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DEVELOPING A PROTOTYPE FOR DETERMINING ALTERNATIVE SOURCES OF NATURAL GAS SUPPLY

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ABSTRACT

The emerging area of management and distribution of global energy resources presents new challenges to businesses, industries, and researchers. This paper describes a prototype used to evaluate the situation and to facilitate rapid decision-making for alternative natural gas supply sources given an unprecedented scenario. It provides a step-by-step approach to determining the best alternative based on cost and risk reduction. It incorporates data about the top exporters and importers of natural gas, their rank order, and the relationship between the importers and exporters of natural gas, as well as the factors guiding such relationships. Results of these relationships are incorporated into a database and examples are chosen to analyze for alternative selection. The solution obtained demonstrates the feasibility of developing an integrated system and its useful implementation for determining alternative sources of natural gas supplies given critical scenarios in the value chain.

A STUDY OF SATISFACTION, LOYALTY, AND MARKET SHARE IN KUWAIT BANKS

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ABSTRACT

This study investigates the relationships among customer satisfaction, customer loyalty, and market share in Kuwait banks by interviewing three hundred thirty mutual funds investors. The authors show that the expected positive relationships of (i) satisfaction with loyalty and of (ii) satisfaction with market share are not supported in this sector of the banking industry. Additionally, the relationship of (iii) loyalty with market share is shown to be significant and positive as expected. It appears that market share is dependent on banks creating and maintaining a large and loyal customer base.

INTRODUCTION

The basic premises in marketing are straightforward: (a) better value for the buyer should lead to brand choice and satisfaction, (b) a satisfied buyer will eventually and for various reasons become a repeat purchaser and/or loyal buyer, (c) this satisfaction and buyer loyalty should result in improved marketing performance for a variety of reasons, and (d) the improved marketing performance should lead to better overall firm performance (i.e. Cooil et al. 2007, Leverin & Liljander 2006, Story & Hess 2006, Pleshko & Cronin 1997).

However, these general premises do not hold for every industry or under every condition. There is evidence that satisfaction may be necessary but not sufficient to ensure customer loyalty (Reichheld & Sasser 1990, Mitchell & Kiral 1998). Also, buyer loyalty generally leads to improved marketing performance, but not in all investigations (Ehrenberg & Goodhardt 2002, Knox & Denison 2000, Reichheld & Sasser 1990). Therefore, the specific conditions for which the marketing premises hold are still under investigation.

The purpose of this study is to partially investigate the premises mentioned above. In particular, the interrelationships among consumer satisfaction, consumer loyalty, and market share are studied in a sector of the financial services industry: Kuwait banks offering mutual fund services.

CUSTOMER SATISFACTION

Customer satisfaction and retention are generally considered among the most important long term objectives of firms (Cooil et al. 2007). The marketing concept suggests that a satisfied buyer will be more likely to repurchase again, or at least, consider repurchasing again than those who are dissatisfied (Keith 1960, Leavitt 1960). According to Reichheld and Sasser(1990), repeat customers cost less to serve than new buyers, benefiting a firm's cost structure. Additionally, maximizing customer retention rates and minimizing customer defections are primary strategic objectives for most firms, as evidenced by the recent emphasis on customer relationship management (Ching et al. 2004, Verhoef 2003). Thus, previously satisfied buyers may help firms both reduce marketing costs and develop more stable levels of sales when a large number of satisfied buyers are retained to purchase again in the future.

BUYER LOYALTY

The investigation of customers' brand loyalty has had a long and rich tradition in marketing. It is now accepted that maintaining and increasing brand loyalty is a primary responsibility for any marketing manager. The modern conceptualization of loyalty is that from Dick and Basu (1994) who argue that brand loyalty should not be regarded as mere repurchase behavior, but rather as a combination of purchase behavior and attitudes. Accordingly, true brand loyalty requires repeat purchase behavior in addition to a significant psychological attachment to the chosen brand. Based on this two-dimensional approach, true brand loyalty is now widely defined as an individual having both (i) a favorable attitude towards the brand and (ii) a consistent purchase pattern towards the brand over time, and several scholars have shown this to be the case (Kerin et al. 2006, Pleshko & Heiens 1997).

INTERRELATIONSHIPS

Since the formalization of the marketing concept, the idea that satisfied buyers will (hopefully) return for future purchases and eventually become loyal buyers has been the primary basis for marketing thought. Recent studies support this strong correlation between satisfaction and loyalty (Story & Hess 2006). Additionally, in the financial services industry, satisfaction is shown to be one of the main predictors of loyalty (Leverin & Liljander 2006). Hence, the following research proposition is formulated:

P1: There is a positive relationship between customer satisfaction and buyer loyalty in banks offering mutual funds investment services.

It should be logical that both satisfaction and loyalty are positively related to market share. Increases in satisfaction hopefully lead to repeat purchases and positive word-of-mouth between buyers. Increases in loyalty should also lead to positive word-of-mouth and increasing in purchase volume, but also to lower marketing retention costs and therefore more profits per customer (Rosenberg & Czepial 1983). Previous research has shown that increases in customer satisfaction in the banking industry results in higher market shares (Pleshko & Cronin 1997). Similarly, there is an overwhelming number of previous research studies and conceptualizations which link loyalty with a positive impact to either market share or the profitability of the firm (i.e. Leverin & Liljander 2006, and McPhee 1963). Hence, the following research propositions are advanced:

P2: Customers loyalty is positively related to market share in banks offering mutual funds investment services.

P3: Customer satisfaction is positively related to market share in banks offering mutual fund investment services.

DATA COLLECTION

The data for the current study are gathered from a group of consumers who are mutual fund investors at banks in the state of Kuwait. The sampling frame is comprised of bank customers in the State of Kuwait, derived from a sampling frame provided by the government offices of the Ministry of Planning. The data are from self-administered questionnaires collected from interview visits to households of both local citizens and foreign residents. The sampling methods employed a multi-stage approach in order to ensure the sampling proportions closely matched the actual proportions of bank users in Kuwait. The sample also reflects the distribution of residence over the six districts of Kuwait. Non-Response rate was lower than ten percent, an acceptable number given the nature of the information gathered. This process results in a total of seven hundred seventy respondents, of which three hundred thirty are mutual fund investors included in the study.

Many financial services companies exist in Kuwait in a variety of categories; however, only those companies offering mutual funds are investigated in this study. Currently there are thirty-six companies offering mutual fund services, with most of the activity, nearly eighty-five percent, handled through the ten major banks of Kuwait. Thus, the ten major banks are each included in the study as individual entities, while the remaining twenty-six providers are grouped together into an 'other' category due to the small market shares. Therefore, there are eleven 'banks' or entities that will be included in the analyses.

MEASUREMENT

The indicators are derived from research in other industries where similar measures are shown to be reliable and valid (Pleshko 2006, Pleshko & Cronin 1997, Dawes & Smith 1985).

The market-share indicator (MSVA) refers to the share of money invested that each bank holds. Note that the total value of the respondents investments in mutual funds is Kd16,538,179. Thus, MSVA is calculated as follows: $MSVA_i = Z_i/16,538,179$, where 'Z' refers to the total mutual funds investments held by a specific bank 'i'. So, regarding Bank 33 for example: $MSVA_{33}$ = 3,083,503/16,538,179 = 18.64%. The range of MSVA is from a low of 0.61% for 'other' banks to a high of 23.61% for Bank 17.

The loyalty indicator (LOYF) refers to the number of mutual fund investors at each bank. Specifically, LOYF is defined as the number of investors at each bank, where the investors are assigned to a specific bank only when they have the largest investment in mutual funds at that bank. This is adjusted by the total number of useable investors in the sample (three hundred and twenty-seven classified). So, regarding Bank 33 for example: $LOYF_{33}$ = 45/327 = 13.76%. The range of LOYF is from a low of 0.91% for 'other' banks to a high of 14.06% for Bank 17.

The study includes a single indicator of *consumer satisfaction* with banks regarding the mutual funds services. An overall indicator (SATB) is measured using a single item with ratings from very satisfied [5] to not at all satisfied [1]. The satisfaction responses are aggregated to the specific bank and then averages are calculated. For the eleven banks, SATB has an average of 3.60 with a standard deviation of 0.21 and ranges from 3.35 to 3.93.

For the eleven banks in the study, the specific data used in the analyses is as follows for each bank (MSVA,LOYF,SATB): Bank33 (.1864,.1376,3.354), Bank17 (.2361,.1407,3.546), Bank27 (.0768,.1223,3.454), Bank20 (.1014,.0612,3.690), Bank03 (.0423,.0612,3.935), Bank12 (.0419,.0489,3.854), Bank32 (.0383,.0489,3.685), Bank28 (.0271,.0459,3.837), Bank15 (.0305,.0428,3.373), Bank34 (.0602,.3333,3.367), BankOthr (.0061,.0092,3.494).

ANALYSIS/RESULTS

The Spearman rank correlation coefficient, *rho* or "*r*", is used to analyze the association between the variables under investigation in the model. The test is useful when wither the number of observations is small in relation to the variables under study or in cases of small sample sizes. The test statistic is calculated using the following equation derived by Spearman (1904): $r=1-6[Sum(d^2)/n(n^2-1)]$. In the equation, '*n*' equals the number of paired rankings for each bank (eleven) and '*d*' equals the absolute differences between the rankings for each bank (*Xi*-*Yi*). The test statistic ranges between +1 (perfect positive association) and -1 (perfect negative association). Two-tailed tests are performed, giving the general hypotheses for the paired variables: *Ho***:** independently ranked pairs or *Ha***:** related ranked pairs.

The Spearman test between satisfaction and loyalty (P1) gives a r=+.0568 and an insignificant p-value. Thus, no support is offered for a relationship between satisfaction and loyalty. The Spearman test between satisfaction and market share (P3) gives a r=-.2364 and an insignificant p-value. Thus, no support is offered for a relationship between satisfaction and market share. The Spearman test between loyalty and market share (P2) gives a r=+.8523 and a significant p-value=<.01. Thus, support is offered for a positive relationship between loyalty and market share.

DISCUSSION//LIMITATIONS

The purpose of the study was to determine if any significant relationships are evident among satisfaction, loyalty, and market share. The results indicate that only the loyalty-share relationship is significant, revealing a positive relationship. The findings suggest the importance of developing customer loyalty in bank services. This result is congruent with many other studies across industries and supports literature linking loyalty to performance in financial institutions (Reinartz & Kumar 2002). As previously outlined, the relationship between buyer loyalty and market share is expected to be positive. In one direction, loyalty leads to an increase of market share while in the other direction, market share may have a positive effect on loyalty (Reinartz & Kumar 2002, Hellofs & Johnson 1999).

The readers must wonder if the current findings are indicative of general tendencies or simply a characteristic of this limited study in the Kuwaiti market. Larger studies with more respondents taken over time are probably needed to truly identify the scope of the outlined model in banking. Additionally, this study only addressed banks as related to mutual funds services: no evidence is provided that these findings apply to other banking services, such as investment accounts, credit cards, or money transfers. Additional indicators might be included for each of the constructs under study. Future research might also include both different target respondents as well as different product-markets, both in the banking sector and elsewhere across the GCC or other regions.

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ASSESSING THE IMPACT OF OFFSHORING ON ORGANIZATIONAL COMMITMENT

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ABSTRACT

As organizations continue to "offshore" many of their operations across national boundaries, they also reconfigure their relationship with their workforce. In this paper, we examine the impact of offshoring on the employer-employee contract, primarily through the lens of organizational commitment. Our contention is that employer-employee relations are increasingly taking on a transactional character, at the expense of earlier psychological contracts. We present a framework of new HR imperatives that confront organizations and employees in the post-offshoring age. We also acknowledge the ethical challenge to the academic researcher, to conduct such research without ignoring a larger context that includes important social issues such as inequality in exchange and the perpetration of unfair labor practices.

INTRODUCTION

The practice of "offshoring," i.e. relocating jobs from a metropolitan location such as the United States to other nations for purposes of extracting arbitrage advantages in the labor sector, began in manufacturing (Houseman, 2007), but has now set up pervasive roots throughout the service sector (Crinò, 2010) and even in the knowledge-intensive parts of industry (Leonardi & Bailey, 2008). The debate on the broader consequences of such offshoring focuses on the transforming relationship between employees and organizations (Janssen & Van Yperen, 2004; Tsui, Pearce, Porter & Tripoli, 1997). As organizations continue to attempt to socialize their employees into subjecthood (Louis, 1990), issues of employee-organization relations become salient. While research has indicated that employees experience both economic and social pulls toward their organizations (Arthur, 1992), theorists have often wondered which of these pulls is more compelling in the current organizational scenario.

In this paper, we argue that in the current corporate landscape, the employee-organization relationship is subjected to further shifts on account of the changing profile of the workforce. As a result, the "post-offshoring worker," including the worker who is attempting to enter the workforce in the next few years, encounters an atmosphere characterized by a paradoxical combination of high hopes and declining trust. To that extent, we may hypothesize that their relationship with their employers is moving from a psychological contract model to an economic exchange model.

How do we reconcile the ambivalence of the post-offshoring workers toward their employers with their intense need to monitor their own progress? First, using the lens of *organizational commitment*, we postulate a series of emerging relationships between organizations and their post-offshoring employees. Secondly, we utilize these theoretical terms to develop a framework of newer HR techniques being deployed by organizations to manage the post-offshoring employee.

OFFSHORING: A CRISIS IN THE MAKING?

Attitudes toward corporate offshoring are often intensely polemical, and fluctuate wildly depending upon the source of one's information. On one hand, organizations like the AFL-CIO, make a passionate case that offshoring is the defining political crisis of our time, costing US workers around half a million jobs in the professional services and information sector. The AFL-CIO disputes a variety of "corporate myths" that suggest among other things that the jobs being outsourced are low-end jobs, or that offshoring is good for the US economy in any indirect way. On the other hand, pro-corporate research by organizations such as McKinsey suggests that offshoring is a boon to US business, and that offshoring is an important source of "value creation" for the US economy (Farrell & Agrawal 2003). A comprehensive transnational discussion on the macroeconomic impact of offshoring both in the manufacturing and in the white-collar sector is long overdue. However, our aims in this paper are more circumscribed. In this paper, we confine our analysis to a study of the impact of offshoring on the organizational commitment of employees in the industrialized nations of the world, and the ethical challenges posed by such phenomena for academics who teach in business schools.

ORGANIZATIONAL COMMITMENT

One of the theoretical frameworks, which can be used to make sense of conflicting aspirations and expectations in the workplace, is that of organizational commitment. Lyman Porter and his associates (Porter, Steers, Mowday & Boulian, 1974:604) had specified the following characteristics of commitment: "a strong belief in and acceptance of the organization's goals and values, a willingness to exert considerable effort on behalf of the organization, and a definite desire to maintain organizational membership." Broadly speaking, most theorists agree that organizational commitment can be seen in terms of two dominant dimensions. Affective commitment is an attitudinal phenomenon related to personality traits and job-related factors, and leads to the willingness of an employee to support organizational goals. Calculative or continuance commitment, on the other hand, is the result of an employee's perception that organizational membership will serve his self-interest and results in the continued participation of the individual in the organization (Brown, 1990; Hom & Griffeth, 1995).

The advent of the new organizational paradigm and the attendant effort to function efficiently in the changing environment disrupt the rules of this engagement and are leading firms to abandon their attempts at fostering commitment in return for a greater flexibility in operations and personnel. The structural changes in the workforce resulting from offshoring have made the relationship of employees with their organization highly dynamic. The contracted workers constitute an extremely mobile or unstable group who move from client organization to client organization and from one project group to another. They are unlikely to have a sense of belonging as far as a specific organization is concerned. Further their sense of belonging to their parent organization is likely to be weak due to their distance from their original employer and a variety of other reasons discussed earlier.

Proposition 1: *Post-offshoring employees will demonstrate lower levels of affective commitment to their organization than core employees.*

CAREER OR OCCUPATIONAL COMMITMENT

Career or occupational commitment is the term used to describe the involvement of employees with their chosen occupation (Mueller, Wallace & Price, 1992) and is strongly linked with concepts such as career salience (Greenhaus, 1971; Taylor & Popma, 1990), cosmopolitanism (Gouldner, 1958), professional commitment (Aranya, Pollock & Amernic, 1981; Morrow & Wirth, 1989) and occupational commitment (Ritzer & Trice, 1969). The underlying theme of all these concepts is that employees may be committed to their careers in addition to (Hall, 1968) or instead of (Kalleberg & Berg, 1987) their organizations. Survival in the new organizational paradigm demands the ability to change one's skills in accordance to the requirements of the labor market (see Bluestone & Bluestone, 1992; Harrison, 1994; Harrison & Bluestone, 1988; Reich, 1992). To that end, we may see that the post-offshoring employees are far less wedded to the notion of continuance in the organization than traditional workers.

Proposition 2: *Post-offshoring employees will demonstrate lower levels of continuance commitment to their specific occupation than traditional employees.*

WORK COMMITMENT

Work commitment, often used interchangeably with work involvement (see Kanungo, 1982 and Mueller, Wallace & Price, 1992) has been shown to be an empirically distinct concept from both organizational commitment and career commitment (Morrow & McElroy, 1986) and refers to a commitment not to the organization or to a career but to employment or work itself (Lodahl & Kejner, 1965; Mueller, Wallace & Price, 1992). Kanungo (1982) has offered an operationalization of this concept based on his definition of work involvement as "belief in the centrality of work and the psychological identification with work in general" (Morrow, 1993:12). Other conceptualizations include the Protestant Work Ethic (Mirels & Garrett, 1971), work ethic (Buchholz, 1976), employment commitment (Jackson, Stafford, Banks & Warr, 1983), work motivation (Lawler & Hall, 1970) and work as a central life interest (Dubin, 1956). The unstable nature of the work available to post-offshoring employees makes them acutely aware of their dependency on the fit between their expertise and market conditions.

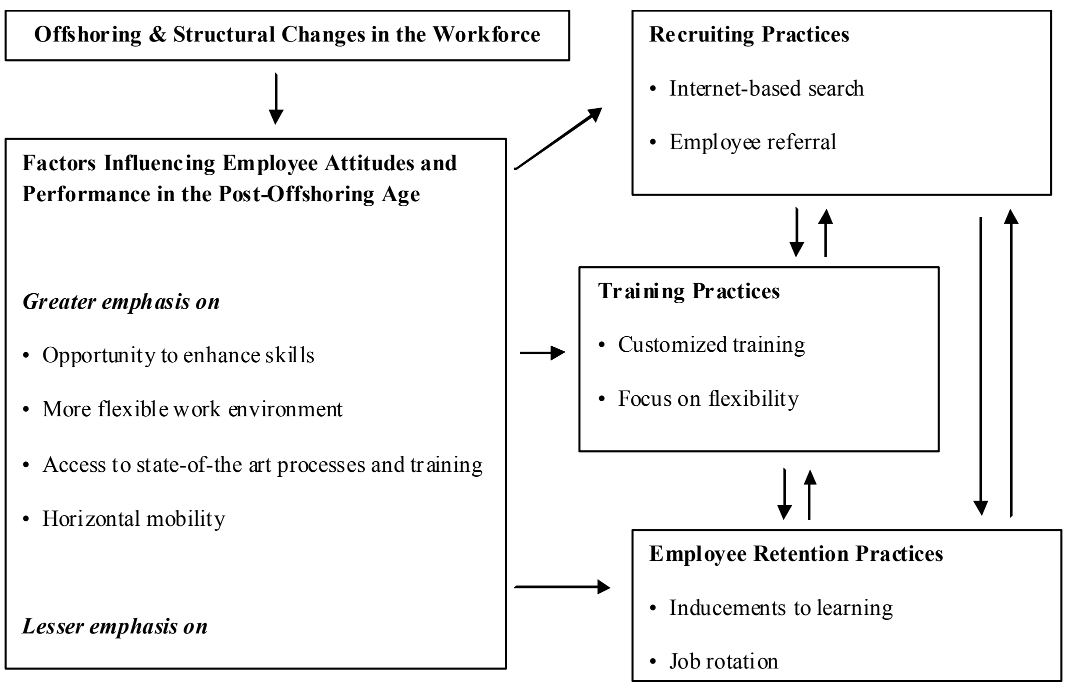
Proposition 3: *Post-offshoring employees will demonstrate a higher level of work commitment than core employees.*

A FRAMEWORK FOR WORKING WITH THE POST-OFFSHORING EMPLOYEE

In the preceding sections, we outlined a paradox, where post-offshoring employees would demonstrate a higher commitment to their work, but a lower commitment to their organization than the traditional workers.

Clearly therefore, the challenge posed by such a scenario for the organization (and by extension, the human resource manager) is to maintain the high level of work commitment demonstrated by the post-offshoring employees while simultaneously raising their affective commitment. In order to achieve this task, certain radical transformations have been undertaken by human resource managers. Some of the changes made in the human resource arena have been schematically represented in Figure 1.

Figure 1



Recruitment

In the past, recruiters were known to make use of mass mailings, employment agencies and other diffuse sources to hire candidates. However, with a sharpening of employee requirements and an increased emphasis on person-organization fit, recruiting tools have become more sophisticated (Cook 1997). These tools include a greater reliance on initial screening through internet-based interfaces (Slick, 1997) as well as a greater focus on employee referral. However, it must be added that these tools have not yet replaced the formal interview as a primary recruiting tool, but are rather used to supplement the interview process.

Training

To cater to the demands and the needs of post-offshoring employees, the paradigm of centralized training programs, usually occurring at the time of entry into the organization has given way to a more flexible, on the job and customized training schedule (Marcum, 1999). Moreover, training schedules now go beyond a focus on job function, and concentrate equally on developing employee flexibility and currency with respect to future jobs. Finally, many new organizations have benefited greatly from providing on-line training materials. These materials, usually accessible from firewall-protected intranet sites, provide a variety of asynchronous training options for the self-motivated post-offshoring employee.

Retention

Retention of employees, especially sophisticated knowledge workers has always been a priority issue for organizations. However, in the post-offshoring, we find that the greatest inducements for employees to stay is a promise that the organization will be able to maintain employee currency, teach them newer skills, offer job rotation, and more experiential training (Garger,1999). At the same time, we also find that employers are becoming increasingly philosophical about the issue of turnover, and in most cases, even budgeting for it by attempting to formalize and routinize work processes so that they can be easily transmitted to new employees.

CONCLUSION

In this paper, we have provided a theoretical framework of the commitment profile of post-offshoring workers, contending that their attitudes toward the changing corporate workplace is one of diminishing affective commitment to the organization, coupled with a paradoxically increased work commitment. Based on this contention, we have designed a model whereby HR managers may attempt to raise the affective commitment of these workers without compromising their work commitment. The model also suggests the factors that post-offshoring workers tend to emphasize more in their new work roles. Paying more attention to these factors, we suggest, may lead to HR gains with respect to recruitment and retention.

In this paper we did not explicitly address issues of inequality in exchange and the role of offshoring in the perpetration of unfair labor practices. From business theorists like Henry

Mintzberg (2004) and Ian Mitroff (2004) to popular publications like The Economist (2005), a significant portion of the current round of critique of business schools stems from their inability to advocate social responsibility, and to ensure that corporations earn their putative role as servants of society and allocators of social product. This phenomenon is all too observable in the analyses of offshoring that populate much of organizational research. The literature on offshoring in the organizational field is replete with "how to" advice on what can and should be outsourced. The everyday relations at the workplace on both sides of the offshoring divide are the sites of class struggle, of alienation, of the constitution of worker subjectivity, of the gendering of work and its subversion, of intra-organizational bargaining, and sometimes, of relations of imperialism and cultural dislocation. Representing this becomes an ethical prerogative for organizational researchers who wish to exhibit true commitment to their craft. Our intention for further research is to expand our current framing to explicitly include issues of inequality in exchange and the perpetration of unfair labor practices, acknowledging our obligation to place our research within a larger context that includes important social issues.

REFERENCES (available on request)

THE SUCCESS OF IRELAND'S FOREIGN INVESTMENT PROMOTION STRATEGY: A RECONSIDERATION

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ABSTRACT

The image of the Republic of Ireland's principal investment promotion agency (IDA Ireland), has been tarnished by the recent global recession and its aftermath. Questions have risen about the wisdom of using foreign direct investment (FDI) to fuel domestic growth and prosperity. It is the position of this paper that the overall historical strategy of IDA Ireland remains viable but that changes in the policy approach are needed. Ireland should (1) continue to seek inward FDI but should reduce the degree of dependency on inflows from the U.S., (2) should maintain a policy of investment selectivity but should change the mix, (3) should prioritize the creation of vertical linkages in the supply chain in FDI recruitment, (4) should consolidate the activities of IDA Ireland and Enterprise Ireland, (5) should de-emphasize the government's social contract with Irish labor, and (6) should negotiate aggressively to remain exempt from the EU's "principle of conversion" in the area of taxation.

INTRODUCTION

One of the most remarkable developments in the global economy over the past two decades has been the success of Republic of Ireland in translating heavy infusions of foreign direct investment (particularly from the U.S.) into rapid internal economic growth and development. Observers in the commercial press and in the economic literature until very recently have lavished praise on Irish industrial and promotion policy referring to the experience as the "Irish miracle" and to the country as the "Celtic Tiger".

Unfortunately, recent deterioration in the Irish economy during the current global recession has cast doubt about the sustainability of the Irish miracle and has produced derisive comments about the "Celtic Tiger" becoming the "Celtic Kitten".

Defenders of Irish foreign investment promotion strategy argue, of course, that the current economic malaise in the country is traceable to unwise housing speculative and irresponsible banking practices and not to flaws in the country's FDI promotion policy. However, there is an opposing point of view arguing that FDI fueled growth and development are not sustainable and that the country's policy driven appetite for FDI has been excessive.

The purpose of this paper is to examine the Irish miracle of recent memory and to reexamine the viability of the country's FDI promotion policy in light of new economic realities. The following key questions will be addressed. Was Irish promotion policy flawed? If so, in which specific areas?

Are FDI fueled growth and development sustainable? If so, what new government policy initiates or policies might promote the same?

IRELAND'S INDUSTRIAL INVESTMENT PROMOTION POLICIES: A RECONSIDERATION

Clearly, the deep recession of 2008-09 in Ireland has cast a shadow of doubt over the wisdom of the country's FDI-fueled growth strategy of the past two decades. However, it is argued here that the linkages between the country's investment promotion strategy and the factors that triggered the recession (housing bubble, land speculation, bank financial mismanagement, government fiscal excesses, etc.) are indirect as best. When Ireland recovers from the current economic malaise, change is needed in the country's approach to investment promotion, but the change should be more evolutionary rather than systemic or structural. The following are recommendations for investment promotion policy rethinking and revision.

Continue to Seek UDFDI but Reduce the Degree of Dependency

A key element in the Irish strategy to stimulate growth through FDI infusions has been the successful courting of U.S. multinationals. This made sense historically given the wealth and technological proficiency of U.S. companies and the resulting positive spillover effects that U.S. FDI is capable of bestowing on the Irish economy. Furthermore, ancestral, cultural, and language commonalities between the two countries have made the investment marriage a convenient one.

Nevertheless, the dependence or capital/investment inflows from any one country, produces risks and disadvantages for host countries. This has proven to be particularly true of the U.S./Ireland relationship. Heavy FDI inflows from the U.S. means that major sectors of the Irish economy have become dependent on U.S. economic performance. The recent downturn in the U.S. economy has already resonated in Ireland and continued U.S. economic difficulties would have important implications for USFDI flows to Ireland and for U.S. multinationals already located in the Irish economy (Hannigan, 1999, pg. 9).

The heavy FDI interdependency has already led to the importation of U.S. recession into Ireland with more instability on the way. Similarities in the areas of financial and housing/construction collapse between the two countries are not accidental.

Overdependence on UDFDI also creates the potential for disruption to normal capital flows based on exchange rate distortions and macroeconomic imbalances. For examples, in the 1990s, an overvalued dollar priced U.S. exports out of foreign markets, giving U.S. producers the incentive to serve these foreign markets, including Ireland, as foreign direct investors rather than as exporters. The significant depreciation of the dollar of recent memory, including against the EURO, made U.S. exportation a more viable option in serving the foreign markets.

Different investing countries have different macroeconomic problems and conditions that may disrupt FDI flows. It is advisable host countries not to be dependent on any one source of FDI.

Maintain a Policy of Selectivity but Change the Mix

Ireland's investment promotion strategy, based on a targeted search for U.S. multinationals capable of complementing the country's resource mix and capabilities, made good historical sense. The hope was that the attraction of the right types of investment would generate agglomeration economics through shared input markets, particularly labor, as well as through product linkages (Ruane & Buckley, 2006). Sectoral clusters were promoted in the areas of electronic and chemicals/pharmaceuticals.

Although the generation of agglomeration economics through clustering can be an effective growth-stimulating industrial policy tool, there can be a vulnerable if the sectors chosen for clustering are sub-optimal. The accusation could be made that, in the case of Ireland, a mistake was made in the selective targeting of the information communication (ICT) sector. Difficulties were visible in this sector well before the recessionary conditions in 2008-2009.

High tech activities, of course, lead the surge in U.S. growth during the 1990s, fueled by quantum jumps in NASDAQ stock prices, but it softened significantly in the early 2000s. Accordingly, over 17,000 high tech jobs were lost in Ireland in 2001 as U.S. multinationals retrenched. The (ICT) sector was particularly hard hit in this regard. The vulnerability of the Irish economy in the late 1990s and early 2000s was reflected by the fact that over 90,000 people were employed during this period in the ICT sector with a heavy emphasis on PCs, chips, PC components and telecom equipment (Economist Intelligence Unit, 2002, pg.1). More recently, of course the decision by Dell computer to close its massive manufacturing facility in Limerick will lead to the loss of an estimated 1900 jobs and significant regional disruption (Agence France-Press, 2009). High tech may have regained some glamour since the early 2000s but not in all sub-sectors.

In retrospect, given the post-maturity product life cycle position of P.Cs and given the fact that the unskilled/low-skilled nature of PC production would seem to entice manufacturers to seek out cheap labor in China, Poland, Czech Republic, etc. the Irish investment promotion strategy of recent memory seemingly has been flawed. This strategy, of course, was based on the creation of an electronics cluster with the Dells, Gateways and Compaqs as the hub linked to smaller electronic and software enterprises (Ruane & Buckley, 2006).

Due credit must be extended to IDA-Ireland in this regard. Recent reports conclude that future investment clustering will focus more on biotech, medical devices and services. Most importantly, Ireland must in the future target those sectors in reference to which there are closely linked and synergies to the country's resource strengths, producing a comparative advantage in bidding MNCs away from low wage countries in Asia and in Eastern Europe.

Prioritize the Creation of Vertical Linkages in the Supply Chain in the Recruitment of Foreign Direct Investors

The approach used by IDA Ireland in targeting those MNCs capable of producing positive spillover effects on the domestic Irish economy is a model of enlightened policy making. Investment promotion agencies (IPAs) in other developing countries have observed the successful "selective" recruitment strategy of IDA Ireland in seeking to match the capabilities of the recruited MNCs to the resource mix of the host country. This is a model that is transferable to other developing nations.

However, there appears to be one historical flaw in the Irish strategy that has impacted growth and employment negatively. There was an early expectation that small Irish supplies would gain significantly from the presence of MNCs through the development of supply chain relationships. Disappointments in this regard date back to the 1990s (Ruane and Görg, 1997) and continue today with minimal improvement. In a sense, it appears as though the matchmaking strategy of IDA Ireland has failed historically to prioritize the recruitment of those investment targets most likely to seek supply relations with local Irish companies. Many MNCs in Ireland have global supply linkages with little interest in buying locally or even regionally. Others have found it to be cost effective doing business with larger continental (EU) suppliers. In the absence of EU community restrictions, Ireland could mandate or at least encourage the marriage of foreign manufacturers and domestic suppliers through domestic content requirements. This is not possible in the EU, of course, since regional content requirements have replaced earlier domestic content requirements.

In the future, IDA Ireland should continue its selective, targeted approach but with a different set of priorities. At the top of the list should be the capturing of the secondary employment benefits of inward FDI by careful targeting MNCs most likely to develop supply chain relationships with indigenous Irish companies. Balanced economic growth will be the principle benefit of success in this regard.

Consolidate the Activities and Strategies of IDA Ireland and Enterprise Ireland Through Organizational Unification

On the surface, it appears that IDA Ireland and Enterprise Ireland have different missions with the former responsible for recruiting foreign companies to locate subsidiaries on foreign soil and the latter to support the growth and development of indigenous Irish companies (Enterprise Ireland, 2009). This difference in missions certainly was a major factor in the historical separation of the two agencies.

However, given the importance of establishing vertical linkages in the supply chain between MNCs operating in Ireland and indigenous Irish companies (examined in the preceding section), it is time to consider placing the two agencies under the same administrative umbrella. Certainly, it is possible to coordinate strategies under separate agency administrations, but it is more difficult. Also, under the current separation, it is less likely that the need to capture positive spillover effects in the Irish supply chain will be recognized and prioritized.

The call for Ireland to wean itself from FDI dependence (Finfacts Ireland, 2009) is symptomatic of the problem. It suggests that the strategic emphasis among Irish policy makers should be the promotion of indigenous company growth, but this should not be an either/or situation. FDI should not "crowd out" local companies not should the opposite be true. Irish prosperity, in the future, will be linked to the complementary growth of both sectors and this should be a strategic priority of Irish policy makers.

De-emphasize the Social Contract with Irish Labor

Ireland in the past received a great deal of praise for using a social contract, including a no-strike commitment on the part of Irish labor, as a tool for recruiting MNCs. Certainly, a social contract, offering labor market stability, is better than no contract, but the importance of this will diminish over time. Accordingly, this diminished importance should be reflected in the establishment of priorities by IDA Ireland and other policy makers.

The current recessionary conditions in Ireland are creating some labor unrest because of rising unemployment and falling wage rates. However, MNCs should not be affected significantly even if the no-strike social contract is broken. Most MNCs, operating in Ireland, use non-unionized labor and this should become increasingly so in the near future as MNC targeting moves from low value added to high value added production and from manufacturing operations in general to service companies (IDA Ireland, 2009). It is highly predictable that labor union issues among MNCs, operating in Ireland, will become progressively less important with these transitions.

Negotiate Aggressively for the Country's Continued Exemption from the EU "Principles of Conversion" in the Area of Taxation

If Ireland is to continue to employ an FDI-fueled growth strategy, attractive incentive packages must continue to be offered to prospective foreign investors. Favorable corporate tax rates should be included as key elements in these packages. Will Ireland over the long term be able to compete for FDI capital by outbidding its EU partners through low corporate taxation?

The long-term master plan of the EU is evidence. Complete economic and financial integration, needed to support the single currency, presupposes that monetary and fiscal differences among the member nations dissolve over time. Furthermore, each country will ultimately be required to play under the same international trade and investment rules.

In the short-term, however, the "plan" allows certain exemptions from economic convergence for poorer members of the community, including Ireland. In attracting inward FDI, Ireland has exploited its temporary exemption from EU taxation policy in offering relatively low effective tax rates on foreign manufacturing operations on Irish soil. Given the importance of a relatively low corporation tax regime in attracting FDI, the Irish government continues to oppose efforts to harmonize EU taxes, arguing that the Republic would be adversely affected. The threat is ongoing, however. As early as 1992, the influential EU Ruding Committee Report concluded that tax differentials among member countries do influence the direction of FDI flows and that ultimately there should be a harmonization of corporation tax rates. [Thomsen & Woolcock, 1999, pp. 80-82.]

As one of the poorest EU members historically, Ireland has been a recipient of generous community policy exemptions. However, with EU expansion, Ireland no longer ranks among the poorest members of the community in the future. It would be a disaster for Ireland if they lost their exempt status while Slovenia, Hungary, Poland, Slovakia, Cyprus, the Czech Republic, Estonia, Latvia, Lithuania, and Malta gained or retained theirs. Ireland has already lost its status in the EC as the low labor cost alternative to new eastern and western European members. Losing its historical position as a low corporate tax alternate would compound its investment promotion difficulties.

Fortunately, EU ministers to date have had difficulty agreeing on principles of convergence involving minutia, let alone issues as complicate as a tax policy harmonization. Nevertheless, it is important for Irish policy makers to be steadfast in opposing change in this regard. An opportunity to gain leverage in this regard is the November, 2009 Irish vote to ratify the Lisbon Treaty. The EU had made a tentative legal promise not to impose special rules on Ireland concerning taxation as a condition of ratification (BBC, 2009). The Irish government should hold the EU "feet to the fire" on this issue, seeking a more ironclad guarantee.

CONCLUSIONS

Recent recessionary conditions in Ireland have produced fairly widespread scepticism about the long-term viability of the Irish government's strategy to fuel economic growth though the aggressive promotion of inward FDI. Until recently the selective, focused, targeted recruitment strategy of IDA Ireland was praised as a model approach that other developing countries should adopt. Now, questions are raised about the long term benefits of FDI inflows despite the absence of evidences of any causal relationship between FDI dependency and domestic economic recession.

It is the position of this paper that the fundamental strategy of IDA Ireland remains sound but that policy modifications should take place in the implementation of the strategies. Recommended changes include (a) reducing the degree of dependency on USFDI, (b) remaining selective but with target adjustments, (c) prioritizing the creation of vertical linkages in the supply chain through selective FDI recruiting, (d) consolidating the activity of IDA Ireland and Enterprise Ireland through organizational unification, (e) de-emphasize the social contract with Irish labor, and (f) negotiate aggressively for continued taxation exemptions from the EU's "principles of convergence".

With appropriate strategic adjustment in Irish industrial and investment promotion policies, the Celtic Tiger can be "saved".

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THE IMPACT OF FACULTY TEACHING STYLES ON STUDENT MOTIVATION AND LEARNING: RESULTS FROM AN EXPLORATORY STUDY OF B-SCHOOL STUDENTS FROM INDIA

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ABSTRACT

India is one of the fastest growing economies in the world. To keep pace with this growth, India's educational infrastructure must produce an ever increasing number of high-skilled graduates. This study was conducted to obtain insights about motivation and learning styles of Indian students majoring in business. A key issue in this study is an assessment of the role of the teacher (lecturer) in influencing the motivation/learning styles of their students. A 33 item survey instrument based on Herzberg's two factor theory was administered to 452 business students who were in their third year of completing their B.Com degree in two private colleges in Chennai, India. Factor analysis revealed two factors that explained 30.51 percent of variance in the data. The first factor labeled as Lecturer's role (Extrinsic) explained 25.4 percent of the data variance; the second factor labeled as Desire to excel/achieve (Intrinsic) accounted for 5.1 percent of the data variance. Overall, business students respond well to a combination of extrinsic and intrinsic factors.

Business students are motivated by faculty members who encourage active participation, seek their opinions and provide ample opportunities for expressing their thoughts. Students are also seeking faculty who are well versed in their fields who come to class with a sense of energy and enthusiasm. While the results support the time-honored importance given to a teacher's role in Indian culture, the profile of the teacher (lecturer) sought is a departure from tradition. Faculty members should change their teaching styles to better prepare their graduates to be independent thinkers and leaders in an increasingly competitive global environment.

INTRODUCTION

India has emerged as one of the fastest growing economies in the world. Business magazines and newspapers routinely refer to India as an emerging global powerhouse along with Brazil, China, and Russia (commonly referred to as the BRIC economies). The Indian GDP has experienced a real GDP growth of 8.9 percent from 2003-2007 and is projected to grow by 7.1 percent in 2009 and 7.5 percent in 2010. India's GDP was US$911 billion in 2007 (data obtained from *Economist.com* and *EconomyWatch.com*). To keep up with the rapid economic growth India's educational infrastructure has the responsibility of producing high-skilled graduates who are trained for executing knowledge and research-intensive work.

THE STATE OF HIGHER EDUCATION IN INDIA

HR experts lament that while the more 18,000 colleges and universities in India enroll more than 11 million students, only a small percentage of them have received a level of education that equips them with critical thinking skills, self-learning, desire for personal development, and a need for achievement. Indian students are exposed to a rigorous educational system-but as noted by Giridharadas (2008):

> *"The problem….lies in a classroom environment that infantilizes students well into their mid-20s, emphasizing silent note-taking and discipline at the expense of analysis, debate, and persuasion…..what the market wants and the school provides are totally different."*

Giridharadas (2008) cites a study published in 2007 that concluded that only 10 percent of Indian graduates with generalist degrees were considered as employable by top employers compared to 35 percent of graduates with engineering degrees. Similar observations are made in an assessment by *Economist Intelligence Unit* (2006) in that the curriculum encourages memorization and does not nurture analytical, intellectual, communication and interpersonal skills—all of which are required to be successful in the job market. Performance is almost exclusively based on examination scores (Kuruvilla and Ranganathan, 2008). The lecture method has become the most preferred method of instruction. Students' academic motivation comes from a desire pass the examinations and to obtain work. Lecturers' instruction styles too often reinforce the goal of passing examinations (Chitnis, 2000). A study sponsored by the *Associated Chambers of Commerce and Industry of India* (Assocham) concludes that a significant number of business faculty are under prepared and uninformed of current national and international economic trends and business conditions. Consequently, educational institutions in the second and third tier levels, often turn out graduates with varying levels of quality (Giridharadas, 2008).

These studies raise several critical questions. What insights do we have about current academic environments? What are the prevalent teaching styles in various classrooms? How important is the role of the teacher in setting the right tone in class? It is important to obtain answers to these questions as it will help Indian business schools to refine/improve their pedagogical techniques to sustain the competitive advantage enjoyed by the country. Students are customers of education and it is important to their opinions on all aspects of their higher education experience (Sakthivel and Raju, 2006). Besides academic stakeholders, future employers will be able to gain insights about how students are motivated and their preferred learning styles (Hill, Lomas, and MacGregor, 2003). Therefore, this study is being conducted to obtain insights about the role of the faculty in influencing the motivation/learning styles of their students.

METHODOLOGY

A 33 item survey instrument was administered to business students who were in their third year of completing their B.Com degree in two private colleges in Chennai, India. The survey instruments were distributed and collected through the cooperation of faculty members and the department heads. Respondents were requested to remain anonymous; no names or other forms of identification were collected. Respondents were required to respond to each statement using a 5 point scale where 1=strongly agree, 2=agree, 3=neutral, 4=disagree, and 5=strongly disagree.

The 33 items included in the survey are based on Herzberg's two-factor theory of motivation which advocated the notion of *intrinsic* (e.g., love for the work itself, desire to achieve, desire to grow) and *extrinsic* (e.g., salary, relationship with supervisors and peers, etc.) factors that impacted motivation (1999). While Herzberg's motivation framework dealt with respondents' perception about their workplace, the overall notion of *intrinsic* and *extrinsic* factors have been studied in a number of other environments and in many countries including India and were deemed appropriate for this study (Nair and Ghosh, 2006; Mahesh and Kasturi, 2006; Mehta, Armenakis, Mehta, Irani 2006). The researchers generated 13 statements that measured intrinsic motivation and 20 statements that reflected extrinsic motivation.

Examples of statements that measure intrinsic motivation include:

I study because I enjoy learning (item #17)
I believe I am capable of learning the subject (item #19)

Examples of statements that reflect extrinsic factors of motivation include:

Lecturers set high expectations for this course(item #18)
My lecturers are interesting (item #27)

A total of 452 useable surveys were obtained. Of these, 334 (74%) were women and 118 (26%) were men. The average ages for female and male students were 19.4 and 20.2 years respectively. The majority of students were not employed; 94% of female respondents and 78% of male respondents indicated that they were not working. With respect to parents' education, 53.1% said that their parents had not attended college (i.e., parents' highest education was high school or less). Both genders identified "to learn and get a job" as the #1 reason for attending college (51.6% of the overall sample). Parental funding was the primary source of paying for college education—91% of women and 68% of men indicated that their education was financed by their parents.

Cronbach's alpha reliability coefficient was used to test the reliability of the survey instrument. It is a test reliability technique that requires only a single test administration to provide a unique estimate of the reliability for a given test (Gliem and Gliem, 2003). A Cronbach's alpha of .891 was obtained indicating that the instrument had good reliability.

Given the exploratory nature of this study, a principal component factor analysis was done to identify patterns in the data. Two factors emerged that explained 30.51 percent of variance in the data. We stopped here as the next factor accounted for an additional 4 percent of the data variance.

Items that had an absolute loading of more than .20 were included for consideration. We labeled the first factor as *Lecturer's role* and the second factor as *Desire to excel/achieve.*

RESULTS

The results reveal the importance of the faculty member's contribution to their students' overall motivation and learning style. The first factor labeled as *Lecturer's role* shows that students have high expectations of their faculty members to (a) exhibit certain specific behaviors (caring, enthusiastic, interesting, knowledgeable in subject matter etc.) and (b) to create a classroom atmosphere where active participation and sharing of various view points are allowed. A reasonable inference that can be made is if a faculty member is able to demonstrate the above mentioned behaviors and create a participative atmosphere in class, he/she will be effective in motivating their students.

On one hand, this result partially supports the notion that Indian students are inclined to display extrinsic motivation patters that reflect traditional values (Kakar, 1978; D. Sinha, 1998; J.B.P. Sinha, 1990). But a closer look also reveals a desire to "reduce" the high power distance that is characteristic of Indian culture. Students are seeking a classroom atmosphere where a two-way style of communication and creative and independent thinking are expected and encouraged. Lecturers in India should change their pedagogical approach to accommodate these results.

The second factor *Desire to excel/achieve* shows that Indian students are also motivated by intrinsic factors. It contains items that point to students' motivation when their suggestions and ideas are actively sought Students believe that they can achieve desired outcomes clearly revealing a preference for being "inner-directed" (Trompenaars, 1993). This pattern of thinking reflects a distinctive shift from traditional Indian values that reinforce a sense of dependence and subjugation to nature orientation (Gopalan and Rivera, 1997). The highest mean score of all 33 items went to the following item: *I believe I am capable of learning the subjects* (1.53 on a 5 point scale).

LIMITATIONS OF THE STUDY AND IMPLICATIONS FOR FUTURE RESEARCH

The sample was obtained from two colleges and one location in India. If results have can be extrapolated to the country, data has to be collected from multiple locations and from a larger sample of business students. Second, the business students included in the sample were enrolled in business programs that were aided by the government (their tuition was subsidized). The study did not include business students who were paying the full tuition amount (no government subsidy).

While the results support the traditional importance given to the teacher's role in Indian culture, the type of teacher (lecturer) sought is clearly different! Business students expect faculty members who encourage active participation from students, seek their opinions and provide ample opportunities for expressing their thoughts. Students are also seeking faculty who are well versed in their fields who come to class with a sense of energy and enthusiasm. Educational institutions should note this student feedback. Students are pushing back on rote learning, memorization, and conformity. Instead, they are seeking environments that hone their individual thinking and self-expression. An important implication is that educational institutions should devote additional resources to improving and enhancing faculty skill-sets.

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ECONOMETRIC INVESTIGATION OF RELATIONSHIPS AMONG EXPORT, FDI AND GROWTH IN CHINA: AN APPLICATION OF TODA-YAMAMOTO-DOLADO-LUTKEPHOL GRANGER CAUSALITY TEST

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ABSTRACT

Most of the study of causal relationship of GDP or growth with Trade and Foreign Direct Investment in the context of China rely on cross country comparisons, or simple correlations/regressions disregarding nonstationarity properties, or at most on VAR or VECM or Johansen-Juselius cointegration technique of testing for Granger causality. The potential biases, pitfalls, influence of nuisance parameters and asymptotic unreliability of these techniques have been well documented in the literature and also briefly mentioned in this paper. Therefore, this paper employs the more recent and robust Toda-Yamamoto-Dolado-Lutkephol Augmented VAR(p) technique for testing Granger causality among four time series variables. This technique has been shown to provide more robust and asymptotically reliable results under wide variety of situations regarding the cointegration relationships among the time series. This study focuses on the post liberalization period and the results strongly support both Export-led and foreign-Direct-Investment-led Growth in China. Imports, however, do not have direct Granger causality towards GDP, but certainly influence it through the indirect channel of influencing Exports and Foreign direct Investment.

1. INTRODUCTION

China is a very an interesting and increasingly important case for study of relationship between growth, Trade and Foreign direct Investment. It is the largest country in the world, with a population of over 1.33 billion (in 2008) which is more than one-fifth of all the people in the world. The output of China accounts for more than 16% of global GDP when measured appropriately. In particular, when the aggregate output is measured using PPP (purchasing power parity) reflecting the actual purchasing power of a country's currency, China is third after the USA and Japan (see World Development Report 2009 and WTO report of 2009 which estimates GDP in PPP $ to be 7903.2 billion for 2008). Moreover, China alone has accounted for roughly one fourth of global GDP growth in the last five years. During the period between 2000 and 2008, the growth rate of Chinese Economy was above 10% per year compared to only about 3.0 % for the world. Since initiating the reforms and open policy, China has achieved tremendous success. Growth of about

9.7 percent per annum since the late 1970s has helped to lift several hundred million people out of absolute poverty, with the result that China alone accounted for over 75 percent of poverty reduction in the developing world over the last 20 years (World Development Report, 2009). According to latest UNCTAD report, China ranked second in the world in merchandise exports, and ranked third in imports. The volume of exports was below 20 billion dollars in the early 1980s, but increased to almost 100 billion by early 1990s and jumped by leaps and bounds in the last decade to reach the estimated figure of 1428 billion dollars in 2008. This is a 30-fold increase in the volume of exports in the two decades between 1988 and 2008. China overtook the US in global export ranking in 2006 according to the News report of WTO and is projected to overtake Germany within a couple of years to become number one in exports. Imports have a pattern very similar and parallel to exports. The abundance of relatively skilled labor at low cost, the high saving rate domestically, the avalanche-like torrent of foreign investment flows, and the all-round vigorous support from the all-mighty Government has turned China into the "factory of the world", and its huge populations in turn offers lucrative consumer markets for multinationals. This Asian giant seems determined to become the world's next economic superpower.

In the last two decades there have been several studies on such relationships investigating Export led or Foreign Investment led growth in China, but all suffer from methodological issues. Most studies ignore the time series nonstationarity properties of these macro variables which can lead to spurious Regressions and Correlations. Some do investigate the nonstationarity properties but then imply the Granger Causality Tests using simple VAR or VECM or Johansen-Juselius cointegration procedures. But Toda and Phillips (1993) have provided evidence that the Granger causality tests in error correction Models (ECMs) still contain the possibility of incorrect inference and suffer from nuisance parameter dependency asymptotically. Another problem with previous studies is that they have studied such relationships in bivariate contexts. However, in time series multivariate relationships may be quite different from bivariate relationships.

Therefore, in the present study we employ the more robust techniques of testing Granger causality developed by Toda and Yamamoto (1995) and Dolado and Lutkephol (1996), and also apply multivariate framework by including GDP, Export, Import and FDI in an Augmented lagged VAR or VARL model. As the review of literature shows, these robust techniques have not been employed in the Chinese context to study the relationships among these variables. We carry out Granger causality test more suitable for multivariate analyses avoiding the need for cointegration examination, although the determination of the optimal order of lag structure and maximum degree of integration in the series involved are still required. In multivariate models where auxiliary variables (X_3) are used, it is possible that X_1 does not 1-step Granger-cause X_2, but can still help to predict X_2 several periods ahead (see for example, Dufour and Renault 1998). In multivariate setting X_1 may help to predict X_2 two periods ahead, even though it is 1-step noncausal, because X_1 may 1-step cause X_3, which in turn 1-step causes X_2.Consequently, care is needed when interpreting GNC in a multivariate system, incorporating additional variables, as opposed to a bivariate system. We have taken this aspect into account in interpreting our results.

4. DATA AND METHODOLOGY

Annual time series data for Export, Import, GDP and FDI from 1979 to 2008 were collected from World Development Indicators of the World Development Report. The econometric software used is the EVIEWS 7 version. We employ TYDL Granger causality test which is a simple procedure requiring the estimation of an "augmented" or "over fitted" VAR that is applicable irrespective of the degree of integration or cointegration present in the system. It uses a modified Wald (MWALD) test to test for restrictions on the parameters of the VAR(p) model. This test has an asymptotic chi-squared distribution with *k* degrees of freedom in the limit when a *VAR* [k + d*max*] is estimated (where d*max* is the maximal order of integration for the series in the system).

Four steps are involved in implementing this procedure. The first step includes determination of the nonstationarity properties and the maximal order of integration (denoted as d*max* in the system. The second step is to determine the true lag length (k) of the VAR system using some suitable information criterion (or criteria). The unrestricted level *VARL*(k+ d*max*) is then estimated using some suitable estimation method (usually the SUR or Seemingly Unrelated Regressions technique). The last step is to apply standard Wald tests to the **first *k* VAR coefficient matrix only** in order to conduct inference on Granger causality while the coefficient matrices of the last *dmax* lagged vectors in the model are ignored. As shown by Toda and Yamamoto (1995), Dolado and Lutkephol (1996) and Rambaldi and Doran (1996) it is enough to add extra and redundant lags in estimating the parameters of the structure to ensure the standard asymptotic properties of the Wald statistic which maintains its usual limiting χ^2 distribution. Therefore, the TYDL enables the proposed MWALD statistic to test linear or nonlinear restrictions on these *k* coefficient matrices using the standard asymptotic theory. More importantly, the TYDL technique avoids the need for the preliminary tests for cointegration and is applicable irrespective of the integration or cointegration present in the system, because the singularity involved in the asymptotic distributions of the LS estimators is removed by fitting augmented VARL process whose order exceeds the true lag order by the highest degree of integration in the system. The study undertaken by Giles and Mirza (1999) also shows that this augmented lags method performs consistently well over a wide range of systems including near-integrated, stationary and mixed integrated and stationary systems; cases for which the pretesting approaches tended to over detect causality (Giles and Williams, 2000).

5. ESTIMATION AND RESULTS

The present study employs the Augmented Dickey –Fuller (ADF) Test for test of presence of unit roots (that is nonstationarity) of the individual series. The results clearly indicate that all four time series are nonstationary when the variables are defined at levels with or without constant and trend. While Export, Import and FDI become stationary when their logs are differenced once, the Null hypothesis of unit root cannot be rejected for log(GDP) even after first differencing except at 10% level. This series becomes stationary (at 5% and 1%) only after second order of differencing. Therefore, we conclude that Export, Import and FDI are I(1) processes while GDP is I(2). Therefore d_{max} in our model is equal to 2. In the TYDL methodology this implies that we have to augment the VARL by over-fitting by additional two lag orders on top of the optimal order of lag for the VAR system.

The next step in our analysis is to determine the optimal lag order in the VAR system. Considering that we have annual data we experimented with maximum lag order of 4 and employed all the popular selection criteria The optimal lag order is 2 (k =2) according to sequential modified LR test statistic and Schwarz information criterion. Thus, our augmented VARL is of order k+ d_{max} =2+2 = 4.

5.3 Estimation of the augmented VARL (4) System and the Results of Hypotheses Tests

Following the results of the previous sections, we estimate the following VARL (4) system using SUR technique for the whole sample period (1979-2008). We obtain some interesting results, some expected some unexpected. The Granger causality from Export and FDI towards GDP is significant at 5% providing evidence of Export-led and FDI –led hypotheses in China. In contrast, the Granger causality from Imports towards GDP is not supported. That is, movements in Exports and FDI help explain successive GDP movements but movements in Imports do not add to the explanatory power of lagged GDP in explaining successive GDP values. On the other hand, the Granger causality of GDP towards Exports and FDI gets very strong support (significant even at 1% level) while GDP does not seem to Granger cause Imports. Thus, there is strong support for the hypotheses that Export are promoted by overall economic activity and FDI too is attracted more by overall growth. In contrast, Imports do not seem to have such direct causality linkage in either direction vis-à-vis GDP. This is somewhat unexpected. We expect to see causality at least from GDP towards Imports. However, Imports seem to have linkage with GDP only through indirect channels. The Granger causality from Imports towards Exports is strongly supported (even at 1%). Similarly, Imports do Granger cause FDI. Thus, we can argue that Imports do influence GDP through indirect channels of Exports and FDI which in turn directly Granger cause GDP. However, the still unexplained strange result is that none of the three variables seem to Granger cause Imports, which is behaving almost as an externally determined force working through Exports and FDI in influencing the overall economic activity.

Another interesting result is that while Exports have strong Granger causality towards FDI, there is no indication that FDI is causing Exports in the Granger sense. Thus, we can argue that rising exports seem to attract more FDI, but increased FDI in turn do not directly work as precursors of increased Exports. This is also somewhat unexpected. This tendency would be plausible if the increased FDI were directed more towards domestic and/or import-substituting industries than towards export promoting industries. Further analysis disaggregating the inflow of FDI by industrial sector may help clear this issue, which points to future direction of Research.

6. CONCLUSIONS

Using the robust Toda-Yamamoto-Dolado-Lutkephol augmented VARL technique of testing Granger causality this study finds bidirectional causality between GDP and Exports as well as GDP and FDI. Thus there is both Export-led growth and growth supported exports. Similarly, there is support for FDI-led growth and growth attracted FDI. Imports in contrast do not have direct causality linkage with GDP, but seem to influence GDP, nevertheless through the indirect channels of Exports and FDI. While Imports seem to have direct impact on both Exports and FDI, interestingly none of the three variables seem to Granger cause Imports. It seems that there are some other factors outside this model, which have influence on the volume of exports in the sense of Granger causality. This is a little unexpected in view of the traditional trade theory and the general impression wherein Imports are treated as dependent on GDP and Exports. Similarly the unidirectional Granger causality from Exports towards FDI, which we find in our results, would make sense if the increased FDI is directed more towards domestic consumption and or Imports substitution than towards Exports oriented industries.

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THE NOTION OF LEGITIMACY AND ITS ACQUISITION IN A COGNITIVE BUSINESS ENVIRONMENT

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ABSTRACT

Multinational firms must continually work to maintain their legitimacy within their host environments. This is a particularly difficult task in environments where the rule-of-law was absent or very tenuous such as in regions of the former USSR. This paper reviews the legitimacy and relationship literature and relates it to the cognitive environment faced by Cargill's entry into the Ukrainian agricultural market. The factors contributing to Cargill's success in entering business networks within the agricultural sector are presented against the backdrop of existing theory concerning the nature of business relationships. A matrix is proposed for understanding the relationships that are likely to emerge under different environmental conditions found in Ukraine's emerging market.

Keywords: Legitimacy, relationships, environment types, foreignness

INTRODUCTION

On January 25, 2006 Andreas Rickmers, President of Cargill Ukraine, wrote to Franklin Lavin, the Under Secretary for International Trade of the U.S. Department of Commerce, in support of Ukraine's request to be granted "market economy" status for the purposes of U.S. anti-dumping legislation. Market economy status was critical for Ukraine's struggling economy since with respect to trade with the U.S. it promised two important results. It would remove the Soviet era Jackson-Vanik amendment restricting trade with the USSR that carried over to its successor states and allow greater access of Ukrainian steel to U.S. markets. Added bonuses of market economy status included improved trade prospects with the EU and a smoother path for WTO membership that Ukraine eventually achieved in 2009. With so much at stake, a favorable recommendation from a major American company was highly prized.

Cargill had been active in Ukraine since 1991, the year the USSR collapsed and Ukraine declared independence, with the establishment of a joint venture with a Ukrainian agricultural research institute in the city of Dnipropetrovsk. Despite the large size and variety of Cargill's global footprint, its Ukrainian venture started out modestly with the objective of developing grain hybrids and varieties suitably adjusted to Ukrainian climate conditions. Cargill's representative in Ukraine, working from an unobtrusive upper story office in the capital city, Kiev, initially assessing the business climate and investment opportunities. The low profile kept the company from attracting the immediate attention of avaricious bureaucrats and organized crime clans masquerading as business enterprises. At this time, Ukraine and the rest of the former constituent republics of the defunct Soviet Union were generically referred to in the western press as "the wild, wild East". The business landscape was uncertain as large state enterprises passed into private ownership in mysterious "privatization" processes. Business in the consumer segment was characterized by numerous petty merchants operating from outside stands hawking clothing from Turkey or used automobiles from Germany.

In a period of fifteen years, Cargill had not only succeeded in establishing itself in the Ukrainian market but had secured an enviable degree of legitimacy where its recommendations were sought by high levels of government and it was largely free of capricious conduct by local entities. The letter to Secretary Lavin noted that among the critical concerns for Cargill in Ukraine was the prompt refunding of value added tax (VAT) on agricultural commodities. The standard practice in Ukraine had been to delay VAT refunds so that foreign companies typically had to hire local lawyers to secure their refunds. The lawyer fees typically ran 25% - 30%; a ruinous amount in low margin markets such as Cargill's grain trading especially if months passed with the VAT remaining frozen. Of course the lawyers, judges and bureaucrats were all in cahoots and made a living within a system of contradictory laws and regulations. This paper will trace the history of Cargill's venture in Ukraine and specifically address how it acquired a high degree of legitimacy, a factor that allowed it to thrive, despite an opaque legal environment and the capricious rulings of the national courts.

The methodology employed in this paper is an in-depth case study. Case studies have been used to develop theories (Eisenhardt, 1989) and add insight to the working of business networks in emerging markets (Brouthers & Barmossy, 1997). Yin (2002) identifies three important case study characteristics this paper reflects: (1) they ask questions as to how or why something happened, (2) they do not require control over behavioral events and (3) they are oriented to current events. Piekkari et al. (2010) add a requirement to Yin's definition by linking the case study to existing theory. They propose, "a case study is an empirical inquiry that investigates a phenomenon in its real life context, relating it to theory and seeking to understand what the empirical phenomenon is a case of in empirical terms". Case studies have been extensively used as the methodology of choice in investigating business networks (Beverland & Lindgreen, 2010; Easton 2010).

The succeeding parts of the paper are organized as follows. A theoretical framework within which to analyze Cargill's venture by reviewing the literature on legitimacy, the notion of foreignness and types of relationships within operating business environments is presented. This is followed by a narrative of Cargill's attempt to embed itself within the Ukrainian business environment. The last section presents a framework for linking a firm's progress in securing legitimacy within a foreign context to existing theory. Legitimacy has been studied largely from a western or well established market driven economy perspective. There are very few studies that have looked at legitimacy or attempted to understand its dimensions within the former communist states of Eastern Europe or the region of the defunct USSR (Standifird & Weinstein, 2002). Hence, in looking at Cargill's acquisition of legitimacy in Ukraine, this paper contributes to the literature and adds to understanding of the evolution of an increasingly important market.

THEORETICAL ORIENTATION

Legitimacy

Suchman (1995) suggested that legitimacy is an assumption or shared perception that some given conduct of a party is proper, advantageous in some setting of norms, values and beliefs. Thus, common cultural values and acceptance of a given social structure confer legitimacy. There is a general scholarly consensus that the acceptance of an organization by its operating environment is a vital determinant of its ultimate success and survival. There are two types of legitimacy distinguished by Kostova and Zaheer (1999): (1) classes of organizations legitimacy and (2) organizational legitimacy. A further nuance, especially important in the case of large multi-national enterprises, adds an additional difference between the legitimacy of the company taken as a whole and its legitimacy as part of a subunit in a given country. This is relevant in this case since Cargill has a series of subunits s throughout the world such as Cargill Ukraine and Cargill Russia.

Closely related to legitimacy is the concept of cultural adaptation. Legitimacy issues may arise at any point during a venture's history and while the ability of an organization to adapt to its environment may contribute to legitimacy, adaptation in and of itself is not a sufficient condition. In other words merely trying hard to gain legitimacy in a given country is no guarantor of success. The reason is that other factors may be in play including how the product is received by the host country and local regulatory issues. Kostova and Zaheer stress that legitimacy is socially constructed and there may be an absence of a one-to-one correspondence between a firm's ability to adapt to an environment and the way the adaptation process is perceived by the parties within the host environment.

THE LIFE CYCLE OF A PANDEMIC CRISIS: SARS IMPACT ON AIR TRAVEL

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ABSTRACT

This paper studies the effects of the SARS outbreak on air travel between the US and three destinations; China, Hong Kong and Taiwan. ARIMA models with interventions are used to estimate the timing, depth and shape of SARS impact on international air travel. Links between empirical findings and a conceptual framework for analyzing the life cycle of a crisis are established. The conceptual framework uses situational choice and governmental public relations differences by location to explain the response patterns to the crises. The research finds significant evidence that the impact and life cycle of SARS effect on air travel varies by location. Suggestions are offered for effective ways to minimize damage to tourism for future outbreaks of possible pandemics.

STUDENT USE AND ABUSE OF CREDIT CARDS IN RUSSIA

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ABSTRACT

In America, credit cards on campus have been a disaster, leading to students buried in debt before graduation, often with little hope of paying off the debt before high fees and interest double the amount. This research details an exploratory survey of Russian college students and their use of credit cards. In the current project, we surveyed Russia's current business students (n=540) in spring of 2008. We found significant differences between Russian and American students on their use of credit cards. We found Russian students showed much more control and restraint with the use of credit. We conclude by discussing the implications for further research in this area.

INTRODUCTION

A credit crisis has engulfed the world. Economies from around the globe suffered. The primary culprit was the tidal wave of easy credit which was used and misused, with the risk passed on to others. America suffered under this problem, and nowhere more than on college campuses. Students, often without any current income, received credit cards and used them without abandon. We were curious whether the problem of student credit extended beyond North America.

In the current project, we surveyed Russia's current college students (n=540) in the spring of 2008 concerning their use of credit cards. In support of this research, we described America's obsession with credit, the hidden costs of credit, and the problem of credit availability on campus. Next, we explained rationales for the abuse of credit in America and question whether the problem was specific to America. Third, we reviewed the literature on Russian college students and their beliefs and behaviors. Finally, we discussed our results and findings. We found Russian students showed much more control and restraint with the use of credit. We concluded by discussing the implications for further research in this area.

AMERICA'S OBSESSION WITH CREDIT

America has had a very healthy appetite for easy credit and the convenience of credit cards. Financier Arkadi Kuhlmann described credit cards as "the opium of consumerism" (Roane, 2006). In 1995, Americans paid more with credit cards than cash, for the first time (Nichols, 2006; Stern, 2006). Consumer debt among Americans increased $461.8 billion in 2001-2006 (Loonin and Renuart, 2007). By 2005, Americans had nearly 700 million credit cards (Mercatante, 2008). Lenders sent nearly five billion credit card solicitations in mail in 2001 (Nichols, 2006). For example, Capital One has issued over 37 million cards in America, one card for every six adults

(Silver-Greenberg, 2009). The market was so saturated that lenders must find new markets of consumers. The new target was our college students. It has worked. Sallie Mae found that 84% of undergraduate students have a credit card (Block, 2009).

HIDDEN COSTS OF CREDIT

Most Americans do not understand the terms of their credit cards (Hensarling, 2009). It would be funny if it were not true. The banks knew this. Credit card businesses profit off of consumer mistakes (Acohido, 2008). We have often revised the credit card rules to protect consumers with little effect. The Schumer Box (named after Senator Schumer (D., N.Y.) was designed to help consumers make more informed choices (Rosato, 2008). For example, cash advance fees have been overwhelming. Lewis (2009) commented that withdrawing your own cash can cost you, and you would be paying for the rest of your life. This is not an exaggeration. Penalty fees will generate $20 billion for credit card issuers in 2009 (Chu, 2009).

Consumers wanted change. When the Federal Reserve asked for comments on new proposed credit card rules, 62,000 consumers responded in writing (Harris, 2008). Credit cards generated more consumer complaints than any other industry except cable television (Sullivan, 2008). Recently, the Military Lending Act of 2007 curbed some of the abuses target to our military families (Harris, 2008). When will we protect our students?

CREDIT ON CAMPUS IN AMERICA

Credit on campus can only be described as a plague. In 2007, the average college senior had four credit cards and $3000 debt (Cahill, 2007). By 2009, the average increased to over $4100 (Block, 2009). This is not a new problem, just an existing problem getting worse. A decade ago, one in five students had greater than $10,000 in credit card debt (Parks, 1999). It only gets worse, as college graduates double their credit card debt shortly after graduation (Adams and Moore, 2007). Slick marketing was the problem. Lenders, eager for new customers, come to campus to sign up fresh meat (Parks, 1999). College students are solicited for credit cards 25-50 times a year (Cahill, 2007). Incentives include everything from t-shirts to ipods for students to sign up (Block, 2009). College students are getting credit without planning because of these slick marketing tactics (Cahill, 2007). A third of students never discuss the credit card decision with their parents (Block, 2009). The lenders have eliminated income and employment requirements to make credit cards easier to get for college students (Cahill, 2007). American students are inundated with credit card marketing schemes (Adams and Moore, 2007). This has caused some to exclaim that credit cards are greater threat on campus than alcohol or sexually transmitted diseases (Parks, 1999).

Nearly half (47%) of full time students have credit cards in their own names in 2005 (Nichols, 2006). A recent survey found that a quarter of college students graduate with more than $5,000 in debt (Harris, 2008). This has led some to call for the ban of issuing credit cards to college students (Acohido, 2008).

Is the problem specific to America? Adams and Moore (2007) found that international students in the United States take less credit risks than domestic students. Perhaps the problem was not the access to credit (which international students would also have) but instead the American cultural mindset about credit.

SURVEY OF CURRENT LITERATURE ON RUSSIA

Russian students are different from their American counterparts. First, few of the Russian students use the internet to make purchases, which would require a credit card. In the USA, 39% of students have used the internet for buying (Palesh, Saltzman and Koopman, 2004). In contrast, less than 6% of Russian students use internet for buying (Palesh, Saltzman and Koopman, 2004). Further, a large faction of Russian students worked full time while attending school. Estimates are from 32% (Mogilchak, 2006) to 40% (Lisauskene, 2007).

Russian students seem poised for the marketing of credit card lenders. A majority of college students feel material prosperity was very important (Mogilchak, 2006). Russian college students are greedy for easy wealth (Sokolov, 2006). The majority of Russian students think selfishness was necessary for success (Sokolov, 2006). A third of Russian college students say there are no dishonest ways of making money (Lisauskene, 2007).

While students have put a high value on education, and the rewards it offers, the Russian bureaucracy has not responded as positively. While 22% of adults have higher education (Shcherbakova, 2008), and 70% of Russians see higher education as essential (Lisauskene, 2007), the Russian higher education system was not really modernized (Dubin, 2008). Higher education in Russia has been described as a desert island, cut off from the rest of the world (Dubin, 2008). Innovation was rare, and reform was unlikely in Russian higher education (Dubin, 2008).

METHOD FOR THE RUSSIAN SURVEY

A convenience sample of business majors were taken from large survey classes at Ulyanovsk State University in the spring semester of 2008. The University has an enrollment of over 10,000 students and over 1000 faculty. The University offers over fifty degree programs for undergraduates and graduates.

Students were asked to complete the questionnaire during class time. All students participated. A total of 540 completed surveys resulted. No surveys were rejected because of incomplete answers.

The majority (74%) of survey participants were business majors. The group was fairly distributed among the first four academic years (Russia uses a five year degree program). The respondents were in the following academic classes: First year, 29%; second year, 47%; third year, 15%; fourth year, 9%. Since most students were in the first two years of the business program, many had not completed the core business classes. Less than 16% had taken a class in business ethics. Just over a third (34%) had taken a class in business law. In contrast, 80% had taken macroeconomics and 62% had taken microeconomics.

Females outnumbered males by two-to-one. By age, the group consisted of traditional students. Most (63%) were under age 20. Less than 2% were over age 26. Less than 7% of the respondents were married, and about 24% used tobacco. Most students did not work while attending school (73%). Of those who were employed, only a third of the students were employed full-time. Fewer than 10% owned any stock or securities.

As far a political identity, previous research found very broad support for President Putin and his political party. In fact, in 2006, 79% of the Russian business students identified with Putin, among five choices of political parties (Ludlum, Moskalionov and Machiorlatti, 2008). In the current survey in 2008, Putin's popularity was nearly 76%. Further, 65% of the Russian college students indicated they would vote for Putin again, should he be eligible to run.

These findings were in stark contrast to the expectations in the West. Many have complained that Putin was not popular, but used political power to suppress opposition (Economist, 2007a; 2007b). Recently, the *Weekly Standard* reported that Russia's election was not fair (Kimmage and Sidorov, 2007). However, our findings contradicted these views. We found a strong base of support for Putin and his political party from 2006-2008.

FINDINGS

Our findings among Russian college students were much more positive. We found that 38.7% of Russian college students did not have a credit card, and 43.15% had only one credit card. Further, 58.89% did not use the card more than once a month (emergency use). Another 28.7% used it less than five times a month. The constant shopping by college students was a rarity in Russia.

When paying for education, credit use was not a problem. Over half, (56.11%) rely on their parents, while fewer than 1% (0.93%) borrowed funds for college. Fewer than 2% of Russian students used credit cards to pay for tuition, and less than 5% used credit cards for school books and supplies. This was welcome information, as it appeared Russian students have avoided the credit trap which plagued the college campuses in America.

However, when we examined the views of those who used their credit cards, the results were not positive. Only 17.04% of Russian students paid their credit card in full each month. Just as many (18.15%) paid only the minimum payment. This left the majority of students with some indeterminate amount of credit card debt each month. This might not be a problem if students were aware of the dangers of credit. However, we found that Russian students are just as lost at their American counterparts on credit card knowledge.

Only 14.26% of Russian students knew the interest rate they paid on credit. In contrast, 60.74% had no idea on the interest rate. A small portion, 12.59%, knew of late payment charges while 63.7% had no idea of late payment charges on their credit card. Another small group, 11.48%, knew the penalty for being over their credit balance. However, 61.48% had no idea about overbalance penalty.

CONCLUSION

These results were troubling. Many Russian students avoid the use of credit cards. The results indicated that Russian college student who used credit cards were completely blind to all the interest charges and penalties they faced from using credit cards.

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For a complete copy of the survey questions, please contact the authors.

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RESEARCH ON OFFSHORE OUTSOURCING: A SYSTEMATIC LITERATURE REVIEW

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1. INTRODUCTION

The research on offshore-outsourcing is relatively new in international business field. This paper tries to find out the emerging research areas in offshore outsourcing with the use of systematic literature review (SLR) and find out that the case of offshore-outsourcing of small and medium size enterprises are practically inexistent in all three principal research fields such as International Business(IB), Strategic Management (SM) and Supply chain management (SCM). Research focusing on 'knowledge and innovation' seeking outsourcing from the outsourcing provider firms is also missing. Recent research in offshore outsourcing has been diverting its focus from the Transaction cost economics (TCE), Resource based view (RBV) and Resource dependence view (RDV) towards Knowledge based view (KBV) and collaborative relationship based view (CRBV). Collaborative Relationship based view (CRBV) develops and explains how firms gain and sustain a competitive advantage within inter-organizational relationships (McIvor, 2005). More and more authors are combining the KBV, CRBV and dynamic network theories in order to explain the virtue of collaboration among the firms and one of this forms is outsourcing. This evolution of theoretical development is required in an era of changing paradigm of offshore outsourcing argument which seems to be transforming from pure 'cost savings from labor arbitrage' to that of 'value creation through leveraging of resources' - a more sustainable proposition where clients and vendors are likely to get into a strategic and long term relationship. This stream of research can also be related to the notion of 'transformational outsourcing'. The competitive advantage of a company is largely determined by the competitive advantage of the network the company belongs to, (Lakhal, Martel, Oral and Montreuil, 1999).

2. EMERGING RESEARCH QUESTIONS AND TOPICS ON OFFSHORE OUTSOURCING

The extensive literature review led us to assume that the basic questions in offshore outsourcing such as What, Where and how will remain key topics for outsourcing research in the future:

i. **Firstly,** firms are increasingly trading off their options on what to outsource and to what extent. The increasing variety of suppliers has created an outsourcing market in which almost any business process or activity can be sourced.

ii. **Secondly,** globalization, development in NTIC and other communication and logistics development and rapid economic development of many emerging countries has added versatility to the outsourcing location decisions. For example, Eastern Europe is replacing in certain sectors the offshore outsourcing activities which were supposed to migrate to India or China.

iii. **Thirdly**, with respect to the "how" question, firms are continuously developing new outsourcing models to maximize the value while minimizing the risks of using external sources. The outsourcing management decision has, thus, gone beyond make-or-buy.

iv. **Fourthly**, more and more offshore outsourcing projects are coming under rigorous scrutiny and value creation out of these manoeuvres.

3. NEW STREAMS OF OFFSHORE OUTSOURCING RESEARCH

The offshore outsourcing phenomenon needs to be examined from multidimensional such as economic, strategic and social point of view. More research should focus on the impact of offshore outsourcing on the firm's ability to compete and succeed in the globalized economy. The offshore outsourcing is a highly debated issue and very often accused of all sort of socio-economic deterioration in the developed countries without any firm level data. That's why it's very important to study the performance of those firms which have entered into offshore outsourcing activities. The investigation on macro-level is also needed and specifically can address the questions of job losses and job creation in total and find the real differences. Since the 1980s offshore outsourcing as a corporate strategy has evolved from the transactional approach to a more broader form in which the outsourced process is co-developed with the outsourcing provider, and in which cost is no more the principal objective to attain. Since 90s, Academic interest is increasing in offshore outsourcing research field (Jiang & Qureshi, 2006).

The basic questions in offshore outsourcing research such as what to outsource, how and where to outsource have been the primary questions guiding the outsourcing research in the past and continuously remain pertinent, however, new questions are arising. Among them Institutional effects, outsourcing timing, incremental outsourcing is prominent (Hatonen & Eriksson, 2009). Although, many existing management theories were used individually to explain different facets of the offshore outsourcing, more and more authors are combining several theories to explain more integratively the offshore outsourcing phenomenon. On the top of cost savings, research is promising with issues such as access to resources and skills or to gaining operational flexibility. The current research promotes a more cooperative approach to outsourcing management. In offshore outsourcing research, the relational view and transaction cost approach do not contradict each other, but they co-exist.

4. RESEARCH GAPS AND OPPORTUNITIES

Research on 'Offshore outsourcing' is still disparately scattered among the different research field such as International Business (IB), Strategic Management (SM) and Supply chain management (SCM). The practice of borrowing theories from multiple fields of social sciences is very much present in the research community and it remains widely disparate the different sub-fields of research in offshore outsourcing. Some of the issues such as job losses, intellectual property losses, decision making process and contracts were adequately addressed by the researchers. While some other phases like the outsourcing partner search, collaborative relationships in organizing offshore outsourcing i.e implementation, critical evaluation of the outsourcing projects, soft issues like customer satisfaction, faster product cycle and decision to review or terminate have not been researched in detail. In this section, we identified specific research gaps and opportunities for future research in each phase.

5. CONCLUSION

Academic interest in outsourcing continues to rise in parallel to increased interest in practice. Previous researches have focused more on some phases of the outsourcing process and much less on other. Even within more researched phases, studies have tended to focus more on one or few theories and not on many other plausible theories. For example, in outsourcing decision making, most studies have focused on transaction costs and resource availability, while not on other factors such as knowledge and innovation seeking partnerships and coopetition in offshore outsourcing. Though its widely believed the benefits of offshore outsourcing at least among the research and academic community however, few research exist with empirical data on outsourcing success or failure in offshore outsourcing. The field of firm level critical performance evaluation with intangible indicators of offshore outsourcing is extremely necessary in order to propose a sustainable offshore outsourcing strategy of the Canadian manufacturing SMEs to the practitioner as well as for the policy makers.

Based on the extensive literature review, it can be concluded that the offshore outsourcing research have many directions to which the outsourcing research can be taken in the near future. What seems to be the broad underlying managerial interest is to receive more insights about the success factors in outsourcing which is dependent on the correct management of offshore outsourcing process from A to Z. There are at least four research questions are emerging prominent are:

i. Firstly, the management of versatile outsourcing relationship portfolios appears to be one of the current and future managerial challenges.

ii. Secondly, the appropriate timing of the offshore outsourcing

iii. Thirdly, The cultural differences management in offshore outsourcing dealings with ever increasing service providers from different part of the planet.

iv. Fourthly, offshore outsourcing of manufacturing SMEs, its performance measures and strategic management options.

COUNTRY RISKS AND FDI: EMPIRICAL EVIDENCE FROM LATIN AMERICAN COUNTRIES

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ABSTRACT

This research paper shows the differences in correlations between the various types of country risks and inward foreign direct investment (FDI) flow using aggregate data from six Latin American countries as a proxy for the Region. The countries considered are Argentina, Brazil, Chile, Colombia, Mexico and Venezuela due to the size of their economy and the availability of sufficient data to run a series of multiple linear regressions. The main finding of this paper is that understanding the differences in the correlations between different types of country risks and inward FDI flows can serve as a proxy for determining the motivators of Multinational Enterprises (MNE) that seek to invest in a specific region or country. The resulting empirical results provide a simple and powerful decision tool for the allocation of limited FDI resources to countries or regions based on their risk profile.

JEL: F2; G1; N1; N4; O1

KEYWORDS: Country risk, Foreign Direct Investment, Inward FDI, Multinational Enterprises, Latin America

EUROPEAN ENTREPRENEURS: PROBLEMS, PROFITS AND PLANS

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ABSTRACT

This study examines the problems, profit levels, and future plans reported by European business owners who started businesses in 2002 and were still personally operating them in 2005. The majority of respondents stated that impediments to selling products and services included vigorous competition and lack of demand. Over half of the respondents also stated that they viewed their profitability as poor or barely sufficient. Looking to the future, approximately 40% expected to increase sales and profitability, while 14% considered closing the business without starting a new enterprise.

INTRODUCTION

Life for small firms can often turn out to be full of difficulties during the first critical years. This study examines the impediments to selling goods and services, as reported by European business owners, as well as their judgements about their profitability, and their plans for the future. The following section provides a brief background on business performance in small business and the problems entrepreneurs often face. The results of this study on European business owners are then presented.

PROBLEMS, PROFITS AND PLANS

Business performance can be measured with a variety of indicators, the most common of which are sales, profits, assets, physical output, market share, number of employees and the growth rate in these (Ardishvili, Cardozo, Harmon & Vadkath, 1998; Wiklund, 1998). As Penrose (1959, p. 199) stated half a century ago, "There is no way of measuring an amount of expansion, or even the size of a firm, that is not open to serious conceptual objections." For example, the sole use of first year and end year data for growth calculations has also been criticized because this practice models growth as one giant leap (Davidsson & Wiklund, 2000) and makes the calculation overly sensitive to variation (Weinzimmer, Nystrom & Freeman, 1998).

The industry in which a business operates, as well as its size and age are all possible factors in performance. The majority of business start-ups are imitative businesses in mature industries, serving local markets, which limits their growth potential (Aldrich, 1999; Samuelsson, 2004). The size of a business is associated with better performance as larger businesses have higher absolute sales and profits (Alowaihan, 2004; Kalleberg & Leicht, 1991) as well as higher growth in assets (Glancey, 1998). It can also be argued that sales precede the other indicators because an increase in sales necessitates increases in assets and employees, and results in rising profits or market share (Flamholtz, 1986).

Younger businesses are also more likely to have lower levels of performance (Alowaihan, 2004; Stinchcombe, 1965). For example, Alowaihan (2004) found that the age of a business was positively correlated with its gross earnings, and newer businesses had lower earnings. In contrast, newer firms less than five years old have also been found to have higher investment levels as well as higher sales and growth rates (Dobson & Gerrard, 1989; Glancey, 1998; Gray, 2006). Audretsch (1995) determined that, for those who survive the first few difficult years, both survival and growth is higher in subsequent years. One reason for this may be that the age of a business as well as the amount and depth of personal business experience of its owner are both related to the development of absorptive capacity, which is dependent upon previous knowledge (Gray, 2006).

The desires, motives, and plans of the business owner are also vitally important to the perceived level of performance of a business, and many business founders have modest growth aspirations for their firms (Human & Matthews, 2004) or do not necessarily pursue profit maximization and growth (Gray, 2006; Robinson, 2001; Walker & Brown, 2004). Some people are primarily motivated by the lifestyle associated with being independent and are not motivated to expand the firm, although they still need to earn a satisfactory level of profit in order to earn a living (Brush, 1992; Butner & Moore, 1997; Fasci & Valdez, 1998; Glancey, 1998; Gray, 2006; Reijonen & Komppula, 2007; Robinson & Watson, 2001; Rosa, Daphne, & Helen, 1994; Walker & Brown, 2004). Likewise, performance is related to the entrepreneur's growth intentions, and some business owners do not want to grow so large that they must delegate key functions or employ non-family members (Gray, 2006). Reijonen and Komppula (2007) found that most business owners in their Finnish study were growth-oriented, but in a limited fashion. They wanted to grow in terms of turnover, but not in the number of employees, which would significantly increase costs. Similarly, an empirical study of 400 Swedish small business owners showed a significant relationship between expected outcomes and the desire for growth (Davidsson, 1989). In 40% of those firms, the owners did not intend to grow at all due to fears of reduced employee well-being and a loss of supervisory control.

The results of this study examining impediments to selling goods and services, subjective judgments of profitability, and plans for the future of successful new small business owners in Europe are presented in the following section.

METHODOLOGY, RESULTS AND ANALYSIS

The data for this study were obtained from Eurostat's metadata database (Eurostat, 2010). The target population of this 2005-2006 survey consisted of people who had started businesses in 2002 and were still personally managing them in 2005. This study is based on the "European aggregate based on available data," which includes the following countries: Austria, Bulgaria the Czech Republic, Denmark, Italy, Lithuania, Luxembourg, Romania, Slovakia and Sweden. A total of 337,919 people participated, with 94,971 women and 242,951 men.

As part of this extensive study, participants were asked whether they had experienced particular problems, their subjective judgments regarding the profitability of their businesses, and both their strategic plans for the future and the expected development of their business.

The results shown in Table 1 indicate that both vigorous competition (82.4%) and a lack of demand (55.2%) were problems for over half of the respondents.

Table 1: Impediments to selling products or services	
Problem	Total
Competition too vigorous	82.4%
Too little demand	55.2
Difficult pricing	42.9
Lack of marketing skills	32.3

In terms of profitability (see Table 2), only 3.4% reported that profitability was *very good* while 20.9% said profitability was *poor*. Even if the *very good* and *good* (35%) categories were combined, *barely sufficient* (40%) would still be the most common response. All respondents were successful in terms of still being in operation 3 years after start-up, but over half (60.9%) gave rather negative evaluations of their profitability. On the other hand, respondents who desired significant profits but only reaped moderate profits may have reported profitability as *poor* relative to their profitability goals even if their profits were large enough to keep them working in their businesses.

Table 2: Perceived Judgment of Profitability	
Profit Level	Total
Very good	3.4%
Good	35.0
Barely sufficient	40.0
Poor	20.9

Based on these results, it is not surprising that 13.8% indicated that their plans included closing the business without starting a new one (see Table 3). In contrast, a similar proportion (14.8%) expect to grow their businesses by hiring more employees. Increasing sales (42.2%) and profitability (38.6%) were the most common answers. Over 80% of small business owners intended to continue with their enterprises, which means that even a sizable segment those who reported that profits were *poor* or *barely sufficient* expect to go forward with their businesses.

Table 3: Strategic plans	
Plan	Total
Continuing the enterprise	81.5%
Affiliation	4.8
Start new enterprise in the same activity	2.6
Start new enterprise in another activity	3.1
Close without starting new enterprise	13.8
Expected Development	
Increase sales	42.2%
Increase number of employees	14.8
Increase variety of goods and services for sale	31.2
Increase profitability	38.6

Taken together, these results seem to suggest that approximately 40% of the respondents intend to growth in terms of sales, profits or expanded variety of goods and services offered. Although the aggregate nature of this data set did not allow for deeper analysis, it seems logical that this group is the same 40% who deemed their profitability *good* or *very good.*

CONCLUSION

A limitation of this study is that the aggregate data prevented great in-depth analyze. It could be that those who expect increased sales and profits are the same people who expect to increase the variety of goods and services for sale and could also be those who already reported good profits and therefore have the funds to invest in new goods and services. While competition and lack of demand were the two most common reported impediments to sales, a significant proportion of people experienced difficult in pricing and struggled with a lack of marketing skills. Both of these are problems that can and should be addressed by organizations that assist small businesses.

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THE DETERMINANTS OF THE SUCCESS OF MICROLENDING: A COMPARISON OF IRAQ AND THE UNITED STATES

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ABSTRACT

Religion at work is a field of study with a short history. Religious entrepreneurs can be differentiated by two drivers: the extent that success of the organization is measured by monetary rewards, and the extent that the organization's operations are guided by the owner's religion.. Using these drivers, we characterized religious entrepreneurs as exploiters of marketing opportunities – they undertake focus strategies concentrating on religious market segments, social entrepreneurs, or proselytizers. We suggest that in its quest for legitimacy and relevance (Dean, Fornaciari, & McGee, 2003), religious entrepreneurship can benefit from established methods and models from the field of social entrepreneurship.

CUSTOMER SERVICE AND EMPLOYEE SELECTION IN BELGIUM, USA, & MOLDOVA

Desiree Sebastian, Plaza Health Network
Daniel Sosa, GE Company
Jorge Rodriguez, Costa Nursery Farms
Michael Mesa, Shell Oils
Samuel Lane, Lane Import
Erving Novoa, AAR Corp.
Guillermo Freire, Nova Southeastern University
Nitza Cavero, Sunburst Farms, Inc
Steven Hope, Girl Scouts of America

ABSTRACT

This paper sets out to explain the significance of customer service in organizations and elaborates on the intricate role human resource managers' play in acquiring, developing and retaining assets, which can deploy this culture efficiently and effectively. Due to severe and challenging competition in product driven markets, companies are resorting to customer service as a means to achieve differentiation and competitive advantage. Customer satisfaction builds long term loyal relationships which flows directly to the bottom line; either by purchase frequency or by price increase tolerance. The delivery of quality and tailored customer service relies heavily on the personality, training and motivation of the employees whose responsibility is to build customer loyalty. Human resource managers are challenged with selecting and cultivating employees within a corporate environment who are capable of providing this key ingredient to successful business differentiation. To expand the paradigm of the research the data collection was conducted in three different countries.

INTRODUCTION/CONCLUSIONS

Future research is suggested based upon prior research and theory (Buckley and associates, 1992- present; Carland and associates 1984-present).

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A MULTINATIONAL ANALYSIS OF TAX RATES AND ECONOMIC ACTIVITY

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ABSTRACT

The relationship between taxes and economic activity is a complex one. While there are various types of taxes, such as income tax, sales tax, and property tax, the tax that receives the most scrutiny is the income tax. The relationship between taxes, particularly the income tax, and economic activity is a factor in the economic progress and development of a national economy. The purpose of this study is to examine the relationship between tax rates in selected countries and economic activity, including GDP growth, unemployment, and savings. The sample of countries used in the study consists of the Organization of Economic Cooperation and Development (OECD) countries. Results are mixed but reveal some meaningful relationships between tax rates and economic activity. At the macro level, these relationships should be considered by policy makers who are considering changes to tax laws, particularly regarding the extent that tax rates affect micro-level decisions of corporate managers to locate or not locate business operations within a given country.

THE EFFECTS OF CRISIS ON THE SECURITY EXCHANGE: CASE STUDY OF ISTANBUL SECURITY EXCHANGE

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ABSTRACT

One of the most important criteria in showing the development level of a country is that financial markets of the country have gained depth. The most important function of financial system is reconstruction of economy and as a result of this, contribution to economical growth by playing a crucial role in the distribution process of capital. From this respect, Stock exchange is the leading indicator in showing countries' financial depth .The crisis that develop either internally and have a growing contagion effect with globalization, make themselves felt in stock exchange with an increasing severe.

After the crisis in 2000-2001, Turkey has lost the growing trend lasting for twenty seven quarter in the following of 2008 crisis. With this study, we have tried to explain where the crisis has started via national share indices of Istanbul stock exchange, how it has developed and how it has gained and in which way it has continued oscillation with the help of tables and graphics.

Key Words: Financial Crisis, Stock Exchange, Istanbul Stock Exchange.

INTRODUCTION

Countries need to increase investments for realizing their industrialization. Developing countries provide their capital needs from banking system in order to increasing investments. However banking system doesn't have sufficient information, skills and effectiveness to turning funds into productive investment projects. Capital markets forwarding funds, which collected by filling banking system's gaps, to productive investments projects and thus accelerate growth and industrialization process of countries. In this sense, the most important institution of the capital markets is the Security Exchange. Security Exchanges provide small savings to be gained to the economy increase the liquidty of securities which traded in primarily market and transfer capital to productive investment projects. Besides, Security Exchanges serve as an economic barometer because of being affected by economic indicators quickly and showing direction of expectations. With transferring funds to the companies managed transparently and well, Security Exchanges lead bad companies to be taken over, thus it causes the increase of the economic efficiency.

Countries take steps to inflow the capital needed for investments with the effection of globalization in direction of liberalization of financial system. But regulations in this direction reduce the resistance of the countries against external shocks besides increasing the entry of hot money. Thus starting a crisis in foreign countries increases also the effect of contagiousness.

CAPITAL MARKETS AND SECONDARY MARKETS

Financial system is a system that balance supply and demand of funds and make funds available in terms of time, amount, maturity and individuals (Akdis, 2000:5).
The financial system has an extremely important function in the economy because it enables funds to move from economic agents who lack productive investments opportunities to those who have such opportunities (Mishkin, 1996:2).

One of the important factor that countries needed to realize development and industrialization is to increase investment thus enable funds which will be used in investments sufficient and qualified. Therefore financial markets have important role in the economy. As known, countries need developed financial markets to realize development and growth; this is why diversity and debth of instruments and institutions of financial markets is very important (Oksay, 2000:1).

Capital markets are factor markets that enterprises meet their needs for medium and long term funds, individual and institutioanal financial investors in the excess of savings want to make good use of savings (Capanoglu, 1993:1).

Capital markets are extremely important for countries' economy to provide them in terms of stock investment. Especially by eliminating financial intermediation, capital market's active role in linking real and financial sector place capital markets top priority position in terms of turning savings into investment.

Capital markets are important in terms of spreading risk and manage investment profitable. But the most important risk in this market is flight capital because of economic instability and trust problem. With loosing current balance because of economic reasons, arisen insecurity risk and instability leads entrepreneur not to invest even if there is low interest rate (Okay, 2003:226).

Primary market exists when savers can buy directly certificates of bond and stock from institution that issued bond or intermediate of issued bond institution. The important thing in the primarily market is to buy securities from first issuers. Attaining a bank or brokerage house once in awhile is not an obstacle for this purchase to be in primary markets (Karsl?, 2005:31).

Secondary market is a market that trading securities which has already offered to public before. The biggest operation of capital market occurred in secondary markets. (Basoglu and oth.., 2009:16). The main purpose of secondary market is to create demand for primary market and help its development by increasing securation conversion rate. Transactions in this market are not related to companies, transactions include only trading transactions of securities as they are commercial good (Kondak, 1999:26).

Trading volume of secondary market is much bigger than primary market in developed markets. The best part of organized secondary market is Security Exchange (Karsl?, 2005:34). Investors want to profit by taking advantage of actual price movements of stock in secondary market in accordance with changing market conditions. Therefore, forecasting future price movements of stocks is extremely important in terms of the magnitude of gains and looses for investors. However, these markets, which could not reach a certain stability and depth, are affected directly by economic fluctuations and shocks. Economic fragility may affect stock's price in this market sometimes negatively or positively and at high rates. This process causes investors to gain or loose. Uncertainty and risk, which caused by the nature of economy, make difficult forecasting future value of stock's price (Özdil and Y?lmaz, 2006:212). There are two reasons for investors to action in the secondary market. One of them is information and the other one is liquidity. Having information about securities in the secondary market is better compared to other markets (Civan, 2007:7).

SECURITY EXCHANGE

Places for trading of certain goods acording to certain rules are called the Security Exchange. All kinds of asset may have its own Security Exchange. Basically assets which traded in market divide into two as real assets and financial assets (Coskun, 2008:424).

The only institution of organized market segment of capital markets is "Security Exchange". Security Exchange is indispensable organ of capital markets and besides provide efficient market environment for transactions, it also helps to finding the real value of securities and makes easier the process of investment. These markets also provide investors the ability to turn securities into cash at any time. Also, information about the securities can be obtained more easily and accurately, therefore decision process of investment will be shorten and easier, and risk and uncertainty related securities will be reduced (Inag, 1994:339).

Security markets are places where security transactions are done in through agents and created by capital owners who search of investment fields in the 19 century. Until 19 century there was not any specific place for people, who has securities and want to change the securities, to venue. Transactions were generally performed in the streets. Later, cafes, restaurants or this kind of places have been used for the purpose of changing securities when replicate of the process. Increases of transactions and gain formal qualifications lead business process to connect to certain rules. Today, there is functioning securities market in many countries. Aforementioned security exchanges continue work as in the field of local, national and international. The most important of international security exchanges are New York, London, Tokyo, Toronto, Paris and Frankfurt (Basoglu and oth.., 2009:55).

Companies can obtain their financial needs through stock or bond selling through security exchanges. The opportunity of obtaining financial needs through security exchanges depends on companies past performance and expected to achieve profitability of future projects. Therefore, the security exchange also carries out the functions for providing financial resource to people who can use it in best project. The function of financing procurement accrues in the stage of first export of securities. Later, Security Exchanges may perform other functions through changing hand of securities. Financial procurement through Security Exchanges stipulated especially for the purpose of protecting small investors. Therefore the potential of carrying out these functions of security exchange remains limited especially in developing countries. Moreover, state's issue of high yielded instruments which attracts the vast majority of resources in the financial markets limits this function of the stock exchange market (Turkkan, 2008:1).

Security exchanges are required to fulfillment of certain rules at the level of Security Exchanges and general economy in order to carrying out the expected functions. The requirements which Security Exchanges meet at the necessary level are outlined below:

- A high share of institutional investors in the Security Exchange. That is the possibility of evaluating shares as long term savings
- Free float rate of the companies is in proportion to take control of the company.
- The depth of security exchanges is to be sufficient, in other words the daily buying and selling of shares in the Security Exchange should be only marginally effective level on shares' value.
- Addition to ensuring the transparency of stock exchange transactions, the existence of deterrent regulations and controls made for preventing from "insider trading" (Turkkan, 2008:2).

BENEFITS OF SECURITY EXCHANGE TO ECONOMY AND FINANCIAL SYSTEM

Security exchanges are one of the first places which are affected by inflation, the changes in exchange rates, supply of money, GDP and political instability. For this reason security exchange indices carry out its function as an indicator on much macro economic analysis. If a sector or some firms in a sector in the economy grows rapidly then capital will be directed towards to that sector or firms. This can easily occur in the Security Exchange environment. Thus, resources will be moved to fertile fields. On the other hand, it is also possible that strong companies can take over weak companies by collecting their shares at the low price in the Security Exchange. Thus, structural changes have occurred in the industry, companies which managed badly will have been passing into other hands through Security Exchanges (Inag, 1994:342-343).

Security exchanges are places where securities can be easily converted into cash. Security exchanges provide individual, who sell securities in the secondary market, the opportunity of buying newly securities from primary market. Thus, issuance of securities' demand increases in the primary market. On the other hand, if those, who bought securities from security issuance or secondary market, have difficulties while willing to sell or necessarily selling securities then they don't want to buy securities once more. More importantly individual will not deposit their savings on securities in case they need cash after a short or long period to use in another investment or business (IMKB, 2008:10).

Security Exchanges are the tools for expansioning capital to base. Security exchanges provide millions of people to be a partner of the companies and benefit from their revenue. In this context, Security Exchanges are an institution that increases acceptability of market mechanism as socially. At the same time, it is also a tool for being democratic and transparent in the economy. Because of all the transactions of publicly traded companies have to inform public correctly and in this context need shareholders' approval regarding to companies' attempt. In a sense, this case means relations of production become social (Turkkan, 2008:1).

A set of rules are implemented in buying and selling security, the issuer of securities are reviewed and subject to regular audits during quotation, therefore It provides a safe optimum for investors.

Security exchanges provide protection for investors. Companies have to meet certain conditions for being in the exchange list and trading their securities in Security Exchange. In a sense, these companies are under continuous supervision and information about these companies open public in a shortest time for the purpose of protecting investors (IMKB, 2008:10).

FINANCIAL CRISIS

Crisis is fluctuations that occur out of the acceptable limit of changes on the price or amounts in any goods, services, factors or foreign exchange market (Kibritcioglu, 2000:5). Crisis starts as result of speculative attack of financial investors' expectations about the country's economic conditions becomes risky and it intensifies extend of these attacks' violence (Aslan ve Suslu, 2001:662).

A financial crisis is a nonlinear disruption to financial markets in which adverse selection and moral hazard problems become much worse, so that financial markets are unable to efficiently channel funds to those who have the most productive investment opportunities (Mishkin, 1996:17). In other words, the financial crisis express the process of financial system' disruption insomuch as prevent to carry out financial system's function that canalize resources towards productive investment field in the country (Uyar, 2003:11). Also, the extistence of some main elements such as working of financial markets under the condition of imperfect information and incomplete markets, adverse selection and moral hazard play role in this process.

Excessive rise in interest rates, rapidly decline of stock's price, increasing uncertainity in financial markets, and proliferation of panic that experienced by banks and acceleration of capital flight from the country are the most important indicators (Eser, 1995:49).

As reviewing past of financial crisis, Kinleberger states that the urge of human beings to be rich in ready and easy way follows three-stage process, purchasing irratioanally with bandwagon effect in the first stage (Mania), people wanting to take the advantage of oppurtunity pulls outof the market when the prices reach peak, confusion and disturbance starts when people purchasing from high prices understands that they can't benefit from speculation (Panic)and at last, moving to sales brings to inevitable collapse in contemplation of decreasing loss (Acar, 2009:120).

Crisis is seen as normal phenomenon especially in the developing country which preferred by international capital. The frequency of financial crisis and financial burden brought by crisis in these countries are much more deeply compared to experience in developed countries. This situation of developing countries is derived from features of general economic structure as macro scale, financial institutions and other firms which is not a part of financial sector as micro scale (Conkar ve Ata, 2003:3).

One of the striking important development before the period of financial crisis in developing countries is rapid increase of private foreign funds, and most of these funds enterance are in the form of borrowing. Rapidly debt of these countries is generally occurred after financial liberalization program or determining nominal exchange rates according to certain rules or shedules. Foreing currency input (if it has not been sterilized as in Turkey) causes monetary expansion, increase in demand, non-decline of inflation, real appreciation of local currency and escalation in import demand. Sustainability of inflow of foreign resources (external borrowing) depends on sustainability of applied currency rate or liberalization program. When doubts appear in this regard, it means that countries have been entered into crisis. Any spark in this situation can initiate the crisis (Uygur, 2001:17).

Advance understanding and better evaluation of leading indicators are important on financial crisis. Three is three indicator of the process of financial crisis' inception. First of all is cronic and growth tendency of current account deficit, second is the dissolve tendency in reserves and third is decline in Security Exchange and increase in interest rates. First of the signs, which turn these indicators into real crisis, is defacto devaluation as result of exchange rate rush and uncontrolled increase in exchange rate (Boratav, 2001:50).

2008 CRISIS

The most distinctive feature of current global financial system is that U.S current deficit is financed by Asian countries in largely current deficit providing low interest rate .The process of this system affects many things such as USA economy to progress ,the low progress of interest rates in global markets, the pressure for China to be revalued. Considering Asian countries, which has current accounts surplus, it can be seen that their saving rate is too high. After Asian crisis, savings of these countries increased much more but their investment did not increase at the same rate. In this context, increase of the difference between savings and investments of countries in the Asian region causes increase in current account deficit. On the other hand there also must be over-consuming countries in order to canalize over-saving countries' savings to other countries. On the other hand, Asian Central Banks contributes to finance USA current accounts deficit in order to maintain the competitiveness of export sectors with the interventions on foreign exchange market in an attempt to keep their currency low. Asian Central Banks had bought dollars when foreign exchange was interefered in, and they invest these dollars to US Treasury bonds and other American securities. A large part of current account deficit is financed by Asian Central Banks, not private sector investors (Yalc?ner, 2007:1-6).

When foreign exporters are credited with dollar balances due to the US currency account deficit they are used to buy U.S national debt, financing its fiscal deficit. Consequently, the dollar outflow from the US has beed flooding the international capital markets with American dollars, feeding asset or financial inflation to the rest of the world. Since the owners of the dollar debt are looking for a highest possible return, the situation has encouraged moral hazards, creating a bubble in the U.S. housing market, and eventually and increase in the prices of oil, food, and other commodities. The reason that the dollar-balances are re-invested in the U.S. capital markets is primarily that they have the most developed financial markets in the world, whereas most other countries are not able to invest the foreign capital safely in their own financial systems. It does not mean that there is no need for investment in emerging or developing economies, but rather that the U.S. has a comparative advantage in banking and finance, making it more profitable to invest there. The problem is that the systemic imbalance in the U.S. economy creates a phenomenon which is often referred to as excess liquidty. It means that there is more liquidty in the system that what is needed, and since the money has to go somewhere it is invested in one asset market after another, inflating eact in turn. When the bubble in the subprime mortage market burst, it was followed by a jump in the prices of oil and food, mostly due to financial speculation via futures contracts (Perelstein, 2009:15).

The prices of real estate rising faster than cost of debt directs many people directs to mortgage, the increasing demand of real estate causes prices and so the expectatios of profit. Thus, go around in circles which gradually increase in return of property prices and investments. These price increases are not sustainable and some mortage borrowes' unable to pay their debt when price increases slow down and this lead to "rotten mortgages" (sub-prime mortgage) crisis (Ertuna, 2009:7).

Starting from the second half of 2007, the effect of financial crisis is gradually increase particularly in developed countries'market. With negative influence on balancesheet of financial intermediate, firms and household, intense uncertainty turn financial crisis into economic crisis (BDDK, 2008:1).

As a result of volatility of financial markets of US and implemented policies after these volatilities caused a recession in total credit market in 2007. Approximatelly 4 trillion dollars net loans were used in the US in 2007.

When examining sources of 4 trillion net credit utilization in 2007 in US credit market it can be seen that the rest of the world's market, which refers the share of financial sector with other developing countries' market, are predominate The share of other countries'market on credit supply in the third quarter of 2007 decreased to 11% correlate with interest rate, increase in Security Exchange volatility and value of the dollars. Tightening of credit conditions due to the result of volatility occurred in credit markets lead to reduce the possibility of both borrowing and credit supply in the market. Contraction in credit markets makes negative pressure on growth of US economy. US government has been using open market operations for funding credit market and resolves the liquidity constriction in the period of 2007 crisis. To give a solution for financial turmoil, FED preferred firstly making open market operations, and secondly overnight lending to financial institution and underwritten commercial banks for the purpose of provide markets additional liquidity during a financial crisis (BDDK, 2008:36-37).

THE EFFECTS OF THE CRISIS IN 2008 ON TURKEY

Despite not being based on the internal dynamics of Turkey, because of the need of the financing of current account deficit and our international trade's being especially related to the countries which feel the crisis deeply, global crisis has affected our country since the last quarter of 2008. Because of shrinkage of demand, especially the sectors which export has affected very much. Global crisis has taken hold of almost all industries and geographical areas. The shrinkage of demand has made the productions decline especially in the manufacturing industry, construction and commerce sectors. By January 2009, Turkish industry has kept on shrinking day after day for 6 months. The main reasons of speed of expansion's slowing down in 2008 are the easing down the capital inflow, both the internal and external recession of investment, dependent on the increase of the risk in global economy, decline especially in the private sector capital investment, increase in the fluctuation of money market and Turkish Liras' losing in value (TBB, 2009:13)

Compared to the previous year, Turkish financial sector's active size of assets reached to 947.8 billion TL in 2008 by increasing 177.7 billion Turkish Liras and the proportion of financial sector actives to GDP became %99.8. Taking the global economic crisis into account, it is seen that growth performance of Turkish banking sector has contributed to economy significantly.

While domestic resident portfolio investment rose to 544 billion Turkish Liras, increasing by %18,7 compared to 2007, the total amount of investments which belong to foreign residents declined by %36,6 and decreased to 67 billion dollars.

Government security investment of foreign residents was decreasing but deposit was increased. In the year of 2008 stock investment of demostic residents decreased 35,5%, stock investments of foreign residents decreased 40,6% with respect to previous year. The impact of global financial crisis on investment preferences obviously performed in the last quarter of 2008. Decreasing international liquidity with the effect of global crisis and increasing borrowing cost showed the effect on resources of external markets particularly in the last quarter of the year. The total amount of external resources decreased 11% with respect to previous year (BDDK, 2008:12).

In 2008, since the size global crisis have growth in national revenue decrease 1,1%, GDP has been 950 billion Turkish Liras. With the trend of downsizing in production, unemployment rate becomes 14% at the end of the year. Althouth current account deficit get in downsizing trend in the second half of 2008, it rose at the level of 42 billion dollars. Direct foreign investment and private sectors creit create capital inflow but last months of the year privare sector becomes net loan payers (TSPAKB, 2008:4).

It is felt that Current global and local economic developments have had an effect on markets. Thus the interest rate of Central bank raised to 16.75% with the enhancements in 2008 is brought down in certain periods as a result of the problems in international markets' keeping on limiting the domestic and foreign demand and the limited effects of fluctuations in exchange rate on inflation. The rate is reduced to 8.75% in June 2009 with regard to deeping of deceleration in economic activity. The realization of annual consumer inflation as 5.24% and the decline of producer price as 2.46. There is a scope for limited discount in policy interest rate. In addition to economic conjuncture and policy interest rate, by enabling to observe moderate decline in D?BS and deposit interest. The decline in consumer interest rate is limited because of maintenance of uncertainty (BDDK, 2009:10).

Market value of financial institution decreased $45 billion level at the end of 2008. In Istanbul Security Exchange (ISE), the recession felt especially in the last quarter of 2008 and the loss in Turkish Liras have influenced the recession of the market value. (TBB, 2009:8)

By the first quarter of the year 2009, Turkish financing sector's size of assets has regressed to the level of 945.2 billion TL, decreasing by %0,3 compared to the previous year. Inspite of bank's, consumer financing firms', mutual funds', pension company's size of assets increasing, the growth speed of financial renting, factoring, insurance business, securities investment associations, real estate investment associations affected the general growth speed negatively. On the other hand, banking sector's total size of assets has increased by %2.9 in the mean time. Although banking sector is having a rough time globally, the good performance of Turkish banking sector draws attention during March 2009. Thanks to interest discount done by Central Bank of Turkey (TCBM) and the positive progress happened in ISE, while gaining of mutual funds increased, their %19.7 size of assets and financial sector's size of assets has scored the highest proportional increase. In this term, securities investment associations' size of assets declined by %8.2. In the first quarter of 2009, the total size of portfolio investments belonging to domestic residents accounted for 566.9 billion TL, increasing by %4.2 compared to the end of 2008. While deposit and repo investments of TL fell in 2009 compared to December 2008, other items of investments increased. Proportionally the highest increase became in the esteemed mine accounts by %70. (BDDK, 2009: 15).

THE EFFECT OF THE CRISIS 2008 ON NATIONAL ISE 100 PRICE INDICES

The market indices of stock, generally depended on a specific stock, is a statistical indicator created for reflecting the total performance of the market. (Reilly, 1992:140)

Stock indices which are general indicators of the market give general information about "market performance" by using the price of stocks within the scope of indices. Stock indices generally reflect the momentary situation of the market. Another important subject about the market indices of stock is that whether the indices only shows the capital earning or loss called price movement or it shows the total gaining movement which pays attention to the dividends which are paid as cash. (Dagl?, 2009:193)

ISE the Security Exchange is a system which was established for evaluating the performance of price and gaining of stocks which has been treated at the exchange. ISE price indiceses are counted and published during the whole session while gaining indiceses are only counted and published at the end of the session and they are used as basis indices for National ISE100 Indices Market. ISE100 indices consists of the first 100 stocks which are put in order according to the terms determined by ISE out of the companies which are treated at the National Market except for stock exchange investment association. ISE100 indices contain the stocks of ISE50 and ISE30 automatically. ISE Council states the stocks which are going to be placed in indices by assessing periodical market data. The stocks which are treated in the National Market are supposed to be treated at least 60 days at the exchange by the end of the evaluation period (November, February, May and August) in order to be received to ISE30 and ISE50 and ISE100 ?ndiceses. However the part of stock's market value which is offered to public firstly, by the date of public offering, there is no condition of being treated at the exchange at least 60 days for stocks parts of which are in the preservation of The Registry Agents Inc. (MKK) in the National Market and whose market value is approximately over %2 or above. The stocks which have these qualities and high market value are sufficient of being treated at the exchange by the end of the assessment period.

Figure-1.Closing Price of ISE National 100 Stock's Price Indices-TL (19990Q1-2009Q4)

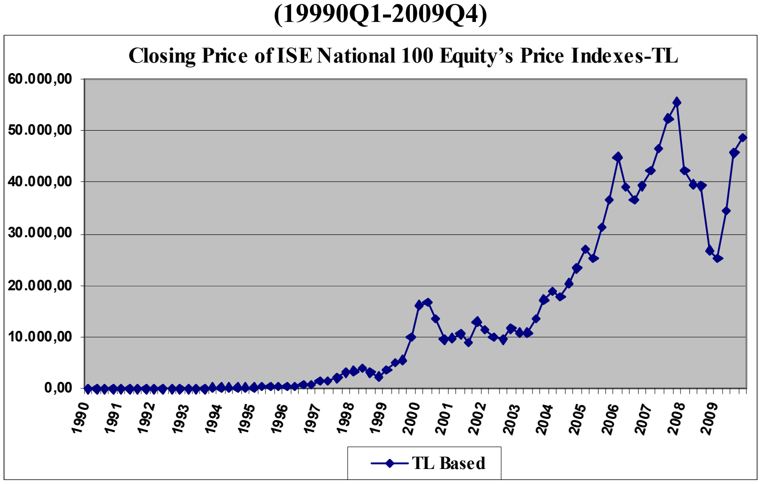

Figure-2.Closing Price of ISE National 100 Stock's Price Indices-USD (19990Q1-2009Q4)

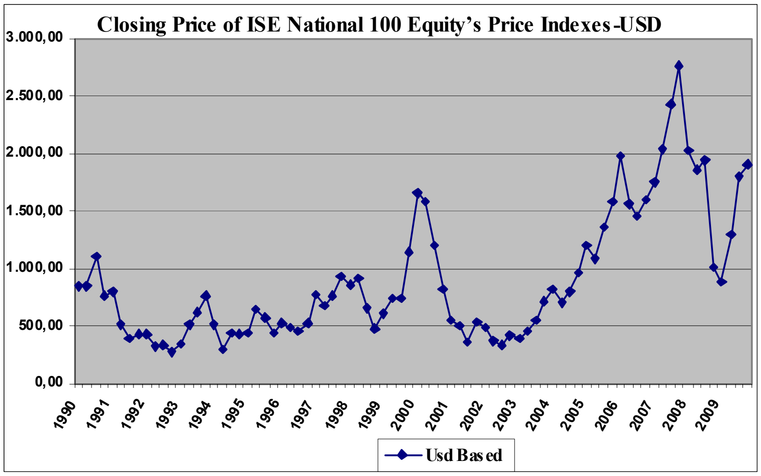

Figure-3.Traded Value of ISE National Market- TL (19990Q1-2009Q4)

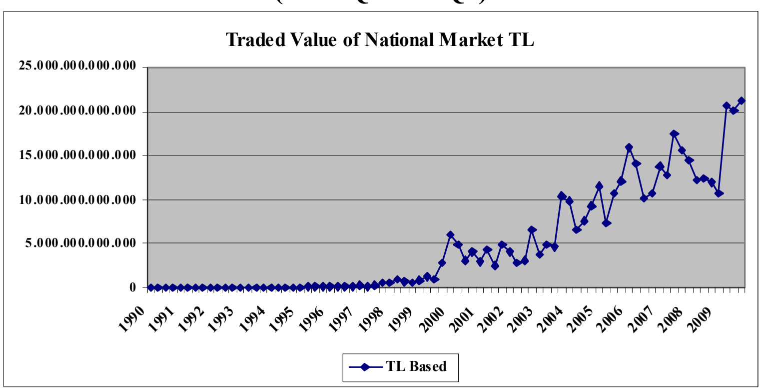

Figure-4. Traded Value of ISE National Market- USD (19990Q1-2009Q4)

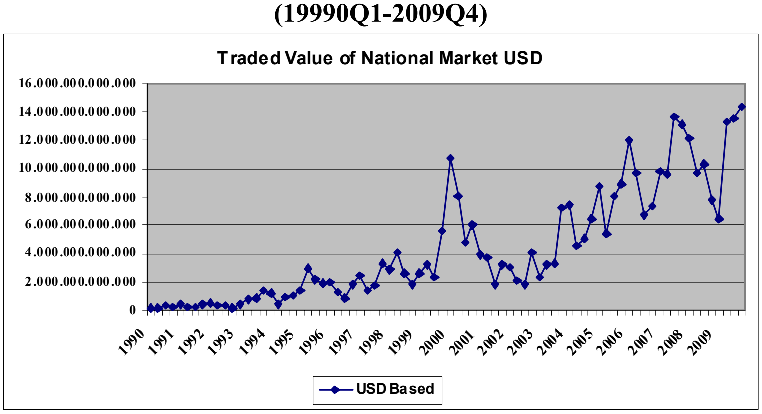

Figure-5.Trading Volume of ISE National Market-TL (19990Q1-2009Q4)

Figure-6.The Number of Contracts of ISE National Market (19990Q1-2009Q4)

One of the criteria taken into account regarding development and depth of capital markets is indiceses related to trading volume and transaction sum in Security Exchange as a barometer of financial markets. Data were evaluated starting from 1900s when the liberal financial system showed itself in every stage of life instead of starting from ISE establishment. Although liberal financial system has been started to be implemented and the founding of ISE is older, our work started in 1900s in terms of functioning of instituitions and systems because of available depicts and problems. More realistic inferences are tried to be made by benefiting from USD data retrieve from inflation effect along with TL to retrieve from inflation effect for removal of seasonality effect in the study. All figures used in the study show as of 1990Q1-2009Q4.

Crisis emerged in 1993-94s, 2000-01s and in 2008 in Turkey. The figures obtained, Figure 1 and 2 suggests very clearly. Although It seems that high inflation rate in Turkey during 1993-94 can't show the 93-94 crisis in Figure 1, Figure 2 can exactly show all crisis in point of USD. In the period of crisis ?stanbul stock Exchange indice has functioned as a barometer. Exchanges are indispensable part and indicator of financial and economic system for each country. ?stanbul Stock exchanges confirm this criterion. Figure 3 and 4 based on trading volume reveals a fact about

?stanbul stock Exchange as follows: By moving on datas which particularly occurred in USD, it may be called "Turkish stock exchange is not deep and developed one" considering the value of all transactions occurred in periods until 1994. At this stage of country, having a crisis downgraded this undevelopment and non-deepining even further. After the crisis in 1997-1998 and specially the period of 2000, ISEhas gained great momentum. It can be said that it is a motorized power of developing country. Considering 2008 crisis, all first 4 figures shows the damage of crisis and recession in the country. When examining first four figures, it can be seen that Turkey has been entered into crisis at the beginning of the 2008 and during this year it went on by increasing the violence of this period of recession. In 2009, crisis continued but also an improvement can be seen. By the end of 2009 it can be seen that effect of crisis still goes on and Security Exchange indiceses still could not reach the value before crisis. ISE performed successsfully its function as Security Exchange. The data were reflected in the indices and indices gave an idea to all investors about what was the general situation of country. Being of indicator of the economy and financial system was exhibited successfully.

Figure-5 and 6 tells us something about crisis and it is especially about depth and development of Turkish Security Exchange. Figure-5 shows Transaction Volume of Istanbul Stock Exchange and Figure-6 shows The Number of Contracts of Istanbul Stock Exchange.

Monetary value is more important than number of transaction. The number of transactions can be deceiving. A transaction may be more significant and harsh then hundred or thousand transactions. Therefore it is good to fasten on Figure 5 which shows especially the monetary value of transaction quantity. Figure 5 prove that the monetary value of transaction that occurred years of 1990 and 2000 as little as absent and this period goes o very long like 10 years. With the beginning of 2000, it shows that country has a development and exploit period in capital market. This figure also proves the economic crisis that country face in years of 2002-2003 and 2008-2009. Figure 6 explains that transactions occurred till 1994 are not noteworthy and the transactions occurred after 1994 have serious increase.

This situation means that orientation of depositors is directed to ISE in the country. Again Figure-6 shows clearly that indices of Security Exchange decrease not only as monetary value but also the number of transaction.

As a result, ISEis a barometer and an indicator related economic and financial situation in macro sense. Not only going to better but also going to worse times of the processs of Turkey's economic and financial structuring can be seen transparently that how much this good or bad process goes on. 6 Figures which created for this purpose and used in the analysis above proves us this situation.

CONCLUSION

Capital markets are the most significant arguments of the overall system that the economical and financial structure set up.The success and development of real sectoris directly and positively related to success and development of capital markets. Stock Exchange and indiceses are the indications of running financial system.From this point of view, comments and inferences about stock exchange and real sectors can be made.Developments in financial system show ?tself in real sector after a while.

The same proposition is valid in unfavorablecase,In other words Security Exchange indiceses that shows a negative development have the same effect on real sector. The general course of countries' economy is upward when economical and financial system is indicator to "bullish market".This adverse effect showed ?tself in real sector of the country when ecenomical and financial system is indicator to "bear market". The power of source and funds that provide processing of real markets depends on well functioning of financial system.The resources not being obtained can not be tranferred to real sector as a matter of course, So It will cause real sector to slow down and unable to develop. Stock exchange indiceses as a barometer is indication of positive and negative case in the up and down period. As we look through the worldwide, Dow Jones, Standart and Poor's 500 ?ndices, Nasdaq, Merval, Bovespa, IPC, All Ordinaries are considered as American Stock Exchanges, Dow Jones, FTSE 100, CAC 40, XETRA DAX, ATX, BEL-20, MIB TeL, AEX General, OSE All Share, Madrid General, Swiss Market, ISE are considered as European Stock Exchanges. Shangai Composit, Hang Seng, BSE 30, Nikkei 225, KLSE Composit, PSE Composite, SEUOL Composit, All Share, SET, Twain considered as Asian and Far Eastern stock exchange. All these stock exchanges are integrated with financial and economical system and affected by any kind of activation. Each one is indicative.In globalizing world, integration of financial system to globalization progress is a important reality. Apart from activation resulting from country's integral dynamics, positive and negative cases resulting in the markets of neighbouring and non-neighbouring country affects the ecenomical and finacial system of the country. In this case, indiceses referred as the most important indicator of finacial system shows every effect that occurs.

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