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FIRMS' FINANCIAL PERFORMANCE AND CORPORATE BOARD DIVERSITY: EVIDENCE FROM KENYA **

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A B S T R A C T

Boards' affects performance through their monitoring and advising functions. The ability to perform these functions depends on among other things, the experience of the board. This paper examines the effects of corporate board experience on firms' financial performance of listed companies in the Nairobi Securities Exchange for the period 2001-2010 using System GMM. Performance variables are ROA, Tobin's Q ratio, share price and price to book value. Experience is measured as stock of initial experience and tenure in a particular board. Tenure is found to be positively and significantly associated with the performance variables. Tenure ^{2} captures the entrenchment behavior of the board. This entrenchment effect has a significantly negative effect on performance. This negative effect eventually outweighs the positive tenure effect and gives rise to the downward effect of tenure on performance hence the inverted U-relationship between tenure and performance. The study reports an optimal tenure of between 7 and 8 years depending on the performance variable being considered. At shorter tenure; there is a positive effect on performance, but at a longer tenure, entrenchment behavior of the veteran board members outweighs the monitoring effect. In fact these long tenured boards become 'zombie boards', thus negatively affecting performance. Stock of initial experience consists of education, and past managerial experience. It has a significant positive relationship with performance.

1 INTRODUCTION

The basic motivation of owners of capital is to maximize their wealth by enhancing value of the firm. The objective of the agent on the other hand may be varied including enhancement of personal income, tenure prestige, continuity in employment, and increased bargaining strength for future income maximization (Clarke, 2004; Monks & Minow, 2008). This divergence of interests between the agent and the principal usually leads agents to engage in those activities which maximize their chosen interest of continued employment. This is more pronounced in situations where controls, ratifications and sanctioning of managerial decisions are not effective, either by the board or due to the fact that the shareholders are not empowered enough to effectively control management. To remedy such misalignments of interests, a number of governance mechanisms aimed at aligning the interests of the agents and the principals are employed (Clarke, 2004; Monks & Minow, 2008). One mechanism is for the owners to choose a board of directors to intermediate the two contrasting interests and ensure that the interests of the shareholders are met through the management decisions. In certain cases some of the owners sit on these boards to directly take care of the shareholders' interests. In other instants, a completely neutral board is appointed to perform the oversight (monitoring) role (Monks & Minow, 2008). The board therefore performs two key functions; monitoring (oversight) and advisory. These functions are closely related in that for one to advice, there must be some degree of monitoring. Conversely for one to monitor, there must be some degree of advising. The core aim of these functions is to safeguard the interest of the shareholder which is; to maximize their wealth (Falaye, Hoitash, & Hoitash, 2011; Jensen & Meckling, 1976; Monks & Minow, 2008). The oversight role requires independent boards. Board independence is inversely correlated with tenure. The longer the tenure, the less independent, as other interests of the board members begins overshadow their monitoring role. In order to prevent such an eventuality, boards are appointed on fixed renewable terms. The shareholders reserve the right to change the boards at the annual general meetings in cases of underperformance or at the expiry of their terms in office. On the other hand, advising is directly correlated with tenure. Advisory role requires boards that are familiar with the company, industry and well endowed with insight and experience (Masulis & Mobbs, 2011).

The main issue therefore, is how to make the boards more effective in their monitoring role so as to maximize the shareholders' wealth. This role is at the heart of the Agency theory. The boards' advisory role which argues that a board brings in useful experience and networks and saves costs through timely advice and exploitation of its vast network is at the heart of the Resource Dependence theory of corporate governance. These two theories are at the centre of the debate on the role of director's heterogeneity on financial performance. On the one hand, there are schools of thought who argue that the monitoring function would ensure less wastage and a maximization of the shareholders' interest. Another school of thought argues that what is crucial, is the advice and networks that the diverse board brings with it which is crucial to maximizing shareholders' value. This is achieved through a cost reduction as timely decisions are made and wastages reduced due to experience and the subsequent efficiency gained in decision making (Fracassi & Tate, 2012).

1.1 Background
There are various cases of corporate failures which points at ineffective boards. In some of the cases, the management decisions raise the fundamental question on the integrity, competence and effectiveness of the corporate boards. Mumias sugar factory's wores is an indictment on corporate governance in Kenya. In the company's water bottling plant in which over 220 million Kenyan shillings was invested, the project made no profit and the project was neither its core business nor part of the company's by-products. It was however approved by the board. In a study by Oyieke (2002),

Kenya airways was a case of successful privatization, however less than two decades later; the airline is a loss maker in dire need of government bail-out of Kshs. 4.2 billion. The problems of the airline points wrong strategic decisions which were approved by the board. Haco Tiger Brand managing director with the approval of the board invested Kshs. 100 billion in the Mavoko housing project which has turned out to a bad investment decision. This decision had the board's approval. At Telcom, the ex-staff wants the board investigated for failing to pay kshs 3.2 billion severance settlements. The largest share holder at British American Insurance Company (BRITAM) is accused of fraud, money laundering and embezzlement. At Uchumi supermarkets it is the second time the supermarket chain is seeking huge amounts of money for bail out (BD, 2015). All along the financial reports indicated a robust enterprise. These cases points squarely to corporate boards that have failed to execute their primary mandate to monitor and advise management. The corporate landscape in Kenya is replete with such costly, poorly thought through and badly executed white elephants and begs the question as to the competency, and commitment of these board to monitor and advice these organizations.

In terms of executive remunerations, the corporate landscape in Kenya defies the expectations especially for a developing country. The executive pay for the top ten listed companies at the NSE is at par with their profit growth at 21%. These directors earn 1.4% of their companies' net earnings (NSE, 2011, ROK,2014). The directors (CEO and CFO) of Safaricom collectively earn over 200 million a month (BD, 2015). In the embattled Kenya Airways, the Chief Finance and Chief executive officers split Kshs. 85 million a month (BD, 2015). Most of these top managers own substantial shares hence earning handsome dividends as well.

These incidences points to boards that are either out-rightly misplaced or whose interests are variance with those of the share holders. The results of this poor corporate governance are erosion of investor confidence, colossal loss of investor's funds and a down grading of Kenya's global competitive ranking from 106 to 144 (ROK, 2014).

The study therefore aims at investigating the relationship between the board experience and corporate financial performance in Kenya between 2001 and 2010. This broad aim is achieved through specifically analyzing the relationship between boards' tenure, boards' education and past experience, and boards' entrenchment behavior (tenure^2) on performance variables.

2 LITERATURE REVIEW

  2.1 Theoretical Perspective on the Heterogeneity-Performance Relationship

A basic proposition is that the composition of the board affects the way the board performs its core functions of monitoring and advising. The boards' heterogeneity affects performance by influencing management dynamics (Clarke, 2004; Okpara, 2011). A heterogeneous board is crucial as it brings to the organization rich human capital, diverse experience, diverse social capital, diverse abilities and views, different behavioral perspectives, diverse networks, and different socio-psychological orientations which are crucial in group dynamics. These contributions increases with diversity of past experience which brings to bear the rich background and exposure necessary for a competitive business environment and the cumulative experience in a particular board (tenure) which improves the quality of decisions and reduces the length of time it takes to make a decision (Fracassi & Tate, 2012; Okpara, 2011; Pitelis, 2012; Rhode & Packel, 2010; Rose, 2007; Yangmin & Cannella, 2010).

There is however no single theoretical perspective on the nature of the relationship between the boards' heterogeneity and financial performance. There is an amalgamation of economic, human relations, sociological, political, and organization theories which discusses some aspects of these relationships. The most relevant theories reviewed in this paper are the resource dependency and human capital theories.

This study integrates both the human capital theory and resource dependancy theory to come up with a relevant theoretical framework(Hillman, Cannella, & Paetzold, 2000). Theoretically, the argument for board diversity (heterogeneity) is mixed. There are a number of theoretical arguments in favour of a mixed board. (Carter, D'Souza, Simkins, & Simpson, 2010) argued that a more diverse board is able to make decisions based on the evaluation of more alternatives compared to a homogeneous board which suffers from "group think". This diversity may not necessarily be achieved primarily from compositional effect, but also from time effect. Board diversity therefore increases the firms' capacity to link with global and domestic markets, expand access to global and domestic talent pools, and strengthen social capital. Those with political experience and networks can help firms deal with government bureaucracy hence saving on substantial costs (Goldman, et al., 2009).

The litrature on board heterogeneity does not conclusively handle heterogeneity in a growing democracy, ethnically fragmented society where board composition does not only consider experience and qualification, but also affirmative actions. The literature is also devoid of cases where interlocking boards include members who serve in both public and private company boards. In Kenya, most of the board chairs are previous powerful CEOs (60%), such boards may defy the theoretical and empirical position on monitoring. Where the board has a number of prevoius top level management even if tenure is short, monitoring will be optimized.

Experience is acquired through human capital (knowledge) accumulation. Knowledge and skills can be classified into two dimensions: functional (education and training) and organization specific (tenure). Effective boards require that directors have a set of functional skills or relationship skills with the external networks to obtain information and analyze business issues relevant for advising and also acquire sufficient knowledge of the firms operation to be able to oversight management (Forbes & Milliken,1999). Organization-specific skills and knowledge relates to the possession of detailed information and deeper understanding of operations and internal management issues. These skills are acquired cumulatively based on the tenure in a specific board (Sahghal, 2013; Vafeas, 2003). Directors need to acquire both knowledge and skills to be able to make consistent decisions and contribute positively to the advising and monitoring roles.

Experience can be modeled as a function of the initial stock of education and past experience gained in similar positions or directorship in other firms, and time spent on a particular board (tenure)

$$EP_i = k + \beta_1 T - \beta_2 T^2 \qquad \qquad \text{....... (1)}$$

Where EP_i is experience in firm I, k_i is the stock of education and past managerial experience of the board members prior to joining the present board, including interlocking directorship, β_1 the effect of tenure of the board on experience, T tenure is the average number of years the members have been on the current board, T^2 is the average change of boards behavior β_2 is the effect of change of boards behavior on experience.

The notion of board independence assumes that directors will monitor and advise management to the same degree over the directors' tenure. However management friendliness hypothesis suggests that seasoned directors are more likely to befriend management and hence be less likely to play their monitoring role on management effectively as a result of entrenchment (Hwang & Kim, 2009; Vafeas, 2003).This occurs as relationships forms between management and boards overtime which tends to compromise the boards' independence, in which case directors may qualify as independent, yet fail to exercise that independence due to the "friendliness" that have developed overtime with management (Huang, 2013; Hwang & Kim, 2009). When terms are limited, the tendency could be less monitoring towards the end of the term or alternatively more vigilant towards the end of term, hence monitor keenly if they expect an extension of their term. Whichever the direction, the behavior is determined by the individual directors post term expectations. In this respect the members' age could be crucial. Those still below the ceiling age for qualifying as directors, but have finished the mandatory term in a given organization, may play it safe and not rock the boat as they expect future appointments. Those finishing their mandatory term and have reached the ceiling age may monitor more closely as they want to leave behind a legacy (Adams & Ferreira, 2007; Guner, Malmender, & Tate, 2008; Hwang & Kim, 2009).

Knowing the external environment and having varied industry and environmental experience is also critical in the performance of the strategic advisory role of the board. In this regard, a board needs to have a deep knowledge of the industry and have functional networks (Fracassi & Tate, 2012). Such knowledge is acquired through the diversity of prior experience before joining the board. Board tenure is a function of board composition (compositional effect) and time effect. Board tenure can change due to a change in board composition(Erhardt, Werbel &Shrader 2003). Board tenure could also change due to passage of time (time effect) (Huang, 2013). In the monitoring function, there is a substitution between the board as a monitor and the shareholders as a monitor. Where the shareholders are empowered, boards' monitoring functions are performed by the shareholders. However, firms with weak shareholders' right, benefits more from stronger monitoring by the board.

The role of powerful CEOs cannot be overlooked in all these as they may influence the composition of the board. In this process of influence, their aim is to have a 'cozy' board. This is very prevalent in cases where the CEO is an owner, a major shareholder or in case of public corporation where the CEO is well connected politically (Adams, Almeida, Ferreira, 2005; Hambrick & Fukitomis 1991). In this case, the CEO would wish to shift the composition of the board to favor them by weakening the monitoring function by preferring long tenured board members. A board with members from professional associations such as bankers, accountants, lawyers, may not be free from the requirements of these external bodies. Hence the discharge of their monitoring and advising function is moderated by their professional bodies (Guner, et al., 2008).

2.2 Empirical Studies

In a study of Swedish firms, (Thorsell & Anders, 2012) reported no significant relationship between experience and performance. They expanded the definition of experience to include external ties (interlocking directorships), managerial experience, age and venture capital ownership. (McIntyre, et al., 2007) in their study on board composition and performance, reports that experience had a positive correlation with performance. (Finkle, 1998) reports that experience as measured through board size, directors' reputation as scholars, and directors' financial expertise, had significant positive effect on firms' performance. In a study by (Howton, 2006), it reported that longer tenure among board members (the average being 7.38 years), was significantly related to firms' performance. According to (Kang, Chen, & Gray, 2007), managerial experience had significant positive association with firms'

performance. This was due to the industry experience and problem solving skills that they bring with them. Hence their advice is taken more seriously by management and this cuts down on wastage and costs hence improving financial performance. (Bodnaruk, Kendel, Massa, & Simonov, 2008) reported that more experienced directors are more independent, wiser, use resources economically and experiment less in their decisions. This leads to timelier, less costly decisions and better performance in organizations. Hence experience has a positive association with firms' performance. Experience is positively and significantly associated with age. Hence the older, the more generally experienced the person is (Vafeas, 2003). (Coles, Daniel, & Naveen, 2008) reported that firm specific knowledge positively affects the quality of advice that boards render to management. Hence tenure is positively associated with performance. (Hambrick & Fukitomis, 1991) showed that generally managers tend to engage in more incremental and routine learning after about 2.5 years with the firm. Therefore tenure is positively correlated with performance.

Holding board composition constant, (Huang, 2013) showed that board tenure exhibits an inverted U-shaped relationship with firm's value. (Huang, 2013), further reports that the accumulation of firm-specific knowledge results in better acquisition decisions, better disclosure of value-relevant information in financial statements and a higher likelihood of engaging in innovation. However, this effect is only up to a threshold level of board tenure. As tenure continues to increase, (Huang, 2013) argues that boards become "Zombie Boards" due to a decline in their ability to oversight management as they become cozy with management. The results seems to suggest that for additional year of tenure, the benefits of the learning dominates for 'younger' boards while the costs of entrenchment dominates for 'older' boards (Huang, 2013).

Empirical evidence shows that firms with more complex operations and firms with more intangible assets have greater advising needs. Due to such needs, these firms have larger board size and greater insider representation on the boards (Coles, et al., 2008) as their need for firm specific knowledge is higher. The knowledge used for advising is also used for monitoring as it allows boards to identify weaknesses and consider the firms' exposure to risk in the context of its operating environment for more complex firms, the maximum firm value is reached at an average tenure of 11.2 years, while for more R & D intensive firms, the maximum firm value is reached at an average tenure of 10.4 years. The empirically observed peak value in the relationship between Tobin's Q-ratio and board tenure is around 8 years (Huang 2013). With all control variables held constant at their relative means, for average board tenure of three years, an additional year of tenure increases firm value by an average of 0.45%, while for an average board tenure of 15 years adding one year to a board tenure decreases firm value by an average of 0.52%. These results are consistent with the interpretation that the marginal value of learning exceeds the marginal cost of entrenchment when board tenure is shorter, but that entrenchment effect dominates the learning effect as board tenure continues to increase (Huang 2013).

(Vafeas, 2003) found that an individual board member may influence the others in monitoring management as the less tenured members "respect experience". If the longest tenured member exits, there will be a change in the mean tenure and the influence pattern will change. The decision making processes and even the quality of the decision will change. This can be considered as an 'experience shock' to the board. Hence board dynamics changes every time a board is subjected to a shock such as exit or death of a long tenured member (Huang, 2013). Recent studies that examined how prior social relationship between CEOs and directors affect firm performance and corporate decisions, found that network ties between directors and CEOs weakens the intensity of board monitoring (Fracassi & Tate, 2012), hence tenure is negatively associated with performance. (Bill, Hasan, & Wu, 2012) found no

significant relationship between directors' tenure and firms' financial performance for the Finnish firms they studied.

3 METHODOLOGY

In studying the association between diversity variables and financial performance, endogeneity could pose a problem. Endogeneity will lead to biased and inconsistent parameter estimates that make reliable inferences virtually impossible. Assuming

$$y_{it} = \alpha y_{it-1} + \beta x_{it} + \eta_i + \mu_{it} \ \ldots\ldots\ldots (2)$$

For i=1,..,N, and t=2,...,T, with $|\alpha| < 1$. The disturbance η_i and μ_{it} have the standard properties, that is E(η_i)=0 , E(μ_{it})=0, therefore the E(η_i , μ_{it})=0 for i=1,...,N, and t=2,..., T. Additionally, the time varying errors are assumed uncorrelated;

E(μ_{IS} , μ_{it})=0 for i=1,...,N, and $\forall$ t $\neq$ s. No additional conditions are imposed on the variance of μ_{it}, hence moment conditions used below do not require homoscedasticity.

x_{it} is assumed to follow an autoregressive process.:

$$x_{it} = \rho x_{it-1} + \tau\eta_i + \theta\mu_{it} + \varepsilon_{it} \quad \ldots\ldots\ldots\ldots\ldots.. (3)$$

For i=1,...,N and t=2,...T, with $|\rho|$=1. such that E(ε_{it})=0 and E(η_i , ε_{it})=0 for i=1,...N, and t=2,...T.

Two sources of endogeneity exist in the x_{it} process: i) the fixed-effect component η_i, has an effect on x_{it} through a parameter $\tau - 1$ implying that y_{it} and x_{it} have both steady state determined only by η_i. ii) the time-varying disturbance μ_{it} impacts x_{it} with a parameter θ. By using lagged values of the dependent variables as instruments, the endogeneity problem is eliminated. This is because the lagged value of the dependent variable is uncorrelated with the error term but correlated with the explanatory variables in the model (Soto 2010, Wintoki, Linck, & Netter, 2012).

3.1 The theoretical Model

Therefore the study specifies a dynamic panel data model of Arellano and Bond (1991) of the form:

$$y_{it} = \sum_{k=1}^{p} \alpha k y_{i,t-k} + \beta(L)x_{it} + \lambda_t + \eta_i + \upsilon_{it} \ , \ \text{t=q+1,...,T,; i=1,...,N,} \quad \ldots\ldots..(4)$$

Where η_i and λ_t are individual and time specific effects respectively, x_{it} is a vector of explanatory variables, $\beta(L)$ is a vector of associated polynomials in the lag operator and q is the maximum lag length in the model. The number of time periods available on the i th individual T_i, is small and the number of individual N is large.

Identification of the model requires restrictions on the serial correlation properties of the error term υ_{it} and/or on the properties of the explanatory variables x_{it}. It is assumed that if the error term was

originally autoregressive, the model has been transformed so that the coefficients α_i's and β_i's satisfy some set of common factor restrictions. Thus only serially uncorrelated or moving average errors are explicitly allowed. The υ_{it} are assumed to be independently distributed across individuals with zero mean. The x_{it} may or may not be correlated with the individual effects α_t, and for each of these cases they may be strictly exogenous, predetermined or endogenous variables with respect to υ_{it}.

In this dynamic model we apply first difference transformation as it eliminates η_i from the transformed error term without at the same time introducing all lagged values of the disturbance v_{it} into the transformed error term. This transformation allows the use of suitably lagged endogenous variable as instruments (Arrelano & Bond 1991; Stock & Yogo, 2005). If we have a balance panel, p=1, and there are no explanatory variable nor time effects, the v_{it} are serially uncorrelated, and the initial conditions y; 1 are uncorrelated with v_{it} for t=2,…, T., then using first difference we have:

Eguations   Instruments available

$$\Delta y_{i3} = \alpha \Delta y_{i2} + \Delta v_{i3}$$ y_{i1}

$$\Delta y_{i4} = \alpha \Delta y_{i3} + \Delta v_{i4}$$ y_{i1}, y_{i2}

$$\Delta y_{iT} = \alpha \Delta y_{iT} + \Delta v_{iT}$$ $y_{i1}, y_{i2}, \cdots y_{i,T-2},$

If the model is mean stationary, then the first differences Δy_{it} will be uncorrelated with η_i, hence $\Delta y_{i,t-1}$ can be used as instrument in the level equations (Stock & Yogo, 2005). Hence in addition to the instruments available for the first differenced equations, we then have:

Equation   Instruments available

$$y_{i3} = \alpha y_{i2} + \eta_i + v_{i3}$$ Δy_{i2}

$$y_{i4} = \alpha y_{i3} + \eta_i + v_{i4}$$ Δy_{i3}

$$y_{i,T-1} = \alpha y_{i3} + \eta_i + v_{iT}$$ $\Delta y_{i,T-1}$

3.2 The Empirical Model

$$perf_t = year + firm + \beta_1 stex + \beta_2 tenure + \beta_3 tenure^2 + \beta_4 perf_{t-1} + \beta_5 c\,var + \varepsilon_t \quad \dots (5)$$

Performance= Tobins' Q ratio, ROA, P/B and Share price, diversity= age, experience, board size, Previous perform=lagged values of Tobin's Q ratio, P/B, Share price and ROA. Firm size=natural log of the total assets of the company, firm=unique time invariant unobserved firm level characteristics

based on firm level fixed effects in the regression estimates, time =time period of that observation. The coefficient of interest is β_i, where $H_0 : \beta_i = 0$ and $H_a : \beta_i \neq 0$.

The study will estimate the above equations for the overall sample of 29 firms. These 29 firms' financial performance over the period 2001-2010 in terms of the accounting variable and stock variable will be analyzed.

4 RESULTS AND DISCUSSIONS

Table 1: Descriptive Statistics-All Companies

Variable	Observ.	Mean	Std dev.	Min	Max	Assymptotic	Normality
ROA	346	0.1164	0.1236	-0.27	0.97	1032.3[0.0000]**	99.185[0.0000]**
P/B value	345	1.3985	1.4353	0.03	9.3	459.52[0.0000]**	397.85[0.0000]**
Tobin's Q	346	3.6781	1.7967	0.0403	10.79	28.833[0.0000]**	22.325[0.0000]**
ABsize	293	9.6348	2.7846	3.0000	15.00	8.0575[0.0178]*	13.116[0.00014]**
Fsize	293	16.755	2.1883	11.875	19.471	22.948[0.0000]**	60.442[0.0000]**
Experience	296	4.7179	3.4312	3.007	45.332	2134.00[0.0000]**	2693.9[0.0000]**
Board Tenure	294	8.2021	2.8220	1.45	13.080	18.613[0.0000]**	39.620[0.0000]**
Board tenure^2	294	75.207	44.552	1.300	171.09	20.109[0.0000]**	38.112[0.0000]**
Stex	293	4.9107	0.8567	2.986	6.8670	23.048[0.0000]**	64.389[0.0000]**
Share price	290	73.843	83.342	2.500	445.000	334.54[0.0000]**	352.51[0.0000]**
Boards' avage	293	64.393	5.3837	54.000	70.100	36.664[0.0000]**	150.74[0.0000]**
Interlocking boards.	293	2.75	0.86	0	7	542.76[0.0002]**	326.74[0.0004]**
Leverage	293	0.3960	0.3372	0.0511	1.345	152.32[0.0000]**	76.605[0.0000]**

| Market Risk | 290 | -6.635 | 0.342 | -8.654 | -3.431 | 326.91(0.0100)** | 68.742(0.020)** |
| | | | | | | | |

The overall boards are relatively large in size with a mean size of 10 members. The boards' average age is 64 years indicating relatively older boards. The average board tenure is 8.2 years implying that most members serve more than one fixed term of 4 years. The stock of experience has an average of 4.91 years an indication that those appointed to the boards have substantial past experience. There is considerable interlocking of board members. The performance variables are normally distributed. The ROA has a mean of 0.1164 and a standard deviation of 0.1236. There is low use of assets to generate wealth in the sample firms. The Q-ratio ranges between 0.0403 and 10.79 and a mean value of 3.678 implying overvalued stocks. The P/B value has a mean of 1.3895, a minimum of 0.03 and a maximum of 9.3. The higher the ratio, the higher the premium the market is willing to pay for the company.

The study sought to find out the relationship between tenure of the board and the performance variables. This assumes that there is correlation between the study variables. The table below shows the strength and direction of such relationship.

Table 2: Correlation between performance variable and diversity variables

	ΔROA	ΔQ-ratio	ΔS.Price	ΔP/B	Δmkt risk	ΔTen.	ΔTen.^2	ΔStexp	ΔAvage	Bsize	Fsize	Interlocking	lever
ΔROA	1.0000												
ΔQ-ratio	0.0826	1.0000											
ΔShare price	0.0007	0.0209	1.0000										
ΔP/B	0.0734	0.0115	0.2772	1.0000									
Δmkt risk.	-0.3215	-0.0761	-0.0004	-0.0422	1.0000								
ΔTen.	0.0533	0.0149	0.0025	0.0454	-0.0798	1.0000							
ΔTen.^2	-0.0014	-0.0319	-0.0761	-0.0108	-0.0947	-0.8869	1.0000						
ΔStexp	0.018	0.032	0.066	0.019	-0.028	0.060	-0.011	1.000					

	5	6	0	3	7	6	7	0					
ΔAvage	-0.1246	0.0483	0.0798	0.0029	-0.0092	0.0638	0.0080	-0.2463	1.0000				
ABsize	-0.0291	-0.0838	-0.0737	-0.1166	-0.0673	0.1286	0.1487	0.2138	0.0677	1.0000			
Fsize	-0.0550	0.0145	0.1102	-0.1333	0.2218	0.1094	-0.0651	0.0569	-0.0069	-0.0315	1.0000		
Inter. boards.	0.0985	0.0218	0.0175	0.0237	-0.0354	0.0004	0.0016	0.0342	0.0036	0.0012	0.0008	1.0000	
Leverage	-0.0749	-0.0119	-0.0827	-0.2713	0.3296	-0.0579	-0.0543	-0.1205	-0.0466	0.0444	0.0991	0.0034	1.000

Source: Authors' Compilation from firm's annual data

The table above shows that there is positive correlation between ROA, tenure, interlocking directorship and stock of experience. There is however a negative correlation between tenure ^2, average age of the board, board size, and firm size. The correlation between the Q-ratio and board tenure, stocks of experience, average age, interlocking directorship and firm size is positive. Tenure^2 and board size are negatively correlated with Q-ratio. Share price is positively correlated with board tenure, stocks of experience, average age, interlocking directorship and firm size. It is however negatively correlated with Tenure ^2 and board size. Price to book value (P/B) is positively correlated with board tenure, stock of experience, interlocking directorship and average age of the board. It is however negatively correlated with tenure ^2, board size and firm size.

The negative correlation between tenure ^2 and the performance variables can be explained as resulting from the entrenchment behavior of the boards. As the boards get entrenched, they tend to play less of the oversight role as they begin to get friendly with management. This friendly relationship with management compromises the quality of monitoring and even the nature of the advice they tender to management. They tend to play it safe with their monitoring and advice as their personal interests gain prominence as opposed to the interest of the share holders. This negative board behavior tends to grow with tenure, hence the parabolic relationship between experience and performance as observed also in other empirical studies reviewed in this paper. The relationship between the board size and the performance variables is negative. This implies that the larger the board, the poorer is the financial performance. This could be attributed to the conflicting interests of the board, the heavy financial burden such a board exerts on the organization both direct and indirect; there is also the problem of group think and majority rule, which could be manipulated by the dominant interests. Tenure is positively correlated with the performance variables. This is explained by the fact that the more knowledgeable about the firm, the better the advice the board renders. When we integrate the effect of tenure and tenure^2, we get the inverted U relationship between experience

and performance. This implies that there is an optimal point at which the negative entrenchment behavior outweighs the positive advising behavior. Stock of experience has a positive correlation with the performance variables. It implies that the previous experience and the networks built over time and the education qualification improves both the advising and monitoring roles of the board.

The table below shows the result of the system GMM estimation of the relationship between the performance variables, and board experience. The table also reports the control variables and how they are related to the performance.

Table 3: Board Experience and Firms' Financial Performance using GMM estimation

Variable	Q-ratio	P/B value	ROA	Share Price
ΔBoard Tenure(-1)	0.831 (2.81)**	0.545 (2.81)**	0.0414 (3.82)**	23.006 (2.84)**
ΔBoard tenure^2(-1)	-0.056 -(2.42)*	-0.030 (-2.95)**	-0.0028 (-2.72)**	-1.676 (-2.72)**
ΔStock of Experience	0.134 (0.40)	-0.054 -(0.37)	0.0194 (2.86)**	1.857 (0.48)
Controls				
ΔBoards' average age (-1)	0.035 (0.79)	0.004 (0.16)	-0.005 (-0.96)	0.845 (0.742)
ABSize (-1)	-0.071 (-2.646)**	-0.047 (-0.61)	-0.0203 (-2.74)**	-4.618 (-2.85)**
Firm size (-1)	0.041 (2.65)**	-0.082 (-2.61)*	-0.0047 (-2.71)**	2.667 (1.05)
Interlocked Boards	0.2083 (2.7846)**	0.2157 (3.1984)**	0.1547 (2.7943)**	1.327 (3.096)**
Leverage	-2.6584(-3.27)**	-0.168 (-2.921)**	-0.4939(-2.71)**	0.2667(0.003)
Mkt risk	-0.316(-2.89)**	-0.298(-3.25)**	-0.025(-2.69)**	-0.064(-2.97)**
Constant	0.094 (0.59)	0.069 (0.64)	0.0174 (1.36)	3.383 (0.85)
Observations	199	199	199	199
No. of parameters	10	10	10	10

Transformation used	First difference	First difference	First difference	First difference
Transformed Instrument	ΔTen(-1), ΔTen^2(-1) ΔStep(-1)	ΔTen(-1), ΔTen^2(-1) ΔStep(-1)	ΔTen(-1), ΔTen^2(-1) ΔStep(-1)	ΔTen(-1), ΔTen^2(-1) ΔStep(-1)
Dummies	GMM(Ten.1,10), GMM(Ten^2. 1,10) GMM(Step 1,10)	GMM(Ten.1,10), GMM(Ten^2. 1,10) GMM(Step 1,10)	GMM(Ten.1,10), GMM(Ten^2. 1,10) GMM(Step 1,10)	GMM(Ten.1,10), GMM(Ten^2. 1,10) GMM(Step 1,10)
Sigma	1.4351	0.8639	0.1074	47.3098
Sigma^2	2.0595	0.7463	0.0115	2243.899
Sigma levels	1.0148	0.6108	0.0759	33.4955
Constant	Yes	Yes	Yes	Yes
RSS	389.2458	141.0443	2.1784	424096.9379
TSS	392.7250	178.2909	2.8591	467986.0716
No. of individuals	29 (derive from year)	29 (derived from year)	29 (derived from year)	29(derived from years)
Longest time series	7(2004-2010)	7(2004-2010)	7(2004-2010)	7(2004-2010)
Shortest time series	7(balanced panel)	7(balanced panel)	7 (balanced panel)	7(balanced panel)
Wald (Joint) Chi^2(10)	13.35 [0.038]*	23.75 [0.001]**	13.35 [0.038]*	15.85[0.006]**
Wald(Dummy) Chi^2(1)	18.61 [0.010]**	0.0308 [0.861]	0.002 [0.966]	0.0148[0.908]
Sargan Test Chi^2 (37)	44.25[0.002]**	16.80[0.000]**	15.47[0.000]**	23.93[0.003]**
AR (1) test N(0,1)	-2.350 [0.019]*	-2.821 [0.005]**	-1.197 [0.049]*	-2.214[0.003]**
AR(2) test N(0,1)	-1.023 [0.306]	0.804 [0.421]	0.627 [0.531]	-1.256[0.209]

Source: Authors Computation.

Tenure has a positive effect on all performance variables. This conforms to both the empirical and theoretical literature reviewed in this study (Hwang & Kim, 2009; Sahghai, 2013) and the theoretical literature as reported in (Anderson, et al., 2012; Forbes & Milliken, 1999; Hillman, et al., 2000; Schultz, Tan, & Walsh, 2010). Tenure improves the monitoring role which in turn has a positive influence on performance. Tenure^2 has a negative effect on all performance variables. This conforms to the hypothesis that the entrenchment effect of the board negatively affects their monitoring function (Goldman, et al., 2009; Huang, 2013; Hwang & Kim, 2009; Vafeas, 2003). This means that the entrenchment effect dominates the learning effect at longer tenure (15 years) Ref appendix A-1. This is due to the cozy relationship that develops between management and the entrenched board whose other interests begins to dominate the monitoring interest. As the boards

become more entrenched, they tend to overlook some of the management excesses as they seek to extract favors from management. This concurs with the empirical results of (Huang, 2013). They actually become zombie boards who adopt any proposal from management and fail to critically monitor management. The entrenchment behavior eventually compromises the monitoring role. This negative effect of an entrenched board can be strong enough to negate the positive effects of both the tenure and stock of experience. This gives rise to an inverted U shaped relationship between experience and performance with an optimal experience performance level of 7 years for Tobin's Q-ratio.

The experienced board is less receptive to new ideas and keen to extract more individual benefits. This entrenchment cost outweighs the benefit of advice resulting from experience. The simulation in this study with different tenure of boards showed that when the simulation was run with tenure below the average (8.2 years), there was a positive association, however when the simulation was run with tenure above the average age of board tenure, there was a negative association. This concurs with the findings of (Fracassi & Tate, 2012; Huang, 2013). The simulation results for up to 15 years (three terms) concur with the empirical studies of an inverted U-relationship between experience and performance and tenure and performance as measured by Q-ratio (ref appendix A-1).

The control variables have the correct sign. Even though a larger board brings in a large pool of past experience (stock of experience) according to the resource dependency theory, the boards' behavior of a larger boards, such as the competing interest that leads to intense lobbying and opposing positions outweighs the past experience hence board size has significant negative association with performance variables except in the case price to book value. This negative association between board size and performance variables could be attributed to the resulting agency problem (Jensen & Meckling, 1976). The size of the firm, significantly affects performance, this concurs with the theoretical and empirical literature reviewed.

5 CONCLUSIONS

The study concludes that there is a significant positive relationship between tenure and performance, and experience and performance. The positive relationship between tenure and performance implies that monitoring function improves with tenure. The boards' entrenchment behavior as proxied by Tenure^2 is significantly negative. This implies that as the board gets entrenched; the boards' monitoring role becomes more accommodating, hence failing to check management.

The study also concludes that the relationship between tenure and firms' performance shows an inverted U- relationship. As tenure increases, the entrenchment behavior captured by tenure ^2 outweighs the positive monitoring role. Hence there is an optimal tenure level at between 7 and 8 years depending on the sector.

Finally, advising is negatively correlated with tenure, while monitoring is positively correlated with tenure. However, with interlocking directorship and owners sitting on the boards, monitoring and advising may not be a trade off.

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Appendix

Table A-1: SIMULATION RESULTS FOR TENURE AND PERFORMANCE VARIABLES

Average Tenure	P/B	Q-ratio	ROA	Share Price	Experience	P/B	Q-ratio	ROA	Share price
1	0.515	0.775	0.039	21.330	1	0.461	0.909	0.058	23.187
2	0.97	1.550	0.072	39.308	2	0.916	1.684	0.091	41.160
3	1.365	1.855	0.099	53.934	3	1.311	1.989	0.118	55.791
4	1.700	2.292	0.121	65.208	4	1.646	2.426	0.141	67.065
5	1.975	2.755	0.137	73.130	5	1.921	2.889	0.156	74.987
6	2.190	2.970	0.148	77.700	6	2.136	3.104	0.167	79.557
7	2.345	3.078	0.153	78.918	7	2.291	3.212	0.172	80.775
8	2.440	3.064	0.152	76.784	8	2.386	3.198	0.171	78.641
9	2.475	2.943	0.146	71.298	9	2.421	3.077	0.165	73.155
10	2.450	2.710	0.134	62.460	10	2.396	2.844	0.153	64.317
11	2.365	2.365	0.117	50.276	11	2.311	2.499	0.136	52.133
12	2.220	1.908	0.094	34.728	12	2.166	2.042	0.113	36.586
13	2.015	1.339	0.065	15.834	13	1.961	1.473	0.084	17.691
14	1.750	0.658	0.031	-6.412	14	1.698	0.792	0.051	-4.555

| 15 | 1.425 | -0.135 | -0.009 | -32.010 | 15 | 1.371 | -0.001 | 0.010 | -30.153 |

An Output Driven Sync of Visual Merchandising and Impulse Buying Behavior – An Organized Retail Case from Bhubaneswar

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A B S T R A C T

Apparel industry in India is booming and there is fierce competition among various players in apparel segment in terms of lifestyle format. The present study is aimed at finding out the impact of various dimensions of visual merchandising vis-a-vis impulse buying behavior of the customers visiting "Shopping Malls". Four dimensions of visual merchandising i.e. window display, in-store form/ mannequin display, floor merchandising and promotional signage are researched to find its impact on IBB. The results reveal that certain dimensions of visual merchandising do affect impulse purchase. Hence, visual merchandising is important for strategic marketing decisions to increase both the sales and the communication effect of the stores.

1.   INTRODUCTION

Retail has caught lot of attention in the past one decade. India as the 'second most attractive retail destination' globally among thirty emergent markets. The Indian retail industry has emerged as one of the most dynamic and first paced industries due to the entry of several new players. It accounts for over 10% of the country's GDP and around 8% of the employment. India is the fifth largest destination in the retail space. Having total retail sales of $925 billion and a 19% organized retail penetration retail market in India is all set to grow to $1.3 trillion by 2020 along side a 8% GDP

growth for 3 years. E-Commerce is still a virgin market at $3.8 billion with a 27% growth. Online market is just 0.5 percent of the total retail market. The Shopping Malls are going to play a major role in shaping the organized retail in the country. The Indian consumer market is likely to grow four times by 2025 . The retail sector is witnessing an influx of large domestic conglomerates such as Reliance Group, Future Group and AV Birla Group. In November 2011, Government of India announced reforms in retail sector for both multi-brand stores and single-brand stores. These market reforms paved the way for retail innovations and competition with multi-brand retailers such as Wal-Mart, Carrefour and Tesco, as well as single brand majors such as IKEA, Nike and Apple. In January 2012, Government approved reforms for single-brand stores welcoming anyone in the world to innovate in Indian retail market with 100% ownership. This development in retail creates fierce competition in the industry. The competition in terms of innovations in organized consumer retail industry has always been avoided by India before 2011. India's organized retail had a 31% share in clothing and apparel in 2011 .In 2015 FDI is low as compared to 2014. In addition, the proposals on FDI in single brand retail trading approved by the Foreign Investment Promotion Board (FIPB) in retail have declined y-o-y. As of November 2015, the FIPB had approved proposals in single brand retail trading worth INR 870 Million, compared to proposals worth Rs.2.84 billion in 2014. In 2016 as per GRDI Index, India ranks second among developing countries in ease of doing business. In additions, the proposals of foreign retail chains entering India will aggravate the competition to different level. Hence, the retailers have to ensure that their stores appeal to the customers more effectively. In such case, the retailers need to differentiate themselves from others. The similarity of merchandise in the fashion or apparel forces the industry to utilize visual merchandising to improve the desirability of the product, differentiate their product and enhance the impulse buying behavior. Since the country is getting more competitive in terms of retail industry, visual merchandising is the only effective way of differentiating in apparel industry. The last thing a customer wants is similarity in merchandise. The innovation in store chain is very weak. Indian consumers are becoming more aware about the latest fashion and design and also in the innovation of the apparel store space. They also want state of the art products with good quality which are of are of global standards. Visual merchandising is the only technique to create euphoria in apparel industry by store presentation. Retailers by incorporating innovative usage of store space can match the consumers' expectations and give strong competition. Hence, it becomes important to study visual merchandising in the apparel industry and help the marketers to understand the way they can differentiate themselves from competitors.

2. Literature Review

2.1. Visual Merchandising

Visual merchandising is an effective presentation of products that impacts customer's purchase (3). It is

about providing right product to right customer at the right time. It is defined as "the presentation of a store/brand and its merchandise to the customer through the teamwork of the store's advertising, display, special events, fashion coordination, and merchandising departments in order to sell the goods and services offered by store" (4). This means everything that customer sees, exterior or interior, creates a positive impact on the customer. Retailers are gradually realizing that only selling the product is not important, but customers' satisfaction and convenience is also important for shopping. Stimulus in retailing includes space related; product related and people related aspects (5). These stimuli are mostly collected through eyes. Hence, it is inexpensive way of marketing (6).

Visual merchandising includes both store exterior and interior. The store exterior includes window display, façade and retail premises. Window display is a medium, which creates the first impression in customer's mind towards the store. Physical attractiveness of the store plays an important role in the mind of the customers for store selection (7). In the same way store exterior attracts customers to enter the store (8). There are three types of interior display: Merchandising display, Point-of-sales display and Architectural display (9). In-store cues have always been high focus area for the practitioners and researchers (10, 11). Good store interior interests customers and hence, reduces psychological defense and help purchase (12, 3, 13, 9, 14, and 8). The store interior includes orienting factors (14); signage (13); Layout (15, 16), fixturing (15), merchandise (14), presentation techniques (17), props (18) and spatial factors and ambient conditions (14), which Kotler termed "atmospherics" which is a very important strategy. Consumer expectation regarding in-store design have increased (17) and there is also a heightened desire for shopping excitement, which can in part be delivered through innovative design of the physical environment (19,15). Visual merchandising is, therefore, concerned with both how the product/brand is visually communicated to the customer and also whether this message is aptly decoded. Visual merchandising includes various aspects of consumer such as sensory pleasure, affective pleasure and cognitive pleasure (20). Consumers under stress will make planned or nondiscretionary purchase and won't spend as much time or money on unplanned/impulse purchases (21). Customers account both monetary and non-monetary costs of the merchandise (22). Recreational i.e. non-monetary are vital for shopping (23). The longer a shopper remains in store more he or she will buy. And the amount of time the shopper will spend in the store depends on how comfortable or enjoyable the experience is. So the visual stimulus and ambience must be soothing and effective so customer remains in store for longer time. Along with the merchandise, it triggered affective reaction among shoppers (24), which creates store patronage intentions (25). It is evident from the above research studies, that in-store environment is critical component of store choice as well as the sales behavior of customers.

2.2. Consumer Behavior

Consumers are viewed as rational decision makers who are only concerned with self interest. There are many factors that influence consumers and prove a broad range of consumption activity beyond

purchasing. These activities include need recognition, information search, evaluation of alternatives, building purchase intention, act of purchasing, consumption and finally disposal. The evolution of this subject has been continuous; it is after 1950's that the field of consumer behavior has responded to the conception and growth of modern marketing to encompass the more holistic range of activities that impact upon the consumer decision . Consumers do not always buy what they want. There are certain unconscious needs. 21st century thought is consumers but what they want. Hence, there is always customers will buy something that they do not necessarily need. This means that understanding consumer behavior and knowing them have and never will be simple. Marketers can apply various stimuli and observe the conduct of consumers. There are numerous model developed on the buying behavior of the consumers. But, for marketers the end result should be that a consumer makes purchase.

2.3. Impulse Buying Behavior

Impulse buying behavior is the purchase that is made without much thinking for hedonic pleasure. It is done without involving much evaluation of different things like need, affordability, price, etc. The descriptors of impulse buying behavior are spontaneous, intense, exciting urge to buy. Customer likes the products and purchases it, this is known as impulse buying behavior. Individuals buying on impulse are less likely to consider the consequences of purchase or think before making purchase . Certain past research has defined impulse buying behavior as irrational behavior and lack of behavioral control. Pervasiveness of impulse buying behavior even on the relatively expensive products led researchers to study impulse buying behavior. Internal cues include customer's state of mind, positive and negative feeling. Environmental/sensory stimuli include atmospheric cues in retail settings; display cues, marketer-controlled cues and marketing mix stimuli. This shows how visual merchandising is related to consumer's impulse buying behavior.

3. Research Objectives and Design

3.1. Research Objectives

- To study the dimensions and impact of visual merchandising on consumer attitude and consumer response in terms of   choosing apparels.
- To study the impact of visual merchandising on the   impulse buying behavior of the consumers.

3.2. Research Design, Sample and Data

The research design is divided into two parts, the first part is exploratory in nature and the second part is descriptive. In the exploratory study the visual merchandiser and marketing manager of the mall were interviewed to understand and find the dimensions of visual merchandising. The study was

Intended to focus on the impact of visual merchandising in terms of apparel segment as a product

category. The sample size of the research was 200 but thirty-two were outliers hence, the revised sample size was 168. The sampling technique was mall intercept method, customer who walk out of the store were surveyed with the help of structured questionnaire. Thus, sampling procedure is purposive sampling. The survey was conducted in Bhubaneswar Central Malls for fourteen days. With the help of SPSS reliability test, factor analysis, correlation and linear regression have been run on the data to get the findings.

From the literature review it is inferred that in terms of visual display, window display,in-store form/mannequin display, floor merchandising and promotional signage, are very important dimension to be studied in visual merchandising. If these dimensions of visual merchandising are properly and innovatively developed, the stores' sales may increase drastically. Window display will increase the walk-ins of the store. Customer once enters the store; the next encounter of the customer with the store happens only if the experience with the store is memorable. In that case in-store form/mannequin display, floor display and promotional signage will play a vital role in making the experience memorable to customer. Therefore, it is important to study the impact of these dimensions on impulse buying behavior of customer and to find out the effectiveness of visual merchandising.

3.3. Research Hypothesis

H1: Customers who purchase on impulse are influenced by window displays.

H2: Customers who purchase on impulse are influenced by in-store form/mannequin display.

H3: Customers who purchase on impulse are influenced by floor merchandising.

H4: Customers who purchase on impulse are influenced by promotional signage.

The hypotheses are developed from the dimensions found in literature review of visual merchandising. Their relation in terms of visual merchandising is terms of impulse buying behavior are to be found.

The dependent variable of study is impulse buying (section 1in table 1) and independent variables are window display, in-store/mannequin display, floor display, and promotional signage (section 2 to 5 in table 1). These variables have individual constructs which are tested on five point Likert scale which ranged from never = 1 to frequently = 5.

Table.1. Factor Analysis

Impulse Buying (Section.1)	References	Component	
		1	2
1. I go to shopping to change my mood		0.223	0.819
2. I feel a sense of excitement when I make an impulse purchase		0.827	0.267
3. After I make an impulse purchase I feel like regretting		0.782	. -234
4. I have difficulty in controlling my urge to buy when I see a good offer		. -0.23	0.858
5. When I see a good deal I tend to buy more than I intended to buy	1,3,4 & 5,26,27,28,29	0.761	0.284
Component Eigen Value		2.127	1.233
% Of Variance Explained		44%	26%

Influence of Window Display (Section.2)	References	Component
		1
6. I Feel compelled to enter the store when I see an Interesting Window Display.	6,7,30,31,32,33	0.823
7. I tend to enter the store when I am attracted by an eye catching window display.		0.831
Component Eigen Value		1.268
% Of Variance Explained		69%

Extraction Method: Principal Component Analysis with Varimax Extraction

Influence of In-store form/ mannequin display (Section.3)	References	Component	
		1	2
8. When I see clothing featuring a new style or design on display I tend to buy it.		0.859	-0.23
9. I get idea about what to buy after looking through in-store or mannequin display.	8,9,27,10(34),11(35,36,18)	0.831	0.146
10. I tend to rely on store displays when I make a decision to purchase clothing		-.137	. 883
11. When I see clothing that I like on in-store or mannequin display I tend to buy it.		. 342	0.768
Component Eigen Value		1.647	1.225
% Of Variance Explained		43%	31%

Influence of Floor Merchandising (Section.4)
12. I tend to try on clothing that catches my eye when I pass by
13. When I see clothing that catches my eye I tend to try it.
14. When I walk along he isle I tend to look through clothing close to me.
Component Eigen Value
% Of Variance Explained

Influence of Promotional Signage (Section.5)	References	Component
		1
15. When I see special promotional sign, I go to look at that clothing		0.889
16. If I see an interesting promotional offer on in –store signs I tend to buy.		0.819
17. Sales sign entice me to look through the clothing	16(37), 15(26), 17(27,28), 18(18,26,29,33)	0.806
18. When I see clothing that I like on in-store or mannequin display I tend to buy it.		0.795
Component Eigen Value		2.644
% Of Variance Explained		68%

Table 2. Correlation with Impulse Buying

Hypotheses and conclusion with determining coefficients and p-values from regression analysis

Variables	Pearson Coefficient	Significance (p)
Window Display	0.424	0.000
Form/mannequin Display	0.212	0.051
Floor Merchandising	0.392	0.000
Promotional Signage	0.511	0.000

Table 3.

Hypothesis	Intercept	Slope	R Square Co-efficient	p-value	Conclusion
H1	2.601	0.371(4.246) #	0.179	0.000	Customer's impulse buying behavior and window display has direct relationship.
H2	2.914	0.280 (1.980)*	0.045	0.051	Customer's impulse buying behavior and in-store form/mannequin display are related but there is no direct relationship

H3	2.787	0.357 (3.889)#	0.156	0.000	Customer's impulse buying behavior and floor merchandising are related directly.
H4	2.221	0.471	0.262	0.000	Customer's impulse buying behavior and promotional signage are related directly

t- Values in parenthesis *Insignificant #Significant

4. Analysis and Findings

The analysis of the data is carried out in the following step. The preliminary tests run are frequency table, principal component analysis and reliability test. While for hypothesis testing regression analysis was carried out. First reliability test for all five variables was carried out. The Cronbach's Alpha of the reliability test was 0.69 for impulse purchase, 0.7 for window display, and 0.702 for in-store form/mannequin display, 0.699 for floor merchandising and 0.69 for promotional signage, which means the questionnaire is reliable.

For hypothesis testing, question 2 of section 1, as it has the highest value 0.827 in component 1 of principal component matrix with Eigen value 2.12 and percentage of variance explained 44%, in dependent variable checked over with various independent variables (Table: 1). For first hypothesis (H1) independent variable from section 2 is question 6 as the value in both the component is same hence, first component is taken for analysis with value 0.823 with Eigen value 1.268 and percentage of variance explained 69% (Table: 1). For second hypothesis (H2) independent variable from section 3 is question 8 as the value in first component is highest 0.859 with Eigen value 1.647 and percentage of variance explained 43% (Table: 1). For third hypothesis (H3) independent variable from section 4 is question 12 as the value of the same is 0.828 with Eigen value 1.367 and percentage of variance explained is 47% (Table:1). For fourth hypothesis (H4) independent variable from section 5 is question 15 as the value is highest 0.889 with Eigen value 2.644 and percentage of variance explained is 68% (Table: 1).

Pearson correlation tests were conducted to see the correlations between the dependent variable (impulse buying) and independent variables (Table 2). In addition linear regression analysis was conducted for the hypothesis testing

using impulse buying tendency as a dependent variable and each visual merchandising variable (Table 3).

H 1: The regression analysis found that window display has blink importance on customers' impulse buying behavior. This suggested that there was a directional relationship where window display significantly influenced customers' impulse buying behavior. Attracting window dressing will fetch

more walk-in to the store.

H2: The Pearson correlation test resulted that there is no significant correlation between impulse buying and mannequin display. Regression analysis found mannequin display also did not influence customers' impulse buying behavior. Hence, respondents are not able to empathize with the mannequin display, which is not generating impulse buying behavior from this particular dimension.

H3: The result of a Pearson correlation test found a significant correlation between impulse buying and floor merchandising. The regression analysis suggested that the floor merchandising has weak correlation on customers' impulse buying behavior. The data provides sufficient evidence that there was a significant directional relationship between customer's impulse buying behavior and floor merchandising suggesting that although customers' impulse buying behavior and floor merchandising are correlated.

H4: The Pearson correlation test found a significant correlation between impulse buying and promotional signage. The R square value also showed positive relation of promotional signage with impulse buying behavior. This result suggests that promotional signage significantly influenced customers' impulse buying behavior.

5. Conclusion

From the results it is proved that there is a relationship between customers' impulse buying behavior and window display, floor merchandising and semiotics. Even though, mannequin display did not significantly lead to customers' impulse buying behavior, the results still hinted that this variable and consumers' impulse buying behavior are correlated. When consumers are exposed to these visual stimuli, they more likely make purchase decisions on impulse. This is a strong indication that visual merchandising practices, serving as stimuli that provoke a desire that ultimately motivates a consumer to make an unplanned purchase decision upon entering the store, importantly influence consumers' impulse buying behaviors. In-store browsing appears to be positively affected by consumers' impulse buying inquisitiveness, and in turn, has a positive impact on consumers' positive feelings and impulse buying urges. Marketers must use this findings efficaciously to increase sales of their store and innovate themselves in terms of display. Since, window display is the first touch point of store with the customers. Hence, it should be very attractive which should be able to generate impulse buying. Promotional signage and floor display will enhance the experience of the store. Hence, floor display and promotional signage should be very effective. The above study has displayed the usefulness and effectiveness of visual merchandising in understanding consumers' behavior of impulse buying.

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Single Business Vs Multi Business Firms in India: An Empirical Analysis

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A B S T R A C T

We studied the performance of 60 firms, 30 each from two types of firms namely, focused and diversified. Further, of the 30 firms in each group, 10 each were selected on the basis of three different sizes; small (with assets <INR10 billion), medium (with assets ranging between INR10 and <INR50 billion) and large (with assets >INR50 billion). Our intent was to determine which of these displayed superior economic performance. We analysed data for two points of time 2006-07 and 2013-14 using three measures of economic performance. These include profit after tax (PAT), return on capital employed (ROCE) and asset turnover ratio (ATR). We employed parametric (MANOVA, ANOVA) as well as nonparametric (Mann-Whitney, Kruskal-Wallis and Chi square) tests. Our analysis started with MANOVA to compare the overall performance of the selected firms for all the three measures. Later, ANOVA was used to further understand specifically, which performance measure was influenced by type and size of the firm. Since, there was a possibility for outliers to influence the findings, nonparametric tests were employed with the assumption that both the finding would give similar results. Our study concluded that there is no significant difference in the performance between focused and diversified firms. However, we found significant difference in the performance of firms based on size, though there were no interaction effects between size and type. Particularly, when diversified and focused firms were separately studied, it was found that for focused firms alone there were significant differences in performance between firms of different sizes.

1. INTRODUCTION

Whether a firm should remain focused on a single business or move into multiple businesses has been the centre of research and debate with no clear answers. There are limits to which a firm can grow in a given line of business and therefore the urge to diversify into other businesses. Researchers have argued (Prahalad and Hamel, 1990) that even the core competence of a firm should enable it to enter and flourish in several product markets. It has also been suggested that focused strategies are not desirable in emerging markets (Khanna and Palepu, 1997). In strategy literature different theories (resource based view, transaction cost, agency theory, etc.) have been put forth to explain firm diversification (Chandler, 1962, Berry 1974, Rumelt 1974, Andrew 1980). Diversity is defined as the extent to which firms are

simultaneously active in many different businesses (Ramanujam and Varadarajan, 1989). Firms diversify into unrelated product markets or related ones. The latter alludes to adding related or similar product/service lines to existing core business, either through acquisition of competing firms or through internal development of new products or services leading to increase in existing managerial competence within the firm.

Firms use diversification as a method to expand from their core business into other products or services (Aaker 1980, Andrew 1980, Gluck 1985). Researchers have found (Pandya and Rao, 1998) that diversification can yield several positive outcomes for a firm. It can improve debt capacity, reduce the chances of bankruptcy by going into new product/markets and improve asset deployment along with productivity. Skills developed in one business transferred to other businesses, can increase labour and capital productivity. Diversified firms pool unsystematic risk and reduce the variability of operating cash flow.

2. REVIEW OF LITERATURE

The linkage between diversification and performance has been the subject of numerous studies over the years. These studies can be categorized into three groups. One set of studies have indicated negative relationship (Bettis 1981; Rumelt 1974, 1982; Palepu 1985; Varadrajan 1986; Varadarajan and Ramanujan 1987). While another set of studies done by Lubatkin (1987), Micheal and Shaked (1984), and Weston and Mansinghka (1971) have shown positive relationship between diversification and performance. A third set of research have revealed lack of relationship between these variables (Grant, Jammine and Thomas 1988).

2.1. Profitable firms diversify

An important strand of research has focused on firm profitability leading to diversification. Such studies have put forth arguments that profitable firms tend to diversify and consequently such firms are likely to maintain their profit making capability post diversification as well. Grant et al. (1988) suggest that high profits from existing business can be used to finance diversification.[1] They conclude that profitability induces diversification rather than diversification resulting in higher profitability. Second, firms with higher profitability would find it easier to expand compared to its competitors. However a saturation point comes after which any increase in market share may not lead to a corresponding increase in profitability. On the contrary, rather, it reduces it. Hence, it becomes imperative for the firm to diversify. Besides, the erstwhile Monopolies and Restrictive Trade Practices Act (popularly known as

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[1] Grant et al. (1988) p. 778-795.

MRTP) in India never allowed a firm to grow sufficiently big to have monopolistic power. Hence even in that case, the firms were left with no choice but to diversify.

Third, highly profitable firms are usually the first movers into less developed countries. Evidences from the highly successful companies in the west suggests that when they find that the market in the home country is saturated or has reached a level of near saturation, they quickly identify a foreign market and suitably modify the product to suit the local conditions. Fourth, due to the core competency, which a firm would have developed in its pursuit of excellence, it would like to diversify into related areas or related industry. Chandler (1962) suggests that firms considering diversification will likely choose to diversify on related basis rather than on an unrelated basis. Rumelt (1974) likewise found that related diversifiers outperformed firms diversifying into unrelated areas.

2.2. Diversification improves performance

A related strand of research point out that diversification results in improved performance. The argument is that firms when they decide to diversify, select those area or industry where returns would be definitely higher than those earned currently. Hence when diversified, the overall profitability would go up. In accordance with this view Grant et al. (1988) offer supporting evidence by arguing that low prospects of future profitability in existing activities might be expected to create incentives for diversification.[2] Likewise, Burgelman (1983) argues that diversification may lead to increased performance. When prospects looked not so good, top management seemed to be ready, as one manger put it 'to jump into just anything'.[3] This attitude indicates the general assumption that diversification will lead to better performance.

Second, diversification provides synergy benefits to the firm. The major areas of synergy are marketing, operational and financial. This would lead to exploring economies to scale and thereby reduction of overall cost. However, the level of synergy derived would depend upon the nature of industry, nature of integration (horizontal, vertical) etc. Studies by Rumelt (1974, 1982) suggest that the firms going for related diversification derives more synergy benefit than the ones opting for unrelated diversification. However Hall (1995) found that it's difficult to determine which diversification strategy will result in maximum improvement in performance.

Third, diversified firms are in a better position to handle internal resources. This results in optimum utilization of factors of production, which in turn enhances operational efficiencies. This is directly reflected in higher profitability (Alchian and Demsetz, 1972). The level of management information

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[2] Grant et al. (1988), p. 778.
[3] Burgelman (1983), p. 1355.

system (MIS) generated would also be superior to the firms less diversified. Hence, this further contributes to working efficiency (Williamson 1981). When it comes to management of finance, a diversified firm is in a much better position to efficiently deploy the available funds within its business units. Put together these factors result in pulling the overall profitability of the firm northwards. Fourth, benefit drawn from diversification is separation of strategic and operation controls with the organization. This results in better management of specific business units. This also results in insulation of top executives from agency problems [Williamson (1979, 1981)]

2.3. Profitable firms do not diversify

However, some studies have come up with contradictory findings. The logic behind these findings is that firms experiencing superior profitability may not desire to engage in diversification, since such a strategy would require a large amount of capital. This would put additional pressures on the business and eventually may lower the performance. This view has been advocated by studies of Burgelman (1983). He argues that firms with higher levels of profitability may choose to focus on maintaining their current performance rather than seeking to increase profits through diversification. In summarizing his research, he stated, when things were going well in the main stream areas of business, only lip service was paid to diversification.[4] Hall (1995, p 40) found that profitability does not play an important role in deciding whether a firm will go for diversification or not.

Regardless of how diversification is measured, as relatedness (Rumelt 1974) or in terms of level of diversification (Jacquemin and Berry 1979; Palepu 1985, Raghunathan 1995), the corporate diversification literature has failed to reach consensus between diversification and firm performance. In spite of great volume of research on diversification not all issues of diversification have been fully investigated. This is so because all these studies have tried to look the issue only from a single dimension. In our study we compare the performance of single business firms with multi-business firms operating in India. We brought in another dimension of size to examine whether firm size has any impact on the performance of focused or diversified firms.

3. RESEARCH METHODS

We decided to, through this paper, make an attempt to study the comparative performance of two sets of firms each divided into three sizes. The sets of firms are 'focused firms' and 'diversified firms' and each set has data of firms categorized as small, medium and large. This research is designed to collect essentially objective data on performance of afore mentioned two sets of firms operating in India and to carry out statistical analyses with a view to establish performance of one set of firms vis-à-vis the other.

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[4] Burgelman (1983), p. 1355.

Three financial measures have been considered. These include Profit after Tax (PAT), Return on Capital Employed (ROCE) and Asset Turnover Ratio (ATR). The study was done for two different time periods: base year 2006-07 and terminal year 2013-14. This was done to observe changes in performance (if any) of the sets of firms over a seven-year period. Choice of this period is because India experienced high GDP growth rate during the base year and low GDP growth rate during the terminal year. Our hypothesis is that:

H_0: *There is no difference in performance between focused and diversified firms across sizes*

3.1. Sample

The data for this study have been extracted from secondary sources. The main source is the Ace Analyzer data base. We identified 60 firms in all divided equally between focused firms and diversified firms. Further, the data were collected based on size of firms, namely small firms, medium firms and large firms. Of the 60 firms studied, 30 belonged to focused group (firms engaged in one line of business; say steel or cement or passenger cars) and 30 were from diversified group (firms engaged in two or more lines of business; say steel and cement, pharmaceutical and financial services). Further, of the 30 firms in each group, 10 each were selected on the basis of three different sizes. The sizes were small (with assets <INR 10 billion), medium (with assets ranging between INR 10 and <INR 50 billion) and large (with assets >INR 50 billion). We studied the performance of firms using both parametric as well as nonparametric tests.

4. ANALYSIS AND DISCUSSION

4.1. Effect of size and type on firm performance

A multivariate analysis of variance model was employed to determine the impact of type, size and size cum type of firms on three measures of firm performance, namely, profit after tax (PAT), return on capital employed (ROCE) and asset turnover ratio (ATR). The impact on these three measures was studied simultaneously i.e. they were grouped together. The multivariate analysis of variance (MANOVA) was chosen as it is a composite model that studies effect of independent variables on group of dependent variables by comparing the vectors of means. Mathematically, the model is represented as follows,

$$Y_{ijk} = V_k + \alpha_{ik} + \beta_{jk} + \gamma_{ijk} (\alpha_{ik} * \beta_{jk}) + e_{ijk}$$

Where,

i= Type of the firm (Focused or Diversified)

j= Size of the firm (Small, Medium or Large)

k= Performance of the firms (PAT, ROCE, ATR)

V_k = Overall average performance of firms.

α_{ik} = effect of type of firm on PAT, ROCE and ATR captured as a vector.

β_{jk} = effect of size of the firm on PAT, ROCE and ATR captured as a vector

γ_{ijk} = represents the overall performance of the firm k for given i and j i.e. Overall performance of a firm for given type and size.

e_{ijk} = error term. We have used bold letters to indicate that in MANOVA we have vectors instead of variables. The dimension of the vector is 1 x 60 as we have 60 observations in total.

4.1.1. Performance of firms in the base year (2006-07)

The results of the study revealed that there is no statistically significant relationship between types of firms on the three measures of firm performance. Same was the case with size cum type of firms. However, it was found that there was significant difference at $\alpha = 0.05$ in the performance of firms when size alone was considered. When studied simultaneously, the difference in performance was due to ATR only. The firms' PAT and ROCE did not change with size. On conducting the Post Hoc test (multiple paired comparisons) we found that the above mentioned difference in ATR is attributable to difference between small and large firms at $\alpha = 0.05$ and between medium and large firms at $\alpha = 0.10$ levels respectively. Small and medium firms performed better than large firms with mean ATR values of 0.85 and 0.50 respectively.

4.1.2. Performance of firms in the terminal year (2013-14)

A similar analysis was done for the terminal year 2013-14. Again, results revealed were similar to base year results with regard to type of firms as well as size cum type of firms. But when size per se was analyzed, significant difference at $\alpha = 0.05$ level was detected with two measures of performance i.e. ROCE and ATR. The results can be seen in table 1. The difference in performance in ROCE was due to the superior performance of medium-sized firms vis-a-vis small firms as well as large firms with mean values of 22.65 and 21.95 at α 0.10 level. This was revealed by Tukeys HSD paired comparison test. Similarly, difference in performance in ATR was due to inferior performance of large firms vis-a-vis small and medium firms with mean values of -0.55 and -0.75 at α 0.05 level.

4.2. Effect of size on type of firms

In the preceding analysis it was found that only 'size' plays an important role, indicating no interaction effect between 'size and type' of firms. Therefore, we wanted to determine how 'size' affected focused and diversified firms. To perform this analysis we decided to use one-way ANOVA test. Mathematically, we can write the equation as,

$$Y_{jk} = V_k + \beta_{jk} + e_{jk}$$

Where:

γ_{jk} = represents the overall performance of the firm for given size.

V_k = Overall average performance of firms.

β_{jk} = effect of size of the firm on PAT, ROCE and ATR

e_{ijk} = error term.

4.2.1. Performance of firms in the base year (2006-07)

In the base year results for focused firms revealed that, except for ATR, there was no significant difference in performance of different sizes of firms on the other two measures. The Post Hoc test showed that the significant difference on ATR measure (p value 0.054 at α= 0.10) was due to the superior performance of small firms vis-a-vis large ones with mean difference of 0.900. When the same test was administered on diversified firms, it was found that there was no significant difference in performance on the three measures across sizes of firms.

4.2.2. Performance of firms in the terminal year (2013-14)

The one-way ANOVA was next used to analyse focused and diversified firms separately for the terminal year. The results for focused firms indicated significant difference in performance on two measures namely ROCE (with p value 0.062 at α= 0.10) and ATR (with p value .72 at α= 0.10). The Post Hoc test conducted showed the following: medium sized firms performed better than small ones (mean difference 23.5 for ROCE). Similarly, for ATR medium-sized firms performed better than large firms (mean difference 0.800). When the same test was conducted on diversified firms, again it was found that there was no significant difference on the 3 measures of performance across sizes of firms.

5. NONPARAMETRIC TESTS

The parametric tests allow one to study the behaviour of samples based on their measures,   in our case PAT, ROCE and ATR, as metric variables. The conclusions are based on means of the observations. Alternatively, there is a scope to study the performance of these companies based on their relative positions (ranks). Where, their performance is compared based on ranks instead of their means. Both the approaches ought to give similar results, but the latter method would overcome stringent assumptions and minimize the influence of extreme values in the data. We have used Mann-Whitney test to compare the performances of focused and diversified firms and Kruskal-Wallis test to verify the results of ANOVA. Mann-Whitney test uses "U" Statistics to compare the two samples. The basic formula for "U" statistics is as follows,

$$U = n_1 n_2 + [n_x (n_x+1)/2] - T_2$$

Where,

U = Mann-Whitney U value

n₁= Sample size one (smaller)

n_1= Sample size one (smaller)

n_2= Sample size two (larger)

n_x = Sample size of the group that gave the larger rank total

T_2= Sum of larger rank total.

The Mann-Whitney test was first employed to compare the performance of focused and diversified firms for all sizes for the base year (2006-07). Results revealed that there were no significant differences in performance between focused and diversified firms across sizes. The same test was next conducted for the terminal year (2013-14). Results of the test for terminal year matched those of the base year. As we had used parametric (one-way ANOVA) test to compare the performance of firms based on size we decided to do the same using a nonparametric test. Since Kruskal-Wallis test is the nonparametric version of the one-factor independent measures ANOVA, where "H " statistics is used to compare the groups.

$$H = \frac{12}{N(N+1)} \left(\sum \frac{Tg^2}{ng} \right) - 3 \ (N+1)$$

Where,

N = Total Number of observation

T_g = Sum of ranks of group g

N_g = Number of observations in group g

For the base year (2006-07) results showed that except for one measure ATR (with p value 0.092 at α 0.10), the other two measures did not show any significant difference in performance by focused firms of varying sizes. When the Kruskal-Wallis test was deployed for focused firms in the terminal year (2014-14), the results were interesting. For all three measures, PAT, ROCE and ATR, there were significant differences in performance among firms of different sizes (PAT with p value .003 at α 0.01; ROCE with p value 0.095at α 0.10; ATR with p value 0.087 at α 0.10). For diversified firms for both base and terminal years it was found that there were no significant differences in performance between small, medium and large firms.

6. CONCLUSION

In this study, we analysed the performance of 60 firms, at two points of time, drawn equally from focused and diversified firms in India. We tested the hypothesis that there is no difference in performance between focused and diversified firms across sizes. The hypothesis was arrived at based on the survey of several research studies done. Based on the selected sample of firms, our study concluded that there is no significant difference in the performance between focused and diversified firms. When diversified firms alone were studied, the findings were similar. However, when focused firms were exclusively studies, it was observed that there were significant differences in performance between firms of different

sizes. This thus indicates that the difference found (when MANOVA was used) in the performance across sizes was primarily due to focused firms. However, the findings of parametric tests and nonparametric tests differed when comparing the performance of focused firms across the sizes. Similar variation was observed for performance measures. The measure ATR differed across the sizes in nonparametric test. The sample size being the limitation, we believe such diversion is common and gives more importance to the findings of nonparametric test. Further, instead of limiting data to two points in time, if continuous data for say a 10-year period is used, both the tests may give similar findings. This gives scope for further research using larger sample size and test for definitive results.

Table1: Compiled test results

Year	Test	Variable	Measure/p values	Mean difference		
Parametric tests						
Base	MANOVA	Size	ATR (.012)	Tukey HDS: S-L* (.85)		
Terminal	MANOVA	Size	ROCE (.035)	TukeyHDS: S-M (-22.65) M-L (21.95)		
			ATR (.014)	TukeyHDS: S-L (.55) M-L (.75)		
Base	One-way ANOVA	Size	ATR (.054)	TukeyHDS: S-L (.900)		
Terminal	One-way ANOVA	Size	ROCE (.062)	TukeyHDS: S-M (-23.500)		
			ATR (.072)	TukeyHDS: M-L (.800)		
Nonparametric tests						
Base	Kruskal-Wallis test	Focused/size	ATR (.092)	Chi-square	Ranks	
					S (19.3)	
					M (15.95)	
					L (11.25)	
Terminal	Kruskal-Wallis test	Focused/size	PAT (.003)	Chi-square	L (21.6)	
					M (16.6)	
					S (8.3)	
			ROCE (.095)	Chi-square	M (20.2)	
					L (14.45)	
					S (11.85)	
			ATR (.087)	Chi-square	M (18.45)	
					S (17.2)	
					L (10.85)	

*S: small firms M: medium firms L: large firms

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Environmental Factors, Motivational Factors, and Individual Personality in the Relationship Model Framework of Knowledge Sharing Behavior

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A B S T R A C T

This research aimed to analyze the relationship model of environmental factors, motivational factors, individual personality factors, and individual innovation capability in the term of knowledge sharing behavior. Environmental factors consist of organizational climate and Organizational Citizenship Behavior (OCB), while motivational factor consist of trust, social capital, and job satisfaction. This research was implemented in two phases. First, we analyzed the relationship of motivational factors and environmental factors on knowledge sharing behavior. Second, we analyzed influence of environmental factors on individual innovation capabilities moderated by individual personality. Data was analyzed using hierarchical regression, multiple regression, and simple linear regression analysis. Sample was employees of Islamic banks in DIY. Results showed that the organizational climate, organizational citizenship behaviour, social capital, trust and job satisfaction affected knowledge sharing behavior positively. Results also showed that individual personality didn't moderate the relationship between environmental factors and knowledge sharing behavior, and that knowledge sharing behavior impacted individual innovation capability positively.

1. INTRODUCTION

Managing knowledge become one of the important processes for companies in innovating. Knowledge is one of the most important factors in the current world economic perspective which is a major challenge for a company. Some organizations stated that to compete in the global competition they need to develop competencies and knowledge in the organization (Orr and Persson, 2003). One of the benefits of knowledge management is to support the learning process that may have an impact on the development of innovation capabilities through the creation of new knowledge (Tobing, 2007).

The most important part of knowledge management is how to support individuals in the organization to do knowledge sharing, to share what they know (Orr and Persson, 2003). Conceptually, knowledge sharing behavior is defined as the level of the extent to which a person actually doing knowledge sharing (Bock and Kim, 2002). Knowledge sharing can also be understood as the manner in which a person is willing to provide access to others about his/her knowledge and experience (Hansen and Avital, 2005).

There was a lot of researchers discuss the antecedents of knowledge sharing behavior and its consequences, but only few researchers who study organizational and motivational factors. Results of the researches were not enough to develop the complexity of the relationship in knowledge sharing behavior, so it did not give a lot of practical and theoretical contribution for business people and academics. According to Yoo and Torrey (2002), knowledge sharing behavior was influenced not only by the motivational factors but also the environmental factors. There are two variable in the environmental factors, organizational climate and Organizational Citizenships Behavior (OCB). Research results of organization climate are still debatable. Perception of organizational climate gives a crucial influence on knowledge sharing behavior within the organization. When an organization has a poor organizational climate for knowledge sharing behavior, it will be difficult for the organization to change. So, we need an organizational climate that is conducive for knowledge sharing behavior within an organization (Wang and Noe, 2010; Jing et al., 2008; Probosari and Kuswanti, 2013). But results of researches conducted by De Long and Fahey (2000) and Kankanhalli, Tan and Wei (2005) stated that organizational climate in limited infrastructur technology will not be conducive to knowledge sharing behavior.

Knowledge sharing behavior within the organization must be built from a strong will of the employees and need to be supported by the organization. Organizational Citizenships Behavior (OCB) is part of the organizational environment that encourages knowledge sharing behavior (Wasko and Faraj, 2005; Chiu et al., 2006; Yang and Farn, 2010). Probosari and Kuswanti (2013) stated that OCB would facilitate the development of relationships between employees, which in turn would lead to altruistic behavior. OCB is behavior and attitude of the employees who exceed the formal command of an organization's job descriptions, which are voluntary and not related to the reward system and can provide more benefits to the organization. Negative results obtained from research by Perry-Smith (2006) which stated that excessive altruistic behavior gave a negative effect on individual ability in seeking information. So, the inconsistency was found in the relationship between OCB and knowledge sharing behavior.

Research on the process of knowledge sharing based on the motivational factor is still rarely investigated and assessed. In this study, we put a new variable that has not been studied, but it has been reviewed and became directions for future research on the study of Wang and Noe, 2010. According to Wang and Noe (2010), one of the things that cause people to do knowledge sharing was job satisfaction. Is it true or not, it is still to be tested with research. So, this research tried to include job satisfaction as one of motivational factors variable. However, it does not mean there is no theory that predicts the

relationship of knowledge sharing and motivational factor. Motivational factor in this study differentiated in three dimensions, 1) social capital that was measured using instruments used by Chua (2002), 2) trust that was measured using instruments used by Zeits et al. (1997), Mayer et al. (1995), and Kharabsheh (2007), and 3) job satisfaction that was measured using the Minnesota Satisfaction Quotionaire and be based on research by Wang and Noe (2010). The effectiveness of the process of knowledge sharing must be based on a good relationship between employees based on social capital, trust and job satisfaction. Social capital is often interpreted differently. Social capital as norms and networks are making easy social interactions and transactions so that all the matters dealing with the community can be held easily. Social capital makes devolution to be good and also makes communication and the implementation of knowledge sharing becomes smooth and optimal (Collins and Smith, 2006; Chiu et al., 2006). Otherwise, results obtained from the research of Wasko and Faraj (2005) stated that there was a negative relationship between social capital (in this case reciprocity) and knowledge sharing behavior. This inconsistency requires empirical study on the background of different organizations.

Trust makes things easier (Fukuyama, 2003). Relationship based trust between employees is a prerequisite for the effectiveness of knowledge sharing process (Collins et al., 2006, Pasaribu, 2009). Although result of the research was partially showed a positive relationship between trust and knowledge sharing behavior (Sondergaard et al., 2007; Wu et al., 2007), some researchers argued the connectedness (Renzl, 2008). Bakker et al. (2006) stated that trust did not have significant relationship with knowledge sharing behavior. Some inconsistency results showed the relationship between trust and knowledge sharing behavior was not well developed, both empirically and theoretically. This was because research on trust as one of the motivational factors were rarely investigated.

Relationship between job satisfaction and knowledge sharing behavior have not ever been investigated. However, Wang and Noe (2010) predicted job satisfaction would be able to encourage knowledge sharing behavior. Therefore, Wang and Noe (2010) suggested to include these variables in subsequent studies. Departing from this idea, we examined empirically effect of job satisfaction on knowledge sharing behavior.

The relationship between organizational and motivational factors on the knowledge sharing behavior is reinforced/moderated by individual personality. The study on this relationship has been conducted by Wang and Noe (2010), but only few studies describing the relationship between them, including the research conducted by Lin (2007). Results of the research conducted by Constant et al., (1996); Cabrera and Cabrera (2006) and Lin (2007) stating that extrovert individuals tend to have better knowledge sharing capabilities compared to introvert individuals showed inconsistency with research conducted by Wasko and Faraj (2005) and Bordia et al. (2006). Therefore, this study put the individual personality variables as moderating variables.

Many researchs showed that implementation of knowledge sharing behavior affected the individual's ability to work (Lin, 2007; Du Plessis, 2007; Ussahawanitchakit, 2007; Aulawi et al.; 2009, Probosari

and Kuswanti, 2013). This was also applicable in the relationship between knowledge sharing behavior and employees absorptive capacity (Zahra and George, 2002; Liao et al., 2007; Probosari and Kusmantini, 2012). Knowledge sharing behavior would shape the great potential of the stock of knowledge possessed by employees to work together to form a new understanding. Knowledge sharing process was analogous to the transmission of message on the communication process, i. e. from the sender to the recipient.

On the basis of the explanation above, we did this research. This research was conducted in the banking sector. As a public organization in Indonesia, the presence of the banks in terms of their performance has not appeared (in Pasaribu, 2009). One contributing factor is the lack of implementation of the knowledge sharing within public organizations. The emergence of knowledge sharing in the banking sector also triggered by customer demands for their excellent service. This research was conducted in Islamic banks in the province of DI Yogyakarta. Based on research done by Danasworo (2009) and Cahyani (2011), customer service satisfaction index of Islamic banks in DI Yogyakarta were in scale of 3 (enough) of the 5 scale, indicating that the services provided were not satisfied enough, though market share and the growth of Islamic banks was quite high, reached 19.04%. This figure exceeds the growth of conventional banks which only reached 7.88% and People's Credit Bank which reached 13.13%.

This study was conducted to supply and enrich the theory of knowledge sharing behavior and also filling the gap research that has not been studied widely. Research examining the relationship model of knowledge sharing behavior was rare, especially that was implemented in the public organization. In the long term we expect it will give a significant effect on the role of HR for doing knowledge sharing behavior, especially in public organizations.

2. THEORY AND HYPOTHESES

2.1. Relationship between Organizational Climate and Knowledge Sharing Behavior

Organizational climate is the result of the interaction between the individual and the environment, where there is a hidden mechanism motive. He-feng (2007) stated that employees' perception on the environment had crucial influence on knowledge sharing within the organization. Knowledge sharing climate is related to culture. According to the Organ and Ryan (1995), organization climate could be a strong cause for the development of knowledge sharing within the organization. It also expressed by Wang and Noe, 2010; Jing et al., 2008; Probosari and Kuswanti, 2013. Their research results found that the organizational climate influenced the knowledge sharing behavior positively. Conducive organizational climate was an excellent conditions for the occurence of knowledge sharing behavior.

H1: Organizational climate positively influence knowledge sharing behavior.

2.2. Relationship between OCB and Knowledge Sharing Behavior

Extra role behavior also known as organizational citizenship behavior (OCB) or prosocial behavior. Smith et al. (in the Bragger et al., 2005) initially defined extra role behavior as a freedom of behavior in an organization that is not forced by the threat or sanction or dismissal.

Bateman and Organ (1983) stated that individuals who have higher levels of OCB would tend to share knowledge to other colleagues in the same organization for the common good. Then the employees who felt that they were free and not the victim would be more committed to the organization and would display many extra roles behavior, such as by displaying knowledge sharing behavior voluntarily to the other members of the organization (Wasko and Faraj, 2005; Susanti 2009; Yang and Farn, 2010; Probosari and Kuswanti, 2013).

H2: OCB positively influence knowledge sharing behavior.

2.3. Relationship between Individual Personality, Environmental Factors, and Knowledge Sharing Behavior

Personality refers to individual differences in characteristic patterns of thinking, feeling and behaving. In general, study of personality focuses on two areas: first, understanding individual differences in certain personality characteristics, such as sociability or irritability; and second, understanding how the various parts of one's come together as a whole (American Psychologist Association).

The link between environmental and motivational factors towards knowledge sharing behavior is reinforced/moderated by individual personality. The study on this relationship has been conducted by Wang and Noe (2010). Only few studies describing the relationship between them, including the research conducted by Lin (2007). Research conducted by Cabrera and Cabrera (2006) and Lin (2007) stating that extrovert individuals tend to have better knowledge sharing capabilities compared to introvert individuals contradict the research conducted by Wasko and Faraj, 2005; and Bordia et al., 2006. Therefore, the study put the individual personality as moderating variables.

H3a: Individual personality moderates influence of environmental factors (organizational climate) on knowledge sharing behavior.

H3b: Individual personality moderates influence of environmental factors (OCB) on knowledge sharing behavior.

2.4. Relationship between Social Capital and Knowledge Sharing Behavior

Prusak (2001) defined social capital as a collection of active relationships between people: trust, mutual understanding and shared values and behaviors that bind the members of a network and community which allows cooperation. The prerequisite for the effective knowledge sharing process was relationship between employees based on social capital (Nonaka, 1991), especially when collaboration in knowledge transfer contains a complex knowledge, such as knowledge transfer should be done face to face. In knowledge management, knowledge sharing is unlikely to occur without social capital, and if there is

no transparency in the dissemination of knowledge (Collins et al., 2006; Chiu et.al, 2006; Probosari and Kuswanti, 2013).

H4: Social capital positively influence knowledge sharing behavior.

2.5. Relationship between Trust and Knowledge Sharing Behavior

According to Robbins (2006), trust is a positive expectation that others will not act opportunistically. Trust can stimulate the evolution of a stronger commitment in the relationship between employees, improve collaboration and create interest in mental capacity building among members of the organization (Fukuyama, 2003). Knowledge sharing is not possible to occure without trust, and if there is no transparency in the dissemination of knowledge (Sondergaard, 2007; Wu et al., 2007; Probosari and Kusmantini, 2012).

H5: Trust positively influence knowledge sharing behavior.

2.6. Relationship between Job Satisfaction and Knowledge Sharing Behavior

Job satisfaction is a set of feelings and beliefs a person has about his/her job, that is related to positive and negative feelings (Yousef, 2000 in Muafi et al., 2014). According to the study of Wang and Noe (2010) job satisfaction was predicted to be able to encourage knowledge sharing behavior. Based on these predictions, Wang and Noe (2010) suggested to include these variables in subsequent studies. Based on that suggestion, this study examined empirically the effect of job satisfaction on knowledge sharing behavior.

H6: Job satisfaction positively influence knowledge sharing behavior.

2.7. Relationship between Knowledge Sharing Behavior and Individual Innovation Capability

Aulawi et al. (2009) found that knowledge sharing behavior increase individuals' abilities to provide better performance. Results of the research suggested that knowledge sharing behavior gave positive effect in increasing individual innovation capability (Andrawina et al., 2008; Aulawi et al., 2009; Probosari and Kuswanti, 2013). Companies which are able to encourage its employees to share their knowledge to group or other organization members, will have a greater opportunity to improve the ability of employees to create new ideas and develop new business opportunities, which in turn, these activities will encourage the development of innovation capability (Darroch and McNaughton, 2002). It is like what Du Plessis (2007) found that tacit knowledge sharing gave positive effect on individual innovation capability.

H7: Knowledge sharing behavior positively influence individual innovation capability.

3. METHODS

Population in this study were employees of Islamic banks in the province of Yogyakarta, Indonesia. We distribute 130 questionnaires to be filled out by respondents in the three Islamic banks, but only 87 respondents who had completed the data.

Sampling techniques in this study was purposive sampling method. Respondent must be match to the criteria we set: respondent had worked in the organization at least 2 years (according to the articles of the Office of Personal Management, 2005, the work period of 2 years is a period of work which is sufficient so that an individual is able to understand the working environment well) and the minimum position was officer (this position entrusted with the authority and responsibility to perform the authorization or approval of the transaction and/or have their own subordinates, as well as their exposure to accounting data is quite high).

Validity of all items used had a significance coefficient below 0.05, so it can be said that all the items was a valid. Reliability testing of all instruments showed that the values of Cronbach alpha were above 0.5. It means that all instrument variables was reliable.

4. RESULTS

Respondents' characteristics are showed in Table 1. Descriptive statistics and intercorrelations among the study variables are provided in Table 2. We tested our hypotheses using hierarchical regression (hypothesis 1-3), the results is showed in Table 3 and Table 4; multiple regression (hyphotesis 4-6), the result is showed in Table 5; and simple linear regression (hypothesis 7), the result is showed in Table 6.

Table 1: Respondents' Characteristics

Respondents' Characteristics	Frequency	Percentage
Ages		
20 – 30 yo	65	74.7
31 – 40 yo	14	16.1
41 – 50 yo	7	8.1
> 50 yo	1	1.1
Years of service		
2 – 5 years	50	57.5
6 – 9 years	21	24.1
10 – 13 years	9	10.3
14 – 17 years	7	8.1
Sex		
Male	42	48,3
Female	45	51,7
Educations		
High School	6	6.9
Bachelor	5	5.7
Bachelor of Honour	76	87.4

Total	87	100.0

Table 2: Descriptive Statistic and Correlation

Variable	Mean	SD	OC	SC	KSB	IIC	TR	JS	OCB	IP
OC	3.95	0.470	-							
SC	3.97	0.704	0.491**	-						
KSB	3.79	0.665	0.423**	0.751**	-					
IIC	3.96	0.441	0.516**	0.501**	0.510**	-				
TR	3.57	0.621	0.476**	0.539**	0.599**	0.512**	-			
JS	3.72	0.565	0.605**	0.568**	0.743**	0.495**	0.563**	-		
OCB	3.54	0.586	0.402**	0.517**	0.440**	0.515**	0.386**	0.365**	-	
IP	3.09	0.429	0.201	0.326**	0.437**	0.259*	0.334*	0.401**	0.395*	-

OC= Organizational Climate; SC=Social Capital; KSB= Knowledge Sharing Behavior; IIC=Individual Innovation Capability; TR=Trust; JS=Job Satisfaction; OCB=Organizational Citizenship Behavior; IP=Individual Personality

Table 3: Moderating Effect of Individual Personality on the Relationship between Organizational Climate and Knowledge Sharing Behavior, n=87

Step	Independent Variable	Standardized Coefficients (Beta)	t	Significance
Step 1	OC	0.423	4.306	0.000
	R R^2 F	0.423 0.179 18.542		0.000
Step 2	OC OC x IP	0.026 0.539	0.198 4.030	0.844 0.000
	R R^2 F	0.559 0.312 19.052		0.000

Dependent Variable : Knowledge Sharing Behavior
OC = Organizational Climate, IP = Individual Personality

Table 3 shows organizational climate influenced knowledge sharing behavior. This is indicated by the value of Beta for organizational climate by 0.423 with a significance level of 0.000. Thus, organizational

climate positively influenced knowledge sharing behavior. The better the organizational climate, the better the knowledge sharing behavior. Thus, hypothesis 1 was supported.

Table 4 shows the value of Beta for OCB is 0.439 with a significance level of 0.000. So, OCB gave positive impact on knowledge sharing behavior. The better the OCB, the better the knowledge sharing behavior. Thus, hypothesis 2 was supported.

Table 4: Moderating Effect of Individual Personality on the Relationship between Organizational Citizenship Behavior and Knowledge Sharing Behavior, n=87

Step	Independent Variable	Standardized Coefficients (Beta)	t	Significance
Step 1	OCB	0.439	4.508	0.000
	R	0.439		
	R^2	0.193		
	F	20.236		0.000
Step 2	OCB	-0.115	-0.624	0.534
	OCB x IP	0.639	3.462	0.001
	R	0.542		
	R^2	0.294		
	F	17.470		0.000

Dependent Variable : Knowledge Sharing Behavior
OCB = Organizational Citizenship Behavior, IP = Individual Personality

Table 3 shows the individual personality's Beta value is 0.539 with a significance level of 0.000. However, when considered, the occurence of individual personality moderation actually cause the disappearing effect of organizational climate on knowledge sharing behavior, shown with a beta value of 0.026 at a significance level of 0.844. This means the individual personality did not moderate the relationship between organizational climate and knowledge sharing behavior. So, hypothesis 3a was not supported.

Table 4 shows individual personality's Beta value is 0.639 with a significance level of 0.000. However, when considered in more detailed, the moderation of individual personality also caused the disappearing effect of OCB on knowledge sharing behavior, shown with a beta value of -0.115 at a significance level of 0.534. This means individual personality did not moderate the relationship between OCB and knowledge sharing behavior. Thus, hypothesis 3b was not supported.

Table 5: The Influence of Social Capital, Trust, and Job Satisfaction on Knowledge Sharing Behavior, n=87

Independent Variable	Standardized Coefficients (Beta)	t	Significance
Social Capital	0.445	5.983	0.000
Trust	0.122	1.641	0.105
Job Satisfaction	0.422	5.556	0.000
R	0.849		
R^2	0.721		
F	71.386		0.000

Dependent Variable : Knowledge Sharing Behavior

Table 5 shows that social capital had a positive influence on knowledge sharing behavior, as shown by the Beta value of 0.445 with a significance level of 0.000. This means that social capital played a good role in the creation of superior resources through the sharing of knowledge. Thus, hypothesis 4 was supported.

Table 5 also shows the influence of trust on knowledge sharing behavior. Beta value of 0.122 with a significance level of 0.105 indicated that the impact was marginal. We still could conclude that hypothesis 5 was supported. The higher the trust, the more intense knowledge sharing behavior. Another result shows that hypothesis 6 stating job satisfaction influenced knowledge sharing behavior was also supported, as shown by the magnitude of job satisfaction's Beta value of 0.422 with a significance level of 0.000. The higher job satisfaction, the more intense the knowledge sharing behavior.

Table 6: The Influence of Knowledge Sharing Behavior on Individual Innovation Capability, n=87

Independent Variable	Standardized Coefficients (Beta)	t	Significance
Knowledge Sharing Behavior	0.511	5.475	0.000
R	0.511		
R^2	0.261		
F	29.975		0.000

Dependent Variable : Individual Innovation Capability

Beta value of the influence of knowledge sharing behavior on individual innovation capability is 0.511 with a significance level of 0.000 (Table 6). This means that knowledge sharing behavior gave positive impact on individual innovation capability. The more intense knowledge sharing behavior, the higher the individual innovation capabilities. This supported hypothesis 7.

5. DISCUSSION

Results showed that organizational climate influence knowledge sharing behavior. The better the organizational climate, the better the knowledge sharing behavior. Thus, first hypothesis was supported.

This was consistent with the statement of Organ and Ryan (1995) that organizational climate can be the strong cause for the development of knowledge sharing behavior. It was also expressed by Wang and Noe, 2010; Jing et al., 2008 and Probosari and Kuswanti (2013). According to Ruggles (1998), a conducive organizational climate is needed in order to make the knowledge sharing behavior goes well in an organization.

Results of the effects of OCB on knowledge sharing behavior showed that there were positive influence in that relationship. Research of Bateman and Organ (1983) stated that individuals who have higher levels of OCB will tend to contribute knowledge to other colleagues in the same organization for the common good. Individuals who feel that they are free and not the victim would be more committed to the organization and would display many extra roles beaviors or OCB, such as by displaying knowledge sharing behavior voluntarily to other members of the organization (Wasko and Faraj, 2005; Susanti, 2009; Yang and Farn, 2010; Probosari and Kuswanti, 2013).

Result of this study failed to show moderating impact of individual personality on the relationship between motivational factors (organizational climate and OCB) on knowledge sharing behavior. Personality in this case refers to employees' extrovertness. The relationship between environmental factors on knowledge sharing behavior was not moderated by individual personality. This result support the previous study done by Wasko and Faraj (2005) and Bordia et al. (2006), but contradicted the research of Wang and Noe (2010), Cabrera and Cabrera (2006) and Lin (2007). So, it does not matter whether a person is introvert or extrovert, organizational climate and OCB will give the same positive impact on knowledge sharing behavior.

Result of this study also found that social capital has a positive impact on knowledge sharing behavior. The results of this study supported Nonaka (1991), Collins and Smith (2006), Chiu et al. (2006), Probosari and Kuswanti (2013). The relationship between employees based social capital is a prerequisite for the effectiveness of knowledge sharing process (Nonaka, 1991), especially when collaboration in knowledge transfer contains a complex knowledge, such as knowledge transfer that should be done by face to face. In knowledge management, knowledge sharing behavior is unlikely to occur without social capital, and if there is no transparency in the dissemination of knowledge (Collins et al., 2006; Chiu et al., 2006; Probosari and Kuswanti, 2013).

Trust can stimulate the evolution of a stronger commitment in the relationship between co-workers, improve collaboration and create interest in mental capacity building among members of the organization (Fukuyama, 2003). In knowledge management, the occurance of knowledge sharing is not possible without trust, and if there is no transparency in the dissemination of knowledge (Sondergaard, 2007; Wu et al., 2007; Probosari and Kusmantini, 2012). Results of the previous researchs were supported by this study which found that the trust positively influence knowledge sharing behavior.

This study also showed that job satisfaction had a positive influence on knowledge sharing behavior. These results supported the study conducted by Wang and Noe (2010) where job satisfaction was predicted to be able to encourage knowledge sharing behavior.

The results also provide evidence that knowledge sharing behavior gave positive impact on the individual| innovation capability. This research supported the research conducted by Aulawi et al. (2009). Knowledge sharing behavior increase individuals ability to provide the better performance. This result also reinforce the research done by Darroch and McNaughton (2002), Andrawina et al. (2008) and Probosari and Kuswanti (2013) finding that knowledge sharing behavior had positive effect in increasing individual innovation capability. Companies which are able to encourage its employees to share their knowledge into group or organization, will have the greater opportunity to improve employees' abilities to create new ideas and develop new business opportunities, which in turn, will encourage the development of innovation capability. This is consistent with what was stated by Du Plessis (2007) that tacit knowledge sharing gave had positive effect on individual innovation capability.

6. CONCLUSION AND IMPLICATION

There were some conclusion from this research. First, organizational climate, OCB, social capital, trust, and job satisfaction positively influenced knowledge sharing behavior, second, individual personality didn't moderate the influence of organizational climate on knowledge sharing behavior, third, individual personality didn't moderate the influence of OCB on knowledge sharing behavior; and forth, knowledge sharing behavior had positive and significant impact on individual innovation capability.

There are some implications of this study. First, organizations need to reconstitute a reasonable job targets that could be achieved by employees. Second, organizations need to raise awareness among employees about their job so that they can help each other or replace other employees who could not present when there is overtime work needed. Third, organizations need to improve communication among employees about their jobs / share information about data. Fourth, organization need to give space and opportunity for employees to be able to talk about the problems they faces with their supervisors. Fifth, organization need to enhance mutual respect among employees. Finally, organization needs to improve access to data sharing between employees so that they can provide maximum performance.

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FACTORS INFLUENCING CUSTOMER'S BUYING DECISIONS ON MOBILE PHONE BUYERS: A STUDY ON BIJAPUR CITY, INDIA

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A B S T R A C T

The mobile phone has turned out to be a basic necessity in today world with multi-tasking ability based on user's convenience and need. With staggering increase in mobile phone usage in India in recent years, people consider various factors before the purchase decision. This study is an effort to uncover the underlying factors that might affect customers in purchasing a mobile phone. Data were collected from those people those who live in Bijapur city maintaining equal ratios of various groups like male, female, businessmen, employees, students and others (housewives). To choose desired respondents, convenient sampling method was used. A structured questionnaire was designed based on the previous study with five points Likert scale was used to get responses. Factor analysis was used to elicit the underlying Factors that affect a mobile phone purchasing decision. The results show that the most important factor are physical attributes, pricing, battery life and service facilities, size and weight, friends and social group recommendations and advertising

1. INTRODUCTION

Mobile phone or Cellphone - marked a powerful thrust of modern technology into people's life and workplaces. It is a link in the chain of fast and ubiquitously accessible tool of the new era. It came with a bang in India, had a halting start, thanks to the ill-defined regulatory mechanism, but is now well entrenched for a steady, speedy growth.

India has already emerged as the second largest market for mobile phone handsets in the world after China. The presence of a large number of international handset manufacturers in India, including Apple, Samsung, LG, Sony Ericsson, Motorola, and numerous new players such as Xiaomi, LYF, Videocon, Lenovo, Micromax, Asus, Oppo and Karbon shows that the competition will grow even more intense in coming years.

Globally, as in India, Samsung is the most popular cellphone with more than one-third of the market share followed by Apple, Xiaomi etc which is a distant second.The large share of China and India in the global market are considered indicative of many things: the march towards modernisation, accelerated growth, technology absorption & adoption, the impact of the numbers, critical significance of telecommunication development, advances achieved by nations with the largest number of poor and uneducated people. In this new era with affordable 3G, 4G and other variety of services that can be performed by laptops & PCs are incorporated into smartphones these days. It's been challenging for the manufacturer to positions their handsets to the customers who are value driven.

This study has been designed with an intention to identify the factors that might affect the customer's choice in buying a mobile phone. It focuses on the possible reason that the customers consider while making a purchase decision of phone.

2. LITERATURE REVIEW

In the study done on the effect of promotional activities on the brand decision in mobile phone industry by Liu (2002) The factors affecting buying decision of customer on the mobile phone in Asia were analysed. The study found that the choice of mobile phone brand was based on two different attitudes. These two different attitudes were the attitude toward the mobile phone and attitude towards the network. The most influencing factors while purchasing the mobile phone were new features in the mobile phone other than the bigger screen, size and enhanced capacity.

Wilska (2003) in this study on consumer decision on buying mobile phone depended on rational and emotional factors. Most of the customers were influenced by both emotional and rational factors. Emotional factor were (applications, camera, game, and music) besides rational factors (communication and time management) the study found that young customers preferred more emotion factors as compared to other factors.

Heikki ,Jari, Manne, Timmo and Marrijuka (2005) in this study the factor affecting consumer choice of mobile phone. This study was carried out in Finland in their study they concluded that mobile phone market is the most turbulent market in the present scenario. They focused on customer buying decisions process and they shed light on the factors that were affecting consumer choices. They found in their study that when the consumer bought a mobile phone the technical problems were the main factor to change their mobile phone. There were factors as well which were affecting the actual choice of mobile phone i.e., brand, price, interface and properties.

(Chirag V. Erda, 2008) Concluded that there is no significant difference in price and style consciousness between rural and urban consumers but there was a significant difference of functions, quality and brand consciousness between rural and urban customers for buying a mobile phone

Mohankumar and Dinesh Kumar (2008) a study on customer purchase behaviour toward mobile phone with reference to erode city in India. This study was conducted on purchase behaviour towards mobile phone. The customers are the buyer who wants happiness from the product utility. The customer would like to touch and feel the product when they buy. From this study, it's clear that factors influenced their buying behaviour while choosing a mobile phone. This study also helps to know the satisfaction level of customer toward different mobile phones.

While price and features were the most influential factors affecting the purchase of a new mobile phone, its network accessibility, clarity was also regarded as the most important factors in the choice of the mobile phones (Sheetal Singla, 2010).

Factor influence of product attribute on the mobile phone in university among undergraduate student in Kenya was conducted by Malasi (2012). The researcher found that there were various attribute which influenced the undergraduate students on the various brand. Like as colour, name visibility, and mobile phone of the different model, safety, physical appearance, design and price of the mobile phone.

Mesay sata (2013) conducted a study to understand the factor affecting consumer buying behaviour on mobile phone devices hawassa town. There were so many factors which influenced the buying behaviour. But researcher found six important factors such as price, brand name, product feature, social group, after sale services and durability. From that, it's clear the above factor work as a motivational force that influences for a mobile phone purchase decision.

3. METHODOLOGY

The data was gathered with the help of questionnaires within Bijapur City, Karnataka State, India in Jan 2015. Questionnaire was used as the main data collection instrument. The structured questionnaire was designed so as to make it easy for the respondents to answer and to cover most of the common research questions. The method of sampling was convenient sampling; the sample was based on non-probability data. The questionnaire was based on Likert 5 point scale. The sample of the study consisted of 240. Unfortunately, 40 questionnaires were not responded appropriately, so the analysis is based on 200 respondents from Bijapur City.

4. ANALYSIS AND FINDING

The data from the below table indicate that the sample is equal in terms of both male and female respondents as they are indicated by 50 percent for both. Analysis of age of the respondents signifies that majority of the respondents fall in the age group of 19-25 years as it was indicated by 18 percent respondents from the sample. Occupation indicates that respondents in service and students category are 60 that indicate 30 percent for both and Business and Housewives include 40 respondents each that indicate 20 percent. In the case of income level, the most respondents fall under the income level of above 20000 that shows 30.5 percent.

Table 1: Demographic characteristics of respondents

	Categories	Count	Percentage
Gender	Male	100	50
	Female	100	50
Age group	Below 18	10	5
	19-25	60	30
	26-30	36	18
	31-35	42	21
	36-40	26	13
	Above 40	26	13
Occupation	Service	60	30
	Students	60	30
	Business	40	20
	Housewives/Others	40	20
Income Level	Below 5000	46	23
	6000 to 10000	32	16.5
	11000 to 15000	30	15
	16000 to 20000	31	15.5
	Above 20000	61	30.5

5. FACTOR ANALYSIS

Table 2: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.897
Bartlett's Test of Sphericity	Approx. Chi-Square	2.895
	df	516
	Sig.	.000

The result obtained from 200 respondents had been analysed thoroughly and the outputs of the results had been clearly explained in this part. To analyse the strength of association among different variables the Kaiser-Mayer-Olkin (KMO) measure of sampling adequacy has been applied. The KMO measure of sampling adequacy was computed to ascertain the suitability of factor analysis being used. It certifies whether the data are suitable to perform factor analysis. The value of KMO varies from 0-1 and high values (closer to 1.0) generally indicates that a factor analysis can be useful with the data. KMO score should be 0.6 to be adequate for testing. KMO score .897 indicates adequacy for testing.

Table 3: Total Variance Explained

Comp-onent	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	9.917	30.993	30.993	9.917	30.993	30.993	7.516	23.484	23.484
2	3.357	10.488	41.480	3.357	10.488	41.480	4.651	14.531	38.014
3	2.121	6.625	48.104	2.121	6.625	48.104	2.134	6.666	44.680

4	1.891	5.907	54.009	1.891	5.907	54.009	2.125	6.637	51.316
5	1.410	4.404	58.413	1.410	4.404	58.413	1.655	5.168	56.483
6	1.285	4.015	62.427	1.285	4.015	62.427	1.625	5.077	61.559
7	1.104	3.449	65.875	1.104	3.449	65.875	1.382	4.316	65.875

Extraction method: Principal component analysis

Applying SPSS, the principal component analysis (PCA) was carried out to explore the underlying factors associated with 31 items. The above table shows that 65.88% of variation in mobile purchasing by the customers is explained by seven factors.

	Component						
	1	2	3	4	5	6	7
Camera (Mega Pixels)	.828						
4G Enabled	.803						
Memory	.801						
Touch Experience	.776						
Multi Media	.773						
Display Clarity	.764						
Attractive Color	.754						
Model	.685						
New Features	.685						
Design of the phone	.670						
Appearance	.609						
Web Browsers	.598						
Brand Value/Quality	.505						
Model at reduced price		.816					
Product Price		.772					
Special Offers		.724					
Reliability		.716					
Dual SIM		.703					
Opinion of family		.598					
Domestic Product		.589					
Charging hours			.752				
Battery			.603				
Complexity of operating			.460				
Key pad			.456				
Small size				.873			
Weight				.862			
Friends recommendation					.799		
Colleagues recommendation					.537		
Neighbor recommendation						.730	
Salesperson's recommendation						.497	
Advertising							.764

The above table indicates the number of factors that affect customers while choosing a mobile phone brand. From rotation method the following seven factors (table 5) may be obtained.

Table 5: Naming of Factors

Factor no.	Name of factor	Item no	Variables	Factor loading
F1	**Physical attributes**	1	Camera (Mega Pixels)	0.828
		2	4G Enabled	0.803
		3	Memory	0.801
		4	Touch Experience	0.776
		5	Multi Media	0.773
		6	Display Clarity	0.764
		7	Attractive color	0.754
		8	Model/style	0.685
		9	New features	0.685
		10	Design of the phone	0.670
		11	Appearance	0.609
		12	Web browser	0.598
		13	Brand value/quality	0.505
F2	**Pricing**	14	Model at reduced price	0.816
		15	Product price	0.772
		16	Special offers	0.724
		17	Reliability	0.716
		18	Dual SIM option	0.703

		19	Opinion of family	0.598
		20	Domestic product	0.589
F3	**Charging and Operating facilities**	21	Charging hour	0.752
		22	Battery	0.603
		23	Complexity of operating	0.460
		24	Key pad	0.456
F4	**Size and weight**	25	Small size	0.873
		26	Weight	0.862
F5	**Friends' and colleagues' recommendations**	27	Friends' recommendation	0.800
		28	Colleagues' recommendation	0.537
F6	**Neighbors' recommendations**	29	Neighbor recommendation	0.730
		30	Salesperson's recommendation	0.497
F7	**Advertising**	31	Advertising	0.764

6. LIST OF FACTORS: Factors identified are listed below:

6.1   Physical attributes: It is the most important factor. It can explain 30.9 % of total variance in customer decisions of purchasing a mobile phone. Physical attributes consist of all the physical characteristics of mobile phone like camera, 4G, Memory, attractiveness etc.

6.2   Pricing: It is the second factor which is able to explain 10.4 % of total variance. This second factor of pricing includes all the price related factors that the customers consider before buying mobile phones. It states that the customers' psychology of Bijapur city that influences buyer's decisions of purchasing a mobile phone.

6.3   Charging and User friendliness: This is the third most important factor. It can explain 6.6 % of total variance. Charging and User friendliness are taken into consideration while customers purchase mobile phones.

6.4   Size and weight: It is the fourth factor that explains 5.9 % of total variance. There are several numbers of respondents who generally take the size and weight as an important factor in buying a mobile phone.

6.5   Friends and social group recommendations: This is the fifth factor which explains 4.4 % of total variance. Some respondents tend to take suggestions from their friends and social group before purchasing mobile phones.

6.6   Neighbours recommendations: It is the sixth factor which is able to explain 4.0 % of total variance in customer's decision of purchasing a mobile phone.

6.7   Advertising: The last factor explains 3.4 % of total variance. It illustrates that customers make the purchase decision based on advertisement aired in various media.

7. CONCLUSION

The research objective was to identify the underlying factors which have a role in deciding the brands while customers purchase a mobile phone. It has been found from the Previous argument that there are plenty of variables customers would consider before choosing, a particular brand of mobile phone. Some of the factors influence heavily on customers' decisions while others have a comparatively lesser impact on the purchase decision. At the time of the survey, it was observed that various types of services are expected by the customers. But this research work does not deal with the customer expectation. To a certain extent, it has tried to spotlight on the issues that the customers judge in the present market scenario. The research has identified that many factors were considered as selection criteria of a mobile phone. Not essentially all the variables influence a person a particular way and to the same extent. In the case of choosing a branded mobile phone, factors taken in to consideration by customers are price, physical attributes, charging and user friendliness, size, weight, friends and social group recommendations, neighbors recommendations and advertising.

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Analysis Of The Relationship Between Costs And Firm Growth Using The Example Of The Unicredit Group S.P.A.

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A B S T R A C T

A firm is defined as a form of organisation which performs commercial activities in order to generate income to settle costs and generate profit and in such manner as to accomplish certain objectives. Every firm has different objectives which refer to operating business activites and strategic planning, depending on industry, firm size, environment and other conditions.

The subject-matter of this paper is cost behaviour depending on firm size and the way enterprises manage costs in order to optimise their performance. The example of the Unicredit Group will be used to display the analysis of firm growth and cost trend which follows this growth.

The objective of this paper is to display to which extend the Unicredit Group, as a firm, managed costs successfully and whether their growth followed their cost trend according to current economic rules. For this purpose, there will be used scientific methods.

1 MICROECONOMIC APPROACH TO THE FIRM

1.1 Cost behaviour and firm size

From previous interpretations they accept the assumption that a firm, which aims to optimise its performance, will chose that production quantity that will result in the lowest total average costs. The focus is on three types of firms when talking about firm size – small, medium and large sized. In the following text there will be assumed that there exist only these three firm sizes which are signed as follows: Smalls sized enterprises as K_1, medium sized as K_2 and large sized as K_3.
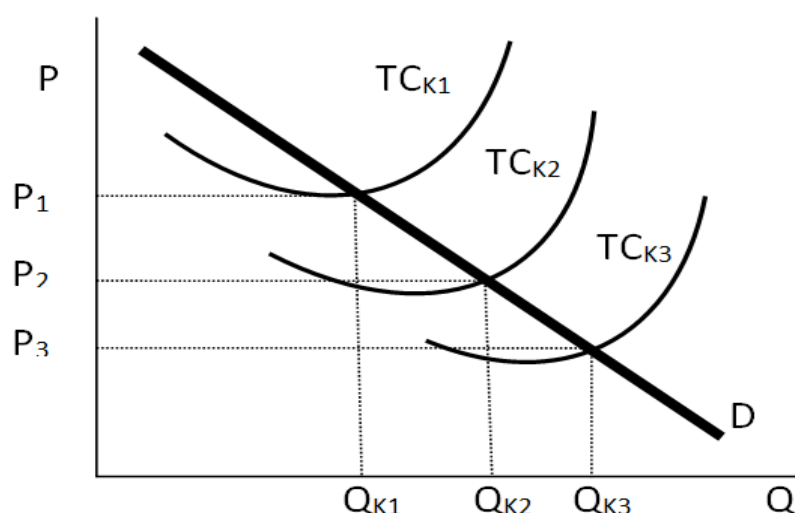
Picture 1: Cost and firm size trend (by: Author)

Picture 1 shows the way enterprises of different size are able to respond to current market demand D if they assume to place the output Q which guarantees lowest total costs (TC_{K1}, TC_{K2}, TC_{K3}) and the market price P^1. Enterprise K_1 is able to place the least quantity of output Q_{K1} but has to charge the highest price P_1 if they aim to keep their total costs at the minimum. Therefore, it is reasonable to conlude that enterprise K_3 is the optimal firm size because it is the most efficient, due to its ability to place the most quantity of output Q_{K3} at the lowest price P_3 and still keep its total costs at their minimum. However, is this always the case? To answer this question it is necessary to consider the effects of Economy of scale which is to be discussed in the following text.

1.2 Economy of scale and economy of scope

To successfully analyse the cost management of a firm, it is inevitably to mention economy of scale and returns to scale which refer to the correlation of changes in production quantity and in costs with

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[1] Arthur, A., Thompson, JR. (1989.): Economics of the Firm: Theory and Practice 5th Edition, New Jersey, Prentice Hall, p. 234

all other conditions not changing. In other words, if one variable changes, it changes the value of another variable. Yet, how might the change of various variables affect the change of another value - production? The answer to this question arises from the theory of the economy of scope. Economy of
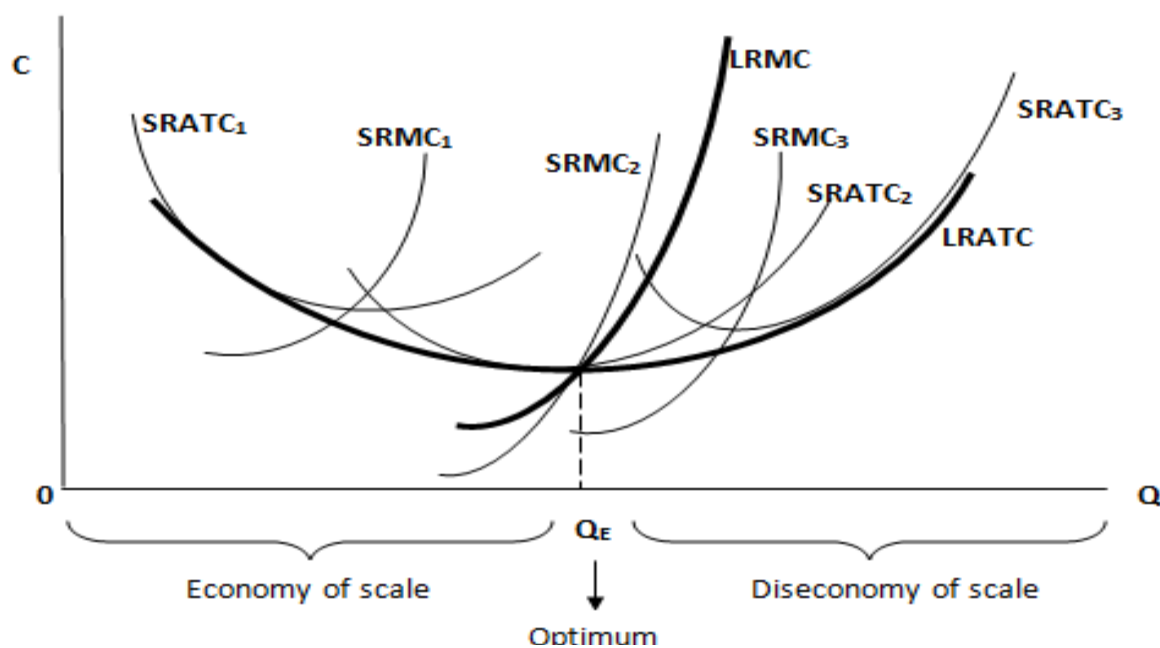
Picture 2: Long run total average cost curve (by: Author)

scope is defined as the impact of the change of all inputs on the change of production output[2]. Since this definition mentions the change of all variables, including the fix ones, it is necessary to talk about this concept in the long run which makes it inevitably to regard the behaiour of long run total average costs (hereafter: LRATC) which are significant for decision making.

Picture 2 displays the way how short run total average total costs (hereafter: SRATC) of different sized enterprises affect the LRATC curve. This is due to the fact that the LRATC curve consists of a line of the SRATC minimum of different capacities for a given output. In other words, the LRATC curve consists of the cost optimum of all considered capacities in the short run, but there can be only one optimal one, which is the one that is the tangent to the minimum of the LRATC curve. In this case the optimal capacity, or enterprise size, is the one which belongs to the $SRATC_2$ – enterprise K_2. Further growth to capacity K_3 would mean a decrease in efficiency and in returns to scale bacause the $SRATC_3$ curve touches the LRATC curve after its minimum when it starts increasing again. Choosing the smaller capacaty K_1 would also decrease cost efficiency since the $SRATC_1$ curve touches the LRATC curve before its minimum where it is still possible to decrease costs in the long run and boost business performance.

Economy of scale is explained as follows. An enterprise which has an increasing production quantity, decreases average total costs if the constant conditions remain stable. However, in the long run all

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[2] Medić, Đ. (2002): Osnove Ekonomije, Drugo izmijenjeno i dopunjeno izdanje, Medinek, Zagreb, p. 129

constant condiotions become variable which is why it is necessary to consider the learning curve to understand how the firm becomes more efficient due to experience – the situation where the same task is repeated in a series of trials[3]. Therefore, by specialising and forming a divisional organisational structure enterprises are able to increase production process efficiency which allows capacitiy or production quantity increase to a certain point. In some point cost efficiency starts decreasing because when the enterprise becomes too large it becomes inert and slow in the meaning of bureaucracy, decision making, and similar. In that regard, economy of scope means that one enterprise producing the same two products is more efficient than two enterprises which of every one is producing just one product[4]. Still, it is important to keep in mind that this concept is true until the point when the average total cost curve hits its minimum. After that point it is more efficient to shift production to two seperate enterprises than to keep the production of both products in one enterprise due to the effects of diseconomy of scope. To conclude, enterprises have to choose the optimal capacity or firm size depending on the type of production, on industry, on market conditions, etc. which does not always mean that larger enterprises are more efficient than smaller ones.

1.3   Diversification

As mentioned previously, economy of scope is defined as the situation when there are more than one differents products produced in one enterprise which enables it to decrease costs and to gain competitive advantages. This means that firms are able to achieve a competitive advantage not only by increasing production quantity of one product, but also by diversing the range of products which is especially significant when mentioning diachronic approach to firm growth which regards a firm's growth through a certain period of time. Thus, diversification is defined as assortment expansion by introducing new products which differ from the present ones[5]. By diversifying the assortment firms not only increase production quantity, but also reduce business risk since they do not depend on revenue generated by just one product. There are different ways how to diversify business growth. Enterprises use concentric diversification if they aim to produce new and different products for new markets with their current production technology, whereas when using horizontal diversification as a potential growth strategy enterprises produce new products for new and current markets that are not related to their current production technology[6]. Vertical diversification is applied by backward or forward vertical integration, this implies diversification in terms of integrating other enterprises into the firm's production technology chain, e.g. a bakery aquisiting a flour mill into its organisation structure (forward integration). The third type of diversification is called conglomerate diversification, signifying a growth strategy that includes entering new markets, reaching new customers and placing new products which production technology differs from the current one existing in the enterprise[7].

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[3] Arthur, A., Thompson, JR. (1989.): Economics of the Firm: Theory and Practice 5th Edition, New Jersey, Prentice Hall, p. 236

[4] Benić, Đ. (2012): Mikroekonomija – menadžerski pristup, Zagreb, Školska knjiga, p. 112

[5] MASMEDIA (1993): Rječnik Marketinga, MASMEDIA, Zagreb

[6] Kotler P., Keller, K. L. (2007): Upravljanje marketingom - 12 izdanje, MATE, Zagreb, p. 49

[7] Kotler P., Keller, K. L. (2007): Upravljanje marketingom - 12 izdanje, MATE, Zagreb, p. 49

2 Banking

2.1   Revenue and cost structure of banks

Before examining revenues and costs of banks it is inevitable to first define banking activites which are specific since they greatly differ from business activities of enterprises. There are plenty of ways to define banks, but for the purpose of this paper the most suitable way of defining a bank is to identify its core services. A bank is a credit institution which receives cash deposits from the public - who has the right to withdraw the funded deposits - and grants loans[8] for its own account and in its own name and provide other financing. What distinguishes banks from every other credit institution is the fact that banks recieve deposits from *general public* and they have the right to conduct transaction accounts. Another distinguishing mark is the bank's ability to create money, which usually is a feature of central banks, since it transforms savings into loans.

Once the term „bank“ is defined, it is easier to analyse revenue structure. Bank revenues basically may be devided into interest and non-interest income. Since the beginning of banking industry they have placed loans and charged fees in form of interest payments which have since then represented the main part of revenue. However, the share of non-interest revenue in total revenues is constantly rising, which has several reasons[9]. In order to compete with the non-banking financial sector, banks are forced to decrease interest rates which in return reduces interest margins and, consequently, interest income. The second reason why non-interest income is increasing ist the fact that capital adequacy requirements are keeping banks from investing in high risk loans, which generate high interest revenues, but instead they compensate the income loss with revenue from risk free service and off balance sheet activities. Due to technological development and information technology progress banks got the opportunity to offer new services, such as mobile and internet banking, which are less risky and consequently generate less revenue by unit sale, but these services are used by a significant number of customers which guarantees a certain share in total revenue. In addition, capital adequacy requirements put pressure on banks to increase profit margins and, conesequently, net profit levels which is why banks tend to increase non-interest income since it does not add any extra risk to bank operations. Non-interest income is divided into three main ections by the European union: Capital gain from securities, current income from securities and fees charged for banking

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[8] Leko, V., Božina, L. (2005): Novac, bankarstvo i financijska tržišta, Adverta, Zagreb, p. 184

[9] Leko, V. (2011): Upravljanje bankama, Ekonomski fakultet Zagreb, Zagreb, p. 130-131

services[10]. The most common banking services are: payment operations, portfolio management services, investment fund management services, broking, and investment banking services.

Costs may also be divided into interest and non-interest expenses. The main interest expenses are related to deposits and other repayable funds, e.g. central bank refinancing or the interbank market, and reserves for expected credit losses which are not a direct interest expense, but they are directly related to credits and represent the difference between book value and and the actual value of credits. The most significant non-interest expenses are general operating expenses, such as wages, rental costs, expenses for office supplies, etc., expenses for information technology and other expenses related to service activities[11].

2.2 Performance measurement in the banking industry

Performance measurement in the banking indutry is done through financial statement analysis, financial ratio analysis based on financial statements and through market indicators, which is used for larger banks and those listed on stock exchanges. So, there are accounting and market measures of bank performance[12].

The most significant financial statements for profitability analysis are balance sheet and profit and loss account since there are needed the following four variables to measure indebtedness, liquidity and cost-effectiveness: Net profit, total revenue, net assets and share capital[13].

Return on Asset (ROA) and Return on Equity (ROE) are the basic ratios based on the financial dana which measure indebtedness and indicate business profitability. However, in the banking industry there are needed risk weighted ratios which measure risk-adjusted return in relation to capital allocated[14]. Ratio of risk-adjusted return on capital (RAROC and RORAC), in particular economic capital, and Economic value added (EVA) are the most common risk-adjusted ratios use din business performance measurement. EVA ratio is calculated by deducting cost of capital from operating profit and it displays the value created in a certain period since banks have to generate revenue which has to cover costs of debt, operating costs and has to generate a return on equity for banks' shareholders.

Banks listed on stock exchanges additionally are exposed to market pressures in terms of stakeholders' expectations. Particularly, the risk occurs that a bad image in public might endanger a bank's existence although its business is healthy and stable. This is why there are plenty of market ratios and indicators to measure a bank's performance, but in the following text there will be displayed only the four most significant ones. Calculating book to market ratio is the simplest and fastest way to see whether or not banks generate added value since it shows the way the market is validating the bank's asset value. If this ratio is larger than one, the bank is generating added value (market value exceeds book value) and oppositely, if the ratio is less than one, the bank is losing

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[10] Ibid.

[11] Ibid.

[12] Leko, V. (2011): Upravljanje bankama, Ekonomski fakultet Zagreb, Zagreb, p. 148

[13] Ibid.

[14] Ibid., p. 151

value. Earnings per stock equals the relation of net profit and the number of common stocks. This ratio displays the bank's profit efficiency. Dividend per stock is a significant ratio in terms of stockholder satisfaction since this group of stakeholders has certain expectations concerning return on their investment in equity capital. Price-earnigns ratio shows the relation between current market stock price and earnings per stock. This ratio reflects how many times the stock price exceeds earnings per stock or, in other words, whether the market is over- or underrating the bank's stocks.

2.3   Risks in the banking industry

Risk may be defined in different ways depending on contexts. In context of the banking industry risk is defined as a contingency, predicted or not, which might have adverse effects on equity capital or revenue[15]. Due to their business contexts, banks are countinously exposed to different risks which is why they are forced to accept and control risks in order to successfully manage them since banks invest borrowed capital (deposits) and are responsible for its safety. Relating to cost devision into interest and non-interest expenses depending on whether the cost is related to credit operations or not, risks may also be divided into credit and non-credit risks[16].

Credit risks are characteristic bank risks because they are about debt recovery, i. e. whether the debtor will be able to settle his liabilities in terms of principal and interest within the agreed maturity period. Credit risk may be measured relatd to every single loan, for the sum of loans per client and for the bank's total loans. Fraud risk is a significant factor related to loans and the executive management,as well as to the owners of a bank. This risk occurs regarding to not complying to ethical principles and policies during the crediting procedures, especially when loans are granted to affiliated persons[17].

There are plenty non-credit risks which is why there will be displayed only the most common ones for the purpose of this paper. Liquidity risk is defined as whether or not banks can meet their debt obligations without realizing great losses which depends on short-term liabilities and liquid assets listed on financial statements, accession to central bank liquidity swaps, etc. Interest rate risk displays the risk that a bank's financial situation may change due to changes in the level of interest rates on bank's deposites or on bank's investments which affects interest income. This risk also depends on the bank's assets and liability management in terms of maturity compatibility. Currency risk refers to the danger of negative changes in asset value or changes in revenues expressed in domestic currency due to fluctuating foreign exchange rates which is why practising currency risk management is a great matter of concern in the banking industry. Two more risks with high impact on potential bank collapse are competitive risk and reputational risk. Competitive risk is defined as the risk of signing hazardous contracts due to competitive pressures which is why clients of high credit worthiness may be lost. Reputational risk occurs because of negative public opinion on bank's business, stbility or

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[15] Veselica, V., et al (1999): Aktualni problemi bankarskog sustava i nelikvidnost bankarskog sustava Republike Hrvatske, zbornik radova, Inženjerski biro, Zagreb, p. 89

[16] Veselica, V., et al (1999): Aktualni problemi bankarskog sustava i nelikvidnost bankarskog sustava Republike Hrvatske, zbornik radova, Inženjerski biro, Zagreb, p. 90-91

[17] Leko, V. (2011): Upravljanje bankama, Ekonomski fakultet Zagreb, Zagreb, p. 158

liquidity which is connected to stock market valuation and its consequences in terms of insubstantial decrease or increase stock prices may lead to so called bank runs which result in bankruptcy.

2.4 Conglomeration and internationalisation in the banking industry

Conglomeration is a common process nowadays, occurring in form of mergers and acquisitions of banks between themselves or of banks and other financial institutions and in many cases these mergers and acquisitions are performed internationally. Conglomeration or concentration in the bank industry is a form of business integration which can be realised in different ways. Apart from integration of institutions in the same sector (horizontal integration) or of institutions in different sectors (conglomeration), institutions integrate other organisations which are part of their so called „supply chain" (vertical integration)[18]. Banks, as well, may aquire another institution nad make it part of their own organisation structure, or they form a new institution merging with another institution[19]. There are a lot of reasons, such as expanding business to new markets, increasing revenue or enhancing business profitability, for using integration as business strategy. The following text explains the most common reasons for conglomeration, the different ways of conglomeration and their consequences, and the lin between conglomeration and internationalisation.

In order to discuss the motivation for bank concentration it is inevitable to first determine the intention of this process. Motives for entering such a process differ from institution to institution because they depend on business model, on organisation structure and bank size, on the institution the bank is acquiring or merging with, etc. However, the intention of integration and conglomeration is the same in every case. Conglomeration aims to achieve synergy effects in form of increasing business transactions, entering new markets, decreasing cost, increasing diversification and, consequently, reducing risk. There are plenty of motives for conglomeration but they are divided into two main sections: internal and external motives[20]. External motives, such as competition, are putting pressure on banks to adjust to market movements, i.e. banks are forced to integrate other banks and institutions in order to survive. This kind of integration is called conglomeration within the same industry, whereas integrations between banks and other financial institutions is called conglomeration between different industries[21]. Conglomeration between different industries has become the most common type of integration lately and as a result of such integration banks extended to so called „full service banks" which are defined as banks able to provide all financial services along traditional banking services on domestic and international markets[22]. Throughout history banks were forced to implement such a business strategy since they started losing market share in favour of other financial institutions which offered more attractive financial products to their clients which banks were not allowed to due to prudential regulation. However, integrating with other financial institutions ensured a new distribution channel for banks and the banks' expertise and

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[18] Leko, V., Božina, L. (2005): Novac, bankarstvo i financijska tržišta, Adverta, Zagreb , p. 264-265

[19] Ibid.

[20] Leko, V., Božina, L. (2005): Novac, bankarstvo i financijska tržišta, Adverta, Zagreb, p. 267-268

[21] Ibid.

[22] Leko, V. (2011): Upravljanje bankama, Ekonomski fakultet Zagreb, Zagreb, p. 17

technology for the financial institutions in return. Internal motives for using conglomeration as a business strategy are linked to the bank's management[23]. There are two factors which make managers prone to conglomeration. The first factor depends on increasing revenue and business performance, improved reputation and, consequently, retaining their position in the bank, whereas the second motivation factor is connected with the fear of potential takeovers in case the bank's market share decreases to a certain level.

One key intention of conglomeration , previously mentioned, is to achieve synergy effects in form of different indicators which are to be discussed in the following text. Synergy may be created in terms of increased efficiency and profitability due to economy of scale or in terms of reducing risk because of increased diversification. The effects of economy of scale in terms of increasing capacity re achieved by conglomeration of banks, but it is important to keep in mind that during the process of integration there occur certain costs and expenses for the preparation of the proces, during the implementation and after signing all contracts when the process is done, but it is necessary to reorganise business structure. Therefore, it is not to be expected for the effects of economy of scale to be perceived in the initital phase. Banks are financial institutions which are subject to strict prudential regulation which is why they have complex administrative systems. This is the reason why banks despite of increased capacity are not able to achieve greater efficiency and profitaility since, according to researches, after the finalisation of mergers and acquisitions costs inrease due to greater administration and surplus employees which additionally slows down business processes and makes it impossible to decrease espenses due to regulation and industry specificity. Of course, there are positive examples as well, but due to the financial industry's specificity it is reasonable to be prudent about expectations concerning increasing efficiency as an effect of economy of scale. It should be similar with expectations of reducing risk due to diversification. It is assumed that banks, especially concerning conglomeration between different industries, will be able to offer a wider range of financial products to their clients and have a greater access to deposits which is expected to reduce business risk and increase stability after integrating with other institutions. However, market enlargement in terms of offering new and diverse products to different clients, results with a greater number of different divisions within the bank. The problem is the risk that one division might have negative influence on other divisions' results if it is not successful which consequently means that all other divisions are forced to provide financial aid to lower the impact of the division's losses on the bank's results, meaning that due to one division's bad business all other divisions are left restricted in order to maintain the bank's profitability. Therefore, it would be more efficient to operate without the inefficient division but in order to satisfy a wider range of clients, banks keep such divisions which has a restrictive effect on business performance.

The following empirical research will show whether the bank achieved the intended effects of economy of scale due to its mergers and acquisitions. An important factor in the case of the Unicredit Group is the internationalisation which has great impact on the Group's business activities. The most common type for either companies, banks and other institutions of entering international markets are

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[23] Leko, V., Božina, L. (2005): Novac, bankarstvo i financijska tržišta, Adverta, Zagreb , p. 267-268

establishing new offices in foreign countries, mergers and acquistions, joint ventures, etc. In order to make the decision whether to internationalise business activities it is important to consider the following four factors: The degree of economic integration, legislation in different countries, the economic perspective on different markets and migration possibilities for domestic clients[24]. Therefore it is important to consider geographical distance between the markets, the volume of trade between the countries, whether there exists a history of foreign investments between the countries, etc. These factors determine the degree of economic integration which is crucial for entering the new international market, especially if the legislation is less restrictive or more similar to the domestic legislation. Additionally, banks need to measure the new market's profitability, i.e. whether or not they will generate extra profit in the future which is why younger and growing economies are preferred. Migration possibilities to new markets generally refer to business clients and is of importance for banks in terms of the clients' migrations to new markets. Entering an international market the bank's client might need financial services to start a new business which is why the bank wants to support the client either via its own distribution channels or via international partners.

2.5   Reasons for bank failure and bank crisis management

Bank crises are becomming more and more frequent nowadays since banks are operating in a turbulent environment which makes decision making and predictions difficult. In the past it was believed that the reasons for bank failure were linked to macroeconomic indicators, but it is evident that there exist successful banks with stable business during crisis, whereas there are banks failing within stable periods of prosperity. This is why bank crises are divided into systemic crises which occur due to macroeconomic reasons and into individual bank crises which are in connection with microeconomic factors. Reasons for bank failure are generally divided into the following three groups[25]: Macroeconomic reasons, management weaknesses and weak prudential regulation and controlling.

Volatility of interest rates and high inflation are the most outstanding macroeconomic causes of bank failure[26]. Volatility of interest rates represents a threat to banks since interest income depends on interest rates which need to be stable in order to predict revenue. Inflation, on the other hand, is a hazardous factor affecting prices which implicate companies' revenues which represent banks' major debtors. If high inflation disrupts prices, companie's liquidity might be weakened which has negative impact on banks' credit receivables since their debtors are not able to refund debts. Such circumstances may lead to bankruptcy. An additional condition which may cause bank crises are abrupt outflows of financial assets as a result of decreasing public confidence which is crucial for maintaining business since banks rely on their costumer's trust in the bank's stability. Finally, GDP is worthy of mentioning as a macroeconomic reason for bank failure since it represents the whole

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[24] Leko, V., Božina, L. (2005): Novac, bankarstvo i financijska tržišta, Adverta, Zagreb , p. 213
[25] Leko, V., Božina, L. (2005): Novac, bankarstvo i financijska tržišta, Adverta, Zagreb, p. 169
[26] Ibid. , p. 250-252

economy of a country which is represented by its companies and businesses. If GDP is decreasing or stagnating, companies' credit ratings are weakening which means that current debtors might fail refunding debts and potential clients are not able to apply for credits.

Management weaknesses[27] are the main reason for bank failure in general since banks may fail even during stable macroeconomic periods if they are not managed adequately. Bank management leads to failure in situations when inexperienced bankers take over top management positions or when experienced managers take the lead in new banks which business activities or hidden problems they are not familiar with and as a result of these circumstances managers make risky decisions. Experienced managers may also have problems with adopting to new and fast changing market conditions in terms of new technology, products, etc., which negatively influences on their managing abilities. Furthermore, the bank's size in terms of „distended" investments in loans in relation to the bank's equity capital. In other words, if the bank's capital is not adjusted to the risk included in its financial assests in terms of credit receivables, the bank will not be able to cover potential losses due to debtor's failure which might cause decrease in revenue and endanger its stability. If banking business becomes too geographically distended, including uncontrolled diversification, it becomes more difficult for managers to make rational and efficient decisions since the bank is too large. Insufficient internal control is one of the most significant microeconomic reasons for bank failure since it potentiates bad investments, adjusting financial reporting or even fraudulent actions.

When talking about weak prudential regulation and controlling it is most important to mention the deposit insurance system. In case the state's regulation is not strict enough, banks may behave hazardously with regard to bad investments knowing that the government and other institutions are there to cover their losses which endangers clients' deposits.

Since banks are constantly exposed to plenty of risks, they need to be monitored by so called early warning systems which assist the management to ease or even avoid crises. Prediction models of banking crises are divided by the scope of prediction and by prediction methodology[28]. Prediction models by scope of prediction focus on monitoring macro- and microeconomic indicators depending on the bank's requirements, whereas models by prediction methodology focus on signal modeling which includes the comparison of current quantitative values of certain variables and their value in stable circumstances and qualitative modeling which includes discrete instead of numeric variables[29].

However, it is not always possible to avoid crises which is why it is necessary to successfully manage crises once they occur in order to minimize their consequences. With regard to solving a banking crisis there are four basic steps in the solving process[30]. First it is necessary to identify the amount of financial losses caused by the crisis and it is of high importance to accelerate the process of calculation in order to decide how to settle those losses which is part of the solving process. Identifying the losses is significant with regard to understanding the scope of the crisis and with

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[27] Leko, V. (2011): Upravljanje bankama, Ekonomski fakultet Zagreb, Zagreb, p. 169-172

[28] Leko, V., Božina, L. (2005): Novac, bankarstvo i financijska tržišta, Adverta, Zagreb , p. 255

[29] Leko, V., Božina, L. (2005): Novac, bankarstvo i financijska tržišta, Adverta, Zagreb, p. 255

[30] Ibid., p. 258

regard to informing public (investors, clients, partners, etc.) connected to the bank's business or are directly interested in the bank's welfare. Thereafter it is inevitable to allocate existing losses which are added to the new ones generated through crisis which is wha it is necessary to reorganize the financial structure of liabilities. In this step the management partially makes the decision who is going to settle the „cost of crisis", in other words, whether the new debts are going to be settled in form of new equity capital, new deposits, or to allow the government to enter the shareholding structure. It is of importance to carefully examine all alternatives in order to make the best decision for all stake holders – shareholders, employees, clients, etc. - in the long run. Finally, the last step of sovling crises contains of the bank's operative reconstruction which is going to take the most time of all steps since it relates to business in the long run. The purpose of operative reconstruction is identifying that business model which will guarantee the bank's welfare in the long run, including changes in the organisational structure, changes in board of directors, process innovation, changes in product assortment, etc. The prior mentioned solving process contains only the basic frame how to approach and overcome banking crises. Although not all crises have the same reasons and scope, these four steps display the general approach to any crisis. In some cases it is possible that the government intends to help solving crises by changing legislation. The government's motivation for such behaviour lies in the bank's size and significance for the economy which is also known as the situation when banks are „too big to fail", meaning that failure of a certain bank would have such negative impact on the national economy that the government is forced to adjust the legislation framework so that the bank is operating regularly again. However, this kind of adjustment might motivate banks to behave hazardously which is why governments need to be reasonable.

3 Analysis of the relationship between costs and firm growth using the example of the Unicredit Group S.P.A.

3.1   Short history of the Unicredit Group

The Unicredit Group is the leading banking group in the central an eastern European financial markets operating in 17 countries with more than 143 000 employees. The Group's business activities are based on the following four core businesses: commercial banking, investment banking, asset management and asset gathering[31].

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[31] Official website of Unicredit Group (online): www.unicreditgroup.eu , 18.05.2016

The hisory[32] of the Unicredit Group goes back to 1870 when Banca di Genova (later renamed Credito Italiano) was founded and which represents the fundament of todays banking group which was joined by several banks founded even earlier later during acquisitions and mergers. In 1993, just two years after being privatised, the Credito Italiano bank entered its first acquisition process with the Rolo Banca 1473 Group. After containing five member in 1998 the Group changes its name into UniCredito Italiano and creates its typical logo which has been maintained until today. One year later the Group acquires the Pekao SA. bank from Poland which is the Group's first international acquisition. Afterwards the Group starts expanding to eastern, south-eastern and central European markets.

Picture 3 shows the geographical spread of the Unicredit Group's members throughout Europe and Asia and gives insight into the Group's international representation and complexity. With Alessandro Profumo at the postition of CEO, the Group started different processes in order to expand to the german and eastern European markets with high growth potential in 2004. By then the Unicredit Group had already acquired several banks and other financial institutions from Poland, Bulgaria, Slovakia, Croatia, Romania, th Czech Republic and Turkey, starting in 1998.

Because of the Group's continued boom they started the project „S3" in 2001 in order to reorganise

Picture 3: Geographical spread of the Unicredit Group members (Source: Company profile as at March 31, 2016)

the business model thereby dividing the organisational structure into three main sections: retail banking division, corporate investment banking division and commercial banking which includes banking services for individuals[33]. I 2005 the Unicredit Group acquired the German Hypo- und Vereinsbank and the Austrian Bank Austria which represents a large step in the process of expanding

Picture 4: Toral amount of bad debts in the Italian banking system in 2016
(Source: http://www.ft.com/cms/s/0/4bfcad98-2249-11e6-9dea-6c9f084f551d.html#axzz4IFaduwLX)
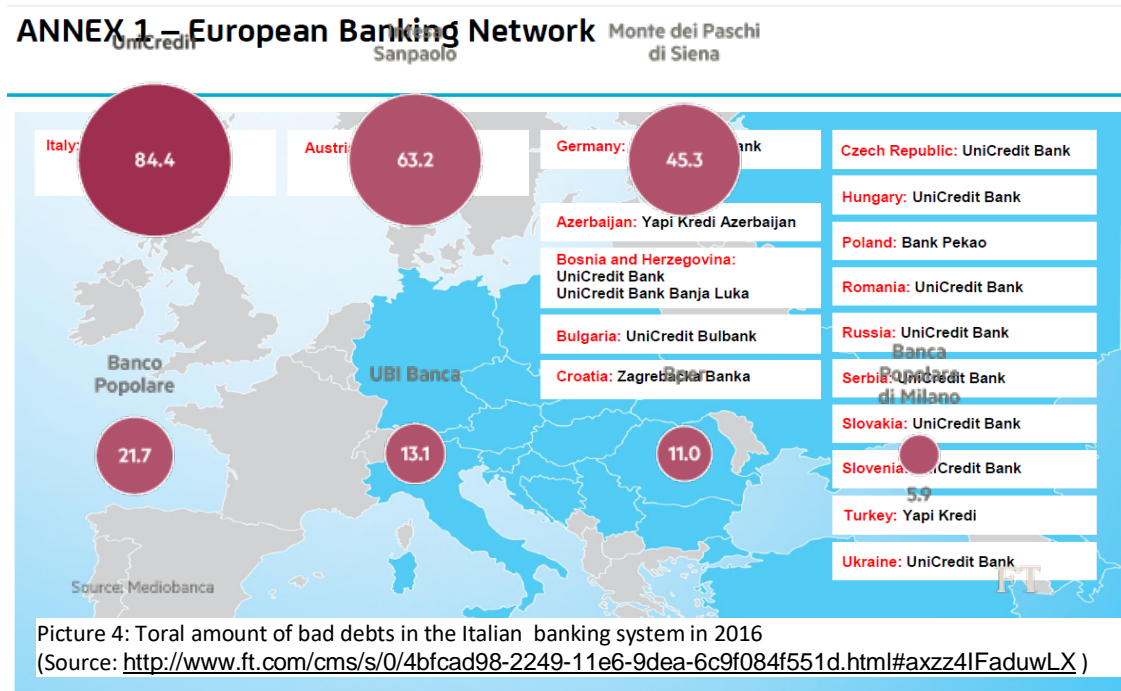
to central Europe. Two years later the Group acquired banks and financial institutions in Ukraine, Kazakhstan, Tajikistan and Kyrgyzstan, which is how the Group finally entered the central Asian market.

To conclude, the Unicred Group managed to expand business activities to 17 countries and to add all other financial services to its typical commercial banking activities within less than ten years. However, in favour of achieving the most attractive acquisitions the Group had to act fast due to competitive pressures which is why some less beneficial acquisitions have been made. The effects of these bad decisions showed in 2008 during crisis.

In fact, according to Bloomberg, the Unicredit group owns a total of 84 billion Euros of bad debts which is almost 20% of its total credit receivables. Consequently, the Group has the worst credit portfolio among Italian banks which is displayed on Picture 4. Additionally, the bank is exposed to high geopolitical risks due to fast international expansion and business activities on geographically spreaded markets which makes it obvious that such an abrupt expansion affects management quality. International business activities resultet in doubling working positions which increased costs to the

European banks' common equity tier 1 ratio
Per cent

Picture
(Source: http://www.ft.com 084f551d.html#axzz4IFaduwLX)
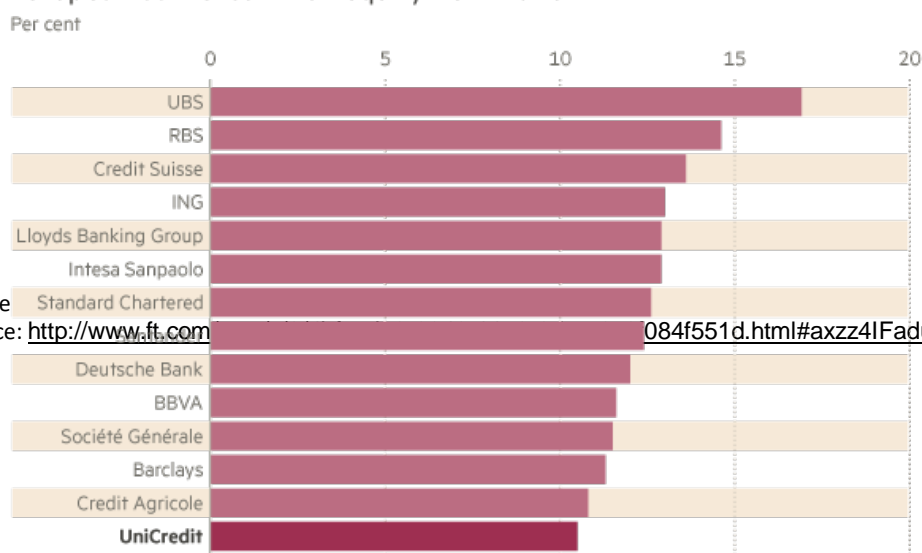
Source: Bloomberg   FT

amount that about 61% of rvenue is needed to settle operating costs which will be discussed in the following chapters. An additional negative impact on financial stability is achieved by constantly decreasing revenue in the domestic country due to economic crisis which burdened the backbone of Italian economy and the bank's majority of clients - small and medium enterprises.

The second great issue connected with geographically distended business activities is capital adequacy. The Tier 1 capital ratio, which shall represent at least 6%, measures capital adequacy and is calculated as the the sum of equity capital and reserves in relation to risk weighted assests. Picture 5 shows that Unicredit's Tier 1 Capital ratio was 10,8% at the end the first quartal 2016[34]. This is the least ratio among all Italian banks and close to the minimum of 6% which leads to the conclusion that the Group's system security and financial stability are at risk. According to Barclay's analyses it would take the Group another 6 billion Euros to increase the Tier 1 Capital ratio up to 12,5% by 2018 which represents nearly two thirds of its current market capitalisation[35]. In other words, the Unicredit

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[34] Laurent, L. (online): „UniCredit: This Savior needs saving", 2016., available at:
http://www.bloomberg.com/gadfly/articles/2016-05-23/unicredit-needs-new-management-and-capital-increase, 23.05.2016
[35] Ibid.

Group may be forced to sell its worthiest member institutions, e.g. acquired banks in Poland and Austria, in order to solve the problem of capital adequacy, but it might be necessary to additionally cut on costs with regard to generating the required profits. Therefore, the Group is on thin ice in terms of solvency and capital adequacy, especially when talking about the large amount of high risk credit receivables which may arise doubts among the shareholders. If the shareholders lose trust in the Group's management and financial stability, the Group maight suffer great losses since the importance of shareholders confidence was displayed earlier.

3.2 Financial statement analysis

For the purpose of this paper there will be analysed the consolidated financial statements of the Unicredit Group for the period from 2005 to 2015 which are available at the Group's official website[36].

3.2.1 Fundamental analysis of Balance sheet and Profit and Loss Account of the Unicredit Group

In order to simplify the analysis the period of ten years is divided into the period prior to global economic crisis (2005-2008) and the period after crisis (2009-2015). The focus will be on assets, liabilities, revenue and cost since there is a lot of data included in the financial statements which is not relevant for this paper.

The most significant items of the balance sheet are loans and receivables with customers and other banks, deposits, equity capital and financial assets held for trade. Total active and passive assets are of importance for the analysis since their changes indicate bank growth. The Group's total assets in 2005 were 787 284 mil. €and represent the starting point of this analysis. By the end of 2008 this value increased by 32,81% which is significant for a three year period, considering that in 2007 there was a pounce of 24,1% regarding to 2006 which is explained by the acquisition wave in central Asia. There occurred an even greater increase in loans and receivables by 38,28% in the same period due to the same reasons. Changes in deposits and equity capital are interesting – deposit increase by 27,33% and equity capital increase by 56,25% during the period from 2005 to 2008 – since their values start decreasing after acquisitions in central Asia in 2007 which indicates the emerging crisis. This assumption is confirmed by a number of ratios connected with the balance sheet, especially by return on equity – ROE which is constantly increasing until 2007 (ROE_{2007}=16.8%), but then starts decreasing and falls to 9,5% in 2008. It is of importance to mention that the average equity capital in relation to total assets is just 5% and the average capital adequacy ratio (capital divided by risk weighted assets) is 10,69% which is close to the minimum of 8% assigned by the Basel Accords[37]. Another significant ratio emerging crisis is economic added value (EVA) which increased more than 170% during the acquisition period until 2007, whereas it plummeted in 2008 to a negative value

[36] Unicredit Group (online): https://www.unicreditgroup.eu/en/investors/financial-reports.html?topmenu=INT-TM_INV4_en004

[37] Pavković, A. (2004): Instrumenti vrednovanja uspješnostiposlovnih banaka, Zbornik ekonomskog fakulteta u Zagrebu, p. 186

which indicates that gross profit does not cover cost of equity. These changes in ratios indicate future problems with capital adequacy.

Analysing the profit and loss account there may be identified a significant increase in interest revenue of 61,02% during the period from 2005 to 2008 which is positive, however, the impact on total revenue is doubtful since interest revenue is only 50% of total revenues. Non-interest revenue records a decrease of 15% caused by great losses in investment activities prior to crisis in 2008 which eliminate the actual increase of this item. It is remarkable that net fees and comissions constantly increase by 20% throughout the whole period, except of the year 2008 during crisis. Constantly increasing operative costs (total increase of 39,55%) and increasing net write-downs on loans and provisions for guarantees and commitments by 62,78% have negative influence on allover results of the Group. Profits, whether gross or net, increased by an average 20% a year from 2005 to 2008 regardless of negative trends since bad debt bubble was still growing and going to show its effects in the future. Cost income ratio increased from 56,5% in 2005 to 62,1% in 2008 which means that more than 60% of generated income is needed to cover business costs and is predicting the negative trend in business activites.

After 2008 balance sheet items take a negative course which is linked to previously mentioned bad debt and economic crisis. In fact, asset value decreased by 11,18% in 2009 in comparison to 2008 which is to be continued – except of a few smaller increases - during the whole period with a total decrease of 7,36 % by 2015. An even greater decrease is recorded in deposits which fell by 20,2%. Decrease in equity capital of 16,09% during this period endangered capital adequacy and the Group's stability in general. However, the Group maintained the required capital adequacy ratio due to continously increasing capital ratio, but in relation to the Group's size and geographically dispense it is on the edge of sustainability. Profitability ratios are constantly decreasing as well during this period. Loans and receivables with banks and clients also decrease more than 13% which is linked to net write-downs on loans and provisions for guarantees and commitments. This trend affects profit as well which will be discussed in the following chapters. However, profit decrease and losses have great impact on return on equity which is why ROE ratio decreased by 64% during this period, and in relation to 2005 even by 68% and reached a value of 3,38% by 2015. With regard to cost of capital and inefficiency of business activities EVA is negative through the whole period and decreased by even 420% from 2005 to 2015 which means that the Group generates less revenue than is needed to settle capital of cost.

Taking a look at the profit and loss account the effects of the Group's bad loans become evident. Although they managed to decrease operative costs by 18,42% from 2008 to 2015 which is important for organisational reconstruction and saving policies, throughout the whole ten year period this item increased by 2,72%. However, the item which had the greatest impact on profit decrease of 57,78% is the cost of net write-downs on loans and loan receivables which increased by 11,19% since 2008 and in the period from 2005 to 2015 by even 81%. Changes in profits are also negatively influenced by decrease in interest and non-interest revenue which results in total decrease in operating income of 19% from 2008 to 2015.

3.2.2   Cost analysis of the Unicredit Group

The previous chapter already provided great insight into the Group's cost structure and trends which is why the mentioned results will be further analysed and associated with firm growth in the following text.

Firm growth may be displayed by several variables and for the purpose of this paper growth will be monitored by changes in total assets and number of employees. Changes in total assets are affected by business success which is why the Group's assets start decreasing at the beginning of economic crisis in 2008 which does not mean that the Group's size declines. It is important to mention that assets abruptly increased until 2007, especially the increase of 24,12% from 2006 to 2007 which is directly linked to the great acquisitions in Asia and after these the Group's size does not significantly change anymore. The same trend may be noticed with the number of employees which also increased and then started falling in 200. This change is linked to saving policies which include dismissals, but the constant increase in employees until 2008 is significant and a result of the numerous acquisitions. The costs of the great acquisitions in Asia affected total costs so that operating costs increased by 25,61% from 2006 to 2007 which is expected, but the effects of economy of scope are visible in 2008 when total costs start decreasing which is a sign of improved efficiency. However, in 2008, due to the beginning of economic crisis, the Group's weaknesses in terms of size and the quality of the credit portfolio show their impact on the business performance. Net profit decreases by almost 40% in 2008 in relation to 2007 which is to be continued through the next years. After 2012 Unicredit Group manages to achieve declines in operating costs which is linked to employee dismissals so that the number of employees decreases by 15,5% in 2013 and this negative trend is to be continued. However, total costs increase due to previously mentioned write-downs of loans which constantly increase more than the decline in other costs. It is evident that these trends endanger the Group's stability. It is important to notice that net profit decreased by more than 57% since 2008, whereas equity capital increased by just 10% average a year which is why return on capital decreased by 60%. Evidently, the Group is not able to build capital reserves from excess profit which makes future problems with capital adequacy inevitable. Another negative indicator is the cost income ratio which is constantly over 60%, whereas the ratio calculated as costs of write-down of loans divided by income is 25,53% as an average for the ten year period which shows that the Group spent about 25% of its income to cover bad debts. This situation raises doubts among investors and the public which puts additional pressure on the Group's management and leads to the conclusion that the Unicredit Group is too big to be efficient.

4 Conclusion

At the beginning of this paper it is assumed that a firm may decrease costs in the short and long run by achieving growth since average costs may be decreased by fully exploiting its capacities or even expanding capacities in the long run. However, it shows that small firms may be effiecient, too, or achieve even lower cost optimums than large firms meaning they are more profitable and use their resources more efficiently. This is explained through the effects of economy of scale and economy of scope.

This approach is used to analyse the financial situation and cost trends of the Unicredit Group for the period from 2005 to 2015. The Group records great growth until 2007 when the last larger acquisitions are performed. During this period costs in connection with the acquisition increase, but yet the next year total costs start decreasing which is a result of declining operating costs. An important characteristic of the Unicredit Group which makes it prone global ecnonomic issues is the fact that its members are geographically dispersed which additionally exposes the Group to high geopolitical risks. This risk shows its effects in 2008 when global economic and financial crisis takes its toll and the Group's costs of wrtie-downs of loans skyrocket which displays the bad quality of its credit portfolio. The wek diversification of the Grou's credit portfolio is due to its fast growth and the competitive pressures in the competition for the best acquisitions where Unicredit Group agrees on less quality contracts. Recovery from crisis is difficult since the bank as a creditor relies on the health of the economy its debtors operate in. The Group's inefficiency also shows through the cost income ratio which indicates that more than half of the Group's income is needed to settle operating costs. Therefore, it is necessary to change management structures and decrease the Group's size in order to achieve declines in cost. The Unicredit Group is implementing a savig plan, including employee dismissals and reconstruction of divisions into centers, but the question is in which manner the Group will be able to continue operating with a smaller number of employees but increased business. Obviously this is not he optimal solution since the cost income ratio keeps increasing, although operating costs decline. The reason for the Group's inefficiency are high costs of write-downs of loans and receivables which portion in total costs is constantly increasing. Therefore, it is necessary to reorganise the credit portfolio.

The negative trends in allover business performance affected capital adequacy which decreased to a level of 10,8% measured with Tier 1 Capital ratio meaning that Unicredit Group needs to either increase equity capital or decrease high risk assets in terms of bad debts in order to improve stability and the Group's welfare.

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Family, Governmental, Domestic Corporations and Board of Directors and Audit Committee Effectiveness in GCC**

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A B S T R A C T

This study aims at investigating the association between ownership structure (government ownership, family ownership and domestic corporate ownership) and the interaction of board of directors effectiveness and audit committee effectiveness by GCC listed companies. The study utilizes a cross-sectional analysis of 492 firm-year observations during the 2006-2010 period. A pooled OLS regression analysis is used to estimate the associations proposed in the hypotheses. The study finds that government and domestic corporate ownerships are positively related to the effectiveness of board of directors and audit committee. However, such association could not be reported by the family ownership. The results of this study suggest that government-owned and domestic corporate-owned companies are characterized to have good corporate governance practices in terms of board of directors and audit committee as internal control and monitoring mechanisms. Further, the results of this study contribute to the existing theory and empirical evidence of how the effectiveness of board of directors and audit committee is related to monitoring and controlling ownership type. This study offers policy-makers additional evidence to be used for setting up and/or enacting regulations in GCC.

1. Introduction

Corporate governance has been incrementally the focus of regulators, investors, lenders and other stakeholders in the today's business market. The corporate governance structure concerns about distributing rights and responsibilities among different participants in the company such as board of directors, managers, shareholders and other stakeholders, and spelling out the rules and procedures regarding making decisions on company's affairs. In the same line, corporate governance also provides the framework through which the company can be guided to set its objectives, attain those objectives, and monitor performance. Therefore, companies that are practicing good corporate governance can be described as companies having well-defined and protected shareholder rights, a solid control environment,

high levels of transparency and disclosure, and an empowered board. More important is that the interest of the company and those of shareholders are well aligned (Hawkamah & IFC, 2008). Corruption practices, such as Enron, Arthur Andersen, WorldCom, and Adelphia scandals have put corporate governance under investigation. Kawaura (2004) finds that the ineffective governance structure is responsible for the crisis of Japanese banks in the 1990s. Studies of corporate governance recently concern about the board of directors. Agency theory proposes a divergence in managerial and owners' interests occur when there is a separation of ownership and control (Jensen & Meckling 1976). The board constitutes the supreme authority at the firm level in making decisions. This mechanism is a market-induced and a low-cost monitoring device. It is responsible for representing the shareholders' interests, defending these interests and fighting against nonqualified managers (Fama & Jensen, 1983; Fama, 1980). The board of directors has to fulfill two functions: (1) monitoring management and (2) providing expert advice. Both functions include the decision of auditor selection (Houqe & Zijl, 2008; Kirkos et al., 2008; Yatim, Kent & Clarkson, 2006). Furthermore, The attentions of regulatory authorities as well as academics are increasingly dedicated in recent times towards audit committees (Abbott & Parker, 2000; Lennox & Park, 2007; Wolnizer, 1995). This is because audit committees are now being observed to be effective handles in operating corporate governance employed in the corporate governance models of Japan-German and Anglo-Saxon (Karim & Zijl, 2008). The audit committees perform an essential responsibility of monitoring in order to ensure corporate accountability and financial reports quality (Klein 1998; Birkett, 1986). The literatures at international level have been synthesized by Wolnizer (1995) with the claim that the supervisory role of audit committee be basically one, accounting and financial reporting; two, auditors and auditing; and three, corporate governance.

Given the governance issues arising from the separation of ownership and control, several studies examining an AC formation, board formation and ownership structure have been empirically investigated based primarily on Anglo-Saxon countries and similar markets (Collier & Gregory, 1999; Menon &Williams, 1994; Pincus, Rusbarsky,&Wong, 1989; Turpin & DeZoort, 1998; Chau and Leung, 2006; Mendez and Garcia, 2007). This study will hopefully contribute to extending empirical research into ownership structure, board and audit committee effectiveness in GCC markets, which is a special case, one hallmark of which is an institutional framework that clearly differs from that of its Anglo-Saxon counterparts. It may not, in fact, be wise to extrapolate empirical evidence from Anglo- Saxon markets to their GCC counterparts for several reasons: (1) Previous studies used managerial ownership as a proxy for company ownership (Woo & Koh, 2001; Lennox, 2000; DeFond, 1992). This category of ownership may be inapplicable in the setting of the GCC because ownership structure in GCC countries is controlled by three groups of shareholders: government, family, and domestic corporations (Chahine, 2007; Chahine & Tohme, 2009; Omran et al., 2008). This dominance is a result of the weakness of investor protection, and the absence of well-developed markets for corporate control (Chahine & Tohme, 2009; Harabi, 2007; Hawkamah & IFC, 2008; Omran et al., 2008; Saidi & Kumar, 2007). (2) GCC governments have intervened heavily in linking legal origins and financial arrangements. GCC countries are still suffering from a lack of equity among investors.
(3) Arab companies suffer from the cultural heritage that has been brought into from the history. These inheritances do not encourage the implementation of sound management practices (Ali, 1995). (4) The current corporate governance frameworks of GCC countries do not meet the threshold sought by international investors (AL Majlis, The GCC Board Directors Institute, 2009). Corporate governance reform is often investor-driven in more developed markets, but in the GCC, the burden of corporate governance improvements falls

on the regulators. Much of this stems from a combination of facts such as the ownership structures of GCC companies, the ready availability of liquidity and financing from regional banks, and the relatively underdeveloped capital markets. (5) Recently, however, GCC countries have adopted and developed large-scale economic and market policies and strategies that convert them to market-oriented economies. In this case, these issues may have an influence on the quality of board of directors and audit committee in the GCC, and agency problems are more likely to arise between majority and minority shareholders.

This study investigates the variation in the level of board and audit committee quality caused by different ownership structures among GCC companies. An agency theory framework is used to analyze the association between ownership structure and board of directors and audit committee effectiveness in GCC setting. One of the objectives of this paper is to extend such analyses in a number of important ways. This study introduces a different classification of ownership structure that fits the setting of GCC countries. Previous studies conducted in the developed and high- developing countries have used managerial ownership as a proxy for company ownership or different structure of ownership. This category of ownership may be inapplicable in the setting of the GCC because ownership structure in GCC countries is controlled by three groups of shareholders: government, family, and domestic corporations (Chahine, 2007; Chahine & Tohme, 2009; Omran et al., 2008). Furthermore, this study adds to the recent literature by investigating and associating ownership structure with board of directors and audit committee effectiveness. To the best of the researcher's awareness, no empirical evidence is available that has linked board of directors characteristics and audit committee characteristics as a whole to capture the strength of their degree impacted by the variation in the ownership structure. Yet if these characteristics act in a complementary or substitutable fashion in making decisions, board of directors and audit committee characteristics should be examined as a bundle and not isolated from each other (e.g., Cai et al., 2009; Davis & Useem, 2002; O'Sullivan et al., 2008; Ward et al., 2009).

The findings of this study should be of interest to policymakers in GCC as well as to those emerging markets in the Middle East because of the similarities in the institutional and cultural environments and in the corporate ownership structure of firms (La Porta & Lopezde-silanes, 1999). The results may also be of interest to other researchers who are investigating the characteristics of firms in the formation and effectiveness of board of directors, ACs, and ownership structure. In addition, the results of this study will hopefully motivate further inquiries into why the effectiveness of board of directors and ACs varies among different degrees of family, government, and domestic corporate ownership structure.

The remainder of the paper is organized as follows. Section 2 discusses the literature review and the hypotheses development. Section 3 describes the research methodology. The results and discussions have been highlighted in section 4. The final section provides conclusions and implications.

2. Literature review and development of hypotheses

2.1 Corporate Governance in the GCC

Corporate governance is defined as the system through which corporations are directed and controlled. The corporate governance structure concerns about distributing rights and responsibilities among different participants in the company such as board of directors, managers, shareholders and other stakeholders, and spelling out the rules and procedures

regarding making decisions on company's affairs. In the same line, corporate governance also provides the framework through which the company can be guided to set its objectives, attain those objectives, and monitor performance. Therefore, companies that are practicing good corporate governance can be described as companies having well-defined and protected shareholder rights, a solid control environment, high levels of transparency and disclosure, and an empowered board. More important is that the interest of the company and those of shareholders are well aligned (Hawkamah & IFC, 2008). Corruption practices, such as Enron, Arthur Andersen, WorldCom, and Adelphia scandals have put corporate governance under investigation. Kawaura (2004) finds that the ineffective governance structure is responsible for the crisis of Japanese banks in the 1990s. Corporate governance matters to stakeholders for broadly similar purposes. These stakeholders include investors, companies, the public sector, and other stakeholders such as banks; suppliers; and employees (Hawkamah & IFC, 2008).

The OECD principles of Corporate Governance first endorsed by OECD ministers in 1999 (a reviewed and revised version of them is now available, since 2005), are intended to assist OECD and non-OECD governments in their efforts to evaluate and improve the legal, institutional and regulatory framework for corporate governance in their countries. The World Bank has used OECD principles of CG to assess the state of corporate governance in some of its member countries, including Arab countries. Over the years, several institutions have developed their own set of codes and principles like the Institute of International Finance's Policies of Corporate Governance and Transparency in Emerging Markets, which established a code based on criteria are considered important to international investors (Harabi, 2007; Hawkamah & IFC, 2008).

The increasing openness and integration of GCC countries with the global economy has created push-and-pull factors that are contributing to changing the corporate governance environment. Policy and regulatory reforms in the GCC have been led by international convergence and adoption of prudential and regulatory codes and standards, such as Anti-Money Laundering and Counter-Terrorist Financing (AML/CTF), Basel banking supervision core principles, and international obligations and agreements resulting from entry into WTO, Regional trade Agreements (RTAs) and Free Trade Agreements (FTAs). This has been reinforced by competitive pressure and emulation within the countries of the GCC. Moreover, international institutions, such as the IMF, World Bank, WTO and the BIS have played a role in providing technical assistance and building knowledge and capacity (Harabi, 2007; Saidi & Kumar, 2007; Hawkamah & IFC, 2008).

Globalization, liberalization and the interlinking of markets have brought about an increased pressure for change. These are compounded by the regional and international investors such as the increasing presence of international firms in the region and the increasing number of Western expatriates in senior management level positions, who are subject to global corporate standards. All these factors contribute in the creation of a superior corporate structure and offer GCC companies with the encouragement to invest in the adoption of better standards.

It is imperative to acknowledge that the boom in the GCC has been urged by the desire to diversify the economy from oil to a more sustainable business model for the future. As such, the most ideal way to achieve sustainability, prosperity and job creation in the long term context is through ensuring that firms are capable of providing investors with superior returns in the present and in the future. A framework encapsulating effective internal governance is invaluable in guiding the firms towards the above objectives while simultaneously ensuring corporate flexibility in uncertain times (Hawkamah Newsletter, 2008). Regulatory authorities throughout the region have employed steps to enhance corporate governance mechanisms owing to three factors; the downward correction in regional markets in 2005 followed by the efforts by the authorities to improve standards and protect shareholders particularly during

the widespread public participation in equity markets, the inclination of GCC corporations to take part in the global market competition and thus adhere to international standards and finally, attempts to attract foreign direct investments to the Arab region (AL Majlis, The GCC Board Directors Institute, 2009).

Hawkamah's research indicates that there have been significant improvements in corporate governance in GCC region in just a few short years. Although implementation is still patchy, the concept and principles of corporate governance are now well accepted. Regulators and companies have taken substantial steps, albeit from a low base, to improve their practices. Almost all GCC countries now have corporate governance codes or guidelines in place for publicly listed companies (Saidi, 2011). However, corporate governance is still a relatively new concept in the Gulf Cooperation Council (GCC) countries. The corporate governance frameworks of GCC countries in the present time fail to meet the threshold expected by international investors (AL Majlis, The GCC Board Directors Institute, 2009). This is because corporate governance reform is primarily run in the developed markets by investors but in the GCC, the weight of corporate governance improvements lies on the regulators. This depends on a combination of factors including ownership structures of GCC firms (primarily family or state- owned), the availability of liquidity and financing present in regional banks and the underdeveloped capital markets. Arab firms are still inclined to follow concentrated ownership and hence, other factors such as generational ties and family involvement effect the firms' governance relations and agreements (INSEAD, The Business School for the World, 2010). Consequently, international investors taking corporate governance very seriously steer themselves away from GCC markets (INSEAD, The Business School for the World, 2010). Further, GCC financial markets remain underdeveloped and do not sufficiently protect minority investors. The GCC largely follow a civil-law system, but are still significantly affected by their political regimes (Chahine & Tohme, 2009; Al-Shammari et al., 2008; Al-Hussaini & Al-Sultan, 2008; Al-Muharrami et al., 2006; Bley & Chen, 2006).

2.2   Board of directors and audit committee effectiveness score

Several empirical studies in different disciplines have reported an association between weaknesses in governance and poor financial reporting quality, earnings manipulation, financial statement fraud, and weaker internal controls (Carcello & Neal, 2000; Carcello & Hermanson, 1999; Beasley, Beasley, Carcello, Hermanson, & Lapides, 2000; Klein, 2002). McKinsey and Co (2002) indicate that a key factor for making investing decision by institutional investors is corporate governance. Furthermore, Dewing and O'Russell (2004) document that corporate governance mechanisms influence positively on the issue of accountability.

Studies of corporate governance recently concern about the board of directors. Agency theory proposes a divergence in managerial and owners' interests occur when there is a separation of ownership and control (Jensen & Meckling 1976). The board constitutes the supreme authority at the firm level in making decisions. This mechanism is a market-induced and a low-cost monitoring device. It is responsible for representing the shareholders' interests, defending these interests and fighting against nonqualified managers (Fama & Jensen, 1983; Fama, 1980). The board of directors has to fulfill two functions: (1) monitoring management and (2) providing expert advice (Houqe & Zijl, 2008; Kirkos et al., 2008; Yatim, Kent & Clarkson, 2006). Furthermore, according to Hawkamah and IFC survey of 2008, around 49% of listed companies in MENA countries (i.e., GCC) consider the responsibility for corporate governance policies to the board—in-line with good practice. But, the role of the board is often misunderstood in the MENA region. According to the survey, 89.9% of MENA banks

and listed companies stated that the board, and not management, was responsible for setting corporate management, which is contrary to the good practice that management develops, and the board reviews and guides corporate strategy. As for the audit committee effectiveness. The attentions of regulatory authorities as well as academics are increasingly dedicated in recent times towards audit committees (Abbott & Parker, 2000; Lennox & Park, 2007; Wolnizer, 1995). This is because audit committees are now being observed to be effective handles in operating corporate governance employed in the corporate governance models of Japan-German and Anglo-Saxon (Karim & Zijl, 2008). The audit committees perform an essential responsibility of monitoring in order to ensure corporate accountability and financial reports quality (Klein 1998; Birkett, 1986). The literatures at international level have been synthesized by Wolnizer (1995) with the claim that the supervisory role of audit committee be basically one, accounting and financial reporting; two, auditors and auditing; and three, corporate governance.

Several prior researches on corporate governance have empirically linked ownership structure with board and audit committee effectiveness either by examining the board and audit committee characteristics in an individual manner or by examining separately the board characteristics from audit committee characteristics (Collier & Gregory, 1999; Menon &Williams, 1994; Pincus, Rusbarsky,&Wong, 1989; Turpin & DeZoort, 1998; Chau and Leung, 2006; Mendez and Garcia, 2007). Unlike these previous studies, the current study investigates the board and audit committee characteristics as a composite measure including the board of directors characteristics (independence, size, meetings, CEO duality, financial expertise, nationality and international experience) and the audit committee characteristics (independence, size, meetings, financial expertise, nationality and international experience). The reasoning behind using a composite measure of corporate governance mechanisms is that the ideal combination of corporate governance mechanisms is considered invaluable in decreasing the agency cost and safeguarding the shareholders' interests owing to the effectiveness of corporate governance achieved through various channels and specific mechanism's effectiveness hinges on the effectiveness of other factors (Cai et al., 2009). Additionally, Ward et al. (2009) claim that it is more optimal to examine the corporate mechanisms as a group of mechanisms protecting shareholders' interests and not as individual entities because they complement each other or are alternates for each other. They added that the previous studies provided inconsistent findings because they examined them individually and how each may contribute in resolving agency problems in isolation; in other words, they overlooked that individual mechanism's hinges on its counterparts. Similarly, Agrawal and Knoeber (1996) stated that the findings of the individual mechanism's impact may be erroneous as the impact of some single mechanisms is diminished in the combined model. Along the same line, the measurement of the combined impact indicates a stronger effect as compared to measurement of individual impacts (O'Sullivan et al., 2008).

2.3 Ownership structure

2.3.1 Family ownership

Carey et al. (2000) argue that agency problems such as self-interest, conflict of interests and goals and information asymmetry can still arise in family businesses. Therefore, agency theory predicts the existence of potential conflict in family business (Fama & Jensen, 1983). In GCC setting, the family has been at the core of political and economic influence, families with most board representation can be thought of as controlling the economy (TNI Market Insight, 2008). They hold on average between 19% and 30% of company board seats (TNI

Market Insight, 2008). Over 50% of large family owned businesses would like to list in the region's stock exchanges; 20% of those are already planning to issue IPOs and 30% are intending to do so in the near future (Hawkamah newsletter, 2009). The main reasons that drive family business IPOs include: enhancing the company's profile and reputation; providing an exit route for family members by divestment; providing capital to finance expansion; providing acquisition currency in the form of shares; and international recognition (depending on the choice of market) (Hawkamah newsletter, 2009).

On the basis of these rationales, the present study proposes an association between family ownership and board of directors and audit committee effectiveness. The testable hypothesis is stated as follows:

H_1: Ceteris paribus, there is an association between family ownership and board of directors and audit committee effectiveness.

2.3.2 Government ownership

High levels of government ownership create a series of agency problems of ineffective corporate governance that directly results in poor firm performance (Qi et al., 2000; Wang et al., 2005; Xu & Wang, 1999) and, consequently, low levels of board and audit committee effectiveness. Moreover, it is evidenced that companies with political connections access to cheap loans (Claessens et al., 2008; Faccio, 2007) which, consequently, make them raise capital through these connections without having to reduce information asymmetry with more credible financial statements (Wang et al., 2008). Further, Chaney et al. (2011) document that politically connected firms, despite their poorer quality earnings, are not penalized with higher borrowing costs.

The above disputing discussion guides the present study to propose an association between government ownership and board of directors and audit committee effectiveness. The testable hypothesis is identified as follows:

H_2: Ceteris paribus, there is an association between government ownership and board of directors and audit committee effectiveness.

2.3.3 Domestic corporate ownership

The agency costs would be reduced in a case when there is an increase in the holdings of the owner-largest shareholder. Therefore, the controlling owners will be motivated to improve earnings informativeness due to their need in managing earnings for the purpose of alleviating contractual constraints. This circumstance is associated with board of directors and audit committee effectiveness. Increasing the quality of board of directors and audit committee by the controlling owners is expected to signal a good practice of corporate governance and it gives a credible financial reporting from the perspective of the minority shareholders and other investors. Allen and Phillips (2000) empirically report that corporate ownership can reduce the costs of monitoring the alliances or ventures between firms and their substantial shareholders in companies involved in certain business agreements. It is further indicated that higher degrees of technical and organizational and financial resources are provided by domestic investors than those provided by foreign investors (Chibber & Majumdar, 1999; Djankov & Hoekman, 2000; Khanna & Palepu, 2000). This leads to propose direct evidence

on the association between domestic corporate ownership and the board of directors and audit committee effectiveness. The testable hypothesis is stated in a direct form:

H3: Ceteris paribus, there is a positive association between domestic corporate ownership and board of directors and audit committee effectiveness.

3. Data collection and research design

3.1 Sample selection and data collection

the population of interest comprises all non-financial companies listed on the Stock Exchanges of the five members of the Gulf Co-Operation Council (GCC) with auditor switches during the period from 2006 to 2010. This selection is the most recent test period for which data were available. Further, the boom of the GCC clearly emerged in early 2005 (Chahine & Tohme, 2009). The information has been gathered as of three points in time; before, during and after the auditor switches. Samples selected for the three years spanning from 2006 to 2010 are depicted in Table 1.

Table 1

Sample Selection during 2006-2010

	Total Observation
Total listed companies	172 company
Period of study (2006-2010)	3 year
Total observations	516 observations
Missing and Incomplete data	(24 observations)
Total observations selected	492 observations

3.2 Regression model and definition of variables

The economic model is used to develop a model of board and audit committee effectiveness. The variables proposed for inclusion in the model capture differences in the costs of agency relationships. The dependent variable is a continuous measurement. To estimate this model, Multivariate Analysis is applied using Multiple regression model because the dependent variable is a continuous nature. A pooled OLS regression analysis is used to estimate the associations proposed in the hypotheses. The functional equation of the multiple regression model is utilized to determine the extent of the influence of each of the independent variables on the board and audit committee effectiveness:

$BAC\_EFFE = \beta 0 + \beta 1\ FAMILY\_OWN + \beta 2\ GOV\_OWN + \beta 3\ DOMESTIC\_OWN +$ Control
$\qquad$ variables $+ e$

Where the dependent variable is:

BAC_EFFE $\qquad$ = Board and audit committee effectiveness

Where the independent variables are:

FAMILY_OWN	= percentage of 5 or more of the ordinary shares held by a family,
GOV_OWN	= percentage of 5 or more of the ordinary shares held by the government and its agencies,
DOMESTIC_OWN	= percentage of 5 or more of the ordinary shares held by domestic corporations
Control variables	
FSIZE	= $\log_{10}$ of the total assets,
ROE	= return on equity,
LEV	= total debt to total assets,
AUD_CHANGE	= "1" if auditor is changed, "0" otherwise,
e	error term.

4. Results and discussion

4.1 Descriptive statistics and correlation analyses

Table 4.1 predicts the mean, standard deviation, minimum and maximum of each variable in the sample data set.

Table 4.1
Descriptive statistics ($N = 492$)

Panel A: Independent variables				
Variables	Mean	Std.Deviation	Minimum	Maximum
FAMILY_OWN	.124	.192	.000	.950
GOV_OWN	.081	.163	.000	1.00
DOMESTIC_OWN	.250	.266	.000	1.00
Control variables				
FSIZE	1937085.762681	6995892.1297166	2097.5000	78121395.2600
ROE	12.707	32.039	-186.220	503.210
LEV	20.946	22.572	.000	115.800
Panel B: Dependent variable				
BAC_EFFE	.444	.1662	.07	.86
Panel C: Control variable (a dichotomous measure)			Companies with an auditor change	Otherwise
AUD_CHANGE			300 (61%)	192 (39%)

Table 4.1; panel A shows that there is a significant range of variation among the considered sample of this study. The range of family ownership *FAMILY_OWN* is from .000 to .95 with a mean of .124 and standard deviation of .192. The range of government ownership *GOV_OWN* is from .000 to 1.00 with a mean of .081 and standard deviation of .163. as for the domestic corporate ownership *DOMESTIC_OWN*, it ranges from .000 to 1.00 with a mean of .250 and standard deviation of .266. With respect to the control variables, firm size *FSIZE* ranges from S.R2097.500 to S.R78121395.2600 with a mean of S.R1937085.762681 and standard deviation of S.R6995892.1297166. The range of return on equity *ROE* is from -186.220 to 503.210 with a mean of 12.707 and standard deviation

of 32.039. The range of leverage *LEV* is from .000 to 115.800 with a mean of 20.946 and standard deviation of 22.572. As for auditor change *AUD_CHANGE* as shown in panel C, the majority of the sample companies (61%) have changed their auditors during the three points in time selected. In terms of the dependent variable; board and audit committee effectiveness *BD_AC*, panel B shows a range between .07 to .86 with a mean of .444 and standard deviation of .1662, meaning that there is a variation among the sample companies in terms of the degree of board and audit committee effectiveness.

The Pearson correlations between the variables are presented in Table 4.2. Most of the coefficients of correlation are small and the highest correlation was between *FSIZE* and *AUD_CHANGE*, indicating that larger firms have a higher incidence of switching auditors.

Table 4.2

Pearson Correlation Analysis results (*n* = 492)

	FAMILY_OWN	GOV_OWN	DOMESTIC_OWN	FSIZE	ROE	LEV	AUD_CHANGE
FAMILY_OWN	1.00						
GOV_OWN	-.249	1.00					
DOMESTIC_OWN	-.220	-.254	1.00				
FSIZE	-.224	.304	-.134	1.00			
ROE	-.006	.046	-.027	.031	1.00		
LEV	.146	-.102	.114	.006	-.196	1.00	
AUD_CHANGE	-.070	-.021	.005	-.344	-.012	.061	1.00

** Significant at 1 per cent level (2-tailed).

 *Significant at 5 per cent level (2-tailed).

the correlation matrix confirms that no multicollinearity exists between the variables as none of the variables correlates above 0.80 or 0.90 all variables have a correlation of less than 0.304 (Myers, 1990).

4.2 Regression results and discussions

Pooled Ordinary-Least Square (OLS) was used to evaluate the level of effect of the hypothesized variable, family ownership, government ownership, and domestic corporate ownership on the effectiveness of audit committee. Table 4.3 shows that the coefficient of determination (adjusted R^2) for *BD_AC* is equal to 12.2. The statistics show that this model has explained 12.2% of the total variance in the effectiveness of board and audit committee. The table also depicts that the
model is a statistically significant where the *F* test statistic = 10.749 with a *p*-value < 0.001, indicating that the overall model can be interpreted.

Table 4.3

Pooled OLS regression (n = 492)

Variables	**Expected sign**	**Coeff.**	*t*	*p*-**value**

Variables		Coeff.	t	p-value
(Constant)			9.793	0.000
FAMILY_OWN		-0.55	-1.138	0.256
GOV_OWN		0.175	3.696	0.000
DOMESTIC_OWN	+	0.203	4.329	0.000
Control variables				
FSIZE		-0.200	-4.023	0.000
ROE		0.080	1.861	0.063
LEV		0.115	2.578	0.010
AUD_CHANGE		0.111	2.401	0.017
Adjusted R^2	12.2			
Model F-stat.	10.749			
P-value	0.000			

As illustrated by Table 4.4, the regression coefficient for *GOV_OWN* is positive (.175) and statistically significant ($p < 0.001$), suggesting that government ownership is associated positively with the effectiveness of board and audit committee in GCC. This result is consistent with the prediction of agency theory and supported empirical studies. It provides support for hypothesis H_2. Further, the regression coefficient for *DOMESTIC_OWN* is positive (.203) and statistically significant ($p < 0.001$), indicating that domestic corporate ownership influences positively the effectiveness of board and audit committee in GCC. Therefore, this result gives support to the suggestion of agency theory and the supporting empirical evidence. Hence, hypothesis H_3 is accepted. On the other hand, this study fails to find an association between *FAMILY_OWN* and the effectiveness of board and audit committee in GCC. Therefore, hypothesis H_1 is not supported. An explanation to this result could be attributed to the model specification in which the associations of government and domestic corporations are more influential than family ownership when aggregated in one model. Supporting this evidence, an additional analysis is run excluding government and domestic corporations as depicted in the following Table 4.4.

Table 4.4
Pooled OLS regression (n = 492)

Variables	Coeff.	t	p-value
(Constant)		11.225	0.000
FAMILY_OWN	-0.127	-3.206	0.001
Control variables			
FSIZE	-0.037	-4.138	0.000
ROE	0.000	1.951	0.052
LEV	0.115	2.578	0.010
AUD_CHANGE	0.001	3.012	0.003
Adjusted R^2	8.00		
Model F-stat.	9.490		
P-value	0.000		

Table 4.4 shows that there is a significantly negative association ($t = -3.206$, $p < 0.001$) between family ownership and the effectiveness of board and audit committee in GCC region. Therefore, this result gives support to the agency theory and the supported empirical evidence.

5. Conclusions and implications

Our study examines the association of family ownership, government ownership and domestic corporate ownership with the effectiveness of board and audit committee in the GCC region. The hypotheses of this study are based on the premise that family and government ownerships affects the effectiveness of board and audit committee. Further, domestic corporate ownership influences positively such effectiveness. Since this study focuses on the GCC setting which is referred to as a unique corporate ownership and corporate governance structure, it does contribute to the body of literature in providing empirical evidence regarding the board and audit committee effectiveness. It is worth mentioning that GCC companies are characterized as having unclear separation of ownership and control as that found in the Western countries. Therefore, the result of this study can be used as a piece of evidence adding to the current body of literature about Arab countries and similar markets. Our result supports the hypotheses that government, domestic and corporations do influence positively the effectiveness of board and audit committee. One important implication of this finding relates to the issue of board and audit committee effectiveness in GCC. GCC governments, stock market, companies and accounting and auditing regulators would gain some new insights from this study in terms of the understanding the association of family ownership, government ownership and domestic corporate ownership with the effectiveness of ard and audit committee. The results of this study would benefit banks in the way that they can assess the creditworthiness of incorporating companies in GCC. Moreover, credit decisions made by lenders are determined based on information included in the financial statements. Therefore, board and audit committee effectiveness issues are of the utmost important for any lending institution. Investors and financial analysts may depend on issues of the effectiveness of board and audit committee to interpret decisions related to bonds, bond rating, interest rate, and all other decisions related to investments in GCC markets. Accordingly, increased understanding and prediction of companies' events is important to this user group. Further, the results of this study will be of interest to the researchers and academic community due to a lack of formal research body addressing the issues of family ownership, government ownership and domestic ownership and the effectiveness of board and audit committee and, therefore, this study will provide with substantial information about issues in the markets of GCC to count on, in the future, as premise data. Limitations of the study lie on the other internal corporate governance mechanisms (i.e., board of directors characteristics and ownership structures). Future line of research should put an effort to introduce more characteristics of these mechanisms. Further research should replicate this model to determine its validity in different contexts of Arab countries, in different time periods, and with different sample sizes. These limitations may motivate more future research in the Middle Eastern markets.

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Causality Relationship Between Public Investment and Private Investment: the Case of Indonesia

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A B S T R A C T

Public investment in APBN annually budgeted as capital expenditure. However, public investment not only in the form of physical capital but also in the non-physical forms of human resources that can be looked at education expenditure and health expenditure that called as human capital. The purpose of this study is to provide empirical evidence about causality that occurred between public expenditure and private sector investment in Indonesia with 33 provinces over the study period 2010-2013. The statistical tool used in this study is the Three-stage Least Squares from E-Views. Results of this study indicate that there are causal relationship between public investment in infrastructure and private investment and between public investment in infrastructure and public investment in human resources. However, no causal relationship occurs between the public investment in human resources and private investment. As a control variable, GDP has positive and significance effect on private investment.

INTRODUCTION

Economic growth is an indicator to know the successful of economic development. Public sector, private sector, and human resources are needed to increase economic growth. In some concept called Trilogi Pembangunan, government is one of the economic agents besides private sector and cooperative that has an important role to maintain the economic stability in order to increase economic growth because government has a task to provide public needs and services to the society that can't be provided by private sector. That task is expressed in the government expenditure in Anggaran Pendapatan dan Belanja Negara (APBN) annualy. Include the government role in order to increase the quality of human

resources through education and health. Trilogi Pembangunan appears when Indonesia was at the time of Soeharto in PELITA III.

Human resources as a labour is a capital to make some movement in development. Growth and quality of labor are positive factor that spur the economic growth. Quality of the production factor of human resources is very influenced by rate of education and health. Investment on human resources is amounts of funds spent and income opportunities for the investment process. This investment has a role to spur the economic growth.

There is relationship between role of economic agents. Government through expenditure keep the stability its country with provide facilities that support citizen activity and another economic agents. Private sector has a focus on increasing economic growth with increase the productivity that make the investor want to do some investing activities, and of course cooperative has a role to distribute result from economic and expenditure that spent by government.

Private investment is an important factor to increase the economic growth. Private investment is all of type of investing activity undertaken by domestic investor and foreign to do bussiness in Indonesia. This investing activity is supervised by BKPM (Badan Koordinasi Penanaman Modal). Based on Trilogi Pembangunan, private sector has a function about economic growth, so more and more investor that do some investing activity in Indonesia will give an affect to the increase of economic growth.

Different from existing research, this study focuses on government spending in the form of investment in Indonesia, in which case the investment is not only depicted in the form of physical or infrastructure but also investment in human resources which also has an influence on the private sector represented by government spending in education spending and health spending, and private sector investment. In addition, this study also do not just look at how government investment can influence private sector investment, but the researchers wanted to see more about the causal relationship that occurs between government investment and private sector investment which is observed through statistical tool from E-Views called Three-Stage Least Squares.

Another contribution was conducted by researchers in this study the researchers also tested to see the relationship between public investment made in physical capital (infrastructure) and government investment made in human resources. Also in this study to measure the quality of human resources is not only portrayed through education spending and health spending by the government alone, but researchers added some other proxy who can help explain the quality of human resources owned by a local. Another proxy used to describe the quality of human resources is the literacy rate and life expectancy. The proxy will be explained through descriptive statistics which would help explain the condition of the area that will be examined.

LITERATURE REVIEW

Theories about the role of the private sector of the economy has been existed since 1732 beginning with the classical economic theory from the year 1973-1790 pioneered by Adam Smith who explained the principles of personal interest (self-interest) and the spirit of individualism (laissez faire). This mashab adherent believe that the liberal economic system automatically can achieve public welfare and government intervention is very small or even non-existent. But the flow is not able to resolve the crisis phenomena that occurred in the 1930s so it appeared the flow of Keynesian pioneered by John Maynard Keynes which aims to overcome these problems. In this theory the government has an active role in controlling the economy.

Private investment plays an important role in shaping the pattern of development in the region. This investment will lead to the formation of local capital (Zaris, 1987). Foreign Direct Investment (FDI) and Domestic Direct Investment (DDI) to be one important source of financing for growing region and was able to contribute significantly to development. According to Law 25 of 2007 Article 1 on Investment, Foreign Direct Investment (FDI) is an investment activity to conduct business in the territory of the Republic of Indonesia, made by a foreign investor, either using foreign capital and joint venture with domestic investors , While the Domestic Direct Investment or (DDI) is the investment activity to conduct business in the territory of the Republic of Indonesia by a domestic investor using domestic capital.

Investment Neo-Classical theory suggests that the growth rate of real GDP positive effect on private investment, or so-called accelerator effect (Greene, et al., 1991). GDP is the total value of final goods/services produced by all economic units in the country, including goods and services produced by other citizens who live in the country or regional. Rate of national income will increase the income of high society, and further public revenue this high will increase the demand for goods and services, the high corporate profits will increase and this will encourage investment.

Government expenditure is value of spending undertaken by the government are used for the benefit of society. Spending on education and health facilities, expenditures to provide the police and army, salary expenses for government employees and expenditures to develop the infrastructure created for the benefit of society. Based on the World Bank Government spending also consists of various activities for the well-being of the community and also to economic development, especially in developing countries.

According to BPS, central or local government spending by function consists of expenditures of public services, defense, public order and safety, economic, environmental, housing and public facilities, health, tourism and culture, religion, education, social protection. Meanwhile, according to

Minister Regulation No. 37 of 2010 on Guidelines for Preparation of Budget and Expenditure in the budget consists of routine expenditures (apparatus) and development spending (public expenditure).

Related to public expenditure in education spending, there is Law No. 20/2003 on the National Education System which requires the central and local government to allocate a minimum of 20 percent of their budgets to the education sector, beyond the salaries of these benchmarks. Management authority primary and secondary education has been fully transferred from central government to the provinces and districts. Shopping area for education sector increased both in terms of numbers and in part of the national education spending.

Health expenditure is the type shopping areas are used in order to fund the implementation of government affairs under the authority of the provincial or district / city in the health field. Under Law No. 36 of 2009 Article 171 paragraph (2) states that the major government health budget is allocated at least 10% of the budget excluding salaries. Consequences This government will show the accumulation of government spending on health expenditure, is an investment well as government interference in realizing an increase in the index of human development in Indonesia.

Local government investment in the Regional Budget (APBD) is reflected through capital expenditure budgeted annually. If the increase in budget revenues in the municipal district of a province was not followed by an increase in the funds allocated to the investment, it will have an impact on the provision of physical infrastructure and adequate infrastructure for the district and the city with the expansion. Lack of infrastructure will directly cause the economic potential of a region can not be utilized optimally (Wahyuningsih, 2012).

Investments can be done not only on the physical, but also in the field of non-physical. Non-physical investments include education, training, migration, health care and employment. Non-physical investments more or better known as investment in human resources is the amount of funds spent and income opportunities during the investment process. Investment in human resources will form human capital (human capital), which will provide rewards greater income in the future. Human capital (human capital) is one of the important factors that support change and technology development, while the technology along with physical capital investment and population growth is a function of the output. In the new theory of economic growth or the so-called endogenous growth theory (endogenous growth theory), external factors are involved as a determinant of economic growth and human capital as one of these factors (Hjerppe, et al., 2007).

Based on Neoclassical Arguments, substitution or complementary relationship exists between government spending and private investment. Substituability hypothesis stems from the view that higher government spending on capital goods will increase the level of accumulation of capital above the optimal level, it will make private agencies cut their investments with the aim to bring back the optimal

rate of capital accumulation in the economy. As a substitute government spending on capital goods would cause crowd-out or reduction in private investment. Conversely, the complementary hypothesis government spending on infrastructure and human resources is likely to increase the marginal productivity of private capital and then will encourage more private investment which is likely to lead to crowd-in effect or increased private investment (Wang, 2005).

RESEARCH HYPOTHESES

Effect of Government Investment In Infrastructure To Private Investment

According to research by Aschauer (1989b) showed that at the aggregate level, the impact of public provision in the capital infrastructure of the activity of private investment directly found a positive correlation and stated that in areas such as public utilities, roads, education, spending on government investment may be reduce spending in the private sector, resulting in increased productivity of the private sector that will attract investors to invest in Indonesia.

Based on the complementarity hypothesis in Neoclassical arguments, government spending on infrastructure will increase the marginal productivity of private capital and then will encourage private investment which is likely to lead to crowd-in effect or increased private investment although some cases in a country leads to crowd-out effect. Based on the above theory, it can be formed hypotheses:

H1a: Investment in infrastructure has an effect on private investment.

Effect of Private Investment To Government Investing In Infrastructure

The idea of physical capital (infrastructure) has an impact on private investment activity has been discussed in the literature written by Buiter (1997). In addition there are also arguments in Neoclassical, two hypotheses are substiability and complementary hypothesis that suggests that the relationship between government and private sector investment. Private investment will be greater for value of of the infrastructure provided (Erenburg, et al., 1995).

Meanwhile, according to the Trilogy concept of economic development in a country will work properly if there is cooperation in the economic agents, especially in this study is the private sector and government. To support the increased economic growth, the private sector has a role to improve productivity by increasing the output so that the cost per unit incurred getting smaller and profits derived

also getting bigger so see that investors are interested to invest so that the state is not experiencing a shortage of funds to carry out economic activities and the economy was able to grow.

The increasing of corporate profits will make the company pay more taxes and it means that the state has an income of more taxes. To support the activities of the private sector, government has an important role in the provision of infrastructure that one source of revenue to fund the provision of infrastructure is sourced from taxes so that the distribution or production activities undertaken by the private sector runs smoothly. Seeing this, it can be said that the higher the level of private investment, the government's role in providing the necessary infrastructure is also getting bigger.

Based on the opinion of Erenburg (1995) which states that the amount of private investment will be the amount of the infrastructure were provided, and based on the concept of the Development Trilogy, the researchers were able to formulate a hypothesis:

H1b: Private investment has an effect on government investment in infrastructure.

Effect of Government Investment In Human Resources To Private Sector Investment

In the complementary hypothesis in Neoclassical arguments, not only government spending on infrastructure but government investment in human resources will also increase the marginal productivity of private capital and then will encourage private investment which is likely to lead to crowd-in effect or increased private investment.

The emphasis on investment in human resources is believed to be the basis for improving the productivity of factors of production in total. Investment in human resources in order to improve the quality can be done by the government in terms of education and health. With education and a healthy body condition, the labor productivity will increase and affect the productivity of the private sector.

Based on research conducted by Wang (2005) shows that the allocation of government expenditure in education and health expenditures have a positive impact on private investment. The article explained that government spending in education and health can improve human capital and labor productivity are expected to encourage increased private sector output which would result in investors increasingly interested in promoting investment.

According to research conducted by Hjerppe et.al (2007) showed that investment in human resources is able to improve the productivity of the private sector. In the study stated that usually the related study of economic growth is determined by labor. The possibility of growth and productivity effects of public expenditure indirectly measured through education and health (which have an impact on human resources) and government spending on infrastructure. In the study of government spending

in education and health are treated the same as government investment in infrastructure that is capable of affecting the productivity of the private sector and economic growth. In other words, human resources is another tool the government to invest in the private sector. Based on theory and previous studies, the researchers set a hypothetical:

H2a: Public investment in human resources has an effect on private sector investment.

Effect of Private Investment To Government Investment In Human Resources

The relationship between investments in human resources, also called human capital and productivity of the private sector have been described in the theory of economic growth or the so-called endogenous growth theory, external factors from the theory involved as a determinant of economic growth and human capital as one one of these factors (Hjerppe, et al., 2007). A productive human capital will improve the productivity of the private sector that will lead to increased private investment. Therefore, government spending in education and health spending can be regarded as non-physical investment of government in shaping the quality of human resources.

Qualified human lately is the attraction of investment is quite important. The reason is the technology used by entrepreneurs increasingly modern. Modern technology is demanding more skills from human capital. Human capital is one of the important factors that support change and technology development, while the technology along with physical capital investment and population growth is a function of the output. Increasingly sophisticated technological change will have an impact on the rise in the productivity of the private sector. Due to the more sophisticated technology, the private sector, especially industry will be increasingly easier to produce its products, and to operate the device with advanced technology that is certainly necessary human resources are educated, qualified, so that optimal operation of the device and can support private sector productivity.

When viewed from the concept of Trilogi Pembangunan, increasing private sector investment can not be separated from the role of government that is not only in the form of the provision of physical capital, but also in terms of human resource investment. Government investing human resources can be seen through the expenditure of education and health spending. The higher the level of productivity of the private sector, the higher the quality of the human resources needed to support the economic growth that made the private sector.

Based on the theories and concepts from Trilogi Pembangunan, it can be said that the growth of increasingly sophisticated technology will make investors increasingly interested in investing because it is the private sector has a high productivity level and to be able to operate increasingly sophisticated

technology is required human resources of high quality, because growth technology but does not offset the increase in the quality of human resources, the level of production generated will not be optimal and will make investors to invest down. So as to offset the increase in private investment, should offset the government's role in improving the quality of human resources. Based on this it can be formed hypothesis:

H2b: Private investment has an effect on government investment in human resources.

Effect of Government Investment In Human Resources To Government Investing In Infrastructure

Government investing on human resources can be seen through the expenditure of education and health spending. The higher the level of productivity of the private sector, the higher the quality of the human resources needed to support the economic growth that made the private sector. If human resources are of good quality then it will certainly have a good income and avoid poverty (Suryawati, 2005).

The importance of the role of human capital in development appears at the attention of various parties such as the government and private sector investments and expenditures that allocates the region in order to improve the quality of human capital. Indeed, the investment allocated for the benefit of human capital is not immediately visible results within a short time period. So it is no wonder that the government budget is often the case of attraction between investment in economic infrastructure (physical) and investment in human capital development.

Improvements in education and health will strengthen human development, which in turn will support economic growth. When a country's economy grows then it will attract investors, especially foreign investors to invest. Given these conditions, the need for infrastructure development in order to smoothly import-export activities. Port is the gateway of a country. In addition to the construction of other infrastructure, port infrastructure is the key to competitiveness, especially for export-import flows of goods. If the port is not efficient, then logistical would be disrupted, which in turn will weaken the nation's economy. As an archipelagic country, Indonesia's infrastructure development priorities is to integrate the infrastructure of inter-island archipelago seems to be the mainland, such as multiply and enlarge the capacity of sea ports. Based on the statements it can be established exposure hypothesis:

H3a: Government investment in human resources has an influence on government investment in infrastructure.

Effect of Government Investment In Infrastructure To Government Investment In Human Resources

Infrastructure development is one of the important and vital aspect to accelerate the process of national development. Infrastructure also plays an important role as one of the driving wheels of economic growth. This is because the movement rate and economic growth of a country can not be separated from the availability of infrastructure such as transport, telecommunications, sanitation, and energy.

World Bank (1994), defines the infrastructure in the context of the economy as an umbrella term that many activities related to "social overhead capital". Further "social overhead capital" is seen as the foundation for improving the standard of living, the national land use better and sustainable economic growth.

In the document "Strategic Plan of the Ministry of Public Works 2005-2009" as RPJMN 1 contained the vision of the Ministry of Public Works is "Providing infrastructure PU reliable, useful and synergy with other sectors in support of regional development and housing, in order to achieve Indonesia that is safe and peaceful, fair and democratic and more prosperous." One of the mission is to establish a human resources professional. Although the existing Strategic Plan 2010-2014 as RPJNM 2 but aspects of society impetus for infrastructure development persist despite different vision and mission.

For the 2015-2019 Strategic Plan as RPJMN 3 is still a draft that has a direction strengthen overall development in various fields of one of them by emphasizing the achievement of economic competitiveness based on the superiority of natural resources and qualified human resources and the ability of science and technology continues to increase.

Based on RPJMN 1 to 3, it can be said that in order to build a quality infrastructure that have a long economic age and support the economic growth needed quality human resources as well. Because of the absence of human resources educated and have a good health of the human resources will not be able to support the development of quality infrastructure such as human resources will not be able to work optimally. Therefore, the government also needs to invest in human resources so that human resources in order to have good quality that is able to realize the development of quality infrastructure as well. Based upon this hypothesis, it can be formed as follows:

H3b: Government investment in infrastructure affect government investment in human resources.

Based on the background issues, the study of theory, previous research and development hypothesis, then formed a framework of thinking as follows:
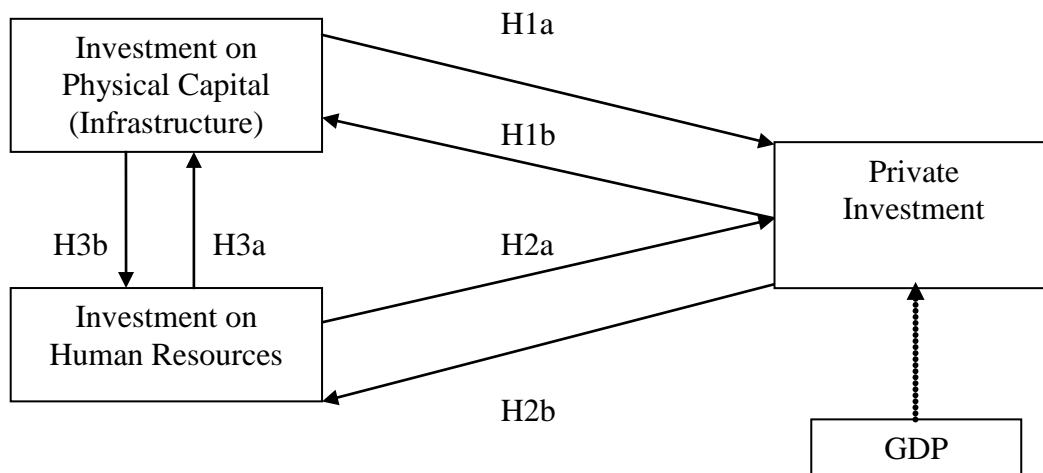
Figure 1: Conceptual Framework

RESEARCH MODEL

Research Data

The data used in this research is secondary data and is the data panel. The data are obtained through data held BPS, Bank Indonesia, BKKBN and BKPM. The data is obtained through a report form hardcopy and through the official website. Due to limitations on the availability of data, then the period of study is 2010-2013. The data used is to use the data sample 33 provinces in Indonesia from 34 provinces in Indonesia except North Borneo newly ratified on October 25, 2012.

Research Variables

Tests the researchers did was to test causality, so the researchers did not identify the category of the dependent variable and independent variables as a research variables will be treated as a dependent variable in an equation causality, but it would be the independent variable in the equation other causality. The variables used were variable government investment in physical capital, government investment in human resources and private investment. For equations with the dependent variable of private investment will be controlled by the control variables GDP.

Table 1: Research Variables

Variables	Measurement
Private Investment	The natural logarithm of domestic and foreign private investment

Investment on Physical Capital	The natural logarithm of capital expenditures per
Investment on Human Resources	The natural logarithm of the total expenditure of health and education expenditures
GDP	The natural logarithm of total GDP

Statistical Tools: Three-Stage Least Squares

Many important economic theory expressed in the form of simultaneous equations. Simultaneous equations is better than a single equation, because in the economic field there are many mutual relations. The implicit assumption of the model of simultaneous equations is that the explanatory variables are the cause and the dependent variable is the result. This situation shows the influence between two economic variables: one variable affects another variable and then the variable is again influenced by other variables tersebut.Salah one technique that is able to properly estimate the model is the method of Three-Stage Least Squares Estimator (3-SLSE) from E-Views. The size of the goodness of the estimation method can be seen from the method has been able to produce a consistent parameter estimator.

Empirical Model

Tests will be conducted to test the hypothesis sixth can be done by applying the following equation 3:

$$INV = c_1 + c_2 INF + c_3 SDM + c_4 PDRB + e_1 \hspace{2cm} (1)$$

$$INF = c_5 + c_6 SDM + c_7 INV + e_2 \hspace{2.5cm} (2)$$

$$SDM = c_8 + c_9 INF + c_{10} INV + e_3 \hspace{2.3cm} (3)$$

INV = Private sector investment

INF = Public investment on infrastructure

SDM = Public investment on health and education

RESULTS AND ANALYSIS

Descriptive Statistic

Republic of Indonesia is a unitary republic consisting of 34 provinces. The province is the most common administrative divisions in Indonesia, and has a number of autonomous powers under the 1945 amendment. Each province has the respective governments, headed by a governor. Provincial People's

Representative Council acts as a legislative body at this level. At the national level, each province has four representatives in the Regional Representatives Council, which elected through general elections.

Table 2: Descriptive Statistic

	INV	SDM	INF	GDP
Mean	9.58E+12	9.30E+11	8.96E+11	1.94E+14
Maximum	9.59E+13	1.74E+13	1.07E+13	1.26E+15
Minimum	2.34E+10	7.05E+10	1.09E+11	5.39E+12
Std. Dev.	1.59E+13	2.20E+12	1.43E+12	2.82E+14
Observations	132	132	132	132

Source: Output Data

Based on the table 2 for the variable investment obtained a mean value or an average value for the investment in Indonesia from 2010-2013 amounted Rp9.580.000.000.000. While the maximum value is obtained investment amounted Rp95.851.268.047.020, these figures represent the amount of investment that is owned by the province of West Java in 2013.

In the SDM variables measured by government spending on education and health, shows that the average value of government investment in human resources in Indonesia from the year 2010-2013 amounted Rp930.000.000.000. As for the maximum value obtained results Rp17.449.401.064.775 which represents value of government investment in human resources in the province of Jakarta in 2013. As for the minimum value obtained yield was Rp70.537.791.291 which represents value of government investment in human resources in West Sulawesi in 2011.

Infrastructure variables showed that the average value of investments in infrastructure in Indonesia from the year 2010-2013 amounted Rp896.000.000.000. In Table 2 also shows that the maximum value of government investment in infrastructure amounted Rp10.696.012.194.000 representing government investment in infrastructure in the province of Jakarta in 2013 while the minimum value of the investment in infrastructure amounted to Rp108. 997 026 000 which represents government investment in infrastructure in Gorontalo province in 2010.

In the GDP variables measured by GDP at current prices by province, shows that the average value of government investment in human resources in Indonesia from the year 2010-2013 amounted Rp194.000.000.000.000. As for the maximum value obtained yield was Rp1.255.925.781.819.820

which represents the value of GDP in the province of Jakarta in 2013. As for the minimum value obtained yield was Rp5.389.831.565.710 which represents the value of GDP in North Maluku in 2010.

To further understand how the quality of human resources in Indonesia is carried out descriptive statistical testing on life expectancy (AHH) which represents in terms of health and literacy rate (AMH), which represents the side of education. Due to data limitations, the period used is from the 2009-2012 and obtained results as shown in Table 3 below:

Table 3: Life Expectancy (AHH) and Literacy Rate (AMH)

	AHH	AMH
Mean	69,1 years	93,2%
Maximum	76,0 years	99,3%
Minimum	62,5 years	64,1%
Observations	132	132

Source: Output Data

Based on Table 3 shows that in order to demonstrate the value of the variable AHH AHH average during 2009-2012 in Indonesia is 69.1 years. In addition, the results also indicate that the maximum value at the AHH is for 76 years representing a value AHH owned DIYogyakarta province in 2009. Other results that can be seen is the minimum value of AHH produced was 62.5 years representing the province of West Sulawesi on 2010.

For variable AMH seen that these variables during the years 2009-2012 has an average value of AMH in Indonesia is 93.2%. In Table 3 also shows that the maximum value of AMH is at 99.3% which represents value of AMH owned by the province of North Sulawesi in other 2010.Hasil that can be seen is the minimum value of AMH produced amounted to 64.1%, which represents the province of Papua on 2011.

Test Three-Stage Least Squares

Results of hypothesis testing can be seen in Table 4 below:

Table 4: Test Three-Stage Least Squares

Model 1: $INV = c_1 + c_2INF + c_3SDM + c_4PDRB + e_1$

Model 2: $INF = c_5 + c_6SDM + c_7INV + e_2$

Model 3: SDM $= c_8 + c_9\text{INF} + c_{10}\text{INV} + e_3$

	Coefficient	Prob.
C(1)	-12.30900	0.0002
C(2)	0.948310	0.0000*
C(3)	-0.312093	0.1683
C(4)	0.737243	0.0000*
C(5)	3.667277	0.0001
C(6)	0.761760	0.0000*
C(7)	0.101957	0.0000*
C(8)	-1.655422	0.1723
C(9)	1.017080	0.0000*
C(10)	0.035161	0.2201

INV (private sector investment), INF (public investment in infrastructure), SDM (public investment on human resources), PDRB (value of GDP as control variable).

Note: *Significant with alpha 1%

Source: Output Data

Table 5: Estimation Results of Model 1

Model 1: INV $= c_1 + c_2\text{INF} + c_3\text{SDM} + c_4\text{PDRB} + e_1$

R-squared	0.550301
Adjusted R-squared	0.539762
Durbin-Watson stat	0.794279

INV (private sector investment), INF (public investment in infrastructure), SDM (public investment on human resources), PDRB (value of GDP as control variable).

Source: Output Data

Table 6: Estimation Results of Model 2

Model 2: $INF = c_5 + c_6 SDM + c_7 INV + e_2$	
R-squared	0.715549
Adjusted R-squared	0.711139
Durbin-Watson stat	0.783599
INV (private sector investment), INF (public investment in infrastructure), SDM (public investment on human resources)	

Source: Output Data

Table 7: Estimation Results of Model 3

Model 3: $SDM = c_8 + c_9 INF + c_{10} INV + e_3$	
R-squared	0.700955
Adjusted R-squared	0.696319
Durbin-Watson stat	0.736323
INV (private sector investment), INF (public investment in infrastructure), SDM (public investment on human resources)	

Based on these tests, the results of hypothesis testing can be summarized into the following

Table 8: Summary of Results Hypotheses Testing

Hypotheses	Coefficient	*Sign*	Signifycance	Results
H1a: Investment in infrastructure has an effect on private investment.	C2	+	0,0000	As Predicted

H1b: Private investment has an effect on government investment in infrastructure.	C7	+	0,0000	As Predicted
H2a: Public investment in human resources has an effect on private sector investment.	C3	-	0,1683	As Not Predicted
H2b: Private investment has an effect on government investment in human resources.	C10	+	0,2201	As Not Predicted
H3a: Government investment in human resources has an influence on government investment in infrastructure.	C6	+	0,0000	As Predicted
H3b: Government investment in infrastructure affect government investment in human resources.	C9	+	0,0000	As Predicted

DISCUSSIONS

Effect of Government Investment In Infrastructure To Private Investment

Results of hypothesis 1 testing in accordance with the concept of the Neoclassical Arguments Complementary Hypothesis which states that government spending on infrastructure will increase the marginal productivity of private capital and then will encourage more private investment that enables will lead to crowd-in effects.Hasil this study also supports research conducted by Aschauer (1988b) states that of increasing public capital will increase the return of private capital, so that there is a crowd-in the private capital accumulation. In the study conducted Holcombe (2005) is also in accordance with a recent study has showed that in developing countries, investment from the public sector is a complementary private investment. In addition the results of this study are also consistent with studies conducted by Hatayo (2010) which has the result that there is a crowding-in effects between the long-term public investment and private investment. The study also supports research conducted by Hassan (2011) which states that public capital spending has a positive effect on private investment. Hence the hypothesis 1a, which reads "Investment in infrastructure has an effect on private investment" is acceptable.

Effect of Private Investment To Government Investing In Infrastructure

Results of testing the hypothesis 2 supports research conducted by Erenburg and Wohar (1995) which has the result that private investment and significant positive effect on public investments. In addition the results of this study also supports the idea that the rise in corporate profits will make the company pay more taxes and it means that the state has an income of more taxes anyway. Seeing this, it can be said that the higher the level of private investment, the government's role in providing the necessary infrastructure is also getting bigger. Based on the opinion of Erenburg and Wohar (1995) stated that the amount of private investment will be the amount of the infrastructure provided.

In addition to this, the results are also consistent with the concept of Trilogi Pembangunan related to the function of government and private sector. From this study it appears that the role of government in infrastructure have a positive impact for the private sector, and vice versa, the role of the private sector in the promotion of economic growth by attracting investors to invest also have a positive influence on government investment in infrastructure.

Effect of Government Investment In Human Resources To Private Investment

Based on the results of the third test obtained results negative influence and insignificant that does not support a study conducted by Wang (2005) which states that the allocation of government expenditure in education and health expenditures have a positive impact on private investment. Results this study actually leads to substituability hypothesis in Neoclassical arguments. As a substitute or substitutes, government spending on capital goods will lead to crowd-out or reduction in private investment.

Effect of Private Investment To Government Investment In Human Resources

The fourth hypothesis testing results despite having a positive coefficient direction but the probability value that appears does not show a significant figure. That is because the allocation of government spending basically not only in education and health aspects only. Because in addition to investment in human resources increased private investment can also memepengaruhi other expenditure allocation. Due to the allocation of government spending is not just limited to the field of education and health alone. Therefore, the number of samples that are not too much in this study led to the emergence of significant influence.

Effect of Government Investment In Human Resources To Government Investing In Infrastructure

The results obtained in this study support the fact that there is that the importance of the role of human capital in development appears at the attention of various parties such as the government and private sector investments and expenditures that allocates the region in order to improve the quality of human capital. Indeed, the investment allocated for the benefit of human capital is not immediately visible

results within a short time period. So it is no wonder that the government budget is often the case of attraction between investment in economic infrastructure (physical) and investment in human capital development.

In addition to the construction of other infrastructure, port infrastructure is the key to competitiveness, especially for export-import flows of goods. If the port is not efficient, then logistical would be disrupted, which in turn will weaken the nation's economy. As an archipelagic country, Indonesia's infrastructure development priorities is to integrate the infrastructure of inter-island archipelago seems to be the mainland, such as multiply and enlarge the capacity of sea ports. And to build a quality port then necessary human resources qualified for quality ports can be built.

Effect of Government Investment In Infrastructure To Government Investment In Human Resources

The results on the sixth hypothesis testing is in accordance with the Strategic Plan of the Ministry of Public Works documents RPJNM 1 (2005-2009) to RPJNM 3 (2015-2019). An outline of RPJNM 1 to RPJNM 3 has a purpose to build infrastructure that have a long economic age and support the economic growth needed quality human resources as well. Without a well-educated SDM and good health of the SDM will not be able to support the development of quality infrastructure such as SDM will not be able to work optimally. Therefore, the government also needs to invest in SDM so that human resources in order to have good quality that is able to realize the development of quality infrastructure as well.

CONCLUSIONS

The general objective of this study is to provide empirical evidence about causality that occurred between government spending and private sector investment. The conclusions based on data analysis are:

a. Positive and significant influence occurs in government investment in infrastructure to private investment, and vice versa, and on government investment in human resources for public investment in infrastructure and vice versa.
b. Government investment in human resources has a negative effect and no significant effect on private investment, but private investment has a positive effect but not significant to government investment in human resources.

The research has implications that a causal relationship occurs only between the government sector and the private sector related to government investment in infrastructure and private investment. This means that the concept of Trilogi Pembangunan between the public sector and the private sector related to

government investment in infrastructure and private investment has done well because one party to the other parties support each other. Causality also occur between investment in infrastructure and in human resources.

However, no causal relationship occurs between government investment in human resources and private investment. It has a meaning that the concept of Trilogi Pembangunan between the public sector and the private sector related to government investment in human resources and private investment has not run well because one party to the other party do not support each other.

In this study, researchers have limited the time period. The time period used in this study was too short which is 4 years from 2010 to 2013. This is due to the limited availability of public data related to variable investment and capital expenditure. Data private investment are domestic and foreign, are only available from 2010 onwards, while the capital expenditure data are only available up to 2013. Further research is expected to add a longer period of time by using other relevant variables for which data have easier access. So that subsequent research results obtained more accurate and better reflect actual conditions.

Another limitation on this research is the type of expenditure that is used in research only three, there are capital expenditure, spending on education and health spending describe government expenditures for investment. While governments have a diverse type of expenditure. However, other types of expenditure which is not in accordance with the concept of causality studies that examined the relationship between public investment and private investment. In a subsequent study is expected not only examined in terms of government investment alone, but also examined in terms of consumption so that other types of expenditure sepertibelanja routine and development spending can be used and describe the quality of the expenditure made by the government.

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How Organisational Performance is Affected by Strategic Corporate Social Responsibility (CSR).

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A B S T R A C T

This paper aims to report as a study that contributes to the understanding of the roles of strategic corporate social responsibility (CSR) in overall organisational performance. The approach to the paper was by the review of acclaimed researches with linkages between corporate social responsibility, more specifically strategic corporate social responsibility and organisational performance. Strategic CSR undertaken by various organisations were analysed to find how significant they affect to performance metrics. The researchers had difficulties unearthing previous tangential and empirical research as there had not been a wealth of research in the area of CSR relationships especially with regards to strategic CSR practices and performance and at the same time, previous research on CSR mostly focuses on its nature and impact on society and how customer loyalty can be gained with CSR. The study thus revealed that, although some organizations to some extent confuse CSR with philanthropic reasoning, they are aware of how rewarding it is for both societal stakeholders and the firm and intensively work towards integrating CSR with other business undertakings. This research contributes to one's understanding of the impact that strategic CSR has on organisational performance when instituted in the business. Additionally, the study analyses how business performance may be affected either positively or negatively depending on the level of integration that strategic CSR has been implemented by organisations. The outcome of the study ultimately, will help top level management to amend shortcomings by implementing strategic CSR techniques as well as build formidable business performance.

1. INTRODUCTION

Corporate Social Responsibility (CSR) is a concept that has attracted worldwide attention and acquired a new meaning in the global economy. Intense interest in CSR in recent years has stemmed from the advent of globalization and international trade, which has reflected in increased business complexity and new demands for enhanced transparency and corporate citizenship. According to Ullmann (1985), CSR by no means is a new issue. This would indicate that corporations undertaking social responsibility are not a new phenomenon. Nevertheless, CSR is more in the spotlight now than ever, since multinational corporations' power over world economy is stronger than ever and subsequently with that, society's demands on social and environmental responsibility (Forsberg, 2003). Martin (2002) accentuates that globalization also heightens society's anxiety over corporate conduct; as such companies need to satisfy not only stockholders but also those with less explicit or implicit claims (McGuire, Sundgren and Schneeweis 1988). This is known as the stakeholder theory described by Enquist, Johnson and Skålén (2005) as a strategy that does not separate ethics from business, and argues that the needs and demands of all stakeholders must be balanced.

CSR is prevalent and on a wide range of issues, corporations are encouraged to behave socially responsibly (Engle, 2006). Generally, the belief that profit maximisation is management's only legitimate goal is seen as one end of a continuum, while at the other end is the argument that businesses are the trustees of societal property that should be managed for the public good (Ofori and Hinson, 2007). Besides, corporate governance has evolved from the traditional ''profit-centred model'' to a ''socially responsible model.'', entreating organizations to become more sensitive to the CSR concept.

2. DEFINING CORPORATE SOCIAL RESPONSIBILITY

Meijer and Schuyt, (2005) defined CSR as social responsibility of business that encompasses the economic, legal, ethical, and discretionary (philanthropic) expectations that society has of an organization at a given point in time. Wood (1991) also stated a definition of CSR as a business organization's configuration of principles of social responsibility processes of social responsiveness, and policies, programs and observable outcomes as they relate to the firm's societal relationships.

However, the often cited definition in literature comes from the World Business Council for Sustainable Development (WBCSD) which first defined the concept of CSR in 1999 as "The commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life". Later in 2000, the WBCSD revised or redefined CSR as "the continuing commitment by business to behave ethically and contribute

to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large".

The salient features in these definitions are that society expects businesses to voluntarily integrate social and environmental concerns in their business activities and in their relations with their stakeholders, and to carry out their operations in an ethical manner within the legal framework in a sustainable and profitable manner, and at the same time contribute in solving society's numerous problems (Danko et al., 2008). Moreover, the definitions and clarifications for CSR shows that CSR implementation is all-inclusive and must be assimilated with the core business strategy for addressing social and environmental impacts of businesses. CSR also needs to address the well-being of all stakeholders and not just the company's primary shareholders. Further, philanthropic activities are only a part of CSR, which otherwise constitutes a much larger set of activities entailing strategic business benefits.

Corporations are therefore expected to properly balance the different economic, legal, ethical and social responsibilities they confront in the business environment, and in certain situations voluntarily go beyond their immediate financial interest and the mere compliance with mandatory obligations of the legislation (Halme et al., 2009). This is however contrary to Friedman's (1970) famous argument that there is one and only one social responsibility of business; and that duty is to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game.

3. THEORETICAL LITERATURE

In addressing the CSR phenomenon, various researchers have employed a variety of complex theories and approaches. Garriga and Mele (2004) classified them into four main types of theories, namely, instrumental theory, political theory, integrative theory and ethical theory. A number of approaches are further identified under each of the four classified theories. For instance, within the ethical theories, the authors identified normative stakeholder, universal rights, and sustainable development as the common good approaches to CSR. However, the most commonly employed approaches in CSR discourse are the legitimacy approach from the political theory (Branco and Rodrigues, 2006) and the stakeholder approach from both the integrative and ethical theories (Friedman and Miles, 2006).

The legitimacy view holds that society legitimises the activities of an organisation by its perception that the firm's activities are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions (Kunetsov et al., 2009). Slim (2002) succinctly defines it as a particular status with which an organisation is imbued and perceived at any given time that enables it to function with general consent of people, their groups, formal and informal organisations and governments that constitute the social environment in which it operates. It therefore presupposes that

organisations seen to be actively socially responsible in their activities are legitimising their operations and positions within the business environment. Because of the understanding that compliance with societal expectations is vital to building up reputation and legitimising firms' activities, the theory posits that, organisations will therefore make a rational and strategic response to these societal expectations in the pursuit of profits (Kunetsov et al., 2009).

The legitimacy view is underscored by the widely cited findings that society tends to reward organisations that are considered to be socially responsible in various ways. For instance, Du et al. (2010) observed that evidence from academic research and marketplace polls suggested that key stakeholders such as consumers, employees and investors are increasingly likely to reward good corporate citizens and punish bad ones. This might involve consumer loyalty and resilience to negative company news, willingness to pay premium prices for the company's products or services, customers switching from another company's product to patronising the products of the company associated with good cause, and probably publicising by word-of-mouth the company's products (Arli and Lasmono, 2010).

The stakeholder theory argues that organisations have constituents (e.g. shareholders, customers, suppliers, employees, local communities, the government and the general public) who need to be well managed in order to retain their interest and participation in the organisation to ensure the survival and continuing profitability of the corporation (Clarkson, 1995). The theory therefore suggests that organisations are in a constant association with these stakeholders and that the success and performance of companies depend on their ability to maintain trustful and mutually respectful relations with the various stakeholders (Kunetsov et al., 2009).

Hence the stakeholder theory seems similar in perspective to the legitimacy theory. The connection that can be drawn from the stakeholder and legitimacy theories is that the trust, as mentioned in stakeholder theory from stakeholders of organisations depends on the extent to which society, which is also a stakeholder, sees the firm's activities as desirable and legitimate as identified as essential in the legitimacy theory. In principle, the legitimacy theory holds the stakeholder theory but it's worth noting that both theories also underscore the importance of business and society working together not only to help solve some societal problems but also create and maximise both economic and social value. This view is captured by the strategic social and competitive investment theory (Porter and Kramer, 2002) and the CSR Value Chain Model.

CSR has increasingly provided the focus for examining broad philosophical questions about the roles and responsibilities of companies and their relationship with the roles and responsibilities of government and other stakeholders. Carroll (1991) highlights these roles and responsibilities of companies and broadly categorised them as economic (to be profitable), legal (to obey the law), ethical (to do what is

right, just and fair), and philanthropic (to contribute some of a firm's resources to society to improve the quality of life).

However Lantos, 2002, suggests three different types or roles of CSR that organisations can practice namely, Ethical CSR (to do what is morally mandatory and this goes beyond fulfilling a firm's economic and legal obligations but also its ethical responsibilities to avoid societal harm), Altruistic CSR (this is any activity that involves contributing to the good of various societal stakeholders, even if this sacrifices part of the business's profitability), and Strategic CSR (which is caring corporate community service activities that accomplish strategic business goals) or plainly, good works that are also good for the business.

Ethical CSR is justly obligatory and goes beyond fulfilling a firm's economic and legal obligations, to its responsibilities to avoid harm or social injuries, even if the business might not benefit from this. Lantos, 2001 argues that there is nothing especially commendable about this level of fulfilment of social responsibilities since it is what is ordinarily expected in the realm of morality. Ethical CSR therefore involves a comprehensive effort by organisations to avoid and correct activities that injure others in the society. Ethical CSR fundamentally entails fulfilling the firm's ethical duties and obligations. This is a social responsibility of businesses in the sense that an organisation is morally responsible to any individuals or groups (stakeholders) where it might inflict actual or potential injury (physical, mental, economic, spiritual and emotional) from a particular course of action. Even when the two parties to a transaction are not harmed others parties might be and as such it is inscribed on organisations to ethically conduct their business operations in a manner that is safe and not hazardous to the society they operate in and also beyond its confines.

Ethical statutes such as corporate philanthropy, environmental policies and worker rights policies must be adhered to even if it will be at the firm's expense as they are necessary moral standards and therefore must override organisational self-interest. Occasionally certain actions need to be undertaken not for their profitable but because fundamentally they are right things to do. Managers of organisations do not enjoy a blatant obligation to only maximize profits and other benefits for shareholders whilst showing obvious disregard to the means used in attaining these performance boosts. As in all social responsibility decisions, there are trade-offs, and with ethical CSR it is often between short-run profitability and moral actions and as such managers have to make profits whilst also working within the confines of ethicality. For instance, money spent on product safety or pollution control might reduce shareholder profits, but the alternative is to threaten unethically the welfare of others in society (Boatright, 1999). Another key example is the decision of various telephone companies in many countries to avoid charging calls made to emergency service numbers.

Lantos, 2001 succinctly examines altruistic or humanitarian CSR as an "interest in doing good for society regardless of its impact on the bottom line". He observes that this type of CSR demands that corporations help alleviate public welfare deficiencies such as the proliferation of illegal drugs, poverty, crime, illiteracy, underfunded educational institutions and chronic unemployment. Whereas, economic, legal and ethical obligations are mandatory, philanthropic responsibility is desired by society, that is, it is optional in that it is not expected with the same degree of moral force (Carroll, 2001) since corporations are not causally responsible for the deficient conditions they are attempting to rectify.

It has been argued that CSR is most honourable when it fulfils altruistic roles in society. Altruistic (humanitarian, philanthropic) CSR involves contributing to the common good at the possible, probable, or even definite expense of the business. Humanitarian CSR has firms go beyond preventing or rectifying harms they have done (ethical CSR) to assuming liability for public welfare deficiencies that they have not caused (Lantos, 2001). This constitutes actions and activities that morality does not dictate but are beneficial for the firm's stakeholders although not it may not be necessary or profitable for the company. It is probably for this reason that altruistic CSR is relatively rare (Smith and Quelch, 1993).

Strategic CSR happens when a firm undertakes its social welfare responsibilities but also create value for the organisation. It creates a win-win situation in which both the corporation and one or more stakeholder groups benefit from the CSR activities that will be embarked on. Through strategic CSR, corporations can assume their social responsibilities with the knowledge and believe that it will be in their best financial interests to do so. Carroll (1979) points out that the economic and societal interests of the firm are often intertwined; for example, product safety is of concern both at the economic and societal levels therefore by integrating CSR into core business processes and stakeholder management, organizations can achieve the ultimate goal of creating both social value and corporate value.

3.1. Empirical Framework

The stakeholder-driven perspective highlights the importance of how an organisation's strategic CSR activities can influence its stakeholders to promote some positive and rewarding behaviours (e.g. seeking employment with the company and investing in the company) towards the firm (Du et al., 2010). CSR also plays a significant role in the maximisation of shareholders' wealth through the attraction of investment capital and the increase of share prices on the stock markets (Michael, 2003; Sen et al., 2006). Investing in a socially responsible way attracts investment funds faster than the broader universe of investment opportunities under professional management (Danko et al., 2008). Hence, companies will benefit broadly from cost and risk reduction, reputation and competitive advantage, and create a

win-win situation through synergistic value creation if they engage in CSR (Lindgreen and Swaen, 2010).

According to Callan and Thomas (2009), Margolis and Walsh (2003) observed in at least 127 empirical studies that examined the relationship between socially responsible companies and their financial performance, that were published between 1972 and 2002 that a majority of the studies reported a positive relationship between the two variables. Orlitzky et al. (2003) also did an in-depth analysis of 52 studies on the relationship between the level of companies' CSR activities and their financial performance and reported a positive relationship between them. In particular, they found a positive association between CSR and organisational performance across industries and across study contexts. Furthermore, they underscored that the universally positive relationship varies (from highly positive to modestly positive) because of contingencies, such as reputation effects, market measures of organisational performance, or corporate responsibilities disclosures. Essentially, they emphasised the existence of a positive cycle between CSR and corporate performance, and they suggested the use of CSR as a reputational and competitive tool. Porter and Kramer (2002) further reveal that engaging in CSR can often be the most cost-effective way, and sometimes the only way, to improve the firm's competitive context and maximise both social and economic benefits.

The case can therefore be made that firms see a strategic value in being socially responsible as CSR activities give them legitimacy to operate in an acceptable and profitable manner. As a result, it is arguable that although firms could engage in CSR purely on moral or ethical grounds, they normally do so to build up reputation and enhance corporate profit or shareholder gain (Kunetsov et al., 2009).

More recently, Van Beurden and Gössling (2008) presented their meta-analysis of 34 papers. They considered literature published after 1990 primarily because they wanted to gain an insight into recent works involving CSR and organisational performance, which are more likely to have overcome methodological flaws, and secondly, because these papers were published in an era where the social role of businesses are discussed, analysed and scrutinized in a new light, as organisations continually assimilate CSR activities in their strategy formulation and implementation. The results of this review presents 68% of the studies showing a positive corporate social activity – corporate business performance relationship, 26% showing no significant relationship and only 2% showing a negative relationship.

Wang and Choi (2010) focused on the moderating effect of CSR consistency on business performance. In particular, they hypothesised that not only is organisational performance influenced by the level of CSR, but also by its temporal consistency (that is, the reliability of a firm's treatment of its stakeholders over time) and inter-domain consistency (that is, the consistency in a firm's treatment of its different

stakeholder groups). The specifically created variables were found to have a positive moderating effect on the CSR-Performance relationship.

Michelon et al. (2012) specifically concentrated on a construct, defined as "Strategically Prioritized CSR activities", that was found to have a greater effect on organisational performance (both accounting-based and market-based measures) than a generic approach to CSR unrelated to company's strategy. These results are consistent with Porter and Kramer (2006) concept of Strategic CSR and with the Stakeholder Theory discussed before.

All these empirical analyses seem to suggest a positive and increasingly consistent relationship between CSR and organisational performance, although it must be noted that there are still some detractors.

3.2. Measurement of Firm Performance

Past studies have shown that as many as 80 different measures can have been used to measure the performance of a firm. Metrics such as firm size, return on assets (ROA), return on equity, asset age and return on sales are most frequently used to measure financial performance, particularly, ROA which is consistently claimed to be an authentic measure of financial performance. Unlike other accounting measures such as return on equity or return on sales, ROA is not affected by the differential degree of leverage present in firms. Because ROA is positively correlated with the stock price, a higher ROA implies higher value creation for shareholders.

Financial performance measures are lag indicators and authors suggest that traditional financial performance measures are historical in nature (Dixon et al., 1990) and performance arising from mostly tangible assets. They often fail to properly record performance from intangible assets such as customer relationships, employee satisfaction, innovation, investment in research and development, and like that have become significant sources of competitive advantage for firms in recent times. In contrast, Non-financial performance measures focus on a firm's long term success factors such as research and development, customer satisfaction, internal business process proficiency, innovation, and employee satisfaction, and capture performance improvements from intangible assets. Investments in intangible assets, such as research and development are expensed immediately instead of getting capitalized in the traditional accounting system. Such treatment depresses the profit in the current year though benefits from such investments accrue to the firm over a long period of time. By accounting for such performance improvements, not-for-profit measures provide indirect indicators of firm performance. Because of their focus on consequences rather than causes of performance, non-financial performance measures are considered as 'lead indicators'. Financial performance measures are objective in nature whereas non-financial performance measures are subjective in nature that includes manager's perception of firm

performance on market share, employee health and safety, investment in research and development and others. Hence, financial measures along with non-financial performance measures are used to assess firm performance historically.

3.3 The relation between Strategic CSR and Firm Performance

The relations between CSR and firm performance are mostly inconclusive, but positive relations between the two have been reported in most of the studies (Margolis and Walsh, 2003) suggesting an instrumental orientation of CSR initiatives. A strategic instrumental orientation towards CSR suggests the alignment of the social goal with the business goal where CSR is considered as a strategic tool to promote the economic objective of the firm. Managers foresee significant value additions in firm performance due to strengthened stakeholder relations. Management theorists argue that by improving CSR toward stakeholders, firm performance is augmented (Waddock and Graves, 1997).

The influence of stakeholder-oriented CSR on firm performance can be understood with the help of three theories: (a) consumer inference making, (b) signalling theory, and (c) social identity theory. Consumer inference making theory suggests that if consumers knows that the manufacturer of the product is a responsible firm, they can infer positively about the product (Brown and Dacin, 1997). Such inferences induce consumer goodwill (Brown and Dacin, 1997) that influences purchase intention. Signalling theory suggests that in situations where there is information asymmetry between buyers and sellers, consumers look for information and signals that distinguish companies performing well on attributes of interest compared to companies performing poorly (Kirmani, 1997). Signals such as warranties indicating reliability and higher quality of products enable consumers to decide between companies. Consumers associate higher product quality with proactive corporate citizenship (Maignan and Ferrell, 2001) and potential job-seekers value CSR record of companies as a signal for organizational attractiveness (Greening and Turban, 2000). Social identity theory emphasizes that one's self-concept is influenced by membership in different social organizations, including the company for which an individual works (Dutton et al., 1994). Employees' self-image is influenced by the image and reputation of their employers, consumers identify themselves with organizations or brands involved in discretionary citizenship and institutional investors like to be associated with socially responsible firms (Graves and Waddock, 1994). Such bonds of identification encourage positive evaluations of a firm's products, and reap value addition through customer loyalty, advocacy, positive words-of-mouth, and resilience to negative brand information (Sen et al., 2006).

Alternatively, irresponsible behaviour by firms agitates stakeholders. They often react by boycotting the company reducing consumption of the company's products, initiating legal action against the company,

and may also spread bad words-of-mouth about irresponsible business practices. Boycotting of Nike products due to human rights' abuse and unsafe working conditions at suppliers' locations in Asia (Herbert, 1996), or sharp reaction from environmentalists and consumers to the pesticide content in Pepsi and Coca-Cola beverages in India (Financial Express, 2006) are few such instances. While improved stakeholder relations have the potential to improve a firm's reputation and performance, strained relations have the risk of adversely affecting a firm's performance.

3.4 The relation between Strategic CSR and Financial Performance

The relation between CSR and financial performance has been investigated in theoretical and empirical studies by various researchers on CSR (Margolis & Walsh 2003) as well as their sustainability (Schaltegger and Synnestvedt 2002). Empirical research on strategic CSR and financial performance can be divided into qualitative and quantitative research.

Qualitative research in this area mainly uses case studies or best practice examples to investigate the influence of CSR on competitiveness. For example, Argenti (2004) presented an in-depth case study of Starbuck's collaboration with several NGOs deriving lessons for successful business-NGO partnerships. Rondinelli and London (2002) presented several examples from business practice to support their analysis of benefits from cross-sectorial environmental collaborations.

Although most of these studies do not explicitly focus on the business case for CSR, they often provide valuable insights about strategic CSR benefits. Three main methods are used in quantitative empirical research in this area (Salzmann et al. 2005). These are;

   I.   Portfolio studies (E.g. Comparing portfolios of environmentally and socially proactive and reactive companies.)

  II.   Event studies (E.g. Investigating market responses after CSR-related events) and

 III.   Multiple regression studies.

In their discussion of portfolio, event, and multiple regression studies investigating the relation between CSR and financial performance Salzmann et al. (2005) found inconclusive results. Similarly, Wagner et al. (2001) found mixed results in their meta-study of quantitative empirical research analysing the relationship between environmental and economic performance. Margolis and Walsh (2003) conducted a meta-investigation of 127 multiple regression studies that analyzed the relationship between Corporate Social Performance and Corporate Financial Performance between 1972 and 2002. Although they also found mixed results, the authors concluded that a positive relationship predominated. However, they criticized the inconsistent use of variables and methodologies used in the research.

Concerning theoretical research in this area, sustainability researchers often argue that the relationship between economic performance and ecological or social performance follows an inverse U-shaped curve (Schaltegger and Synnestvedt 2002, Steger 2006). That relationship could explain the mixed results found in empirical studies as CSR could have positive as well as negative effects on financial performance depending on the individual position of a company on the curve (In their empirical study of the EU manufacturing industry, Wagner and Schaltegger (2004) tested the hypothesis of an inverse U-shaped relationship between environmental and economic performance. They found that for companies pursuing a strategy-oriented environmental responsibility towards shareholder value had a relationship that was stronger than for firms without such a strategy. From these results, the impact of CSR on economic performance seems to be dependent on the individual company strategy.

Although current researches analysing the link between CSR and financial performance seem to provide some support for the existence of a business case for CSR, the studies do not help managers in evaluating their CSR involvement on a company- or even project-specific level.

3.4 International perspective of CSR; western and non-western CSR practices.

Corporate Social Responsibility is an opportunity for companies to improve social welfare as well as maximize profit but is there a non-western brand of CSR or is it an imitation of western CSR practices? Although some researchers have attributed the similarities between western and non-western CSR practices to early exposure to western culture via colonialism (Dartey-Baah and Amponsah-Tawiah, 2011)., other scholars argue from a public perspective stated that a CSR strategy should be designed to fit the social system and reflect the national business of home countries (Smith,2003). Atuguba and Dowuona-Hammond (2006) adds that while certain fundamentals of CSR remain the same, CSR issues vary in nature and importance from industry to industry and from location to location and different emphases are made in different parts of the world. CSR is most commonly associated with philanthropy or charity in developing countries, in this case the non-western territories, i.e. through corporate social investment in education, health, sports, development, the environment, and other community services (Visser 2007). However, the current understanding and practice of CSR in Western economies is argued to have 'advanced' beyond philanthropy (Amaeshi et al, 2006). The difference in how CSR is perceived and practices between the west and non-western countries is attributed to certain drivers. A case in point is Nigeria, where the practice of CSR is said to be still largely philanthropic. Amaeshi et al (2006) propose that Nigeria's perception and practice of CSR is framed by socio-cultural influences like communalism, ethnic religious beliefs, and charitable traditions. Other drivers within the non-western countries identified by (Dartey-Baah and Amponsah-Tawiah, 2011) include political reform, socio-economic priorities, governance gaps, market access and international standardization among others. In

the views of Phillip (2006) unlike the USA and Europe, where government pressure on MNCs has gone a long way in shaping CSR initiatives, Africa's motivation for CSR comes from the institutional failure of the government. Contrary to the non-western claims, Löhman and Steinholtz (2004) noted the main CSR driver in the western countries to be the customer who represents one of the primary and essential stakeholder groups for firms. It is worth mentioning that the inability of government to provide amenities for its citizens accentuates the roles of multinationals in CSR and philanthropy is not regarded as CSR in Western countries (Frynas, 2009).

A number of studies have found that CSR varies not only in terms of its underlying meaning, but also in respect to the CSR motives of firms across countries. In order to understand how CSR is perceived and practice by multinational firms operating in the non-western territories, Valor, (2005) affirms how doing the right thing is important and valuable to organizations especially for global organizations, and are essential for defining global reputation and brand (Lewis, 2003). Owing to this ideology, firms especially multinational corporations' CSR activities are translated into strategic benefits thus making CSR a strategic branding tool, but only when communicated with stakeholders (Morsing, 2006). Developing global CSR activities in itself is a complicated challenge, as organisations have to deal with social issues within each domestic environment of operations (Aruthaud-Day,2005)., making the firm responsible to both international and domestic stakeholders. This assertion however contradicts Husted and Allen (2006) view on how global organizations tend to focus more on country specific social issues, rather than global social issues. Consequently, it is important to highlight the interactions between strategic CSR and international business performance. That is to understand to what extent organizations can effectively undertake global CSR activities across all internal and external activities. There have been criticisms in regards to inconsistencies that exists in the global CSR related activities of multinational corporations but to eliminate these challenges Velaz et al., (2007) posited that Global organizations that choose to adopt a broad corporate responsibility ethos must have a way of ensuring that these values are incorporated into all global activities. In this way responsibility becomes one of the distinctive features of the global organization and drives corporate actions and image towards the enhancement of the desired international business performance.

CSR can contribute to business performance but only to the extent that various CSR practices fit stakeholders' expectations and needs of the society in which they are operating. Different social norms and cultural values contribute to the attainment of different business benefits in contrasting cultural contexts. Investigating how different types of CSR practices may have greater or lesser impacts on business outcomes in different culture, a recent study by Lo et al. (2008) found that while customer and employee CSR was positively related to the corporate reputation of firms in China, these CSR practices were not significantly related to the corporate reputation of firms in the United States.

3.5 Importance of undertaking Strategic CSR

By taking a strategic approach to CSR, companies can determine what activities they have resources to devote to whilst still being socially responsible and can choose those actions and make decisions which will garner value from these undertakings whilst strengthening their competitive edge. By development CSR as part of a company's overall plan, organizations can ensure that profits and increasing shareholder value do not overshadow the need to behave ethically to their stakeholders.

Apart from internal drivers such as standards and belief, some of the key stakeholders that influence corporate behaviour include governments (through instituted laws and regulations), investors and customers. A key stakeholder in this regard is the community within which organisations operate, and many companies have started realizing that the 'license to operate' is no longer given by governments alone, but communities that are impacted by a company's business operations. Adapting strategic CSR programmes that meet the expectations of these communities do not only provide businesses with the license to operate without stakeholder hostility, but also to maintain the license, thereby precluding any trust and image deficit that.

Several human resource studies have linked a company's ability to attract, retain and motivate employees with their CSR commitments. Interventions that encourage and enable employees to participate are shown to boost employee morale and encourage a sense of belonging to the

Certain innovative strategic CSR initiatives emerging entails companies investing in enhancing community livelihood by incorporating them into their supply chain. This has benefitted these communities through the provision of safe and reliable employment ventures and will cause a steady increase in their income levels while providing the companies with additional locally-competent and secure supply chain.

The traditional benefit of generating goodwill, creating a positive image and branding benefits continue to exist for companies that operate effective CSR programmes; most especially strategic CSR because this creates return value for the organisations by aiding them to position themselves in stakeholder memory as responsible corporate citizens. A functional, easily-identified-with corporate identity and image cannot be trifled with as it conveys an organization's ideals, motives and objectives – an essential mix of what an organisation is about. The advantage of creating a consistent and functional corporate image is that it ensures the organisation is easily recognized, remembered and respected by its stakeholders.

3.6 Effects of Strategic CSR on Organisational Performance

Business benefits and effects that are derived as a result of implementing strategic CSR activities have been analyzed into these 5 main areas.

Positive effects on company image and reputation: Image represents ''the mental picture of the company held by its audiences'' (Gray and Balmer 1998,), which is influenced by communication messages. Reputation builds upon personal experiences and characteristics and includes a value judgment by a company's stakeholders. Whereas image can change quickly, reputation evolves over time and is influenced by consistent performance and communication over several years. As a result, both image and reputation can influence company competitiveness (Gray and Balmer 1998). Schwaiger (2004) found in his empirical research that CSR could influence reputation. The Harris-Fombrun Reputation Quotient equally includes CSR as one dimension influencing company reputation (Fombrun and Wiedmann 2001).

Iwu-Egwuonwu, (2011) explains that, company reputation allows organisations to charge premium prices for their products and services and customers will prefer to patronize the products and services of the reputable company even when other company's products are available at comparable quality and price. Furthermore, a reputable company is valued in the financial market and its stocks are also valued higher in the capital markets and as such in periods of controversy stakeholders will support the company and lastly benefits the organisations in periods when they want to needed capital for projects.

Positive effects on employee motivation, retention, and recruitment: On the one hand, effects in this area can result from an improved reputation. On the other hand, strategic CSR can also directly influence employees as they might be more motivated working in a better working environment or draw motivation from the participation in CSR activities that do not only provide altruistic value for the community but return-on value for the organisation and all its all stakeholders, such as the employees themselves. Similarly, CSR activities can directly or indirectly affect the attractiveness of a company for potential employees. This allows the company to be able to attract more competent and skilled personnel into the organisation workforce, hereby marginally increasing the business' efficiency and work rate; a necessary recipe to exceed its customers' expectations and to garner more returns such as profits and customer loyalty.

Cost savings: Cost savings have been extensively discussed in sustainability research. For example, Epstein and Roy, 2001 argued that efficiency gains could result from a substitution of materials during the implementation of a sustainability strategy, improved contacts to certain stakeholders such as regulators resulting in time savings, or improved access to capital due to a higher sensitivity of investors

to sustainability issues. Cost savings denote less net organisational expenditure and increased net profitability, thereby allowing the organisation to invest in more innovative and profitable ventures.

Revenue increases from higher sales and market share: Often, researchers argue that CSR can lead to revenue increases. These can be achieved indirectly through an improved brand image or directly such as a CSR-driven product or market development. Increased revenues and market shares facilitates the organisation being able to generate faster return on investments, increased innovation to support continued delivery of competitive advantage or improvement in the value of service provision. Not forgetting that improving staff motivation, retention, and their contribution and ultimately maximizing their potential can also be tied intricately into steady revenue generation.

CSR-related risk reduction or management: CSR can also be used as a means to reduce or manage CSR-related risks such as the avoidance of negative press or customer/NGO boycotts. The reduction or absence of such risks permits firms to operate at their optimum levels whilst supporting strategic business planning, allowing for the effective use of all resources, facilitating the promotion of continuous improvement and the advantage to make a quick grasp of new opportunities. It also provides a stable means to absorb the fewer shocks and unwelcome surprises that may arise and most importantly reassuring stakeholders about the business' sustainability in its operation reciprocating in more investments from stakeholders.

These five clusters of CSR business benefits are similar to the of value drivers of sustainability. Schaltegger and Wagner (2006) theoretically identified five main effects to organisations from tackling environmental and social issues, they include direct financial effects (e.g., fines, charitable contributions); market effects (e.g., customer retention); effects on business and production processes (e.g., lower production costs); effects on learning and organizational development (e.g., employee motivation, innovation); non-market effects (e.g., less stakeholder resistance towards production facilities).

4. CONCEPTUAL FRAMEWORK
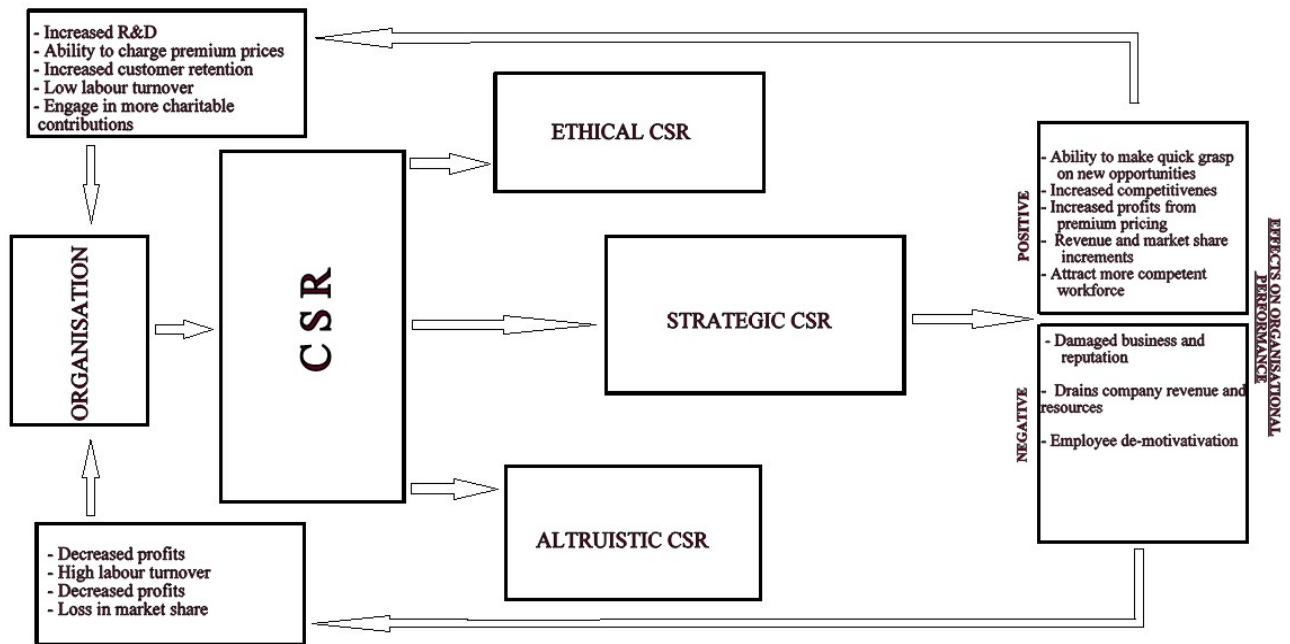
4.1 Explanation of conceptual framework

If corporations were to analyse their opportunities for social responsibility using the same frameworks that guide their core business choices, they would discover that CSR or more specifically strategic CSR can be much more than a cost, a constraint, or a charitable deed – it can indeed be a potent source of innovation and competitive advantage. The above framework illustrates from the authors' perspective how strategic CSR can positively or negatively have an effect on organisational performance.

5. DISCUSSION AND MANAGERIAL IMPLICATIONS

Strategic CSR when assimilated well into the organisation's overall business approach contributes a great deal to the reputation and image building of the organisation. There is a lot of empirical evidence that have established a positive relationship between firm public perception/reputation and its financial and equity market performance. For example, Chung et. al. (1999) focused on how a company's reputation influences the value of its stock in the stock market. However, for CSR to succeed management of organisations must play a major role both in the promotion and implementation of strategic CSR activities. CSR must be managed from a top-down perspective, implying that CSR must be actively managed from top executives. This is in accordance to Fairhurst's (2007) claim that leaders as agents of transformation have the ability to construct the environment to which they and their subordinates must respond to organisational responsibilities. Accordingly, top management must

embrace a strong stand on social responsibility and develop a policy statement that entails commitment to the strategic CSR stratagem.

Strategic CSR can unearth hidden previously unknown opportunities in the community that the organisation did not know. Given that businesses undertake strategic CSR to create reciprocal value for the community and the firm, Firms can easily identify new innovations and swiftly take advantage of these new opportunities to further their organisational goals.

6. CONCLUSION

Some viable conclusions can be drawn from this study. CSR is not only about providing a safe workplace or meeting environmental regulations. Neither is CSR all about altruism – managers are not doing more than what the law requires of them because they are saints but because it is in the long-term best interest of their corporations' sustentation. Strategic CSR as a concept refers to the corporate behaviour that is over and above legal requirements and it is voluntarily adopted to achieve sustainable development. Corporations have realized that they need to integrate the economic, social, and environmental impacts of their operations and form an appropriate corporate policy which, in the long-term, benefits all stakeholders.

CSR is increasingly becoming expected in business stratagem and can be rewarding for both societal stakeholders and the firm. Ethical and altruistic CSR are the mandatory minimal level of social responsibility an enterprise owes its constituencies but given that the ultimate responsibility of a corporation is to create value for its stakeholders, strategic CSR which financially benefits the business through serving society in extra economic ways, is justifiable and from society's perspective, should be integrated into business activities to create additional value whilst bolstering up the overall performance and productivity of the firm.

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A study on the strategic plans of the metropolitan municipalities: Case of Turkey**

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A B S T R A C T

In this research, strategic plans, which were prepared by 10 Metropolitan Municipalities in Turkey for the period of 2015-2019, were analysed and to what extent environment and city topics were given place in these plans was put forward comparatively. Content analysis technique was benefited from as the research method. While there are 30 Metropolitan Municipalities in Turkey as of March 2016; 10 of them with the highest populations were taken into the scope of the research. Cities among the researched Metropolis that have the most comprehensive plans have been İstanbul (288 pages), İzmir (227 pages) and Gaziantep (226 pages), respectively. Cities that have given the most place to the city concept have been Adana (3,58 word/page), İzmir (2,89 words/page) and Bursa (1,75 words/page); while cities that have included the concept of environment the most have been Konya (1,39 words/page), Adana (1,24 words/page) and Şanlıurfa (1,16 words/page).

1. INTRODUCTION

The word strategy is the united form of Greek words "stratos" –meaning army- and "egy" –meaning managing, directing- (Akman, 2009 citing from Adair, 2004). And in the Turkish dictionary of Turkish Linguistic Society, it has been defined as the "route followed in order to reach a predetermined purpose". About B.C. 500, Chinese Sun Tzu had given place to the concept of strategy in his book named "art of war", and Napoleon had used it to define the principles of war named "Strategies of Napoleon".   As a concept, it had been defined for the first time by German Von Clousawitz in 1815 as "the art of reaching the political purposes of the government through force" (Akman, 2009 citing from Liddell, 1991). Management scientists such as Steiner and Miner, Mintzberg and Argyris are among the ones first defining the concept of strategy. According to Mintzberg, strategy is the "process of taking the management mission further, determining purposes for the organization in the light of external and internal powers, determining special policies for the organization to reach its purposes and

putting them into practice for succeeding the objectives and purposes of the organization" (Becerikli, 2000 citing from Kerin et al., 1990).

Strategic plans are prepared in order to define the prudential objectives, plans and visions of the institution for both public and private sectors, determine the undertaken mission, putting forth measurable objectives and revealing by the end of period at what extent these objectives are achieved. The concept of strategic planning has been defined in different manners in various resources. The definition of strategic plan and its references have been listed in the Table 1.

Table 1: Definitions of strategic planning

DEFINITION	AUTHOR(S)
Based on the existence of the institution, determining the route map covering the next couple of years	Özgür and Kösecik, 2007
An effort shaping what the organization is, what it does and why it does the same, and disciplined in order to generate guiding basic concepts and acts	Özeroğlu and Köse, 2014
The route, method in between the point required to be reached in the future and the current point	Sayğılı, 2014
A systematic process anticipating the requested future, converting that vision to widely defined purposes and objectives, and consisting of a series of phases in order to achieve the same	Roberts & Wood, 2012
Plan covering the mid and long term purposes of public administrations, their basic principles and policies, objectives and priorities, performance criteria, and the methods to be followed-up in order to reach them and the distribution of resources	Public Finance Management and Control Law with no 5018

In the Public Finance Management and Control Law with no 5018, briefly it had been specified that it is required for the public administrations to compose their missions and visions relevant to the future within the frame of the basic principles they adopt, to determine strategic aims and measurable objectives, to measure their performances as per that, and to prepare strategic plan in order to perform the monitoring and assessment of such process. In this form, the law has determined the main frame and conceptual definition of strategic plan.

Strategic planning is result focused, and it is interested in the output rather than input. In strategic planning, the objective is determined, and this determined objective is the result to be reached, and strategic planning plans how it will be reached to such result. As strategic plan designs a future, it indicates that it is the planning of change.

2. HISTORY OF STRATEGIC PLANNING

In history, it is known that the first principles relevant to strategic planning have been developed by Henri Fayol in 1866. After Second World War, strategic planning has become a current issue especially for profit oriented enterprises. In 1920s, Harvard Business School has formed the Harvard Policy Model which has defined for the first time the strategic planning methodologies for private companies. According to that model, "strategy" is being defined as purposes and policies determining the company and its activities (Alan, 2010). The roots of strategic planning go back to long term planning studies which have started to be applied in enterprises after World War II. It has been given place to the concept of company planning in 1950s, and then it had been given place to the concept of strategic planning in military organizations and finally in public management (Asgin et al., 2006).

In 1960s, strategic planning has turned to a standard management model for all large and some small companies. In 1960, Ansoff has brought analytic approach to long term planning (Alan, 2010). But it is being accepted that the first study on this subject is "Structure and Strategy (1962)" which was written by Alfred Chandler. And the "Corporate Strategy" named book of Ansoff -which was published in 1965- are among the first works on this subject (Sayğılı, 2014). And the concept of strategic planning has taken part in management science after 1960s. The fast period of change and increasing competition environment have forced the organizations to take measures as per the developing conditions by considering such changes, and to increase their competitive power by taking advantage on others. This requirement has made strategic planning as an essential concept in respect of the organizations (Can, 1996). For public institutions, strategic planning is a newer implementation compared to private sector.

And the implementations of strategic planning have become a current issue for the first time in public by 1990s. In USA, strategic planning studies have started by the period of President Clinton in 1993 through a committee being under the management of vice president Al Gore. That committee had carried out its studies on 4 basics, and by bringing forward suggestions for each determined problem, the things required to be made had been revealed (Ünlü, 2007). Government Performance Results Act, which had been issued in 1993 in USA, had been obligatory to be implemented in public institutions (Akman, 2009; Kutlucan, 2009).

3. STRATEGIC PLANNING IN TURKISH PUBLIC MANAGEMENT

Strategic planning has come in the agenda of Turkish Public Management by signing of Programmatic Financial and Public Sector Adjustment Loan (PFPSAL-1) agreement which had been signed by World Bank on July 12, 2001 [1].

In the Immediate Action Plan announced by the government of the period on January 3, 2003, it had been specified that "it will be passed on to the implementation of strategic plan at institutional level". And then, in the Public Financial Management and Control Law with no 5018 –which had been published on the Official Gazette (OG) of 12.24.2003-, it had been included with the definition of "plan covering the mid and long term purposes of public administrations, their basic principles and policies, objectives and priorities, performance criteria, and the methods to be followed-up in order to reach them and the distribution of resources", and its preparation in public institutions had been made obligatory.

In the Law for Metropolitan Municipalities of 07.10.2004 with no 5216, preparation of the strategic plan of Metropolitan Municipality (MM) by getting the opinions of county municipalities had been included among the duties of metropolitans, and management of the municipality in accordance with the strategic plan had been included among the duties of metropolitan mayor.

In the Law for Provincial Special Administration of 02.22.2005 with no 5302, "preparing the strategic plan and investment and operation programs", "discussing and finalizing the activities of provincial special administration and the performance criteria of the personnel" had been included among the duties of provincial council, and "reviewing the strategic plan and annual work program, and budget and settlement, and presenting an opinion to the provincial assembly" had been included among the duties of provincial committee, and "managing the provincial special administration in accordance with the strategic plan", "preparing development plan and programs, and strategic plan in accordance with the region's plan –if exists- within six months as from the general election of local administrations" had been included among the duties of governor.

In the Municipal Law of 07.13.2005 with no 5393, "discussing and finalizing the activities of municipality and the performance criteria of the personnel" had been included among the duties of municipal council, and "reviewing the strategic plan and annual work program, and budget

and settlement, and presenting an opinion to the municipal council" had been included among the duties of municipal committee, and "managing the municipality in accordance with the strategic plan" had been included among the duties of mayor. Under the "strategic plan and performance program" heading of referred law, it had been specified that it is obligatory for the mayor to prepare strategic plan within six months as from the general election of local administrations, and that it is not required in municipalities with a population below 50.000.

And on May 26, 2006, the "Regulation Regarding Procedures and Principles Relevant to Strategic Planning at Public Administrations" had been issued, and it had been a guide guiding and directing the public institutions that are required to plan strategic plan [2].

In accordance with the above referred laws and the decisions of Higher Planning Council, the first strategic plans had been prepared as pilot implementation at 8 public institutions in 2006 (Ministry of Agriculture and Rural Affairs, Turkish Statistical Institute, General Directorate for Borders and Coasts, General Directorate of Highways, Hacettepe University, Denizli Provincial Special Administration, General Directorate of Provincial Bank, Kayseri MM) (Altan et al., 2013).

4. MODELS OF STRATEGIC PLANNING

4.1. Model of Olsen and Eadie

It is one of the first models developed in the field of strategic planning. It is being referred with the names of Olsen and Eadie who had developed the model. This model basically consists of the following phases (Gözlükaya, 2007).

1) Expression of mission and aims,
2) Analysis of environment,
3) In-house status and resource analysis,
4) Formulation, selection and assessment of strategies,
5) Implementation and control of strategic plan.

4.2. Model of Barry

It had been developed by Brian B. Barry. Barry, in his book named "Strategic Planning Workbook for Non-Profit Institutions", had developed the basic principles of strategic planning model. Some of the basic principles of the model developed by Barry may be listed as follows;

1) Appointing the stakeholders and leaders,

2) Reviewing the past and current status of the institution,

3) Establishing the mission of the institution,

4) Determining the possibilities and threats before the institution.

(Gözlukaya, 2007)

4.3. Model of Nutt and Backoff

This model, that had been developed by Nutt and Backoff, is very useful and beneficial for public organizations, and it consists of six phases. The first phase, which is "defining the historical position of the institution in the context of its frame, general structure and trends in its normative ideals", is the most required and most important phase for the institutions (Gözlükaya, 2007).

4.4. Model of Bryson

Strategic planning model developed by Bryson suggests more options in respect of its implementation in public sector. According to Bryson, "the best strategic planning requires large scale information collection, determination of alternatives and emphasis on future implementations of the decisions made". Strategic planning increases communication and participation, and it reconciles strategy values and benefits. Moreover, it improves successful implementation and regular decision making (Gözlükaya, 2007 citing from Hughes, 2003).

5. STRATEGIC PLANNING IN MUNICIPALITIES

The legal infrastructure regarding preparation of strategic plan in municipalities had been established by the article 9 of Law with no 5018, article 7/a of Law with no 5216, and article 41 of Law with no 5393. Article 41 of Municipality Law of 07.13.2005 with no 5393 had imposed the obligation of preparing strategic plan by the municipalities whose population is over 50.000, and a period until July 13, 2006 had been granted to 205 municipalities meeting this condition for their preparations (Songür, 2008).

Majority of 206 municipalities and 81 provincial special administrations had completed their preparations in the specified period. As municipalities and provincial special administrations are obliged to prepare strategic plan within six months following the general election of local administrations, they had prepared strategic plan for the second time after the elections of March 29, 2009. A part of the plans had been updated, and a part of them had been renewed. As the implementation process of strategic management in Turkish public management is being assessed as a whole, strategic plan had been prepared nearly in all the public administrations, social security institutions, municipalities, provincial special administrations and Public Economic Enterprises which are within the scope of centralized management.

As no information had been provided on how the municipalities will pass on to the implementation of strategic plan, it had brought along some risks. As public administrations will pass on to implementation without having sufficient knowledge on the planning to which they don't know anything about, risks such as preparation of unqualified strategic plans, awarding the work of preparation of strategic plan completely to a company due to not having sufficient knowledge on the subject, or consultancy of incompetent companies in the strategic plan preparation process, and the risk of preparation of strategic planning by deeming it only as legal obligation are being listed as some of these (Yıldırım, 2011)

(Önem, 2012) suggests that the imposed obligation of strategic planning as dependant on population is not a correct approach that all the municipalities require strategic planning no matter what their population is, and that implementation field of strategic planning should cover all the municipalities.

6. CONTRIBUTION OF STRATEGIC PLANNING TO MUNICIPALITIES

Under today's conditions, the contribution of strategic planning to the public and private institutions is indisputable. A municipality making strategic plan will have advantages such as planning as per its purposes and priorities, ability of planning the process, a participative planning, making decisions based on knowledge and analysis etc. In Table 2, the statuses of municipalities making and not making strategic planning have been provided comparatively.

Table 2: Comparison of municipalities making and not making strategic planning

Municipality having strategic plan	Municipality not having strategic plan
Planning as per the purposes and priorities of local administration	Planning as per the resources of local administration
Planning the process	Planning the period
Participative planning	Guiding / mandatory planning
Covers the employees of local administration	Relates to the managers of local administration
Prudential planning	Planning as based on today
Based on basic decisions	Based on daily policies and business cycle
Requires change of current purposes and objectives	Requires the continuation or improvement of current status
The plan is continuous. It is reviewed according to the conditions	It is static. Doesn't change
Based on knowledge and analysis	Based on estimates and expectations
Requires leadership	Administratorship is sufficient

Source: Narinoglu, 2006

7. LEGAL INFRASTRUCTURE

Following the Law with no 5018, which obliges strategic planning in public institutions, 5 Laws, 1 Council of Ministers' decision, 2 Higher Planning Council decisions, 4 regulations and 2 communiqués arranging the strategic plan preparation principles and standards, defining the phases of preparation of plan and determining the liabilities of the institutions had been published. All legislation regarding strategic planning has been shown in Table 3 [3].

Table 3: The Turkish legislations related to strategic planning

	NO	NAME
LAWS	5436	Law Regarding Making Amendments in Public Financial Management and Control Law, and in some Laws and Statutory Decrees
	5018	Public Financial Management and Control Law
	5216	Law of Metropolitan Municipality
	5302	Law of Provincial Special Administration
	5393	Municipal Law
COM'S DECISION	2007/12702	Decision Regarding Public Economic Enterprises and Their Subsidiaries
REGULATIONS		Regulation Regarding Procedures and Principles of Strategic Planning in Public Administrations
		Regulation Regarding Making Amendment in Regulation Regarding Performance Programs to be Prepared by Public Administrations
		Regulation Regarding Activity Reports to be Prepared by Public Administrations
		Regulation Regarding Working Procedures and Principles of Strategy Development Units
COMMUNIQUé		Communiqué Regarding Strategic Plans to be Prepared by Public Administrations
		Communiqué of Public Internal Control Standards

8. PURPOSE, LIMITS AND METHOD OF RESEARCH

In this research, it was intended to reveal comparatively at what extent the 10 MM with highest population –among 30 MM in Turkey- include the issues of environment and urban in the strategic plans, what kind of activities they plan, and what is the amount of budget allocated to such issues.

The research is limited with the provinces of Istanbul, Ankara, Izmir, Bursa, Antalya, Adana, Konya, Gaziantep, Sanliurfa and Kocaeli which still have the status of metropolitan. When the researches on comparison of strategic plans were examined, 77 criteria were determined by Altan et al. (2013) based on Regulation Regarding Procedures and Principles of Strategic Planning at Public Administrations and Strategic Planning Guide for Public Administrations, and they were assessed as exists/doesn't exist as grouping them under different headings. Karasu (2012) had applied attitudes questionnaire consisting of 41 questions under four headings to MM being within the scope of research. Çetin (2009) had performed a comparison based on 10 criteria, and Renkal (2012) had performed a comparison by the content analysis method regarding the missions, visions and strategic aims included in the strategic plans of 16 BB. And in the research, it was revealed comparatively at what extent the 10 MM with highest population –among 30 MM in Turkey- include the issues of environment and urban ("Kent" in Turkish) in the strategic plans, what kind of activities they plan, and what is the amount of budget allocated to such issues. Within the frame of content analysis, specific criteria and coding, by calculating the numeric amplitude of the concepts, the general terms of the subject was tried to be determined by making interpretation on the sample group in the direction of frequently emphasized words which is an analysis method by which the basic points required to be emphasized are determined (Renkal, 2012). The selected 10 MM constitutes %49.71 of the country's population, and constitutes 64.21% of the population of 30 MM. It was accessed through the web site of Ministry of Development to the strategic plans of relevant MM [4].

9. RESEARCH FINDINGS

9.1. İstanbul

The strategic plan of Istanbul MM was 288 pages, and the word urban and concepts derived from the root urban have been included for 238 times, and the word environment and concepts derived from the root environment have been included for 123 times. In section 4 of the plan –consisting of 8 main sections-, the subject of urban has been included under the heading of

Urban and Social Order. When Urban and Social Order is referred, it is being understood to arrange the shared spaces, preserving the rights of consumers, inspections and awareness raising activities in these fields is being understood for enabling welfare and peace in Istanbul. In this section, 14 legislations concerning Istanbul have been included, and SWOT analysis has been made. In the vision section of strategic plan, the comprehension of "local management of brand city which facilitates life by sustainable and innovative solutions, and which generates global value in the name of urbanism and civilization" has been included. In the section of strategic aims, 17 aims have been defined, and objectives regarding the urban have been included in 5 of these, and 10 different strategic aims have been defined under the heading of strategy map of management of urban and social order.

9.2. Ankara

The strategic plan of Ankara MM was 155 pages, and the word urban and concepts derived from the root urban have been included for 157 times, and the word environment and concepts derived from the root environment have been included for 19 times. 75 strategic aims have been determined in the plan, and among these aims the concept of urban has been included for 12 times, and the concept of environment has been included under only 8 strategic aims (preventing environmental pollution in Ankara). And the concepts of urban and environment have not been included in the vision and mission sections of the plan.

9.3. Izmir

The strategic plan of Izmir MM was 227 pages, and the word urban and concepts derived from the root urban have been included for 655 times, and the word environment and concepts derived from the root environment have been included for 182 times. 9 strategic aims have been determined in the plan, and among these aims the concept of urban has been included for 13 times, and the concept of environment has been included for 1 time. The concept of urban has been included once in each of the mission and vision sections of the strategic plan of Izmir MM: Moreover, the vision of urban has been defined as "being a symbol urban regarding democracy where it is lived as free and with pleasure".

9.4. Bursa

The strategic plan of Bursa MM was 192 pages, and the word urban and concepts derived from the root urban have been included for 336 times, and the word environment and concepts derived from the root environment have been included for 160 times. 21 strategic aims have been determined in the plan, and among these aims the concept of urban has been included for 5 times, and the concept of environment has been included for 3 times. In the strategic plan mission of Bursa MM, the concept of urban has been included for 2 times, and the concept of environment has been included for 1 time. And in the vision of the plan, the concepts of urban and environment have not been included.

9.5. Antalya

The strategic plan of Antalya MM was 104 pages, and the word urban and concepts derived from the root urban have been included for 173 times, and the word environment and concepts derived from the root environment have been included for 43 times. 17 strategic aims have been determined in the plan, and among these aims the concept of urban has been included for 7 times, and the concept of environment has been included for 1 time. In the strategic plan mission of Antalya MM, the concepts of urban and environment have not been included. And in the vision of the plan, the concept of urban has been included for 1 time, and the concept of environment has not been included.

9.6. Adana

The strategic plan of Adana MM was 110 pages, and the word urban and concepts derived from the root urban have been included for 394 times, and the word environment and concepts derived from the root environment have been included for 136 times. 8 strategic aims have been defined in the plan, and among these aims the concepts of urban and environment have been included for 3 times in each. And in the vision of the plan, the concept of urban has been included for 1 time, and the concept of environment has not been included. In the strategic plan mission of Adana MM, the concepts of urban and environment have not been included.

9.7. Konya

The strategic plan of Konya MM was 90 pages, and the word urban and concepts derived from the root urban have been included for 91 times, and the word environment and concepts derived from the root environment have been included for 125 times. 33 strategic aims have been

determined in the plan, and among these aims the concept of urban has been included for 8 times, and the concept of environment has been included for 1 time. And the concept of urban has been included for 1 time in the vision and for 2 times in the mission, and the concept of environment has not been included in the mission of the urban.

9.8. Gaziantep

The strategic plan of Gaziantep MM was 226 pages, and the word urban and concepts derived from the root urban have been included for 209 times, and the word environment and concepts derived from the root environment have been included for 226 times. 10 strategic aims have been determined in the plan, and among these aims the concept of urban has been included for 5 times, and the concept of environment has been included for 2 times. In the vision of the plan, the concept of urban has been included for 1 time, and the concepts of urban and environment have not been included in the mission.

9.9. Şanlıurfa

The strategic plan of Şanlırfa MM was 49 pages, and the word urban and concepts derived from the root urban have been included for 42 times, and the word environment and concepts derived from the root environment have been included for 57 times. 3 strategic aims have been determined in the plan, and among these aims the concept of urban has been included for 1 time, and the concept of environment has not been included. In the mission of the plan, the concept of urban has been included for 1 time, and the concepts of urban and environment have not been included in the mission.

9.10. Kocaeli

The strategic plan of Kocaeli MM was 90 pages, and the word urban and concepts derived from the root urban have been included for 37 times, and the word environment and concepts derived from the root environment have been included for 48 times. 4 strategic aims have been determined in the plan, and among these aims the concept of urban has been included for 4 times, and the concept of environment has been included for 2 times. The concept of environment has been included 1 time only in the mission of the plan, and the concepts of urban and environment has not been included in the vision.

10. RESULTS AND CONCLUSION

The frequencies of availability of the concepts of urban and environment and words derived from the same (urban, urbanization, environmental, in the environment etc) in the strategic plans of metropolitan municipalities being the subject of research, and the values obtained by dividing these frequency values to page numbers of strategic plans are given in Table 4. According to this, Izmir, Adana and Bursa (655, 394 and 336 times) have included the concept of urban the most, and Izmir, Bursa and Adana (182, 160 and 136 times) have included the concept of environment the most. In the listing of usage amounts of the word urban and words derived from the root urban per page, Adana, Izmir and Bursa have ranked in the first three place with a word/paper number of 3.58, 2.89 and 1.75, and in the listing of usage amounts of the word environment and words derived from the root environment per page, Konya, Adana and Şanlıurfa have ranked in the first three place with a word/paper number of 3.58, 2.89 and 1.75.

Table 4: Concepts of urban and environment included in the strategic plans of metropolitan municipalities

METROPOLITAN MUNICIPALITY	NUMBER OF PAGES IN STRATEGIC PLAN	URBAN		ENVIRONMENT	
		F	%	F	%
İstanbul	288	238	0,83	123	0,43
Ankara	155	157	1,01	19	0,12
İzmir	227	655	2,89	182	0,80
Bursa	192	336	1,75	160	0,83
Antalya	104	173	1,66	43	0,41
Adana	110	394	3,58	136	1,24
Konya	90	91	1,01	125	1,39
Gaziantep	226	209	0,92	70	0,31
Şanlıurfa	49	42	0,86	57	1,16
Kocaeli	90	37	0,41	48	0,53

Mission, vision and defined strategic aims consist the most important sections of strategic plans. The extent of inclusion of the concepts of urban and environment in these sections is an indicator of the importance attached on urban and environment by the relevant metropolitans. By this purpose, the mission, vision and strategic aims of the examined strategic plans have also been examined, and the obtained results have been listed in Table 5. According to this, in the mission of strategic plans Konya has included the concept of environment for 2 times,

Kocaeli for 1 time, and in the vision of strategic plans Konya has included it for 2 times, Bursa and Şanliurfa for 1 time, and in the strategic aims of the same Gaziantep has included it for 5 times, Bursa for 3 times, Adana, Konya and Şanliurfa for 2 times, Istanbul, Ankara and Izmir for 1 time. And regarding the concept of urban, Konya has included it for 2 times in its mission, Konya and Bursa have included it for 2 times in its vision, Ankara and Kocaeli have not included it, and the other provinces have included it for 1 time in each. And in the strategic aims, Izmir has included the concept of urban for 12 times, Konya and Istanbul for 8 times.

Table 5: The concepts of urban and environment included in the mission, vision and strategic aims of strategic plans of metropolitan municipalities

METROPOLITAN MUNICIPALITY	URBAN			ENVIRONMENT		
	MISSION	VISION	STRATEGIC AIMS	MISSION	VISION	STRATEGIC AIMS
	F	F	F	F	F	F
İstanbul	0	0	0	0	1	8
Ankara	0	0	0	0	0	1
İzmir	0	0	0	0	1	12
Bursa	0	0	0	0	2	5
Antalya	0	0	0	0	1	7
Adana	0	0	0	0	1	3
Konya	2	2	2	2	2	8
Gaziantep	0	0	0	0	1	5
Şanlıurfa	0	0	0	0	1	2
Kocaeli	0	1	1	1	0	0

The most important indicator of importance attached on urban and environment in the strategic plans of metropolitan municipalities is not only the concepts. How much budget is allocated by the management of municipalities to investments relevant to urban and environment is also very important. By this purpose, the environmental expenditures in the strategic plans of the period of 2015-2019 by the metropolitan municipalities for their urban and environment have been comparatively searched in respect of total amounts and amount per capita. Consequently, Istanbul, Gaziantep and Izmir have ranked in the first three place regarding total environment expenditures. And in the environment expenditures per capita, Gaziantep, Istanbul and Bursa have been the most successful cities by 1.200 TRY, 630 TRY and 328 TRY. And in respect of urban investments, Istanbul, Ankara and Izmir have ranked in the first three place in total

amounts, and Istanbul, Izmir and Antalya have ranked in the first three place in the amounts per person (928 TRY, 772 TRY and 757 TRY) (Table 6).

Table 6: Targets in expenditures for environmental and urban investments (2015-2019)*

METROPOLITAN MUNICIPALITIES		ENVIRONMENTAL INVESTMENTS		URBAN INVESTMENTS	
NAME	POPULATION	Expenditures (TL)	Expenditures per capita	Expenditures (TL)	Expenditures per capita
İstanbul	14657434	9.229.197.720	630	13.608.826.932	928,5
Ankara	5270575	161.632.522	30,7	3.596.478.816	682,4
İzmir	4168415	1.077.674.237	259	3.218.927.050	772,2
Bursa	2842547	933.155.000	328	417.782.000	147,0
Antalya	2288456	N/A	N/A	1.734.459.960	757,9
Adana	2183167	N/A	N/A	N/A	N/A
Konya	2130544	175.998.000	82,6	234.664.000	110,1
Gaziantep	1931836	2.318.729.190	1200	1.101.878.974	570,4
Şanlıurfa	1892320	N/A	N/A	83.825.000	44,3
Kocaeli	1780055	790.714.547	444	1.150.918.590	646,6

*1 US$=2,86 TL(28.03.2016)

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