for the Portuguese and the Angolans to have commitment to doing business. In other words, quoting |M & T|, "the main basis, there must be trust and commitment" ... "the most important for both parties, not just one. If both parties have this behavior, the business goes far ... "

Summarizing, in the light of the literature review and the testimonies revealed in the case studies analyzed in this investigation, culture has an impact on the quality of the commercial relationship between the Portuguese exporting companies and the Angolan distributors and, as previously mentioned, it was also possible see how this happens.

## 5. Conclusions and implications

The study shows that a common historical past, specifically the secular existence of a colonizer - colonized relationship, left indelible traces in the Angolan culture that has a significant impact on the commercial relationships between the two nations. Despite a long colonial war, the agreed outcome that led to the independence of Angola, allows the Portuguese a peaceful and friendly coexistence with the Angolans. The notoriety and reputation of many Portuguese

brands still dates back to colonial times, thus allowing for a competitive advantage. The colonial heritage of Angolans is also reflected in the sharing of habits and customs, which of course represents a marketing advantage for Portuguese companies.

However, the historical past may, occasionally, have negative repercussions in relationships if attitudes and behaviors are likely to be perceived as neocolonial.

The cultural aspect that perhaps has the greatest impact on relations is the fact that the official language of both countries is common. The language, Lusophony, facilitates the communication of ideas, contacts and apprehension of reality and consequent adaptation ("Angolanization"). The same language significantly reduces the psychical distance perceived by individuals, which, according to Nordstrom & Vahlne (1994), prevents or disturbs the learning and understanding of the company about a foreign environment, or, in the expression of one of the interviewees, "the same language, another facility". For another interviewee, "feeling the language" generates more trust, confirming the one mentioned by Rodriguez & Wilson (2002), for whom trust depends, among other things, on cultural similarity.

Sharing interests in games is also a cultural phenomenon that brings the two nations together. Note the references to interest in Portuguese football, particularly to Benfica, probably a result of the golden age of this club in the colonial era. Socialization and the sharing of interests, outside the business sphere, brings people together and strengthens relationships.

However, other cultural factors differ considerably between the two cultures. The notion of time is an example. Angolans have a short-term orientation, with repercussions, namely in the evaluation of investments and the definition of strategies. This is of particular interest if we take into account the importance of partnerships with local companies. The explanation may lie in the decades of wars - colonial and civil - that have created a sense of day-to-day living. The habit of improvisation and tolerance for delays are other manifestations of the conception of time.

Another important cultural aspect for the establishment and maintenance of relationships is the understanding of social interactions, which "establish the roles that people play in society and their patterns of authority/responsibility" (Jain, 1993, p.238); in the present case, it is relevant to know the importance attributed to age - "old wisdom" in the expression of a respondent - to the position in the family and the recognition by the group, which is so characteristic of, for example, Eastern societies.

"All cultures nurture a certain pride and prejudice among their inhabitants" (Jain 1993, p. 243). Understanding national pride and prejudice factors of Angolans and their implications in business is important. Angolans have "an extreme feeling of belonging to Angolan nationality and patriotism" (interviewed) and, as already mentioned, a prejudice as to what can be understood as offensive to "Angolanity". This pride of being Angolan associated with a recent national independence which was conquered with effort, translates into a behavior of the owning, an exacerbated manifestation of the possession of the country, according to which the Angolans assume that they are entitled to the income of the businesses operated by foreigners, without having contributed to them.

Regarding values, respect for values such as seriousness, honesty, loyalty, credibility and transparency - "not selling a pig in a poke" (Angolan interviewee) - is valued by Angolans and maintains commercial relationships because they "believe in the word of the Portuguese

"(interviewee). On the other hand, there is a need on the part of the Portuguese to understand the manifestation of some recent values, such as the "culture of money" (interviewed) and the imaginative ways of achieving them, even if they are ethically unacceptable by Cultures of Western Europe and they are the fruit of a rapidly developing society, where there are very large social disparities. Another value of great expression in Angola is masculinity, whose manifestation can be a source of trust in relationships and be used as the axis of communication of brands ("Super Bock for the shock troops"). "Communication is the human activity that creates and maintains relationships between the different parties involved. Although communication is often based on information of various kinds, it is not synonymous with sending or receiving information by itself. For communication to occur, people should not only exchange information but also be able to decipher each other's codes. " (Lages et al., 2005, p. 1041).

The cultural practice of rumor - perhaps the oldest social networking project in the world - is a form of communication in Angola whose consideration by companies is not negligence, since it can be used in their favor or, if not, require action in order minimize the effects thereof.

The material culture that Jain (1993, p.237) refers "the tools, knowledge, techniques, methods and processes that a culture uses to produce goods and services, as well as their distribution and consumption" has an impact on relationships in Angola. Technological deficiencies, such as an intermittent supply of energy or Internet access or malfunctioning of ports and customs, conditions business practice and performance, reflecting relationships.

As a cultural dimension, formal education (Hill, 2001, p.95) has repercussions on business practice in Angola, manifesting itself in the lack of qualified staff and, often, the inevitability of using expatriate staff.

As a consequence of the cultural proximity between the two nations and the resulting trust, Portuguese companies and brands enjoy a preference for Angolans, which, if properly exploited, constitutes a sustainable competitive advantage.

The results of the empirical study show a strong impact of culture, according to several dimensions, on the quality of relationships between Portuguese exporting companies and Angolan distributors.

One of the limitations that may be pointed out in this research study is that it is based on a qualitative analysis, that is, on the interpretation of a person; as such, generalizations have to be taken care of.

Another limitation that can be pointed out is the fact that this study is multisector, since it applies more to the general relationship of companies, without focusing on any particular sector, removing homogeneity.

The limited time to complete this research can be considered a barrier that conditions the researcher's options, such as the impossibility of performing more interviews. Data collection through in-depth interviews is subject to the scarce availability of respondents, which has lengthened this process over time. However, if we use several international publications as reference, it can be seen that they are based on a smaller number of case studies than those included in this research.

For a more complete understanding of the object of study of this research, the same study using a design/data in longitudinal terms should also be performed.

With regard to recommendations for future investigations, the suggestion is to replicate this same study with regard to Portuguese exporting companies, but with other markets, such as Brazil or Mozambique. As these countries, also Portuguese ex-colonies, also have Portuguese as their official language, the confirmation or infirmation of the contributions of this study and the underlying causes may be evaluated

Another suggestion may be to carry out this research based on Portuguese exporting companies that have failed in the Angolan market, instead of successful Portuguese exporting companies, allowing subsequent comparative analysis, thus detecting similarities and/or differences.

The possibility of investigating the effect of other relational variables is also suggested.

One way forward for future research may be to include construct cooperation. It may also be interesting to study the feedback effect of cooperation on trust.

## References

1. Achrol, R. S. (1991). Evolution of the marketing organization: new forms for turbulent environments. *Journal of Marketing* 55: 77-93.
2. Agência para o Investimento & Comércio Externo de Portugal, E. P. E. A. (2011). <http://www.portugalglobal.pt> (agosto).
3. Akrou, H., Diallo, M. F., Akrou, W. & Chandon, J. L. (2016), "Affective trust in buyer-seller relationships: a two-dimensional scale", *Journal of Business & Industrial Marketing*, 31, 2, 260-273.
4. Alves, G. (2014). *O impacto da cultura e qualidade do relacionamento na cooperação entre as empresas exportadoras e distribuidores locais* (Tese de Doutoramento não publicada). Universidade do Minho, Portugal.
5. Anderson & Weitz (1992). The Use of Pledges to Build and Sustain Commitment in Distribution Channels. *Journal of Marketing Research* XXIX (February):18-34.
6. Anderson, J. C. & N., J. A. (1990). A model of distributor firm and manufacturer firm working partnerships. *Journal of Marketing* 54(1): 42-58.
7. Boersma, M. F., Buckley, P. J. & Ghauri, P. N (2003). Trust in international joint venture relationships, *Journal of Business Research* 56: 1031-42.
8. Brown, Donald E. (1995). *Human Universals*. McGraw-Hill Companies, Incorporated.
9. Buttle, Francis (1996). Relationship Marketing in Relationship Marketing: Theory and Practice. F. Buttle, Ed.: *Paul Chapman Publishing*.
10. Cambra-Fierro, J. J., & Polo-Redondo, Y. (2011), Post satisfaction factors affecting the long-term orientation of supply relationships. *Journal of Business & Industrial Marketing*, 26(6), 395-406.
11. Chang, S.-H., K.-Y. Wang, W.-H. Chih, & W.-H. Tsai (2012). Building customer commitment in business-to-business markets. *Industrial Marketing Management* 41(6): 940-950.
12. Child, John (2001). Trust - The Fundamental Bond in Global Collaboration. *Organizational Dynamics* 29 (4): 274-88.



13. Conway, Tony & Jonathan S. Swift (2000). International relationship marketing the importance of psychic distance. *European Journal of Marketing* 34 (11/12): 1391-413.
14. Doney, Patricia M. & Joseph P. Cannon (1997). An examination of the nature of trust in buyer-seller relationships, *Journal of Marketing* 61 (April 1997): 35-51.
15. Dwyer, F. R., Schurr, P. H. & Oh, S. (1987). Developing buyer-seller relationships. *Journal of Marketing* 51(2): 11-27.
16. Ganesan, S. (1994). Determinants of long-term orientation in buyer-seller relationships. *Journal of Marketing* 58(2): 1-19.
17. Garbarino, Ellen & Johnson, Mark S. (1999). The different roles of satisfaction, trust, and commitment in customer relationships. *Journal of Marketing* 63(2): 70-87
18. Geyskens, Inge, Jan-Benedict E. M. Steenkamp, & Nirmalya Kumar (1998), Generalizations about trust in marketing channel relationships using meta-analysis. *International Journal of Research in Marketing* 15: 223-48.
19. Ghemawat, Pankaj (2001). Distance still matters the hard reality of global expansion. *Harvard Business Review* (September 2001): 137-47.
20. Gilliland, D. I. & Bello, D. C. (2002). Two sides to attitudinal commitment: The effect of calculative and loyalty commitment on enforcement mechanisms in distribution channels. *Journal of the Academy of Marketing Science* 30(1): 24-43.
21. Gummesson, E. (2002), *Total Relationship Marketing*, 2nd edition, Butterworth-Heinemann, Oxford.
22. Gummesson, E. (2017). From Relationship Marketing to Total Relationship Marketing and Beyond. *Journal of Services Marketing*, 31(1).
23. Gundlach, G., Achrol, R. & Mentzer, J. (1995). The structure of commitment in exchange. *Journal of Marketing* 59: 72-92.
24. Ha, J., Karande, K., & Singhapakdi, A., (2004). Importers' relationships with exporters: does culture matter?. *International Marketing Review* 21(4/5): 447-461.
25. Hall, Edward T. (1973). *The silent language*. USA: Anchor Books.
26. Hall, Edward T. (1977). *Beyond Culture*. USA: Anchor Books.
27. Hall, Edward T. (1990). *Understanding cultural differences*. Yarmouth MA: Intercultural Press.
28. Helfert, Gabriele, Thomas Ritter & Achim Walter (2001). How Does Market Orientation Affect Business Relationships?, in *17th IMP Conference*. Oslo.
29. Hill, Charles, W. L. (2001). *Global Business*. 2<sup>nd</sup> Edition, Irwin-McGraw-Hill, Sydney.
30. Hofstede, G. (1980). *Culture's consequences: International differences in work-related values*. Beverly Hills: CA: Sage Publications.
31. Hofstede, G. 1984. *Culture's consequences: International differences in work-related values*. Abridged edition. Newbury Park, CA: Sage Publications.
32. Hosftede, G. & Hosftede, G. J. (1991). *Cultures and organizations; Software of mind*. London: McGraw Hill.
33. House, R. J. & Associates (eds) (2004). *Culture, leadership, and organizations. The GLOBE study of 62 societies*. Thousand Oaks: Sage Publications.
34. Jain, S. C. (1993). *International marketing management*. 4th. edition, Wadsworth Publishing, Belmont, California

35. Keegan, W. J. (2009). *Global marketing management*. USA: Pearson Education.
36. Kim, Keysuk & Gary L. Frazier (1996). A typology of distribution channel systems: a contextual approach. *International Marketing Review* 13 (1): 19-32.
37. LaBahn, Douglas W. & Katrin R. Harich (1997). Sensitivity to national business culture: Effects on U.S. - Mexican channel relationship performance. *Journal of International Marketing* 5 (4): 29-51.
38. Lages, C., Lages, C., & Lages, L. (2005). The RELQUAL scale: a measure of relationship quality in export market ventures. *Journal of Business Research* 58: 1040-1048.
39. Li, D., Browne, G. J. & Wetherbe, J. C. (2007). Online consumers' switching behavior: a buyer-seller relationship perspective. *Journal of Electronic Commerce in Organizations* 5 (1): 30-42.
40. Marshall, Ronald Scott (2003). Building trust early: the influence of first and second order expectations on trust in international channels of distribution. *International Business Review* 12 (4): 421-43.
41. Minkov, Michael (2011). *Cultural differences in a globalizing world*, Emerald Group Publishing Limited.
42. Mohr, J. J. & Nevin, J. R. (1990). Communication Strategies in Marketing Channels: A Theoretical Perspective. *Journal of Marketing*, (October). <https://doi.org/10.2307/1251758>
43. Morgan, R., & Hunt, S. (1994). The commitment-trust theory of relationship marketing. *Journal of marketing* 58 (3): 20-38.
44. Narayandas, D. & Rangan, V. K. (2004) Building and sustaining buyer-seller relationships in mature industrial markets. *Journal of Marketing* 68, (3/4), 63-77.
45. Navarro-García, A., Arenas- Gaitán, J. & Rondán- Cataluña, F. J. (2014). External environment and the moderating role of export market orientation. *Journal of Business Research* 67: 740-745.
46. Nielson, Charles C. (1998). An empirical examination of the role of "closeness" in industrial buyer-seller relationships. *European Journal of Marketing* 32 (5/6): 441-63.
47. Nordström, K. A. & Vahlne, J.E. (1994). *The internationalization process-impact of competition and experience*. Stockholm: Stockholm, School of Economics.
48. Obadia, C. (2008). Cross-border inter-firm cooperation: The influence of the performance context. *International Marketing Review* 25(6): 634-650.
49. Parkhe, Arvind (1998). Building trust in international alliances. *Journal of World Business*. 33(4): 417-437
50. Riel, A. C. R., Liljander, V., Semeijn, J. & Polsa, P. (2011), EU deregulation and dealer-supplier relations in automotive distribution. *Journal of Business & Industrial Marketing* 26 (2): 115-131.
51. Robson, C. (2002). *Real world research: A resource for social scientists and practitioner-researchers*. Oxford, England: Blackwell.
52. Rodriguez, Carlos M. & David T. Wilson (2002). Relationship bonding and trust as a foundation for commitment in U.S.-mexican strategic alliances: A structural equation modeling approach. *Journal of International Marketing* 10 (4): 53-76.

53. Saleh, M. A., Ali, M. Y. & Andaleeb, S. S. (2014). Explaining industrial importers' commitment from an emerging market perspective: theoretical and managerial insights, *Journal of Business & Industrial Marketing* 29(1): 45-62.
54. Sanzo, Ma Jose, Ma Leticia Santos, Rodolfo Vázquez, & Luis I. Álvarez (2003). The role of market orientation in business dyadic relationships: Testing an integrator model, *Journal of Marketing Management* 19: 73-107.
55. Schmiedel, T., Brocke, J., & Recker, J., (2013). Which culture values matter to business process management? Results from a global Delphi study. *Business Process Management Journal* 19 (2): 292-317.
56. Schurr, Paul H. & Julie L. Ozanne (1985), Influences on exchange processes: Buyers' preconceptions of a seller's trustworthiness and bargaining toughness. *Journal of Consumer Research* 11 (March 1985): 939-53.
57. Selnes, Fred & James Sallis (2003). Promoting relationship learning. *Journal of Marketing* 67 (3): 80-95.
58. Siguaw, J. A., Simpson, P. M. & Baker, T.L. (1998). Effects of supplier market orientation on distributor market orientation and the channel relationship: The distributor perspective. *Journal of Marketing* 62(July): 99-111.
59. Skarmas, D., Katsikeas, C. S. & Schlegelmilch, B. B. (2002). Drivers of commitment and its impact on performance in cross-cultural buyer-seller relationships: The importer's perspective: *Journal of International Business Studies* 33 (4): 757-83.
60. Sojka, Jane & Tansuhaj, Patriya S. (1995). Cross-cultural consumer research: a twenty-year review, in - *Advances in Consumer Research* Volume 22, eds. Frank R. Kardes and Mita Suja, Provo, UT: Association for consumer research: 461-474.
61. Straub, D., Loch, K., Evaristo, R., Karahanna, E. & Srite, M. (2002). Towards a theory based measurement of culture. *Journal of Global Information Management* 10 (1): 13-23.
62. Swift, Jonathan S. (1999). Cultural closeness as a facet of cultural affinity A contribution to the theory of psychic distance. *International Marketing Review* 16 (3): 182-201.
63. Trompenaars, F. & Hampden-Turner, C. (1997). *Riding the waves of culture: understanding cultural diversity in business*. London, Nicholas Brearley.
64. Tsoukatos, E. & Rand, G.K. (2007). Cultural influences on service quality and customer satisfaction: Evidence from Greek Insurance. *Managing Service Quality* 17(4): 467-485
65. Turner, Charles Hampden & Trompenaars, F. (1993). Response to Geer Hofstede. *International Journal of Intercultural Relations* 21: 149-159.
66. Ulaga, T., & Eggert, A. (2006) Value-based differentiation in business relationships: gaining and sustaining key supplier status. *Journal of Marketing* 70, (1): 119-136.
67. Usunier, Jean-Claude (2000), *Marketing Across Cultures*, 3rd Edition, Financial Times Prentice Hall
68. Walter, Achim, Thilo A. Muller, Gabriele Helfert, & Thomas Ritter (2003). Functions of industrial supplier relationships and their impact on relationship quality. *Industrial Marketing Management* 32: 159 - 69.
69. Zhang, C., Cavusgil, S. T. & Roath, A. S. (2003). Manufacturer governance of foreign distributor relationships: Do relational norms enhance the competitiveness in the export market? *Journal of International Business Studies* 34: 550-566.



# **EFFECT OF SUPPLY CHAIN MANAGEMENT ON PERFORMANCE IN SELECTED PRIVATE HOSPITALS IN ILORIN, NIGERIA**

**Rotimi A. Gbadeyan**  
*University of Ilorin, Nigeria*

**Francis O. Boachie-Mensah**  
*University of Cape Coast, Ghan.*

**Olubunmi F. Osemene**  
*University of Ilorin, Nigeria*

Received: May 21, 2016

Accepted: April 28, 2017

Online Published: October 2, 2017

## ***Abstract***

*There has been increasing Patients' dissatisfaction about health care service delivery in most private hospitals in Nigeria due to the quality of health care services provided to patients. The objective of this paper is to examine the effect of supply chain management on hospital performance in Ilorin, Nigeria. The quantitative research approach and the descriptive study design were adopted for the study. The simple random sampling method was used to select respondents from ten, out of fifty-eight, private hospitals in Ilorin. The study employed the Partial Least Squares method in the estimation of the Structural Equation Model's effect in Supply Chain Management (SCM) on Hospital performance. Results indicate that SCM has no strong and direct impact on Hospital performance, but has indirect impact on performance through Competitive Advantage. The paper concludes that an efficient SCM will result in more Patient Satisfaction and better Competitive advantage. It is recommended that Private hospitals should not depend on single suppliers. They should engage more reliable suppliers that would be closer to them for better medical procurement and supplies to be achieved.*

**Keywords:** supply chain; drugs; private hospitals; patient care; procurement, structural equation model; hospital performance.

## **1. Introduction**

Supply Chain Management (SCM) is one of the important functions that need to be performed efficiently in every business. Organizations have now realized that their success depends on their capacity to design and manage their SCM system effectively, in order to reap maximum

benefits and sustain their competitive advantage (Lenin, 2014). This situation is also the same in the health care industry where there is high competition and sharp rise in price in almost all products and services. The Healthcare industry has become one of the fastest growing industries in the service sector, with most hospitals, except few highly specialised ones, providing similar types of services (Turkyilmaz, Bulak & Zaim, 2015).

These Hospitals strive to achieve service excellence and retain every customer that they can profitably serve. In other words, they try to achieve zero defects through a continuous effort to improve the quality of their service delivery system. Thus, Hospitals need to pay attention to critical approach, which is a health care supply management, to be more competitive and successful (Lillrank, Groop & Venesmaa, 2011; Turkyilmaz, Bulak & Zaim, 2015). The challenges facing the healthcare sector include increasing costs of medication and equipment, increasing demand of quality health care, sophisticated equipment and the changing patterns of diseases, which result in higher health care cost. The health care organizations, therefore, need to adopt a system that will enable them to deal with these challenges and gain customers' satisfaction. This also requires the private hospital administrators employing supply chain management to promote the advancement of healthcare (Toba, Tomasini & Yang, 2008; Ali, Alolayyan & Idris, 2012; Hong, Kim & Dobrzykowski, 2012; Pheng, Hamdani & Zailani, 2014). The Supply Chain, being a significant driver of cost in the health industry, has become an important issue which attracts attention from the industry's stakeholders. SCM is now regarded as having an important impact on reducing costs and improving performance in health care organizations (Mathew, John & Kumar, 2010; Christos, Vicky & Constantinos, 2014). According to Lenin (2014), due to the rapid advancement in medical technology and life sciences market, the healthcare supply chain is under severe pressure.

The health sector comprises various sectors such as pharmaceutical, medical equipment and supplies, and health care services. The industry's size and velocity make the management of its supply chain complex (Christos, Vicky & Constantinos, 2014).

In this study, the focus is basically on selected Private hospitals in Nigeria. There have been declines in the quality of services provided by Public owned Hospitals, which has led to more demand for health services in Private Hospitals. There is a general belief that private hospitals are having high-level performance in terms of supply chain than the public- owned ones. In other words, services offered by Private hospitals are superior to those of the Public Hospitals (Polsa et. al., 2011). For example, private hospitals that are recognised for their world class standard health care services in Malaysia have attracted an increasing number of patients each year (Pheng, Hamdani & Zailani, 2014). Patients attach more importance to the quality of healthcare services received and they are ready to abandon free health care services in public hospitals for expensive better health care in Private hospitals ((Ramsaran-Fowdar, 2005; Butt & de Run, 2010; Kanyoma & Khomba, 2013).

In Nigeria, there is persistently low quality and inadequate health services provided in public facilities, which have made the private sector an unavoidable choice for consumers of health care (Ogunbekun, Ogunbekun & Orobato, 1999). Also, in a similar study done by Polsa, Spens, Soneye and Antai (2011), it was revealed that the patients perceived private hospitals to be more dependable than public hospitals. However, the study done by Basu, Andrews, Kishore, Panjabi and Stuckler (2012) revealed that, when the private sector included unlicensed physicians, it provided the majority of coverage for low-income groups, but when only licensed providers were included, the public sector was the main source of healthcare provision in low- and middle-income countries. This gave a different result from the earlier ones considered, but, to a certain extent, the various studies examined have shown that the Private Hospitals are significant alternatives to the Public Hospitals. SCM is defined as a way to envision all steps needed to deliver products or services to the customers (Meijboom, Schmidt-Bakx & Westert,

2011). The procurement and supply chain management functions play an important role in health care delivery and its failure can result in sabotage in the organizations (Kumar, Ozdama & Zhang, 2008; Kayoma & Khomba, 2013).

In the healthcare industry, procurement operations associated with Pharmaceutical products can affect the standard of care for Patients. It also affects the inventory level and it is, therefore, prudent that some minimum stock of medical supplies be kept in hospital. This is because controlling logistics in the health sector will improve patient safety (Pan & Pokharel, 2007; Kumar et al., 2008; Mustaffa & Potter, 2009). Inefficient processes and delayed delivery or stock out of medical supplies may affect both the efficiency and effectiveness in hospitals (Kumar, De Groot & Choe, 2008; Mustaffa & Potter, 2009).

Procurement, therefore, plays a key role in the value chain for health care delivery in hospitals (Aronsson, Abrahamsson & Spells, 2011; Kanyoma & Khomba, 2013). The objectives of SCM in organizations are: to improve the quality of the goods and services, to increase customer service, to reduce waste and non-value added activities, including excess inventory, to improve supply chain communication, reduce cycle time and satisfy the customer (Kauffman, 2002; Lenin, 2014). However, the main challenge in the healthcare supply chain management is the achievement of improved performance and service (Lenin, 2014). The increasing importance of private hospital as an alternative source of healthcare delivery not only in developed, but also in developing countries, motivates this study. The focus of research on SCM in the last two decades has been in the manufacturing industry, but there is now a change of focus to healthcare supply chain management; thus, making healthcare supply chain to be in its early stage of development (Shou, 2013). The majority of the works done in this area used the qualitative and case study approach, while few scholars used questionnaire surveys and quantitative approaches (Kim, 2005; Kumar, Ozdama & Zhang, 2008; Mustaffa & Potter, 2009; Shou, 2013). This study differs from the other studies because it examines the effect of SCM on Patent health care delivery in selected private hospitals in Nigeria. A greater number of studies have been on healthcare qualities, workers' attitude, facility location, government spending on healthcare, service provision and disease prevalence (Mills et. al., 2002; Tuan et. al., 2005; Polsa et.al., 2011). The study also used the Partial Least Squares method in the estimation of the Structural Equation Model's effect of SCM on Patent health care delivery.

## **2. Literature Review**

### **2.1. Conceptual Definition**

There are various definitions of SCM. In this study, two of these definitions will be discussed. The Council of Logistics Management (2000) defines SCM as the systematic, strategic coordination of the traditional business functions within a particular organisation and across businesses within the supply chain for the purposes of improving the long-term performance of the individual organizations and the supply chain as a whole.

The definition considers SCM as a business function which takes place, both within and outside a particular organisation, for the purpose of bringing about its improved performance and supply chain decisions. According to Shou (2013), SCM in hospitals involves both the internal and external chain. The internal chain includes patient care unit, hospital storage and patient etc, while the external chain includes the vendors, manufacturers, distributors, etc. The SCM processes in healthcare are physical product, information, and financial flow. The physical product flow helps in managing customised products and services for the treatment of

patients. The information and financial flows are for effective product flow and improved organizational performance (Lee, Lee & Schniederjans, 2011).

Chopra and Meindl (2007) define SCM as the management processes of flows of goods, information and funds among supply chain partners in order to satisfy consumer need in an efficient way. This definition examines SCM from three key functions performed by the supply chain partners, which are the flow of physical product, the information, and financial flow. The supply chain partners are expected to perform these functions in order to satisfy customers and achieve improved organizational performance. SCM has been regarded as the key to building sustainable competitive edge by organizations for their products and services in an increasingly crowded market place (Jones, 1998; Li, Ragu-Nathan & Rao, 2006). The key players in Healthcare Supply Chain are the producers, purchasers, providers and patients (Burns, De Graaf, Danzon, Kimberly, Kissick & Pauly, 2002). The producers are those who manufacture products, such as pharmaceuticals, medical devices, and implants, medical and surgical supplies. Purchasers are group purchasing organizations (GPO) and distributors who arrange the payment and shipment of goods from the producers to the providers.

The providers include the hospitals, clinics, pharmacies and physician offices. Patients are the households who seek medical care from the hospitals (Smith, Nachtman & Pohl, 2012; Turkyilmaz, Bulak & Zaim, 2015). The following are given as dimensions of health care SCM: relationships with suppliers, compatibility, specifications and standards, delivery and after-sales service (Al-Saad et al., 2013).

Patient care delivery system involves organising the activities of the health staff into a workable pattern to meet patient needs (Ezzat, 2007). In other words, Patient Care is the various measures taken by the Health Staff that is aimed at alleviating patient illness and creating optimum conditions for treatment (Dehktiar, 1974). It has been shown that the main concern about healthcare SCM is on its performance, and a key measure for healthcare supply chain is patient satisfaction. A study conducted in South Korea further showed that customer satisfaction in the health care industry is positively related to supply chain performance (Kim, 2004; Shou, 2013). This means that, when there is an efficient health care, supply chain management will bring about better hospital performance and patient satisfaction.

Brown, Franco, Rafeh and Hatzell (1998) describe nine quality dimensions of health service delivery that lead to patient satisfaction. These dimensions are: effectiveness, efficiency, technical competence, interpersonal relations, and access to service, safety, continuity, and physical aspect of health care. Hospitals are making efforts to ensure that quality care is delivered to the patient in order to influence outcomes with respect to hospital performance and patient satisfaction. It is only when patients enjoy quality health care that they can become satisfied and this will also lead to better hospital performance (Jiang, Friedman & Begun, 2006; Toba, Tomasini & Yang, 2008). According to Li et al. (2006), SCM practices impact not only overall organizational performance, but also competitive advantage of an organization. Organizational performance has been described as how well an organization is able to achieve its market-oriented goals as well as its financial goals (Yamin, Gunasekruan & Mavondo, 1999). The short-term objectives of SCM are increased productivity and reduced inventory and cycle time, while long-term objectives are in a form of increased market share and profits for all members of the supply chain (Tan, Kannan & Handfield, 1998). Traditionally, business performance was based on financial metrics such as profit, market share, and revenue growth, but a study has shown that financial indicators are measures of past performance only and may not be a good measure of future performance. The inclusion of non-financial indicators, such as: service quality as perceived by customers, reputation, capacity, market orientation, market development, etc., helps a firm overcome this shortcoming (Kaplan & Norton, 1998; Bulak & Turkyilmaz, 2014).



Competitive advantage is described as the extent to which an organisation is able to create a defensible position over its competitors (Porter, 1985; McGinnis & Vallopra, 1999). This makes an organization have capabilities to differentiate it from other competitors through its critical management decisions (Tracey, Vonderembse & Lim, 1999; Li et al., 2006).

There are empirical studies which have identified price/cost, quality, delivery, and flexibility as important competitive capabilities for organizations (Skinner, 1985; Roth & Miller, 1990; Tracey, Vonderembse, Lim, 1999). Also, time-based competition has been included as an important competitive priority (Stalk, 1988; Vesey, 1991; Handfield & Pannesi, 1995; Kessler & Chakrabarti, 1996; Zhang, 2001). The extant literature has shown that SCM has an influence on both performance and competitive advantage of an organization. Therefore, in relation to this study, SCM could be said to have influence on both the hospital performance and its competitive advantage.

The previous studies on SCM include: the factors between weaknesses in the supply chain and operational performance of American companies (Hendricks & Singhal, 2005). The result revealed that the return on sales and assets have the most important impact on operational performance. Shah, Goldstein, Unger and Henry (2008) examine the field approach to the study of how healthcare supply chain increases performance by decreasing service time and increasing service quality in a decentralised network of health care providers. The result of their study shows that the use of lean principles can guide process improvement efforts. Al-Saa'da, Taleb, Abdallat, Al-Mahasneh, Nimer and Al-Weshah's (2013) study considers the effect of the SCM on health care service quality in Jordanian Private Hospitals. They found that there was a significant effect of SCM dimensions on the quality of health services. There is also a study on Assessment of Total Quality Management (TQM) practices as a part of SCM in Health Care Institutions by Turkyilmaz et al. (2015). The study revealed that TQM practices do not have direct influence on financial performance, but have indirect influence on non-financial performance. Out of all these studies considered in this paper, only that of Turkyilmaz et al. (2015) made use of Partial Least square methods to estimate the relationship between factors used for the selected health care Institutions in Turkey. This trend further confirms that few scholars used quantitative approach, such as Structural Equation Model, for the study of SCM and healthcare industry (Kim, 2004; Lee, Lee & Schniederjans, 2011). In terms of procurement practices, it has been shown that there are significant differences between the public and private sector. The public sector almost relies on transactional-based approaches and the restrictions placed on its procurement practices result in sub-optimal outcomes (Lian & Laing, 2005). The hospitals need to maintain an efficient inventory of drugs and medical supplies in order to meet emergency demands, but this may result in increased costs. There is also increasing supply chain problems as a result of drug shortage, which lead to additional costs for hospitals and drug counterfeiting, which poses serious threat to patient safety (Chen, 2013; Christos, Vicky & Constantinos, 2014).

The Nigerian health services are built on three levels, which are Primary, Secondary and Tertiary Care. The Local Governments are responsible for Primary health care services, which provide health education, safe water and sanitation, reproductive health, immunization against major infectious diseases, provision of essential drugs, mental and dental care. The State Governments manage the health care services at the Secondary level. The secondary level provides health care services at a higher level than that of the primary health care facilities. They provide specialized services, such as laboratories, diagnostics, general, medical and surgical, to referred patients from the primary health care facilities. The tertiary health care services represent the highest level of health care services in the country and it is administered by the Nigerian Federal Government. They provide highly specialised health care services in orthopedic, psychiatric, maternity and pediatric specialties (Polisa et. al., 2011; NBS, 2012).

There were 34,020 hospital facilities in Nigerian as at 2011 (NBS, 2012). The health care facilities comprised of 23,450 Public hospital facilities and 10,570 Private hospitals, as shown in Table 1.

Table 1 – Health Care Facilities in Nigeria as at 2011

Types	Public	Private	Total
Primary	21,808	8,290	30,098
Secondary	1,569	2,270	3,839
Tertiary	73	10	83
Total	23,450	10,570	34,020

Source: National Bureau of Statistics, 2012.

This has reflected the upward number of the health care facilities established in Nigeria in recent time (Coker & Sridlar, 2010). The health care facilities are mostly located in urban areas, which resulted to restrict access to health care delivery in rural areas. This situation had led to the predominance of traditional healers and private health care facilities in the rural areas (Polisa et.al., 2011).

This study, therefore, in addition to the objectives earlier stated, examines the relevance of private health care facilities in meeting the health needs of these rural dwellers. They usually come from the village to visit the private health facilities for their medical treatments. This literature on SCM has shown, to a great extent, how significant it is to the health care industry and other stakeholders.

## **2.2. Theoretical framework to the study**

According to Halldorsson, Kotzab, Mikkola and Skjøtt-Larsen (2007), there are four theories of managing supply chains and these include: the Principal Agent Theory, Transaction Cost Analysis, the Network Theory and the Resource Based View (RBV). The Principal agent theory is all about mitigating agency problems that may arise in organizations. Transaction cost analysis is about transferring rights of disposal in inter-organizational arrangements. The Network theory is concerned with reciprocated interactions between institutions, while the resource based view is concerned with the coordination of relational assets in the organization. Halldorsson et. al. (2007) stated that there is no such thing as a unified theory of SCM. They further said that, depending on the situation, one can choose one theory as the dominant explanatory theory and then complement it with one or several of the other theoretical perspectives. In this study, the RBV is adopted, because it is one of the grand theories of economics and pays attention to the achievement of a competitive advantage through internal resources (Bohnenekamp, 2013). The RBV examines the link between a firm's internal characteristics and performance. There is a need for a firm's resources to be valuable, rare, inimitable and non-substitutable for it to create a competitive advantage (Dierickx & Cool, 1989; Barney, 1991; Petraf, 1993). The RBV also assumes that activities leading to competitive advantage should be maintained in house and less important items sourced externally (Bohnenekamp, 2013). In other words, outsourcing decisions or supply management decisions are based on the idea of focusing on core competencies and outsourcing complementary competencies to external partners (Halldorsson et. al., 2007). The RBV theory, thus, serves as appropriate and relevant to this study. The following hypotheses are, therefore, raised in this study:

*H<sub>1</sub>: Supply Chain Management has a weak impact on Patient Satisfaction.*

*H<sub>2</sub>: Supply Chain Management has a strong direct impact on Hospital Competitive Advantage.*

*H<sub>3</sub>: Supply Chain Management has a strong and direct impact on Hospital performance.*

*H<sub>4</sub>: Patient Satisfaction has a strong direct impact on Hospital Performance.*

*H<sub>5</sub>: Competitive Advantage has a strong direct impact on Hospital performance.*

### 3. Methodology

This is a descriptive and quantitative study which examines the impact of SCM on patient care delivery. The study has been different from other studies, because it used the Structural Equation Model-Partial Least Square method (SEM-PLS) to measure the impact of SCM on Patient health care delivery in Ilorin, Nigeria. The SEM-PLS approach enables the simultaneous examination of a series of interrelated dependence relationships between a set of constructs, represented by several variables while accounting for measurement error. This attribute has contributed to its widespread application in business research (Sarstedt, Ringle, Smith, Reams & Hair, 2014). Ten private hospitals were selected, out of the total 58 that were functioning in Ilorin, Nigeria (Akande & Monehin, 2004; Gbadeyan, Raheem & Abdullahi, 2014) as sample for the study. The hospitals were randomly selected based on their geographic spread, years of existence, size and quality of services offered to patients. The selected hospitals include: Abanishe-lolu hospital, Olalomi hospital, Omolola hospital, Ola Olu hospital, Kiddies Medical Centre, Olanrewaju hospital, Olotu hospital, Eytayo clinic, Ella hospital and Surulere Medical Centre.

The study was conducted from March 7<sup>th</sup> to March 21<sup>st</sup>, 2016. This study was carried out to evaluate the impact of SCM in these hospitals on patient satisfaction, competitive advantage and performance, using the Partial least square - Structural Equation model approach.

The instrument which measures SCM was developed from the study done by Al-Saa'da et.al. (2013). Competitive advantage and organizational performance measures were adopted from Zhang (2001).

The patient satisfaction measures were developed from Brown et.al (1998). There were minor modifications made to the original version of these instruments to arrive at the final form used for the study. The questionnaire consisted of two sections: Sections A and B. The first section (i.e. Section A) has 13 questions, while Section B has 25 items, making a total of 38 items. Section A provides information on the characteristics of the sampled private hospitals, while Section B contains measurement instrument for the patient care delivery and SCM. The questionnaire is shown in the Appendix. Twenty questionnaires were administered by simple random method to each private hospital to collect data from the Medical directors, staff in charge of procurement, suppliers and patients. The Medical directors in these private hospitals helped in providing information about their hospitals and suppliers. The questionnaires were distributed to the patients during hospitalisation. A total of 173 questionnaires, out of the 200 administered, were filled in and returned, which represents 86.5% rate of return. Each item for the Section B instrument was rated on a 10 scale point with 1 = minimum and 10 = maximum. The questionnaires were pretested several times to ensure the appropriateness of the wordings used. The judgemental measures were used to collect information about the financial performance, because most hospitals are not willing to disclose their financial position. This is

done because the judgemental method had been used in similar past study (Turkyilmaz et al., 2015).

#### 4. Results and Discussion

The breakdown of the sampled population revealed that 5.8% of the respondents were the Medical directors of the Private Hospitals, 11% of the Health Staff were in charge of the procurement and supply for the hospitals, 12.7% of the respondents were Suppliers and 70% of the respondents were the Patients who participated in the survey for the study. The respondents' distribution is shown in Table 2.

Table 2 – Respondents' Distribution

	Frequency	Percentage
Medical Directors	10	05.8
Procurement Staff	19	11.0
Suppliers	22	12.7
Patients	122	70.5
Total	173	100.00

Source: Authors' field survey, 2016.

In 70% of the hospitals selected for the study, it was found that all the medical directors and the procurement staff are involved in supply chain decisions, while in 30% of the Private hospitals, only the medical directors are involved in SCM decisions. The Procurement staff members are mostly either Nurses or Doctors assigned by the Medical Directors to carry out this responsibility for the hospitals. This revealed that most of those involved in Supply Chain decisions are not those who are professionally trained or graduates with a Supply Management degree or diploma certificate. The average number of suppliers for the selected hospitals are two, 40% of the Hospitals had three suppliers, while 20% of the selected hospitals rely on a single supplier. This makes most of the hospitals to be able to meet up with the supply for drug orders. The Patients form the greatest proportion of the sample; they were 70% of the total respondents considered for the study. The detailed information about the hospitals selected for the study and respondents' distribution is shown in Table 3. It is shown in the table that the number of beds for the hospitals ranges from 30 to 69. The number of Doctors is from 2 to 5, while Staff Nurses are from 7 to 15. The Administrative Staff are between 3 to 5 and suppliers for the hospitals range from 1 to 3. This information shows that most of the hospitals were small and medium-sized in nature. The respondents were also fairly distributed across the selected hospitals.

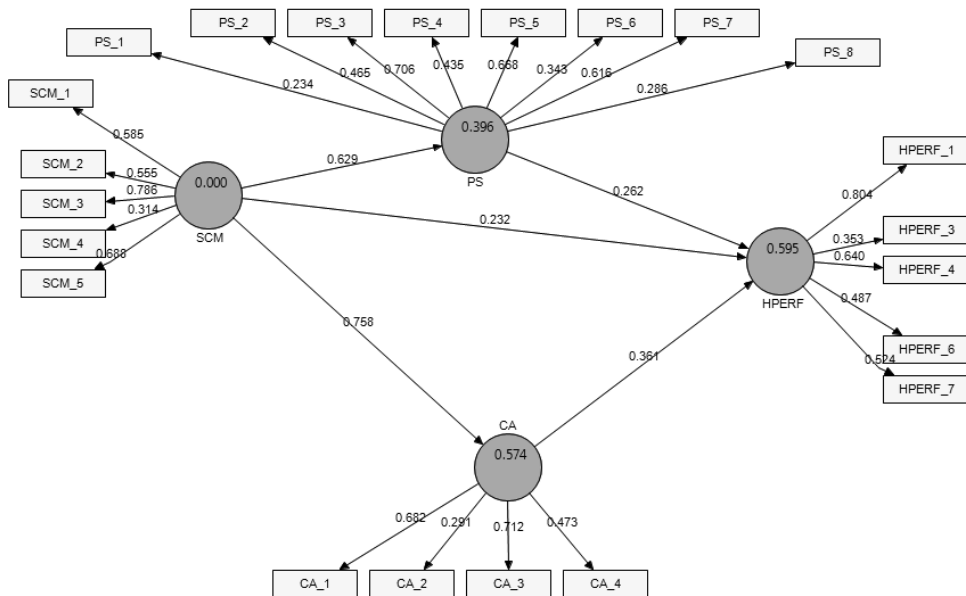
Figure 1 shows the Structural Model for the study. The Partial Least Squares (PLS) approach was utilized to test the hypothesized relationships developed for the study. The internal consistency reliability for the model, as shown in Table 4, indicated that the composite reliability for the latent variables used range from 0.6313 to 0.7307, which is considered acceptable for this type of study. The Composite Reliability is superior to the Cronbach's Alpha. This is because the Cronbach's Alpha assumes that the measurement item load equally on the construct, which is clearly not the case of the measurement model (Hair, Ringle & Sarstedt, 2011).

Table 3 – Detailed Information about Selected Private Hospitals

S/N	Number of Doctors	Number of Nurses	Number of Administrative staff	Number of suppliers	No of beds	No of respondents sampled	% distribution of respondents
1	2	10	3	2	32	18	10.40
2	5	14	4	3	58	20	11.56
3	3	15	3	2	43	18	10.40
4	3	10	4	2	50	17	9.83
5	4	13	5	3	69	19	10.98
6	2	7	3	1	30	17	9.83
7	3	11	3	3	42	17	9.83
8	3	14	4	2	46	15	8.67
9	2	13	3	1	34	15	8.67
10	3	12	4	3	48	17	9.83
Total	30	119	36	22	452	173	100

Source: Authors' field work, 2016.

Figure 1 – Structural Model



Also, the  $R^2$  values in Table 4 for Hospital Performance and Competitive Advantage were moderate, while Patient Satisfaction was weak. This, in other words, means that 59.5% of the model variance is explained by Hospital performance, 57.4% explained by Competitive advantage and 39.6% explained by Patient satisfaction. The indicator loadings, as shown in

Table 5, are higher than the cross loadings, which means that discriminant validity has been achieved.

Table 4 – Overview Results of the Structural Model

	AVE	Composite Reliability	R Square	Cronbach's Alpha
CA	0.3201	0.6313	0.5741	0.3559
HPERF	0.3384	0.7044	0.5947	0.5696
PS	0.2479	0.7007	0.3959	0.5493
SCM	0.368	0.7307	0	0.5479

Source: Authors' Fieldwork, 2016.

Table 5 – Cross Loadings for Structural Equation Model

	CA	HPERF	PS	SCM
CA_1	<b>0.6823</b>	0.4343	0.335	0.6569
CA_2	<b>0.2908</b>	0.3441	0.3534	-0.1091
CA_3	<b>0.712</b>	0.4971	0.4718	0.5526
CA_4	<b>0.4728</b>	0.4404	0.6624	0.2162
HPERF_1	0.7053	<b>0.8044</b>	0.5442	0.6739
HPERF_3	0.1266	<b>0.353</b>	0.0815	0.103
HPERF_4	0.4289	<b>0.6401</b>	0.4941	0.4448
HPERF_6	0.3229	<b>0.4865</b>	0.2069	0.0482
HPERF_7	0.2523	<b>0.5235</b>	0.3914	0.2808
PS_1	0.1689	0.3486	<b>0.2345</b>	-0.0621
PS_2	0.5687	0.2892	<b>0.4654</b>	0.3629
PS_3	0.3446	0.4361	<b>0.7056</b>	0.2385
PS_4	0.2116	0.2287	<b>0.4352</b>	0.3272
PS_5	0.5429	0.5175	<b>0.6678</b>	0.5675
PS_6	0.3694	0.1716	<b>0.3427</b>	0.1994
PS_7	0.3485	0.4147	<b>0.616</b>	0.332
PS_8	0.2449	0.0937	<b>0.2857</b>	0.2301
SCM_1	0.427	0.5143	0.4457	<b>0.5854</b>
SCM_2	0.3872	0.4624	0.3706	<b>0.5549</b>
SCM_3	0.5616	0.4346	0.3747	<b>0.7855</b>
SCM_4	0.1896	0.0962	0.2293	<b>0.3141</b>
SCM_5	0.6131	0.3982	0.4444	<b>0.6883</b>

Source: Authors' fieldwork, 2016.

In using bootstrapping to assess the path coefficients' significance, three manifest variables were deleted because their coefficients are less than 2 and, hence, these items are considered not load properly. The manifest variables are: CA\_5 (the hospital is capable of offering patients new medical services faster than major competitors), HPERF\_2 (the hospital is having increase in its return on investment) and HPERF\_5 (there is growth in the hospital's return on

investment). In using PLS, discriminant validity can be established if the measurement items load on their corresponding latent variables, a magnitude higher than they load on other latent variables and the square root of Average Variance Explained (AVE) is greater than the correlations between latent variables (Gefen & Straub, 2005; Gabisch & Gwebu, 2011). In this study, the square root of the AVE for each latent variable was higher than the correlations of the latent variables, and this is shown in Table 6.

Table 6 – Latent Variable Correlation Matrix

	CA	HPERF	PS	SCM
CA	<b>0.6092</b>			
HPERF	0.4114	<b>0.5522</b>		
PS	0.3793	0.551	<b>0.5721</b>	
SCM	0.3031	0.5085	0.5967	<b>0.6041</b>

Source: Computation from Smart PLS, 2016.

The minimum number of bootstrap samples of 5000 and 173 original samples was used as suggested by Hair, Ringle & Sarstedt (2011). The results of the test, as shown in Path Analysis, are presented in Table 7:

Table 7 – Result of Hypotheses Test

Hypothesized path	t-statistics	p-value	Result
CA -> HPERF	2.2908	0.023188	Supported
PS -> HPERF	3.1258	0.002082	Supported
SCM -> CA	18.1181	9.95E-42	Supported
SCM -> HPERF	1.6199	0.107086	Not Supported
SCM -> PS	12.0716	1.07E-24	Not Supported

Source: Computation from Smart PLS, 2016.

The result of the hypothesis 1(H<sub>1</sub>) revealed that SCM has a strong direct impact on Patient satisfaction and, hence, the null hypothesis, which states that it has a weak impact on Patient Satisfaction, is not supported. The P-value equals to 0.0000, which is less than 0.05 significant level. This result is in agreement with that of Shou (2013), which established that the key measure of health care SCM is Patient satisfaction. There may be failure in SCM as a result of suppliers' inability to meet up with the drug orders from the hospital, delays by hospital in making the order, failure to pay for drug supplied and unexpected disease outbreak where there is no drug for its cure, for example, as was the case with Ebola disease. Other reasons adduced for failure in SCM in health care include: poor inventory management, unavailability of the drug in the market and expiry of drug in excess of hospital requirement (Kanyoma & Khomba, 2013). The lack of efficient SCM in hospitals may result in death of patients, deterioration in patients' medical condition, patients' prolonged stay in the hospital, overcrowding in hospital and transfer of patients to other health facilities where they can get the necessary medication (Kanyoma & Khomba, 2013).

The second hypothesis (H<sub>2</sub>), which states that SCM has a strong direct impact on Hospital Competitive Advantage, is supported at the 5% level of significance, with P=0.0000. According to Li et al. (2006), the implementation of various SCM practices may provide the organization a competitive advantage on cost, quality, dependability, flexibility, and time-to-market dimension. Therefore, an efficient SCM has strong impact on hospitals' competitive advantage.

Hypothesis 3 ( $H_3$ ) is not supported at the 5% significance level, the p value equals to 0.1071. The hypothesis states that SCM has a strong and direct impact on hospital performance. The result indicated that SCM has no strong and direct impact on Hospital performance. In other words, the result revealed that an efficient SCM does not necessarily translate to better performance. Other factors need to be taken into consideration for SCM to be able to have direct impact on hospital performance; for example, there may be the need for patient satisfaction and the hospital achieving competitive advantage over its competitors. Organization performance is measured in terms of both financial and non-financial metrics, so the hospital should use its competitive advantage to influence its performance. In a similar work done by Li et al. (to – Check the date), they asserted that SCM practices can have a direct, positive influence on organizational performance as well as an indirect one through competitive advantage.

The fourth hypothesis ( $H_4$ ) states that Patient Satisfaction has a strong direct impact on Hospital Performance. The result of this hypothesis is supported by  $P = 0.0002$  at 5% significant level. This result indicates that patient satisfaction would lead to better performance. A study has confirmed that, in hospitals, quality management initiatives have been raised on how quality care can be delivered in order to influence outcomes with respect to hospital performance and patient satisfaction (Jiang, Friedman & Begun, 2006).

The result of hypothesis 5 ( $H_5$ ) is supported at the 5% significant level with p value = 0.0232. The null hypothesis, which states that Competitive Advantage has a strong direct impact on Hospital performance, is, therefore, accepted. Li et al.'s (2013) study, which states that higher levels of competitive advantage may lead to improved organizational performance, supports this result. Hospitals which have a competitive advantage in terms of service delivery, patient care, good physical environment, better pricing strategy and customer relations will, in no doubt, achieve better performance.

This may be in terms of increase in number of patients, increase in profits and gaining good market share in the health care industry. A greater proportion of Medical Directors of the Private Hospital considered for the study agreed that efficient SCM decisions have brought about improved financial performance to their hospitals.

## **5. Conclusion and Recommendations**

This study has examined how SCM influences the quality of patient care delivery in private hospitals in Ilorin, Nigeria. It employed the Structural Equation Model-Partial Least Square method to test the hypotheses raised, and it has been found that SCM has a strong direct influence on Patient Satisfaction and Competitive Advantage. Also, SCM has no strong and direct impact on Hospital performance, but has indirect impact on performance through Competitive Advantage. The study found that Patient Satisfaction has a strong direct impact on hospital performance. It is no doubt that an efficient SCM will result in more Patient Satisfaction and better Competitive advantage for not only private, but other types of hospitals, which will consequently result in better performance. The following recommendations are made to ensure that better hospitals' performance is achieved: Private Hospitals should process orders from suppliers who are closer to them. The procurement function could also be outsourced to Suppliers that are jointly owned by Private hospitals. This would result in improved product pricing and reduced inventory. Private hospitals should not depend on a single supplier; they should try to have more dependable suppliers. In a situation where there is the unavailability of drugs in the market, efforts should be made to get close substitutes for the drugs.

Also, where there is sudden outbreak of diseases and no drugs, such as the case of Ebola, proactive measures should be taken to ensure that the spread of such disease is prevented, pending the time that there will be a cure for the disease. Professionals and graduates having



skills in SCM should be employed for good decision making to be achieved in hospitals, in terms of Procurement and Supply Chain practices. The major limitation to the study is that the sample size is not large enough to properly accommodate the heterogeneous population under study.

However, it is suggested that larger sample size should be considered for future study. This study has been able to take care of the problem by the use of PLS - SEM Model. The model is generally recognised as achieving a high level of statistical power with small samples.

## Appendix

### QUESTIONNAIRE

1. Name of hospital \_\_\_\_\_
2. Year established \_\_\_\_\_
3. Number of hospital beds \_\_\_\_\_
4. Number of Doctors \_\_\_\_\_
5. Number of Nurses \_\_\_\_\_
6. Number of suppliers/vendors \_\_\_\_\_
7. Do you have Procurement of staff [a]Yes [b]No
8. Who are those involved in the procurement for the hospital?  
[a] Nurses and other admin staff [b] medical directional[c]Nurses only  
[d] Administrative staff only

#### *Section A: Information about the Hospital*

9. How do you rate the suppliers' efficiency?  
[a] very effective [b] effective [c] undecided [d] not effective [e] strongly not Effective
10. Do you think supply claim management has an effect on your hospital performance? [a] Yes [b]No
11. If yes, how effective is it?  
[a] very effective [b] effective [c] undecided [d] not effective [e] strongly not effective
12. Is there improvement in your hospital financial performance as a result of the supply chain management decision put in place? [a] Yes [b]No
13. How do you rate your hospital financial performance  
[a] Excellent [b] Good [c] Fair [d] Average [e] Poor

***Section B: Measurement Instrument for the Patient Care Delivery and Supply Chain Management.***

Latent Variables	Manifest Variables
Supply Chain Management (SCM)	<ul style="list-style-type: none"> <li>(a) The supplier relationship with the hospital is dependable</li> <li>(b) The suppliers are meeting with the standard specifications set by the hospital</li> <li>(c) The suppliers are able to meet up with their delivery dates.</li> <li>(d) The hospital enjoys follow up maintenance service with the suppliers after sale</li> <li>(e) There is an appropriateness of medical equipment and supplies to the specification agreed upon between the suppliers and the Hospital.</li> </ul>
Patient Satisfaction (PS)	<ul style="list-style-type: none"> <li>(a) The Hospital services are effective and efficient</li> <li>(b) The Hospital Staff and Patients have good interpersonal relations</li> <li>(c) The hospital Staff members are technically competent in performing their task and the facilities provided by the Hospital are able to meet up with patients' expectation</li> <li>(d) There is unrestricted access to the Hospital's services</li> <li>(e) The hospital maintains a good level of trust and confidentiality with patient and risk of injury, infections and other harmful side effects are minimal</li> <li>(f) The Hospital provides consistent and constant care to the patient which enables them maintain continuous visit for treatment</li> <li>(g) The hospital offers to the patients' good facility, comfort and clean environment</li> <li>(h) The hospital offers their patients appropriate choice treatment</li> </ul>
Competitive Advantage (CA)	<ul style="list-style-type: none"> <li>(a) The hospital offers patients lower medical charges than its competitors</li> <li>(b) The Hospital services to the patient are reliable and of good quality</li> <li>(c) the hospital offers timely care to Patients</li> <li>(d) The hospital makes its services to meet up with the patients' needs.</li> <li>(e) The hospital is capable of offering patients new medical services faster than major competitors</li> </ul>
Hospital Performance (HPERF)	<ul style="list-style-type: none"> <li>(a) The Hospital records good market share in the Healthcare Industry</li> <li>(b) The hospital is having increased in its return on investment</li> <li>(c) The Hospital has been witnessing the growth in its market share</li> <li>(d) There is an increase in the hospital's number of patients</li> <li>(e) There is growth in the hospital's return on investment</li> <li>(f) There is an increase in the hospital's profit margin</li> <li>(g) The hospital has been enjoying a good overall competitive position</li> </ul>

## References

1. Akande, T.M. & Monehin, J.O. (2004). Health Management Information System in Private Clinics in Ilorin, Nigeria. *Nigeria Medical Practitioner*. Vol. 46 (5/6): 103 – 107
2. Ali, K., Alolayyan, M., & Idris, F. (2012). The impact of total quality management (TQM) on hospital performance in the Jordanian hospitals: an empirical evidence (medical leader's perspectives). *Global conference on operations and supply chain management (GCOM2012) proceedings*, 12-13 March 2012. Bandung, Indonesia.
3. Al-Saa'da, R.J., Taleb, Y.K.A., Abdallat, Al-Mahasneh, M.E., Nimer, N.A. & Al-Weshah, G.A. (2013). Supply Chain Management and its effect on Health Care Service Quality: Quantitative Evidence from Jordanian Private Hospitals. *Journal of Management and Strategy*. 4(2): 42 – 51.
4. Aronsson, H., Abrahamsson, M. & Spills, K. (2011). Developing lean and agile health care supply chains'. *Supply Chain Management: An International Journal*, 16 (3).
5. Barney, J.B. (1991). Firm resources and sustained competitive advantage. *Journal of Management*. 17(1): 99-120.
6. Basu, S., Andrews, J., Kishore, S., Panjabi, R., & Stuckler, D. (2012). Comparative Performance of Private and Public Healthcare Systems in Low and Middle-Income Countries: A Systematic Review. *PLoS Medicine*. 9(6):e1001244.doi:10.1371/journal.pmed.1001244
7. Bohnenkamp, T. (2013). *The effect of the resource based view on decisions in supply management*. 1<sup>st</sup> IBA Bachelor Thesis Conference, June 27<sup>th</sup>. University of Twente, Faculty of Management and Governance, Enschede, The Netherlands.
8. Brown L., Franco L. M., Rafah, N. & Hatzell T. (1998). *Quality assurance of health care in developing countries*, 2nd ed. Bethesda: Quality Assurance Project (1998)
9. Bulak, M.E. & Turkyilmaz, A. (2014). Performance assessment of manufacturing SMEs: a frontier approach. *Industrial Management and Data Systems*. 114(5): 797 – 816.
10. Burns, L., De Graaf, R., Danzon, P., Kimberly, J., Kissick, W. & Pauly, M. (2002). *The Health Care Value Chain: Producers, Purchasers and Providers*. NY: John Wiley.
11. Butt, M.M. & de Run, E.C. (2010). Private healthcare quality: applying a SERVQUAL model. *International Journal of Health Care Quality Assurance*. 23(7): 658-673.
12. Chen, D. (2013). Enhancing hospital supply chain performance: A relational view and empirical test, *Journal of Operations Management*. 31(6): 391 - 408
13. Chopra, S. & Meindl, P. (2007). *Supply Chain Management: Strategy, Planning and Operation*. Pearson Education, New Jersey.
14. Christos, B. Vicky, M. & Constantinos, S. J. (2014). Supply Chain Management in The Healthcare Sector: A Research Agenda. European, Mediterranean & Middle Eastern Conference on Information Systems 2014. Doha, Qatar, 1 – 5.
15. Coker, A. & Sridhar, M.K.C. (2010). Increase in healthcare facilities and rapid environmental degradation: A technological paradox in Nigeria's urban centres. *African Journal of Environmental Science and Technology*. 4(9): 577 – 585.
16. Council of Logistics Management (2000). Council of Logistics Management. What it's all about. Oak Brook: CLM, 2000
17. Dehktiar, E.G. (1974). *Spravochnik meditsinskoi sestry po ukhody*, 6th ed. Moscow, 1974
18. Dierickx, I & Cool, K. (1989). Asset stock accumulation and sustainability of competitive advantage. *Management Science*. 35(12): 1504 – 1511.
19. Ezzat, H.A. (2007). Patient Care delivery system. Accessed on 07/05/2016. Available at: faculty.ksu.edu.sa/.../Nursing%20management%20489NUR/10.\_Patient\_

20. Gabisch, J.A. & Gwebu, K. L. (2011). Impact of Virtual Brand Experience on Purchase Intentions: The Role of Multichannel Congruence. *Journal of Electronic Commerce Research*.12 (4): 302-319.
21. Gbadeyan, R.A; Raheem, U.A. & Abdullahi, A.A. (2014). Improving the quality of health care through staff motivation: Result from selected Private Hospitals in Ilorin, Nigeria. *Journal for Development and Leadership*. A Publication of Faculty of Business and Economics Sciences, Nelson Mandela Metropolitan University, Port Elizabeth, South Africa. 3(2): 45 – 54.
22. Gefen, D & Straub, D.W.(2005). A Practical Guide to Factorial Validity Using PLS-Graph: Tutorial and Annotated Example. *Communications of the Association for Information Systems*.16 (5): 91-109.
23. Hair, J.F, Ringle, C.M. & Sarstedt, M. (2011).PLS-SEM: indeed a Silver Bullet. *Journal of Marketing Theory and Practise*. 19(2):139-151.
24. Halldorsson, A., Kotzab, H., Mikkola, J.H. & Skjøtt – Larsen, T. (2007). Complementary theories to supply chain management. *Supply Chain Management Journal: An International Journal*. 12(4): 284 – 296.
25. Handfield, R.B. & Pannesi,R.T. (1995). Antecedents of lead-time competitiveness in make-to-order manufacturing firms. *International Journal of Production Research*: 33(2):511–37.
26. Hong, P., Kim, S., & Dobrzykowski, D. (2012). Healthcare supply chain for competitive advantage: the case for Korea. *5TH Annual Symposium and Workshop in Global Supply Chains*, March 8-10, 2012, Tokyo, Japan.
27. Jiang, H.J., Friedman, B. & Begun, J (2006). Factors Associated with High-Quality/Low-Cost Hospital Performance. *Journal of Health Care Finance*. 32(3): 39 – 52.
28. Jones, C (1998). Moving beyond ERP: making the missing link. *Logistics Focus* 1998; 6(7):2–7.
29. Kanyoma, K.E. & Khomba, J.K. (2013). The Impact of Procurement Operations on Healthcare Delivery: A Case Study of Malawi's Public Healthcare Delivery System. *Global Journal of Management and Business Research Administration and Management*. 13(3/1): 1 – 11.
30. Kaplan, R.S. & Norton, D.P. (1998). *The balanced scorecard: Translating strategy into action*. Boston: Harvard Business School Press.
31. Kauffman, R. G. (2002). How To Achieve Cost Savings From Supply Chain Management: Techniques That Work. <http://www.ism.ws/files/Pubs/Proceedings/CrimiGG.pdf>, retrieved on 11th March, 2016.
32. Kessler, E. & Chakrabarti, A. (1996). Innovation speed: a conceptual mode of context, antecedents, and outcomes. *The Academy of Management Review*. 21(4):1143–91
33. Kim, D.(2005). *An integrated supply chain management system: a case study in healthcare sector*. Lecture Notes in Computer Science. 3590:218-27.
34. Kim, S.M. (2004). *An Empirical Investigation of the Impact of Electronic Commerce on Supply Chain Management: a Study in the Healthcare Industry*. University of Nebraska.
35. Kumar, A. Ozdama, L & Zhang, C.N.(2008). Supply chain redesign in the healthcare industry of Singapore. *An International Journal*, 13/2, 95-103.
36. Kumar, S. DeGroot, R.A. & Choe, D. (2008). The impact of package design within US hospital supply chain. *International Journal of Physical Distribution & Logistics Management*,38 (8), 601-615.
37. Lee, S.M., Lee, D. H. & Schniederjans, M. J. (2011). Supply Chain innovation and organizational performance in Health care Industry. *International Journal of Operations & Production Management*, 31, (2011),1193-1214.

38. Lenin, K. (2014). Measuring supply chain performance in the healthcare industry. *Science Journal of Business and Management*. 2(5): 136-142.
39. Li, S., Ragu-Nathan, B. & Rao, S. S. (2006). The impact of supply chain management practices on competitive advantage and organizational performance. *Omega: The International Journal of Management Science*. 34: 107–124
40. Lian, P.C.S. & Laing, A.W. (2005). Public Sector Purchasing of Health Services: A Comparison with Private Sector Purchasing, *Journal of Purchasing & Supply Management*, 11.
41. Lillrank, P. Groop, J. & Venesmaa, J. (2011). Processes, episodes and events in health service supply chains. *Supply Chain Management: An International Journal*. 16 (3). Pp.194 –201.
42. Mathew, J. John, J. & Kumar, S. (2010). New Trends in Healthcare Supply chain. Pp 1-10. Available at: <https://www.pomsmeetings.org/confpapers/043/043-0259.pdf>
43. McGinnis, M. A. & Vallopra, R. M.(1999). Purchasing and supplier involvement in process improvement: a source of competitive advantage. *Journal of Supply Chain Management*. 35(4):42–50.
44. Meijboom, B.R., Schmidt-Bakx, S.J.W.G.C., & Westert, G.P. (2011). Supply chain management practices for improving patient-oriented care. *Supply Chain Management: An International Journal*. 16: 166-175. doi:10.1108/13598541111127155
45. Mills, A., Brugha, R., Hanson, K & McPake, B. (2002). What can be done about the Private Health Sector in Low – Income Countries? *Bulletin of the World Health Organisation*. 80: 325 - 30
46. Mustaffa, N.H. & Potter, A. (2009). Healthcare supply chain management in Malaysia: a case study. *Supply Chain Management: An International Journal*. 14(3): 234–243.
47. National Bureau of Statistics (2012). *Social statistics in Nigeria: Health, Employment, Public safety, population and vital registration*. National Bureau of Statistics, Abuja, Nigeria.
48. Ogunbekun, I; Ogunbekun, A & Orobato, N. (1999). Private health care in Nigeria: walking the tightrope. *Health Policy and Planning*. Oxford University Press; 1999 14(2): 174–181.
49. Pan, Z.X. & Pokharel, S. (2007). Logistics in hospitals: a case study of some Singapore hospitals. *Leadership in Health Services*. 20(3): 195-207.
50. Petraf, M.A. (1993). The cornerstones of competitive advantage: a resource-based view. *Strategic Management Journal*. 14(3):179 – 191.
51. Pheng, T.K. Hamdani, Y. & Zaliani, S. (2014). *Investigation on Service Supply Chain in Private Hospitals Malaysia*. Proceedings of the 2014 International Conference on Industrial Engineering and Operations Management Bali, Indonesia, January 7 – 9, 2014:1 – 6.
52. Polsa, P; Spens, K; Soneye, A. & Antai, I. (2011). Comparing the Perceived quality of Private and Public health services in Nigeria. *Journal of Management Policy & Practice*. 12 (7):18 – 24.
53. Porter, M.E. (1985). *Competitive advantage: creating and sustaining superior performance*. New York: The Free Press.
54. Ramsaran-Fowdar, R.R. (2005). Identifying healthcare quality attributes. *Journal of Health and Human Service Administration*. 27(4). Spring, pp. 428-43.
55. Roth, A. V. & Miller, J. G. (1990). *Manufacturing strategy, Manufacturing strength, Managerial success, and Economic outcomes*. In: Ettlie J, Burstein M, Fiegenbaum A. (Editors). *Manufacturing strategy*. Norwell, MA: Kluwer Academic Publishers, 97–108

56. Sarstedt, M., Ringle, C.M., Smith, D., Reams, R. & Hair, J.F. (2014). Partial Least Squares Structural equation modelling (PLS-SEM): A useful tool for family business researchers. *Journal of Family Business Strategy*. <http://dx.doi.org/10.1016/j.jfbs.2014.01.002>
57. Shah, R., Goldstein, S., Unger, B. & Henry, T. (2008). Explaining Anomalous High Performance in a Health Care Supply Chain. *Decision Science*. 39 (4): 759-788.
58. Shou, Y. (2013). Perspectives on Supply Chain Management in the Healthcare Industry. 2nd International Conference on Science and Social Research (ICSSR 2013): 1-4.
59. Skinner, W. (1985). *The taming of the lions: how manufacturing leadership involved, 1780–1984*. In: Clark KB, Hayes R, Lorenz C., editors. *The uneasy alliance: managing the productivity-technology dilemma*. Boston, MA: The Harvard Business School Press, 63–110.
60. Smith, B.K., Nachtman, H. & Pohl, A.E. (2012). Improving Healthcare Supply Chain Processes Via Data Standardization. *Engineering Management Journal*. 24 (1): 3-10.
61. Stalk, G. (1988). Time—the next source of competitive advantage. *Harvard Business Review*. 66(4):41–51.
62. Tan, K.C., Kannan, V.R. & Handfield, R.B. (1998). Supply Chain Management: Supplier Performance and Firm Performance. *International Journal of Purchasing and Materials Management*. 34(3):2–9.
63. Toba, S., Tomasini, M. & Yang, H. (2008). Supply Chain Management in Hospitals: A Case Study. *California Journal of Operations Management*. 6(1). 49 – 55.
64. Tuan, T., Dung, V.T.M., Neu, I., and Dibley, M.J. (2005). Comparative Quality of Private and Public Health Services in Rural Vietnam. *Health Policy and Planning*. 20: 319 – 327.
65. Tracey, M., Vonderembse, M.A. & Lim, J. S. (1999). Manufacturing technology and strategy formulation: keys to enhancing competitiveness and improving performance. *Journal of Operations Management*. 17(4):411–28.
66. Tracey, M., Vonderembse, M.A., & Lim, J.S. (1999). Manufacturing technology and strategy formulation: keys to enhancing competitiveness and improving performance. *Journal of Operations Management*. 17(4):411–28.
67. Turkyilmaz, Bulak & Zaim, (2015). Assessment of TQM Practices as a Part of Supply Chain Management in Healthcare Institutions. *International Journal of Supply Chain Management*. 4(4):1-9.
68. Vesey, J.T. (1991). The new competitors: they think in terms of speed to-market. *Academy of Management Executive*. 5(2):23–33.
69. Yamin, S., Gunasekruan, A & Mavondo, F.T. (1999). Relationship between generic strategy, competitive advantage and firm performance: an empirical analysis. *Technovation*. 19(8):507–18.
70. Zhang, Q. Y. (2001). *Technology infusion enabled value chain flexibility: A learning and capability-based perspective*. Doctoral dissertation, University of Toledo, Toledo, OH.

# FEMALE ENTREPRENEURS AND INTERGENERATIONAL TRANSFER: NEW INSIGHTS INTO THE SUCCESSION PROCESS

*Annalisa Sentuti*

*Carlo Bo University of Urbino, Italy*

Received: August 10, 2017

Accepted: September 26, 2017

Online Published: October 2, 2017

## *Abstract*

*This study focuses on the intergenerational transfer from female entrepreneurs to offspring, analysing two Italian cases of succession from mother to son or daughter. The aim is to understand how the succession unfolds when the incumbent is a woman, and whether specific characteristics of women's style of leadership and management may facilitate the planning and management of the intergenerational transfer. Findings show that the female approach to the succession process is characterised by attention to relationships, cooperation, involvement, communication and sharing in the decision-making process. Moreover, the female approach appears to be more orientated towards a positive perspective of succession. Women entrepreneurs seem to live through the intergenerational transfer much less traumatically, adopting an idea of the physiological continuity of the business and natural turnover between the generations. These characteristics take on particular relevance to its successful outcome and may facilitate the succession process.*

**Keywords:** women entrepreneurs, female entrepreneurship, women-owned family business, intergenerational transfer, succession process, matriarchal succession.

## **1. Introduction**

An intergenerational transfer—or succession—can be defined as the series of actions, events and developments that affect the transferral of managerial control from one family member to another (Sharma et al., 2001). In succession, “Both the incumbent who relinquishes managerial control and the successor who takes it over are family members” (De Massis et al., 2008).

In research on female entrepreneurship, the intergenerational transfer has been widely ignored. Attention has mainly been paid to female businesses in early stages (start-up period) and on their development strategies (growth period) (Cadieux et al., 2002). The reason is that female entrepreneurship is a relatively recent phenomenon. Thus, female businesses are generally young and in the entrepreneurial phase (before entering into the family phase which is characterised by the official involvement of at least one family member) (Cadieux et al., 2002).

On the contrary, succession is one of the main research topics in family business studies (Sharma, 2004). However, most of the research has focused on traditional succession father-son (Hadler, 1994; Harveston et al., 1997). Few scholars have investigated how the process unfolds when the incumbent is a woman. Kaslow (1998), Cadieux et al. (2002), Vera & Dean (2005) and Cesaroni et al. (2017) have introduced significant contributions on this topic but have remained sporadic; therefore, empirical evidence on female entrepreneurs and intergenerational transfer is still limited.

Nevertheless, even if the traditional figure of the male entrepreneur still prevails, the percentage of businesses founded, run and owned by women has steadily continued to grow over recent decades. According to the 2012 United States Census Bureau, US women own 36% of all businesses, a jump of 30% since 2007. In Europe, the percentage of women entrepreneurs was at 31% in 2012 (European Commission, 2014). In Italy, women entrepreneurs were estimated between 8-17% of the total in 1996, while according to more recent data from European Commission (2014) their percentage has risen to 29%.

Consequently, the binomial “female entrepreneurs and intergenerational transfer” is becoming extremely important. Therefore, it is necessary to emphasise new and emerging perspectives on analysis with reference to the proposals traditionally offered by literature.

This paper focuses on this binomial. Based on two paradigmatic cases of succession from mother to children, it aims to understand how the intergenerational transfer unfolds when the incumbent who passes “the baton” of the business is a woman.

The rest of paper is organised as follows. In the next two sections, the main literature on intergenerational transfer and women entrepreneurs and succession is presented. In the following section, the methodology used in the empirical research and the two case studies is described. Finally, key results of the study are discussed, and main conclusions are drawn.

## **2. The intergenerational transfer**

The intergenerational transfer is widely considered as a process that lasts many years and should be very carefully planned and managed (Handler, 1990, 1992; Harveston et al., 1997; Morris et al., 1997; Sharma et al., 2001; Dyck et al., 2002; Sharma et al., 2003; Le Breton-Miller et al., 2004; Sund et al., 2015) in order to take into due consideration all of the succession issues (Ip & Jacobs, 2006; Cesaroni & Sentuti, 2017a).

Several authors have produced models that articulate the succession process in different phases. From a cross-reading of the various contributions, the main stages/activities identified are:

- *Propaedeutic activities*, such as the acquisition of awareness—by the incumbent—of the need to plan the process and manage all the issues raised by the intergenerational transfer (Kets de Vries, 1993; Corbetta, 1995; Ciambotti, 2011; Cesaroni & Sentuti, 2017a).
- *Selection of the successor*, aimed at choosing the person who will guide the family business. The selection must be based on an objective assessment of the candidate’s competencies (knowledge, skills and attitudes) and motivations and contemplate the real business needs. In this phase, all solutions must be considered so as not to leave the firm without a successor and without a possible alternative in cases where there are no heirs, or they are incapable or uninterested in running the business (Corbetta, 1995; Morris et al., 1997; Cabrera-Suarez et al., 2001; Sharma et al., 2003; Ward, 2004).
- *Training of the successor*, both outside (family education, socialisation of the entrepreneurial role, schooling, work experience in other firms and/or abroad) and inside the family business (job rotation periods and working side by side with an expert manager and/or the incumbent, with the purpose of developing an understanding of the complexity of the firm and achieving



full awareness of the role) so that the potential successor will acquire the necessary preparation to fulfil their future role (Corbetta, 1995; Morris et al., 1997; Cabrera-Suarez et al., 2001; Sharma et al., 2003; Ward, 2004).

- *Co-existence of incumbent and successor*, aimed at transferring tacit knowledge from incumbent to successor and combining the incumbent's experience with the successor's innovative skills. Generational co-existence will also lead to a mutual adjustment of roles. In order to gradually increase the role assumed by the successor, that of the incumbent should be reduced at the same time (Handler, 1990; Corbetta, 1995; Cabrera-Suarez et al., 2001; Boyd et al., 2015; Daspit et al., 2016).
- *Conclusion of the succession process*: this phase involves the final passage of the successor to the head of the firm and the simultaneous withdrawal of the incumbent from leadership. It implies overcoming the incumbent's reluctance to retire (Kets de Vries, 1993; Levinson, 1974; McGirven, 1978) and any resistance that the organisation may have towards the change (Corbetta, 1995; Bauer, 1993; Schein, 2003; Cadieux, 2005; Ip & Jacobs, 2006)

The success of the intergenerational transfer does not guarantee—on its own—the survival and future success of the firm. The transfer must be accompanied by a process of change that answers the real needs of the business and is integrated into its development strategy. Many authors have emphasised that succession may give rise to processes of change that could strengthen both the business formula and the sources of competitive advantage. In other words, the intergenerational transfer should be seen as an opportunity to improve and innovate the firm, introducing changes in the entrepreneurial formula that enable the business to create and nurture a competitive advantage (Dyck et al., 2002; Cesaroni & Sentuti, 2010; Cesaroni, 2011; De Massis et al., 2016).

### 3. Intergenerational transfer and female entrepreneurs

Intergenerational transfer is one of the main research topics in family business research (Sharma, 2004). However, most of the studies concerning the succession process generally refer to a traditional male model based on the transfer from father to son. Female entrepreneurs were a minority tacitly assimilated into the male model.

In the last three decades, some scholars have analysed the intergenerational transfer from father to daughter (Dumas, 1989, 1990; Salganicoff, 1990; Vera, Dean, 2005; Wang, 2010; Cesaroni & Sentuti, 2017b). However, limited attention has been devoted to the succession from mother to children (Cesaroni et al., 2017), which remains an under-researched area.

Nevertheless, with the growth of female entrepreneurs, a small but significant thread of research has emerged. Major attention has been devoted to understanding if and how the female characteristics of the incumbent may influence the succession process and its outcome.

It is widely recognised that the behaviour of female entrepreneurs differs from that of males. Some scholars have analysed entrepreneurs' style of leadership and have distinguished between a "transformational" and "transactional" style (Eagly & Johannessen-Schmidt, 2001). The latter style is based on the relationship of exchange with your team. This style is goal oriented, rewarded for reaching specific targets (which are carefully planned) or punished if you don't (Beverly, 1995; Eagly & Johannesen-Schmidt, 2001). While the first is generally associated with the female style, the second is deemed to be closest to the male style. The transformational style aims to encourage the empowerment of co-workers or team, with the purpose to increase and develop capabilities and personal potential. This style bases itself on communication, in the division of labour and cooperation, and involves listening to each other and creating a dialogue.

It includes the active participation of staff whilst understanding their individual needs, all of which help to increase feedback (Beverly, 1995; Eagly & Johannesen-Schmidt, 2001).

Many authors (Rosenblatt et al., 1985; Brush, 1992; Cole, 1997; Dumas, 1998; Francis, 1999) believe that businesses can benefit from the characteristics that are typically employed within female businesses, such as: encouraging participation, being client-oriented, quality-oriented, the capability to organise competently, a natural predisposition to interpersonal relationships, the ability to multitask, intuition, sensitivity, attention to social issues, sharing of responsibility, the desire and ability to reach an agreement, etc.

Hardly any authors have investigated if and how these characteristics could influence the planning and management of succession, although inconsistent results have emerged.

Harveston et al. (1997) analysed the impact of owner gender in planning the intergenerational transfer. Findings showed that men and women follow different predictive processes and are influenced by different factors when making succession plans. In particular, men and women are affected differently by several factors, which are associated with three levels: individual (incumbent's age and level of education), organisational characteristics (size of the firm and degree of formalisation) and resources (incumbent's possibility to gain access to internal or external capital). They found that "the owner's age plays a greater role among male-led organisations than among female-led organisations, where the age of the owner does not appear to be significant". When the business grows, women, more than men, tend to plan the succession formally. Even so, it is more difficult for women to obtain external financing than men and, consequently, women have less financial resources available for planning the succession. As a result, authors suggest adopting "gender-specific models of organisational succession" to identify and evaluate the characteristics of the process to guarantee the best possibility of success.

On the contrary, Cadieux et al. (2002) carried out a qualitative study of four firms owned and run by women to examine how the succession process develops. However, the study showed that there is not a gender-specific intergenerational transfer. Pyromalis et al. (2006) also didn't find significant differences between men and women regarding the effectiveness of succession.

However, the distinctive psychological and sociological characteristics of the female management approach—a natural propensity to interpersonal relationships, greater flexibility, sensitivity, attention to "social" aspects, predisposition to the sharing of choices and responsibilities, the desire and ability to mediate and find an agreement, a disposition toward team work, predilection of communication, etc. (Brush, 1992; Cole, 1997; Dumas, 1998; Francis, 1999)—should contribute positively to the management of succession process.

Dubini & Songini (2002) identified different models of corporate governance and management within Italian small- and medium-sized female-run businesses, which goes into more depth about the aspects relative to the relationship between women and succession. Results showed that intergenerational transfers in women-led business are managed more conscientiously, with collegial and participatory decision-making processes, and are more organised.

Gnan and Montemerlo (2008), analysing succession in small- and medium-Italian-family firms, pointed out that female-owned family businesses plan succession in the same way as male-owned family businesses, though women adopt an approach that is more participative than males and are more attentive to relationships between family and family business.

Some authors have considered the so-called "cross-gender succession" (father-daughter, mother-son) (Dumas, 1989, 1990; Kaslow, 1998; Vera & Dean, 2005; Haberman & Danes, 2007). Kaslow (1998), for instance, examined mother-son succession and showed the kinds of interactions and dynamics that may unfold between mother, son and daughter-in-law. The

author highlighted that: “The often rivalrous relationship between mother-in-law and daughter-in-law, a factor that must be taken into account in such cases, is often much more intense than that between father-in-law and son-in-law”. Vera and Dean (2005) conducted a qualitative study that compared father–daughter and mother–daughter successions, analysing daughters’ experience. They found that women who succeed their mothers face more difficulties compared to when they succeed their fathers. The daughters said they have a great professional and personal relationship with their father, based on good communication and an absence of a conflict of roles. The relationship between mother and daughter was often much more intense: “Some daughters in the current study recognised that working for their mother in the business was very difficult; moreover, mothers tended to require perfection and were afraid of losing control” (Vera & Dean, 2005). Daughters always feel like they are living in their “mother’s shadow” and their leadership style is continually being compared to that of their incumbent. Daughters tend to have more flexibility in choosing their leadership style when they succeed their father.

Recently, Cesaroni et al. (2017) pointed out that—in family business studies—women have often been described as third actors (e.g., mediators between family members, patient wives, responsible mothers), playing the main role of emotional leaders (Jimenez, 2009). They wondered what happens when a woman-mother is the main actor of the succession process and analysed two cases of succession (mother-son and mother-daughter). Results show that even if the two mothers were the founders, owners and leaders of the business, they never strayed from their role as an emotional leader. The authors also underlined that these behaviours have proven to be very beneficial for the succession process and business survival.

In summary, results remain inconsistent and little empirical information on female incumbents and succession is available (Jimenez, 2009). Further research is needed to understand better how the intergenerational transfer mother-son or daughter unfolds.

#### **4. Methodology**

This paper aims to investigate how succession from mother to son or daughter unfolds and if specific characteristics of women’s style of leadership and management may facilitate the intergenerational transfer.

A qualitative method, based on case studies, was adopted and two emblematic cases are presented: the first one shows a succession mother-son and the second one a succession mother-daughter.

The qualitative method may be central to the in-depth study of a complex phenomenon that evolves over time (Eisenhardt, 1989; Yin, 2003; Flyvbjerg, 2006), such as entrepreneurship and succession. In addition, a wide consensus exists in family business literature on case studies’ usefulness and effectiveness (De Massis & Kotlar, 2014). Qualitative methods are also particularly recommended for studying women in family business (Jimenez, 2009).

The empirical research was conducted in Italy, and the data was collected with in-depth interviews carried out using a checklist (Patton, 2002) and enhanced by specific questions. The survey involved two women founders and their successors (respectively, a son and a daughter). The two cases were identified through a purposeful case selection (Patton, 2002), based on the author’s personal knowledge. Female-owned and run businesses that had recently undergone, or were currently undergoing, an intergenerational transfer were selected.

Interviews were carried out in each firm and focused on the women’s experience and style of leadership, the characteristics of the firm, the composition of the family, the evolution of the succession process. Successors were asked to tell their own stories, experience, motivations and objectives. The interviews lasted between 2 and 4 hours, were recorded and then transcribed

word for word. When possible, the information collected was combined with data provided by the companies or found on company websites or through the press.

As suggested by Miles et al. (2014), available data was iteratively analysed in order to allow a progressive elaboration of a general interpretative framework.

## **5. Case Studies<sup>1</sup>**

### ***5.1. From mother-founder to son***

Clothing S.p.A. was established in the mid-1960s by Sophia. It produces work clothes for several sectors (hotels, health care, beauty treatment and industry) and supplies to both the local and international markets.

Sophia is a pioneer female entrepreneur and has faced many challenges in realising her independence. The start-up was not in the least simple: Sophia was very young, without capital or experience and above all, she was a woman and also the mother of Jim, who at that time was only two years old. No one apart from her father believed in her. He saw her passion and aptitude for business and decided to help her by loaning her the necessary capital to start the business. In the beginning, Clothing S.p.A. developed two sides to the business; one side produced work clothing and the other women's dresses.

In 1968, John (second child) was born, and Sophia began to really feel the pressures of family life and realised that she had to make a choice. "Working in fashion was taking me a long way away from home, and with two children I realised that I couldn't continue in this way. I concentrated on producing work clothing and gave up the fashion side so that I could be with my family. I was really enjoying my work life but I also wanted to spend more time with my children, and I have no regrets about this decision".

By the early 1970s, the company had become well known country wide, employing 65 people and producing about 1,200 articles of clothing a day. Sophia couldn't, by this time, manage the whole business on her own so she decided to involve her employees. With them, she established a working relationship based on the division of responsibility and good communication. "I chose a leader for each area: they felt rewarded and it produced an effective working system. We communicated with each other, having frequent meetings and I made sure that everyone on the team was kept informed in all areas, such as the acquisition of new clients, what turnover was like and generally how everything was going in the company."

Halfway through the 1970s came a period of economic crisis. Sales collapsed and Sophia was forced to drastically downsize the business and cut staff whilst generally reconsidering the business as a whole. The company went from producing work wear for the manufacturing industry to producing uniforms for high-end hotels.

Meanwhile, the children were growing up. Sophia had involved them in the business from an early age: "Every week I spent half an hour telling them about the business. I don't know how much they actually understood at the beginning, but I kept doing it. I talked to them about the business, and I kept them up to date about what was happening. We even did the accounts together so that they would get used to understanding exactly how much we spent".

As soon as high school finished, Jim went straight to working in the business but immediately realised that this wasn't what he wanted to do and left. John also got his diploma and after a year and a half in England, learning the language, advice from Sophia, he began working in the business. In the first two years, he worked in each area of the company from the warehouse to sales and marketing, to information systems, to finance. Sophia recounted: "My

---

<sup>1</sup> To preserve the anonymity requested by some of the interviewees, one case is presented anonymously.

grandmother always said to me, ‘to understand how to be a leader you have to know how to do everything!’. My son has unloaded the fabrics, printed labels and uniforms, cut and sewn the garments. These were all areas of the business that he had to know and understand them. Otherwise, how could he assess the work of employees and understand if they were making mistakes?”

At the end of his job training period, John decided to stay with the company, and this was when the real phase of co-existence between incumbent and successor participants in the firm began. On one side, the incumbent tried to impart her experience to the son and encourage him to take courses in management, and on the other, her son began to confront his first responsibilities within the company, seeking to find a balance between his mother’s advice and his own ideas.

As the years passed, Sophia understood that the time had come to make her son’s position official. The ownership of the company was divided equally between the two heirs, but Jim preferred not to be involved and refused his share. Sophia explained: “I would have preferred that both of my sons worked in the company, but they have very different characters. The older did not want to be involved, so we did it this way”.

This passing on of the baton has been a crucial moment for the founder who above all, understood that the main reason for this change was to ensure the survival of the company that she created. “I am completely in love with my company, and for me, Clothing S.p.A. is like another son, and it hasn’t been an easy process to detach myself from it. About all the rest, I have always said that I wouldn’t have held onto it if this meant discontinuing the business or causing it to fail. I would have rather sold the business, even for a small amount, than have closed it”.

Since the ownership transfer, Sophia has continued working alongside her son in the business, and this working relationship continues to be productive for both of them and the business: Clothing S.p.A. overcame the entrepreneurial phase of becoming a family business.

John has decided to internationalise the business with progressive development into foreign markets: the company exports its garments all over Europe (primarily Greece, Spain, France and Germany) and also Russia and Dubai.

In 2010 the company had 15 employees and several occasional workers. More than 600,000 garments are manufactured each year, with a turnover of 5 million euros. Sophia, even though she no longer owns the company, still maintains an important role within the business, supporting her son in all of the main management activities, looking after the products in person and staying as a point of reference for all of the personnel. The co-existence between John and his mother was directed towards the development of the business, the professional growth of the son, the transfer of tacit knowledge from mother to son and the mutual role adjustment between entrepreneur and successor. Talking about the co-existence between the two generations, Sophia stated: “It has taken a lot of patience. I have tried to make it clear to him that he isn’t obligated to work in the business and that it is ok to make mistakes because everyone does so, only to a certain degree, obviously”. Because after all “a woman is also a mother and so generally less of a bully, and she understands that she can’t impose herself on her child or let her child keep making mistakes beyond a certain point. A mother is a bit over protective. That maternal instinct always remains. I am always trying to help him learn and help him understand things. Men don’t always have this patience. At times they want to be better than their son and compete against him. I have never competed against my son.” According to Sophia, it is women’s propensity to being more sensitive and less inclined to confrontation that makes a mother-son succession more likely to be successful than the traditional father-son intergenerational transfer.

In 2016, Sophia turned 75 years old. She retired from the business in 2011 due to health reasons. John said, “I would have continued to collaborate with my mother; I didn’t change anything, and I never wanted to change it sincerely”. John continues to inform his mother of his main decisions related to the business, and he’s still carrying on several practices that he learned from his mother.

### ***5.2. From mother-founder to daughter***

Serigraphy&Co. was founded at the end of the 1980s by Mary, a woman who started working early in life. She was forced to finish school at the age of 16 and begin earning a living. She was taken on as an admin assistant for a company that produces machines for serigraphy. Mary worked her way up to running the office. However, she always dreamed of creating something of her own and reaching a goal that she hadn’t reached with her schooling. Driven by the desire to be more fulfilled in her work life, Mary left her secure job to embark upon an entrepreneurial activity, a journey that was as stimulating as it was risky. Being extremely motivated and determined, Mary even managed to persuade her husband to give up his job and accompany her in this new adventure because she explained: “I was completely on my own, and I needed someone who I could trust and share the responsibility”. She represents the entrepreneurial figure while her husband remains in the background. At the beginning the business, she focused on printing sporting goods. Mary handled the planning of the product, the commercial side and the administrative aspects of the business, while her husband looked after production and all of the technical aspects. The results were immediately positive and very encouraging with the business winning important contracts from well-known brands (i.e., Fila, Diadora, Arena) and for 10 years sales continued to increase.

In 2000, Serigraphy&Co. had an annual turnover of over 635,000 euros and 16 employees, but, Mary explained: “I don’t like calling them employees because we are a team and they are people who work with me, not for me”. In any case, Mary is convinced that she made the right choice. “This project was a gamble, but at the end, I won! In the beginning, I couldn’t count on the help of anyone financially. My family, my father in particular, gave me huge amounts of moral support and encouragement but they weren’t able to help at all financially. Now I can probably say that it was better this way. I did everything myself, and I’m very proud of myself.”

The arrival of the new millennium also saw the arrival of the first difficulties for the business. Fierce competition from both China and India meant that this female entrepreneur was forced to downscale the amount of staff she employed as she saw her turnover start to drop. She decided to diversify, progressively adding other methods of printing, which enabled the company to compete in various other spheres: from furniture to religious objects, from invitations to decorating silver picture frames, from marketing materials to articles of clothing, from flooring tiles to wallpaper, etc.

The target market changed radically, no longer focusing on the acquisition of just a few large clients from one sector but many smaller clients from many different sectors, both in Italy and abroad. This strategy meant that the business, once again, saw good results and turnover returned to around 600,000 euros.

The entrepreneur is extremely pleased with how everything has turned out and the results that have been achieved. For several years she has been turning her attention to a new challenge: succession. Mary isn’t even 50 years old yet but has already started thinking about the future of the business and, for several years, has been planning the issue of the succession process. Her daughter Sarah will follow in her footsteps, even though, “in reality, I would have never imagined that my daughter would work with me one day. I think the most important thing was to give her the opportunity to study because, for me, this opportunity was taken away. I hadn’t really thought of what would happen after that”.

As it often happens for many daughters, Sarah's first experience in the business was as a result of an emergency. The head of graphics planning asked for a period of leave for family reasons, and so as not to bring business to a stop, Sarah proposed to take on this position herself. She was 22 years old and was still studying but found a way to also work in the family business and help her mother. She very quickly learned the secrets of the trade.

When the head of graphics planning returned to work, Sarah returned to her studies and within a short period of time completed her degree in Communications Science. Once again the head of graphics planning had to leave work, and Mary realised that she couldn't rely on that person any longer. She needed someone she could trust who wouldn't just abandon their job at the drop of a hat. Sarah was the most suitable person for taking on this role and had already gained a solid foundation in the sector. Fundamentally, she is also a member of the family and wouldn't just walk away from the business.

Today, Sarah is 30 years old and handles the planning of graphics for all the products, client relations and the development of individual projects. Thanks to her competence in foreign languages, the business has embarked on a profitable internationalisation course, branching into the Spanish market. Sarah is extremely happy with how she has done, and she isn't alone: "I am really happy that my daughter has carved out a position in the business for herself. I have great respect for her capabilities and intend to involve her in all of the other areas of the business and my own responsibilities much more. I want to do it in such a way that when the time comes for me to retire, she will take over the reins and the business will continue seamlessly. My daughter is the future of this business".

Mary also has a son who is young and still in high school. "He doesn't yet talk about any involvement in the business. He thinks he is still too young and anyway there is Sarah".

On the other hand, Sarah is fully aware of her mother's expectations and continues to develop her expertise. Within the business, she is constantly looking to work towards her future role as the entrepreneur, and she takes courses that refresh and increase both her technical knowledge and her managerial expertise.

The relationship between mother and daughter within the business is very much geared towards imparting the values of the company and the "know how". Sarah only complains about the fact that they are never able to fully cut off from work. "Often at dinner we find ourselves discussing clients or orders or equipment, and this does get a bit much. However, I do consider myself to be very lucky. I have a good job with a lot of responsibility that I really love, and I have a lot of autonomy and flexibility. Overall though, this situation makes the sacrifices less for my family and me".

## 6. Discussion

In line with the aim of the research, data was analysed in order to understand how the succession from mother to son or daughter unfolds and if specific characteristics of women's style of leadership and management may facilitate an intergenerational transfer.

Concerning the different phases articulating the succession process, in both cases, it is possible to highlight important propaedeutic activities. The awareness of the necessity to plan and manage the intergenerational transfer in advance appears to be accentuated in the female entrepreneurs analysed. Both of the women interviewed had begun to plan the process (even if informally) when they were still fairly young. Maybe women are more inclined to think of their children as the natural successors to the business and not as potential rivals to the head of the business.

Regarding the selection of the successor in both of the cases, the future leader was chosen, taking into account his/her attitudes, aspirations and competence, all of which were displayed

once they had started to work within the business. Meanwhile, gender wasn't taken into consideration. In the first case, it was only the son who showed interest that was involved. In the second case, even though a male child was present, the mother thought it was right to involve her daughter because she had shown the capability to take over her position eventually.

Looking at the successor's training, the growth of the new generation seemed naturally embedded into the double role of women such as mother and entrepreneur. Female incumbents take on the job of educating their children in many ways: imparting the values of the family and the business, socialising the entrepreneurial role, believing in the value of studying. They shared in the choices relative to their children's formative education.

The co-existence of the incumbent and successor phase was characterised by a deep harmony between mother and child. Experience, tacit knowledge and responsibilities were progressively transferred from incumbent to successor in order to generate a mutual adjustment of roles.

Concerning the idea of finally leaving the business and handing it over, the two female incumbents appeared to be less reluctant to give up their role and pass it on to their children. The psychological barriers that may often hinder the first intergenerational transfer seem to be more contained and therefore more controlled, even if—as in the case of Clothing S.p.A.—leaving the business remains quite difficult. To find the right compromise and balance between maintaining an interesting role in the business and not undermining the new leader is also a challenge for female entrepreneurs.

Regarding the style of leadership employed by the two female entrepreneurs, it is possible to recognise a “progressive” and “transformational” approach. Both of the female entrepreneurs are characterised by an inclination towards adaptability, following one's instinct and a predilection towards small business and interpersonal relationships. They are willing to engage in communication and the division of responsibility and encourage the involvement and participation of their co-workers. This approach was also adopted in the management of the intergenerational transfer. The process has begun very early and proceeded in a slow yet progressive way. It was based on the sharing of choices and the progressive involvement of the new generation. The female incumbent aided and “hoped for” involvement of the successor. However, they didn't press their own aspirations, attitudes and choices onto their children. This approach represented an important advantage in managing the intergenerational transfer because it favoured a positive interaction between incumbent and successor and also ensured a much smoother transition.

## **7. Conclusions**

Despite the growing number of female entrepreneurs within the larger part of world economies, the intergenerational transfer from a female incumbent to her children has been widely overlooked both in the female entrepreneurship and in family business studies.

This paper focuses on the intergenerational transfer from mother to children in order to understand how the process unfolds when the incumbent is a woman and if and how her female characteristics may influence the succession and its outcome.

This study contributes to the literature by shedding light on this topic, with regard to three aspects. First, findings show that the female approach to intergenerational transfer is characterised by attention to the education of children, relationships, cooperation, involvement, communication and sharing of the decision-making process. These results are consistent with previous research by Dubini & Songini (2002) and Gnan & Montemerlo (2008). All of these features take on particular relevance to the successful outcome of succession. This doesn't mean in any way that female succession is easier or more simple than male succession. The process is equally complex but the care and attention taken over certain aspects can help to manage



these complexities with a better chance of success. Second, based on these results, the female approach appears to be more orientated towards a positive vision of the succession. In fact, the idea of succession is thought of by many male entrepreneurs, above all founders, as synonymous with old age and the end. Instead, the analysed female entrepreneurs seem to live through the intergenerational transfer in a much less traumatic way. The idea of physiological continuity of the business and natural turnover between the generations appears to prevail. Third, according to findings, the intergenerational transfer from mother to daughter is not necessarily more difficult as affirmed by Vera & Dean (2005). Mary didn't take on a hostile position towards her daughter's involvement within the business and mother-daughter succession wasn't any more problematic than mother-son.

This research presents a number of limitations. The main one is its generalisation, as this research is based on only two cases. Secondly, it is mainly descriptive and not exhaustive. Further research is needed in order to clarify the relationship between female entrepreneurs and intergenerational transfer. It might be interesting to analyse, using a quantitative approach, whether the female enterprises reach a higher survival rate from the first to the second generation in comparison to male businesses. In addition, further case studies and an international comparison of countries with different traditions and cultures might be particularly interesting to profoundly investigate which factors may influence succession in women-owned and run businesses.

## References

1. Bauer, M. (1993). *Le patron de PME entre pouvoir, l'entreprise et la famille*. Paris: Interditions.
2. Beverly, A.M. (1995). A Investigation of Female and Male Constructs of Leadership. *Women in Management Review*, 10 (2), 3-8.
3. Boyd, B., Royer, S., Pei, R., & Zhang, X. (2015). Knowledge transfer in family business successions: Implications of knowledge types and transaction atmospheres. *Journal of Family Business Management*, 5 (1), 17-37.
4. Brush, C.G. (1992). Research on Women Business Owners: Past Trends, a New Perspective and Future Directions. *Entrepreneurship Theory and Practice*, 16 (4), 5-30.
5. Cabrera-Suarez, K., De Soa Perez, P. & Garcia Almeida, D. (2001). The succession process from a resource and knowledge-based view of the family firm. *Family Business Review*, 14 (1), 37-46.
6. Cadieux, L. (2005). La Succession dans les PME Familiales: Vers une Compréhension Plus Spécifique de la Phase du Désengagement. *Journal of Small Business and Enterprise Development*, 18 (3), 343-355.
7. Cadieux, L., Lorrain, J. & Hugron P. (2002). Succession in Women-Owned Family Businesses: a Case Study. *Family Business Review*, 15 (1), 17-30.
8. Cesaroni, F.M. (2011). La continuità delle imprese familiari e la complessità della successione imprenditoriale". In Cesaroni, F.M. & Ciambotti, M. (Eds.), *La successione nelle imprese familiari. Profili aziendalistici, societari e fiscali*, Milano: Franco Angeli.
9. Cesaroni, F.M. & Sentuti, A. (2010). Nuove generazioni ed evoluzione dell'impresa familiare: la sfida della successione imprenditoriale. Analisi di alcuni casi di successo. *Piccola Impresa/Small Business*, (2), 63-94.
10. Cesaroni, F.M. & Sentuti A. (2017a). Family Business Succession and External Advisors. The Relevance of "Soft" Issues". *Small Enterprise Research*, 24 (2), 167-188.

11. Cesaroni, F.M. & Sentuti A. (2017b, *forthcoming*). Do dreams always come true? Daughters' expectations and experience in family business succession. In Blackburn R., Hytti U. (Eds.), *Rent Anthology. Frontiers in European Entrepreneurship Research*, UK: Edward Elgar Publishing.
12. Cesaroni, F.M., Erro Garcés, A. & Sentuti, A. (2017). The role of emotional leader in women-owned family businesses. In Paoloni P., Lombardi R. (Eds.) *Gender Issues in Business and Economics - Selections from the 2017 Ipazia Workshop on Gender*, Springer Proceedings in Business and Economics, Springer.
13. Ciambotti, M. (2011). Aspetti di gestione strategica nelle imprese familiari. In Cesaroni, F.M. & Ciambotti, M. (Eds.), *La successione nelle imprese familiari. Profili aziendalistici, societari e fiscali*, Milano: Franco Angeli.
14. Cole, P.M. (1997). Women in Family Business. *Family Business Review*, 10 (4), 353-371.
15. Corbetta, G. (1995). *Le imprese familiari. Caratteri originali, varietà e condizioni specifiche per la continuità*. Milano: Egea.
16. Daspit, J.J., Holt, D.T., Chrisman, J.J. & Long, R.G. (2016). Examining family firm succession from a social exchange perspective a multiphase, multistakeholder review. *Family Business Review*, 29 (1), 44-64.
17. De Massis, A., Chua, J.H., & Chrisman, J.J. (2008). Factors preventing intra-family succession. *Family Business Review*, 21 (2), 183-199.
18. De Massis, A., & Kotlar, J. (2014). The case study method in family business research: Guidelines for qualitative scholarship. *Journal of Family Business Strategy*, 5 (1), 15-29.
19. De Massis, A., Frattini, F., Kotlar, J., Petruzzelli, A.M., & Wright, M. (2016). Innovation through tradition: lessons from innovative family businesses and directions for future research. *The Academy of Management Perspectives*, 30 (1), 93-116.
20. Dubini, P. & Songini L. (2002), *I rapporti famiglia-impresa: il ruolo delle donne nelle aziende familiari*, Milano: SDA Bocconi.
21. Dumas, C. (1989). Understanding of father-daughter and father-son dyads in family-owned businesses. *Family Business Review*, 2 (1), 31-46.
22. Dumas, C. (1990). Preparing the new CEO: managing the father-daughter succession process in family-owned businesses. *Family Business Review*, 3 (2), 169-181.
23. Dumas, C. (1998). Women's pathways to participation and leadership in the family-owned firm. *Family Business Review*, 11 (3), 219-228.
24. Dyck, B., Mauws, M., Starke, F.A. & Mischke G.A. (2002). Passing the baton. The importance of sequence, timing, technique and communication in executive succession. *Journal of Business Venturing*, 17, pp. 143-162.
25. Eagly, A.H. & Johannessen-Schmidt M.C. (2001). The Leadership Styles of Women and Men. *Journal of Social Issues*, 57 (4), 781-797.
26. Eisenhardt, K.M. (1989). Building theories from case studies research. *Academy of Management Review*, 14 (4), 532-550.
27. European Commission (2014), *Statistical Data on Women Entrepreneurs in Europe*, Ref. Ares(2014)3740275 - 11/11/2014.
28. Flyvbjerg, B. (2006). Five Misunderstandings About Case-Study Research. *Qualitative Inquiry*, 12 (2), 219-245.
29. Francis, A.E. (1999). *The daughter also rises: how women overcome obstacles and advance in the family-owned business*. San Francisco: Rudi.
30. Gnan, L. & Montemerlo, D. (2008), *Le PMI familiari in Italia tra tradizione e novità. I risultati di una ricerca*, Milano: Egea.

31. Haberman, H. & Danes S.M. (2007). Father-daughter and father-son family business management transfer comparison: family FIRO model application. *Family Business Review*, 20 (2), 163-184.
32. Handler, W.C. (1990). Succession in family firms: a mutual role adjustment between entrepreneur and next generation family members. *Entrepreneurship Theory and Practice*, 15 (1), 37-51.
33. Handler, W.C. (1992). The succession experience of the next generation. *Family Business Review*, 5 (3), 283-307.
34. Harveston, P.D., Davis, P.S. & Lyden, J.A. (1997). Succession planning in family business: the impact of owner gender. *Family Business Review*, 10 (4), 373-396.
35. Ip, B. & Jacobs, G. (2006). Business succession planning: a review of the evidence. *Journal of Small Business and Enterprise Development*, 13 (2), 326-350.
36. Jimenez, R.M. (2009). Research on women in family firms: current status and future directions. *Family Business Review*, 22 (1), 53-64.
37. Kaslow, F. (1998). Handling transitions from mother to son in the family business: the knotty issues. *Family Business Review*, 11 (3), 229-238.
38. Kets de Vries M.F.R. (1993). The dynamics of family controlled firms: the good and the bad news", *Organizational Dynamics*, Winter, 21 (3), 59-71.
39. Le Breton-Miller, I., Miller, D. & Steier, L.P. (2004). Toward an integrative model of effective FOB succession. *Entrepreneurship Theory and Practice*, 28 (4), 305-328.
40. Levinson, H. (1974). Don't choose your own successor. *Harvard Business Review*, 52 (6), 53-62.
41. McGivern, C. (1978). The dynamics of management succession. *Management Decision*, 16 (1), 32-46.
42. Morris, M.H., Williams, R.O., Allen, J.A. & Avila, R.A., (1997). Correlates of success in family business transition. *Journal of Business Venturing*, 12 (5), 385-401.
43. Patton, M.Q. (2002). *Qualitative research & evaluation methods*. Thousand Oaks: Sage Publications.
44. Pyromalis, V.D., Vozikis, G.S., Kalkanteras, T.A., M.E. Rogdaki, M.E., & Sigalas, G.P. (2006). The success of the family business succession process: does gender matter? In P., Poutziouris, K., Smyrniotis & S., Klein (Eds.), *Handbook of Research on Family Business* (422-442). Northampton, MA: Edward Elgar Publishing.
45. Rosenblatt, P.C., de Mik, L., Anderson R.M. & Johnson P. (1985). *The family in business*, San Francisco: Jossey-Bass Publishers.
46. Schein E.H. (2003). *Cultura d'impresa: come affrontare con successo le transizioni e i cambiamenti organizzativi*, Milano: R. Cortina.
47. Sharma, P. (2004). An overview of the field of family business studies: current status and directions for the future. *Family Business Review*, 17 (1), 1-36.
48. Sharma, P., Chrisman, J.J., & Chua, J. H. (2003). Predictors of satisfaction with the succession process in family firms. *Journal of Business Venturing*, 18 (5), 67-687.
49. Sharma, P., Chrisman, J.J., Pablo, A.L. & Chua J.H., (2001). Determinants of initial satisfaction with the succession process in family firms: a conceptual model. *Entrepreneurship Theory and Practice*, 25 (3), 17-35.
50. Sund, L.G., Melin, L. & Haag, K. (2015). Intergenerational ownership succession: shifting the focus from outcome measurements to preparatory requirements. *Journal of Family Business Strategy*, 6 (3), 166-177.
51. United States Census Bureau (2012). *Statistical Abstract of the United States: 2012*. Available at

<https://www2.census.gov/library/publications/2011/compendia/statab/131ed/2012-statab.pdf>

52. Vera, C.F. & Dean, M.A. (2005). An Examination of the Challenges Daughters Face in Family Business Succession. *Family Business Review*, 18 (4), 321-345.
53. Wang, C. (2010). Daughter exclusion in family business succession: a review of the literature”, *Journal of Family and Economic Issues*, 31 (4), 475-484.
54. Ward, J.L. (2004). *Perpetuating the Family Business. 50 Lessons Learned from Long-Lasting, Successful Families in Business.*, New York: Palgrave Macmillan.
55. Yin, R.K. (2003). *Case Study Research: Design and Methods*, (3rd ed.), London: Sage Publications.

# RELATIONSHIP BETWEEN BOARD STRUCTURE VARIABLES AND PERFORMANCE OF LISTED MANUFACTURING FIRMS IN NIGERIA

*Yusuf Ismaila Mustapha*  
University of Ilorin, Nigeria

*Abdulrasaq Ishola Nafiu*  
Federal Polytechnic Offa, Nigeria

Received: April 23, 2016

Accepted: April 28, 2017

Online Published: September 25, 2017

## *Abstract*

*Corporate board structure has been at the center of policy debate concerning their relevance to organisation's performance in recent times. Since the value creation of corporate governance can be measured through firm performance, this study investigates the relationship between board size, board composition, CEO-duality and performance of listed manufacturing firms in Nigeria. Content analysis was used to collect secondary information from the thirty listed firms that met the requirement for selection as sample between 2006 and 2010 from Nigerian stock exchange Fact Books. Panel data regression techniques were employed as analytical instrument to test the study hypotheses. Findings of the study revealed that board sizes is positively related to ROA but negatively related to ROE performance variables. The study recommends that firms should appoint more of outside directors (NEDs) than inside executive directors to enable it to maximize the benefits of board independence as well maintain a two-tier board structure.*

**Keywords:** board structure, board size, board composition, ceo-duality, listed manufacturing firms, performance.

## **1. Introduction**

The board of directors is the highest governing authority within the management structure in any publicly traded company. The role of the board in overseeing how management serves the long-term interests of shareholders and other stakeholders is at the core of corporate governance. However, skeptics often question whether or not corporate boards contribute to the effective performance of organisations because their day-to-day effect is difficult to observe, except, when things go wrong in organisations, then corporate boards becomes the center of

attention. Certainly, this was true situation of the scandals in Enron in 2001, WorldCom in 2002 both in the US, and Parmalat of Italy in 2003. The directors of Enron and WorldCom, in particular, were held liable for the fraud that occurred. As a consequence of these scandals and the ongoing concerns about corporate governance, corporate boards have been at the center of the policy debate concerning their relevance to organisation's performance. In recent years, the discussion has focused on the structure of the board of directors, the most outstanding corporate governance mechanism of the internal control systems (Jensen, 1993).

A number of studies such as Gompers, Ishii and Metrick (2003) and Kyereboah-Coleman (2007) have shown that good corporate board structure put in place by the board increases valuation and boost firm's performance. In Nigeria, corporate governance has been gaining roots and several initiatives, structures and institutions designed to address corporate governance issues have been established. These include the Companies and Allied Matters Act 1990 (CAMA, 1990), and the Nigeria Security and Exchange Commission, which established the corporate governance codes in 2003 and 2011 that provides the modalities for corporate board structure in Nigerian firms among others.

Most developing countries such as Nigeria, are now increasingly embracing the concept of good corporate governance as a means to sustainable growth and development. However, in the context of Sub-Saharan Africa, the issue has received very limited empirical research attention. The provisions of the Nigerian Security and Exchange Commission Codes (NSEC Codes, 2003 and 2011) are aimed at promoting accountability and transparency with a deliberate attempt to streamline corporate practices which are thought to increase firm performance and cater for stakeholders' interests. For instance, the code stipulates a minimum of five directors with appropriate mix of corporate board executive and non-executive directors (NEDs) and the separation of the position of Chief Executive Officer (CEO) from that of the board Chairman (NSEC Code of Corporate Governance, 2003, 2011). The expectation is that adherence to these guidelines by boards will improve firm's performance. However, whether firms following these recommendations regarding board structure will indeed perform better is a question to be examined empirically in the Nigerian context. This is the central focus of this study.

Secondly, studies conducted on the relationship between board structures variables and firm performances are mostly on developed economies and have produced conflicting results. It is against these backgrounds that the present study empirically examines the relationship between board structure variables of board size, board composition, CEO-duality and performance of listed manufacturing firms in Nigerian Stock Exchange (NSE). On the basis of this, the study specifically seeks to answer the following questions: Is there any relationship between board size, board composition and firm performance? and does separation of the post of CEO and board Chairman promote firm's performance?

The main objective of this study is to examine the relationship between board structure variables and firm performance of Nigerian listed manufacturing firms. The specific objectives of this study are to: i. determine the relationship between board size, board composition and firm performance; ii. investigate whether or not separation of the post of CEO and board Chairman promote firm's performance.

In line with the above objectives, the study postulated that:

- H<sub>01</sub>: There is no statistical relationship between board size and firm performance.*
- H<sub>02</sub>: There is no statistical relationship between the percentages of NEDs (Board composition) and firm performance.*
- H<sub>03</sub>: There is no statistical relationship between CEO duality and firm performance.*

The current study on the relationship between corporate board structure variables and performance of listed manufacturing firms in Nigeria is significant for several reasons. First, Nigeria arguably offers an interesting research context where the corporate board structure variables-performance relationships can be empirically examined in view of the conflicting empirical reports on the relationship between corporate board structure variables and firm performance in the extant literature (Sanda et al 2005; Olayinka 2010; Haniffa & Hudaib, 2006). Unlike most African countries, Nigeria has deep equity culture comparable with those of other emerging economies. For instance, Nigeria is one of the largest emerging stock market in Africa, with highest market capitalization in West African countries in 2010 (WDI, 2010). Similarly, market capitalization of listed companies in Nigeria amounted to about \$56.3m in 2012 (The World Bank, 2013).

Arguably, these performances offer exciting research context, where the corporate board structure variables-firm performances nexus can be empirically investigated. The second significance of this study is that despite offering exciting research context, there is a dearth of rigorous empirical research on Nigerian firms, which attempts to ascertain whether better-governed Nigerian listed firms tend to be associated with higher financial returns than their poorly-governed counterparts (Okeahalam & Akinbode 2003, Okeahalam 2004). Therefore, the paucity of rigorous empirical corporate governance studies on Nigeria offers opportunities to make contributions to the extant literature in this area.

## 2. Literature review

### 2.1. Conceptual clarifications

The concept of “corporate governance” has attracted various definitions in the literature. Cadbury Committee (1992) defines corporate governance as the system by which companies are directed and controlled. Deakin and Hughes (1997) define corporate governance as the relationship between the internal governance mechanisms of corporations and society’s conception of the scope of corporate accountability. This position was buttressed by (Sarbah & Xiao, 2015) when they opined that corporate governance is the structures and processes for the direction and control of businesses and the relationships among the management, board of directors, controlling shareholders, minority shareholders and other stakeholders (Sarbah & Xiao, 2015). Corporate governance is also seen as the whole set of measures taken within the social entity (i.e., enterprise) to favour the economic agents to take part in the productive process, in order to generate some organization surplus, and to set up a fair distribution between the partners, taking into consideration what they have brought to the organization (Sanda et al, 2005).

In the light of the foregoing, we may state that corporate governance has no universally accepted definition. It is therefore suggested that the existing numerous definitions can be classified into two groups: narrow and broad. At the narrow level, corporate governance refers to the internal governance structures; such as the executive management, the board of directors and the general assembly of shareholders, by which companies are directed and controlled. At the most expansive form, it can be contended that corporate governance goes beyond immediate internal governance mechanisms to include external structures and stakeholders, such as the legal system, the efficient factor markets, local communities, the regulatory system, as well as the political, cultural and economic institutions within which companies operate (Ntim, 2009). In summary, the aim of corporate governance according Cadbury (1992) is to facilitate efficient use of resources by reducing fraud and mismanagement with a view to maximising and aligning the often conflicting interests of all the stakeholders in the organization.

## 2.2. *Theoretical Framework*

The two theories that were considered relevant to this study are briefly discussed below. These theories are agency theory and stewardship theory.

### 2.2.1. Agency Theory

Agency theory describes a fundamental agency problem in modern firms where there is a separation of ownership and control. In agency theory, the agent may be succumbed to self-interest and opportunistic behavior falling short of congruence between the aspirations of the principal and the agent's pursuits (Abdullah & Valentine, 2009). The theory is generally concerned with how to align the conflicting interests of principals and agents (Jensen & Meckling, 1976; Fama, 1980). Specifically, it suggests that the principal can limit divergences from his/her interests by establishing appropriate incentives or control mechanisms (corporate board structure) to monitor managers in order to limit the incidence of opportunistic action by the agent (Jensen & Meckling, 1976). The control mechanism is to allow for more effective ways of supervising and monitoring of the CEO and it is on the basis of this, that agency theorists believed that it is essential to separate the chairman of the board and the CEO positions (Peng et al, 2007). The assumption of the theory is that the separation of the CEO and the chairman keeps managerial opportunism under control because the chairman of the board is independent of the CEO. The chairman of the board can use incentives to align the interests of the CEO with those of the shareholders (Donaldson & Davis, 1991, Chen, 2014;). These theorists also expresses that CEO duality is negatively related to firm performance (Peng et al, 2007).

### 2.2.2. Stewardship Theory

Stewardship theory posits that executive managers are intrinsically trustworthy individuals (Kiel and Nicholson, 2003). As such, managers should be fully empowered to run firms because they are good stewards of the resources entrusted to them (Letza, Sun & Kirkbride, 2004). The stewardship theory suggests that due to their information and knowledge advantages, giving greater managerial power and trust to managers of firms is likely to lead to better performance. Stewardship theorists proclaimed that managers' knowledge lead to better decision, reduced agency costs and improved firm's performance (Donaldson & Davis, 1994; Fama, 1980; Fama & Jensen, 1983). As a result, proponents of stewardship theory contend that better firm performance are likely to be associated with internal corporate governance practices that grant managers greater powers, such as combining the positions of company chairman and Chief Executive Officer (i.e. CEO-duality) according to Donaldson & Davis (1991) and (1994). CEO-duality refers to a board leadership structure in which one person undertakes the combined roles of chief executive officer (CEO- management) and chairman (control) of the board.

Stewardship theory proposes that role duality can have a positive impact on firm financial performance. Firstly, Weir and Laing (2002) contend that as an insider, the CEO tends to have greater knowledge, understanding and experience of the strategic challenges and opportunities, which the company faces, than a non-executive chairman. Secondly, it has been argued that role duality grants a charismatic CEO the opportunity to have a sharper focus on firm objectives (Haniffa & Hudaib, 2006). This implies that a visionary CEO will have the chance to shape the long-term fortunes of a firm with minimum board interference (Haniffa & Cooke, 2002). This may lead to improved performance due to the rapid management decision making that arises from the provision of clear and unambiguous corporate leadership (Haniffa & Hudaib, 2006). Thirdly, Vafeas and Theodorou (1998) suggest that role duality avoids extra compensation to the chairman, which can results in a reduction in managerial remuneration. Finally, Bozec



(2005) argues that unified firm leadership associated with role duality improves managerial accountability as it makes it easier to charge the blame for poor performance.

The above two theories were adopted for this study in line with the postulations that agency theory aligns the conflicting interests of the principals with that of the agents, while, stewardship theory believes that managers possess resourceful information and knowledge and are trustworthy to run corporate organization effectively and this may have relationship with firm performance. In the view of the conflicting propositions in the theories, this study adopted agency theory for board structure and board composition, while stewardship theory was adopted for CEO duality. The adoption of the two theories is due to the fact that they are more germane and appropriate to the variables of interest in this study.

### 2.3. Empirical Framework

#### 2.3.1. Empirical evidences on board size and firm performance

Empirically, the evidence regarding the association between board size and firm performance is conflicting (Yermack 1996; Adams & Mehran 2005; Guest 2008). Yermack (1996) investigated the relationship between board size and firm performances of 452 large US industrial corporations between 1984 and 1991. He reported an inverse relationship between corporate board size and firm performance (Tobin's Q). His analysis however, focused purely on large US firms. In contrast, Sanda *et al.* (2003) in a sample of 93 firms, studied the effect of corporate governance mechanism on firm performance of listed firms in Nigeria between 1996 and 1999 and found a positive correlation between board size and profitability, proxied by return on equity (ROE). Their sample however consisted of financial and non-financial firms. Analysing financial and non-financial firms together may distort the outcome of the results in view of the fact that financial institutions operate under a special regulatory environment which may mask the efficiency differences across firms, and may potentially render governance mechanism less important (Vafeas & Theorodou, 1998; Singh & Davidson, 2003). The work of Kajola (2008) also examined the relationship between corporate governance and firm performance in a sample of twenty listed firms in Nigeria between 2000 and 2006. He reported that board size have no significant relationship with profit margin.

The SEC code of corporate governance provides that all public companies must have a minimum of five directors (SEC code 2003). The SEC provisions did not set maximum board size neither did it specify the exact number of directors that should form a board. However, it sets out general principles that the board should be of sufficient size relative to the scale and complexity of the company's operation. This suggests that SEC code admit that a company's board size may probably affect its performance. Given the mixed evidences and the provision of SEC code on board size, the null hypothesis that was tested in this case is that: *There is no statistically relationship between board size and firm's performance.*

#### 2.3.2. Empirical Evidences on the Board Composition and Firm Performance

Prior empirical evidences regarding the relationship between the percentage of NEDs (board composition) and firm performance is also mixed. A strand of the empirical studies reported that boards dominated by NEDs deliver higher performance. In a study of Governance Structure, Director Independence and Corporate Performance of a sample of 311 UK listed firms from 1994 to 1996, Wier and Laing (2002) reported a positive relationship between the percentage of NEDs and firm performance (Tobin's Q). While, researchers such as Yermack (1996), Agrawal and Knoeber (1996), and Bozec (2005) reported that the percentage of NEDs is negatively related to firm performance. For instance, Sanda *et al.* (2008) studied the effect of board independence on firm performance in a sample of 89 firms on the Nigerian Stock

Exchange between 1996 and 2004 and reported that firms with a low percentage of outside directors (NEDs) performed better than those with more NEDs. Again, their analysis suffered from the same defect as those of their earlier work which analyses both financial and non-financial firms together.

The provisions of the SEC codes require every listed company to appoint at least one independent NEDs (SEC code 2003). It provides that such a NED should have no contractual relationship with the company and should be free from company's business relationship which could materially interfere with his/her capacity to act in an independent manner. This shows that NEDs should be independent of the management to ensure that minority interests are adequately protected and shareholders' wealth increased. Given the mixed evidence, the null hypothesis that was tested in this case is that: *There is no statistically relationship between the percentage of NEDs (board composition) and firm performance.*

### 2.3.3. Empirical Evidences on the CEO-duality and Firm Performance

Evidences regarding the relationship between CEO-duality and firm performance are mixed (Rechner & Dalton 1991; Brickley, Coles & Jarrell, 1997; Weir & Laing, 2002). Rechner and Dalton (1991) investigated the relationship between CEO-duality and firm performance of 141 large American corporations (Fortune 500 firms) from 1978 to 1983. They reported that companies with separate board chairman and CEO positions consistently outperformed those with CEO-duality. Their results have been criticized on the grounds that they failed to control for firm specific characteristics such as firm size (Donaldson & Davis, 1991) and that they focused purely on large American firms. In contrast, Sanda et. al (2003) found a negative relationship between CEO-duality and Tobin Q in Nigeria listed firms. Also, Olayinka (2010) reported a strong negative relationship between CEO-duality and firm performance in Nigeria listed firms. However, the results of the study of Olayinka (2010) were not reliable because the analysis was single-year based and the technique of estimate was not potent in handling panel data variables.

The SEC provisions on CEO-duality states explicitly that the positions of the chairman and the CEO should not be held by the same individual (NSEC code, 2003 & 2011). This is to avoid over concentration of power in one individual which may rob the board of the required check and balances in the discharge of its duties. This suggests that SEC codes recognised CEO-duality as an undesirable development, while role separation is seen as good corporate governance practice. However, the prior literature evidences are mixed. Given these conflicting evidences therefore, the null hypothesis that was tested in this case is that: *There is no statistical relationship between CEO-duality and firm performance.*

From the review of the literature on the relationship between Board Structure Variables and performance there appears to be visible gaps. First, most of the researches conducted in this area are focused on developed economies and the researches outcomes are conflicting. Second, several countries, Nigeria inclusive, have issued guidelines and recommendations for best governance practices especially on board structure (Cadbury, 1992 NSEC Code, 2003 and 2011). The expectation is that adherence to these guidelines by boards will improve firm performance. However, whether firms following the best practice recommendations regarding board structure will indeed perform better is a question to be examined empirically especially in the Nigerian context. These situations present identified gaps and provide opportunity to conduct a study in this area with a focus on Nigerian listed manufacturing firms.

### 3. Methodology

#### 3.1. Population, Sample Size and Sampling Technique

The population of this study comprises of 57 listed manufacturing firms operating in different sectors of Nigerian Stock of Exchange. The choice of listed firms in this sector was based on the fact that the records of these classes of firms are expected to be organized, readily available and meets the corporate governance standard (Daniel, 2005). More so, listed firms were adopted as the study population because other studies such as Sanda, et al (2003) and Patrick (2012) used listed firms in their respective studies. The sample firms to be selected must have been listed on the floor of Nigerian Stock Exchange market not later than 2006. The year of listing is a fundamental requirement for firms that were selected as samples in this study. The choice of the selected firms and sector is informed by the availability of data and firms' annual reports for a period of ten years under review. This is due to the fact that it is only the firms that were listed as at year 2006 that can provide the required data. Thirty manufacturing firms that met this requirement were purposively selected as samples out of a population of 57 manufacturing firms listed on the floor of Nigerian Stock Exchange. Hence, purposeful sampling technique was adopted in this study.

#### 3.2. Data and Source

This study basically used secondary data collected from the annual reports of 30 listed manufacturing firms on the floor of Nigerian Stock Exchange (NSE). Data for the study covers eight-year period from 2006 to 2013. The board structure variables and firm performance data were obtained from NSE Fact book (2011/12 and 2014) and company websites.

#### 3.3. Model Specification

The methodological approach adopted in examining the relationship between the board structure variables and firm performance is panel data multiple regression analysis because of its advantages over the conventional time series approach according to Hsiao (2003) and Klevmarken (1989). Thus, panel data regression technique was used to analyse the data. Fixed effects and random effects regression models were run in addition to the Pooled OLS regression model. Panel data regression model was adopted because our data set are both cross-sectional and time series in nature. There are multiple entities, each of which has repeated measurements at different time periods and these may have group effects, time effects, or both, which are analyzed by fixed effect and random effect models (Oscar, 2007).

Consequently, the study employs a modified version of the econometric model of Miyajima, Omi and Saito (2003) which is given as:

$$Y_{it} = \beta_0 + \beta_1 g_{it} + \beta_2 c_{it} + e_{it} \dots \dots \dots (1)$$

Where  $Y_{it}$  represents firm performance variables (*dependent variables*); Return on Assets (ROA), and Return on equity (ROE) for firm  $i$  in time  $t$ .  $G_{it}$  is a vector of corporate governance variables (*independent variables*); Board size (bds), Board Composition (bdc) and a dummy variable of 1 (CEO) to capture if the board chairman is the same as the Chief Executive Officer (CEO) and 0 otherwise.  $C_{it}$  is a vector of **control variables**: size of the Firm (fz), leverage (lev), representing the debt structure of these firms, firms' probability is (pro) and firms' age (age) is a proxy for firm complexity in the sector while  $e_{it}$  is the error term. The essence of the control variables is to give recognition to the fact that the performance of listed firms may be influenced by several factors. The fixed effects and random effects options of panel regression were also run in addition to the pooled regression.

From the above discussions, equation 1 is specified as follows:

$$y_{it} = b_0 + b_1g_{it} + b_2c_{it} + e_{it} \dots \dots \dots (2)$$

$y_{it}$  = (roa, roe), representing the dependent variables.

$G_{it}$  = (bds, bdc, ceo) representing the independent variables.

$C_{it}$  = (fz, pro, lev, age) representing the control variables.

$e_{it}$  = the error term.

Thus the expanded form of equation 2 and 3 are specified as:

$$roa_{it} = b_0 + b_1bds_{it} + b_2bdc_{it} + b_3ceo_{it} + b_4pro_{it} + b_5fz_{it} + b_6lev_{it} + b_7age_{it} + e_{it} \dots \dots \dots (3)$$

$$roe_{it} = b_0 + b_1bds_{it} + b_2bdc_{it} + b_3ceo_{it} + b_4pro_{it} + b_5fz_{it} + b_6lev_{it} + b_7age_{it} + e_{it} \dots \dots \dots (4)$$

The individual fixed effect equations which capture the individual characteristics that are specific with each firm but do not change over time is given as:

$$roa_{it} = b_i + b_1bds_{it} + b_2bdc_{it} + b_3ceo_{it} + b_4pro_{it} + b_5fz_{it} + b_6lev_{it} + b_7age_{it} + e_{it} \dots \dots \dots (5)$$

$$roe_{it} = b_i + b_1bds_{it} + b_2bdc_{it} + b_3ceo_{it} + b_4pro_{it} + b_5fz_{it} + b_6lev_{it} + b_7age_{it} + e_{it} \dots \dots \dots (6)$$

where  $b_i$  is the fixed effect parameter that can be estimated directly.

The apriori expectation of the signs of the parameter estimates are:

- i. For return on asset (roa),  $b_1, b_2, b_3 < 0, b_4 - b_7 > 0$ .
- ii. For return on equity (roe),  $b_1, b_2, b_3 < 0, b_4 - b_7 > 0$ .

### 3.4. Estimation Techniques

Several estimation techniques were used to estimate firm financial performance in the models. These included the Pooled Ordinary Least Square (OLS), the Fixed and Random Effects. The Hausman specification test was performed to decide a preferred option between the fixed and random effect as deemed necessary. Thereafter, the Breusch-Pagan Langrange Multiplier (LM) test was carried out to decide a preferred estimate between Pooled OLS and Random effect estimates in the case of the ROE. The result of the test was insignificant indicating that, the Random effect is a preferred estimate for the study.

## 4. Data Analysis and Discussion

Various options of the panel regression were run; fixed effects, random effects and the pooled OLS regressions. The results of the panel regressions were presented in the subsequent sections starting with the descriptive statistics.

### 4.1. Variable Definitions and Measurement

Table 1 contains the definitions of variables and how they are measured in the study.

Table 1 – Variable Definitions and Measurement

Variable	Definition	Measurement
ROA	Return on Assets	Earnings before interest and tax payments divided by total assets.
ROE	Return on Equity	Earnings before interest and taxes by share-holders' funds.
BDS	Board size	Total number of members serving on a board
BDC	Board composition	Ratio of outside directors to total number of directors (NEDs).
CEO	Ceo-duality	A dummy variable, taking a value of 1 for firms with CEO as chair, and 0 otherwise.
Fz	Firm size	Natural Log of total asset.
Pro	Profitability	Ratio of Earnings Before interest and Taxes to total assets
Lev	Leverage	Ratio of total debt to total assets.
Age	Firm Complexity	Number of years the firm has been in operation.

Source: Authors' compilation

#### 4.2. Descriptive Statistics

This section presents the descriptive statistics of the mean, the median, the maximum, minimum and the standard deviation of the variables under investigation.

Table 2 – Descriptive Statistics

Variable	OBS	Mean	Maximum	Minimum	Std. Dev.
ROA	240	0.0105	0.2179	-0.6925	0.1347
ROE	240	4.9923	1142.26	-19.0624	73.7410
BDS	240	7.6042	14.0	3.0	2.5164
BDC	240	0.6030	1.3333	1.3333	0.1735
CEODUA	240	0.2042	1.0	1.0	0.4039
FIRMAGE	240	40.725	73.0	73	14.0849
LEV	240	1.7753	93.0007	93.0007	9.8486
LOGFZ	240	6.2709	8.9259	8.9259	0.8261
PRO	240	1.7735	347.8168	347.8168	22.4966

Source: Stata Panel Data Regression Output.

The descriptive statistics of dependent, independent and control variables of the relationship between board structure variables and firm performance is presented in table 2. From the table, the mean board size is about eight (8) suggesting that manufacturing firms listed on the Nigerian Stock Exchange (NSE) have relatively moderate board sizes. There is a maximum board size of fourteen (14) and standard deviation of 2.52, implying that manufacturing firms in Nigeria have relatively similar board sizes. On the board composition, Nigerian manufacturing firms are relatively less independent. This is indicated by the relatively high proportion of NEDs (60.3%) on the corporate boards being appointed from outside the firms. Out of all the firms studied, about 79.6% of them adopted the 2-tier board structure implying that only about 20.4% of the firms have their CEOs and Board chairman positions

combined in one person. This suggests that avenue for agency problems emanating from conflict of interest and agency costs are minimized to the barest level. This is likely to enhance firm performance. On the average, the descriptive statistics shows that most of the manufacturing firms appear not to be doing well with regards to ROA as a performance variable with a mean ratio of 0.01. The implication of this is that most of the manufacturing firms do not break-even on this front indicating that they might not be effectively and efficiently utilizing their assets. The profitability ratio at a mean ratio for the firms is 1.77. This figure might be as a result of the good performance of the firms as indicated by the ROE performance measure. The firms generally depended more on debt equity financing as indicated by the highly leverage figure of 177.53. The firms have similar sizes of 7.6 on the average.

On the whole, the ROE seems to perform better than the ROA measure of performance in the descriptive analysis. The ROE had a mean of 499.23% compared to ROA performance mean of 0.01% over the period of study. On the whole the ROE performance measure come out better in the descriptive statistics, while the ROA performance measure come out poorly as will be further shown in the regression output of the overall significance of the regression analysis.

#### 4.2. Presentation of Results

This section presents the regression results of the relationship between return on assets (ROA) and the board structure variables as well as that of the interaction between return on equity (ROE) and the board structure variables. First, we present the discussion on the relationship between the board structure variables and return on asset (ROA).

Table 3 – Regression Results of ROA

Variables	Pooled OLS	Fixed Effect	Random Effect
Constant	-0.0816 (0.0731)*	-0.5632 (0.2078)*	-0.1618 (0.1018)
BDS	0.0102 (0.0044)	-0.0060 (0.0069)	0.0057 (0.0048)
BDC	-0.0807 (0.0589)	-0.0270 (0.0616)	-0.0249 (0.0570)
CEO-dua	-0.0020 (0.0220)	-0.0162 (0.1251)	-0.0040 (0.0343)
LEV	0.0004 (0.0009)	-0.0002 (0.0009)	-0.0001 (0.0008)
FZ	0.0186 (0.0114)	0.0386 (0.0331)	0.0295 (0.0163)***
AGE	-0.0013 (0.0006)**	0.0097 (0.0059)***	-0.0010 (0.0010)
PRO	0.0001 (0.0004)	0.00005 (0.0004)	0.0000 (0.0004)
R <sup>2</sup>	0.0636	0.0068	0.0555
F	2.25*	19.4 insignificant	
Prob Chi2			7.73 insignificant

Significant at (1%)\*, (5%)\*, (10%)\*, Standard error in parenthesis.

Source: Stata Panel Data Regression Output.

Table 3, shows the regression results of the relationship between Return on Asset (ROA) and the board structure variables. The results generally show that the ROA perform poorly as indicated by the overall insignificance of the F- Statistics for both the FE and RE regression results for the variables of interest and ROA. Consequently, our discussion focused attention on the Pooled OLS regression result as presented in table 2.

The Pooled OLS regression results indicated that contrary to studies by Jensen (1993), Lipton and Lorsch (1992) and Sanda et. al. (2003), the board size is positively related to ROA implying that the larger the size of the board, the better the ROA. This result confirms the findings of the studies that supported the view that larger boards are better for corporate performance because members have a range of expertise to help make better decisions, and this may make it harder for a powerful CEO to dominate the board.

The board composition has a negative relationship with ROA implying that when there are less external board members, performance of the firm tends to be worse. This finding is also consistent with the finding of the study by Agrawal and Knoeber (1996) which suggested that boards expanded for political reasons often result in too many outsiders on the boards, which does not help performance. A group of researchers such as Yermack (1996), Agrawal and Knoeber (1996) and Bozec (2005) also reported that the percentage of NEDs is negatively correlated with performance. In a sample of 25 Canadian firms from 1976 to 2005, Bozec (2005) found that the relationship between the percentage of NEDs and performance is negative. The study's finding also contradicts the results of other empirical studies such as Brickley and James (1987) and Brickley et al. (1994) on outside director's value in supporting the beneficial monitoring and advisory functions to firm's shareholders.

With respect to CEO-duality, the results suggest that CEO-duality is negatively related to ROA and that when a CEO doubles as the board chairman, ROA decreases. This result is consistent with studies which have found out that the one-tier board structure type leads to leadership facing conflict of interest and agency problems, (Berg & Smith 1978, Brickley & Coles 1997). In the context of a developing country, the study of Sanda et al. (2003) found no relationship between firm performance and separating the functions of the CEO and Chairman and thus gave preference to one-tier board structure. In contrast however, the result of this study buttresses the fact that there is need to have a clear separation between the positions of board chairman and CEO as indicated by the negative relationship between CEO and ROA performance variables in table 3 above. As expected, the study found that firm size has a positive relationship with ROA, though not significant. This means that the size of a firm, measured by its asset base, could lead to better performance if put to efficient use. The implication therefore is that most of the firms are utilizing their size to enhance performance.

The positive coefficient in the Pooled OLS regression for total debt (LEV) could be interpreted to mean an increase in debt is associated with increase in performance. This probably implies that firms that have huge proportions of debt perform better. This confirmed the findings by Hadlock and James (2002), and Petersen and Rajan (1994), which posited that profitable firms use more debt to finance their operations. This position is further supported by the positive relationship between profitability and leverage with ROA in the Pooled OLS regression as indicated in table 3.

Table 4 is the regression results of the relationship between ROE and the board structure variables. As could be seen in table 5, the overall regression results for the FE, RE and Pooled OLS are all significant at 1%. Consequently, there was the need to perform the Hausman Specification Test and Breusch Pagan Langrange Multiplier Test to determine a preferred estimate between the three regression estimates. The hausman test indicated that RE is a preferred estimate to FE model. Therefore, there was the need to perform the Breusch Pagan

test to decide a preferred estimate between the RE and Pooled OLS estimates. The results of the Breusch Pagan test showed that RE is a preferred estimate. The discussion below is therefore based on the RE regression estimate.

Table 4 – Regression Results of ROE

VARIABLES	Pooled OLS	FE	RE
Constant	-15.9947 (3.0465)*	-41.23859 (8.6850)	-20.1692 (4.0147)*
BDS	-0.1051 (0.1840)	0.0979 (0.2868)*	-0.0828 (0.2018)
BDC	0.2134 (2.4556)	-4.7638 (2.5743)*	-1.5964 (2.4334)
CEO-dua	0.9949 (0.9162)	1.6122 (0.5.2286)	1.3235 (1.3152)
LEV	0.0486 (0.0381)	0.0664 (0.0358)*	0.0560 (0.0364)
FZ	1.9027* (0.4760)	8.5231 (1.3854)	2.7010 (0.6427)*
AGE	0.0896 (0.0259)*	-0.2783 (0.2449)*	0.0897 (0.0381)*
PRO	3.2624* (0.0160)	3.2695 (0.0149)*	3.2675 (0.0152)*
R <sup>2</sup>	0.9946	0.9847	0.9945
Prob Chi2			4675*
F	6072*	6960.8*	
Hausman Test			6.08 insignificant RE preferred to FE
Breusch Pagan Test			15.33* RE Preferred to OLS

Significant at (1%)\*, (5%)\*\*, (10%)\*\*\*\*, Standard error in parenthesis.

Source: Stata Panel Data Regression Output.

Based on RE regression estimate, the board size is negatively related to ROE. This result is consistent with findings of the studies by Jensen (1993), and Lipton (1992) who argued that larger boards are less effective and are easier for the CEO to control. When a board gets too big, it becomes difficult to co-ordinate. Further argument is that smaller boards also reduce the possibility of free riding by individual directors, and increase their effectiveness in decision making processes. Some other empirical studies also supported this position. For example, Yermack (1996) documents that, for large U.S. industrial corporations, the market places higher values on firms with smaller boards. Again, Sanda et al. (2003) found that, firm performance is positively related to small, as opposed to large board size.

On board composition, ROE is negatively related to board composition. This result supports the findings of earlier studies (Sanda et al, 2003; John & Senbet, 1998) which showed a negative relationship between board composition and ROE. The implication of a negative relationship between board composition and ROE is that fewer outside directors are on the board and hence the board might be less independent. This is capable of jeopardizing the performance of the firm. The argument is that boards of directors are more independent as the



proportion of outside director's increase and this position is more favoured and cherished by shareholders.

Regarding CEO-duality, the results point to a positive relationship between the ROE performance measure and the two-tier board structure in which case separate persons occupies the position of board chairman and CEO. This result is not consistent with the findings of other empirical studies such as Fama and Jensen (1983) who argued that the concentration of decision management and decision control in one individual reduces boards' effectiveness in monitoring top management and tends to increase agency costs because it depicts a clear case of possibility of conflict of interest and hence could lead to agency problems.

Profitability (PRO) and the debt structure (LEV) are both positively related to ROE. This finding suggest that the studied firms relied on debt and tend to perform better in view of the fact that profitability and leverage variables are both positive and significantly related to ROE in the random effect (RE) regression estimates. Thus, manufacturing firms under this study should lean towards having more debts to finance their operations. Firm size is positively related to ROE and this shows that the studied manufacturing firms will benefit if they increase their sizes to enjoy economies scale.

Comparatively, the findings of the current study is consistent with the findings of the works of Eisenberg *et al.* (1998) and Bozec, (2005) which were conducted in USA and United Kingdom respectively and found a negative relationship between performance-related top-management turnover and board size. However, it contradicts the findings of the works of Beiner *et al.* (2006) and Henry (2008) that independently reported similar statistically significant and positive relationship between board size and the Q-ratio for Swiss and Australian listed firms respectively.

Furthermore, Chahine and Tohmé (2009) and Kiel and Nicholson (2003) conducted their studies in USA, Middle East and North African countries respectively and discovered that underpricing is significantly higher among firms that have CEO duality and that firms with separate board chairpersons consistently outperformed those with CEO duality. However, the works of Kiel and Nicholson (2003) found that CEO duality impacts positively on the financial performance of Australian listed firms.

Gupta and Fields (2009) conducted their study in USA and found that there is positive relationship between NED and firms' financial performance, while the studies of Bozec (2005) and Haniffa and Hudaib (2006) which were conducted in Canada and Malaysia reported a statistically insignificant negative relationship between the percentage of NEDs and firms' performance.

## 5. Conclusion and recommendations

### 5.1. Conclusion

This study draws the following conclusion from its findings: That the board sizes of the studied quoted manufacturing firms are positively related to ROA and negatively related to ROE performance variables. Also, the board structure composition variables of quoted manufacturing firms are negatively related to both performance measurements of ROA and ROE and that CEO duality of quoted manufacturing firms is negatively related to ROA and positively related to ROE.

### 5.2. Recommendations

Based on the findings of this study, the following recommendations are made for efficient performance of quoted manufacturing firms and other similar organisations:

- i. maintenance of smaller board sizes that hovers around eight members (8) is critical to the success and survival of corporate firms in Nigerian while firms should also increase their size through increase in total assets and put these to efficient use in order to enjoy economies of scale.
- ii. firms should make appointment of outside directors (NEDs) to dominate the appointment of inside executive directors so as to enable the firms to maximally reap the benefits of board independence.
- iii. the position of Board Chairman and that of the Chief Executive Officer should be separated in order to protect the interests of the shareholders and guard against managerial opportunism

### **5.3. Suggestions for future research**

There is need to extend the scope of the study to cover listed firms in Africa Stock Exchange Market. Therefore, further study can examine corporate governance and performance of listed firms from African Stock Exchange Markets. A study of this nature may improve current understanding of the internal board structure variables-financial performance association across different African markets. Secondly, studying other sectors of Nigeria economy would also advance and expand our knowledge of the subject matter. Consequently, we suggest that future studies should pay attention to organizations in other sectors of Nigeria economy. Thirdly, a way to improve on the current study is for that future studies to increase the sample size (i.e. number of firms) and extend the scope (i.e. number of years).

### **References**

1. Abdullah, H. & Valentine, B. (2009). Fundamental and ethics theories of corporate governance *Middle Eastern Finance and Economics*, 4, 1450-2889.
2. Adams, R. B., & Mehran, H. (2005). Corporate governance, board structure and its determinants in the banking industry, *Working Paper*, Federal Reserve Bank of New York. Retrieved from <http://papers.ssrn.com/sol3/papers.cfm> 16 (4), 454-464.
3. Agrawal, A., & Knoeber, C. R. (1996). Firm performance and mechanism to control agency problems between managers and shareholders, *Journal of Financial and Quantitative Analysis*, 31, 377-397.
4. Beiner, S., Drobetz, W., Markus, M. & Zimmermann, H. (2006). An integrated framework of corporate governance and firm valuation, *European Financial Management*, 12, (2), 249-283.
5. Berg, S.V., & Smith, S.R. (1978). CEO and board chairman: A quantitative study of dual versus unitary board leadership, 22 (6), 34-39.
6. Bozec, R. (2005). Boards of directors, market discipline and firm performance, *Journal of Business Finance and Accounting*, 32, (9 &10), 1921- 1960.
7. Brickley, J. A., Coles, J. L., & Jarrell, G. (1997). Leadership structure: Separating the CEO and chairman of the board, *Journal of Corporate Finance*, 3 (3), 189-220.
8. Brickley, J.A. & James, C.M. (1987). The takeover market, corporate board composition, and ownership structure: The case of banking, *Journal of Law and Economics*, Vol. 30, 161-181.
9. Brickley, J. A., Coles, J. L., & Terry, R. L. (1994). Outside directors and the adoption of poison pills, *Journal of Financial Economics*, 35, 371-390.
10. Cadbury, (1992). Report of the Committee on the Financial Aspects of Corporate Governance. London: Gee Publishing.
11. Chahine, S. & Tohmé, N.S. (2009) Is CEO duality always negative? An exploration of CEO duality and ownership structure in the Arab IPO context Corporate Governance. *An International Review*, 17, 123–141.

12. Chen, H. (2014) CEO duality and firm performance: an empirical study of EU listed firms,
13. being a paper presented at the 3<sup>rd</sup> IBA Bachelor Thesis Conference, Netherlands.
14. Companies and Allied Matters Act 1990(CAMA, 1990).
15. Daniel, S. (2005). Efficiency of banks in regions at different stages of European integration process, *Finance* 0502020, ECOWPA.
16. Deakin, S & Hughes A. (1997). Comparative corporate governance: An interdisciplinary agenda. In S. Deakin and A. Hughes (Eds.), *Enterprise and Community: New Directions in Corporate Governance*, 95- 120. Oxford: Blackwell Publishers.
17. Donaldson, L., & Davis, F. (1991). Stewardship theory or agency theory: CEO governance and shareholder returns, *Australian Journal of management*, 16 (1), 18.
18. Donaldson, L. & Davis, J.H. (1994) Boards and company performance: Research challenges the conventional wisdom. *Corporate Governance: An International Review*, 2, 151-160.
19. Eisenberg, T., Sundregren, S. & Wells, M. (1998). Larger board size and decreasing firm value in small firms. *Journal of Financial Economics*, 48, 35-54.
20. Fama, E. F. (1980). Agency problem and the theory of the firm. *Journal of Political Economy*, 88, 288-300.
21. Fama, E. F., & Jensen, M. C. (1983). Agency problems and residual claims. *Journal of Law and Economics*, 26, 327-349.
22. Gompers, P., Ishii, L., & Metrick, A. (2003). Corporate governance and equity prices. *Quarterly Journal of Economics*, 118, 107-155.
23. Guest, P. M. (2008). The determinants of board size and composition: Evidence from UK. *Journal of Corporate Finance*, 14, 51-72.
24. Gupta, M. & Fields, L. P. (2009). Board independence and corporate governance: Evidence
25. from director resignations. *Journal of Business Finance and Accounting*, Vol. 36, No 1 & 2, 161-184.
26. Haniffa, R. & Cooke, T.E. (2002) Culture, corporate governance and disclosure in Malaysian Corporations. *Abacus*, 38(3), 317-349.
27. Haniffa, R., & Hudaib, M. (2006). Corporate governance structure and performance of
28. Malaysian listed firms. *Journal of Business, Finance and Accounting*, 33 (7 & 8),
29. 1034- 1062.
30. Hadlock, C., James, C. (2002). Do banks provide financial slack? *Journal of Finance*, 57:1383-420.
31. Henry, D. (2008). Corporate governance structure and the valuation of Australian firms: Is
32. there value in ticking the boxes. *Journal of Business Finance and Accounting*, 35, No. 7 & 8, 912-942.
33. Hsiao, C. (2003). Analysis of panel data, (2<sup>ed</sup> ed.). Cambridge: England, Cambridge University Press.
34. Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behaviour, agency
35. costs, and ownership structure. *Journal of Financial Economics*, 3, 305-350.
36. Jensen, M. C. (1993). The modern industrial revolution: Exit and the failure of internal control systems. *Journal of Finance*, 48, (3), 831-880.
37. John, K & Senbet, L. W. (1998). Theory of the firm: managerial behaviour, agency costs and ownership structure. *Journal of Banking and Finance*, 45 (72), 43-47.
38. Kajola, S. O. (2008). Corporate governance and firm performance: The case of Nigerian listed Firms. *European Journal of Economics, Finance and Administrative Science*, 14(1), 34-41.

39. Kiel, G. C. & Nicholson, G. J. (2003). Board Composition and Corporate Performance: How the Austrian Experience Informs Contrasting Theories of Corporate Governance. *Corporate Governance: An International Review*, Vol. 11,(3), 189-205.
40. Klevmarken, N. A. (1989). Panel studies: What can we Learn from them? *European Journal Economic Review*, 33,523-529.
41. Kyereboah-Coleman, A., & Biekpe, N. (2007). Corporate governance and the performance of Microfinance Institutions (MFIs) in Ghana, *Working Paper*, UGBS, Legon.
42. Letza, S., Sun, X. & Kirkbride, J. (2004). Shareholding versus stakeholding: A critical review of corporate governance: *An International Review*, 12(2), 242-262.
43. Lipton, M. & Lorsch, J.W. (1992). A modest proposal for improved corporate governance. *Business Lawyers*, 48, 59-77.
44. Miyajima, H., Omi, Y., & Saito, N. (2003) Corporate governance and performance in twentieth century Japan. *Business and Economic History*, 1, 1-36.
45. Nigerian Securities and Exchange Commission (NSEC) Code of Corporate Governance, (2003 and 2011) Publication.
46. Nigerian Stock Exchange (2011/2012) Fact Book, The Nigeria Stock Exchange: Lagos.
47. Ntim, G. C.(2009). *Internal corporate governance structures and firm performance: Evidence from South African listed firms*; A PhD dissertational, University of Glasgow, Glasgow.
48. Okeahalam, C. C., & Akinboade, O. A. (2003). *A review of corporate governance in Africa: Issues and challenges*, Paper Prepared for the Global Corporate Governance Forum, 23-26). Washington DC, USA.
49. Okeahalam, C.C. (2004). Corporate governance and disclosure in Africa: Issues and challenges. *Journal of Financial Regulation and Compliance*, 12 (4), .359 – 370.
50. Olayinka, M. U. (2010). The impact of board structure on corporate financial performance in Nigeria. *International Journal of Business and management*, 5 (10), 157.
51. Oscar, T.R.(2007). Panel data analysis, fixed and random effects using Stata. Retrived from [http:// ss.princeton.edu/training/](http://ss.princeton.edu/training/)
52. Patrick, O.O. (2012). Product diversification and performance of manufacturing firms in Nigeria. *European Journal of Business and Management*, 4(7), 226-233.
53. Peng, M.W., Zhang, S. & Li, X. (2007). CEO duality and firm performance during China's institutional transitions. *Management and Organization Review*, 3 (2), 205-255.
54. Petersen, M. A., & Rajan G. R. (1994), The benefits of lending relationships: Evidence from small business data. *Journal of Finance*, 48 (5), 34-37.
55. Rechner, P. L. & Dalton, D. R. (1991). CEO duality and organizational performance: A longitudinal analysis. *Strategic Management Journal*, 12(2), 155-160.
56. Sanda, A.U., Mukaila, A. S., & Garba, T. (2003). *Corporate governance mechanisms and firm financial performance in Nigeria*. Final Report Presented to the Biannual Research Workshop of the AERC (24-29). Nairobi, Kenya.
57. Sanda, A., Mikailu, A.S. & Garba, T. (2005). Corporate governance mechanism and firm financial performance in Nigeria. *AERC Research paper 149*, Nairobi: African Economic Research Consortium.
58. Sanda, A.U, A.S Mukaila & T. Garba (2008). *Board independence and firm performance: Evidence from Nigeria*. A Paper Submitted to the Centre for the Study of African Economy (CSAE) For Presentation at the CSAE Conference 2008 Titled Economic Development in Africa (16-18) St Catherine's College, University of Oxford.
59. Singh, M. & W.N. Davidson III, (2003). Agency costs, ownership structure and corporate governance mechanisms. *Journal of Banking and Finance*. 27, 793- 816.

60. Sarbah, A. & Xiao, W. (2015). Good corporate governance structures: A must for family businesses. *Open Journal of Business and Management*, 3, 40-57.
  61. Vafeas, N. & Theodorou, E. (1998). The relationship between board structure and firm performance in the UK. *British Accounting Review*, 30, 383-407.
  62. Weir, C., & Laing, D. (2002). Governance structure, director independence and corporate performance in UK, *European Business Review*, 13(2), 86-95.
- Yermack, D. (1996). Higher market valuation of companies with a small board of directors. *Journal of Financial Economics*, 40 (2), 185-221.



## List of Authors

**Albanesi, Giovanna** is graduate student at the University of Urbino Carlo Bo, Italy. Her research expertise focuses on SMEs, internationalization, international marketing and marketing.

**Alves, Gisela** is Lecturer at the European University - Laureate International Universities. She is research Coordinator at IPAM Porto- European University – Laureate, Director of IPAM LAB, and integrated researcher at the Communication & Society Research Centre (CSRC) – University of Minho. She is in the Advisory Board of the Tecnia Institute of Advanced Studies (TIAS) in New Delhi, India. She published in several journals with double blind referee and indexed to the web of science. She is also reviewer of various journals and conferences.

**Boachie-Mensah, Francis O.** is Associate Professor of Marketing in the School of Business at the University of Cape Coast, Ghana. He received his Bachelor of Education (Management) degree at the University of Nottingham (UK) and his Master of Business Administration degree at the University of Derby (UK). He lectures, conducts research, publishes and supervises students' work in marketing, entrepreneurship and small enterprise development. In addition to teaching, he consults for various public and private sector organizations in Ghana. He is also the author and co-author of several books in management, marketing, and entrepreneurship and small business management.

**Chen, Xiaofen** is Professor at Truman State University. She holds a Ph.D in Economics from Virginia Tech and received her bachelor's degree in international economics at Peking University in Beijing, China. She previously worked in an international economic organization and the banking industry in China. She has a wide research interest, including household saving behavior, regional economics in East Asia, the Chinese economy, urbanization, and financial liberalization and credit risk. Her publications are found in Applied Economics, Journal of International Money and Finance, Journal of Financial Stability, and other journals and books.

**França, Alexandra** is PhD student of Marketing and Management at the School of Economics and Management (EEG), University of Minho (UM). She is a Business Consultant. Her main area of research is strategic management. She has published in international conferences and international journals.

**Francioni, Barbara** is Research Fellow in Business and Management in the Department of Economics, Society and Politics at the School of Economics, University of Urbino. She is also a contract professor of International Marketing at the Department of International Studies, in the same University. Her research interests focus on SMEs, internationalization, international marketing and marketing. Her work has appeared in numerous journals, including International Business Review, International Journal of Management Review, Management Decision, Journal of Strategic Marketing, Journal of Small Business & Enterprise Development, and others.

**Gbadeyan, Rotimi A.** is Associate Professor in Department of Marketing, University of Ilorin, Nigeria. He has over 19 years teaching and research experience cutting across three Universities in Nigeria, Sierra Leone and Ghana. He was the Pioneer Head of Department of Marketing at University of Ilorin and has over Seventy publications in reputable National and International Journals. He is the Faculty Research Manager for Faculty of Management Sciences, University of Ilorin. Editor, Ilorin Journal of Management Sciences (2013 – 2015) and Ilorin Journal of Marketing from 2016 till date. He reviews papers for Ilorin Journal of Business and Social Sciences, International Journal of Management Science Research, Advances in Management, Centre Point and International Journal of Entrepreneurship and Small Business (Inderscience). He served as External Examiner in Marketing to several Polytechnics and Universities in Nigeria and Ghana. His areas of Interest include Health and Quantitative Marketing and Entrepreneurial Marketing.

**Keikoh, Ryu** is Advisory Committee Member for the Stanford Program on International and Cross-Cultural Education at Stanford University. He was also a visiting scholar at the Shorenstein Asia-Pacific Research Center (APARC) from 2016-17. Dr. Ryu is the director of the Japan Society for Business Ethics and an affiliate professor at Beijing Normal University, Lanzhou University and Hubei University in China. His research spans the areas of political science, economic sociology, and public management. Currently, his research has primarily dealt with cross-cultural research methodology in Ethics Economics and Management. Dr. Ryu's research also has published in Journal of International Business, Corporate Communication Studies, and other scholarly academic journals.

**Mustapha, Yusuf Ismaila** bagged his Ph.D., MBA, and B.Sc. from Usmanu Dan Fodiyo University, Sokoto, Nigeria and M.Sc. from University of Ilorin, Ilorin, Nigeria. He started his career in the industry as a Sales Representative before crossing to academics in the year 2000. He is a Senior Lecturer at Department of Marketing, University of Ilorin, Ilorin, Nigeria and Deputy Director, Technical and Entrepreneurship Centre (TEC) of the same University. He currently serves as coordinators for Masters in Health Planning and Management, Postgraduate Diploma in Strategic Management, and Diploma in Marketing and Logistics Management at the University School of Business. His current research areas are Marketing Management and Strategic Marketing.

**Nafiu, Abdulrasaq Ishola** is Chief Lecturer with extensive experience and management skills and works at the Federal Polytechnic, Offa, Kwara State, Nigeria. As a senior academic staff and former head of department of Banking and Finance and currently the Dean School of Business and Management Studies, he is responsible for the coordination of the academic activities of all the five departments that currently make up the School of Business in the Polytechnic. He has a B.Sc., Economics, M.Sc. Economics, M.Sc. Management Science and a Ph.D. in Business Administration from the University of Ilorin, Ilorin, Nigeria (2016).

**Osemene, Olubunmi F.** is Senior Lecturer and the current Ag. Head in the Department of Accounting, University of Ilorin. She had her B.Sc. (Hons) in Accounting from Obafemi Awolowo University, Ile-Ife; M.Sc. in Accounting from University of Ilorin; PhD in Accounting and Finance from University of Ilorin and her Master of Business Administration from Ladoke Akintola University of Technology, Ogbomoso, Nigeria. She is a professional Chartered Accountant and a Fellow of the Institute of Chartered Accountants of Nigeria. She has many publications to her credit in reputable local and international journals. Her areas of interest include Social and Environmental Accounting and SMEs development in growing



economies. She has successfully supervised many undergraduates and graduate students in Accounting.

**Palmeira, Mirian** is Associate Professor at Federal University of Parana, Brazil - UFPR, working in the Business Administration Undergraduate Programme. Member of the Scientific Board of the PhD Programme on “Governance and Management for Business Innovation” of Nicolò Cusano University of Rome. Member of the Scientific Advisory Board of the International Journal of Economic Behavior – IJEB. Author of different articles related to the fields of Retailing and Services, Fashion, Experiential Marketing, and Integrated Marketing Communication. Before working in the UFPR, she had occupied different product management job positions. Her education levels are Fashion Design (2012) at Centro Europeu, Curitiba, Parana, PhD (1995) and Master (1988) degrees in Marketing at Fundacao Getulio Vargas, Sao Paulo, Brazil.

**Rua, Orlando Lima** holds a Ph.D in Economics and Management. He is an Assistant Professor of Management at the School of Accounting and Administration (ISCAP) of the Polytechnic of Porto (Portugal) and a researcher at the Center for Organisational and Social Studies (CEOS.PP) (Polytechnic of Porto – ISCAP) and at the Applied Management Research Unit (UNIAG) of the Association of Polytechnic Institutes of Northern Portugal (APNOR). His main areas of research are entrepreneurship, strategic management and human resources management. He has published in international conferences and international journals

**Sentuti, Annalisa** is Research Fellow at the University of Urbino Carlo Bo, Department of Economics, Society, Politics, and a Lecturer of Business Administration and Accountancy. Her main research interests include small and medium businesses, entrepreneurship, female entrepreneurs, and family businesses. She is a member of the European Council for Small Business and Entrepreneurship (ECSB), of the Crimpi – Research Centre on Entrepreneurship and Small-medium firms, of Sidrea – the Italian Association of Lecturers of Accountancy and Business Administration, and of Ipazia – the Scientific Observatory on Gender Issues.

**Zhang, Lin** is Associate Professor in the School of Business at Truman State University where she has been a faculty member since 2005. She received her B.A. in English and B.S. in International Business at Dalian University of Technology (China), M.S. in Management at University of Bath (U.K.), and Ph.D. in Marketing at Mississippi State University (U.S.A). Her research interests lie in the area of brand management, international marketing and consumer behavior. Journals in which she has published her research include European Journal of Marketing, International Journal of Market Research, Marketing Management Journal, Academy of Taiwan Business Review, Management Research News, Journal of Education in Business, and Journal of Teaching in International Business.

## Content

---

<i>Gisela Alves</i> Editorial	1-2
<i>Xiaofen Chen, Lin Zhang</i> Will High Household Saving in China Persist? An Application of The Conspicuous Consumption Theory	3-24
<i>Alexandra França, Orlando Lima Rua</i> Linking Entrepreneurial Orientation to Knowledge's Exploitation	25-38
<i>Barbara Francioni, Giovanna Albanesi</i> The Italian Sounding Phenomenon: The Case of Germany	39-50
<i>Ryu Keikoh</i> Theoretical Research on Organizational Ethical Climate: Applications and Practices of Japanese Enterprises in China	51-62
<i>Mirian Palmeira</i> Prejudice and Discrimination in Seaside Retailing. Comparative Analyses Between Brazil and Italy	63-79
<i>Gisela Alves</i> A Multicultural Study on the Impact of Culture on the Quality of the Relationship Between Exporters and Local Distributors	81-97
<i>Rotimi A. Gbadeyan, Francis O. Boachie-Mensah, Olubunmi F. Osemene</i> Effect of Supply Chain Management on Performance in Selected Private Hospitals in Ilorin, Nigeria	99-116
<i>Annalisa Sentuti</i> Female Entrepreneurs and Intergenerational Transfer: New Insights into The Succession Process	117-130
<i>Yusuf Ismaila Mustapha, Abdulrasaq Ishola Nafiu</i> Relationship Between Board Structure Variables and Performance of Listed Manufacturing Firms in Nigeria	131-147
List of Authors	149-151