Volume 15, Number 1 **Print ISSN: 1544-0222**

Online ISSN: 1544-0230

Journal of International Business Research

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CONTRIBUTION TO THE KNOWLEDGE OF CONTINGENT FACTORS ON THE PERFORMANCE OF MUNICIPAL SERVICES

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ABSTRACT

*The purpose of this study is to examine the contingency determinants in the performance of municipal public services of Cameroonian cities. This objective requires two related studies**:** the first consists of contributing to the understanding of municipal practices regarding the measurement of performance while the second consists of identifying the factors likely to influence the performance of municipal public services. The study relies on the hypothetical-deductive method. Two questionnaires were administered to both local elected officials and to different managers responsible for the public services visited. Globally, the results show the existence of structural factors influencing the performance of Cameroonian municipal public services.*

INTRODUCTION

Public authorities in Cameroon continue to be faced with important challenges, both in terms of allocation of resources and in the satisfaction of the citizens they serve; who continue to insist that public officials deliver a sound quality/price ratio on the services they provide. As in most other African countries, Cameroonians have begun to ask for a greater transparency and opening from decentralized territorial municipalities. Wastefulness of any kind in municipal public services has become unacceptable. The reasons generally invoked are: insufficient control, lack of responsibility by elected officials and staff in charge of the functioning of decentralized territorial municipalities, and especially the absence of an accounting method that includes governance and ethical constraints. According to (Anthony and Young, 1988; Nioche, 1991), this waste is explained by suppressing control a priori without having sufficient regulatory mechanisms in place, and especially by a lack of democratic control over municipal financial accounts that are quite opaque (Berman and Wang, 2001; Meny, 1992). In order to overcome these deficiencies due to mismanagement of public finances, the Account Chamber came into existence and has been operational ever since 2006, outside the highest state audit control already in place. Its principal mission is to ensure that operations linked to expenses are normal and justified. As stated by Meyssonnier (1993), municipalities have a number of informational systems at their disposition: public accounting (financial and mandatory and analytical accounting more or less developed. Our investigations onsite allowed us to note that the use of analytical accounting is still rudimentary in the Cameroonian municipal sector. This is unfortunate since analytical accounting allows us to measure the costs per department, equipment, operation, etc (Evraert and Mevellec, 1991). It also allows us to have an overall view of the resources provided and used by each service individually (Demeestere, 2007). Without entering into a detailed analysis of the difficulties faced by Cameroonian municipalities, a certain number of questions underlie our problematic. First, we must inquire on the nature of the performance measuring systems used by Cameroonian municipal public services. In other words, do the measurements taken by Cameroonian officials allow them to realize the performances within local entities, such as the new documentation on decentralization, balancing and stabilizing public finances, and the implementation of a sector-based accounting plan? In addition, what are the factors likely to influence the performance of Cameroonian municipal public sectors? As stated, the objective of this article is two-fold:

- To contribute in the understanding of the contingency determinants for performance of municipal public services;
- To identify the factors convincible to influence the performance of municipal public services.

Firstly, we present the performance measuring systems as seen through structural contingency factors, and afterwards we specify the hypotheses to verify. Secondly, we will give details on the methodological research steps undertaken. Finally, the third part concentrates on the discussion and the presentation of the main results obtained.

PERFORMANCE DETERMINANTS IN MUNICIPAL PUBLIC SERVICES AND RESEARCH HYPOTHESES

Dependent Variables

Dependent variables were chosen by taking into account the organizational specificities of African municipalities. Because of a general reticence by African municipal officials to publicize their financial statements, particularly by Cameroonian officials, we have measured the performance by a set of six criteria.[1] These criteria were personally assessed and evaluated by department managers, as a function of their importance on a five point Likert scale.

Independent Variables

The determinants for municipal performance are grouped into a set of five exogenous variables. After presenting the theory behind each of these explicative variables, we will give out the applicable hypotheses.

Degree of Computerization of Activities

The degree of computerization as a structural contingency factor has been the subject of numerous empirical studies in organizations, notably in SME (small and medium-sized enterprise). Its use as a community performance measurement in the scope of our research no longer needs justification. The study by Chapellier (1994) is one of the few who tried to characterise globally the accounting practices of SME, defined simultaneously in terms of data production and utilization by the director, pertaining to the following three fields of general accounting: management control, financial analysis, and control panels. Other studies, notably those by Lacombe-Saboly (1994) and Lavigne (1999), concentrated on the particular field of general accounting. These latter studies (Chapellier, 1994; Lacombe-Saboly, 1994; and Lavigne, 1999), which adhered principally to the mainstream contingency theory, both objectively (structural) and subjective (behavioural), demonstrated the heterogeneity of the computerized accounting system of SME, and also identified a few of its determinants. According to Chapellier

(1994), the structural contingency factors can be reduced to a few fundamental characteristics that lead to more general complex and uncertain concepts, which are more all-encompassing in the context of SME. In his research, Chapellier (1994) retains the size and age of the company, the degree of management computerization, and the nature of the activity. On the other hand, Germain (2000) shows in his study on SME that there exists a significant link between the degree of computerization of a company's activities and the sophistication of its control panels. His results corroborate the conclusions of other research studies that examined this relationship following the examples of Kalika (1987) and Chapellier (1994). Therefore, it remains to verify if the degree of computerization of municipal activities exerts an influence or not on the organizational performance of municipal public services. Thus, the research proposes to test the hypothesis according to which:

H1: The degree of computerization of activities positively influences the performance of Cameroonian municipal public services.

The Effect of Size on Municipal Performance

The research on this subject has been the most often quoted and viewed as a pioneering effort, notably for being a leader in comparative analysis, whose aim is to uncover the common and specific problems of organizations of all types. The main results of the Aston School reinforce the idea according to which the "size of the organization constitutes a *major predictive factor* of its structure" (Desreumaux, 1992). As for the size/structure ratio, numerous empirical works confirm the Aston School results (Blau & Schoenherr, 1971; Child and Manfield, 1972; etc.). However, a study conducted by Meyssonnier (1993) on the utilization of control panels in 82 French municipalities shows that a large majority of cities do not use control panels to control the functioning of services and to guide municipal activities. By using the khi2 method to evaluate the hypothesis of independence (no correlation) between the use of control panels and the size of municipalities, the author finds a value of 4.59 for a khi2 with 2 degrees of separation and a probability of 9.85%. According to this author, "we cannot affirm, with certainty, that size and the use of control panels are correlated, especially since these control panels can be variable by nature." Considering the preceding statements, the size of an organization as such seems to be a variable likely to influence the performance characteristics of Cameroonian public services. Returning to the current context in our study, inspired by previous works, we have formulated the following hypothesis:

H2: The size of municipalities positively influences the performance of Cameroonian municipal public services.

H3: There exist a significant link between the use of control panels and the size of Cameroonian municipalities.

Degree of Decentralization of the Municipal Structure

Decentralization must be accompanied by a strong re-structuring of activities; in other words, a precise definition of the roles and responsibilities of each person is required in order to maintain control. For Bruns and Waterhouse (1975), *"in an organization that is decentralized and structured, activities are clearly defined, areas of responsibility and authority are clearly identified, and control is essentially impersonal."* Therefore, decisions may be delegated since organizational control is maintained. "Decentralization also transfers a certain degree of autonomy left to those responsible for decision-making" (Chenall and Morris, 1986). The explicative variables, pertaining to decentralization and autonomy, were measured by Bruns and Waterhouse (1975) using the scales proposed by the Aston Group. The freedom of choice to act by various responsible officials in an organization was defined at different hierarchical levels for a certain number of decision types. The anticipated relationships between the structural variables and the control systems are as follows:

- Positively influence "structured" decentralization of activities over the complexity of control systems and its perception;
- Negatively influence decentralization and the lack of autonomy on the same variables to explain;

Regarding the aforementioned work, it is clearly evident that organizational structure has been the object of numerous empirical studies in organizations. Consequently, it would be interesting for us to see if the level of decentralization of activities can influence the performance of Cameroonian municipal public services. Thus it will be necessary in the scope of this study to test the following hypothesis:

H4: There exists a positive relation between the degree of decentralization of municipal activities and the performance of Cameroonian municipal public services.

RESEARCH METHODOLOGY

The research is based on the *hypothetical-deductive* method. Thus, in order to test the above hypothesis, a study by questionnaire was conducted with the participation of the local elected officials and department managers of municipal public services of the French speaking sub-Saharan Africa cities of Cameroon.

Preparing and Pre-Testing the Questionnaire

In order to answer the problematic elements in this research and thus validate the hypothesis proposed, we decided to retain the questionnaire as the principal means to collect the data. Resorting to this technique seemed to us to be appropriate and could not be overlooked; in fact, the exploratory nature of our work did not allow us to obtain all the fullest and complete information needed without due recourse to a questionnaire. Hence, at the beginning of the first trimester in 2006, the first questionnaire was administered around twenty senior managers responsible for different departments in the city of Douala. Elements that seemed to present problems in understanding were re-written. Once the errors detected in the pre-test were corrected, preparing the modified questionnaire was now conceivable. The new corrected questionnaire was tested around twenty elected officials and senior department managers in the city of Yaoundé. This second pre-test did not detect any major abnormality in the questionnaires and consequently confirmed the validity of the latter. The final phase of administering the questionnaire could now begin.

Data Collection

In order to collect the necessary data, questionnaires were sent to elected officials and senior department managers of Cameroonian municipalities. Details on the response rate relative to the number of questionnaires sent, returned, exploitable, and non-exploitable, are presented in Table 1.

Table 1
GLOBAL RESPONSE RATE OF THE QUANTITATIVE SURVEY

	Total	*Percentage*
Questionnaires sent	*250*	*100 %*
Questionnaires returned	*150*	*60 %*
Questionnaires non-exploitables	*40*	*16 %*
Questionnaires exploitables	*110*	*44 %*

Verification of the Validity and Reliability of Measurement Methods

Recognizing the necessity to adapt the rule to the specific context of each research, Perrien et al. (1984), Evrard et al. (2003), and Usunier et al. (1993) estimated that for exploratory research, an alpha coefficient between 0.5 and 0.6 is acceptable. Thus, in the scope of this research, all elements that were not able to reach this threshold were simply discarded in order to obtain measurements that are more reliable. With this in mind, the internal coherence method was retained to measure the reliability of the measuring instruments used in the scope of this quantitative analysis. The Cronbach alpha coefficient was therefore estimated to verify the homogeneity of elements that are part of the measurement of variables relative to the evaluation of the performance of Cameroonian municipal public services. The different Cronbach alpha coefficients obtained as per our analysis are presented in Table 2.

Table 2
CRONBACH ALPHA COEFFICIENTS

Variables	*Cronbach Alpha Coefficients*
Q371_IMO : importance of objective 1= satisfaction of users *Q372_IMO : importance of objective 2 = ensure garbage collection* *Q373_IMO : importance of objective 3= ensure civil acts* *Q374_IMO : importance of objective 4= satisfaction of personnel* *Q375_IMO : importance of objective 5 = Supplying potable water* *Q38_RO : realization of objectives*	*0.753*
Q47_NAF : number of agents trained	*0.797*
Q19_NFO : Level of training	*0.758*
Q09_DDMA: degree of computerization of activities	*0.872*
39_COM : Control of objectives by minatd[3]	*0.614*
Q28_UCPM: use of control panels by municipalities (mayors) *Q29_SMU : Size of municipality (number of employees)*	*0.721*
Q52_EDVO : Existence of voluntary departures; Q53_DVO : Voluntary departures	*0.371*

All the Cronbach alpha coefficients have values greater than 0.6 and very clearly meet the criteria for reliability generally accepted. Only the coefficient related to the variables

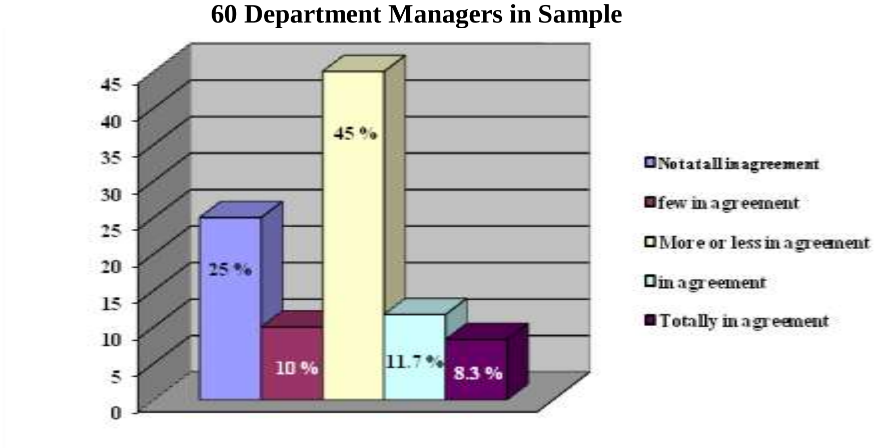
Q52_EDVO, Q53_DVO and Q57_CP has a very low value of 0.371. The same applies to the coefficients of correlation obtained between these variables and the performance of municipal public services. However, a correlation analysis between these variables and the other variables likely to influence the performance of municipal public services were realized. All the variables of the model were measured according to the 5 or 7-point Likert scale. As Kinnear and Gray (2005) clearly point out, if the data is considered as ordinal measurements, such as for a series of rows or nominal data, the non-parametric test is the only option or possibility. Therefore, in the scope of this research, considering our small sample size and the objectives that have been assigned, we have opted for non-parametric tests. Finally, we used the software Statistical Package for the Social Sciences (SPSS) version 13.00 to analyse the data in our study.

DETAILED RESULTS AND TESTING OF HYPOTHESES

The Perception by Department Managers of Global Decentralization

The question asked to measure this autonomy was direct and straightforward. We questioned the managers of the various municipal public services if they felt they belonged to a decentralized municipality. Our aim was to measure their perception of autonomy. This "perception" is an essential gauge of autonomy since it comes from the persons responsible for the implementation of management tools necessary to control the performance of public services in Cameroonian municipalities. As with the mayors, those department managers questioned had to answer on a 5-point scale varying from "not at all in agreement" to "completely in agreement". The results of the onsite survey can be seen in the graph below:

Figure 1
DECENTRALIZATION AS SEEN BY
60 Department Managers in Sample



Average: 12; Maximum: 27; typical-spread: 05;
Minimum: 05; Median: 07

The results of the quantitative survey show that 25% of department managers "do not agree at all" that they are part of a completely decentralized municipality. Similarly, 6 department managers or 10% only slightly agree versus 27 managers or 45% who agree "more or less". Conversely, only 7 department managers or 11.7% agree that they are in a fully decentralized environment while 5 managers or 8.3% completely agree with this statement.

The Perception of the Number of Agents Trained by the 110 Municipal Officials (Mayors and Department Managers) in Our Sample

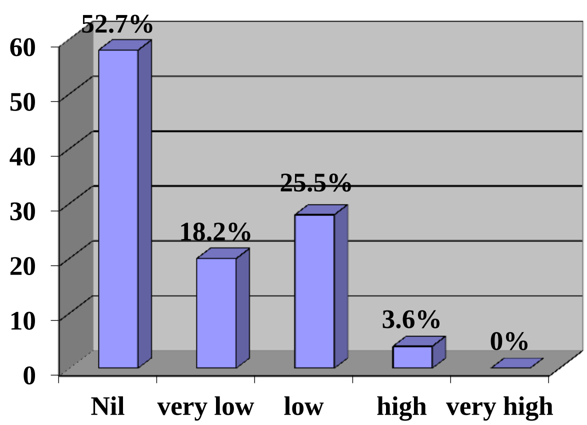
The observations of our onsite survey allowed us to note that there exists a genuine problem regarding the training of municipal agents in Cameroon. We were able to observe that the recruitment of agents was made on a purely political basis. However, we could not confirm these observations without the opinions of the municipal officials surveyed. Thus, we measured the perception of the agents trained on a 5-point scale from « Nil » to « High ». The 110 participants had to identify their views on this scale to indicate their opinion regarding the number of agents trained for the last two years preceding this survey.

Table 3
TOTAL SPREAD OF OPINIONS BY THE 50 MAYORS AND 60 SENIOR DEPARTMENT MANAGERS

Minimum	Maximum	Average	Typical-Spread	Coefficient of variation
0	58	22	23.15	1.052

The results of the survey show that 52.7% of participants believe that the number of agents trained over the last two year preceding the survey is relatively null. 18.2 % believe that the number is very low versus 25.5% who think it is low. Only 3.6% of the 110 participants state that the number of agents trained has been high. With a maximum of 58 and an average score of 22, we note that the number of agents trained in the 50 municipalities that constitutes our sample is relatively low or at least since our onsite survey. The typical-spread is 23.15 and the coefficient of variation of 1.052 shows that there exists a strong dispersion of opinions regarding the number of agents trained in the 50 Cameroonian municipalities that comprised our survey. The graph below clearly shows the opinions shared by the 110 municipal officials.

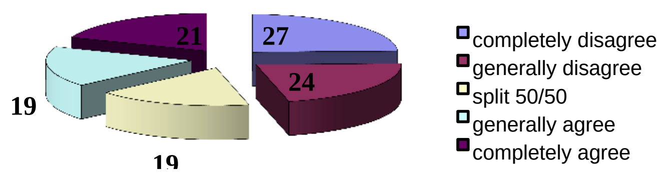
Figure 2
OPINION OF THE NUMBER OF AGENTS TRAINED BY MUNICIPAL OFFICIALS



Respecting Delivery or Completion Times as Scheduled For Public Services to Users as Perceived by 110 Municipal Officials

The performance of municipal public services can be judged by achieving the promised objectives. In other words, the satisfaction of end users and therefore the population at large is thus defined as the perception and the judgment of the customers themselves, which in turn is the population itself. In order to do this, the municipality must be able to satisfy their expectations and needs. Here we measure the length of time or delay in delivery of goods and services on a 5-point scale from “completely disagree” to “completely agree”. Those surveyed (50 mayors and 60 department managers) in our sample had to state their viewpoint or opinion on whether or not the goods and services were delivered to end users in the time frame promised. The graph below summarizes the opinions provided.

Figure 3
RESPECTING TIMEFRAME IN DELIVERY OF GOODS AND SERVICES AS SEEN BY MUNICIPAL OFFICIALS



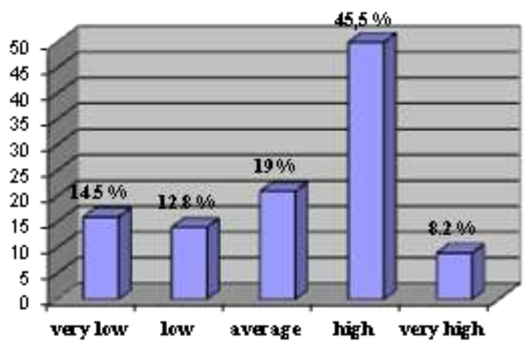
Average: 22; Maximum: 2 Median: 21
Minimum: 19; Typical-spread: 3.46; Coefficient of deviation: 0.18

The results of the quantitative survey already show that there is no significant link between the delivery of goods and services and the performance of Cameroonian municipal public services. Examining the above graph, the results show us that 46.3% of persons surveyed indicate on a scale from “completely disagree” to “generally disagree” that they do not share the opinion that goods and services rendered to users in the community are done so in a timely fashion. Yet, 34.6% of the 110 officials (mayors and managers) generally agree or are split 50/50 that deliveries occur on time. Finally, 19.1% completely agree that deliveries are indeed on time. With a maximum of 27 and an average of 22, the number of persons surveyed that do not share the opinion that deliveries of goods and services to users are not always respected is slightly lower than those who share the opinion in our scale from “generally agree” to “completely agree”. The typical-spread and the coefficient of deviation of the scores obtained show that there exists a weak dispersion of opinions between the principal participants and confirm as well that the results between the performance of municipal public services and the explicative variable (delays in deliveries) are not significant.

Degree of Absenteeism as Seen by 50 Mayors and 60 Department Managers in Our Sample

We note that the phenomenon of absenteeism is a notion that is little understood, despite the proliferation of research studies attempting to comprehend, predict, or control it. Besides, after a review of the literature of more than one-hundred studies relating to absenteeism, Chadwick-Jones (1973) concludes that the efforts of the researchers was not concerted. In fact, he deplores the lack of both a uniform definition of absenteeism and a standardized approach. He notes, just as Gaudet (1963) once said, that the large diversity of measurement indices used in the context of our research study, we wanted to understand if the degree of absenteeism could influence the performance of municipal public services in Cameroonian municipalities. We therefore measured the degree of absenteeism on a 5-point scale varying from “very low” to “very high”. The 110 officials in the sample were asked to provide, according to their respective field of competency, their appreciation of absenteeism and its effects on performance.

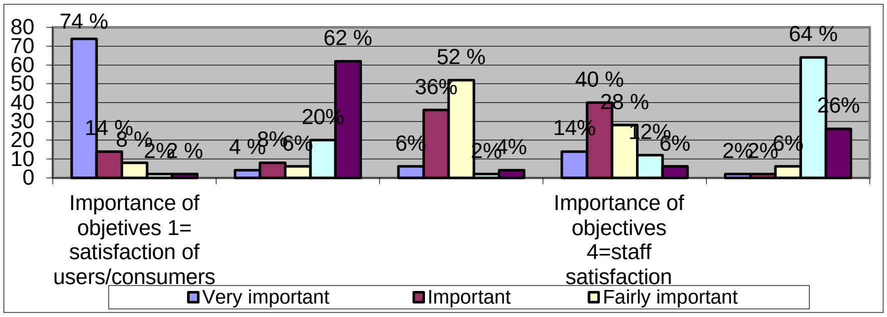
Figure 4
APPRECIATION OF THE DEGREE OF ABSENTEEISM BY THE 110 MUNICIPAL OFFICIALS (MAYORS AND DEPARTMENT MANAGERS)



Average: 22; Maximum: 50; Median: 16; Minimum: 09;
Typical-spread: 16.23

A detailed analysis of the results of the above survey shows that the degree of absenteeism is very significant. Of the officials questioned (mayors and department managers), 72.7% believe the rate of absenteeism has seen a marked increase from “average” to “very high” in the local Cameroonian municipalities. Besides, the average score of 22 can also explain the high rate of absenteeism in Cameroonian municipalities along with a typical-spread of 16.7 can shed light on the diverse opinions regarding the appreciation of the degree of absenteeism. A maximum of 50 also justifies the number of persons who believe that the degree of absenteeism is sufficiently high and that it evidently has an influence on the performance of Cameroonian municipal public services. The median indicates that 50% of persons in the survey obtained an average score less than 16, while the other half obtained a score of greater than 16. We have taken our comprehension of this phenomenon of absenteeism beyond the relationship between the personal and the organizational characteristics involved. Numerous authors insist on the necessity of taking into account lifestyle influences outside the work environment. Smulder (1983) for example mentions that for certain employees, absenteeism was a means to experience positive benefits outside work instead of “attending personal matters” or “participating in family activities”.

Figure 5
THE DEGREE OF IMPORTANCE OF THE MUNICIPAL OBJECTIVES AS VIEWED BY THE PEOPLE

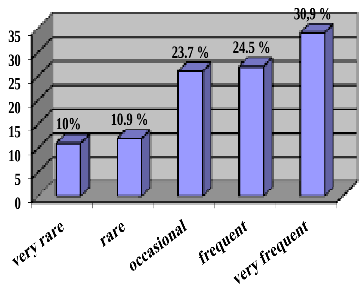


The results of the quantitative investigation indicate that 74% of those questioned considered that objective 1, ensuring the satisfaction of the population, is very important with a middle score of 1.44, a median score of 1 and a gap-type of 0.88; The maximum score is identical for the five objectives, 5, as is the identical minimum of 1. Regarding the importance of objective 2 = to ensure garbage collection, only 4% of those questioned considered it to be very important, 8% considered it to be important, 6% fairly important, 20% less important and 62% of those questioned judged it as not at all important. The middle score is of 4.2 with a median score of 5, a gap-type of 1.14 and a maximum of 5. The gap-type of 1.14 shows a strong scattering of opinions of people questioned on the degree of importance of the municipal objectives of the town halls. The management of the civil status service presents a middle score of 2.62 with a median of 3; this assumes that half of the scores of people questioned are lower than 3 whereas the other half are superior or equal to the same score. The gap-type of 0.8 shows that a weak scattering of scores exist between those who judge that ensuring birth and marriage certificates are "very important, or “fairly important” along with "less important” or “not at all important". Of those questioned, 36% of people consider that this objective is important whereas 52% find it “fairly important”. With a middle score of 4.10 and a gap-type of 0.76, the people questioned who consider that objective 5 (ensuring drinking water) is very important seems overall very weak. Because 64% among them find this objective of little importance with others stating even “not at all important”, the reason that one can give to explain this oddity is the fact that providing drinking water is a very expensive activity for the Cameroonian town halls and their respective populations. Thus, they are obliged to share the management of this activity with the national entity SNEC (national society of the waters of Cameroon). The scattering of the scores for this objective remained nonetheless weak. When it comes to achieving these objectives, we asked the people to rate their view according to the Likert 5 point scale from "rare" to “very frequent" as to whether they were reached.

The perception of the Degree of Conflicts by the 50 Mayors and the 60 Department Managers in our Sample

Results of our own investigations show that there exists a significant correlation between the variables of “conflicts between the mayor and the district treasurer” and the performance of Cameroonian municipal public services. The participants were asked to assign on a 5-point scale varying from “very rare” to “very frequent” their appreciation of the degree of conflict between the mayors and district treasurers.

Figure 6
DEGREE OF CONFLICT BETWEEN MAYORS AND MUNICIPAL TREASURERS



Average: 22; Maximum: 34; Median: 26; Minimum: 11; typical-spread: 10.07

In Cameroon, the municipal treasurer is the "last defender of municipal rights". As such, he is personally responsible to prevent any lapse in regulations, to ensure the protection of estates and preferred rights, mortgages, or any other type of valuable securities. As well, he must pay the regular authorized expenses; however, he may reject a request in case of irregularities, lack of credits, exceeding available funds, errors in data input, or absence of sufficient justification. It is at this level that numerous conflicts can arise between the elected official and the municipal treasurer. Consequently, 55.4% of persons questioned judged that the degree of conflicts within Cameroonian municipalities to be "frequent" or "very frequent". Conversely, 20.9 % rate it to be "very rare" or "rare". With an average score of 22 and a maximum of 34, this can also explain the large number of persons who judged the degree of conflicts to be relatively significant within the circle of mayors. The typical-spread of 10.7 does not explain the scattering that can occur regarding the appreciation of the degree of conflicts between those questioned who believe that the conflicts are frequent or very frequent and those who, on the contrary, consider them rare or very rare.

MAIN RESULTS OF TESTING OF HYPOTHESES AND DISCUSSION

In this section, we present and discuss the principal results we obtained while staying focused on the assigned objectives of our research. In order to test the principal hypothesis proposed, we used the Spearman coefficient of correlation. All the results are based on the data obtained in our quantitative survey.

The influence of structural and behavioural factors on performance in Cameroonian municipal public services

The empirical confirmation of the principal hypothesis proposed shows positive correlations between structural contingency factors and performance in municipal public services (MPS). The Table below summarizes the tests conducted to validate the hypothesis relative to structural and behavioural contingency factors.

Table 4
CORRELATIONS BETWEEN VARIABLES USED TO TEST OUR HYPOTHESIS

				SMU	UCPM	DDMA	NC
Rho by Spearman	RO	Coefficient of correlation		0.305	0.206	0295(*)	0.389(**)
		Sig. (bilateral)		0.144	0.152	0.039	*0.005*
		N		50	50	50	50
	SMU	Coefficient of correlation		1.000	0.132	0.277	0.87
		Sig. (bilateral)		,	0.575	0.051	0.567
		N		50	50	50	50

H1 (*The degree of computerization of activities positively influences the performance of Cameroonian municipal public services.)* is validated. The correlation is positive in the sense that two variables (RO and NC) indicate municipalities that possess an important number of computers (NC) are more likely to realize their objectives. Even if little research has been conducted on this topic, especially between computerization and performance of various services, research by Kalika (1987) and Chapellier (1994) were done in this same light, but showing a significant link between the degree of computerization of activities and the development of accounting informational systems. Hypothesis 2 **(***The size of municipalities influences positively the performance of Cameroonian municipal public services)* is invalidated. The Spearman coefficient of correlation of rank does not indicate any significant link between the size of municipalities (SMU and the realization of objectives (RO). This result is in accordance with the work of Burlaud and Malo (1988) that concludes that the size of a municipality, as a complexity criterion, can influence organizational performance. Hypothesis 3 (*There exist a significant relationship between the use of control panels (UCPM) and the size of Cameroonian municipalities.)* is invalidated. The Spearman coefficient of correlation does not reveal any significant link between the size of the municipality (SMU) and the use of control panels (UCPM). Our results corroborate those of Meyssonnier (1990) who, based on a study of 82 French municipalities, concluded that municipal size and use of control panels were not correlated, especially when the nature of these control panels can be variable. Hypothesis 4 (*There exist a positive link between the degree of decentralization of municipal activities (DDMA) and the performance of Cameroonian municipal public services)* is validated. The intersection of the variables for the decentralization of the municipality and the realization of the objectives creates a significant link. This indicates that the more the municipality is decentralized, the more the services themselves are decentralized, and the more easily the objectives too are attained.

CONCLUSION

The results of this study, based on a sample composed of 50 Cameroonian municipalities, clearly indicate the existence of a certain number of structural and behavioural contingency factors that measure the performance of municipal public services. These results show the influence that can affect the views and decision-making of elected officials and senior department managers in the performance of municipal public services. However, it seems that, overall, the ensemble of contingency factors related to the mayor and the department managers do not influence the performance of Cameroonian municipal public services. Regarding the intersection of the variables between the realization of objectives (RO) and the size of the municipality (SMU) and the use of control panels in the municipality (UCPM), we observe no significant link. By taking note of numerous studies pertaining to the structural and behavioural contingencies in companies, we have attempted to transpose this work in a municipal context. Our contribution is in the structural or concrete application of these theoretical works to a new field of activity, hardly examined, namely, the Cameroonian local municipalities. The first limitation on this research study is conceptual. In order for this work to be complete, it would have been necessary to examine, exhaustively, all the factors susceptible to influence the performance of Cameroonian municipal public services. Regarding the methodology, a larger sample would have certainly provided us with more information and would have allowed us to more easily generalize the results obtained and, in addition, develop more in-depth statistical tests. Overall, it would be interesting in the future to analyse more thoroughly the existing relational principals between the variables in order to expand the problematic of the contingent evaluation of the performance of municipal public services and emphasize the necessity of multiplying the context of the study.

END NOTES

1 These criteria are the following: Q371_IMO (importance of objective 1 = satisfaction of users); Q372_IMO (importance of objective 2 = ensure garbage collection); Q373_IMO (importance of objective 3 = ensure continuation of civil acts); Q374_IMO **(**importance of objective 4 = satisfaction of personnel); Q375_IMO (importance of objective 5 = supplying potable water); Q38_RO: realizing objectives.

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COMPETITIVE CURRENCY DEVALUATIONS, QUANTITATIVE EASING AND VOLATILITY OF EXCHANGE RATES

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ABSTRACT

The pervasive quantitative easing, interest reductions and expansionary economic stimuli put into effect by advanced nations blunted the Great Recession (2007-9) and reverted the global economy decline. Foreign capital inflow to emerging markets was one of the major drivers for strong performance of equity and currency markets of emerging economies during the latter part of the Great Recession. It is observed that with advanced economies providing powerful monetary stimulus to revive their sluggish economies and emerging market economies (EMEs) facing a plethora of capital inflows amid strong recoveries, policy tensions arose between these two groups of economies. The reversal of capital inflow augmented by capital flights seems to have disrupted the equity and the currency markets of these emerging nations.

This study argued that the tenuous parity relationships of exchange rates determinations that are entertained during normal economic conditions should be further tested in this unfolding economic environment. The enhanced volatility of exchange rates triggered by differing economic performance and relatively different economic tools used by different nations should make the determination of equilibrium exchange rates much more difficult. The study confirmed that the changes in exchange rates were more volatile during the Great Recession in comparison to the pre- or post- recession periods for industrialized nations. It is also found that the exchange rates were more volatile for emerging nations.

The study examined the effectiveness of coordinated efforts of the central banks' interventions in the foreign exchange markets. The panel database of nine (U.S. as reference country) advanced industrial nations and nine emerging nations was used to test the significance of three two-way interaction terms; that is, multiplicative terms of the dichotomous variable (1 for the in-recession period and 0 for the pre- and the post-recession periods) and three monetary policy variables (money supplies, foreign exchange reserves and interest rates) The study found that the three two-way interaction terms to be highly significant. This implies that the coordinated efforts of the central banks' interventions in the foreign exchange markets using these tools were highly effective during the recession period in comparison to the pre- and the post-recession periods. However, the evidence of the coordinated interventions during the recession period was not apparent when the model was tested using the panel data of the emerging nations.

INTRODUCTION

The Great Recession (2007-9) had severely hampered the economic performance of all nations of the world, particularly those of the industrialized nations. The onset of the Great Recession had brought unparalleled coordination among the central banks. Using the G-20 platform, most industrialized and emerging nations have engaged in prolong liquidity expansion and competitive interest rate reductions to stop and reverse the economic carnage of the Great Recession that was triggered by the sub-prime mortgage crisis. A host of fiscal and monetary actions including economic stimulus of more than a trillion dollar at the early stage of the recession as well as decreasing interest rates to the level unheard of in recent memory, increasing liquidity, and decreasing reserve requirement, have been deployed. Nations and regions like Argentina, Australia, Brazil, Canada, China, the eurozone, Iceland, India, Indonesia, Korea, New Zealand, Russia, Taiwan, Switzerland, U.K., the U.S. and others have marshaled and used their resources to soften the blow of the economic crisis. Similarly, many nations have deployed fiscal policies to avert collapse in the banking system and to stimulate the faltering economic activities. On the other hand, it should be recognized that the industrialized and emerging economies had experienced different levels of economic shocks and as such, the degree of economic cooperation and coordination have been tested as was apparent in the G-20 meeting of February of 2014. Interestingly, it seems the level of support and agreement in the G-20 meeting of February 2015 on the role of quantitative easing (QE) to boost the global economy has been elevated.

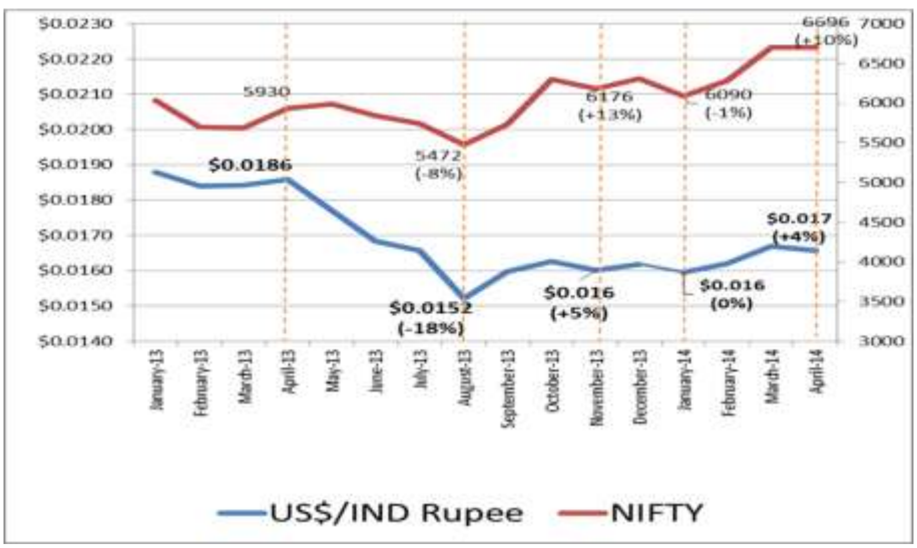
At a time of diverse economic performance between the emerging, developing and industrialized nations, some important research questions need to be addressed as new economic challenge has begun to emerge. Has the QE by industrialized nations and regions, such as the U.S., Japan, Switzerland, and the eurozone, depreciated their currencies and brought the demise of the underpinning of the freely fluctuating exchange rate system? Has the reverse of stimulus expansion or quantitative easing and prelude of interest rate hikes by the U.S. Federal Reserve System (Fed) triggered exchange control and some other forms of indirect interventions by emerging economies? Indeed, interest rate hikes and imposition of exchange control have been imposed by several developed and emerging countries like Argentina, Brazil, India, Indonesia, Korea, South Africa and Turkey. How are the immensely increased balance sheets of central banks of countries, such as the U.S., Japan, Switzerland, and the eurozone that have used QE as a tool for economic expansion as well as to fight currency appreciation and/or to induce currency weakness, going to be maintained? Will the Fed expected interest rate increase give pause to many central banks that were using QE to nudge growth in their economy and lower the exchange rates of their currencies?

The increase in money supply and the relatively low return on investments in industrialized nations have made emerging countries attractive investment destinations for hedge fund managers, arbitrageurs and other investors. Interestingly, the sheer mention of tapering of quantitative easing catapulted the arbitrageurs and hedge fund managers to engineer a reverse of capital investments from emerging countries. These emerging countries are now perceived, with expected less liquidity or less money supply floating, to have lower economic growth potential and thus carry high risk to expected relative returns on invested capital. These kind of unreliable capital inflows and outflows, and speculative capital, hamper the long term economic development of nations, and in the short run usher in high volatility in the level of performance of exchange rates and equity markets. Such was the situation observed in several of the emerging markets from May to September of 2013 as shown in Graphs 1 and 2 below.

In general, we expect a toned down but similar situations, capital flights and currencies volatility to occur around the Fed action of December 2015. Furthermore, if the central banks of these industrialized nations are going to reduce the assets, besides through natural maturities, (e.g., treasury bonds, mortgage bonds) from their balance sheets, would this trigger other economic disruptions in emerging economies with entailing contagions?

Graph 1: Impact of Fed Tapering Policy on TRK Lira and Equity Index

Graph 2: Impact of Fed Tapering Policy on Indian Rupee and Equity Index



Undoubtedly, the deal to establish the New Development Bank (NDB) and Contingency Reserve Arrangement (CRA) with an initial capital of $50 billion and $100 billion respectively by BRICS countries, Brazil, Russia, India, China and South Africa, on July 15, 2014 was to mitigate economic disruption as had occurred in the second part of 2013. At the same time, it was also to avoid high reliance on development and emergency funds availability from industrialized countries and western financial institutions. The objective of NDB is to make funds available to emerging and developing nations for long-term economic development focused on infrastructure development. The CRA objective is to make funds available for financial emergencies such as had happened in equity and currency markets of emerging countries when the Fed announced that it would start tapering the quantitative easing in late May of 2013. Even as the tapering by the Fed progresses, there will still be an increase in the assets of its balance sheet, albeit at a decreasing rate. On the other hand, at the August 2014 Jackson Hole central banks meeting, the European Central Bank (ECB) and the Bank of Japan definitely indicated that they would pursue more QE to fight deflation and economic malfeasance in their economies. Raising the QE by ECB recently from 60 billion euro a month to 72 billion euro a month and extending the quantitative easing program from September 2016 to March 2017 as well as reducing the deposit rate to -0.03 from -0.02 are good examples that central banks will be increasing their balance sheets for the foreseeable future. Such has been the case with the People Bank of China along with the unexpected currency (yuan) devaluation of August 2015. Nevertheless, the increased assets in the balance sheets of the central banks have raised the money supply in the world. Wouldn't this increased liquidity be a harbinger of high inflation, besides raising the inflation to the central banks targeted 2%, as the velocity of money start to increase? Paradoxically, would the world economy with high money supply and accelerating velocity inject more relevance to the International Fisher Effect and Purchasing Power Parity theories through increasing inflation?

BACKGROUND AND RELATED LITERATURE

The U.S. Federal Reserve switched its monetary policy stance towards an easing mode beginning September 2007 in order to deal with the sub-prime crisis that started in August of 2007. The U.S. Fed cut its policy rate from 5.25 percent in August to 2.0 percent by April 2008 and reached the zero bound by December 2008. It has remained at that level for more than six years. The monetary response of the Bank of England (BOE) and the Bank of Canada (BOC) broadly tracked the U.S. Federal Reserve. The European Central Bank (ECB) went into easing in October 2008 following the collapse of Lehman Brothers. The ECB reached its lowest interest rate of 0.25 percent in November 2013 and plans to purchase $1.3 trillion of sovereign and private debts until the later part of 2016. The conventional interest rate reduction and the unconventional quantitative easing of the various central banks were in response to their respective domestic situations, but were heavily influenced by developments in the U.S. In the immediate aftermath of the Lehman collapse, there was a coordinated reduction of 25-50 basis points in the policy interest rates by the central banks of six advanced economies in order to ease global monetary conditions (Kapur & Mohan, 2014). Such a coordinated effort by central banks in the U.S. and other major advanced economies to pursue highly accommodative monetary policy, including through unconventional policy actions, quantitative easing drove interest rates to nearly zero for almost five years.

The advanced industrial nations have pursued aggressive unconventional monetary policies (UMP) since 2008 to provide support to their economies. These policies have taken interest rates, both short-term and long-term, in these economies to record low levels and have encouraged large capital outflows, but with recurrent volatility to the emerging market economies (EMEs). The uptrend in capital flows received by the EMEs since 2008 has been interspersed with sudden retrenchment as occurred in 2010-11 on the back of the eurozone sovereign debt crisis and in mid-2013 on the back of tapering concerns over the Fed monetary policy's stand. These sudden swings in capital flows, have complicated macroeconomic management in the EMEs while the policy makers in advanced economies argue that the UMP are net positive not only for them but for the EMEs as well. The empirical evidence casts doubt on these claims (Kapur & Mohan, 2014). The volatility experienced by financial markets in

EMEs in mid-2013 and early 2014 has already provided indications of what may happen as the unwinding of QE proceeds as it must. Furthermore, how much QE in the U.S. spurred capital flows into EMEs and the factors that might have contributed to such an outflow and whether there was significant change between the period before and after the crisis have been the subject of several research papers including the one by Byrne and Fiess (2011) that found low interest rates in the U.S. as a major determinant of capital outflow from the U.S. to EMEs. Ghosh, Kim, Qureshi and Zalduendo (2012) find that in addition to lower interest rates, greater global risk appetite and EMEs' attractiveness as investment destinations have contributed to the capital inflows into EMEs. More recently, Ahmed and Zlate (2013) have also found that interest differentials and global risk appetite have been the main determinants of net private capital inflows into EMEs.

Given the near zero short-term interest rates and also the historically low level of long-term interest rates in the advanced industrial nations, the sharp increase in their balance sheet sizes led to an aggressive search for yield and led to large amounts of capital flows to EMCs putting undue pressure on EME's currencies leading to widening of current account deficits. These actions helped the advanced industrial nations revive their sluggish economies. As a result, when the U.S. Federal Reserve hinted at a possible tapering of its QE, large capital outflows from major EMEs took place leading to large local currencies depreciation making imports more expensive and ignited fears in the EMEs. Several EME countries argued that the advanced industrial nations' policies, including the unconventional monetary policy in the U.S. through large scale asset purchases, were primarily responsible for the excessive flows of capital to their economies creating adverse spillover effects.

Increasing the money supply tends to depreciate a country's exchange rates relative to other currencies, through its effects on interest rate. Relatively lower interest rates lead to a capital outflow from a country, thereby reducing foreign demand for a country's money, leading to weaker currency. In a normal economic condition, the process of QE directly benefits exporting industries in the country deploying QE, as well as debtors both domestic and international, since the currency and interest have fallen, meaning there is less money to be repaid. However, it directly harms creditors as they earn less money from lower interest rates. The reverse is true for importers and creditors of the country that deployed QE.

Given the difference between the perception of the EMEs and the advanced economies on the spillover, it is apparent that the EME policy makers would be better served by policies that minimize the spillovers for them. If international monetary coordination is to take place, the major advanced industrial nations have to first recognize that their monetary policy actions, especially of the unconventional variety, do have significant spillovers on EMEs and hence have to be internalized. Their current stance, however, is that either there are no significant cross-border spillovers, or they are indeterminate, or that they are in fact overall positive for EMEs. If this view does not change, EME policy makers would have to manage these spillovers on their own. This would involve a combination of various policies to promote financial stability in their economies: judicious capital account management to reduce the domestic impact of volatile capital flows would have to be a significant element in such policies while maintaining exchange rate flexibility, and buildup of adequate precautionary foreign exchange reserves. Such macro-management would only be effective in the presence of prudent monetary and fiscal policies, and the continued development of domestic financial markets along with active financial regulation. The establishment of the New Development Bank and Contingency Reserve Agreement is a move to mitigate such spillover problems.

Moreover, new developments in the EMEs are opening up, such as the creation of local currency bond markets to foreign portfolio investors from the advanced industrial nations. Turner (2014) argues that such development has major implications for the transmission of advanced industrial nations' monetary policy for both monetary policy and financial stability in the EMEs. The unconventional monetary policy induced low long-term interest rates have led to corresponding low long-term interest rates in EMEs, and the withdrawal of unconventional monetary policy will then have reverse corresponding effects on EME interest rates. It has, therefore, become more difficult for EMEs to practice independent monetary policy without significant capital account management.

In Africa, they created what is called African Domestic Bond Fund (ADBF) (Ncube, 2014). The creation of the ADBF is expected to help mitigate the effects of QE tapering on African economies. The fund will contribute to the development of sound domestic debt markets on the continent by investing in African local currency denominated sovereign bonds. This is expected to reduce African countries reliance on foreign currency denominated debt, and thus help build resilience against the transmission of capital flow shocks. The bank seeks to further deepen domestic financial markets through borrowing and lending in local currencies. This will help reduce imbalances and exposure to foreign exchange risks.

The EMEs and a number of observers have stressed the adverse impact of spillovers from the monetary policies of the reserve currency countries. Given the key channels for spillovers are through cross-border capital flows and exchange rate movement, the EMEs would benefit from management of capital flows, and management of exchange rate volatility. EMEs with greater restrictions on capital flows fared better, and those with higher economy-wide capital inflows restriction in pre-crisis years experienced smaller growth decline (Ostry et al., 2010, 2011).

According to Koester (2014), chief executive and co-founder of FiRE apps, a provider of currency exposure management tools various emerging market currencies have depreciated enough to evoke calls of 'currency crisis' and 'currency war.' Most of this has fallen on the BRIC countries. The Brazilian real weakened to a five year low during the peak of QE taper anticipation in late August, 2013. In India a tepid economic growth combined with current account deficits and capital outflows required heavy central bank intervention to shore up the rupee. The South African rand fell 7.5 percent in January 2014, its weakest level since 2008. The currency continued to fall even after the central bank raised its benchmark interest rate to 5.5 percent from 5.0 percent-the first rate increase in almost six years. The Russian ruble fell 7 percent, hitting a five year low. A confluence of factors is causing the emerging market panic. The first is the pull-back of stimulus in the U.S. Since September 2012, the Federal Reserve has pumped massive amounts of liquidity ($85 billion at its highest) every month into the global market through QE. In December 2013, outgoing Fed Chairman Ben Bernanke announced the beginning of tapering- a $10 billion reduction in monthly bond buying. On January 2014, the Fed announce that it would reduce its bond buying by an additional $10 billion to $65 billion a month.

BRIC countries have criticized the QE carried out by the central bank of developed nations. They argue that such actions amount to protectionism and competitive devaluation. As net exporters whose currencies are partially pegged to the dollar, they protest that QE causes inflation to rise in their countries and penalizes their industries.

DATA, MODELS AND EXPECTATIONS

It is the premise of this study that the tenuous parity relationships of exchange rates determination that are entertained during normal economic conditions will be further tested in this unfolding economic environment. Thus, the enhanced volatility of exchange rates that are triggered by differing economic performance and relatively different economic tools used by different nations will make the determination of equilibrium exchange rates among currencies much more difficult. With these questions in mind, our study examines the volatility of exchange rates as measured by the coefficient of variation, the unbiased relationships of forward rate (local currency per U.S. $) and spot exchange rate (local currency per U.S. $), and comparative stock market performance in connection to direct and indirect market interventions by the central banks among emerging countries as well as the U.S. The countries included in this study are nine advanced industrial nations (Australia, Canada, the eurozone, Japan, New Zealand, Sweden, Switzerland, U.K. and the U.S.) and nine emerging nations (Brazil, China, India, Indonesia, South Korea, South Africa, Turkey, Russia, and Mexico).

Using Thompson-Reuters' Data Stream, monthly data of several key macro variables are collected for these nations and the eurozone during the pre-Great Recession period (July 2001-November 2007), the in-Great Recession (December 2007 – June 2009), and the post-Great Recession period (July 2009 – July 2014). Our study examined the impact of quantitative easing on volatility of exchange rates as measured by coefficient of variation in before, during and after the Great Recession periods. We are also interested in finding evidence of central banks' effective intervention in the foreign exchange market that forced the exchange rate to deviate from the rate forecasted by the forward rate (since the summer of 2007). We define F t-1 to be the percentage change of forward rate at time t-1 for delivery at time t. S t is the percentage change of the exchange spot rate at time t, and e is an error term. If the unbiased spot-forward **contemporaneous** relationship holds, it is expected that the intercept B0 = 0 and B1 (the coefficient associated with F t) = 1. In contrast, if the unbiased spot-forward **lagged** relationship holds, it is expected that B0 = 0 and B1 (the coefficient associated with Ft-1) = 1.

In addition to these fundamental factors, we introduce:

Model I

$$S_t = \beta_0 + \beta_1 * F_{t-1} + \beta_2 * X_{1\ t-1} + \ldots + \beta_8 * X_{7\ t-1} + AR(1) + \varepsilon_t \qquad (1)$$

Seven key macro variables along with AR (1) were added in the equation over and above what is included in the lagged forward rate expectation model. The inclusion of a first-order autoregressive process is a widely accepted practice based on Durbin and others' pioneer work (Durbin & Watson, 1971; Godfrey, 1978). The seven variables added are: 1) relative percentage changes in money supply that may account for direct intervention and/or a probable shift in a nation's monetary policy; 2) relative percentage changes in foreign exchange reserves (measured in SDR) that may indicate direct intervention; 3) relative change in nominal interest rates that also may indicate indirect intervention; 4) relative percentage changes in the Consumer Price Index; 5) relative percentage changes in Industrial Share Price; 6) relative change in the trade balance ratio (exports divided by imports) that may partially account for the level of strength/weakness of a currency, and/or likely decrease (increase) in a nation's GDP and foreign currency reserve; and 7) relative percentage change in stock market index. The relative percentage change is computed by subtracting the percentage change of a foreign nation's macro variable from that of the U.S. Three macro variables from the above, that is, 1) money supply, 2) foreign exchange reserves and 3) nominal interest rates, are presumed in this study as part of central banks' monetary tools that may shed light as to central banks' foreign currency intervention activities.

The reason why these macro variables are included in Model I is that if the unbiased spot-forward lagged relationship holds and all macro fundamental information is captured into the forward rate at time t-1, it is thus expected that B0 = 0, B1 = 1 and B2 … B8 = 0. In contrast, if the forward rate at time t-1 is a valid but not perfect predictor of the spot rate at time t, which is also influenced by the macro variables, it is anticipated that at least one of the beta coefficients associated with the macro variables should be statistically significant and between 0 and 1, or between -1 and 0, depending on how the exchange rate is quoted (e.g., direct or indirect quote). In this study, spot rates and forward rates are direct quotes (e.g., Japanese yen per U.S. $).

Model II

$$S_t = \beta_0 + \beta_1 * F_{t-1} + \beta_2 * X_{1\ t-1} + \ldots + \beta_8 * X_{7\ t-1} + \beta_9 * D + \beta_{10} * X_{1\ t-1} * D + \beta_{11} * X_{2\ t-1} * D + \beta_{12} * X_{3\ t-1} * D + AR(1) + \varepsilon_t \quad (2)$$

The model tests the effectiveness of coordinated efforts of the central banks' interventions in the foreign exchange markets. The model adds one dichotomous variable which assigns 0 to the pre-recession period, 1 to the in-recession, and 0 to the post-recession period. We used the panel database to test the significance of the three two-way interaction terms; that is, multiplicative terms of the dichotomous variable and the three macro variables (money supplies, foreign exchange reserves and interest rates). If the central banks have effectively coordinated their efforts to intervene in the foreign exchange markets to combat the recession, we should observe statistically significant interaction terms.

During the Great Recession period, the larger percentage change in U.S. quantitative easing (e.g. increasing money supply and/or non-sterilized intervention by increasing mortgage and Treasury bonds holding as well as foreign currency reserves) is likely to pull the U.S economy out the Great Recession. It is, thus, likely over time to strengthen the U.S. dollar against other currencies, which should result in a significant, positive beta associated with money supply (or foreign currency reserve) change in the model. Initially, increase in money supply should depreciate the U.S. dollar but the determined and forceful quantitative easing of the Fed supported by fiscal policy will create expected relative strength in the U.S. economy thereby leading to U.S. dollar appreciation. If the beta of the in-recession period is larger than that of the pre-recession or the post-recession, we should observe a significant positive interaction term.

In contrast, the larger reduction in the U.S. interest rates is likely to weaken the U.S. dollar against other currencies in the low inflation environment, producing a significant, positive beta associated with interest rate change. If this beta of the in-recession period is larger than that of the pre-recession or the post-recession, we should observe a significant positive interaction term.

In other words, these statistically significant interaction terms indicate the major impact of the monetary interventions through changes in money supplies, foreign exchange reserves, and interest rates during the recession period in comparison to the pre- or the post-recession period.

DESCRIPTIVE RESULTS

Tables 1 and 2 indicate descriptive statistics of exchange rates of advanced and emerging nations. Mean and standard deviation (STD) of each currency per U.S. $ are shown for the pre-recession, in-recession and post-recession period respectively. The coefficient of variation (CV), a standardized measure of the dispersion, makes it possible to compare the extent of the dispersion across different currencies. Mean and STD of percentage changes are also presented. Larger STDs of percentage changes are observed for all counties during the recession period, in comparison to the pre- and the post-recession periods. This is best illustrated in Graph 3 where the Canadian dollar fluctuated in both directions during the Great Recession, though very large percentage changes were clearly seen.

Table 1
DESCRIPTIVE STATISTICS OF EXCHANGE RATES
Advanced Industrial Nations

Pre-Recession (January 2000 - Nov 2007)	**Panel**	**AUS $/ US$**	**CN $/ US$**	**Euro/ US$**	**JP Y/ US$**	**NZ$/ US$**	**SW Krona/ US$**	**SWISS Fr/ US$**	**UK £/ US$**
MEAN		1.534	1.346	0.913	115.376	1.792	8.300	1.406	0.598
STD		0.263	0.181	0.147	6.960	0.385	1.259	0.201	0.069
CV = STD / Mean		0.171	0.134	0.161	0.060	0.215	0.152	0.143	0.116
MEAN % Change	-0.26%	-0.28%	-0.42%	-0.35%	0.12%	-0.35%	-0.27%	-0.33%	-0.86%
STD % Change	**2.96%**	3.53%	1.98%	2.81%	2.80%	3.80%	3.03%	2.76%	6.79%
In-Recession (December 2007 - June 2009)									
MEAN		1.268	1.111	0.705	100.904	1.540	7.116	1.101	0.582
STD		0.184	0.102	0.053	6.797	0.244	0.990	0.059	0.079
CV = STD / Mean		0.145	0.092	0.076	0.067	0.158	0.139	0.054	0.136
MEAN % Change	0.64%	0.82%	0.88%	0.42%	-0.66%	1.11%	1.31%	-0.04%	1.32%
STD % Change	**4.95%**	6.15%	3.42%	4.96%	4.70%	5.34%	4.81%	4.62%	4.75%
STD % In- vs. Pre-Recession	**1.672**	**1.741**	**1.722**	**1.766**	**1.679**	**1.404**	**1.586**	**1.672**	**0.699**
Post-Recession (July 2009 - October 2014)									
MEAN		1.040	1.030	0.744	89.372	1.276	6.789	0.951	0.627
STD		0.075	0.042	0.034	9.288	0.094	0.362	0.069	0.021
CV = STD / Mean		0.072	0.040	0.045	0.104	0.073	0.053	0.073	0.033
MEAN % Change	-0.13%	-0.12%	0.00%	0.17%	0.21%	-0.31%	-0.11%	-0.17%	0.04%
STD % Change	**2.76%**	2.78%	1.84%	2.75%	2.75%	3.19%	3.06%	3.05%	2.08%
STD % In- vs. Post-Recession	**1.794**	**2.215**	**1.860**	**1.800**	**1.710**	**1.673**	**1.569**	**1.514**	**2.286**

During the recession period, STD of percentage changes in advanced nations' currencies was 4.95%, 1.67 times and 1.79 times as large as STD of the pre-recession and the post-recession respectively as indicated by the panel data. Similarly, STD of percentage changes in emerging currencies was 5.16% during the recession period, 1.37 times and 2.0 times more than the STDs during the pre-recession and the post-recession periods. Interestingly, the mean exchange rates of most of the emerging nations over the three periods had declined with the exception of Brazilian real and Chinese yuan. The quantitative easing by the Fed might have reduced the value of exchange rates of seven out of nine emerging nations contrary to what had been voiced by certain central banks. The impact of quantitative easing might have been felt intensely by the Turkish lira and the Mexican peso. On the other hand, the Brazilian real and the Chinese yuan appreciated strongly against the U.S. dollar over these three periods lending some credence to the notion that the U.S. may be exporting its economic problems.

ECONOMETRIC ANALYSIS RESULTS

A number of Augmented Dickey-Fuller (ADF) unit root tests were conducted to ensure the stationarity of the data used in the econometric models discussed earlier. All but four country-specific percentage differential data were stationary at the first difference. Four indicators, including CPI percent differential between U.S. and Turkey, money supply percent differential between U.S. and Russia, foreign currency reserves percent differential between U.S. and Russia, and money supply percent differential between U.S. and India, became stationary at the second difference.

Twenty-four econometric analyses were conducted for the eight advanced industrial nations in the pre-, in- and post-recession periods while 27 models were run for the

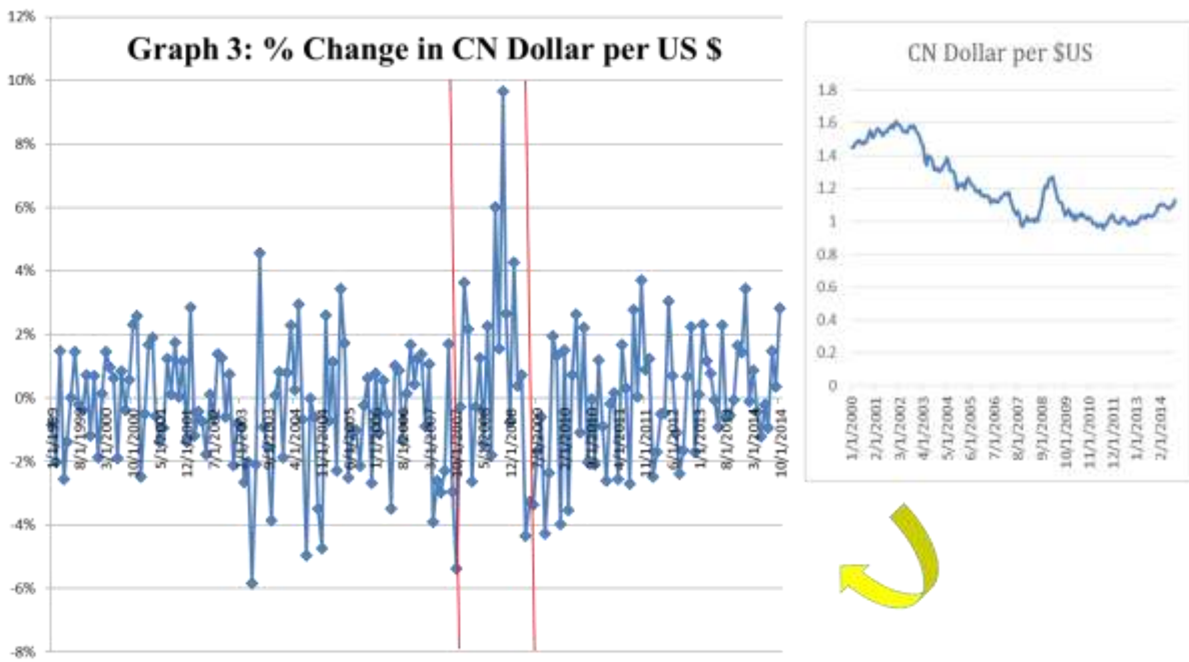


Table 2
DESCRIPTIVE STATISTICS OF EXCHANGE RATES
Emerging Nations

Pre-Recession (January 2000 - Nov 2007)	**Panel**	**BR Real / US$**	**CHN Yuan / US$**	**IN Rupee / US$**	**INDO Rupiah / US$**	**KO Won / US$**	**MX Peso / US$**	**RU Ruble / US$**	**SA Rand / US$**	**TK Lira / US$**
MEAN		2.464	8.154	45.465	9187.058	1116.682	10.392	28.698	7.565	1.304
STD		0.504	0.222	2.175	741.718	127.030	0.785	1.753	1.474	0.305
CV = STD / Mean		0.205	0.027	0.048	0.081	0.114	0.076	0.061	0.195	0.234
MEAN % Change	0.16%	0.07%	-0.11%	-0.10%	0.38%	-0.20%	0.19%	-0.09%	0.22%	1.07%
STD % Change	**3.78%**	4.72%	0.31%	1.22%	4.11%	2.02%	1.99%	1.21%	5.17%	7.07%
In-Recession (December 2007 - June 2009)										
MEAN		1.951	6.937	45.262	10087.000	1170.905	11.966	27.432	8.578	1.407
STD		0.277	0.164	4.143	990.917	182.888	1.514	4.106	1.113	0.196
CV = STD / Mean		0.142	0.024	0.092	0.098	0.156	0.127	0.150	0.130	0.139
MEAN % Change	1.06%	0.85%	-0.43%	1.11%	0.64%	1.85%	1.22%	1.42%	1.27%	1.63%
STD % Change	**5.16%**	5.54%	0.68%	3.04%	5.80%	5.25%	4.91%	4.84%	7.15%	5.86%
STD % In- vs. Pre-Recession	**1.367**	**1.173**	**2.169**	**2.492**	**1.414**	**2.597**	**2.473**	**3.991**	**1.384**	**0.829**
Post-Recession (July 2009 - October 2014)										
MEAN		1.943	6.418	52.189	9796.273	1115.991	12.816	31.473	8.480	1.769
STD		0.248	0.264	6.298	1086.032	52.431	0.497	2.456	1.338	0.237
CV = STD / Mean		0.127	0.041	0.121	0.111	0.047	0.039	0.078	0.158	0.134
MEAN % Change	0.18%	0.37%	-0.17%	0.41%	0.29%	-0.25%	0.03%	0.45%	0.54%	0.61%
STD % Change	**2.53%**	3.27%	0.47%	2.29%	2.04%	2.17%	2.35%	2.86%	3.10%	2.87%
STD % In- vs. Post-Recession	**2.038**	**1.693**	**1.447**	**1.328**	**2.849**	**2.420**	**2.093**	**1.695**	**2.309**	**2.040**

nine emerging nations, for a total of 51 statistical analyses, in the three sub-periods to test Model I:

$$S_t = \beta_0 + \beta_1 * F_{t-1} + \beta_2 * X_{1\ t-1} + ... + \beta_8 * X_{7\ t-1} + AR\,(1) + \varepsilon_t$$

This study states that if the forward rate at time t-1 is a valid but not perfect predictor of the spot rate at time t, which is also influenced by the macro variables, it is anticipated that at least one of the beta coefficients associated with the macro variables should be statistically significant. The study is particularly interested in three macros, specifically 1) money supply, 2) foreign exchange reserves and 3) nominal interest rates, which are presumed in this study as part of central banks' monetary tools that may shade light as to central banks' foreign currency intervention activities.

Table 3 summarizes of the 51 statistical analyses on the coefficient associated with money supply, foreign currency reserves and interest rates, which are presumed in this study to be significant variables, will show the coordinated actions of central banks. The summary tables indicate the presence of significant impacts ($p<.10$) of the monetary policy tools on exchange rates during the recession period, particularly among the advanced industrial nations. The reduction of interest rates seems to have been particularly effective in weakening the U.S. dollar as expected. The model was further tested by the panel data of the advanced industrial and the emerging nations for the three sub-recession periods separately. The results are presented in Tables 4 and 5.

Table 3
SUMMARY OF COEFFICIENTS OF THREE MONETARY POLICY TOOLS
Advanced Industrial Nations

Period	Monetary Policy Tools	Direction of Coefficients	# of Nations Showing Significant Policy Impact
Pre-Recession	Money Supply	Positive	**1 out of 8**
Pre-Recession	Foreign Currency Reserve	Negative	**1 out of 8**
Pre-Recession	Interest Rate	Positive	**1 out of 8**
In-Recession	**Money Supply**	**Mixed**	**5 out of 8**
In-Recession	**Foreign Currency Reserve**	**Positive**	**1 out of 8**
In-Recession	**Interest Rate**	**Positive**	**5 out of 8**
Post-Recession	Money Supply	Positive	**3 out of 8**
Post-Recession	Foreign Currency Reserve	Negative	**1 out of 8**
Post-Recession	Interest Rate	Mixed	**2 out of 8**
	Emerging Nations		
Pre-Recession	Money Supply	Negative	1 out of 9
Pre-Recession	Foreign Currency Reserve	Mixed	2 out of 9
Pre-Recession	Interest Rate	Negative	1 out of 9
In-Recession	**Money Supply**	**Mixed**	**4 out of 9**
In-Recession	**Foreign Currency Reserve**	**Mixed**	**3 out of 9**
In-Recession	**Interest Rate**	**Mixed**	**4 out of 9**
Post-Recession	Money Supply	Positive	1 out of 9
Post-Recession	Foreign Currency Reserve	Mixed	3 out of 9
Post-Recession	Interest Rate	Mixed	3 out of 9

Table 4 shows similar patterns during the pre- and the post-recession periods. The percentage change in forward rates, changes in several macro differentials, and AR(1) were powerful in predicting one-month-ahead spot rate changes although the directions of the coefficients are somewhat difficult to explain. Interestingly, a different pattern emerged during the Great Recession period: the coefficients associated with the two monetary policy tools such as percentage differential changes in foreign currency reserves and interest rates, became highly significant in predicting the change in the U.S. dollar denominated spot rates. This gives credence to the effectiveness of economic policy coordination among the advanced industrial nations during that challenging period. Such pattern, however, did not appear in Table 5 where the model was tested against the panel data of the emerging nations. It is shown there that the industrial share price relative change differentials between the U.S. and the emerging nations were indeed a powerful leading predictor of changes in spot exchange rates among these emerging nations.

Table 4
MODEL I TEST RESULTS
Advanced Industrial Nations

	Pre-Recession		In-Recession		Post-Recession	
Variable	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.
INTERCEPT	-0.005	0.000	0.009	0.027	-0.003	0.133
FWD_CHG(-1)	**-0.590**	**0.006**	0.295	0.118	**-0.266**	**0.001**
CPI_D(-1)	**0.126**	**0.058**	-0.264	0.162	0.092	0.441
MSPPLY_D(-1)	0.047	0.562	0.249	0.359	0.093	0.292
SHARE_D(-1)	**0.134**	**0.004**	0.196	0.174	0.074	0.223
RESRV_D(-1)	0.003	0.852	**0.144**	**0.001**	**-0.045**	**0.001**
TBILL_D(-1)	-0.165	0.776	**2.501**	**0.010**	-0.314	0.790
TRADE_D(-1)	0.004	0.823	-0.078	0.196	-0.012	0.443
INDEX_D(-1)	**-0.075**	**0.047**	-0.005	0.968	0.073	0.159
AR(1)	**0.525**	**0.017**	-0.074	0.694	**0.243**	**0.004**

Table 5
MODEL I TEST RESULTS
Emerging Nations

	Pre-Recession		In-Recession		Post-Recession	
Variable	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.
INTERCEPT	0.000	0.979	0.005	0.168	0.002	0.200
FWD_CHG(-1)	-0.012	0.628	0.145	0.222	**-0.147**	**0.068**
CPI_D(-1)	-0.164	0.261	-0.648	0.205	-0.152	0.393
MSPPLY_D(-1)	**-0.132**	**0.001**	-0.094	0.560	0.074	0.190
SHARE_D(-1)	**0.082**	**0.000**	**0.191**	**0.000**	**0.114**	**0.000**
RESRV_D(-1)	0.011	0.527	-0.048	0.348	**-0.028**	**0.069**
TBILL_D(-1)	**-0.026**	**0.000**	-0.547	0.368	0.244	0.329
TRADE_D(-1)	-0.019	0.135	0.011	0.718	**0.021**	**0.042**
INDEX_D(-1)	-0.011	0.189	-0.016	0.491	0.001	0.946
AR(1)	**0.101**	**0.014**	0.057	0.653	**0.248**	**0.004**

Lastly, the study tested Model II:

$$S_t = \beta_0 + \beta_1 * F_{t-1} + \beta_2 * X_{1\ t-1} + \ldots + \beta_8 * X_{7\ t-1} + \beta_9 * D + \beta_{10} * X_{1\ t-1} * D + \beta_{11} * X_{2\ t-1} * D + \beta_{12} * X_{3\ t-1} * D + AR(1) + \varepsilon_t$$

This model tests the effectiveness of coordinated efforts of the central banks' interventions in the foreign exchange markets. Again, the panel database was used to test the significance of the 3 two-way interaction terms, specifically, multiplicative terms of the dichotomous variable (1 for the in-recession period and 0 for other periods) and the three monetary policy variables (money supplies, foreign exchange reserves and interest rates). If the central banks of the advanced industrial nations have effectively coordinated their efforts to intervene in the foreign exchange markets to combat the recession, we should observe statistically significant interaction terms. The results of Model II tests are presented in Tables 6 and 7.

Table 6
MODEL II TEST RESULTS
Advanced Industrial Nations

Variable	Coefficient	Std. Error	t-Statistic	Prob.
INTERCEPT	-0.003	0.001	-2.832	0.005
FWD_CHG(-1)	**-0.199**	**0.060**	**-3.303**	**0.001**
CPI_D(-1)	0.066	0.052	1.266	0.206
MSPPLY_D(-1)	0.048	0.062	0.778	0.437
SHARE_D(-1)	**0.147**	**0.035**	**4.212**	**0.000**
RESRV_D(-1)	**-0.017**	**0.010**	**-1.671**	**0.095**
TBILL_D(-1)	-0.073	0.547	-0.134	0.893
TRADE_D(-1)	-0.007	0.011	-0.624	0.533
INDEX_D(-1)	**-0.057**	**0.027**	**-2.122**	**0.034**
In-Recession Period (1 or 0)	**0.015**	**0.003**	**4.370**	**0.000**
TBILL_D(-1)*In-Recession	**3.085**	**0.839**	**3.676**	**0.000**
MSPPLY_D(-1)*In-Recession	0.195	0.175	1.113	0.266
RESRV_D(-1)*In-Recession	**0.133**	**0.026**	**5.040**	**0.000**
AR(1)	**0.205**	**0.061**	**3.346**	**0.001**

As shown in Table 6, the study found the two-way interaction terms associated with foreign exchange reserve and interest rates were significant in the positive directions. This implies that the coordinated efforts of the central banks' interventions in the foreign exchange markets using these monetary policy tools were highly effective during the recession period in comparison to the pre- and the post-recession periods. Forward rate percentage change is also a significant predictor of spot rate changes one month ahead in the opposite direction. Again, these results indicate the significant deviations of exchange rate determination from the parity theories under the highly coordinated central banks' interventions in the foreign exchange markets. However, the evidence of the coordinated interventions during the recession period was not apparent when the model was tested using the panel data of the emerging nations as presented in Table 7.

Table 7
MODEL II TEST RESULTS
Emerging Nations

Variable	Coefficient	Std. Error	t-Statistic	Prob.
INTERCEPT	0.000	0.001	0.341	0.733
FWD_CHG(-1)	-0.004	0.022	-0.179	0.858
CPI_D(-1)	**-0.208**	**0.114**	**-1.829**	**0.068**
MSPPLY_D(-1)	**-0.097**	**0.032**	**-3.062**	**0.002**
SHARE_D(-1)	**0.105**	**0.013**	**7.835**	**0.000**
RESRV_D(-1)	-0.005	0.013	-0.368	0.713
TBILL_D(-1)	**-0.027**	**0.006**	**-4.199**	**0.000**
TRADE_D(-1)	-0.004	0.008	-0.528	0.598
INDEX_D(-1)	**-0.012**	**0.006**	**-1.950**	**0.051**
In-Recession Period (1 or 0)	**0.008**	**0.003**	**2.325**	**0.020**
TBILL_D(-1)*In-Recession	-0.718	0.482	-1.489	0.137
MSPPLY_D(-1)*In-Recession	0.057	0.118	0.482	0.630
RESRV_D(-1)*In-Recession	-0.037	0.037	-0.982	0.326
AR(1)	**0.123**	**0.032**	**3.867**	**0.000**

CONCLUSION

The omnipresent quantitative easing, interest reductions and expansionary economic stimuli deployed by advanced industrial nations blunted the Great Recession and reverted the global economy decline. Since mid-2009, most advanced industrialized nations, except some eurozone, and emerging market economies have registered growth, even if it is anemic by pre-Great Recession period's standard. Foreign capital inflows into emerging markets, seeking relatively higher returns, was one of the major drivers for strong performance of equity and currency markets of emerging economies during the latter part of the Great Recession. It is observed that the action of advanced industrial nations to provide powerful monetary stimulus to revive their sluggish economies had triggered capital outflows seeking higher returns. Emerging nations experienced a parade of capital inflows amid strong economic recoveries. This situation created policy tensions between these two groups of economies on what the reversal of the capital inflows will do to the economy of the emerging nations. The reversal of capital inflows augmented by capital flights seems to have disrupted the positive performance of equity and the currency markets of these nations, particularly that of Indonesia, India, Thailand, South Africa, Turkey, Argentina, Russia, Brazil among others. In fact, the May 2013 statement by the Federal Reserve to taper the quantitative easing had destabilized the level of economic activity and growth prospect of most emerging countries. It is the temporary nature of capital inflows and outflows undertaken by bankers, arbitrageurs and hedge funders that encouraged the BRICS countries to establish the New Development Bank for long-term infrastructure development and Contingency Reserve Arrangement to make funds available for financial emergencies to be available mainly to emerging nations.

This study has argued that the tenuous parity relationships of exchange rates determinations that are entertained during normal economic conditions should be further tested in this unfolding economic environment. The enhanced volatility of exchange rates triggered by differing economic performance and relatively different economic tools used by different nations should make the determination of equilibrium exchange rates much more difficult. Our study, thus, has examined the volatility of exchange rates before, during and post-recession, as measured by coefficient of variations, and the unbiased relationships of forward and spot exchange rates including relative changes in seven macro indicators in connection to direct and indirect market interventions by the central banks among advanced industrial nations and emerging nations.

The study confirmed that the changes in exchange rates were more volatile during the Great Recession in comparison to the pre- or the post- recession periods for industrialized nations. The study also found that the exchange rates were more volatile for emerging nations. In addition, the study examined the effectiveness of coordinated efforts of the central banks' interventions in the foreign exchange markets. Panel database was used to test the significance of the 3 two-way interaction terms, that is, multiplicative terms of the dichotomous variable (1 for the in-recession period and 0 for other periods) and the three monetary policy variables (money supplies, foreign exchange reserves and interest rates). The study found that the two-way interaction terms to be highly significant in the positive directions. This implies that the coordinated efforts of the central banks' interventions in the foreign exchange markets using these monetary policy tools were highly effective during the recession period in comparison to the pre- and the post-recession periods. However, the evidence of the coordinated interventions during the recession period was not apparent when the model was tested using the panel data of the emerging nations. Undoubtedly, economic cooperation and coordination as expected are stronger among advance industrial nations relative to emerging nations. The creation of New Development Bank and Contingency Reserve Arrangement by the BRICS nations will pave the way for stronger coordination and cooperation among emerging nations.

A repeat scenario of destabilization might be unfolding on the expectation that the Fed will raise interest rates in December 2015 for the first time since 2006 and might indicate that it will have several sequential hikes in 2016. Given the managed direction of interest rates in the eurozone, Switzerland, Sweden, China and Japan among others in contrast to that of the expected direction of interest rates in the U.S., the end of cooperated and coordinated action may be looming. Thus, the action of the Fed will usher divergent monetary policy that will impinge on the relative value of currencies and fertile ground for future empirical studies.

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COSMOPOLITAN CONSUMERS: RESEARCH OVERVIEW AND RESEARCH OPPORTUNITIES

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ABSTRACT

In the current globalized market, it is a primary challenge for international companies to identify the right customer segment, thereby targeting them in different countries (e.g., Steenkamp and Ter Hofstede, 2002). One such cross-cultural segment, which has received increasing attention from modern marketing literature, is the cosmopolitan consumer (Riefler, 2012). Regardless of its importance as a segment, it remains enough room to research cosmopolitan consumers especially from qualitative research method.

Past literature generally examined the relationship between cosmopolitanism and demographic, geographic, or psychographic variables to clarify the profile of cosmopolitan consumers, which is only valuable for segmentation purposes and is not sufficient to seize this business opportunity. Since cosmopolitanism should be considered a journey, rather than a destination (Hannerz, 1990; Thompson and Tambyah, 1999; Tomlinson, 1999; Cannon and Yaprak, 2011), cosmopolitanism should be regarded as a dynamic, rather than a static, process. Once cosmopolitan consumers' formation processes are clarified, marketers will be able to consider which processes they need to focus on.

Although the processes should differ individually, there will be some common processes as long as samples are properly extracted through the combination of newly developed scales, such as the C-COSMO and localism scales. It is also necessary to examine the validity of those scales; the CYMYC scale, the most popular scale in consumer cosmopolitanism, was revealed to be unclear in its dimensionality, with low internal consistency (Yoon et al., 1996; Yoon, 1998; Yoon et al., 2001; Riefler and Diamantopoulos, 2009).

While a precise number is unknown, several researchers agreed that the cosmopolitan segment is growing (see Riefler and Diamantopoulos, 2009; Cleveland et al., 2011a; Grinstein and Wathieu, 2012). To seize this market opportunity, and to achieve a more comprehensive understanding of cosmopolitan consumers, analysis of this segment is needed from a variety of angles.

***Keywords**: globalization, culture, ideology, country of origin, cosmopolitanism*

INTRODUCTION

Globalization has accelerated the interconnection and interdependence of cultures and individuals, in addition to markets, countries, industries, and companies, and particularly since the 1970s (Steger, 2009; Robertson, 1992). Consumers are increasingly exposed to other cultures and consumption styles, directly or indirectly, through the mobility of individuals and the penetration of mass media (Beckmann et al., 2001). It has been argued that this exposure brings "a positive stance towards products and services originating from foreign countries" (Riefler and

Diamontopoulos, 2009, p. 407) and cultural flexibility (Nijssen and Douglas, 2008). It is in this context that scholars have begun to investigate what Cannon et al. (1994) have labeled as consumer cosmopolitanism.

Direct contact with other cultures is no longer solely for privileged individuals. Due to changes in the media environment and the lowering of international travel barriers, more consumers are able to develop a cosmopolitan orientation (Tambyah and Chen, 2012). Mass media, and especially Internet media, enculturates people instantly and indirectly regardless of physical distances, which is especially noticeable after the 2000s with the advent of high speed Internet. In contrast to the print era, when information was primarily domestic (Halsall, 2012), more people are exposed to overseas information through television (Walker, 1996) and Internet media. As Delanty (1999, p. 366) argues, "The new media of communication and consumption have made everybody cosmopolitan."

In this globalized society, cultures cannot be territorially bound (Appadurai, 1990; Craig and Douglas, 2006; Hannerz, 1990). As a result, the validity of national identity-based frameworks for understanding consumers, such as Hofstede's cultural dimensions theory (Hofstede, 1980; Hofstede et al., 2010), has been called into question (Cleveland et al., 2011a). In this regard, Riefler et al. (2012) have proposed that segmentation efforts should be shifted from country characteristics to consumer characteristics.

Although the bulk of global marketing literature that discusses the interaction between globalization and consumption practices has focused mainly on consumers' negative attitudes toward product-category stereotypes (e.g., country of origin effects) and foreign products (e.g., consumer ethnocentrism and animosity), few discuss positive orientations (Cleveland and Laroche, 2012). Consumer cosmopolitanism is related to the latter, centering more on the positive aspects of globalization in a consumer behavior context.

This being said, since the 1990s there have been attempts at both quantitative (e.g., Cannon and Yaprak, 1993) and qualitative (e.g., Thompson and Tambya, 1999) investigations into consumer cosmopolitanism. Cleveland et al. (2009a) and Riefler et al. (2012) have both developed a rigorous scale of consumer cosmopolitanism that includes detailed statistical validation processes. On the qualitative side, Tambya and Chen (2012) interviewed twelve expatriates to clarify their purchase behaviors during trips overseas. However, in contrast to the potential for research in this area, few studies have conducted empirical investigations into consumer cosmopolitanism (Bolton and Myers, 2003). Therefore, since prior research on this theme has been conceptual (Riefler and Diamantopoulos, 2009) rather than empirical, the practical implications of consumer cosmopolitanism are still not adequately understood. Furthermore, past literatures focus predominantly on the profiles of cosmopolitan consumers, neglecting the formation processes of cosmopolitan consumers.

Cosmopolitan consumers are generally regarded as global citizens who view the world as a marketplace, and whose consumption traits transcend any certain cultural setting (Cannon and Yaprak, 2002; Caldwell et al., 2006; Cleveland et al., 2009a). In the work of Delanty (2014), cosmopolitan consumers are also described as "citizens of the world" (p.375). Cannon and Yaprak (2012) argue that cosmopolitan consumers are proactive towards enculturation. This open-minded, diversity-oriented trait suggests that cosmopolitan consumers are early adopters (Rogers, 2004) and innovators, who influence opinions with their upscale taste (Cleveland and Laroche, 2012). Understanding consumer cosmopolitanism is important, therefore, as transnational companies may employ cosmopolitan consumers to sophisticate their market offerings (Tadmor and Tetlock, 2006; Tadmor et al., 2009), new product development

(Cleveland and Laroche, 2012; Riefler, 2012), production processes (Yamanoglu and Ozdemir, 2012), product lifecycle strategies, and branding considerations (e.g., personality, positioning, and promotional appeals) (Cleveland and Laroche, 2012).

This paper analyzes the extant literature on globalization, cosmopolitanism, and consumer behavior, and proposes new directions for future research on consumer cosmopolitanism, the formation processes of cosmopolitan consumers. As consumer cosmopolitanism is a new area of research in the fields of globalization and consumer behavior, careful attention is paid to the conceptual dimensions of consumer cosmopolitanism through engagement with the latest empirical research. Furthermore, methods for classifying, sampling, and analyzing data on cosmopolitan consumers are reviewed in order to produce robust data for market research.

COSMOPOLITAN CONSUMERS

Definition and Constructs

Cosmopolitan as a term originates from the Greek words, "cosmos" (world) and "polis" (city), and denotes a citizen of the universe who has humanity and inborn diversity (Tambyah and Chen, 2012). Recently, many sociologists have researched cosmopolitanism as "an empirical phenomenon rather than as a normative ideal" (Igarashi and Saito, 2014, p.224).

The concept of cosmopolitan was first introduced to the research area of business management in the latter 1950s by Merton (1957) and Gouldner (1957). The former defines it as an individual who has personal orientation beyond the local community, while the latter describes it from an organizational behavior angle as "those low on loyalty to the employing organization, high on commitment to specialized role skill, and likely to use an outer reference group orientation" (Gouldner, 1957). Dye (1963) supports Merton's (1957) notion that cosmopolitans relate to "issues, events, and social organization outside of his local community."

Global business elite, refugees, and expatriates are the typical cosmopolitans (Skrbis et al., 2004), while Hannerz (1990) excludes exiles who escaped to New York during World War II; for example, the work of Rutkoff and Scott (1983) can be referenced. Migrant workers are not considered as cosmopolitans because they are unwilling to socialize with other cultures. Also, tourists are not categorized as cosmopolitans because they are "typically spectators and not active participants" in local culture (Hannerz, 1990). Cosmopolitanism has been noted among highly mobile, capital-rich elites, who live near privileged business centers, sports clubs, and international airports (Skey, 2012). Although elites, and typically expatriates, have substantial opportunities to be exposed to new cultures, ordinary people in the concurrently interconnected world can acculturate through indirect contacts with other cultures primarily through Internet media, increasing their cosmopolitan traits. Cosmopolitans are no longer a demographic segmentation, but a psychological segmentation.

To the author's knowledge, Riefler et al. (2012) could be the first researchers who explored key traits of cosmopolitanism in the context of the study of consumer behavior. The key traits are open-mindedness, diversity preference, and consumption that transcends borders.

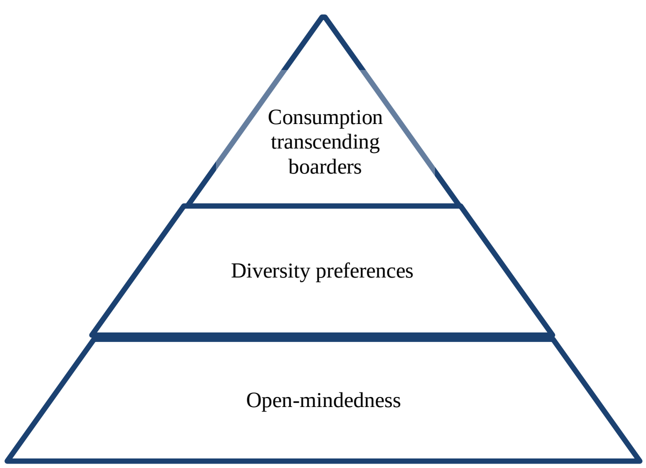
In consumer psychology, most researchers argue that open-mindedness is one of the key traits of cosmopolitan consumers. Although open-mindedness is sometimes described as openness or cultural openness, this paper regards these terms as synonyms. Open-mindedness is defined as "openness toward the people, value, and artifacts of other cultures" (Sharma et al., 1995), or as "a conscious openness to the world and to cultural differences" (Skrbis et al., 2004,

p. 117). Also, open-mindedness involves a willingness to seek information (see Hannerz, 1992). Open-mindedness is not passive, but is a proactive attitude towards "something different."

Diversity appreciation is another key trait. Tambyah and Chen (2012) argue that cosmopolitans seek "differences in cultural diversity rather than similarities" and "enjoy the diversity in the global marketplace and also cherish the value of local brands." Holt (1997; 1998) explains that cosmopolitans search for diversity to eschew parochial culture. As diversity preference needs authenticity (e.g., Beverland and Farrelly, 2010), cosmopolitans carefully examine the authentic aspects of the local brands, which are defined by Kapferer (2000) as "compelling symbols of culture in the local market." Cosmopolitans are active seekers of divergent cultures, appreciating the value of authentic local market offerings. Cultural imperialism and cultural superiority are the antithesis of cosmopolitanism because they disregard mutual respect and mutual learning (Delanty and He, 2008).

In addition to openness and diversity, Riefler et al. (2012) suggest "consumption transcending borders," defining it as "a positive disposition towards consuming goods and services from foreign countries." Compared to openness and diversity, consumption transcending borders is a consumer behavior-specific construct. In the C-COSMO scale (Riefler et al., 2012), the dimension of consumption transcending borders is calculated through the consumption preference of overseas movies, music, and food, and so on. As cosmopolitans regard themselves as less provincial (Hannerz, 1990), they are active consumers in various overseas goods and services, including education and medical treatment, for instance. Those who return from studying abroad are generally familiar with overseas cultures and lifestyles, and thereby may choose to imitate them. Accordingly, academic qualifications signal cosmopolitan dispositions (Igarashi and Saito, 2014).

Figure 1
ASSUMED RELATIONSHIP AMONG CONSTRUCTS



Source: Author's elaboration

Generally, the constructs proposed by Riefler et al. (2012) overcome the overreliance on openness as a construct of cosmopolitan consumers, whereas openness might be considered as a prerequisite for diversity preferences and consumption transcending borders. In fact, Riefler et al. (2012) did not examine the discriminant validity of each construct even though they calculated the average variance extracted (AVE) of each dimension. Normally, to confirm discriminant validity the AVE of two constructs must surpass their squared phi correlation. Given the explanation of each construct, the relationship among constructs could be hierarchical, as shown in Figure 1.

Typology of Cosmopolitan Consumers

In the previous section, the general definition and constructs of cosmopolitan consumers were examined, referring to classical studies such as Merton (1957) and Gouldner (1957) in addition to more recent work. Although an examination of the definition and constructs is still needed, the following reviews two works that propose the typology of cosmopolitan consumers for future research.

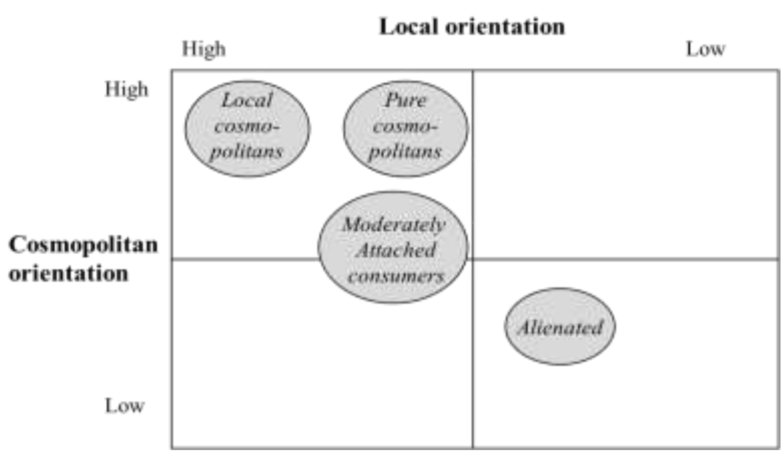
Figure 2
COSMOPOLITANISM AND LOCALISM

		Degree of ethnic/ national identity	
		Low	High
Degree of cosmopolitanism	High	Transnationals	Glocals
	Low	Marginals	Nationals

Source: Cleveland et al. (2011b)

Cleveland et al. (2011b) employ two dimensions, such as the degree of cosmopolitanism and that of ethnic or national identity, to typify cosmopolitan consumers (Figure 2). Both transnationals and glocals are categorized as cosmopolitan consumers even though they are classified by the degree of their ethnic or national identity.

Figure 3
TYPOLOGY OF COSMOPOLITAN CONSUMERS



Source: Riefler (2012, p. 155)

Riefler (2012) developed a similar typology, employing the dimensions of cosmopolitan orientation and local orientation (Figure 3). Even though Cleveland et al. (2011b) largely regard localism as ethnic or national identity, Riefler (2012) does not identify it as a synonym. Riefler (2012) defines localism, referring to Grover (2012), as “territorially anchored or ‘bounded’ cultures involving face-to-face relations among people who do not move around a great deal.”

Riefler (2012)'s definition is more versatile than that of Cleveland et al. (2011b), and can thereby be applied to a wide range of consumers. The consumption behaviors are similar among local and pure cosmopolitans, whereas local cosmopolitans pay more attention to country-of-origin (COO) information than pure cosmopolitans.

As Caldwell et al. (2006, p. 135) explain, "Consumers can have a cosmopolitan outlook while maintaining strong connections with their community of origin." Kurasawa (2004) also points out that cosmopolitanism embraces "the simultaneous existence of multilayered local, national, and global identities." To conclude, local cosmopolitans have dual identities, maintaining a local orientation in addition to a cosmopolitan orientation.

EMPIRICAL RESEARCH OF COSMOPOLITANISM

Scales of Cosmopolitanism

Until the work of Cleveland and Laroche (2007), few scales of cosmopolitanism were suitable for empirical studies of consumer cosmopolitanism. With the exception of the CYMYC scale (Cannon et al., 1994), many scales are largely irrelevant for marketing studies. The local cosmopolitan scale (Dye, 1963) and the cosmopolitan scale (Jennings, 1967) were developed in the area of political science, while the cosmopolitanism scale (Earle and Cvetchkovich, 1997) was developed to research cosmopolitan respondents and their risk management judgments. It was after the work of Cannon et al. (1994) that cosmopolitanism began to apply to marketing.

In addition, no reliability tests are conducted for many cosmopolitanism scales. For instance, the following scales do not demonstrate any reliability tests, such as Cronbach's alpha: the local cosmopolitanism scale (Dye, 1963), the cosmopolitanism scale (Jennings, 1967; Earle and Cvetchkovich, 1997), and the cultural cosmopolitanism scale (Robinson and Zill, 1997).

The CYMYC scale (Cannon et al., 1994) displays Cronbach's $\alpha = 0.57$ with twenty-four items, though many articles do note its unclear dimensionality with low internal consistency (Yoon et al., 1996; Yoon, 1998; Yoon et al., 2001; Riefler and Diamantopoulos, 2009). Cleveland and Laroche (2007) develop scales of cosmopolitanism as part of an acculturation to global consumer culture, or AGCC, dimensions through careful validation processes of scale purification. This scale was employed in Cleveland et al. (2009a), decreasing the items from eleven to six, and Lee et al. (2014) adopt it to their research in the relationship between economic nationalism and cosmopolitanism, confirming the reliability of the scale ($\alpha = 0.93$).

Following the contribution of Cleveland et al., Riefler (2012) develops C-COSMO, a consumption-domain specific cosmopolitanism scale. Compared to the scales of Cleveland et al., which are unidimensional, C-COSMO consists of three dimensions: (1) open-mindedness ($\alpha = 0.87$, CR = 0.87, AVE = 0.63), (2) diversity appreciation ($\alpha = 0.78$, CR = 0.86, AVE = 0.62), and consumption transcending borders ($\alpha = 0.84$, CR = 0.77, AVE = 0.47), with four items each. The reason Riefler (2012) proposes a three dimensional scale is that items in the work of Cleveland and Laroche (2007), as in the work of Cleveland et al. (2009a), primarily covers cultural openness, thereby lacking several theoretically relevant dimensions of consumer cosmopolitanism constructs.

Although replication studies of C-COSMO are still needed, it is presently reasonable to apply it to research various aspects of consumer cosmopolitanism.

Cosmopolitanism and Related Variables

Since the mid-1990s, researchers began to explore the relationship between consumer cosmopolitanism and its related variables. The related variables are largely categorized as the following three categories: demographic variables, geographic variables, and psychographic variables.

According to past research (noted in Table 1), cosmopolitan consumers are summarized as relatively young, well-educated, and rich in international experiences. Gender difference is revealed to be mostly irrelevant to cosmopolitanism in recent literature (see Cleveland et al., 2009a; Riefler et al., 2012; Lee et al., 2014). Income too is not a significant factor of cosmopolitan consumers; therefore, expatriates, assumed cosmopolitans, and high-income elites are not necessarily considered cosmopolitans even though "omnivorous consumption" associated with cultural openness is more likely to happen among elites than other groups (Bryson, 1996; Cheyne and Binder, 2010; Peterson and Kern, 1996). Other groups may include "banal cosmopolitans" (Skrbis et al., 2004; Tomlinson, 2002) who consume indigenous overseas products and foreign media, but do not make contact with foreign people regularly and directly (Igarashi and Saito, 2014). In demographic variables, multilingualism and Internet usage are still not thoroughly examined, even though these two variables are supposed to be positively correlated with cosmopolitanism.

Table 1
COSMOPOLITANISM AND DEMOGRAPHIC VARIABLES

Variables	Results	References	Samples
Education	Positively correlated.	Robinson & Zill (1997)	N/A.
	Losistic coefficient=.39 ($p<0.01$)	Phillips & Smith (2008)	Austrian National Identity survey 2001 (n=2,071)
	$\gamma=.151$ ($p<0.1$) in aggregated samples, and significant in MEX, GRC, HUN & SWE.	Cleveland et al. (2009a)	Native-born nationals with over 18 years old.
	$r=0.360$ ($p<0.01$)	Riefler et al. (2012)	Austrian consumers (n=429)
International experience	$r=0.124$ ($p<0.05$)	Riefler et al. (2012)	Austrian consumers (n=429)
Age	$\beta=-.038$ (n.s.) in aggregated samples, but significant in KOR, HUN & SWE.	Cleveland et al. (2009a)	Native-born nationals with over 18 years old
	$r=-0.233$ ($p<0.01$)	Riefler et al. (2012)	Austrian consumers (n=429)
	$\beta=-0.25$ ($p<0.01$) in TWN, and $\beta=-0.07$ (n.s.) in KOR.	Lee et al. (2014)	Korean (n=257), Taiwanese (n=258)
Income	n.s. in both high and middle income respondents.	Phillips & Smith (2008)	Austrian National Identity survey 2001 (n=2,071)
	$\beta=-.004$ (n.s.)	Cleveland et al. (2009a)	Native-born nationals with over 18 years old
	n.s. in both KOR and TWN.	Lee et al. (2014)	Korean (n=257), Taiwanese (n=258)
Gender	No significant difference in mean score. T-value=0.52 ($p>0.1$)	Riefler et al. (2012)	Austrian consumers (n=429)
	$\beta=-.121$ ($p<0.1$) in aggregated samples, and significant in CAN, GRC, HUN & SWE.	Cleveland et al. (2009a)	Native-born nationals with over 18 years old
	n.s. in both KOR and TWN.	Lee et al. (2014)	Korean (n=257), Taiwanese (n=258)
	Higher levels of COS orientation for female	Robinson & Zill (1997)	N/A.
	Females and males have similar levels of cosmopolitanism in TUR, KOR, IND, MEX & CHL samples.	Cleveland et al. (2009a)	Native-born nationals with over 18 years old
Marital status	n.s. in both KOR and TWN.	Lee et al. (2014)	Korean (n=257), Taiwanese (n=258)
Multi-lingualism	N/A, Ray et al. (1994) hypothesize that it is positively correlated.	N/A	N/A
Internet usage	N/A. Halsall (2012) hypothesize that it is positively correlated.	N/A	N/A

Source: Author's elaboration

Geographic variables are explored through the differences in cosmopolitan orientation among urban and rural consumers. There are three topics of research that examine the difference, and these find that urban consumers show higher levels of cosmopolitanism than rural consumers (Table 2). As urban areas attract diverse people who are willing to work, study, and travel, urban residents are naturally exposed to multicultural environments. Although Cannon et al. (1994) and Yoon et al. (1996) employed the CYMYC scale, which was revealed to be unreliable, Riefler et al. (2012) confirmed the cosmopolitan orientation of urban residents by the C-COSMO scale, a newly developed scale with detailed validation.

Table 2
COSMOPOLITANISM AND GEOGRAPHIC VARIABLES

Variables	Results	References	Samples
Location	Consumers residing in urban areas show higher levels of cosmopolitanism	Cannon et al. (1994)	N/A
	Correlation between reduced average CYMYC scale score and city size was .0736 (p=.038).	Yoon et al. (1996)	303 from a small city and 404 from two large metropolitan areas in Korea.
	Significantly higher average score among urban consumers than among rural consumers (t-value=2.21, p<0.05)	Riefler et al. (2012)	Austrian consumers (n=429)

Source: Author's elaboration

Table 3
COSMOPOLITANISM AND PSYCHOGRAPHIC VARIABLES

Variables	Results	References	Samples
Consumer innovativeness (Baumgartner & Steenkamp, 1996)	r=0.456 (p<0.01)	Riefler et al. (2012)	Austrian consumers (n=429)
Risk aversion (Donthu & Garcia, 1999)	r=−0.282 (p<0.01)		
Global Consumption Orientation	r=0.02 (n.s.)		
Consumer SNI (Bearden et al. 1989)	r=−0.238 (p<0.01)		
Materialism (Richins, 2004)	Largely uncorrelated	Cleveland et al. (2009a)	Native-born nationals with over 18 years old
Consumer Ethnocentrism	r=−.15 (p<0.1) in aggregated samples, and significant in CAN, KOR, HUN, IND, SWE.		
	r=−0.46 (p<0.01)	Riefler et al. (2012)	Austrian consumers (n=222)
SVS-10 (Schwartz, 1992; 1999)		Cleveland et al. (2011a)	Canadian (n=511) and Turkish (n=327) students
Universalism	β=.304, t=7.15 (p<0.01)		
Security	β=.−.209, t=−5.68 (p<0.01)		
Benevolence	β=.150, t=3.61 (p<0.01)		
Self-direction	β=.101, t=2.34 (p<0.01)		
Stimulation	β=.098, t=2.81 (p<0.01)		
SVS-7 (Schwartz, 1992; 1999)			
Intellectual autonomy	β=.194, t=4.51 (p<0.01)		
Egalitarianism	β=.200, t=4.35 (p<0.01)		
Harmony	β=.152, t=3.70 (p<0.01)		
Conservatism	β=−.131, t=−3.34, (p<0.01)		
Affective autonomy	β=.091, t=2.66 (p<0.01)		
Hofstede (1994)'s Masculinity	Correlated only for Canadians (β=−.174, t=−3.99, p<0.01)		
Individualism	Correlated only for Canadians (β=.095, t=2.19, p<0.05)		
Ethnic identity	Independent or positive relationship.	Cleveland et al. (2011b)	Consumers in GRC, HUN, SWE, MEX, CHL, CAN, IND.

Table 3
COSMOPOLITANISM AND PSYCHOGRAPHIC VARIABLES

Economic Nationalism	r=－.27	Baughn & Yaprak (1996)	95 UG students
	r=0.01 (n.s.); Economic nationalism may coexist.	Lee et al. (2014)	Korean (n=257), Taiwanese (n=258)
Social responsibility	N/A. Yamanoglu and Ozdemir (2012) hypothesize that it is positively correlated. See also Roudometof (2005)	N/A.	N/A.

Source: Author's elaboration

Compared to demographic and geographic variables, few studies research the relationship between cosmopolitanism and psychographic variables (Table 3). In addition, as some of the results vary according to nationality, it is problematic to generalize the findings without further research. Moreover, the findings related to psychographic variables were derived from two different scales in cosmopolitanism: the scale created by Cleveland et al. (2009a), and the C-COSMO scale (Riefler et al., 2012). In future studies, researchers must carefully validate the employed scale of cosmopolitanism, or evolve it to create their own scales.

Another issue regarding research in psychographic variables is that all studies to date disregard differences within cosmopolitan consumers. Cleveland et al. (2011b) divide cosmopolitan consumers into transnationals and glocals, while Riefler (2012) divides them into pure cosmopolitans and local cosmopolitans. Stratification of the survey samples is required for a more detailed understanding of cosmopolitan consumers.

PROBLEMS IN PAST LITERATURE

In the area of consumer cosmopolitanism, past literature primarily focuses on the relationship between cosmopolitanism and its related variables, employing quantitative research methods. In contrast, there is little work that employs qualitative research methods, with the exception of research by Yoon (1998), Thompson and Tambyah (1999), and Caldwell et al. (2006), for instance. Furthermore, no research adequately employs mixed methods, a concurrent triangulation approach, for this research area. To complement or overcome the methodological limitations, a prospective solution is to apply mixed methods to this research area.

Current literature neglects the formation processes of consumer cosmopolitanism. As several authors argue, people are not born cosmopolitan (e.g., Hannerz, 1990; Cannon and Yaprak, 2002), and consumer cosmopolitanism is formed in relation to external or internal factors. Even though there is no consensus concerning the inducing factors of cosmopolitanism, Riefler et al. (2009) proposed the following four antecedents: travel, expatriate stays (e.g., Cannon and Yaprak, 2002), cross-cultural training programs (e.g., Hannerz, 1990), and social status seeking (e.g., Thompson and Tambyah, 1999). These antecedents are predominantly related to first-hand contacts with different cultures, and lack indirect contacts, such as media.

The expected reason that literature seldom researches inducing factors is that consumer cosmopolitanism has not been studied as a formation process. However, even if the relationship between cosmopolitanism and its related variables is clarified, the formation processes of cosmopolitanism would remain unclear. Although the formation processes will differ with the individual, we cannot propose practical implications to approach cosmopolitan consumers without studying the formation processes.

NEW DIRECTIONS FOR FUTURE RESEARCH

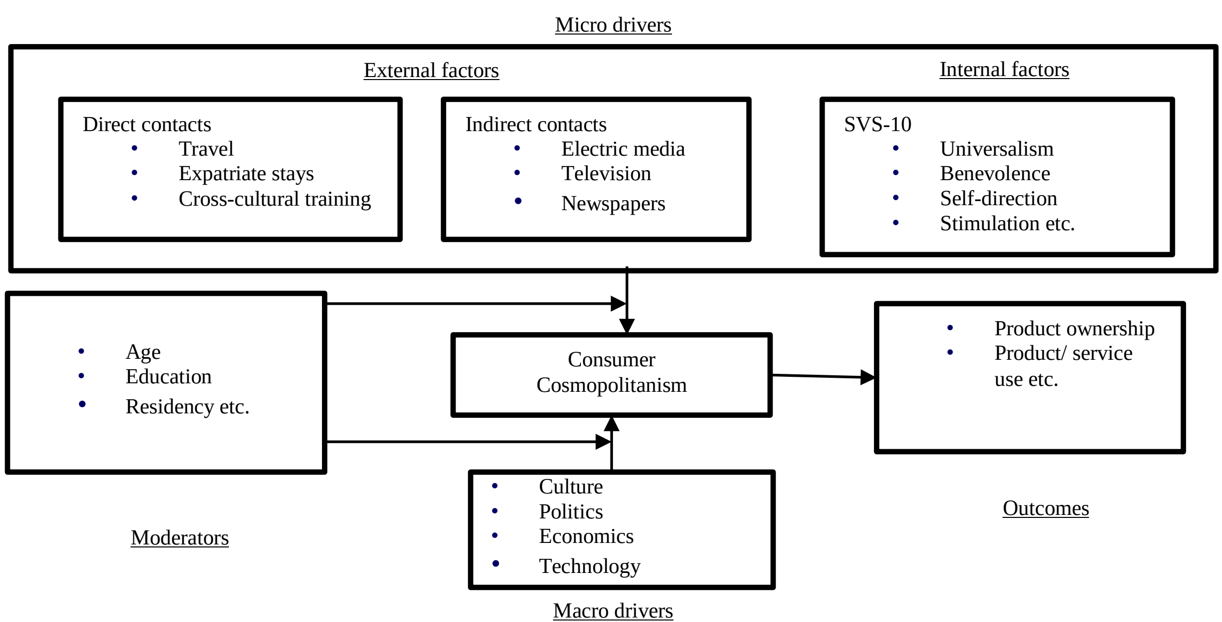
Significance of Cosmopolitan Consumers Formation Processes

Contrary to western economics, emerging economies, such as BRIC (Brazil, Russia, India and China) and CIVETS (Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa) are growing rapidly, increasing the nations' disposable income. Economic growth has also led to an increase in consumer cosmopolitanism (Lee et al., 2014), stimulating the desire to own items in relation with a western lifestyle (Alden et al., 2006; Caldwell et al., 2006; Cannon and Yaprak, 2002; Cleveland et al., 2009a; Cleveland et al., 2011a).

Current understanding of the relationship between cosmopolitanism and its related variables, which is only valuable for segmentation use, is not sufficient to seize this business opportunity. As cosmopolitanism should be considered a journey, rather than a destination (Hannerz, 1990; Thompson and Tambyah, 1999; Tomlinson, 1999; Cannon and Yaprak 2011), cosmopolitanism should be regarded as a dynamic process. Once cosmopolitan consumers' formation processes are clarified, marketers will be able to consider the processes to focus on.

Cosmopolitan consumers are also valuable as a segment for aging societies because they will stimulate the external demands, forming foreign markets for domestic products. Developed nations, typically regarded as aging societies, cannot grow solely by domestic demands due to a decreasing population. If developed nations successfully enculturate individuals overseas, they become new cosmopolitan consumers who consume the developed nations' products and services. Once the formation processes of cosmopolitan consumers are clarified, companies based in developed nations can intentionally approach prospective cosmopolitans, who will eventually promote external demands.

Figure 4
TENTATIVE FORMATION PROCESSES OF COSMOPOLITAN CONSUMERS



Source: Author's elaboration

The grounded theory approach, or GTA (Glaser and Strauss, 1967), is the methodology expected to develop cosmopolitan consumers' formation processes. GTA is a qualitative research method to generate a unique theory that explains an entirely new series of events or processes. When generating cosmopolitan consumers' formation processes, this methodology is needed to consider the powerful social incentives for interviewees to eschew the stigma of prejudice, and show a more reasonable and open attitude towards others (see Billig et al., 1988; Skey, 2012). Interviewers must carefully examine whether the research subjects overestimate themselves as cosmopolitans. Interviewees may present typical cosmopolitan-like experiences to hide a hidden parochial nature.

Figure 4 is a tentative cosmopolitan consumer formation process, based on past literature. Riefler and Diamantopoulos (2009) suggest the following four antecedents: travel, expatriate stays, cross-cultural training programs, and social status-seeking; these are categorized into external and internal factors, adding indirect contacts as an external factor. Indirect contacts, such as Internet media, television, and newspapers, should promote or generate cosmopolitanism even though they may not be as powerful as direct contacts. Demographic or geographic variables will function as moderators, rather than antecedents, as shown in Figure 4. As Figure 4 is a conceptual framework based on the past research, empirical research is needed to develop a renewed framework.

Recommended Target of Cosmopolitan Consumers in Empirical Research

As discussed in section two, Cleveland et al. (2009b) and Riefler (2012) each propose two types of cosmopolitan consumers; "transnationals" in the former literature, and "pure cosmopolitans" in the latter, are defined as the most acculturated cosmopolitans whose scores are high in cosmopolitan orientation, and low in national identity or local orientation, respectively. As noted previously, the combination of C-COSMO with the localism scale is presently superior to the scale proposed by Cleveland et al. (2009b), given the comprehensiveness of the scale's dimensions.

To understand the general formation processes of cosmopolitanism, pure cosmopolitans are the most suitable group for primary empirical research. This is because local cosmopolitans have a dual identity; they show "the highest level of local orientation while at the same time being highly cosmopolitan" (Riefler et al., 2012, p. 298).

However, future research must be conducted to clarify the similarities and differences between the formation processes of pure and local cosmopolitans. According to Riefler et al. (2012), the size of the clusters is equally 27%. This suggests that in research, local cosmopolitans are equally significant given the expected market size.

CONCLUSION

In the current globalized market, it is a primary challenge for international companies to identify the proper customer segment; thereby, companies target segments in different countries (e.g., Steenkamp and Ter Hofstede, 2002). One such cross-cultural segment that has received increasing attention from modern marketing literature is the cosmopolitan consumer (Riefler, 2012). Regardless of its importance as a segment, it remains enough room to research cosmopolitan consumers, especially with a qualitative research method.

Past literature has generally examined the relationship between cosmopolitanism and demographic, geographic, or psychographic variables to clarify the profile of the cosmopolitan consumer. As cosmopolitanism should be considered a journey rather than a destination (Hannerz, 1990; Thompson and Tambyah, 1999; Tomlinson, 1999; Cannon and Yaprak 2011), it should be regarded as a dynamic process, rather than static. Once the processes are clarified, marketers can examine which processes they should focus on.

Although the processes should differ individually, common processes will exist if the samples are properly extracted, using a combination of newly developed scales, such as C-COSMO and the localism scales. The validity of those scales must also be examined; in fact, the CYMYC scale, which is the most popular scale in consumer cosmopolitanism, was revealed to be unclear in dimensionality, and to have low internal consistency (Yoon et al., 1996; Yoon, 1998; Yoon et al., 2001; Riefler and Diamantopoulos, 2009).

While the precise number is unknown, several researchers, such as Riefler and Diamantopoulos (2009), Cleveland et al. (2011a), and Grinstein and Wathieu (2012), agreed that the cosmopolitan segment is steadily increasing. To seize a market opportunity, this segment must be analyzed from a variety of angles for a more comprehensive understanding of cosmopolitan consumers.

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INTERNATIONAL COLLABORATION IN INNOVATIVE NORWEGIAN SMALL BUSINESSES

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ABSTRACT

Innovation is vital to the success of businesses of all sizes in a dynamic global business environment. Large businesses are typically more likely to engage in innovation, but small and medium-sized (SME) businesses often find the introduction of new products and processes to be the key to surviving and thriving. Creativity and innovation can lead to new organizational forms as well as new or improved products and processes in a variety of industries.

It is common for companies to maintain privacy and look within their own organizations for ideas and information. Collaborating with other firms can be very beneficial if it leads to sharing of resources and mutual gains. Small businesses with limited resources may find it especially useful to work with partners. This 2012 study of innovative Norwegian businesses found that firms with more than 250 employees were about twice as likely to have collaborated with at least one partner in the past three years. Manufacturers were more likely than service firms to collaborate with any partner, although the choice of partner tended to vary between industries. Regardless of size, businesses were slightly more likely to collaborate with European firms outside Norway than within their own country.

INTRODUCTION

The economic crises of the past few years have created a renewed interest in "the relationship between innovation, economic growth and the impact of economic recession on innovation" (Skaholt & Thune, 2014, p. 1993). The dramatic drop in oil prices has had a particular influence on the economy in Norway, an oil-rich country which has typically earned approximately half of its export revenue from oil (Milne, 2015; Mohsin, 2015). More than 20,000 jobs in the oil industry have been eliminated and the value of the Norwegian krone has decreased significantly.

Entrepreneurship will become increasingly important to Norway's future as oil becomes a smaller part of the overall economy. Self-employment and business start-ups have traditionally been relatively low in Norway. Risk-taking is less attractive in this culture than in some other cultures. However, the general welfare system and socialized medicine provide a safety net not found in many other countries (OECD, 2014, p. 79). Others contend that displaced Norwegian workers are more likely than other workers to start new ventures, and thus the economic problems related to the oil industry may lead to a surge in business start-ups (Roed & Skogstrom, 2010; OECD, 2014). Innovation can lead to economic development through the establishment and growth of small and medium-sized businesses as well as large businesses. For people who prefer to work for others, growth among new and established firms is positive for employment opportunities.

Creativity and the resulting innovation are often said to be social processes that benefit from collaboration including different perspectives and resources (Australian Institute for Commercialisation, 2011; Charan & Lafley, 2008; Edwards, Delbridge & Munday, 2005;

Eisingerich, Bell & Tracey, 2010: OECD, 2010; Raposo, Ferreira & Fernandes, 2014; West, 2009). This study examines the types of partners used by innovative small, medium-sized and large businesses in Norway. The results show that the number of small businesses engaged in innovation surpasses the number of innovative large businesses, but greater proportions of large businesses collaborate with most types of partners. Small businesses tend to have the lowest rates of cooperation with other firms. This is true among firms with innovation in their overall core activities, and specifically among manufacturers and service companies. The following section provides a brief background on cooperation in innovation. The methodology and results of this study are then presented.

INNOVATION AND COOPERATION

Innovation among existing and newly established businesses can be the key to business success as new goods and services are offered to new customers in new markets (Australian Institute for Commercialisation, 2011; Charan & Lafley, 2008; Clegg, 2012; Kuratko, Goldsby & Hornsby, 2012; Pink, 2006; Proctor, 2014). Change is a central theme in innovation. Product developments lead to new offerings that provide value to the customer as well as new knowledge to the company (O'Sullivan & Dooley, 2009). Such developments do not need to be radical in order to count as innovation. Incremental changes, radical innovation and major changes resulting from disruptive innovation all fit within the category (Couger, 1995; Kuratko et al., 2012). These changes are often combined as gradual incremental changes tend to follow a large-scale radical or disruptive changes that transform products, companies, industries and even entire economies.

Change can be a two-edged sword. Innovation is risky, with no guarantee of success or return on investment (OECD, 2014). Projects that are found to be impractical, unfeasible or simply undesirable for the firm may be abandoned before they are completed, providing little, if any, financial return on investment. The knowledge derived from them may, however, lead to success in later projects. Not all innovative projects demand great financial investments, meaning that even small businesses can pursue some sort of innovation. Previous research (Robinson & Stubberud, 2012) has shown that large companies are more likely than small firms to begin innovation projects, but they are no more likely than small businesses to see projects through to completion. This may be due to larger number of projects being started by large firms, while small firms may take on less risky activities that are more likely to develop into successful products and processes.

Large businesses would seem to have more to gain from innovation due to higher production levels and economies of scale. They also tend to have more resources that can be devoted to innovation (Eurostat, 2009: Millard, 2011). Firms with 250 or more employees have more people who can contribute ideas if they allowed to participate in the innovation process. SMEs can take advantage of new opportunities and use their flexibility to carry out more rapid innovation making some small businesses major players in the game of innovation (Ehrenberger, Koudelkova & Strielkowski, 2015, Iturrioz, Aragon & Narvaiza, 2015; Maula, Keil & Salmenkaita, 2006; Nieto & Santamaria, 2010).

Given that small businesses control fewer resources, they would seem to be good candidates for collaboration with other firms (Katila, Rosenberger & Eisinhardt, 2008). By pooling resources and sharing knowledge, SMEs may be able to make up for some of the liabilities of smallness and newness, gain wider markets, access additional resources and compete better with large firms (Baum, Calabrese & Silverman, 2000; Gulati & Higgins, 2003;

Khaire, 2010; Lee, Park, Yoon & Park, 2010; Mohnnak, 2007; Nieto & Santamaria, 2010; Pollock & Gulati, 2007; Skalholt & Thune, 2014). Cooperative relationships can provide support and ideas as well as additional physical resources for innovation (Australian Institute for Commercialisation, 2011; Charan & Lafley, 2008; Edwards et al., 2005; Eisingerich, Bell & Tracey, 2010; OECD, 2010; Powell, Koput & Smith-Doerrr, 1996; Raposo, Ferreira & Fernandes, 2014; West, 2009). Small firms are thought to have the best chances for survival and growth when they develop relationships with other firms for sharing, collaboration and support.

Recent research (Pahnke, McDonald, Wang & Hallen, 2015, p. 1354) shows that the type of partner influences innovation, as "having many indirect relationships with competitors can be detrimental to innovation." Just as some projects are abandoned before they are completed, some relationships do not immediately provide a tangible return. Particular relationships can even be detrimental to small firms if their partners also collaborate with a firm's competitors and sensitive information is leaked to competitors (Dushnitsky & Shaver, 2009; Pahnke, et al., 2015). Every firm has its own goals and naturally looks out for its own interests (Edelman, 2014; Pahnke, et al., 2015). A long-term view of cooperation is therefore necessary for long-term success (Iturrioz, et al., 2015). Large businesses that do not struggle with worries of survival may be less concerned about immediate success in a given relationship and project. Firms with great size are also likely to have more power, possibly decreasing the chances that partners will threaten the relationship by sharing information with third parties. For entrepreneurs, Pahnke and associates (2015, p. 1355) conclude, "not all relationships are beneficial, and entrepreneurs should carefully scrutinize prospective investment partners."

This study examines the partners with whom innovative Norwegian companies cooperate. Special attention is paid to the comparison of small, medium-sized and large businesses in services and manufacturing as well as overall businesses with innovation in their core activities. The types of partners (suppliers, consultants, private or public sector clients and customers, etc.) are also examined. The methodology and results are presented in the following section.

METHODOLOGY, RESULTS AND ANALYSIS

This study uses data from the Eurostat 2012 Community Innovation Survey, focusing on firms that stated they had engaged in innovation activities during the 2010-2012 time period (Eurostat, 2016). Many types of activities are included in the definition of innovation activities, from developing new products to creating new processes. Projects could be implemented, underway or abandoned and success was not a determining factor, but companies that had none of these types of innovation were categorized as non-innovative and excluded from this study. Only firms with at least 10 employees were included, thus excluding micro-businesses and self-employed people with no employees. As is commonly found in many countries, the number of small businesses far surpassed the number of large businesses. In this study of Norwegian firms, there were approximately twice as many small businesses (10-49 employees) as medium-sized firms (50-249 employees), and around seven times as small businesses as large (250 or more employees) firms included in the study.

Norway is a relatively small country with an estimated population of just over 5,200,000 in July 2015 (Central Intelligence Agency, 2016), having hit the 5 million mark in March, 2012 (News in English, 2012). Although it not a member of the European Union, it has a good relationship with European countries. Table 1 shows the number of innovative businesses in the Community Innovation Survey who cooperated with any partner on any innovation project. The data include the location of the partner, from Norway (domestic), the EU (current members and those who will be joining in the near future), the United States and China. There were approximately twice as many small businesses as medium-sized firms, and around seven times as small businesses as large ones in the study.

Table 1
NATIONAL AND INTERNATIONAL PARTNERS AMONG FIRMS WITH INNOVATION IN THEIR CORE ACTIVITIES

Location of Partner	Total	10-49 employees	50-249 employees	250 or more employees
Any partner	786 (28.1%)	441 (22.9%)	240 (35.2%)	105 (55.9%)
Within Norway (domestic)	728 (26.0%)	412 (21.4%)	219 (32.1%)	97 (51.6%)
EU member countries (currently or near future)	778 (27.8%)	439 (22.8%)	237 (34.8%)	102 (54.3%)
United States	170 (6.1%)	84 (4.4%)	52 (7.6%)	34 (18.1%)
China	70 (2.5%)	26 (1.4%)	28 (4.1%)	16 (8.5%)

The data show that 28.1% of total firms stated they had cooperated with a partner during the time of the study. Almost all of these (27.8%) collaborated with an international partner within Europe and nearly as many (26.0%) had a domestic partner. Therefore, it appears that a minority of firms collaborate with other firms, but those that practice cooperation do so with multiple partners both within and outside Norway. The United States (6.1%) and China (2.5%) were less popular sources of partners. This is not surprising given the greater distance between the countries and more significant differences in cultures and economies.

A comparison of the proportion of small, medium-sized and large businesses that collaborate with partners in these geographic areas shows that small business were, overall, less likely than their medium-sized and large counterparts to collaborate. Although small businesses were the least likely to cooperate with partners in each area, the differences in proportions were greater between medium-sized and large businesses than between small and medium-sized businesses. For example, the differences between small and medium-sized businesses for any partner, domestic and European partners were approximately 11-12% (low 20s for small and low to mid 30s for medium-sized businesses) but the differences between medium-sized and large businesses were around 20%. Large business were more than twice as likely as medium-sized firms to work with partners in the United States (18.1% compared to 7.6%) and China (8.5% compared to 4.1%).

The patterns of partnerships were fairly similar across business size. SMEs and large businesses alike were slightly more likely to have international European partners than domestic Norwegian partners. More than half of large businesses (54.3%) had European partners or Norwegian partners (51.6%). These proportions dropped to around one-third for medium-sized firms, and just over one-fifth for small firms.

While the previous table examined data for firms with innovation in their core activities. Tables 2 and 3 present the data for the subset of firms that engaged in innovation in service and manufacturing industries. Service firms appear to be less likely than manufacturers to collaborate, with 24.0% of service firms and 30.6% of manufacturing firms stating they had cooperated with any partner. International European partners were again more popular than domestic partners in both industries. Among service firms, 23.8% of total firms stated they had European partners, compared to 24.0% that stated they collaborated with any partner, meaning that almost all firms that collaborated for innovation did so with an international European partner. The proportion for domestic firms (22.2%) was slightly lower. Manufacturing firms showed the same pattern, but with higher levels of cooperation with 30.2% claiming an international European partner (compared to 30.6% collaborating with any partner) and 28.1% having a Norwegian partner. The proportions of total service firms and total manufacturers that partnered with firms from the United States or China were also higher than among service firms by about 2%.

Table 2
NATIONAL AND INTERNATIONAL PARTNERS AMONG SERVICE FIRMS

Location of Partner	Total	10-49 employees	50-249 employees	250 or more employees
Any partner	373 (24.0%)	254 (21.2%)	88 (30.3%)	30 (46.2%)
Within Norway (domestic)	345 (22.2%)	239 (19.9%)	79 (27.2%)	27 (41.5%)
EU member countries (currently or near future)	370 (23.8%)	254 (21.2%)	87 (30.0%)	28 (43.1%)
United States	83 (5.3%)	59 (4.9%)	16 (5.5%)	8 (12.5%)
China	22 (1.4%)	9 (0.8%)	9 (3.1%)	4 (6.2%)

Table 3
NATIONAL AND INTERNATIONAL PARTNERS AMONG MANUFACTURING FIRMS

Location of Partner	Total	10-49 employees	50-249 employees	250 or more employees
Any partner	329 (30.6%)	161 (24.1%)	113 (35.3%)	55 (62.5.2%)
Within Norway (domestic)	302 (28.1%)	148 (22.2%)	102 (31.9%)	52 (59.1%)
EU member countries (currently or near future)	325 (30.2%)	159 (23.8%)	112 (35.0%)	54 (61.4%)
United States	70 (6.5%)	24 (3.6%)	28 (8.8%)	18 (20.5%)
China	39 (3.6%)	13 (1.9%)	17 (5.3%)	9 (10.2%)

Manufacturers with more than 250 employees (62.5%) were more likely than their counterparts in the service industry (46.2%) to collaborate with any partner, a difference of 16.3%. This difference was only 2.9% for small and 5.0% for medium-sized businesses. International European partners were again more popular than domestic collaborators, with 61.4% of manufacturing firms and 43.1% of service firms claiming European partners. The difference between small firms in the two industries was very small, with 23.8% of manufacturers and 21.2% of service firms using international European collaborators. The differences for domestic partners was also relatively small for firms with 10-49 employees as 22.2% of manufacturing firms and 19.9% service firms (a difference of 2.3%) collaborated with other Norwegian firms. This difference was 17.6% among large firms, with 59.1% of manufacturers and 41.5% service firms having domestic collaboration partners. Large manufacturers were twice as likely to have partners in the United States as in China (20.5% vs. 10.2%). Among service firms the proportions were lower, but followed the same pattern. In contrast, small service firms were only slightly more likely than small manufacturing firms to have partners in the United States (4.9% compared to 3.6%). This was the only instance in which service firms were more likely than manufacturing firms to name a given type of partner.

Tables 4 and 5 present the sources of collaborative partners by type of partner (customer, supplier, university, etc.) regardless of location. In order to make it easier to compare the relative importance of each type of partner to businesses of different sizes, the relative ranks are provided in parentheses. Table 4 presents the sources of partners for service firms and Table 5 presents the same information for manufacturers. One of the most immediately striking differences between the partners used most by service and manufacturing firms is that manufacturers are more likely to work with each type of partner. The top source of cooperative partners for services is the category of private sector clients/customers, with 14.1% of total firms claiming this partner, a slightly lower proportion of small businesses (12.5%) and 27.7% of large businesses working with this type of partner. The percentage of manufacturing firms that named this type of partner ranged from 15.9% for small businesses to 43.2% for large businesses and 20.2% of total businesses. Although these proportions were higher than in service firms, private sector clients/customers were only the second most popular partners for total manufacturing firms, with suppliers of equipment, materials, components or software taking the top spot (21.5%). In fact, if the 14.1% that made private sector clients/customers the top source among service firms had been in the manufacturing table, it would have been near the bottom of the rankings. Only two other sources, competitors in the same sector (10.4%) and public sector clients/customers (7.9%) would have been ranked lower. The one and only instance in which service firms were more likely to cooperate was found in public sector clients/customers for medium-sized businesses, where 9.3% of service firms and 7.5 % of manufacturers named this source.

Table 4
SOURCES OF COOPERATIVE PARNTERS FOR FIRMS WITH INNOVATION IN CORE SERVICE ACTIVITIES

Source of Collaboration	Total	10-49 employees	50-249 employees	250+ employees
Private sector clients/customers	14.1%	12.5% (1)	17.6% (2)	27.7% (4-5)
Suppliers of equipment, materials, components or software	13.0	10.4 (2)	20.0 (1)	29.2 (3)
Others within the same enterprise or enterprise group	11.9	9.8 (3)	15.2 (4)	35.4 (1)
Consultants/commercial labs	11.6	9.5 (4)	15.9 (3)	30.8 (2)
Government, public or private research institutions	10.2	8.8 (5)	12.8 (5)	23.1 (6)
Universities and higher education institutions	9.4	7.8 (6)	12.1 (6)	27.7 (4-5)
Public sector clients/customers	6.6	5.3 (8)	9.3 (7)	18.5 (7)
Competitors/others in the same sector	6.5	5.4 (7)	8.6 (8)	16.9 (8)

Table 5
SOURCES OF COOPERATIVE PARTNERS FOR MANUFACTURING FIRMS

Source of Collaboration	Total	10-49 employees	50-249 employees	250+ employees
Suppliers of equipment, materials, components or software	21.5%	17.5%(1)	20.9% (2)	53.4% (1)
Private sector clients/customers	20.2	15.9 (2)	22.8 (1)	43.2 (5-6)
Consultants/commercial labs	19.6	15.6 (3)	20.6 (3)	46.6 (4)
Government, public or private research institutions	17.0	11.7 (4)	18.4 (5)	52.3 (2)
Others within the same enterprise or enterprise group	16.6	10.6 (6)	19.4 (4)	51.1 (3)
Universities and higher education institutions	15.5	11.2 (5)	16.9 (6)	43.2 (5-6)
Competitors/others in the same sector	10.4	8.5 (7)	10.3 (7)	25.0 (7)
Public sector clients/customers	7.9	6.1 (8)	7.5 (8)	22.7 (8)

For SMEs, suppliers and private sector clients/customers were the top two partners, regardless of industry, with approximately 2% separating the first and second ranked partners. Suppliers were also the top ranked source for large manufacturers, with 53.5% of participants naming this source. With large service firms, others within the same enterprise took the top spot with 35.4%. However, among manufacturers, only competitors (25.0%) and public sector clients/customers (22.7%) were named by less than 43% of participants, showing that large manufacturers seem to be much more willing and able to collaborate with others on innovative projects. In fact, the top three sources for large manufacturers were all named by more than half of the firms. The willingness of the Norwegian government and research institutions to collaborate with large manufacturers is shown by the second-place ranking of this source. In contrast, this source ranked sixth among large service firms with 23.1%. Manufacturing SMEs that were also more likely than SMEs in the services industry to name this source. Consultants/commercial labs ranked second among large service firms (30.8%), third among medium-sized service firms (15.9%) and fourth among small service firms (9.5%). Despite their smaller sizes, small businesses in the services were slightly more likely (9.8%) to name others in the same enterprise as a top source as it ranked third despite the relatively low proportion of firms naming this source. Competitors in the same sector and public sector clients/customers were ranked seventh or eighth in both industries by all sizes of businesses.

ANALYSIS AND CONCLUSIONS

Small businesses in Norway outnumber medium-size and large business, just as they do in most countries. They are, however, limited in other ways, as they were generally the least likely to collaborate with other firms on innovative projects. Large businesses were about twice as likely to have cooperated with at least one partner. This study included only firms that reported some type of innovative activities during the recent years before the survey was conducted. It stands to reason that firms that were not involved in innovation would be even less likely to cooperate with other companies. Past research (Australian Institute for Commercialisation, 2011; Baum et al., 2000; Charan & Lafley, 2008; Edwards et al., 2005; Eisingerich, et al., 2010; Gulati & Higgins, 2003; Katila, et al., 2008; Khaire, 2010; Lee, et al., 2010; Mohnnak, 2007; Nieto & Santamaria, 2010; OECD, 2010; Pollock & Gulati, 2007; Powell, et al.1996; Raposo, et al., 2014; Silverman, 2000; West, 2009; Skalholt & Thune, 2014) has held that small businesses need collaborative relationships in order overcome the liability of smallness and gain access to additional resources. Small firms are thought to have the best chances for survival and growth when they develop relationships with other firms for sharing, collaboration and support. Recent research (Dushnitsky & Shaver, 2009; Edelman, 2014; Iturrioz, et al., 2015; Pahnke, et al., 2015) suggests that small businesses should be careful about the relationships they form, as some can actually be detrimental to their long-term success due to the indirect relationships that are created.

The nature of the direct relationships a firm forms, as well as the indirect relationships that are created when partners collaborate with other partners that are potential competitors, are important for businesses to consider. In Norway, SMEs were less likely than large businesses to collaborate with almost all of the cooperative partners included in this study. This may be a matter of practicality if partners believe they have little to gain from working with smaller firms. It may also be a lack of desire to collaborate on the part of the SMEs if they consider the risks to outweigh the potential rewards of collaboration. Large businesses with more power may be less prone to having partners take advantage of them. On the other hand, it is possible that large businesses grew to significant size due to their willingness to work with others on innovative projects that lead to growth and development.

Consultants were used much more often by large businesses than SMEs. This may be related to the fact that consultants are usually paid to assist with projects and may therefore be too expensive for smaller companies with lower economies of scale and less opportunity to reap rewards for investments. Commercial labs, considered part of the same source, may also be too expensive for small firms.

Firms with more than 250 employees were considerably more likely to collaborate with governments and research institutions. Given that Norwegian businesses of all sizes were slightly more likely to have European partners outside Norway, government support may not be limited to the Norwegian government. Manufacturing firms of all sizes were more likely than service firms to name governments and research institutions as partners. Public sector clients/customers were the least popular partners for manufacturing firms of all sizes and ranked last for medium-sized and large service firms and last for small service firms. Private sector clients/customers, however, ranked first or second for SMEs in both industries. Although private sector clients/customers tied for fourth among large service firms at 27.5% and tied for fifth among manufacturers (43.2%), these proportions were higher than any of the partners claimed by those for SMEs in both industries. In other words, the percentages for the top ranked sources among SMEs were lower than the least popular partners for small businesses. A general comparison between business sizes, sources and industries shows that the differences between service firms and manufacturers were slight for small businesses, and much greater for large firms. This seems to suggest that as SMEs grow into large companies, the industry in which they operate becomes more important to the extent to which they collaborate with various partners.

Suppliers make natural partners because they benefit from increased sales to firms with which they collaborate. For large service firms, suppliers were only ranked third at 29.2%, with others in the same enterprise/enterprise group being the most commonly used partner at 35.4%, followed by consultants/commercial labs at 30.8%. Among large manufacturers, suppliers were the most popular partner (53.4%), with government and research institutions (52.3%) and others in the same enterprise/enterprise group (51.1%) nearly as popular. Service businesses were less likely than manufacturing firms of all sizes to collaborate. This pattern may be influenced by the tangible nature of manufactured products. For example, China is known for exporting low-cost tangible components and finished goods, which might be more beneficial for manufacturing firms needing components. Although it was beyond the scope of this study to determine what type of partners were used in each country, it is possible that low-cost suppliers represent a majority of the partners used by Norwegian firms. While only 1.4% of small businesses had partners in China, 8.5% of large businesses collaborated with companies in China.

Norwegian businesses that collaborate for innovation are willing to look beyond their own borders. In fact, a comparison of the proportions for any partner, within Norway and with EU member countries suggests that Norwegian firms are more likely to collaborate with foreign firms than they are with domestic firms. Over half of the large firms included in this study claimed they partner with Norwegian and international European partners. Such partnerships for innovation are likely to become even more important in the future as the global economy becomes more integrated and as Norway searches for industries that are not based on the sale of petroleum.

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GLOBAL CONSUMER CULTURE POSITIONING (GCCP): REVIEWS AND CONCEPTUAL FRAMEWORK

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ABSTRACT

Alden, Steenkamp, and Batra (1999) first proposed Global Consumer Culture Positioning (GCCP) as an alternative advertising strategy comparing with Local Consumer Culture Positioning (LCCP) and Foreign Consumer Culture Positioning (FCCP). Since then, several important studies were conducted and published in this field. It has become an emerging topic in international marketing research. This article provides a consolidated review of some selected articles related to GCCP and proposes a conceptual framework of GCCP which illustrates the relations between GCCP and several variables.

INTRODUCTION

As the integration of international market goes on, many researchers and practitioners have noticed the influence of global consumer culture. Global consumer culture (GCC) was defined as a collection of common signs and symbols, such as brands, that are understood by significant numbers of consumers in urban markets around the world (Alden, Steenkamp, and Batra, 1999; Akaka and Alden, 2010). GCC does not represent homogenization; rather, it reflects the global diffusion of consumption signs and behaviors, predominantly from Western and Asian developed countries (e.g. hamburgers and sushi as fast food). Consumers understand GCC signs and behaviors but still rely on their own local meaning systems for interpretation, use, and display (Akaka and Alden, 2010, Taylor, 2010).

Previous literature on GCC showed that brands with a global image may derive their additional power and value from consumer attributions of enhanced self-worth and status through the purchase of the brand. That is, consumers may purchase certain brands to reinforce their membership in a specific global segment, such as the teenager, business, governmental/diplomatic, elite, etc. (Alden, Steenkamp, and Batra 1999; Biankson, Kalafatis, 2001; Whitelock and Fastoso, 2007).

Based on this context, Alden, Steenkamp, and Batra (1999) proposed Global Consumer Culture Positioning (GCCP) as an alternative advertising strategy comparing with Local Consumer Culture Positioning (LCCP) and Foreign Consumer Culture Positioning (FCCP). They defined GCCP strategy as one that identifies the brand as a symbol of a given global culture. It does so by using meaning transfer, an advertising process through which the brand is associated with other signs which reflect cultural orientation.

In the following content, the present study introduces some basic conceptions of GCCP and review several important studies on GCCP. Then, a conceptual model is proposed and discussed based on previous researches.

DEFINITION OF GCCP

A GCCP strategy was defined as one that identifies the brand as a symbol of a given global culture (Alden et al. 1999). In particular, it is a set of consumption-related symbols and behaviors commonly understood but not necessarily shared by consumers and businesses around the world. Alden, Steenkamp, and Batra (1999) provided several examples such as Philips ("Let's Make Things Better"), whose advertisements explicitly featured people from different countries; Sony ("My First Sony"), which positioned one of its products as appropriate for young people around the world.

GCCP was developed based global consumer culture theory (GCCT), which asserted that a global culture of consumption is emerging as a result of the “increasing interconnectedness of varied local cultures as well as through the development of cultures without a clear anchorage in any one territory (Okazaki, Mueller, and Taylor, 2010). While cultural signs and symbols are globally diffusing, international advertising is critical in the investigation of global consumer culture as it plays a key role in communicating and reflecting cultural symbols in a given culture at a specified point in time (Akaka and Alden, 2010; Jap, 2010).

Steenkamp, Batra, and Alden (2003) pointed out that more and more companies were moving toward global brand positioning because consumers seemed to have a greater preference for brands with “global image” over local competitors, even when quality and value were not objectively superior. Consumers might believe that global brands confer a sense of better quality, status, and prestige, and would convey the image of their being a part of global consumer culture (GCC). Companies can take advantage of such image-enhancing effects by positioning brands as “global” in their marketing communications or advertisements (Zhou, Teng, and Poon, 2008).

Batra, Ramaswamy, Alden, Steenkamp and Ramachander (2000) studied generalized preferences for foreign or non-local brands, in developing countries. They demonstrated that desirability for foreign brands in these countries was primarily driven by symbolic motives which define and/or communicate social distinctions, particularly social status.

LCCP AND FCCP

Local Consumer Culture Positioning (LCCP) and Foreign Consumer Culture Positioning (FCCP) are two counterparties of GCCP. LCCP is defined as a strategy that associates the brand with local cultural meanings, reflects the local culture's norms and identities, is portrayed as consumed by local people in the national culture, and/or is depicted as locally produced for local people. For example, Chevy Trucks and Dr. Pepper soft drinks have been positioned in U.S. advertisement as part of the "American" way of life (Alden et al., 1999). This strategy resonates with some consumer segments because they more readily identify with local attitudes, values, and lifestyles (Okazaki, Mueller, and Taylor, 2010).

FCCP is defined as a strategy that positions the brand as symbolic of a specific foreign consumer culture; that is, a brand whose personality, use occasion, and/or user group are associated with a foreign culture. For example, Gucci in the United States is positioned as a prestigious and fashionable Italian product (Alden et al., 1999).

Alden et al. (1999) asserted that the proposed conceptualization of GCCP should not be confused with globally standardized advertising because standardization entails the use of common or similar advertising content around the world. Although GCCP can be employed in a standardized advertising campaign, so can LCCP or FCCP (Okazaki, Mueller, and Taylor, 2010).

LITERATURES REVIEWS AND PROPOSITIONS ON GCCP

Alden, Steenkamp, and Batra first conceptualized GCCP in 1999 by conducting a cross-cultural research that coded 175-200 TV commercials in each country, including India, Thailand, Korea, Germany, Netherlands, France, and the United States. They provided the definition for GCCP as mentioned in the previous section. Their research thesis was tested using content analysis, revealing the degree to which marketers employ GCCP. In each country, two native coders used a standard coding form which was double back-translated into their own language to evaluate the advertisements to see if an advertisement represents their own culture, foreign culture, or global culture.

The result was analyzed by adopting cluster analysis. Their finding showed that LCCP, FCCP, and GCCP are meaningful separate individual brand positioning constructs in television advertising (Alden, Steenkamp, and Batra 1999). Besides, their research found that LCCP would be employed more frequently than either of the other two strategies, i.e. FCCP and GCCP. Their results also showed that advertisements employing GCCP would use soft-sell messages more frequently than hard-sell ones. Whereas 56.3% of the GCCP advertisements employed a soft-sell approach, 43.7% employed hard-sell. Based on the previous literature on GCCP, the first and second propositions of this paper can be summarized as following:

P1: Marketer perceives GCCP, LCCP, and FCCP as separate meaningful individual brand positioning constructs.

P2: Marketer applying GCCP use soft-sell messages more frequently than hard-sell.

Zhou, Teng, and Poon (2008) built a three-dimensional scale to measure consumers' susceptibility to global consumer culture (SGCC). The authors derived this concept from the perceived brand globalness (PBG) framework (Steenkamp et al. 2003) and defined SGCC as 'the consumer's desire or tendency for the acquisition and use of global brands'. Questionnaire surveys were conducted in China and Canada in their study. Their results indicated that SGCC is composed of three dimensions: conformity to consumption trend, quality perception, and social prestige. Those dimension are defined by sets of questions such as: for conformity to consumption trend, “It makes one feel good in his/her social group”; for quality perception, “It has a very high quality image”; for social prestige, “It represents the latest lifestyles” (Zhou,Teng, and Poon, 2008).

P3: Conformity to consumption trend, quality perception, and social prestige are important scales for measuring global consumer culture.

A research focused on consumer perspective, instead of marketers', on GCCP was conducted by Okazaki et al. in 2010. They specifically tested the perceptions of soft-sell and hard-sell advertising appeals between U.S. and Japanese Consumers.

The definition of hard-sell and soft-sell were borrowed from Mueller in 1987 where hard-sell appeals as follows: “Sales orientation is emphasized here, specifying a brand name and product recommendations. Explicit mention may be made of competitive products, sometimes by name, and the product advantage depends on performance (Mueller, 1987, p.53).” This appeal included statements such as ‘number one’ and ‘leader.’” Soft-sell appeals as one in which “image and atmosphere are conveyed through a beautiful scene or the development of an emotional story of verse. Human emotional sentiments are emphasized over clear-cut product-related appeals (Mueller, 1987, p.53)."

Okazaki et al. (2010) results showed that Soft-sell appeals are perceived similarly across the United States and Japan in terms of believability and the degree to which they are irritating. They also found similar general ratings in terms of attitudes toward the ad, supporting the notion that soft-sell appeals can work in the context of a GCCP strategy. The result for Hard-sell appeals suggested that the degree of heterogeneity in perceptions between Japan and the United States is not as great as we would have expected in previous studies. Another unexpected result was that hard-sell appeals received higher ratings on attitudes toward the ad in both the United States and Japan. This implied that it may also be possible to use hard-sell or more direct appeals in the United States and Japan. Thus, we summarized the propositions as following:

P4: Consumer perceives GCCP, LCCP, and FCCP as separate meaningful individual brand positioning constructs.

P5: In consumer perspective, soft-sell appeals can work in the context of a GCCP strategy.

P6: Culture difference does not significant influence consumers' perception on hard-sell.

P7: In general, consumers perceive hard-sell better and soft-sell.

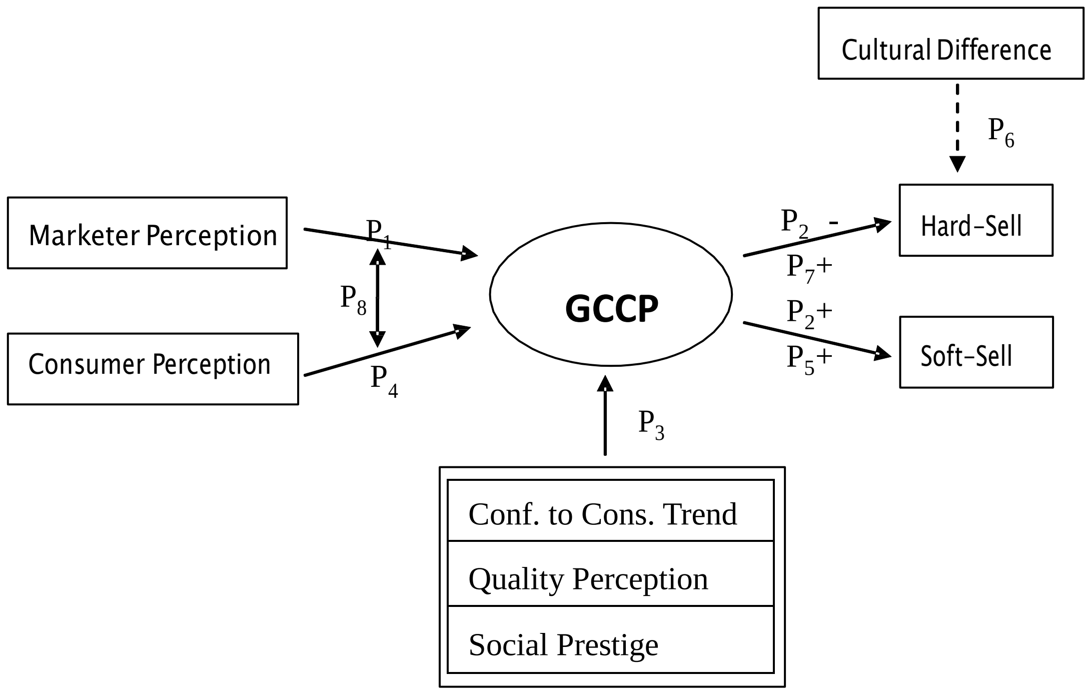
Akaka and Alden (2010) worked on integrating GCCP with another construct, perceived brand globalness (PBG). Based on the notion that consumers' believe the brand is marketed in multiple countries and is generally recognized as global in these countries', PBG is hypothesized to be driven by exposure to the brand via general media (e.g. sporting events, word of mouth, or traveling) and through marketing promotions. The authors asserted that a brand's globalness, foreignness or localness, is not based on a firm's actions alone. Rather, firm positioning and consumer perceptions jointly contribute to meanings associated with brands in the market (Holt, Quelch, and Taylor, 2004; Akaka and Alden 2010; Jap, 2010).

P8: Marketer's positioning and consumer perceptions jointly contribute to meanings associated with brands in the market.

A CONSOLIDATED CONCEPTUAL FRAMEWORK

Based on previous researches, a consolidated conceptual framework of GCCP is proposed in this paper. Figure 1 shows the framework of GCCP as following:

Figure 1
A CONSOLIDATED CONCEPTUAL FRAMEWORK OF GCCP

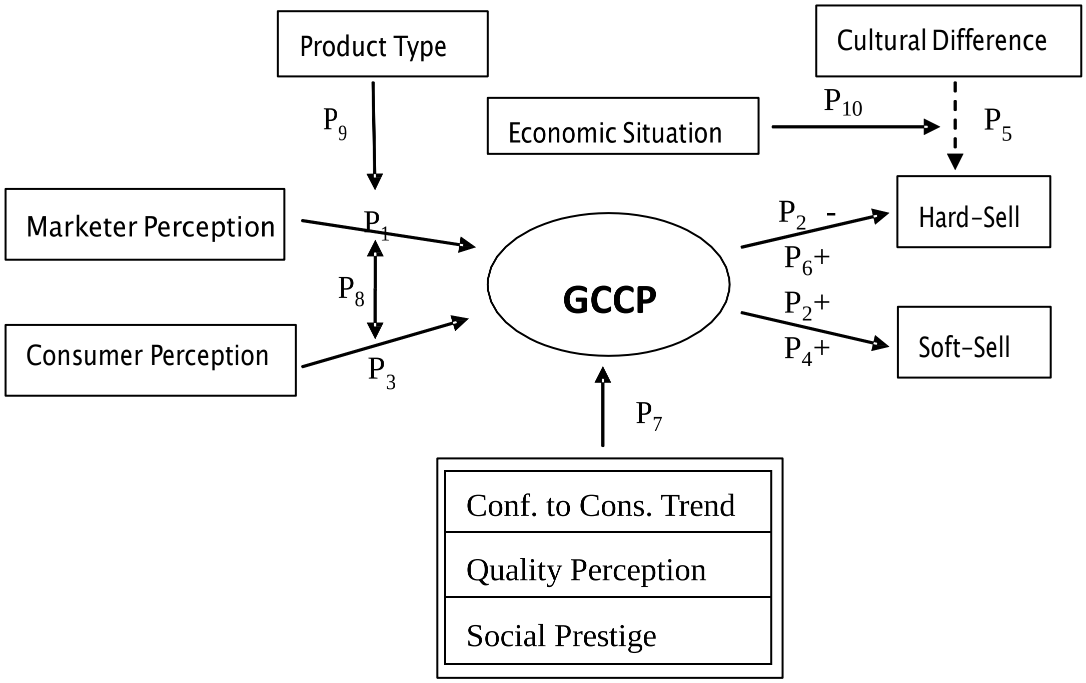


Note: + positive relation; - negative relation; ⊓ Affect; --> Not affect

Besides the main propositions, there are some moderating effects that have some influence. One of the moderators is product type. The original research by Alden et al. (1999) showed that there is a significant difference of adopting GCCP in different product types (P10). Specifically, GCCP was used in 18.6% of the food advertisements, 24.2% of the advertisements for household, personal care, and low-tech durable consumer products, and 33.3% of the advertisements for high-tech consumer durables.

Another probable moderator is economic situation. Okazaki et al. (2010) suggested that in a recession, firms would use more direct, hard-hitting appeals because increasingly intense market competition pressures them to attempt to achieve an immediate increase in sales volume. If this is the case, the economic situation should be a moderator between cultural difference and hard-sell appeal (P10) (Okazaki, Mueller, and Taylor, 2010). Therefore, the consolidated framework of GCCP should be shown as Figure 2:

Figure 2
EXTENDED FRAMEWORK OF GCCP



Note: + positive relation; - negative relation; ⊓ Affect; --> Not affect

DISCUSSION AND IMPLICATION

This study reviewed the important literature on Global Consumer Culture Positioning (GCCP) and consolidated the propositions of previous research into one framework. The framework showed that both consumer perception and marketer perception recognized GCCP as a separate meaningful brand positioning strategy, distinguished with Local Consumer Culture Positioning (LCCP) and Foreign Consumer Culture Positioning (FCCP).

Both of the two perceptions contribute to the meanings associated with brands in the market. Marketers applying GCCP use soft-sell messages more frequently than hard-sell. But consumer perceives hard-sell higher than soft-sell.

Further, culture differences do not significantly influence consumers' perception on hard-sell. Economic situations, such as recession, may have the negative moderate effect on the relation between culture and hard sell. Product type also has impacts on the application of GCCP for marketers. At last, conformity to consumption trend, quality perception, and social prestige are proved to be three important scales for measuring global consumer culture.

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PREPARING GRADUATES FOR ENTERING THE GLOBAL BUSINESS ARENA: A GROUP MENTORING APPROACH

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ABSTRACT

Mentoring is traditionally thought of as a relationship where a more experienced, older individual (the mentor) provides advice and guidance to a less experienced, younger individual (the protégé). Group mentoring is a new approach to traditional mentoring in that it provides protégés with multiple mentors. It is especially suited for providing graduating students with invaluable expertise on how to succeed in an international arena, as mentoring advice can be collected by leaders from all over the world.

In this study, we provide an initial demonstration of how group mentoring can benefit and augment international education by providing insights on how new graduates can develop their international careers. An electronic survey was administered to members of the European Foundation for Management Development (EFMD). Approximately 2,000 subjects were asked to make recommendations on a variety of topics to help new graduates succeed as global managers.

Subjects were asked to provide career-related advice by recommending books, magazines, and journals that new graduates should read as well as blogs and twitter feeds graduates should follow to be successful internationally. Subjects were also asked to recommend courses and skill sets that should be developed. Finally, subjects were asked to provide psychosocial advice by recommending life experiences graduates should embrace or avoid and to describe their own significant life experiences they felt shaped their success.

Advice to women that may be different than advice provided to men was also solicited. The recommendations provided by respondents were qualitatively analyzed, categorized, and synthesized. This article provides a summary of these recommendations to inform readers and assist new graduates develop their international savvy as they begin their business careers.

INTRODUCTION

Mentoring is traditionally described as the relationship between a younger, less experienced individual (i.e. the mentee or protégé) and an older, more experienced individual (i.e. the mentor), where the more experienced person advises and guides the younger individual. Kram’s (1983, 1985) formative research on mentoring identified that mentors provide two forms of support. The first is career-related support to help the mentee advance in the organization. This includes functions such as sponsorship, providing exposure and visibility, coaching, protection and providing challenging assignments. The second is psychosocial support and includes functions such as role modelling, acceptance and confirmation, emotional support and counselling.

Research has reported many benefits associated with being mentored such as higher salaries, more promotions, improved work performance, increased preparedness to handle new career roles, greater career mobility and enhanced ability to develop new skills (Burke, Mckeen & Mckenna, 1994; Day & Allen, 2004; Douglas, 1997; Dreher & Cox, 1996; Ehrich & Hansford, 1999; Emmerik, Baugh & Euwema, 2005; Ensher & Murphy, 2011; Fagenson, 1989; Ragins & Cotton, 1999). Meta-analyses examining the career benefits resulting from mentoring found that workers who have been mentored advance more quickly than workers who have not (Allen et al., 2004; Eby et al., 2008).

Over the past few decades, several approaches to mentoring have been developed, including formal mentoring (a formally administered program where a mentor is matched with a mentee), reciprocal mentoring (younger workers mentoring older workers), peer-to-peer mentoring, and e-mentoring (mentoring virtually or electronically with limited face-to-face contact).

A relatively new approach to mentoring is *Group Mentoring*, which we believe could be invaluable in our increasingly global economy. Group Mentoring involves matching multiple experts, considered mentors, with multiple learners, considered mentees (Carvin, 2011). Participants choose topics of relevance, assemble either face-to-face, through electronic conferencing or other means, and discuss and learn about the topics, often with the help of a group facilitator (Emelo, 2011). Mentors can be peers, or individuals at any level of the organization who are experts with respect to the topic of discussion. Group Mentoring offers a relatively quick, inexpensive and effective mentoring experience for members from different backgrounds, genders, ethnicities, countries and cultures.

Given growing globalization, more and more universities incorporate globalized views and diversity training into their curriculum and many business schools are seeking accreditations from societies (e.g., European Quality Improvement System - EQUIS, Association of Master of Business Administration - AMBA, Association to Advance Collegiate Schools of Business - AACSB) that encourage the acquisition of internationalisation perspectives. Training industry leaders does not end at graduation, however, it continues well beyond formal schooling. It takes years to acquire the skills, knowledge and understanding of the international ‘know how’ via access to the advice, guidance and coaching of others who already operate in this complex and multi-faceted environment. Understanding and conveying 'know how' is especially suited to Group Mentoring, as it requires pooling the advice and input of many experienced executives from all over the world.

One way Group Mentoring can function is to have a facilitator solicit advice from a diverse pool of experts and then share that advice with new graduates. In this study we asked an international pool of experts to advise new graduates on what they should do to prepare themselves to be successful in the global arena. We identified topics that could benefit the mentees and compiled the responses to provide a comprehensive resource that combines career-related advice (e.g. courses to take, books to read, etc.) as well as psychosocial advice, such as the intangible factors that shaped the path of leaders from various countries (e.g. experiences that should be avoided/embraced, formative junctions in mentors’ life).

The primary objective of this study is to demonstrate how group mentoring can benefit the education of new graduates entering the global arena. The secondary objective of the current study is to synthesize the advice of an international pool of educational experts to provide guidance to those seeking international perspectives.

METHODOLOGY

Procedure

Surveys were forwarded to approximately 2000 senior officials listed in the European Foundation for Management Development (EFMD) membership directory. The EFMD is an international forum where leading academic, businesspeople, public servants and consultants from 81 countries exchange information and ideas regarding best practices in management development and promote a fine balance between high academic quality, professional relevance and internationalism in institutions dedicated to management education. The surveys were admistered using Fluid Survey. An invitation as well as a one week delayed reminder were sent via email.

Sample

Ninety completed surveys were obtained. Of the 90 participants, 31% were female and 67% were male, with 2% choosing not to disclose their gender. About 71% of the subjects had completed a PhD degree, 27% completed a graduate degree other than a PhD, 1% completed an undergraduate degree and 1% chose not to disclose their academic standing. The ages of the participants varied significantly, ranging from 30 to 80 years of age with an average of 53 years. Given the goals of this study, it was important that the sample include an international array of respondents. Figure 1. Illustrates the location of respondents.

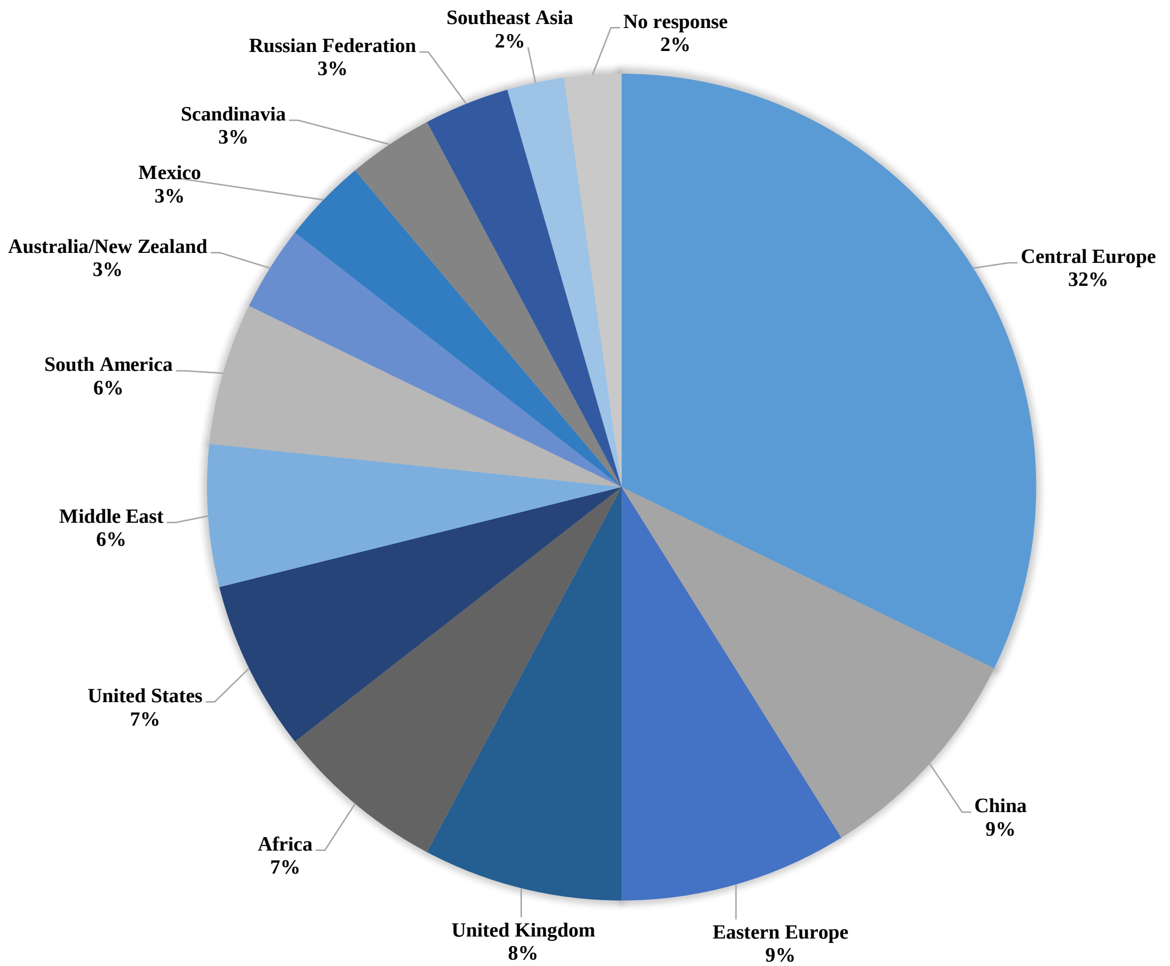
Survey

The questionnaire was divided into three categories. First, respondents were asked to recommend what books, magazines, journal articles, blogs and twitter feeds business graduates should read to prepare themselves for an international career. They were also asked to recommend avenues for future education and what skill sets graduates should develop. Note that this section corresponds to the career-related advice component of mentoring. Second, advice was solicited regarding life experiences that should be avoided or embraced. Respondents were then asked what single life experience had shaped them the most. This section corresponds to the psycho-social component of mentoring. The third section consisted of a single question to probe what advice would be given over and above the previous advice for aspiring female graduates.

Analysis

Responses were downloaded into a Microsoft EXCEL apreadsheet and analysed qualitatively. First similar answers were combined. When appropriate, responses were subsequently categorized. The frequencies reported in each category reflects the total number of times responses fitting that category were provided. Note that because some subjects provided more than one response per question, the total number of responses may be greater than the number of subjects.

Figure 1
SURVEY RESPONDENTS



RESULTS

Which Academic Journal(S) Would You Suggest Graduates Read?

Academic journals were grouped into seven categories (see Table 1). By far the most commonly recommended journal was the Harvard Business Review (recommended 21 times). The frequencies corresponding to other journals can be found in the table; if no frequency is provided, it was cited only one time. Twenty-one subjects did not reply.

Which Book(S) Would You Recommend Graduates Read?

Books were grouped into nine categories: Popular management/self-help (n=39); Management textbooks (n=11); History (n=10); Classics (n=5); Biography/Memoire (n=3); Religion (n=3); Finance/Economy (n=3) and Novels (1). Eleven respondents provided only general answers (e.g., “whatever is of interest”) and four subjects did not respond.

Roughly 43% of all subjects recommended books in the popular management/self-help category (see Table 2. for an alphabetical list of books and their authors). The two books that were most commonly recommended in this category were “The Seven Habits of Highly Effective People” by Stephen R. Covey (n=5), and “The World is Flat” by Thomas L. Friedman (n=4).

Table 1
RECOMMENDED JOURNALS

Category	**Recommendations**
Business and Management (n=41)	Harvard Business Review (n=21), Academy of Management Journal (n=6), Journal of Management, Strategic Management Journal (n=3), Journal of Management (n=2), California Management Review (n=2), Journal of Applied Management, , Journal of Business Research, Journal of Management Science, Interfaces, Knowledge Management Research & Practice, Innovation
International (n=17)	Journal of International Business Studies (n=4), International Journal of Purchasing and Material Management, International Marketing Review, Journal of International Economics, Journal of International Business Ethics, International Journal of Management Review, International Journal of Business and Management, Journal of World Business, China Quarterly, Journal of Economics and International Finance, International Business Review
Finance and Economics (n=9)	Journal of Economics (n=2), Applied Corporate Finance, Financial Management, Journal of Finance, Journal of Finance and Banking, Journal of Economic Literature, Journal of Economic Perspectives
Marketing (n=7)	Journal of Marketing (n=4), Journal of Consumer Research, Journal of Media & Communication, Marketing Research
Organizational Behavior and Human Resource Management (n=5)	The Leadership Quarterly, Journal of Behavior, Human Relations, Industrial and Corporate Change, Education + Training
Ethics (n=5)	Business Ethics Quarterly (n=2), Journal of Business Ethics (n=2), Corporate Social Responsibility
Entrepreneurship/Small Business (n=4)	Journal of Small Business Management, Journal of Business Venturing, Entrepreneurship Theory and Practice, Entrepreneurship and Regional Development

Which Blog(S) Would You Suggest Graduates Follow?

Fifty-two respondents chose either not to answer this question, reported that they do not read blogs or said that they have no idea which blog to recommend, (e.g. “don't know”, “anyone who is a thought leader”) and 11 responded that they have no specific recommendation (e.g. “Any relating to their field of specialism”). Recommendations were grouped into five categories (see Table 3. for the Blog names and URLs). The blogs of specific individuals was the most frequently cited (n=10), followed by news organizations (n=8) and business blogs (n=6). The most frequently cited business blog was the Harvard Business Review (n=3). The frequencies corresponding to the other blogs can be found in the table; if no frequency is provided, it was cited only one time.

Table 2 RECOMMENDED BOOKS IN THE POPULAR MANAGEMENT AND SELF-HELP CATEGORY	
Book Title	**Author(S)**
Blink	Malcolm Gladwell
Built to Last	James C. Collins and Jerry I. Porras
First Break all the Rules	Curt Coffman and Marcus Buckingham
From Good to Great	James C. Collins
Getting to Maybe	Frances Westley and Brenda Zimmerman
How do you Measure your Life?	Clayton M. Christensen, James Allworth and Karen Dillon
How to Change the World	David Bornstein
Images of Organization	Gareth Morgan
Leadership without Easy Answers	Ronald A. Heifetz
Leading Quietly	Joseph L. Badaracco
Managers not MBAs	Henry Mintzberg
Maslow on Management	Abraham Maslow
On Competition	Michael E. Porter
Running Lean	Ash Maurya
Strategy Safari	Henry Mintzberg and Joseph Lampel
The 7 Habits of Highly Effective People (n=5)	Stephen Covey
The Art of War	Sun Tzu
The China Strategy	Edward Tse
The Effective Executive	Peter Drucker
The Essential Drucker	Peter Drucker
The Realities of Work	Mike Noon and Paul Blyton
The Talent Masters	Bill Conaty and Ram Charan
The Tipping Point	Malcolm Gladwell
The World Business Cultures how to Unlock them	Barry Tomalin and Mike Nicks
The World is Flat (n=4)	Thomas L. Friedman
Thinking, Fast and Slow	Daniel Kahneman
Topgrading	Bradford Smart
What Color is my Parachute	Richard Nelson Bolles
Why Should Anyone Be Led by You?	Gareth R. Jones and Robert Goffee
Winning (n=2)	Jack Welch and Suzy Welch

Which Twitter User(S) Would You Recommend Graduates Follow?

Sixty-seven participants chose not to answer this question, six recommended “nothing specific” while two respondents recommended avoiding this media all together (e.g. “avoid media like these”). The fifteen subjects remaining recommended: Business (Harvard Business Review and Smallbiztrends); News Organizations (ThinkBig, Business Week, Wall Street); Individuals (three professors, two businessmen and one TV journalist); Sina Weibo (note that this was also recommended in the blog section); and general recommendations (well-known economists, their own CEO).

Table 3
RECOMMENDED BLOGS

Blog Name	Blog Url
Business Blogs (n=6)	
Harvard Business Review (n=3)	https://hbr.org/
Young Entrepreneurs	https://www.entrepreneur.com/topic/young-entrepreneurs
50 plus 20	http://50plus20.org/
Banka Magazine	http://www.banka.hr/
News Organizations (n=8)	
CNN (n=2)	http://business.blogs.cnn.com/
The Financial Times (n=2)	http://www.ft.com/comment/blogs
The Guardian	http://www.theguardian.com
Wall Street Journal	http://www.wsj.com/news/us
The Economist	http://www.economist.com/blogs
ESPN	http://espn.go.com/
Individuals (n=10)	
Jeff Sachs	http://jeffsachs.org/
Paul Krugman	http://www.krugmanonline.com/
Michael Czinkota	http://michaelczinkota.com/
Subroto Bachi	http://subrotobagchi.mindtree.com/
Richard Branson	https://www.virgin.com/richard-branson
Seth Godin	http://sethgodin.typepad.com/
Steve Blank	https://steveblank.com/
Stephen Covey	http://www.stephencovey.com/blog/
David Gurteen	http://www.gurteen.com/
Ted Talks	http://www.ted.com
Social Media (n=2)	
Sina Weibo (n=2)	http://www.weibo.com/signup/mobile.php?lang=en-us
General (n=2)	
Blogs of 10 top business schools	
Blogs of Chambers of Commerce	

Which Print Magazine(S) Would You Advise Graduates To Read Regularly?

The Economist was the most widely recommended print magazine (n=39), followed by Harvard Business Review (n=11), Financial Times (n=9), BusinessWeek (n=6), Time Magazine (n=5), Forbes (n=2), Newsweek (n=2) and The New Yorker (n=2). Seven respondents recommended local magazines (e.g., New China Digest, Lebanon Opportunities), four respondents provided non-specific recommendations (e.g., “all of them” or “professional/ academic journals”) and five subjects did not respond.

What Educational Course(S) Should Graduates Take?

Recommended courses were grouped into six categories (see Table 4). The largest category of recommendations corresponded to core MBA curriculum and eight respondents simply recommended pursuing an MBA. Subjects also promoted courses that provided breadth (n=26). Developing people (n=15), analytical (n=11) and career advancement (n=6) skills were also frequently recommended. Finally, courses to develop accountability (n=8) were also recommended. Thirteen respondents recommended taking courses according to ‘personal interest' or gave a non-specific recommendation (e.g. "anything that furthers them in maturity," "the ones they feel useful") and six subjects did not respond.

Table 4
RECOMMENDED COURSES

Category	Courses
Core Management (n=30)	Marketing, OB, Strategy, International Business, Entrepreneurship, Accounting, Finance, Economics
Breadth (n=16)	History, Philosophy, Psychology, Law, Humanities, Physical Sciences, Anthropology, Sociology, Politics
People Skills (n=15)	Leadership, Cross-cultural Management, Languages, Coaching, Mentoring, Negotiation
Analytical Skills (n=11)	Creativity, Research Methods, Statistics, Critical Thinking
Accountability (n=8)	Ethics, Corporate Governance, Sustainability, Social Impact
Career Advancement Skills (n=6)	Public Speaking, Executive Presence, Self-Awareness, Emotional Intelligence

What Skill(S) Should Graduates Develop?

The response rate to this question was the highest in the survey, with 89 of the 90 subjects responding. Recommended skills were grouped into eight categories (see Table 5.). Developing 'soft skills' such as Communication Skills (n=37) and People Skills (n=27) were the most frequently recommended. Developing skills that are critical for leadership roles were also frequently recommended (Leadership Skills, n=27; Emotional Skills, n=11; Ethical Skills, n=4). Finally, developing skills that would make the graduate a better 'international manager' were also frequently recommended (Thinking Skills, n=19; Managerial Skills, n=10; Cross-Cultural Skills, n=8).

Table 5
RECOMMENDED SKILLS TO DEVELOP

Skills	Recommendations
Communication Skills (n=37)	Develop oral, written, listening and presentation Skills. Use proper grammar and spelling. Develop the use of rhetoric.
People Skills (n=27)	Be respectful, empathetic, open-minded and patient. Develop interpersonal, team, networking and coaching skills.
Leadership Skills (n=27)	Develop dynamism, perseverance, adaptability, agility, confidence, creativity and entrepreneurship. Embrace continuous learning.
Thinking Skills (n=19)	Develop critical, analytical, abstract and strategic thinking. Develop enquiring, research and decision making skills.
Emotional Skills (n=11)	Develop self-awareness, emotional intelligence, self-reflection and coping skills. Learn how to manage stress.
Managerial Skills (n=10)	Develop time management and project management skills. Learn to prioritize. Learn various computer applications. Be efficient and effective.
Cross-Cultural Skills (n=8)	Develop cultural awareness and a global mindset. Learn languages and how to manage diversity.
Ethical Skills (n=4)	Develop accountability and transparency.

What Life Experience(S) Should They Try or Embrace?

The recommendations were grouped into seven categories (see Table 6.). The recommendations suggest subjects value International Exposure (n=38), both in terms of traveling to other countries but also in preparing oneself to adapt to international life (International Preparedness, n=5). Other life experiences recommended were to be exposed to challenging situations (n=13) and to engage in service activities (n=13). Working on life skills such as developing composure (n=9) and resilience (n=8) were also recommended. Six subjects did not respond.

Table 6.
RECOMMENDED LIFE EXPERIENCES

Life Experience	Recommendations
International Exposure (n=38)	Travel, study abroad, international internships, work abroad, live abroad
Exposure to Challenging Situations (n=13)	Get a demanding job, Work for a start-up, Become an entrepreneur, Find something new, Find competition, Become a leader, Work hard, Develop lateral thinking, Engage in consulting
Service (n=13)	Be socially responsible, Charity work, Military service, Government service, Community involvement, Teach, Volunteer
Exposure to Differences (n=12)	Exposure to diversity, Exposure to rural life in developing countries, Exposure to poverty, Exposure to the 'base of the pyramid,' Travel to remote places
Developing Composure (n=9)	Meditate, Be honest/sincere/patient, Engage in journaling, Be introspective, Focus on work/life balance
Developing Resilience (n=8)	Fail at something, Survie a near-death experience, Deal with setbacks, Go camping, Don't fear the unknown, Travel with a low budget, Keep a sense of humour, Look forward and live in the present
International Preparedness (n=5)	Be coached/mentored, Buy online, Learn English, Learn about other cultures

What Life Experience(S) Should Graduates Avoid?

Life experiences to be avoided were grouped into ten categories (see Table 7.). Avoiding illegal and unethical behaviors were the most frequently cited recommendations (n=17 and 5 respectively). Many recommended avoiding staying in one's comfort zone (n=20) while conversely others recommended avoiding risky situations (n=6). Recommendations also focused on ensuring emotional and psychological well-being by avoiding people and jobs that that may lead to unhappiness (n=10 and 4 respectively) as well as harbouring negative attitudes and behaviour, such as hatred (n=4). Finally, subjects recommended to avoid being lazy (n=8), but also to avoid working too hard and focusing too much on money (n=7). Five respondents believed that all experiences are meaningful and thus provided responses that were categorized as non-specific (e.g. "probably there is something to learn from all experiences") and twelve subjects did not respond.

Table 7
LIFE EXPERIENCES TO AVOID

Experiences To Avoid	Recommendations
Staying in one's Comfort Zone (n=20)	Do not be alone, stay home, stay in one place or one job, do nothing, be inflexible, be narrow in focus or stop pushing forward after a first success. Travel, take risks and open your networks.
Illegal Behaviors (n=17)	Do not take drugs or engage in illegal behaviors such as fraud, domestic abuse, murder, corruption.
Interpersonal Unhappiness (n=10)	Avoid people who make you uncomfortable and who are selfish and take advantage of you. Avoid destructive conflicts. Be happy, satisfied and self-confident.
Laziness (n=8)	Do not be lazy, take shortcuts, and adopt an 'employee mentality.' Continue to develop competencies.
Risky Behaviours (n=6)	Avoid risky activities such as bungee-jumping, gambling, going to nightclubs, going to the extremes in any pursuit and visiting dangerous places.
Focus on Money (n=7)	Do not be materialistic, greedy, self-indulgent and only focused on one's career.
Unethical Behaviors (n=5)	Avoid unethical behaviour and practices, cheating, and using tricks to manipulate others.
Negative Behaviors/Attitudes (n=4)	Do not be hateful, conceited, arrogant and judgemental.
Unhappiness at Work (n=4)	Do not work in a toxic workplace, let yourself be a victim, engage in politics or accept a job that others think is good for you

What Single Life Experience Has Shaped You the Most?

The examples of formative single life experiences were grouped into seven categories (see Table 8). International Experience was cited as one of the most formative life experiences (n=19). The remaining examples can be further grouped into two broad categories: positive experiences such as single work/life experiences which were significant (n=19), family (n=15), achieving a major accomplishment (n=14) and knowing oneself (n=9). These formative positive life experiences frequently appeared in childhood or young adulthood (n=11). Positive experiences with family were primarily related to having children (n=9). Negative experiences, such as having to deal with death and illness (n=6) and significant unpleasant work/life experiences (n=5) were also cited as formative life events. Four subjects did not respond.

What Advice Would You Provide Women in International Management That is Over and Above Your Previous Recommendations?

These recommendations were grouped into eight categories (see Table 9). The most frequently recommended advice was to take on characteristics typically associated with men (n=22) and one respondent bluntly recommended "be a man." Conversely, many others recommended the opposite (n=20) with half in this category recommending "don't forget that you're a woman." Others recommended that women in international management should 'forget' that they are women (n=5) or work harder to be better than men (n=5). Many offered psycho-social advice on how to cope (n=18) and get help (n=7). Some recommended career-related advice such as taking risks (n=6) and investing in one's human capital (n=3). Nine subjects did not respond, some indicating that they did not feel qualified to provide advice because they were men.

Table 8
LIFE SHAPING EXPERIENCES

Shaping Life Experience	Examples
International Exposure (n=19)	Travel, international assignments, working abroad, living abroad
Significant Work/Life Experiences (n=19)	Working in public administration, volunteering, teaching, changing company, joining the military, a great job, outdoor adventures, sports, team competitions, attending university, summer camps, theatre production
Family (n=15)	Marriage, children, fatherhood, motherhood, talks with one's father
Major Accomplishments (n=14)	Starting up a company, a successful business ventures, running a marathon, dealing with a difficult job, defeating adversity, obtaining a scholarship, reading at an early age, achieving independence
Knowing Oneself (n=9)	Faith, patience, taking a sabbatical, self-approval, finding a mentor
Death/Illness (n=6)	Near death experience, death in the family, family member illness, recovering from an illness, near death of a child
Negative Job/Life Experience (n=5)	Major fight, being ignored, failure at work, not being promoted

Table 9
ADVICE FOR WOMEN

Category	Recommendations
Be Male (n=22)	Be assertive, ambitious, tenacious, persistent, self-confident, passionate and proud. Be as strong a man at work. Forget you are a woman. Don't take 'no' for an answer. Speak freely.
Be Female (n=20)	Be a woman. Stay in gendered roles. Accept that in some cultures women are less likely to be in management positions. Stay calm. Be an active listener. Don't be too friendly towards men. Be patient and careful. Don't try to change others.
Cope (n=18)	Ignore negative views. Be strategic and focused. Stick to your values and ambitions. Be resilient and keep a sense of humour. Love yourself and maintain a work/life balance.
Get Help (n=7)	Network and find a mentor. Let men help you.
Seek Risks (n=6)	Take chances, risks and opportunities. Accept challenges. Apply for stretch jobs (i.e., jobs you think you can do, not know you can do).
Forget that you're a Woman (n=5)	Act like you are equal, treat men equally, do not expect preferential treatment, be inclusive with staff
Be Better than Men (n=5)	Act like a Queen, work harder than men, you are better than men, aim high
Invest in your Human Capital (n=3)	Get an MBA, CMB, CFA, ACCA. Gain international experience.

DISCUSSION

This study provided a rare opportunity to gather invaluable information from an international group of leaders who are dedicated to promoting the quality in management education worldwide. Their expert responses offered students with a preliminary understanding of 'what do I need to know to be successful as a global leader?' The main goal of the study was to synthesize the advice of an international pool of educational experts to assist business schools students to prepare for successful careers as international leaders. To that end, we were indeed able to gather, synthesize and analyze valuable advice regarding the tangible and intangible factors that promote a successful path. However, we should also keep in mind the shortcomings of the current study.

First, although the survey was initially distributed to a directory of approximately 2000 members, it generated only 90 completed surveys, an overall response rate of 4.5%. It is possible that the low response rates can be attributed to language issues arising from the international nature of the sample. Perhaps translating the existing questionnaire to accommodate for the multiple languages spoken by EFMD members would increase the response rate.

Second, our sample consisted of respondents from 44 different countries, which aligns well with the purpose of this study and represents the international diversity in the current workforce. However, we must keep in mind that cultural background can potentially affect respondents' perspectives and hence individual advice provided in the survey might reflect culturally specific perspectives rather than broader international trends. Future research should aim to obtain a larger sample from individual countries to allow controlling for cultural differences.

Group mentoring is still in its infancy and this is an initial attempt towards achieving the goal of creating a global group mentoring platform that would help aspiring business students worldwide. Ultimately, an international group-mentoring program could be a joint initiative undertaken by academia, businesses, governments and accreditation societies with the objective of providing guidance to students envisioning international careers.

CONCLUSION

As we get closer to the end of the second decade of the twenty-first century the attention being paid to, if not the emphasis for managers is on mastering technology and the quantitative nature of business decisions. From apps, analytics, and predictive modelling, to drones, artificial intelligence, 3D printing, and robotics, the signals to aspiring managers is on understanding consumers, employees, and stakeholders from the zero through nine perspective rather than from an A to Z one.

Before acquiescing to a wholesale shift in perspective however, it is worth noting while the ascendance of technology and quantitative approaches to decision-making and managing is undeniable, managers can still benefit from development of an older and well-documented approach - mentoring.

A visit to the business / career self-help section of any local or online bookstore reveals no lack of titles offering to educate people on the merits of soft skills and seeking out one or more key individuals for mentoring relationships. Somewhat ironically, a good many of these titles are at least to some degree derivative from earlier works.

The *Art of War* attributed to the writings of Sun Tzu, believed to have been written approximately 2500 years ago, has been called into service as a text on business strategy and spawned numerous military-oriented strategy books. More recently, *How to Win Friends and Influence People* by Dale Carnegie, originally published in the 1930s in the aftermath of the U.S.' Great Depression has given way to a vast number of books on interpersonal influence – both for use in business as well as in society at large.

It seems at the same time both intuitive and counterintuitive that in an era of rising importance of the quantitative and technology, managers need to recognize the renewed importance of people, and how to deal with them, in developing and carrying out the aftermath of all that analysis and data.

It is into this world that the general importance of mentoring is reaffirmed. The current research focuses on group mentoring as an extension of the more familiar one-on-one type. The recommendations of managers concerning everything from information sources to monitor and experiences to both have and avoid represents a virtual mentoring experience from a large collection of individuals who have made the professional journey that many businessmen and businesswomen aspire to. It would be wise to listen to what they have to say.

ACKNOWLEDGEMENT

The authors would like to extend their thanks to Shlomit Jacobson, University of Ottawa graduate student, for her contributions on an early draft of this manuscript002E

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GEOGRAPHIC DIVERSIFICATION AND RISK REDUCTION FOR THE PRIVATELY HELD COMPANY: FROM HERE TO WHERE?

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ABSTRACT

Previous literature on diversification strategies has focused primarily on motivation and value creation from the perspective of publicly traded companies. For publicly traded companies, using diversification – whether into different product markets, industries, or countries – solely for risk reduction purposes and lowering volatility in returns is generally considered not to be in the best interests of shareholders who can accomplish this more efficiently themselves by holding a diversified portfolio of stocks. Far less research has examined rational motivations for diversification from the perspective of a privately held company. Here there is no separation of ownership and control and owners are unable to diversify away unsystematic risk by holding a portfolio of stocks. This paper focuses on country-level factors important for privately held holding companies to consider when making geographic diversification decisions for risk reduction purposes. Using a sample of 8 countries, including Germany, and their annual GDP growth rates from 2003 to 2013, this study found evidence that there are indeed risk reduction benefits connected to international diversification into certain countries, under the premise that the annual GDP growth rate is a representative indicator for a country's economic situation. The results from the conducted quantitative analysis support the theoretical findings based on previous literature on international diversification that under certain circumstances international diversification is a valid means to reduce the volatility in returns and thereby the risk of bankruptcy in the long run.

INTRODUCTION

According to portfolio theory (Markowitz, 1952), lowering the variance of returns means lowering risk. Therefore, economic data can be analyzed to assist firm owners in their international diversification decisions by demonstrating the risk reduction benefits of expansion into particular new countries. The motivation of this paper is to investigate potential merits and drawbacks to a privately held holding company taking an international investment approach. In other words, is bringing diversification from the corporate to the international level an effective way to reduce the risk of bankruptcy for a privately held holding company? The aim of this paper is to investigate the potential risk reduction benefits of international diversification in the case of a privately held holding company. Would it be rational to diversify in an international context with regard to risk reduction purposes and, if so, under which circumstances would it create value?

This paper examines the case of a holding company that is already diversified on a corporate level, but tied solely to one economy on a country level. The overall performance of the company is good and there are no current profit issues that need to be solved. However, regarding the company's strategic plans in the long run, there is a potential risk given the fact that all of the company´s current investments are tied to the German economy. What would happen if the German economy were to fall into a recession while the entire portfolio is comprised of only German companies? It might result in poor performance of the companies in the holding company's portfolio and thus to a declining profit and a higher risk of bankruptcy.

In this case, the privately held holding company exerts little active management in terms of resource transfers (money or managers) across its subsidiaries. Instead, the holding company manages them through financial goals. This is of course a diversified organization, but given that they do not attempt to integrate the subsidiaries, it is basically a portfolio.

RELEVANT LITERATURE

In general, a diversification strategy is described as entering new markets in which a firm is not currently operating. Two major distinctions when it comes to diversification strategies are corporate diversification, where the organization is expanding into different product markets and international diversification, where the organization is expanding into different geographic locations.

Firms may diversify into different geographic markets in order to reap the benefits of the use of an excess in resources and capabilities in different geographic locations. Firms may also diversify internationally in an attempt to reduce risk by investing in more than one geographic location. By diversifying across different geographic markets whose economic cycles are not perfectly correlated, investors can typically reduce the variability of their returns. The value creation premise that can be identified with regard to international diversification is that it is possible to use differences in business cycles of different countries to reduce the volatility in returns or realize growth options.

A number of studies have investigated the effects of international diversification on firm performance. Bühner (1987) investigated the effects that international diversification of firms in Western Germany has on market performance. Based on the argument that economic activity in different countries is less than perfectly correlated, diversification across international boundaries should improve investors´ risk-return opportunities. Results showed significant positive relationships between geographic diversification and both market and accounting performance and significant negative relationships between product diversification and performance measures. As a conclusion, domestic product diversity appears to be motivated by internal 'push' stimuli such as risk reduction and poor profitability in traditional lines of business while internationalization appears to be 'pulled' by external stimuli of prospective market opportunities.

Shaked (1986) focused on risk reduction via corporate international diversification, by calculating the failure probabilities of a sample of multinational corporations and comparing them with those of a control group of domestic corporations. Aspects of international diversification are for instance risk reduction and the potential reduction in the probability of bankruptcy. Key findings of this study were that the mean insolvency-probability is significantly higher for domestic corporations than it is for multinational corporations and the average systematic risk of multinational corporations is significantly lower than that of domestic corporations.

Lu and Beamish (2004) investigated the benefits and costs of geographic expansion over different phases of internationalization. Data on 1,489 Japanese firms over 12 years show a consistent S-shaped relationship between multi-nationality and performance. The findings resulted in a horizontal S-curve, which at first showed a performance decline with increasing internationalization, followed by a positive relationship between increasing geographic diversification and firm performance, which then declined at very high levels of multi-nationality. These findings imply that the relationship between internationalization and performance is dynamic, that is it varies with the phase of internationalization. A key takeaway for managers is that they need to take a long-term view of internationalization, in order to look beyond the initial stage decline in profits.

Makino, Isobe and Chan (2004) focused on the extent to which country effects explain the variation in the performance of foreign affiliates of multinational corporations. Their findings showed that country effects are as strong as industry effects, following affiliate effects and corporate effects, and that industry and country effects jointly rather than independently influence foreign affiliates´ performance. A comprehensive database, which consists of a panel of over 5,183 foreign affiliates, established by 616 Japanese MNC´s in 159 businesses (industries), in 79 host countries, over a 6 year period (1996-2001), was used in their study. Foreign affiliates´ performance varied not only between parent firms and between industries, but also between host countries that have different comparative and competitive advantages and provide different institutional environments to foreign affiliates.

Nachum and Song (2011) viewed the multi-national enterprise (MNE) as a portfolio of interdependent sub-units and elaborated on its growth trajectory in relation to its existing portfolio. The distinctive source of value creation of an MNE is the management of the interactions among its sub-units. Their study focused on the question of why companies that are similar in regard to size and client orientation and are originated in the same home country, take different paths when it comes to internationalization. They used a dataset comprised of all the international location moves of US legal services MNEs during 1949-2006. The findings showed that MNEs have a preference for countries that resemble their portfolios, which means that firms have a tendency to evolve in directions that follow from their past, rather than break away from it. Existing portfolios exercised stronger impact on entry than on exit; this suggests that path dependent processes affect MNEs´ expansion more strongly than their contraction. Entry moves are strongly related to the past, whereas exit moves are driven primarily by firm specific characteristics.

Ke, Ng and Wang (2010) analyzed the US equity holdings of more than 3000 non-US based mutual funds from 22 countries and found robust evidence that fund managers strongly preferred to invest in stocks of US firms that have presence in their home country. Plausible explanations for investors´ strong preference for domestic equities include the existence of cross-border boundaries that give rise to exchange rate risk, variation in regulation, taxation, accounting standards, corporate governance, transaction costs, information asymmetries, and biased expectations. However, these factors did not fully account for investors´ international asset allocation decisions. Their key findings were that mutual fund managers favor US firms that have presence in their home country, even after controlling for various characteristics of both the firms and fund managers. This bias suggests that the potential benefits of international diversification derived from cross-border holdings are not being fully realized. Implications for practice are that firms could raise equity financing in the foreign markets by establishing a physical presence in those markets, and policy makers could attract foreign investments in their domestic equity markets by encouraging domestic firms to expand internationally.

Goetzmann, Li and Rouwenhorst (2005) collected information from 150 years of global equity market history in order to evaluate how stationary the equity correlation matrix is through time. They found that the structure of global correlations shifts considerably through time and that roughly half the benefits of diversification available today to the international investor are due to the increasing number of world markets available and half to a lower average correlation among the available markets.

Lee and Hooy (2013) focused on the role of common, country and industry effects on international diversification potential in ASEAN stock markets. They found that despite the increasing integration of economic and financial markets, country effects dominate industry effects.

Rowland and Tesar (2004) also examined the gains from international diversification and found that multinational corporations may have provided diversification benefits for investors in Germany and the United States and that the addition of foreign market indices to a domestic portfolio provided substantial diversification benefits to all countries in the 1984-1995 period.

All of the reviewed literature supports a positive relationship between international diversification and risk reduction benefits and some even state that country effects dominate industry effects (Lee & Hooy, 2013; Serra, 2000). However, all previous work that has been reviewed for this paper has either had a truly financial perspective or investigated the risk reduction benefits of international diversification for the publicly-traded corporation.

THEORETICAL PERSPECTIVES ON DIVERSIFICATION

Resource Based View

The resource based view sees the firm as a bundle of valuable tangible or intangible resources that provide a basis for the competitive advantage of the firm (Wernerfelt, 1984, 1995; Penrose, 1959). The resource based perspective argues that the portfolio of resources a firm controls reflects the portfolio of product market positions that a firm takes. Hence, competition among product market positions held by firms can also be described as competition among resource positions held by firms (Barney & Clark, 2007).

With regard to corporate diversification, the focus is merely on the importance of shared tangible assets across the multiple businesses a diversified firm is operating in (Rumelt, 1974; Montgomery, 1982). One of the most cited explanations of corporate diversification is consistent with the resource based view of the firm: firms diversify in order to exploit their core competencies (Prahalad & Bettis, 1986; Prahalad & Hamel, 1990).

Kor and Leblebici (2005) concluded that success in growth and diversification strategies requires attention to the availability, experience and knowledge of firms´ managerial and expert human resources. Even more important than the kind of resources a firm possesses is how they manage them. Strategies related to management and development of human assets at the business level affects the success of diversification strategies. Their purpose was to develop and test a theory of how firms can successfully deploy and develop their strategic human assets while recognizing and managing the tradeoffs in their diversification strategies. Their sample consisted of 105 large US law firms, all private companies, in the years 1995, 1997 and 1999. Their key findings were that human capital leveraging and geographical diversification individually improved profitability, but pursuing both strategies simultaneously at high levels produced negative interaction effects on financial performance. Lateral hiring can help firms build new knowledge bases and take timely advantage of growth opportunities, high levels of both partner leveraging and lateral hiring of associates results in lower profitability. Firms achieve superior returns when there is a strategic fit between diversification strategies and human capital deployment strategy. Service diversification increases firms` profitability by promoting efficient utilization of knowledge based resources. At high levels of leveraging, law firms are better off with internal development of associate human capital. When a firm diversifies at a faster rate than its bundle of resources can handle, its financial performance suffers.

Depending on the level of strategy (business versus corporate), strategic goals can range from the achievement of a sustained competitive advantage to exploiting synergies by taking advantage of economies of scope. However, the motive for diversification has the same origin. Diversification often results from the excess of resources and capabilities. However, the value creation potential for the firm depends on the specificity of those resources and capabilities and if not even more important on the management of those resources.

Agency View

The agency view of the firm divides the firm into two major groups that are dependent on each other: top managers, referred to as agents, and owners, referred to as shareholders or principals. Given that the two groups might have different interests at certain points in time, there are two major concerns connected to the relationship between them: asymmetric information and moral hazard. So, not only might the interests of the groups differ at some point, they might also have different information regarding a certain matter. When that is the case, it is called asymmetric information. Principal-agent analysis focuses on problems of contracting with asymmetric information which models a widely applicable case where a principal (e.g., a shareholder) cannot monitor how an agent (e.g., a manager) is behaving without any costs connected to the monitoring. This may arise either because the agent has greater expertise or knowledge than the principal, or because the principal cannot directly observe the agent's actions. It is exactly this asymmetric information which leads to a problem of moral hazard. This means that to an extent managers can pursue their own interests. Traditional managerial models typically assume that managers, instead of maximizing profit, maximize a simple objective utility function which is subject to an arbitrarily given profit constraint. This utility function might include for instance salary, security, power and prestige (Berle & Means, 1991).

Taking this into account it might be highly likely that whenever a principal-agent situation arises and there are no appropriate governance mechanisms in place to ensure that the agent is not solely following his or her own agenda, that the actions taken by the agent might not be aligned with the interests of the principal and therefore might not be in the best interest of the firm. Moreover, the manager could even harm the firm value by putting his or her short term utility first, for instance bonus payments because of earlier return rates from an investment, above the interest of the firm to ensure long term profitability. Because of this, the agency view of diversification predicts a negative relationship between diversification and firm value (Montgomery, 1994).

Hoskisson and Hitt (1990) used agency theory, where the crucial contract is between top managers (agents) and owners (shareholders or principals), as the context for their study to argue that there are three theoretical perspectives on diversification. The first perspective assumes market perfection and focuses on firm resource heterogeneity. The second perspective assumes market and firm imperfection and focuses on external and internal incentives for diversification. The third perspective assumes market and firm imperfection and focuses on managerial motives for diversification. Under the assumption of relative market perfection, industry structure is the dominant force affecting firm performance, therefore firm level actions have minimal impact on performance. Diversification is not likely to create any value for the firm, leading to the conclusion that there would be few, if any, significant incentives to diversify. Under the assumption of market and firm imperfection, firm diversification is more important because managers have much more discretion and choice. From this perspective, higher relative performance is derived from better strategic fit with external and internal conditions. Under the assumptions of imperfection and managerial motives to diversify, the central motives for diversification include managerial employment risk reduction and increased executive compensation. The governance structures in place to prevent managerial abuse are also imperfect and, under certain conditions, may even induce increased diversification.

According to Miller, Le Breton-Miller and Lester (2010), it is generally believed that a concentrated ownership structure reduces the ability of managers to engage in opportunistic acquisitions, due to the superior monitoring capabilities and influence of large owners. Agency theory states that due to better ability to monitor managers, concentrated ownership discourages investment that rewards managers through compensation and status but penalizes shareholders through increased risk and underperformance. They argued that it is not ownership concentration per se, but rather who the owners are and their priorities and preferences that most influence corporate conduct. Their results show an inverse relationship between family ownership and the number and value of acquisitions and, as family ownership increases, so does the tendency to make diversifying acquisitions.

Depending on the environment managers are operating in, they might put their own interests above the interest of their firms. Hence, without the right governance mechanisms in place to ensure that managers act in the best interest of the firm, diversification is not expected to create much value to the firm. Regarding the value creation or value destroying aspect of diversification for the firm from an agency perspective, it is important that the interests between principals and agents are aligned. If managers are only acting in their own best interests, without taking the strategic fit of the diversification strategy into account, it is highly likely that it rather results in value destruction than in value creation for the firm. If the firm can ensure that the managers are acting in the firm’s best interest, it will increase the chances that the chosen diversification strategy will result in value creation for the firm.

Portfolio Theory

The foundation of modern portfolio theory is a portfolio selection theory developed by Harry M. Markowitz in 1952. Markowitz sought to scientifically demonstrate the fundamentals of diversification decisions of investors and, second, he wanted to find out what kind and how many shares are necessary in order to build the optimal portfolio. He was the first one who investigated the positive effect of diversification on the risk and expected return of the collective portfolio (Watson & Head, 2007).

The cornerstone of Markowitz´s seminal theory is that investors have the ability to diversify away unsystematic risk by holding portfolios consisting of a number of different assets. Markowitz´s starting point is to construct what is known as the envelope curve. This represents the set of portfolio choices available to investors when investing in different combinations of risky assets (Markowitz, 1952).

According to Markowitz (1952) the process of selecting a portfolio can be divided into two stages. The first stage starts off with observation and experience and concludes with beliefs about the future performance of available securities. At the second stage the conclusion from the first stage marks the starting point and the second stage ends with the choice of a portfolio. Furthermore, he showed that the variance of the rate of return was a meaningful measure of portfolio risk.

Overall risk can be separated into systematic and unsystematic risk. Systematic risk is also known as non-diversifiable, non-specific, unavoidable or market risk and it represents the effects on a share`s return by systematic factors such as business cycles, government policy and changes in interest rates. Unsystematic risk is also known as diversifiable, specific, avoidable or non-market risk, and is the risk specific to a particular share, for instance, the risk of the individual company to perform badly or go into bankruptcy. An investor can progressively reduce unsystematic risk by spreading investments over a larger number of different securities. It is this opportunity to reduce unsystematic risk through holding a diversified portfolio of shares that is the basis of Markowitz´s portfolio theory (Watson & Head, 2007).

While attitudes towards risk may differ, it is expected that investors act rationally and do not expose themselves to higher risk without the possibility of higher returns (Watson & Head, 2007). Even though in general investors' preferences in regard to risk might differ, portfolio theory assumes that investors are basically risk averse, meaning that when they are given a choice between two assets with equal rates of return they will select the one with the lower level of risk (Reilly & Brown, 2003).

Like every theory, portfolio theory is based on a few assumptions. The theory assumes that investors are making their investment decisions based on expected cash flows and with the goal to increase their wealth. Investors collect information and make their decisions based on this information by balancing out the advantages and disadvantages of a possible investment. This implies that investors act rationally and in order to increase their own utility. Another assumption, in order to make the analysis as easy as possible, is that capital markets are efficient (Watson & Head, 2007).

Markowitz (1952) concluded that it is not possible to eliminate all variance by using diversification and that the portfolio with maximum expected return is not necessarily the one with minimum variance. However, since the patterns of returns of single capital investments differ from one another, it is possible to use investments with risks that are negatively correlated to balance each other out. Furthermore, the important factor to consider when adding an investment to a portfolio is not the investment`s owns variance but its average covariance with all the other investments in the portfolio.

Lubatkin and Chatterje (1994) investigated the linkage between relationships of a firm´s unsystematic and systematic risk. Whereas portfolio theory is based on the premise of passive management, that cash flows can be combined but not altered, corporate diversification theory assumes that managers can actively intervene to lower corporate risk in a manner not available to shareholders. Contrary to what modern portfolio theory suggests, and in alliance with corporate diversification theory, their results suggest that firms can best minimize unsystematic risk by diversifying into similar businesses. Furthermore, the highest levels of unsystematic risk were associated with both the least diversified and the most diversified strategies. The lowest level of risk was associated with midrange strategies which implies that there is an optimal level of diversification for firms. Unrelated diversifiers showed high levels of unsystematic risk, in spite of an offsetting portfolio effect; systematic risk has a diversifiable component. Firms that diversify in a constrained manner appear able to realize synergies that other diversification types cannot, and these synergies help to protect the firm from macro-economic uncertainties. Building competitive advantage is best accomplished through a constrained diversification strategy.

Regardless of the basis of classification, both unrelated and related acquisition strategies have been shown to create significant synergies (Seth, 1990). The strategy literature states that firms following related diversification strategies should outperform unrelated diversifiers (Salter

& Weinhold, 1979; Rumelt, 1974). However, this previous literature mainly focuses on firms that either produce goods or offer services. With regard to acquisitions, value creation depends on the combination of characteristics of the two firms, rather than those of each of the firms considered alone. Previous literature on international diversification for risk reduction purposes has focused on diversification decisions for a portfolio of stocks or has analyzed publicly traded companies and the correlation of stock market returns has been the variable of choice. No prior studies have examined how international diversification strategies affect the performance of privately-held companies.

Different Motives for Privately-Held Firms

Management scholars maintain that, for publicly traded companies, risk reduction purposes shouldn't be the primary motivation for diversification or an acquisition. The underlying reasoning is that while the diversification might be able to reduce risk, this might be at the expense of returns. So when financial figures go public at the end of the year, stockholders, who are in general risk neutral, might complain that they could have reduced the risk on their own simply by investing in different stocks or they already might have broadly invested in different types of companies.

The rationale of using diversification to lower earnings volatility is not sufficient, because of the fact that when trying to reduce risk by adding new businesses, managers try to achieve something that shareholders could do more efficiently themselves. In general, stockholders decrease their portfolio risk by owning shares in companies whose returns are less than perfectly positively correlated. Given the fact that the cost of business diversification would be much larger than the costs of adjusting a stock portfolio, it seems obvious that using diversification in order to lower the corporation's financial risk is a poor use of resources (Amihud and Lev, 1981; Lane, Canella and Lubatkin, 1998).

Bringing businesses which are imperfectly correlated together under common ownership also reduces the variance of the combined cash flows. Since shareholders can diversify risk by holding a diversified portfolio, the risk reduction benefits from diversification appeal more to managers than to owners. In theory, a possible advantage for companies would be if they were able to use diversification at lower cost than the individual investor. In reality quite the opposite is true: The transaction costs to companies which diversify through acquisitions are far higher than to shareholders which diversify their portfolios. Moreover, in addition to the costs of using investment banks and legal advisers, they also face costs for an acquisition premium to gain control of an independent company (Grant, 2013).

Taking this into account, it can be said that diversifying for pure risk reduction purposes should be subordinated to trying to improve returns in each business unit, which can only be achieved when the corporation builds strong ventures or develops ventures that strengthen current businesses (Walker, 2009).

According to the capital asset pricing model the risk that is relevant in order to determine the price of a security is not the overall risk (variance) of the security's return but the systematic risk, which is the part of the variance of the return that is correlated with overall market returns. This certain part of the variance is measured by the beta coefficient, which can't be reduced by corporate diversification. If several companies are brought together under common ownership, in the absence of any other changes, the beta coefficient would simply be the weighted average of the companies. Hence, an increase in shareholder value through risk reduction can't be achieved by simply putting different businesses together under common ownership (Brealey, Myers and

Allen, 2006). Most scholars are supportive of this (Levy and Sarnat, 1970; Mason and Goudzwaard, 1976; Weston, Smith and Shrieves, 1972). Moreover, unrelated diversification might even fail to lower unsystematic risk (Lubatkin and Chetterjee, 1994).

Nevertheless, if we are considering the risk of bankruptcy, diversification can help a marginally profitable firm to avoid cyclical fluctuations of returns, which could lead to bankruptcy in the long run. However, this argument holds rather for bondholders and other creditors than for shareholders (Lee, 1977). Moreover, if the firm can realize economies from financing investments internally rather than using external capital markets, the stability in the firm's cash flow that results from diversification may reinforce independence from external capital markets (Grant, 2013).

Taking all of the just mentioned arguments into account, diversification for purely risk reduction purposes is not considered to be rational for the publicly traded firm. However, in the case of a privately held company with no separation of ownership and control and a non diffused ownership structure it might be rational to diversify after all. The argument related to the fact that there is no separation of ownership and control alone is not strong enough to justify the rationality of a risk diversification decision, but it shouldn't be neglected at all.

The Holding Company

The holding company is a financial structure created by a parent company acquiring controlling equity stakes in a number of subsidiary companies. The management structure is built by the parent company appointing the board of directors of the subsidiaries and receiving dividends. Otherwise the management structure is characterized by little integration or managerial control. The holding company structure allows entrepreneurs to control large business empires without the need for either the capital or the management structure an integrated corporation would require (Grant, 2013).

In general, the holding company structure is appropriate when the individual businesses in a corporation's portfolio do not have much in common; hence, the potential for synergies is limited. The organizational form can be described as a variation of the divisional organizational structure - where products, projects, or product markets are grouped internally - in which the divisions have a high degree of autonomy both from other divisions and from corporate headquarters (Dess, Lumpkin, Eisner and McNamara, 2012)

In addition to the already mentioned possible reasons which could motivate firms under different theoretical perspectives to diversify, holding companies are highly likely to have different motivations to diversify. For holding companies, where diversification or acquisitions could be either related or unrelated and there is no coordination mechanisms between the acquisitions, motivation for diversification or acquisitions may result from fundamental analysis and the identification of undervalued companies or assets. In a conglomerate, where diversification or acquisition is unrelated but there is a financial coordination mechanism, a diversification or acquisition motivation may also include the desire to establish internal capital markets (Grant, 2013; Seth, 1990).

In many instances one could argue that for simple risk reduction purposes, the holding company or conglomerate could level out the patterns in ups and downs buy buying stock in another country. So instead of acquiring a company in a different country, a simple investment in foreign stock could be a feasible alternative. Moreover, Errunza, Hogan & Mao-Wei Hung (1999) found evidence that in the time period of 1976 to 1993 U.S. investors could effectively mimic foreign market returns with domestically traded securities.

Management scholars maintain that, for publicly traded companies, risk reduction purposes shouldn't be the primary motivation for diversification or an acquisition. However, in the case of privately held holding companies, these reservations do not hold. In comparison to privately held companies, publicly traded companies show a more diffused ownership structure, which means that people of means might already have broadly invested. In theory, the owners of privately held companies of course also have the possibility to reducing the risk by investing broadly. In reality, however, and especially with regards to family owned firms, they often keep all of their eggs in one basket.

Some scholars even argue that it would be indeed possible to achieve the benefits from international diversification for risk reduction purposes without investing abroad. They argue that by investing in national stocks that mimic the volatility of returns of international stocks, the same benefits with regards to lowering risk could be achieved (Errunza, Hogan & Hung, 1999). In theory, this might be a valid option to consider. In practice, however, the capital needed to execute such a large investment might be difficult for some firms to obtain.

METHODOLOGY

The case study reported here involves a privately held holding company that at the time had investments in only one country, Germany. The question addressed was whether a reduction of risk could be demonstrated by analyzing potential portfolios of investments including acquisitions in other countries. Ownership of the holding company was concerned that if problems occurred with the German economy, it would negatively affect its profits. Seven countries were chosen for analysis: Poland, Turkey, the United Kingdom, Sweden, Spain, France, and the Czech Republic. As noted earlier, the holding company exercised little active management over its subsidiaries in terms of resource transfers, instead managing them through financial goals. At the time, the overall performance of the company was good and there were no current profit issues that needed to be solved. The company was interested in adding another country to their current portfolio by taking an international instead of a domestic investment approach in the future.

According to Markowitz´s portfolio theory, an investor is able to reduce unsystematic risk by holding shares in his or her portfolio which are not perfectly positively correlated. In the case of this paper all of the company`s revenue flows are tied to the German economy, in other words, the level of unsystematic risk connected to the portfolio of companies is fully determined by the German economy. Presently, the subject company consists of seven firms.

With regard to risk reduction being the major concern of the holding company in this paper and according to portfolio theory (Markowitz, 1952) the company is looking to minimize the variance or standard deviation of their portfolio of companies. So the question is *from which country should the holding company add an acquisition to their current portfolio of companies in order to reduce the overall variance of the portfolio?*

Measures

As reviewed above, past research in this area has often focused on corporate diversification of portfolios, whereas this paper focuses on international diversification. This past research has utilized measures of risk from the area of financial theory, namely stocks or stock market indices. In his seminal work about portfolio selection, Markowitz (1952) used the return rates of investments to determine the risk reduction benefits for the investor if those investments would be combined a portfolio. Since Markowitz's work originated in the field of financial theory, previous work on the risk reduction benefits for the international investor has focused on holding a diversified portfolio of stocks or used stock market indices as a variable to measure the level of correlation between global markets (Bekaert, Hodrick and Zhang, 2009; Serra, 2000; Rowland & Tesar, 2004). However, for a privately held holding company, there is no direct connection to the stock or equity market.

One argument for the choice of an appropriate measure could be that since previous literature (Bekaert, Hodrick and Zhang, 2009; Serra, 2000; Rowland & Tesar, 2004; Goetzmann, Li and Rouwenhorst, 2005; Lee & Hooy, 2013) measured the development of the stock market or equity market by using stock or equity returns, a parallel approach could be to measure the development of an economy by the annual growth or decline in economic value. This supported the idea that the variable used to explore the research question should not be either stock market or equity market returns. However, the connection between the economic situation of a country and the resulting volatility in returns suggested the idea to use an economic measure as the variable for the present study. The aim was to select a variable that reliably represents the development of a country's economy. Therefore, the chosen variable is the annual GDP growth rate. According to the World Bank the GDP growth rate is defined as the

> *"Annual percentage growth rate of GDP at market prices based on constant local currency. Aggregates are based on constant 2005 U.S. dollars. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources" (World Bank, 2015).*

Sample

The countries chosen for this study reflected the interests of the holding company in this case study. In order to separate business cycles and possibly economic shocks from long term growth, and, since more recent developments are more important, the time horizon for the analysis in this paper was the 2003-2013 time period, representing one full business cycle. Thus, the final sample consists of the annual GDP growth rates of Germany, Poland, Turkey, United Kingdom, Sweden, Spain, France and the Czech Republic from 2003-2013. The data were obtained from the World Bank national accounts database and the OECD National Accounts data files through the World Bank's development indicators catalogue.

For all of the calculations in this chapter it is assumed that as a first step of international diversification the company would be interested in adding only one other country to its current portfolio. Also, since there is no current specific international investment target, the magnitude of the international investment could not be specified. Therefore, in each pair of countries investigated, both countries were weighted equally in the portfolio.

RESULTS

Markowitz (1952) showed that portfolio risk is meaningfully measured by the variance in returns. The company's current portfolio consists of seven companies, nevertheless, on a country level it only consists of one country. Hence, in the following and as a first step the variance of the current portfolio is calculated by using the GDP growth rates of Germany and the variance formula stated below. Furthermore, following Markowitz (1952), the percentage growth rates have been converted into decimal numbers for all calculations. A table with the annual GDP growth rates in percent and the decimal numbers can be found in the Appendices.

$$\mathrm{VAR}(x) = s_x^2 = \frac{1}{n}\sum_{i=1}^{n} (xi - \bar{x})^2 \quad (1)$$

Where in the case of this paper n denotes the number of years of the chosen time horizon, xi denotes the country's GDP Growth rate in a certain year and $\bar{x}$ denotes the mean of one country's GDP growth rate across the chosen time horizon. The calculated variance for Germany is 0.0007. As a next step, the variance of the other countries in the sample is first calculated on an individual basis and furthermore on the basis that each country would be in a portfolio with Germany. Table 1 shows the results of these calculations.

Table 1
VARIANCE

Country	Individual Variance	Average Variance Together with Germany
Germany	0.0007	0.0007
Poland	0.0003	0.0005
Turkey	0.0017	0.0012
United Kingdom	0.0005	0.0006
Sweden	0.0009	0.0008
Spain	0.0007	0.0007
France	0.0002	0.0005
Czech Republic	0.0011	0.0009

Source: Own work, data used for calculations obtained from the World Bank database.

The important factor that needs to be taken into consideration when an investment is added to a portfolio is not just the investment's own variance, but its average covariance with the other investments in the portfolio (Markowitz, 1952; Reilly & Brown, 2003). As a next step the covariance between the German annual growth rates and the annual GDP growth rates of the other countries in the data sample is calculated by using the following formula:

$$\mathrm{COV}(xy) = s_{xy} = \frac{1}{n}\sum_{i=1}^{n} (x_i - \bar{x}) * (y_i - \bar{y}) \quad (2)$$

where xi denotes Germany's annual GDP Growth rate in a certain year, $\bar{x}$ denotes the mean of Germany's GDP growth rate across the chosen time horizon, yi denotes the annual GDP growth rate of the other possible country in the portfolio and $\bar{y}$ denotes the mean of the other country's annual GDP growth rate. Table 2 shows the results of the calculations.

Table 2 COVARIANCE	
Countries	**Covariance**
Germany-Germany	0.0007
Germany-Poland	0.0003
Germany-Turkey	0.0009
Germany-United Kingdom	0.0004
Germany-Sweden	0.0007
Germany-Spain	0.0003
Germany-France	0.0004
Germany-Czech Republic	0.0006
Source: Own work, data used for calculations obtained from the World Bank database.	

As previously mentioned, the important factor that needs to be considered when adding an investment to a portfolio is not the investment's own variance, but its average covariance with all the other investments in the portfolio (Markowitz, 1952; Reilly & Brown, 2003). Therefore Markowitz (1952) derived a formula that takes both the weighted variance of the single investment in the portfolio and the covariance between the investments into account. By using this formula the standard deviation of returns for a portfolio of assets is computed, which is considered the measure of risk for a portfolio (Markowitz, 1952).

Using Markowitz's formula, as a last and final step the standard deviations for an international portfolio are computed:

$$\sigma_{portfolio} = \sqrt{\sum_{i=1}^{n} w_i^{\,2}\sigma_i^{\,2} + \sum_{i=1}^{n}\sum_{\substack{i=1 \\ i \neq j}}^{n} w_i\, w_j\, Cov_{ij}} \tag{3}$$

where $\sigma_{portfolio}$ denotes the standard deviation of the portfolio, w_i denotes the weights of the individual countries in the portfolio, where in the case of the paper the countries are equally weighted, σ_i^2 denotes the variance of annual GDP growth rates for the single countries in the portfolio and Cov_{ij} denotes the covariance between the annual GDP growth rates for Germany and another country in the portfolio. Table 3 shows the results of the calculations.

Table 3 STANDARD DEVIATION OF POTENTIAL PORTFOLIOS	
Countries	**Standard Deviation of Portfolio**
Germany-Germany	0.0264
Germany-Poland	0.0192
Germany-Turkey	0.0321
Germany-United Kingdom	0.0219
Germany-Sweden	0.0269
Germany-Spain	0.0227
Germany-France	0.0204
Germany-Czech Republic	0.0277
Source: Own work, data used for calculations obtained from the World Bank database.	

The results show that the greatest risk reduction benefit would be achieved by adding Poland to the subject company's current portfolio, since it would reduce the standard deviation of the portfolio from 0.0264 to 0.0192. This means that the standard deviation of the portfolio would decline by 27.27%. This leads to a reduction in the variation of GDP growth rates from their mean value. Since the level of risk has been defined as the volatility in returns, by reducing the volatility, the risk is reduced.

The results also show that adding the United Kingdom, Spain or France to the company's current portfolio would still provide risk reduction benefits, but not to the same degree as adding Poland. The argument for the risk reduction benefit still holds, but with a different magnitude. On the other hand, adding Turkey, Sweden, or the Czech Republic would increase the standard deviation of the portfolio and hence would cause an increase in risk.

DISCUSSION AND CONCLUSIONS

The aim of this paper was to investigate the potential risk reduction benefits of international diversification in the case of a privately held holding company. The research question raised at the beginning of this paper asked whether it would be rational for such a firm to diversify in an international context with regard to risk reduction purposes and, if so, under which circumstances it would create value.

Three different theoretical perspectives on diversification were identified and analyzed with regard to their motives and value creation premises for diversification. In connection to the holding company structure and their primary concern being risk reduction, the justification of the use of portfolio theory for this study has been made. In the case of a privately held holding company and with regard to the chosen theoretical lens in this paper the primary motive for diversification has been identified as leveling out the volatility in returns by diversifying across different industries or across different geographic locations that are less than perfectly positively correlated with each other.

Previous work on international diversification from a portfolio theory perspective, which has been mainly from the perspective of a publicly traded company or an international investor that is seeking to select a diversified portfolio of stocks or bonds for risk reduction purposes, suggests that diversifying into different industries or across different geographical locations which are less than perfectly positively correlated with each other is a useful means in order to reduce the volatility in returns. The argument maintained by many Management and Finance scholars that diversification solely for risk reduction purposes is not considered to be rational for publicly traded firms has been acknowledged and discussed for the case of a privately held company. It has been concluded that the argument does not hold in this case.

Prior research on international diversification suggests that in the case of a privately held holding company which is already diversified on a corporate level, international diversification for risk reduction purposes is considered rational and the value creation premise would be to identify and select a country that shows characteristics that would enable the company to reduce the volatility in returns.

Having identified the motive and value creation premise in the case of a privately held holding company, a quantitative analysis was conducted for a particular firm with seven subsidiaries in Germany in order to identify a potential country that shows those characteristics. Following Harry Markowitz's method for portfolio selection, the economic data of seven countries has been analyzed in terms of their risk reduction benefits when adding one of them to the company`s current portfolio. The results of this analysis suggest that the greatest risk reduction benefit in this particular situation and given the countries selected would be provided by adding Poland to the subject firm's current portfolio. Furthermore, adding Spain, France or the United Kingdom would also provide risk reduction benefits, but to a lesser extent. On the other hand, adding Turkey, Sweden or the Czech Republic, would result in increased risk. Referring back to the research question and with regard to the assumptions and constraints made in this paper, it can be concluded that it would be rational to diversify internationally. The circumstances that need to be given to result in value creation is the identification and selection of a country which, when combined in a portfolio with Germany, would result in a lower volatility in returns and hence reduce the risk.

As for the implementation of the strategy and with regard to the analysis conducted in this paper it is advised to search for potential investment targets internationally. Once a potential target in an appropriate economy has been identified, it is advised to conduct further analyses that go beyond the scope of this paper.

The calculations reported above are based on several assumptions. First, within pairs, countries in the portfolio were weighted equally. In practice it would be highly unlikely to be appropriate, as the weighting should be based on the magnitude of a potential investment and the size of the existing portfolio. Further, since in this study the countries were equally weighted, it magnifies the risk reduction benefit and adjusting the weightings in accordance to the magnitude of the investment would allow a more precise measurement risk reduction benefit. Also, since the magnitude of the investment cannot be taken into account, it is not possible to measure the risk reduction benefit by means of a certain Euro amount or any other currency. Second, a further assumption was made that a ten-year time period was appropriate to explore risk return in this context. The choice of different time horizons may influence the results obtained.

The present study also assumes that Markowitz's (1952) formula can be extended from its original purpose - to calculate the standard deviation of return rates for assets in a portfolio – to the context of international diversification. The connection between the assets in a portfolio and their return rates is direct, where in the case of the economies it is highly unlikely that the growth of the entire economy of a country is also reflected in a certain company in that country.

Another limitation of this paper is the focus solely on the risk reduction benefit from international diversification. Investing in countries with characteristics that result in a decrease in the volatility of returns certainly decreases the risk, but at the same time, it also limits the growth potential. Leveling out the ups and downs in returns makes the future more predictable and hence less risky, but since it limits the bandwidth of the returns, it also limits the growth potential. Future research could focus on a combination of risk level and growth potential of certain economies.

Furthermore the definition of risk in this study also provides a limitation. Risk is defined as the volatility in returns affected by annual economic growth of countries. Future research could focus on other risk factors which might be important to take into account when investing abroad, for instance political risk or legal risk.

Future research might also analyze the effects with regard to risk reduction, if not only one, but more countries are added to the current portfolio. Especially for this purpose it might be advisable to extend the list of pre-selected countries to analyze. Also, this study focused on country level factors; further research could include industry effects as well. In other words, how much of the economic growth or decline of a country's economy originates in which industries.

In conclusion, this study extends the international diversification literature to include the case of the privately-held holding company, provides analysis of value to a particular privately-held holding company in Germany, and provides several opportunities for future research.

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APPENDICES

Appendix 1
ANNUAL GDP GROWTH RATES (IN %) 2003 – 2013

Country	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Germany	-0.7	1.2	0.7	3.7	3.3	1.1	-5.6	4.1	3.6	0.4	0.1
Poland	3.6	5.1	3.5	6.2	7.2	3.9	2.6	3.7	4.8	1.8	1.7
Turkey	5.3	9.4	8.4	6.9	4.7	0.7	-4.8	9.2	8.8	2.1	4.1
United Kingdom	4.3	2.5	2.8	3.0	2.6	-0.3	-4.3	1.9	1.6	0.7	1.7
Sweden	2.4	4.3	2.8	4.7	3.4	-0.6	-5.2	6.0	2.7	-0.3	1.5
Spain	3.2	3.2	3.7	4.2	3.8	1.1	-3.6	0	-0.6	-2.1	-1.2
France	0.8	2.8	1.6	2.4	2.4	0.2	-2.9	2.0	2.1	0.3	0.3
Czech Republic	3.6	4.9	6.4	6.9	5.5	2.7	-4.8	2.3	2.0	-0.8	-0.7

Source: World Bank's development indicators catalogue, own illustration

Appendix 2
ANNUAL GDP GROWTH RATES (IN DECIMAL FORM) 2003 – 2013

Country	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Germany	-0.007	0.012	0.007	0.037	0.033	0.011	-0.056	0.041	0.036	0.004	0.001
Poland	0.036	0.051	0.035	0.062	0.072	0.039	0.026	0.037	0.048	0.018	0.017
Turkey	0.053	0.094	0.084	0.069	0.047	0.007	-0.048	0.092	0.088	0.021	0.041
United Kingdom	0.043	0.025	0.028	0.030	0.026	-0.003	-0.043	0.019	0.016	0.007	0.017
Sweden	0.024	0.043	0.028	0.047	0.034	-0.006	-0.052	0.060	0.027	-0.003	0.015
Spain	0.032	0.032	0.037	0.042	0.038	0.011	-0.036	0	-0.006	-0.021	-0.012
France	0.008	0.028	0.016	0.024	0.024	0.002	-0.029	0.020	0.021	0.003	0.003
Czech Republic	0.036	0.049	0.064	0.069	0.055	0.027	-0.048	0.023	0.020	-0.008	-0.007

Source: World Bank's development indicators catalogue, own calculation and illustration

THE MODEL OF GRADED SALARY INCREASE A SOLUTION TO THE PROBLEM OF SALARY COMPRESSION AND INVERSION IN FACULTY SALARIES

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ABSTRACT

This study tested a model of graded salary increase (MGSI) as a solution to the problem of salary compression and inversion in faculty salaries. The model ties salary increase rates with tenure of faculty members. Based on the faculty salary data collected by College and University Professional Association for Human Resources (CUPA-HR) between 2005 and 2014, we found that MGSI solves the problem of salary compression and inversion.

Keywords: *equity, salary compression, salary inversion, faculty salaries.*

INTRODUCTION

Equity is an important issue in pay determination. John Adams' Equity Theory (1963) posits that employees constantly compare how much they gain from a job with how much effort, time and experience they input in the job. A perception of over-input and under-payment will lead to negative feelings and such behavioral consequences as reduction of work effort, expression of grievance, making requests for higher pay or simply resigning from the job. A major component of job input is employee's work experience. People with more work experience tend to perform better than those without work experience. Since work experience is largely related to employee's tenure on a job within an organization, it is a common thought that tenure should be compensated. However, rewarding employees' tenure is not easy to practice in spite of its obvious benefits for employee motivation. In reality, senior employees often find themselves getting paid similar to new employees. Moreover in some organizations and occupations, new employees get paid more than senior employees. The former phenomenon is termed as salary compression and the latter is termed as salary inversion.

Various studies reported the problems of salary compression and salary inversion in faculty salaries (e.g. Brown & Woodbury, 1998; Duncan, Krall, Maxcy, & Prus, 2004; Finch, Allen & Weeks, 2010; Jacobs & Herring, III, 1987; Lillydahl & Singell, 1992; Martinello, 2009). Brown & Woodbury (1998) discovered a negative relationship between faculty job tenure and their financial return based on personnel data between 1981 and 1990 at Michigan State University. Data from a national survey to AACSB-accredited business schools showed replacement hires for vacant positions of assistant professors and associate professors require an average salary increase between $10,000 and $30,000 (Finch, et al, 2010). The salary compression and inversion problems are usually more serious during the first several years of faculty tenure. Jacobs & Herring, III (1987) found a strong negative relationship between experience and pay for assistant professors but a positive relationship between experience and

Pay for associate professors and full professors. It seems that productivity of professors becomes a more dominant factor in pay determination as professors' academic tenure grows (Jacobs & Herring, III, 1987). Ransom (1993) observed a u-shaped relationship between faculty seniority and their pay. Specifically, pay is negatively related to faculty seniority for new assistant professors and assistant professors. However, the relationship between the two becomes positive for associate and full professors. This u-shaped pattern was also observed by other studies (e.g. Duncan, et. al., 2004; Martinello, 2009).

Faculty salary compression and inversion are believed to result from higher growth rate of entry salaries and lower salary increase rate of long term employees (Gomez-Mejia & Balkin, 1987). Entry salaries are tied to the market rates. Market rates are largely determined by the balance between supply and demand of faculty. Academic disciplines experiencing the biggest imbalance between faculty demand and supply (e.g. business and engineering) usually suffer the most from the salary compression and inversion. On the other hand, salary increases for employed faculty are mostly adjustments of cost of living, which are limited by the annual budgets of the universities. Because of a short supply and a rising demand for faculty and other priorities of annual budgets, entry salaries for faculty grow much faster than salaries of employed faculty (Finch, et. al., 2010; Gomez-Mejia & Balkin, 1987).

As suggested by the Equity theory (Adams, 1963), salary compression and inversion could lead to negative attitudinal and behavioral consequences. It is no exception for faculty members. Previous studies revealed that faculty with compressed pay tend to exert less work effort, pay less attention to work quality, request higher pay, engage in unionization activities, spend more time on profitable work outside the employment (e.g. consulting job), create difficulties in work for more highly paid junior faculty members, demonstrate unwillingness to serve on committees or leave the university for a better paid position in another university or in private industry (Daniels, Shane, & Wall, 1984; Huseman, McHone, Rungeling, 1996).

Various approaches have been created to cope with the problem of salary compression and inversion. Most of them focus on periodical salary adjustment. The amount of salary adjustment is usually determined by one's pay deviance from the national level. Many experts in employee compensation suggest extracting faculty performance level from faculty pay while calculating pay deviance (Duncan, et. al., 2004). Huseman, et al. (1996) presented a model of salary adjustment, which was built on four basic blocks: college-based model, inclusion of national salary standards in calculation, and incorporation of employee performance and tenure. In spite of its wide practice, salary adjustment is obviously an aftermath solution to salary compression and inversion. It requires enormous time and effort to complete the whole administration process periodically. One IOMA's report on salary survey claimed such process could require at least 2 years (IOMA, 2002). For that reason, it is necessary to explore approaches aimed to prevent salary compression/inversion from happening.

When salary compression/inversion occurs, new faculty members are overpaid whereas senior faculty members are underpaid. A general HR practice to cope with the overpaying and underpaying issues is to reduce the salary increase rate of those who are overpaid and improve the salary increase rate of those who are underpaid (Dessler, 2012; IOMA, 2008). Along the same line of this thought, applying lower rates of salary increase to junior faculty members and higher rates of salary increase to senior faculty members will likely solve the problem of salary compression/inversion. This paper proposes a model of graded salary increase (MGSI), which is aimed to tie salary increase rates with tenure of faculty members. As previous section mentions, faculty salary compression and inversion most likely occur during the first several years of employment and among assistant professors (Duncan, et. al., 2004; Martinello, 2009; Ransom, 1993). Since the standard period for an assistant professor to be promoted to associate professor is 6 years, the proposed model merely covers the first six years of employment, which includes five processes of salary increase.

The Model of Graded Salary Increase

Traditionally, employees' salaries increase by following the following formula:

Salary = (1+Salary Increase Rate) * Salary of the Previous Year

Unlike traditional model of salary increase, the Model of Graded Salary Increase ties salary increase rate to employees' tenure. To achieve this goal, tenure-based constants can be used for creation of graded salary increase rates. The median point of 5 years of salary increase is the third year (which is the fourth year of the employment). By assigning constant "1" to the median point, constants for salary increase rates from Year 1 to Year 5 should be 0, 0.5, 1, 1.5 and 2. Here is the mathematic formula for this model:

Salary = (1+Salary Increase Rate*Tenure Constant) * Salary of the Previous Year

The model proposed in this paper focuses on tenure only. Other factors such as performance level can be built into the model by creating an overall product of the constants of different factors, such as tenure and performance level.

METHODOLOGY

Data

The salary data are gathered from the annual executive reports of "Faculty in Higher Education Salary Survey" by College and University Professional Association for Human Resources (CUPA-HR) from 2005 to 2014 (CUPA-HR, 2014). The average annual salaries of full professor, associate professor, assistant professor and new assistant professor are reported in the following disciplines:

1. Agriculture, Agriculture Operations, and Related Sciences
2. Natural Resources and Conservation
3. Architecture and Related Services
4. Area, Ethnic, Cultural, Gender and Group Studies
5. Communication, Journalism and Related Programs
6. Communications Technologies/Technicians and Support Services
7. Computer and Information Sciences and Support Services
8. Education
9. Engineering
10. Engineering Technologies and Engineering Related Fields
11. Foreign Languages, Literatures, and Linguistics
12. Family and Consumer Sciences/Human Sciences
13. Legal Professions and Studies
14. English Language and Literature/Letters
15. Liberal Arts and Sciences, General Studies and Humanities

16. Library Sciences
17. Biological and Biomedical Sciences
18. Mathematics and Statistics
19. Multi/Interdisciplinary studies
20. Parks, Recreation, Leisure and Fitness Studies
21. Philosophy and Religious Studies
22. Theology and Religious Vocations
23. Physical Sciences
24. Psychology
25. Homeland Security, Law Enforcement, Firefighting and Related Protc Servs
26. Public Administration and Social Service Professions
27. Social Science
28. Visual and Performing Arts
29. Health Professions and Related Programs
30. Business, Management, Marketing, and Related Support Services
31. History General

Statistical Methods

ANOVA tests will be used to compare the means of the salaries of new assistant professors with those of full professors, associate professors and assistant professors in each year from 2005-2014. If the means of the salaries of new assistant professors are not significantly different from those of professors of other ranks, then salary compression exists.

To demonstrate how the Model of Graded Salary Increase solves the problem of salary compression and inversion, two steps will be taken. First, the salaries of new assistant professors hired in different years from 2005 to 2013 will be calculated for each of the years following their employment. Two formulas will be used for calculation: one follows the Model of Graded Salary Increase and the other one follows the traditional model of straight forward salary increase. 2.36%, the average of the median salary increase rates for assistant professors from the year 2006 to 2014 (CUPA-HR, 2015), will be used for calculation as the salary increase rate for those years. Appendix A is an example of calculation of salary increases using two methods with the salary data of assistant professors in the area of agriculture/agricultural operations/the related sciences. Second, salaries of assistant professors in their last year of the tenure track (6th year) will be compared to salaries of junior assistant professors in the same year. The model of graded salary increase is effective if senior assistant professors have higher salaries than junior assistant professors by the end of their tenure track. Independent-samples t test will be used to test the mean differences of salaries of assistant professors in their 6th year and the salaries of assistant Professors in their 1st, 2nd, 3rd, 4th, and 5th year.

RESULTS

The ANOVA tests of mean salaries of professors of different ranks showed that the mean salaries of new assistant professors in 31 disciplines are significantly lower than those of full professors and those of associate professors (See Table 1). The mean salaries of new assistant professors are not significantly different from those of assistant professors in all nine years (2005-2014). This result demonstrated existence of salary compression among assistant professors. In six of the nine years, the entry salaries of new assistant professors are higher than the average salaries of assistant professors, which implied existence of salary inversion during the years in study.

Table 1
MEAN DIFFERENCES BETWEEN NEW ASSISTANT PROFESSOR (NASTP) AND ASSISTANT PROFESSOR (ASTP), ASSOCIATE PROFESSOR (ASOP) AND FULL PROFESSOR (FP).

Year	Mean Differences NASTP – ASTP	Mean Differences NASTP – ASOP	Mean Differences NASTP – FP
2005-2006	-$286	-$10,058**	-$27,492**
2006-2007	$160	-$9,916**	-$27,955**
2007-2008	$-456	-$11,297**	-$30,392**
2008-2009	$-379	-$11,463**	-$31,599**
2009-2010	$438	-$10,462**	-$30,555**
2010-2011	$667	-$11,094**	-$31,673**
2011-2012	$1,100	-$10,041**	-$30,716**
2012-2013	$717	-$10,023**	-$30,692**
2013-2014	$759	-$10,130*	-$31,551**

Note: * p<.05; ** p<.01

Table 2 & 3 display the first six years' salaries of new assistant professors hired in different years from 2005 to 2013. Table 2 displays the results obtained through calculations following the traditional model. Table 3 displays the results obtained through calculations following the Model of Graded Salary Increase. The results of the independent-samples t tests showed that the mean difference of the salaries of assistant professors in their 6th year and those of assistant professors in their 1st, 2nd, 3rd, 4th, and 5th year under the traditional model was -$622.25 (t=-.92, p>.05); the mean difference of the salaries calculated following the Model of Graded Salary Increase was $773.80 (t=1.12, p>.05) (See Table 4). Although not statistically significant, the results indicated that under the traditional model, salaries of senior assistant professors could not catch up to the salaries of junior assistant professors by the end of their tenure track; under the Model of Graded of Salary Increase, salaries of senior assistant professors did catch up and surpass the salaries of junior assistant professors by the end of their tenure track.

Table 2
ANNUAL MEAN SALARIES OF NEW ASSISTANT PROFESSORS (NASTP) HIRED IN YEAR 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012 AND 2013 CALCULATED BY FOLLOWING THE TRADITIONAL MODEL OF SALARY INCREASE.

Year	NASTPs Hired in 2005	NASTPs Hired in 2006	NASTPs Hired in 2007	NASTPs Hired in 2008	NASTPs Hired in 2009	NASTPs Hired in 2010	NASTPs Hired in 2011	NASTPs Hired in 2012	NASTPs Hired in 2013
2005	Y1 $52,209								
2006	Y2 $53,441	Y1 $54,278							
2007	Y3 $54,702	Y2 $55,559	Y1 $55,909						
2008	Y4 $55,993	Y3 $56,870	Y2 $57,229	Y1 $57,969					
2009	Y5 $57,314	Y4 $58,212	Y3 $58,580	Y2 $59,337	Y1 $59,325				
2010	Y6 $58,667	Y5 $59,586	Y4 $59,963	Y3 $60,737	Y2 $60,725	Y1 $60,049			
2011		Y6 $60,992	Y5 $61,378	Y4 $62,170	Y3 $62,158	Y2 $61,466	Y1 $61,721		
2012			Y6 $62,827	Y5 $63,637	Y4 $63,625	Y3 $62,917	Y2 $63,178	Y1 $63,311	
2013				Y6 $65,139	Y5 $65,127	Y4 $64,401	Y3 $64,669	Y2 $64,805	Y1 $64,944

Table 3
ANNUAL MEAN SALARIES OF NEW ASSISTANT PROFESSORS (NASTP) HIRED IN YEAR 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012 AND 2013 CALCULATED BY FOLLOWING THE MODEL OF GRADED SALARY INCREASE.

Year	NASTPs Hired in 2005	NASTPs Hired in 2006	NASTPs Hired in 2007	NASTPs Hired in 2008	NASTPs Hired in 2009	NASTPs Hired in 2010	NASTPs Hired in 2011	NASTPs Hired in 2012	NASTPs Hired in 2013
2005	Y1 $52,209								
2006	Y2 $52,209	Y1 $54,278							
2007	Y3 $52,825	Y2 $54,278	Y1 $55,909						
2008	Y4 $54,072	Y3 $54,919	Y2 $55,909	Y1 $57,969					
2009	Y5 $55,986	Y4 $56,215	Y3 $56,569	Y2 $57,969	Y1 $59,325				
2010	Y6 $58,629	Y5 $58,205	Y4 $57,904	Y3 $58,653	Y2 $59,325	Y1 $60,049			
2011		Y6 $60,952	Y5 $59,954	Y4 $60,037	Y3 $60,025	Y2 $60,049	Y1 $61,721		
2012			Y6 $62,784	Y5 $62,162	Y4 $61,442	Y3 $60,758	Y2 $61,721	Y1 $63,311	
2013				Y6 $65,096	Y5 $63,617	Y4 $62,192	Y3 $62,449	Y2 $63,311	Y1 $64,944

Table 4
INDEPENDENT-SAMPLES T TESTS OF SALARIES OF ASSISTANT PROFESSORS IN THE 6^{TH} YEAR AND SALARIES OF ASSISTANT PROFESSORS IN THE 1^{st}, 2^{nd}, 3^{th}, 4^{th}, AND 5^{th} YEAR.

Year	Salaries Calculated Based on the Traditional Model of Salary Increase				Salaries Calculated Based on the Graded Model of Salary Increase			
2010	AP (6^{th} Y)	$58,667	AP (5^{th} Y)	$59,586	AP (6^{th} Y)	$58,629	AP (5^{th} Y)	$58,205
		$58,667	AP (4^{th} Y)	$59,963		$58,629	AP (4^{th} Y)	$57,904
		$58,667	AP (3^{rd} Y)	$60,737		$58,629	AP (3^{rd} Y)	$58,653
		$58,667	AP (2^{nd} Y)	$60,725		$58,629	AP (2^{nd} Y)	$59,325
		$58,667	AP (1^{st} Y)	$60,049		$58,629	AP (1^{st} Y)	$60,049
2011	AP (6^{th} Y)	$60,992	AP (5^{th} Y)	$61,378	AP (6^{th} Y)	$60,952	AP (5^{th} Y)	$59,954
		$60,992	AP (4^{th} Y)	$62,173		$60,952	AP (4^{th} Y)	$60,037
		$60,992	AP (3^{rd} Y)	$62,158		$60,952	AP (3^{rd} Y)	$60,025
		$60,992	AP (2^{nd} Y)	$61,466		$60,952	AP (2^{nd} Y)	$60,049
		$60,992	AP (1^{st} Y)	$61,721		$60,952	AP (1^{st} Y)	$61,721
2012	AP (6^{th} Y)	$62,827	AP (5^{th} Y)	$63,637	AP (6^{th} Y)	$62,784	AP (5^{th} Y)	$62,162
		$62,827	AP (4^{th} Y)	$63,625		$62,784	AP (4^{th} Y)	$61,442
		$62,827	AP (3^{rd} Y)	$62,917		$62,784	AP (3^{rd} Y)	$60,758
		$62,827	AP (2^{nd} Y)	$63,178		$62,784	AP (2^{nd} Y)	$61,721
		$62,827	AP (1^{st} Y)	$63,311		$62,784	AP (1^{st} Y)	$63,311
2013	AP (6^{th} Y)	$65,139	AP (5^{th} Y)	$65,127	AP (6^{th} Y)	$65,096	AP (5^{th} Y)	$63,617
		$65,139	AP (4^{th} Y)	$64,401		$65,096	AP (4^{th} Y)	$62,192
		$65,139	AP (3^{rd} Y)	$64,669		$65,096	AP (3^{rd} Y)	$62,449
		$65,139	AP (2^{nd} Y)	$64,805		$65,096	AP (2^{nd} Y)	$63,311
		$65,139	AP (1^{st} Y)	$64,944		$65,096	AP (1^{st} Y)	$64,944
Indepen-dent – Samples T Test	Mean Difference= -$622.25 t= -.92 df=38 Sig. (2-tailed)=.36				Mean Difference=$773.80 t=1.12 df=38 Sig.(2-tailed)=.27			

Note: AP=Assistant Professor; Y = Year

For an exploratory purpose, we compared the total amount of salaries paid to an assistant professor in the full tenure track under the traditional model of salary increase versus the Model of Graded Salary Increase. The results showed that universities could save over $6,000 in one assistant professor's salary in 6 years of tenure track under the Model of Graded Salary Increase in comparison to the amount under the traditional model of salary increase. (See Table 5).

Table 5
MEAN DIFFERENCES OF ANNUAL SALARIES OF ASSISTANT PROFESSORS IN 6 YEARS OF TENURE TRACK UNDER THE TRADITIONAL SALARY INCREASE MODEL (TSIM) VERSUS THOSE UNDER THE MODEL OF GRADED SALARY INCREASE (MGSI)

Year	Pay Difference Using TSIM versus MGSI New Assistant Professors Hired in 2005	Pay Difference Using TSIM versus MGSI New Assistant Professors Hired in 2006	Pay Difference Using TSIM versus MGSI New Assistant Professors Hired in 2007	Pay Difference Using TSIM versus MGSI New Assistant Professors Hired in 2008
2005-2006	1st Year: $0			
2006-2007	2nd Year: $1,232	1st Year: $0		
2007-2008	3rd Year: $1,877	2nd Year:$1,281	1st Year: $0	
2008-2009	4th Year: $1,921	3rd Year: $1,951	2nd Year: $1,320	1st Year: $0
2009-2010	5th Year: $1,328	4th Year: $1,997	3rd Year: $2,011	2nd Year: $1,368
2010-2011	6th Year: $38	5th Year: $1,381	4th Year: $2,059	3rd Year: $1,684
2011-2012		6th Year: $40	5th Year: $1,424	4th Year: $2,133
2012-2013			6th Year: $43	5th Year: $1,475
2013-2014				6th Year: $43
Total	$6,396	$6,650	$6,857	$6,703

DISCUSSION

This paper tested the Model of Graded of Salary Increase as a possible solution to the problem of salary compression and inversion. Faculty salary data collected by the CUPA-HR in the years from 2005 to 2014 were used to test the model in comparison to the traditional straight salary increase model. The results showed that the proposed model overall solved the problems of salary compression and salary inversion. One condition, however, must be met for this model to work: a consistent salary increase rate over the years. This model is aimed to reward assistant professors' tenure by putting increasing weight on the salary increase rate toward the end of their tenure track. If the salary increase rates fluctuate downward, then increasing weight of salary increase rates will be evened out. In order to maintain a consistent salary increase rate over the years, a university needs to create a reserve fund for salary. In years of high salary budget, the university should put aside certain amount in the reserve fund so as to maintain a consistent salary increase rate in years of low salary budget.

Our test results also showed that the proposed model considerably lower the total amount of salary the university pays to an assistant professor in 6 years of tenure track. The amount saved can be used to reward professors based on their performance level independent of their tenure. As we mentioned earlier, this proposed model only focuses on the tenure factor. However, performance factor can be incorporate in the model too. In addition to constants for tenure, other constants can be created to reflect different levels of performance. Assistant professors' salaries can be determined by both tenure and performance level by following the formula below:

Salary = Previous Year's Salary * (1+Average Salary Increase Rate*Tenure Constant*Performance Constant).

One more merit for the graded salary increase model proposed by this paper is that it is easy to administer, which wins over the contest against aftermath salary adjustment.

Salary compression and salary inversion are serious compensation problems. It is closely related employees' motivation and turnover intent. Our proposed model appeared to solve both problems from the mathematical perspective. The next step is to test the model in a real work setting on its practicality.

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APPENDIX A

An Example of Calculation of Salary Increases

Using the Traditional Salary Increase Model and the Graded Salary Increase Model

I. The Model of the Traditional Salary Increases

1st Year: The mean salary of new assistant professors in Agriculture/Agriculture Operations/Related Science in 2005: $55,911 (CUPA-HR Faculty Salary Survey)

2nd Year: The mean salary of the professors in 2006: $55,911 * (1+2.36%) = $57,231
3rd Year: The mean salary of the professors in 2007: $57,231 * (1+2.36%) = $58,582
4th Year: The mean salary of the professors in 2008: $58,582 * (1+2.36%) = $59,965
5th Year: The mean salary of the professors in 2009: $59,965 * (1+2.36%) = $61,380
6th Year: The mean salary of the professors in 2010: $61,380 * (1+2.36%) = $62,829

II. The Model of the Graded Salary Increases

1st Year: The mean salary of new professors in Agriculture/Agriculture Operations/Related Science in 2005: $55,911
2nd Year: The mean salary of the professors in 2006: $55,911 * (1+2.36%*0) = $55,911
3rd Year: The mean salary of the professors in 2007: $55,911 * (1+2.36%*.5) = $56,571
4th Year: The mean salary of the professors in 2008: $56,571 * (1+2.36%*1) = $57,906
5th Year: The mean salary of those professors in 2009:$57,906*(1+2.36%*1.5) = $59,956
6th Year: The mean salary of those professors in 2010: $59,956 * (1+2.36%*2) = $62,786

WALMART-BHARTI JOINT VENTURE: FORMATION, BREAKUP, & STRATEGIES

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ABSTRACT

This case study article discusses the following subjects as they relate to the formation and breakup of Bharti-Walmart joint venture in India: (a) The Indian legal, economic, and social environment (b) Formation of Bharti Walmart joint venture, (c) Breakup of Bharti Walmart Joint Venture, (d) Walmart's contributions, (e) Walmart's criticisms, (f) Walmart's strategies after joint venture breakup, and (g) India's foreign direct investment strategy in retailing. The article also proposes several hypotheses for future research.

Keywords: *Bharti-Walmart joint venture formation and terms; Bharti-Walmart joint venture breakup and reasons; Walmart's contributions; Walmart's criticism; India's foreign direct investment laws; Walmart strategies in India; and suggestions for India's foreign direct investment policy.*

INTRODUCTION AND PURPOSE

The Bharti Enterprises of India, a premier business conglomerate in India, and Walmart of U.S.A., the largest retailer in the world, made a historic partnership agreement to operate wholesale cash and carry stores in India. The joint venture, however, lasted only for a few years before they cancelled it.

The objectives of this case study article are to discuss the following topics:

1. The Indian legal, economic, and social environment related to this joint venture
2. Formation of Bharti Walmart joint venture
3. Breakup of Bharti Walmart Joint Venture,
4. Walmart's contributions,
5. Walmart's criticisms
6. Walmart's strategies after joint venture breakup
7. India's foreign direct investment strategy in retailing

An important related objective of this research is to propose—based on the multitude of facts and data used in this article—several hypotheses which have been presented in this article for future research.

INDIAN LEGAL, ECONOMIC AND SOCIAL ENVIRONMENT

Indian Economy and Society

India, with its more than 1.2 billion people, is the largest democracy and the second most populous country in the world. However, it is also one of the poorest nations on this planet. According to the World Bank, India, with its 2013 per capita nominal gross domestic product (GDP) of $1,499, ranked #148 in the world. According to the same source, here is how some other countries stood in terms of their per capita nominal GDP and ranking in the world: Monaco with $163,026 ranked #1; U.S. with $53,143 ranked #13; China with $6,807 ranked #84;

Thailand with $5,779 ranked #93; Bhutan with $2,498 ranked #132; and Pakistan with $1,299 ranked #152. (Wikipedia contributors. "List of countries by GDP (nominal) per capita." Wikipedia, The Free Encyclopedia.)

India had an estimated unemployment rate of 8% in 2013. The corresponding numbers for China were 4.1% (December 2013); for Pakistan, 6.6 % (2014), for Thailand, 0.9% (May 2014), and for U.S., 5.6% (December 2014). (Wikipedia contributors. "List of countries by unemployment rate." Wikipedia, The Free Encyclopedia.)

The cumulative value of foreign direct investment (FDI) received by India as of December 31, 2013 stood at $310 million; with a world rank of 20. The corresponding figures for the U.S. were $2,815 million (#1); China $1,344 million (#4), Thailand, $193.7 million (#29); and Pakistan, $22.73 million (#68). The world has a whole received a total of $16,360 million in FDI. (Wikipedia contributors. "List of countries by received FDI." Wikipedia, The Free Encyclopedia.)

India had a current account trade deficit of $91.47 billion in 2012; it ranked 190 in the world. The corresponding numbers for U.S. were $440 billion in 2012 (# 192). On the other hand, China had a current account surplus of $213.8 billion (#1); Pakistan had a current account surplus of $0.268 billion, and Thailand had a current account surplus of $11.9 billion (#25). (Wikipedia contributors. "List of sovereign states by current account balance." Wikipedia, The Free Encyclopedia.)

A number of Indians are highly educated; a number of them live in the U.S. and other countries, a number of them regularly travel abroad, and a number of them are millionaires and billionaires. All the same, however, Indians cannot forget that their country was invaded and ruled by the British for about 200 years; and that it was repeatedly invaded and ruled by the Arabs for hundreds of more years before the British.

Based on these data and information, the following hypothesis is presented:

H1 India is way behind countries such as China to attract much needed foreign direct investment to help grow its "overall economy" due to its laws, bureaucracy, and corruption.

The State of Retailing Industry in India

India's retailing industry mainly consists of small, sometimes very small, shops owned and operated by their owners and their family members. They include the grocery stores, kirana stores, vegetable and fruit stands, paan shops, convenience stores, hand carts, street vendors, and the like.

In the case of vegetables and fruits, shoppers often have a chance to touch and feel the products. They can also examine various types of grains, nuts, and spices. If the shopkeepers know you, you can also take the items such as fabrics home for family approval. Bargaining for prices is a norm; although some stores follow the fixed prices policy. Packaged products are legally required to display their maximum price. Once purchased, the items are non-returnable, especially the perishable items. Since a large part of the shopping is for essential items, returning items is an exception rather than a rule. Most purchases are small in value and paid for in cash.

Each shop generally specializes in selling a limited number of related items. The shopper has to go to different shops to purchase different categories of household items. Often items lack information about their origin, maker, ingredients, and composition. Using technology is almost absent. Overall, the unorganized small shop retailing industry lack the convenience, quality, and cost-advantage that organized large scale retail industry can offer the shoppers.

There are several middlemen between the farmers, producers, and retailers. Each intermediary in the chain adds its own costs of doing business to the produce and the product before they reach the retailer and finally to the consumer. According to some estimates, small Indian farmers and manufacturers get only about one-third of what the consumers pay. Intermediaries keep the two-thirds. The small shops also cannot take advantage of large scale buying from wholesalers.

A good portion of all kinds of perishable items is regularly spoiled due to poor or non-existent cold storage facilities at different stages between the farmers and the consumers.

India's retail and logistics industry employs about 40 million Indians, 3.3% of Indian population. (Wikipedia contributors. "Retailing in India." Wikipedia, The Free Encyclopedia.)

Based on these data and information, the following hypothesis is presented:

> *H2 On the one hand, India's retail industry is very positive for keeping and creating millions of jobs in this industry. On the other hand, however, it is very negative for its millions of customers in the matters of cost, convenience, health, and safety.*

India's FDI Retailing Laws

The above facts show that, on the one hand, India is one of the poorest countries in the world and it can clearly use billions of dollars in FDI in its retail industry year after year for its economic growth. On the other hand, however, it is also difficult for India to place a blind trust in its foreign partners. As such, India wants to receive those investments in a way that is generally satisfactory to its various stakeholders who often have divergent or opposing views. It is a very difficult task to accomplish to say the least. Its laws related to the FDI in retail industry such as those narrated below are a result of these multidimensional backgrounds and views.

India has separate laws for FDI in single-brand stores and multi-brand stores. It allows 100% foreign ownership in single brand retail stores such as Nike and IKEA. However, with 51% or more ownership in such stores, the foreign investor has to source 30% or more of their goods locally from small and medium size firms. (Government of India, "FDI Policy in Multi Brand Retail," 28 November 2011.)

Beginning September 2012, Indian laws also allow foreign companies to own up to 51% of multi-brand retail stores, such as Walmart. These foreign investments are also subject to sourcing 30% of their requirements from local small and medium size firms (Government of India, "FDI Policy in Multi Brand Retail," 28 November 2011.)

Indian laws permit 100% foreign ownership in wholesale businesses. Such whole sellers, however, can only sell to retailers, not to the general public. (Government of India, "FDI Policy in Multi Brand Retail," 28 November 2011.)

FDI should be of $100 million or more spread over a three year period. Half of this should be invested in the back-end infrastructure, and the other half in the front-end operations. (Government of India, "FDI Policy in Multi Brand Retail," 28 November 2011.)

India's FDI Retailing Laws: Central vs State Governments

The FDI laws have been enacted by India's central government. However, it is up to its individual states to decide where FDI in wholesale or retail industry should be located. This is further limited by the requirement that the city in which FDIs can be located should have a population of a million or more. (Government of India, "FDI Policy in Multi Brand Retail," 28 November 2011.)

Arvind Kejriwal, whose Aam Aadmi Party came to power in the State of Delhi in December 2013, told the central government that while it is not closed to FDI in other sectors, it cannot permit foreign multi-brand supermarkets to operate in the State because doing so would wipe out thousands of small shop owners and neighbourhood stores (Ghosh, 2014). The Aam Aadmi Party thus rescinded the earlier permission that was given by the Congress Party in power at the time, for allowing FDI to establish such retail stores in Delhi.

Similarly, the new Bhartiya Janata Party government, which came back to power in December 2013 in the State of Rajasthan, told the central government that it will not allow FDI in multi-brand retail industry in Rajasthan because of its adverse consequences for the state's various stakeholders. The FDI permission was earlier given by the state government then led by the Congress Party. (Mathew, 2014.)

The central Commerce Minister Anand Sharma expressed his frustration telling reporters that states which had given their nod to the new FDI policy could not throw it out of the window. We are not a banana republic, he said (Ghosh 2014). Such reversals have raised alarms both in India and abroad. The central government is seeking expert legal advice whether a once opted-in state could opt-out.

Based on these data and information, the following hypothesis is presented:

H3 Indian federal and state laws as they relate to the FDI in retail industry in India significantly discourage such investments.

FORMATION OF BHARTI-WALMART JOINT VENTURE

Walmart and Bharti Enterprises: An Introduction

Walmart is a mega retailer with headquarters in Arkansas, U.S.A., was established in 1962. On January 31, 2015, Walmart had 4,516 stores in the U.S., 647 Sam's Club, and 6,290 stores internationally; making a total of 11,453 units worldwide. (Walmart website, "Walmart Corporate Locations," 2015) It has 20 wholesale stores in India, which operate under the brand name Best Modern Price Wholesale. (Walmart website, Walmart India, 2015). It had net sales of more than $473 billion in its fiscal year 2014.

Bharti Enterprises, an Indian conglomerate headquartered in New Delhi, was founded in 1976. It had revenues of US$ 16.5 billion in 2014. It had 30,000 employees in 2010. Its subsidiaries include Bharti Airtel, Bharti AXA General Insurance, Bharti Realty, Bharti Retail, and Field Fresh Foods, among others. It presently has 220 retail stores operating under the Easyday name in various states of India. (Wikipedia contributors "Bharti Enterprises," Wikipedia, The Free Encyclopedia.)

India's Growing Retail Industry

According to the Investment Commission of India, the Indian retail sector is expected to grow almost three times its current levels to $660 billion by 2015 (Muthukumar and Subasri 2014-2015). According to another projection, cash-and-carry business is expected to grow to about $22 billion business in India by 2017 (Baily, 2013). Similarly, a study by McKinsey &

Company shows that India will climb from its position as the twelfth-largest consumer market in the world today, to the world's fifth-largest consumer market by 2025 (Ablett, et al., 2007).

Then there is the problem of lost opportunity. The retail industry in India is flooding with some major name national and international competitors. These include Marks & Spencer, Reliance Industries, the Tata Group, the RPG Group, the Aditya Birla Group, TESCO, Carrefour, Pantaloons, Mahindra Retail, and more. It is to Walmart's advantage to get into the Indian retail game sooner than later. It could not afford to miss the opportunity. If other competitors can live and deal with India's laws and labor, Walmart can do it too.

Joint Venture Agreement

In spite of all the legal restrictions and uncertainties at the central and state levels mentioned above, Walmart saw a huge growth potential in India as mentioned above. It, therefore, signed an agreement with Bharti Enterprises on November 27, 2006 to establish a 50-50 joint venture to do wholesale business there. The partnership called Bharti Walmart Private Ltd, would operate stores called Best Price Modern Wholesale.

Both parties brought their own strengths to the joint venture. Walmart came with its financial strength and support, its globally recognized brand name, and its expertise in national and international retail management. It is also known for its expertise in just-in-time inventory management, retail information management, and retail transportation management.

Bharti Enterprises brought to the table its familiarity with the Indian laws, culture, economy, and labor. It is also involved in agribusiness, food processing, retailing, insurance, and telecom industries nationally and internationally.

Walmart also did not want to go alone in India with all its challenges and uncertainties. Even in Germany, a west European country, it had to incur heavy losses before withdrawing from there entirely.

Joint Venture Terms

The historic joint venture included the following terms.

Walmart invested $103 million in the venture (Rana, 2014.)

The retail shops will be owned by Bharti Enterprises under the Wal-Mart franchise. Bharti is expected to pay royalty for the cash and carry operations. It is also expected to pay various kinds of fees to Walmart such as, franchises fee, software license fee, administrative support fee, design fee, technical training fee, and documentation fee (The Economic Times, 2007).

Walmart would manage Bharti's multi brand retail convenience stores and supermarkets called EasyDay. It was believed that this arrangement would help Walmart to introduce its own brand in India later on. (Banjo, Shelly and R. Jai Krishna, 2013).

The whole sale cash and carry partnership would sell a variety of products ranging from grocery to apparel and consumer electronics to retailers, offices, and organizations.

Since the Indian laws allow FDI in retail industry only in cities with a population of a million or more, it is not easy to find suitable real estate in these large urban areas. The partnership, therefore, planned to establish relatively small size stores compared to their larger counterparts in other countries.

Based on these data and information, the following hypothesis is presented:

H4 The Indian economy, in spite of its federal and state laws which are not friendly to FDI in retail industry, is large and growing enough to attract some FDI in this industry.

BREAKUP OF BHARTI-WALMART JOINT VENTURE

A successful functioning of a joint venture requires that the partners clearly define its goals, clearly spell out their respective responsibilities to accomplish these goals, and carry out those responsibilities. A joint venture's success or failure depends not only upon the partners accomplishing these goals and carrying out these responsibilities, but also on the socio-economic and political variables beyond their control.

So when on October 9, 2012 the Walmart and Bharti announced the breakup of their dream team and decided to go separate ways in both retail and wholesale ventures, people wondered why? There are several reasons behind this widely celebrated Indo-American partnership.

Corruption and Politics

Some primary reasons for the low and slow flow of FDI in India are the Indian legal and political factors. Indian laws are considered unclear and uncertain; and their implementation is routinely marred by bureaucracy, hurdles, delays, corruption, and grafts. It is not uncommon to be first charged for taking a bribe and then let go by giving another bribe. An editorial in the The Economic Times said it like this: "No company can operate without greasing a palm here or shelling out unaccounted amounts there." (ETRetail.com., 2013).

In September 2012, the Congress Party led Indian government stated that it would allow foreign supermarket chains to take majority ownership in multi-brand retailing in India. The current BJP led government, however, opposes it. It, however, would not cancel such applications already approved. However, no global supermarket chain has been rushing to apply.

Sourcing Requirement Laws

The requirement that those interested in making FDI in India's wholesale or multi-brand retail industry should source at least 30% of their products from local small and medium size industries is problematic for them. While this condition may be met in sourcing textiles and handicrafts items, it may not be easy to comply with it in sourcing some other products such as electronics.

Scott Price, Wal-Mart's chief executive called it as "critical stumbling block" to establish its consumer stores in India. He also said that these small and medium size companies don't have the ability to meet the large scale requirements of large retailer. He also said that because the Indian retailers are not bound by this condition, it makes it an uneven playing field (Harris, 2013).

Foreign investors also find the requirement to invest 50% of the FDI in back-end infrastructure difficult.

Bharatiya Janata Party (BJP) leader Rajnath Singh is opposed to FDI in retail because multinational companies like Walmart are buying 80 per cent of their goods from countries like China. "India will become a dumping ground for Chinese goods." (Mookerji, 2012)

However, Rajan Bharti Mittal, vice- chairman and managing director of Bharti Enterprises, said that the Bharti-Walmart venture plans to source 90 to 95 per cent of the products locally. The only foreign stuff that could be sold at Walmart India would include some toys, appliances, olive oil etc. As for food items, around 98 per cent of the total is likely to be sourced from India. (Mookerji, 2012).

Questionable Investment in Cedar Support Services

In March 2010, Walmart invested $100 million in compulsory convertible debentures of Cedar Support Services (CSS). The CSS is both the parent company of Bharti Retail and the operator of the latter's front-end retail stores. These compulsory convertible (into equity) debentures in effect amounted to Bharti Retail ceding its control and management to Walmart. However, Indian laws don't permit FDI in front-end retail (multi-brand) stores.

In September 2012, P. Achuthan, a CPI (Communist Party of India) member of Rajya Sabha (India's upper house of parliament) asked the government of India about the legality of this Walmart investment. The Enforcement Directorate for alleged FEMA (Foreign Exchange Management Act) violations is investigating the issue. (Hindustan Times. "Wal-mart, Bharti deal: diary of a troubled marriage," October 10, 2013.)

Allegations of Corruption and Impropriety By Walmart

Concerned by its alleged corruption and other improper practices in Mexico, Brazil China, India and elsewhere, Walmart began a global review of its operations to assure that they are in compliance with both the U.S. Foreign Corrupt Practices Act and also the host country laws. "Its lawyers flagged India among the countries with the highest corruption risk." (Hindustan Times. "Wal-mart, Bharti deal: diary of a troubled marriage," October 10, 2013.)

As a consequence of this inquiry, Bharti-Walmart suspended its five top executives in November 2012. Walmart India CEO Raj Jain resigned in June 2013; he was replaced byRamnik Narsey. At Bharti Retail, Chief Operating Officer Mitch Slape, an old Walmart hand, was sent back to Walmart USA. These executives, however, were not charged for any wrong doing. (Hindustan Times. "Wal-mart, Bharti deal: diary of a troubled marriage," October 10, 2013.)

While lobbying is legal in the U.S., it is illegal in India. So when Walmart disclosed to the U.S. Senate and House of Representatives that it spent about $25 million since 2008 on its lobbying activities in India that included enhanced market access for investment in India, there was a huge uproar in the Indian Parliament which led to the Indian government starting an investigation against Walmart. (Hindustan Times. "Wal-mart, Bharti deal: diary of a troubled marriage," October 10, 2013.)

With all these allegations and challenges facing Walmart internationally, especially in India, its breaking up with Bharti Enterprises and taking complete control of its Indian operations appeared to be a logical thing to do.

Wal-Mart has invested more than $200 million on overhauling its worldwide operations in order to assure that these are in compliance with both the U.S. and the host country anti-corruption laws (Banjo, Shelly and R. Jai Krishna, 2013).

Bharti Enterprise's Reasons

Bharti Enterprises seemed to have its own reasons to call it quits.

Bharti Retail is interested in growing its own retail business involving various formats. With its 212 Easy Day stores, it already has a strong foothold in the industry. (Bose, 2013.)

The Bharti Enterprises is disappointed with the lack of growth in the number of the Best Price Modern Wholesale stores, which was growing but has now been stuck at 20 units. It is also concerned with these units' losses of Rs 372 crore as of December 2012. (Mookerji, Nivedita. 2013.)

Bharti Airtel, with billions in debt, is financially strained after buying some telecom firms in the developing world, including its purchase of Zain of Middle East and North Africa.

Terms and Costs of Joint Venture Breakup

Here are some of the main terms of the Bharti Walmart joint venture breakup.

Wal-Mart will acquire Bharti Enterprises' 50% stake in the 20 Best Price Modern Wholesale cash-and-carry stores that had been run by the Bharti Walmart joint venture. It would thus own it 100%, which is allowed under the India laws. (Banjo, Shelly and R. Jai Krishna, 2013.)

Bharti Enterprises would acquire the compulsory convertible debentures (CCDs) worth $100 million that Walmart had invested in Cedar Support Services, the parent company of Bharti Retail that operates its EasyDay stores. Bharti Enterprises would run them by itself now. (Bailay and Malviya, 2014.)

In monetary terms, Walmart spent $334 million to end its partnership with Bharti Enterprises. It paid $100 million to buy Bharti Enterprises 50% share in the partnership; and it took a $234 million loss for waiving the debt and other investments it had made in the Bharti Enterprises. (Bailay and Malviya, 2014.)

It may be noted here that Walmart also incurred costs and losses associated with the closure of its about 50 underperforming units in Brazil and China (NDTV 2014)

Other Joint Venture Breakups in India

The Walmart and Bharti is not the first international partnership breakup in India. Some other major names which have broken up their relationships or having problems working together include Procter & Gamble (USA) and Godrej; Telenor (Norway) and Unitech; Fiat (Italy) and Tata Motors Ltd.; Ford (U.S.A.) and Mahindra & Mahindra; McDonald's (U.S.A.) and Connaught Plaza Restaurants; Di Bella Coffee (Australia) and Sachin Sabharwal; and Honda (Japan) and Munjals; among others.

Based on these data and information, the following hypothesis is presented:

H5 The foreign companies in India, in its retail or other industries, should remain clear of any misbehavior in India, in their home country, or elsewhere in order to establish, stabilize, and grow their business in India.

WALMART'S CONTRIBUTIONS

Walmart, through its Bharti-Walmart joint venture, and through its other associations with India, has made some important contributions to the country such as follows.

Benefits of Best Price Modern Wholesale Store

According to a Walmart website, the Best Price Modern Wholesale Stores offers the following benefits.

"Best Price Modern Wholesale stores are a one-stop-shop that offers best prices with unmatched convenience, choice, quality and hygiene. The stores meets day-to-day needs of business members namely restaurant owners, hoteliers, caterers, fruit and vegetable resellers, kiranas, other retail stores, offices and institutions. Around 5,000 items, including food and non-food items, are available at competitive wholesale prices by lowering cost of operations. Over 95% of these items are being sourced locally, which in turn reduces the costs and eventually, the prices" (Walmart Website)

"A typical cash-and-carry store stands between 50,000 and 100,000 square feet and sells a wide range of fresh, frozen and chilled foods, fruits and vegetables, dry groceries, personal and home care, hotel and restaurant supplies, clothing, office supplies and other general merchandise items" (Walmart Website)

"Best Price Modern Wholesale stores have introduced several education programs for its members with customized modules for different target segments. A model 'Mera Kirana' has been created in each store that shares best practices with both, small and medium retailers. It also promotes usage of low cost modern techniques and processes such as assortment planning, layout and fixtures, displays, backroom, licenses, safe food handling, customer retention and value added services. Further, different educational programs for members on Taxation, Food Preparation, Food Safety and Category workshops are organized on a regular basis" (Walmart Website)

Best Price stores provide safe, clean, healthy, and hygienic food. Vegetarian products, Dairy, Meat & Fish departments are physically separated from each other to respect the religious sentiments of its members. All food equipment are sanitized every four hours. (Walmart website.)

Walmart plans to continue to improve India's infrastructure. It also plans to duplicate its no-questions-asked 'return policy' in India that it uses in other countries.

Corporate Social Responsibility

Bharti Wal-Mart has been involved in helping community and environment right from the beginning. It has provided pushcarts to the poor to help them build their business, it partnered with Coca-Cola India to plant trees in Amritsar, it partnered with Amritsar Municipal Corporation, to adopt and manage certain roads, it partnered with the Punjab government to launch skills training and centers, and it has supported schools and their underprivileged children there (Business Standard 2009).

Bharti Walmart joint venture has also sponsored a Women's Economic Empowerment Initiative to enhance economic opportunities for women in India (Bharti website).

Based on these data and information, the following hypothesis is presented:

H6 Walmart's continued presence and growth in India would be good for the Indian economy.

WALMART'S CRITICISMS

Walmart continues to be opposed primarily for one major reason: It destroys jobs most anywhere it goes. Let us look at it from the Indian perspective.

Destroying Jobs

Anand Sharma, India's then Commerce and Industry Minister, said that he expects new FDI in retail to create 10 million new jobs over three years, about five to six million of which would be in logistics. (Dhume, 2011).

However, that optimistic opinion does not present the entire scenario. This may be true if one looks only at the jobs created by FDI (Walmart and other international investments) in the new stores and infrastructure it helps develop. Actually, as many people argue, the FDI really destroy many more millions of jobs which are currently performed by the small kirana merchants, the small farmers, and the small intermediaries all over the country.

According to a study by Neumark et al, opening of Walmart stores clearly reduces local employment and payroll (Neumark et al., 2005).

However, according to a study by the Indian Council of Research in International Economic Relations (ICRIER), large corporate and FDI money in the retail sector would not harm the small retailer in the long run. The FDI in organized retailing would help overall consumer spending to increase and help improve the purchasing power of all income groups. Lower income consumers would benefit the most. (Joseph et al., 2008).

Right from the beginning, the Bharti-Walmart joint venture has raised concerns and protests by small shop owners, traders, hawkers, farmers, and trade unions who fear substantial job losses due to FDI entry in India's retail industry.

For example, several hundred shopkeepers in Delhi and elsewhere in the country protested the partnership on August 9, 2007. They chanted "Quit retail," echoing the famous "Quit India" slogan that Gandhi successfully used to gain independence from Britain 60 years ago this month. (Gentleman 2007). This time, however, Walmart does not appear to pull out of the growing Indian retail market.

Similarly, in November 2011 when India announced its policy to allow 51% foreign ownership in multi-brand retail, millions of small shop keepers, traders and others demonstrated against the policy throughout the country. (Chen, 2012).

Several hawkers and vendors protested outside the Walmart's head office in Gurgaon, on November 19, 2014 to bring attention to the damage it is causing them, the low wages it pays to its employees and the poor working conditions in its stores. (Chatterjee, November 20, 2014).

Likewise, as Walmart was about to open its 21st store near the Taj Mahal in Agra, India, the street vendors who sell similar goods as Walmart does protested the move saying it will take away their business and jobs. (Upadhyaya, 2015).

Retailing in the Disguise of Wholesaling

Under Indian laws, FDI partnered wholesale stores are allowed to sell only to "retail businesses" like shops, restaurants, vendors, hotels, and offices. Customers are required to have a photo ID to enter these stores. There is also a minimum purchase requirement so that individuals will not take advantage of the cards.

However, according to an undercover investigation by web portal Cobrapost.com, the international retailers, Wal-Mart, Metro Cash & Carry and Carrefour, do routinely sell their merchandise to individuals too. (Rajendran, 2014).

This violation of law by these companies hurts the poor small shops owners who are dependent on these individual buyers.

Based on these data and information, the following hypothesis is presented:

H7 Walmart would continue to face serious opposition from small local Indian merchants for their current and future unemployment.

WALMART'S STRATEGIES AFTER JOINT VENTURE BREAKUP

Walmart has several strategic alternatives to choose from after its breakup with Bharti Enterprises. Its decision would affect both its own future in Indian retail industry; as well as the overall flow of FDI in India. It can stay in India, first, by continuing and growing its wholesale business there; and, then, it can enter India's multi-brand retail business as and when it seems appropriate. Alternatively, it can pull out of India completely, as the French mega retailer Carrefour decided to do in July 2014.

Walmart's Strategy to Continue Wholesale Operations in India

Indian retail industry is expanding all over the country, both in the highly populated large cities and the less populated smaller towns. According to the Indian Brand Equity Foundation, the local retail market, with a value of about $518 billion, should grow to about $866 billion in 2015. For a comparison, the U.S. market would be about $424 billion in 2010. The organized retail sector in India, currently about 10% of the overall market, would grow up to about 20% by 2020. (Octogona, 2014).

According to Rachna Nath, a retail analyst for PricewaterhouseCoopers, the Indian retail market is estimated to expand to more than $1.3 trillion by 2020. It already racks up more than $400 billion in sales each year, but is dominated by traditional markets and mom and pop shops. (Banjo, Shelly and R. Jai Krishna, 2013)

Walmart, logically, has chosen to continue and expand its Wholesale Best Price cash-and-carry operations in India. It also plans to continue to make important contributions toward India's socio-economic environment. According to Walmart's international president, David Cheesewright, India is a long-term commitment for Walmart (Mookerji, 2014).

In April, Walmart announced plans to open 50 wholesale stores in the next four to five years to expand its footprint in the country (Indian Express, 2014). It recently acquired a wholesale store in Agra from its rival Carrefour, the French mega retailer who losing money on it and who has decided to exit India due to several reasons.

For a general comparison, Walmart opened under 40 stores annually in China since 2008. In Mexico, its neighboring country, however, it opened an average of 266 stores every year since 2008. While this comparison may not be totally objective, it does throw some light on what India offers in terms of both the opportunities and the challenges. (The Telegraph, 2013.)

Walmart's Strategy to Enter India's Multi-Brand Retail Industry

Walmart would continue to wait for appropriate time and opportunity to enter India's multi-brand retail business. If it decides to do so, it may do it on its own, it may take an India partner, or it may acquire a competitor.

E-Commerce

Online retailing giant Amazon.com plans to invest $2 billion to expand its operations in India that it began in February 2012. Similarly, Flipkart, India's largest e-retailer, is planning to raise $1 billion to expand its business. According to Boston Consulting Group, Internet users in

India are expected to increase from 120 million in 2011 to 330 million by 2016; and their online shopping has room for growth. (Zack, 2014)

Walmart is also starting its own B2B online business to participate in India's growing online business market.

Based on these data and information, the following hypothesis is presented:

H8 Walmart would continue to evaluate its various strategies to remain in India or to quit India.

CONCLUDING THOUGHTS: INDIA'S FDI STRATEGY

India has some its own strategic choices to make too.

Multiple Stakeholders, Conflicting Interests

India's retail industry is at cross roads. Its modernization, on the one hand, would destroy millions of small businesses and the related jobs. It, on the other hand, would also improve country's infrastructure, create millions of different kinds of jobs, allow farmers and producers to receive more for their efforts, and allow consumers to pay less for their purchases as they shop in stores which more consumer friendly in several ways.

India needs additional capital and modern techniques of technology and management to modernize its age-old, inefficient and expensive retailing industry.

Large international retailers such as Walmart, Carrefour, and Tesco; and India's own large organized retailers such as, in addition to Bharti Retail, Future Group's Pantaloon Retail, Spencer's Retail, Reliance Retail, Birla More, and Tata's Westside are already providing some such resources. However, much more needs to be done.

However, the large and growing retailers, foreign or Indian, single brand or multi-brand, are also known for hurting small businesses and killing their jobs; millions of them.

This opposite environment of creative destruction would play out irrespective of the origin of the modern retailing firms, whether they are national or foreign.

China Example

FDI in retail in China provides a good benchmark for FDI in retail in India. China first allowed FDI in its retail in 1992 at 26%. It gradually increased it to 100% in 2004 in selected cities, as it tried to protect and strengthen its own retailers. (Dutta, 2011.)

India's Strategy

Thus, on the one hand, it appears logical for India to go slow in allowing FDI in its retail sector, as it tries to protect its small scale businesses. However, on the other hand, it also makes sense for India to recognize that China, one of its major competitors in the world markets, is already years ahead in the retail business in terms of its efficiency and effectiveness as they relate to different stakeholders. It, therefore, would make good sense for India to expedite the flow of FDI in its retail industry.

If India slows down in modernizing its retail industry, it would also continue to fall behind the countries such as China in developing its export business. Why would an importer pay more for Indian produce or products when it can get them at much lower prices elsewhere such as from China?

Under these circumstances, India should adopt a strategy, on the one hand, of facilitating the modernization of its retail industry. And, on the other hand, it should also take all the necessary steps to take proper care of its people who would be adversely affected by retail industry modernization.

It should be recognized that the modernizing retailing would increase per person output, the total national GDP, and the average per capita GDP; as it would also reduce the total cost of production. In other words, the modern retailing would increase the total size of the rotti (Indian bread), as compared to its size currently rolled out by its grossly inefficient retailing industry.

India should then use its increasing size of rotti to take proper care of its people who are hurt by the modernization, in retailing or elsewhere, by providing them the benefits such as follows: Unemployment compensation; medical care; general and specialized education to prepare for different jobs and opportunities; and low cost loans and guidance to start new businesses.

It would be a win-win phenomenon for India, not a zero-sum game.

Based on these data and information, the following hypothesis is presented:

H9 *It is in India's major interest to promote modern retailing in the country. It should develop comprehensive laws and regulations to help it grow at a rapid rate; including its FDI component. It should also establish equally comprehensive laws and regulations to help the millions of small entrepreneurs who would be unemployed by the growth of its modern retail industry.*

ACKNOWLEDGEMENTS

Thanks are due to Mr. Sungsik Choi, the author's Graduate Assistant for his research assistance; and to Pace University for making his valuable help available to the author. The author is also thankful to all the sources which have been used in writing this case study article.

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