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# Managing Global Transitions

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EDITOR
Boštjan Antončič

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EDITORIAL OFFICE
University of Primorska
Faculty of Management Koper
Cankarjeva 5, SI-6104 Koper, Slovenia
*Phone:* ++386 (0) 5 610 2021
*Fax:* ++386 (0) 5 610 2015
*E-mail:* mgt@fm-kp.si
*www.mgt.fm-kp.si*

*Managing Editor:* Alen Ježovnik
*Editorial Assistant:* Tina Andrejašič
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*Cover Design:* Studio Marketing JWT
*Text Design and Typesetting:* Alen Ježovnik

# *Managing Global Transitions*
## *International Research Journal*
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# *The Editor's Corner*

We set ourselves an ambitious task at the beginning of this year, namely that we would publish four issues of *Managing Global Transitions* a year. We are now proud to announce that we have reached this objective. Since we have lately received a number of interesting articles dealing with findings and studies in a variety of fields, we believe that publishing four issues of our journal a year is a realistic project.

The Winter issue (Volume 4, Number 4) continues gaining international recognition and focusing on transition research, as well as emphasizing its openness to different research areas, topics, and methods and the international and interdisciplinary research nature of scholarly articles published in the journal.

The current issue covers topics such as business internship, experiential learning, strategic initiatives, financial performance, export performance, agriculture and food industry, the issue of personality traits, and training.

The first paper is by David Starr-Glass, who looks at enhancing internship experience. The author suggests redesigning and evaluating internships by emphasizing transferable learning. He claims that such redefined internships may optimize learning opportunities and the growth of human and social capital for all stakeholders.

In the second paper, Husam Aldeen Al-Khadash and Mete Feridun present the Amman stock exchange. In addition, the article aims at investigating the link between the practice of Activity Based Costing, Just In Time and Total Quality Management as strategic initiatives and the improvement in corporate financial performance of some companies in Jordan.

In their paper, Mirna Leko-Šimić and Jasna Horvat discuss export performance as one of the most widely used measures of company performance today. The authors also analyze the rather poor export performance of Croatian companies.

The Lithuanian authors, Viltė Auruškevičienė, Laura Šalčiuvienė, Rūta Kazlauskaitė, and Andrius Trifanovas look into the problems of identifying critical factors in an industry. They also examine what makes some firms highly successful, when others have rather moderate success within the same industry.

The fifth paper explores globalization patterns in Slovenian agricul-

ture and food trade. It also examines prevailing trade structures and trade types to study differences and similarities between the trade of primary and processed agricultural and food products. It was authored by Štefan Bojenec and Darja Majkovič.

Finally, Aleksander Zadel argues that managers are able to develop top quality management and top quality competences irrespective of their personality traits. He also looks at different stages of an individual training programme and the development of competences.

Boštjan Antončič
*Editor*

# *Enhancing the Transformative Potential of Business Internships*

David Starr-Glass

Business internships involve students, sponsoring firms, and institutions of higher learning. As part of a program to enhance internships, we reviewed the experience of a small number of business interns working in Central Europe. Their experiences were characterized as essentially situation-specific learning, competence training, and affirmation of coursework. Student perceptions suggest prematurely defined boundaries that limit the theoretical advantages of internships. In order to enhance the internship experience, we suggest redesigning, sustaining, and evaluating internships emphasizing transferable learning, discovery of self in work, reflection and process, liminal experiences, and challenging espoused theory. We suggest that such redefined internships may optimize learning opportunities and the growth of human and social capital for all stakeholders, which are of particular benefit in the transforming business contexts of central and southern Europe.

*Key Words:* business internships, experiential learning, career, transitional economies, transforming education

JEL *Classification:* I21, I23, J24

## Introduction

Potentially, collegiate internships provide constructive and insightful experiences for all stakeholders, namely the participating student interns, sponsoring firms, and collegiate initiators. As an accredited American college operating in the Czech Republic, we were interested in creating local internships for our senior business students; however, the resulting internships were more a product of personal connections than of thoughtful design, or concern, for all stakeholders involved. In common with many other transforming social and economic environments, the economies of Central Europe are characterized by an impetus for change, residual inertia from previous totalitarian command economies, slowly developing managerial confidence, and challenges and possibilities for career development (White 2005). These task environment characteris-

*David Starr-Glass* MBA M.Ed. *is an Associate Professor with the Center for International Programs (Prague Unit), Empire State College, State University of New York,* USA

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tics suggest challenging opportunities for local firms, new business graduates entering the job market, and local institutions of higher education. Nevertheless, our initial internships were more concerned with student interest, and narrower practical and pragmatic issues.

This paper results from the experiences of a small group of students who successfully completed internships with our college in Central and South Eastern Europe. We were interested in understanding their assumptions about internships and the ways in which they structured the internship experience to negotiate relationships and roles. However, we believe that uncritical and pragmatic student assumptions and experiences may also have resulted in what we understand as 'self-limiting internships', which provide impoverished learning opportunities for all stakeholders. Before considering the specifics of student perception, we will examine the general models and theoretical foundations upon which professional and collegiate internships are constructed.

**Internship Models: Professional and Collegiate**

In America, professional internships have a long history in fields such as architecture, education, engineering, and medicine. When associated with a profession, internships center on the acquisition of a corpus of specialist and technical knowledge under the supervision, authority, and jurisdiction of a designated professional body. In this setting, internships serve many functions: defining the profession, socializing the novice, and lending the credence of competence to the various publics that lie outside the profession (Wilensky 1964).

In professional internships, power and authority are asymmetrically distributed, being almost exclusively located in the sponsoring organization. Traditionally, educational goals have focused on the specific with experiences geared to train interns in given tasks, to shape their work behavior, and to socialize them into the language, conventions, and norms of the profession. Increasingly, however, professional bodies have viewed these goals as excessively focused, or restrictive, and have sought to broaden the educational goals. For example, the revised internship regulations in architecture (Quinn 2003), and school leadership (Williams, Matthews, and Baugh 2004), point to such a purpose.

Collegiate internship programs initially mirrored professional internship models. In what is reputedly the first such program – an accounting internship at the University of Cincinnati in 1906 (Henry, Razzouk, and Hoverland 1988) – a narrow range of skill acquisition, professional so-

cialization, and limited generalizable learning were all emphasized. It is unclear whether this was the result of purposeful design or default. The loci of power, supervision, authority, and jurisdiction in collegiate internships are different: they are shifted from a narrow, pragmatically defined profession to the more educationally diffuse academy. Potentially, such a shift might have been expected to lead to a broader educational perspective; however, this has not generally been the case.

Within American business education, internship opportunities have increased dramatically over the last 25 years. In 1980, only about 3% of undergraduates had been interns, but by the year 2000 that number had risen to more than 50% (Coco 2000). More students were involved, but the perceived legitimacy of the internship had also increased. In a recent study of 242 business departments, almost all of them (91%) offered internship programs as an undergraduate option. Students were equally enthusiastic with almost a third (32%) having been interns by their junior year; even more (39%) opting for this experience in their senior year (Coco 2000).

Early research showed that students perceived internships as supplementing or enhancing their academic studies (Hite and Bellizzi 1986). Perceptions regarding academic benefits have persisted and strengthened (Cook, Parker, and Pettijohn 2004). Students have also increasingly considered that a positive internship experience correlated with subsequent hiring success (Scott 1992); that a differential hiring advantage existed *vis-à-vis* non-interns (Pianko 1996); and that internships provided opportunities for wider job searches including the chance to explore different business sectors and to sample organizational contexts (Cannon and Arnold 1998). Many of these perceptions seem realistic. For instance, speculation that successful internships are associated with improved academic and employment outcomes proved to be generally accurate (Knouse, Tanner, and Harris 1999), although the nature of that relationship may be more subtle and tenuous (Gault, Redington, and Schlager 2000).

As an accredited American college with an international program in the Czech Republic, we tacitly accepted that our business students would have similarly positive perceptions regarding successful internships. In their senior year, our students must complete a capstone experience that can be either a supervised dissertation or internship. In Czech higher education, the dissertation is a standard element in earning a degree and it is understandable that, given this cultural preference, most of our stu-

dents complete a dissertation. However, a small but increasing number of students has completed the internship option. We wished to examine the experiences of these students as part of a process of increasing the quantity, and enhancing the quality, of internship offerings.

**Methodology**

Twelve students completed business internships within the last two years. All but one had completed the internship for academic credit; the exception used her internship experiences indirectly as the basis of a formal dissertation. Internships were carried out in Czech Republic (8), Austria (1), Croatia (1), Hungary (1), and Slovakia (1). Most interns were male (9), reflecting the composition of the student body. Sponsoring firms were equally divided between small (often family) businesses (6) and international companies (6). Interns typically served a minimum of 150-hours in quality assurance, marketing, and sales departments of mainly service sector industries.

To qualify for academic credit, students were required to maintain a reflective journal and write a series of short papers on relevant theoretical issues connected with the experience. We reviewed the journals and papers that had been submitted and also conducted unstructured individual exit interviews with interns, where we sought their opinions and impressions of the experience. We analyzed all of this material for themes and linkages without imposing restrictive *a priori* data classification (Adam and Schvaneveldt 1985; Shaffir and Stebbins 1991). We believe that this resulted in a purposeful exploration of intern experiences, 'less driven by specific hypotheses . . . more concerned with emergent themes' (Cassel and Symond 1994, 4).

We appreciate that our conclusions are limited in their generalizability by the small number of interns and the purposeful sampling employed. We recognize that a fuller and richer appreciation of the impact of internships would have been gained had we also interviewed corporate supervisors associated with the internships. Anecdotal feedback suggests that this relationship was generally very formal and bureaucratic; only occasionally did an informal mentoring scenario develop. We do not consider that the benefits of the internship experience accrue only for the intern; we consider that it is more likely that such benefits arise within the context of the shared interaction between all stakeholders. In a subsequent phase of this study we plan to capture the reactions, attitudes, and understandings of those working with interns in the sponsoring firm.

**How Interns Perceived their Experiences**

Six perceptions emerged from our analysis: (1) situation specific learning; (2) competence training; (3) product and instrumentality; (4) terminal engagements; (5) acceptance practice encountered; and, (6) 'coloring between the lines'. This cluster of perceptions can be seen as describing the internship experience; however, as we will suggest later, it can also be seen as setting implicit although unarticulated boundaries, and limits, on the experience.

*Situation Specific Learning.* In selecting and undertaking internships, students saw them as providing specific and focused utility. All interns reported positive and enjoyable experiences but saw those experiences not in a general social terms but as associated with specific tasks, or interests, in the firm. On completing the internship, learning gains and experience was considered limited to the tasks and departments within which the intern was involved.

*Competence Training.* Many students saw a culmination, or confirmation, of their theoretical business studies in the workplace. There was a broadly held sense of the dichotomy between theoretical underpinnings and a more robust work world. Often, students came to see differences between what they have learned and what the corporate sponsor actually did. While comparing, questioning, and reflecting on differences is undoubtedly valuable, interns generally considered that they were learning new skills and approaches rather than reflecting on difference.

*Product and Instrumentality.* Most internships were understood as focused on a product, or specific outcome: completing an assigned project, assisting with a special report, etc. If there was an educational element it was associated with the work product rather than with the process by which that product was completed. Interns placed value on new skills and competencies, and internships were perceived as providing valuable assets for future employment, or for career – at least as an addendum to the intern's resumé.

*Terminal Engagements.* In our program, as is generally the case in America (Coco 2000), students completed internships in their senior year. Perhaps because of this positioning, the internship was perceived as a terminal academic engagement rather than as the beginning of a career, or a transition between the two. Interns often saw their experiences in terms of psychological closure with respect to their academic studies. We spec-

ulate that internships perceived as terminal engagements result not only in interns seeing themselves as temporary and transient participants, but being considered as such by sponsoring firms.

*Acceptance of Practices Encountered.* Students often saw internship as contexts for testing the academic knowledge they had acquired. Sometimes, they discover that what they have been told in the classroom, or had been led to believe was done, clashed with their work experience. Sometimes interns came to appreciate that the sponsoring firm had different priorities and practices. Internships represent socialization experiences, where business or professional norms and culture are explored. They are also potentially intellectual and learning experiences. However, interns generally elected to affirm work practices with which they were confronted and rarely challenged, corrected, or expressed concern if they felt that practice did not conform to prior academic knowledge. This was variously attributed to politeness, uncertainty, lack of empowerment, or a sense that such differences should not be shared.

*Coloring Between the Lines.* This theme, which is similar to the last, describes an attitude, sometimes expressed as a strategy, associated with limited engagement in the sponsoring firm. Interns saw their 150-hours engagement and visitor status, as circumscribing their ability to alter the organizations in which they were hosted. They saw the internship as something that was to be completed successfully and expeditiously and engaged in 'color between the lines': conforming to organizational rules, accepting existing organizational culture, and diligently completing their projects. A lack of actual power, or a perceived sense of lack of empowerment, led to the limitation of criticism and the consideration of more creative approaches to the tasks that they were given. 'Coloring between the lines' was more concerned with observing organizational norms rather than with work practices and procedures.

## Capstone Experiences and their Liminal Possibilities

Internships, like any social arrangement, can develop into systems that do not distribute power, cost, and benefit symmetrically. Internships that provide optimal advantages for all stakeholders distribute learning benefits to all those engaged in the process. When there is a more even distribution of benefits, stakeholders are encouraged to maximize their investment by sharing and contributing to the system rather than seeking short-term, private gains. Collegiate business internships – which bring

together capable students, interested firms, and far-sighted colleges – are essentially synergistic: capable of producing more benefits than their individual resources might indicate possible.

Synergism is desirable in all internship programs, however within the context of transforming societies and economies the possibility of generating synergistic outcomes is particularly salient. By moving all participants beyond self-perceived boundaries for engagement and interaction, internships can become powerful ways of disseminating knowledge, initiating information networks, and promoting productive reflection on practice. Thus conceived, internships can act as pathways that allow for the flow of information and innovation. Internships can also set the scene for an increase in both personal and social capital within the system constituted by stakeholders – a point we shall return to later.

Internships become self-limiting when stakeholders define, or anticipate, learning objectives or program outcomes that are excessively narrow, specific, or non-generalizable. Internships can certainly be narrow training experiences and as such they will have limited short-term advantages to stakeholders. However, they can also be understood as much richer educational and experiential opportunities. For all parties to benefit from such opportunities, care must be taken in setting, and communicating, learning outcomes that are useful to interns, sponsoring firms, and collegiate initiator.

Potentially, internships represent a powerful form of capstone experience in professional education. Capstone experiences can be defined as (Fairchild and Taylor 2000): 'Culminating experiences in which students synthesize subject-matter knowledge they have acquired, integrate cross-disciplinary knowledge, and connect theory and applications in preparation for entry into a career.'

Significantly, from the outset, capstone experiences were recognized as being vital social experiences, marking *rites de passage* between academic study and the work-world, and allowing for liminal introspection and adjustment (Durel 1993). In the mechanics of initiating and supporting internships, the significance of the *rite de passage* and the powerful liminal space that these experiences offer is often marginalized by more pressing administrative, technical, and practical requirements.

Internships perceived by stakeholders as excessively instrumental, become mere functional arrangements that lack – or at least do not allow sufficient room for – liminal consideration. Often, students do not appreciate the complexity of the transition from structured college learning

to self-directed work life and career. They may see the present and the future, as it were, but remain unclear about middle stage in the tripartite *rite de passage* – the liminal stage, which provides psychological space and social ambiguity for the transition (van Gennep 1960; Turner 1969).

*Rites de passage* are not limited to students. In contexts where organization, or the economics and societies within which they are embedded, are themselves in transition, liminal opportunities provide the chance for members of the sponsoring organization to reframe, reorder, and represent change. The internship can thus serve as a liminal space in which all stakeholders – not simply the interns – can meet and reconsider past and future. Liminality requires a dislocation from previous norms, roles, and expectations: Victor Turner (1969) referred to it as a 'moment in and out of time'. Moments in and out of time are beneficial for individuals, or organizations, moving from one state to another.

## REFRAMING INTERNSHIPS: ENHANCING OPPORTUNITIES

The themes that emerged from the experiences of our interns were descriptive of their experience; however, we see them as also representing limits prematurely imposed on the internship experience. Compared with the language of richness, liminal quality, and space for adjustment (Durel 1993), interns described an experience that was much more limited and bounded.

We believe that the original richness of the internship experience is particularly salient for business graduates and organizations in Central Europe. We also believe that this experiential richness can be reinstated. To do this, we suggest that internships should be constructed around six dimensions that contrast with those revealed in our analysis. These dimensions, which must be clearly articulated as learning objectives and supported institutionally throughout the internships, are: (1) generalizable and transferable learning; (2) discovery of self in work; (3) reflection and process; (4) liminal experiences; (5) challenging and reconsidering theory; and, (6) considering transformational possibilities. We will consider briefly what we mean by each of these.

### GENERALIZABLE AND TRANSFERABLE LEARNING

This can involve: (a) an integration of 'theory and practice, classroom learning, and professional experience', and (b) 'learning how to learn from experience' (Clark 2003). The collegiate-sponsored business internship is primarily a learning experience, not a work commitment. Expe-

riential learning that is encouraged and supported is most valuable to the intern when the experiences can be reflected upon and generalized. Skills acquired, and knowledge gained, are optimized when they can be transferred from a specific task environment to a broader one.

### DISCOVERY OF SELF IN THE WORK

The internship can lead specific competencies and skills but it can also provide a much broader challenge: discovering something about the nature of work and about ourselves. While interns have previously seen narrow range competence acquisition as important, the nature of work and of career continues to change significantly (Arnold 1997). Adaptability, innovation, a greater propensity to work with others, and personal ownership of career trajectories all mean that intra- and interpersonal skills are increasingly required in the workplace.

Interns, rather than leaning more about what to do, can begin to understand why things are done and often done in ways that seem strange and counterintuitive. For example, while an internship can enhance specific marketing skills this does not preclude using the experience to gain a deeper insight into the culture of the workplace, distribution of power, organizational behavior, and the politics and dynamics of change.

### REFLECTION AND PROCESS

Work experiences can provide the basis for understandings about self and generalizable knowledge of organization contexts, but this requires interns to reflect on what is being done, or being experienced (Kolb 1984). Argyris and Schön (1978) characterized this as 'double loop learning'; Schön (1987) as 'reflective practice'. Sue Campbell Clark (2003) suggests strategies such as requiring interns to produce academic work products regarding their experiences, give presentations, keep daily journals, and focus on interpersonal competencies within the work setting. Reflection encourages students to consider what they have encountered to recognize the process of which they have been a part. Reflection challenges interns not to consider themselves passive in the internship experience, but rather as active observers and commentators on their work engagement.

### LIMINAL EXPERIENCES

Internships neither mark the end of academic studies nor the beginning of employment: they exist as an interface between the two. We believe

that students should be advised and helped to view the internship as a liminal experience (Gennep 1960) – a 'threshold' period disconnected from, but related to, an academic past and a work-centered future. Liminal experiences present an opportunity for participants to detached from the ongoing process of 'becoming' and consider their present more critically: 'the characteristics . . . are ambiguous; he [sic] passes through a cultural realm that has few or none of the attributes of the past or coming state' (Turner 1969, 94). A focus on liminality allows interns to recognize the 'living moment' from which they can consider the structures that shaped their academic pasts and the work engagements that will shape their futures.

### CHALLENGING AND RECONSIDERING THEORY

Interns are eager to see their coursework and theory in action. They want to understand the applicability of what they have learned, and to impress their sponsors with their ability to perform. They consider themselves lacking organizational power and are not usually empowered by the firm in which they are working. We consider that they should be at least minimally empowered, perhaps through formalized mentoring programs, and encouraged to reappraise and reconsider theory in practice. We should demand that interns consider critically the extent to which theoretical positions and explanations are helpful in their work context. Internships should provide students with the opportunity to make up their own minds on matters that have often been presented in the classroom as remote, confirmed, and immutable. Internships should also encourage interns to communicate and share these experiences and findings with the firms that they have worked with.

### TRANSFORMATIONAL POSSIBILITIES

Rather than internships being regarded as passive events, we see them as a powerful confluence of benefits and opportunities for all stakeholders. Rather than focusing on limited, short-term benefits, interest internships should be recast as the opportunity for student and organizational learning. Rather than color between the lines we see the opportunity, and the resulting benefit, for novel, creative, and challenging engagements between interns and their sponsors. Again, such an opportunity cannot lead to truly transformational possibilities unless there is a reconsideration of not only the scope but also the power associated with internships.

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## Conclusion

Potentially, internships are powerful experiences for all stakeholders. They bring interns who are engaged – sometimes thoughtfully, sometimes not – with their own *rites de passage* into work environments that, while often seeming stable, are not themselves immune from the turbulence of internal and external environments. They often bring together different perspectives, knowledge, and outlooks. Internships are most powerful when they allow reconsideration, new learning, and reflection to take place among those involved.

Internships are not costless, and often the sponsoring organization questions the use of resources, or sees the intern as a source of free, or cheap, labor (Scott 1992). However, rather than being understood as short-term costs, internships can be more productively viewed as long-term investments in both human and social capital. Internships create new networks, which would probably never have existed otherwise, between participating actors. These networks allow for the flow of information, creation of personal contacts, and may provide bridging social capital within the wider community (Granovetter 1973). We recognize that in the transformative economies within which our internships have taken, or will take place, one of the post-communist legacies has been an erosion of social capital (Fidrmuc and Gerxhami 2005; Paldam and Svendsen 2001). Internships, viewed and organized as investments in social capital, may be more attractive to all stakeholders rather than when considered as limited investments in human capital.

While students see internships as being useful and positive experiences, they also view them in a manner that restricts an expression of the richer possibilities of the engagement. Interns, and those providing internships possibilities, may benefit from a more carefully articulated understanding of the possibilities afforded by these learning experiences and a more active support system during the actual engagement. Internships provide multiple benefits for all stakeholders but, our analysis suggests that many of these benefits – such as the possibility of a liminal space, room for reflection on the nature and process of the job, synergistic linkages, and bridging social capital investments – are not being utilized. Of the three stakeholders, it is the initiating institution of higher learning that is best placed to redefine the learning goals and possibilities of internships and to provide an academic framework not only for ensuring that academic credit is awarded for valid educational experiences,

but also for allowing the other participants to obtain optimal benefit. Interns need to be better prepared for the learning opportunities that internships provide; encouraged to recognize short-term assumptions and limits of instrumentality in the internship; and receive ongoing support in their process of reflection on the experience. Likewise, sponsoring organizations should be helped to view internship programs as long-term human and social capital investments, benefiting all those who engage in the process.

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# *Impact of Strategic Initiatives in Management Accounting on Corporate Financial Performance: Evidence from Amman Stock Exchange*

Husam Aldeen Al-Khadash
Mete Feridun

This article aims at investigating the link between the practice of Activity Based Costing (ABC), Just-in-Time (JIT), and Total Quality Management (TQM) as strategic initiatives and the improvement in corporate financial performance of 56 industrial shareholding companies in Jordan. Ordinary Least Squares Regression analysis is used to test the association between the awareness level of the importance of using the initiatives and the level of adopting these initiatives. It is also used to identify the improvement in ROA as a mean of financial performance which is associated with the initiatives. Analysis shows that 26.8% of the companies under consideration use at least one of the strategic initiatives. In addition, the awareness level of the importance of using the strategic initiatives is found to be significantly high among the financial managers, but such awareness is not reflected in the implementation of these initiatives. Furthermore, strong evidence emerges that the use of strategic initiatives leads to improvement in financial performance of the companies under consideration.

*Key Words:* ABC, JIT, TQM, strategic initiatives, improvement in financial performance
JEL *Classification:* E32, E50

## Introduction

Productivity and quality are the watchwords in today's business competition. Companies are not only measuring productivity and insisting on improvements but also insisting that quality means bringing to market products that satisfy customers, improve sales, and boost profits. With greater competition in the manufacturing environment defined by cost, quality and time issues, there exists a prevalent conviction that conventional accounting-based measures of organizational performance

*Dr Husam Aldeen Al-Khadash is an Associate Professor at the Accounting Department of the Hashemite University, Jordan.*

*Mete Feridun, MSc, is a Lecturer at the Faculty of Economics and Administrative Sciences, Cyprus International University.*

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are outdated (Nixon 1998). Hence, there are moves to adopt newer techniques due to greater needs to be more responsive to investor and customer needs. It is argued that the traditional approaches of managerial accounting have limited evidence of technical development in response to the major changes in manufacturing technology in the past 15 years. Management accounting was the captive of financial reporting. It had limited value by its focus on the factory floor. Consequently there was a need for developing a management accounting project oriented towards the strategic accounting rather than the management control process. Some of the strategic initiatives techniques are Activity Based Costing System (ABC), Just-in-Time (JIT), and Total Quality Management (TQM). Pricing decisions are usually based on an accurate calculation of the costs of service and units produced. This is in turn calls for creating an effective costing system. The most appropriate system in this regard is an Activity-Based Costing System (ABC). In fact, the Activity-Based Costing System is an alternative system that can replace the conventional systems used for allocating common costs. However, the growing interest and tendency to use this system is attributed to various advantages achieved through the system. Perhaps, most prominent of these advantages involve improving performance measures, providing more accurate and appropriate measures for pricing decision-making, rationalizing production costs, and choosing the optimal production combination. Another production system, Just-In-Time (JIT), adopts a precise system for inventory control along with an efficient information system for full coordination between productivity on the one hand, and suppliers on the other hand. In addition, coordination is also sought for transporting supplies according to proper specifications, quantities and in a timely manner and within the framework of a stable business environment. This system reduces costs of production, preparations, reoperation, transport, disposes of surplus production and waiting time, and continually improves performance especially within the context of the prevailing severe competition. Total Quality Management (TQM), on the other hand, represents a natural expansion of the intensive efforts which are intended to upgrade and improve firm performance through quality control of products. The present study aims at filling the gap in our literature concerning the case of using strategic management initiatives such as ABC, JIT and TQM, and to investigate its impact on the financial performance. Few attempts have been found in terms of developing countries, and that includes Jordan. Under this reality, many

researchers concluded that most of strategic management practices surveys and literature have focused upon developed countries. Therefore, the principal objective of this study is to provide evidence about the extent of using ABC, JIT and TQM, and to investigate its impact on the financial performance. Specifically, the objectives of this study are as follows:

1. Providing an up-to-date description of the level of using ABC, JIT and TQM in the Industrial Jordanian Shareholding Companies.
2. Investigating the associations between companies' financial performance and the level of using ABC, JIT and TQM.

**Literature Review**

Several studies such as Hendricks and Singhal (1999) have provided evidence that strategic initiatives are associated with improved financial performance. Some proponents of ABC argue that its methods are necessary to trace overhead costs to objects, and thus properly account for batch and product-level costs (Cooper, 1990), manufacturing complexity (Jones 1991), specialty produce costs (Srinidhi 1992) and diverse business environments (Cooper & Kaplan, 1988). Although ABC systems are most of ten associated with manufacturing companies, they can be applied in all types of organizations (Tanju and Helmi 1991). Many authors recommend using ABC to support process improvement (Turney 1991) while several reservations have been expressed regarding the efficacy of ABC (Innes, Mitchell, and Sinclair 2000). JIT is simple in theory but hard to achieve in practice. This is because a problem anywhere in the system can stop all production. Hence, supplies must provide defect-free materials when they are required and equipments must be maintained so that machine failures are eliminated. One example: Coca-Cola enterprises and fast-food operators in USA have adapted JIT strategy and that leads to reducing the costs and to speeding the flow of finished products to customers (Atkinson et al. 2001). Total Quality Management (TQM) has been one of the most popular business models of the last fifteen years, widely embraced by many organizations (Hendricks and Singhal 1999). TQM is a concept based on continuous improvement in the performance of all processes in an organization in the quality of the products and services that are the outputs of those processes. Several quality experts have suggested that a commitment to total quality will result in improved performance in profitability measures (Hendricks and Singhal 1999).

Many previous studies (Roberts and Sylvester 1996; Dixon 1996) suggested that organizations adopted the management initiatives such as ABC, JIT and TQM to obtain benefits that directly or indirectly impact financial performance measures. From the theoretical perspective many evidences regarding the benefits of ABC have been provided (Barnes 1991; Brimson 1991). Empirically researches on ABC have generally consisted of modeling the factors that lead to successful ABC system. Success has been defined as 'use for decision making' (Innes and Mitchell 1995; Krumwiede 1998), satisfaction with the costing system, perceived financial benefits or non financial benefits (Krumwiede 1998; McGowan, 1998). Also some researches such as Cagwin and Bouwman (2000) provided evidence that ABC improves financial performance. A local study done by (Khasharmeh 2002) about the practice of ABC in Jordanian manufacturing companies in 2002 revealed that only 10% of Jordanian manufacturing companies use the ABC system. It also revealed that 75% of the respondents agree and 25% strongly agree that the use of ABC improves the company's performance in general. Huson and Nanda (1995) find that JIT adopters have enhanced earnings per share after controlling for average industry unit costs, margins, turnover and employees per sales dollar. Kaynak (1996) finds that financial and market performances are enhanced for firms using both TQM and JIT purchasing. Easton and Jarrell (1998) find evidence that a very broadly defined TQM is associated with the variance between actual financial performances. Kinney and Wempe (1998), on the other hand, report that JIT positively affects ROI in the 1–4 year period following JIT adoption. Finally Hendricks and Singhal (1999) find a link between change in ROA and implementation of TQM for a sample of quality award winners.

In light of the theoretical framework of this study and related previous studies, the null hypotheses are provided as follows:

H01: *Jordanian shareholding companies do not use strategic initiatives (i. e.* ABC, JIT, TQM*).*

This hypothesis aims at testing the level of applying the new strategic initiatives which are widely known in management accounting, it will provide an up-to-date description of the level of using ABC, JIT and TQM in the Industrial Jordanian Shareholding Companies.

H02: *Financial managers of industrial Jordanian shareholding companies are not aware enough of the importance of using strategic initiatives (i. e.* ABC, JIT, TQM*).*

It is generally known that using a new strategy in an appropriate way necessitates that users should be aware enough of the benefits which come out as a result of that use, otherwise the importance of utilizing a new strategy will not be sustained, consequently this hypothesis aims at testing the level of awareness of the financial managers in the Jordanian shareholding companies of the importance of utilizing the strategic initiatives in management accounting.

H03: *No significant relationship exists between the awareness level of financial managers of the importance of using* ABC, JIT *and* TQM *and the level of adopting these initiatives.*

This hypothesis aimed at testing if there is any relationship between the awareness level of using the strategic initiatives and the actual adaptation of these initiatives, it is expected that high level of awareness might lead to more application of the initiatives and, if that is factual, so the level of adaptation might be predicted with level of awareness.

H04: *No significant relationship exists between the level of using* ABC, JIT *and* TQM *and the financial performance.*

From the theoretical point of view and based on the results of some previous studies it is expected that using strategic initiatives in management accounting will lead to provide management with a considerable information that might enhance the way that the management is running, and offcourse that will affect the financial performance of the company. Consequently this hypothesis aims at testing the relationship between the level of using ABC, JIT and TQM and the financial performance.

In order to support the result of this hypothesis the following one is also suggested to see if any difference exists between the financial performance of Industrial Jordanian Shareholding Companies which use at least one of the initiatives and those are not.

H05: *No significant difference exists between the financial performance of Industrial Jordanian Shareholding Companies which use at least one of the initiatives (i. e.* ABC, JIT, TQM*) and those companies which do not use any of such initiatives.*

**Data and Methodology**

The study population consists of all Industrial Jordanian Shareholding Companies which are listed at Amman Stock Exchange by the end of 2003. However, the following companies will be excluded:

1. Companies which are still in the foundation phase and which have not yet commenced their business operations.
2. Companies whose shares have not been traded within Amman Stock Exchange during 2003.
3. Companies under liquidation.

The industrial companies sector has been selected for conducting this study because it is one of the largest sectors listed within the Amman Stock Exchange, and which most needs to implement modern concepts of managerial accounting (i.e. ABC, JIT, TQM). The total number of companies included was 59, and phone calls were made to all these listed industrial companies to identify those companies which applied the strategic initiatives. In other words, this total number (59) is thought to be 'large' enough from which to get meaningful and reliable results and 'small' enough not to consider determining a sample. Out of the total (3) companies did not cooperate, so at the end (56) companies were investigated. It is found that six companies are using the ABC and eight companies are using the JIT while just four companies are using the concept of TQM. In total, the number of companies which use at least one of the initiatives was 15 out of 59. The survey was sent to the 59 companies and the financial managers were asked to answer some specific questions and to indicate their level of agreement with a number of closed-end statements. These statements are based on a five-point scale. The survey was personally handed to all respondents. To improve the response rate, all selected companies were then followed up with a phone call and later on by a personal visit to collect the 'filled' copy of the survey. A striking feature of our survey is the response rate. Due to the fact that the headquarters of most of the companies are located in the capital (Amman), and a specific person has been appointed for a period of two months to follow up the respondents and to collect all responses, it is not really surprising that the response rate is about 95%.

### DATA COLLECTION TOOL (QUESTIONNAIRE)

The survey instrument was developed based on the discussion presented in the theoretical framework and the questions were developed after a thorough review of strategic management techniques survey questions found in prior research. Questions were reviewed, critiqued by other quality researchers and accounting departments at several universities and went through several rounds of revisions. Careful attention was

given to making sure that the wording of each question was clear, concise and described only one concept. The survey intended to measure the extent to which level Industrial Jordanian Shareholding Companies are using strategic initiatives of managerial accounting (i. e. ABC, JIT, TQM) along with the extent of the financial managers' belief in the importance of such use, and their awareness of such importance. The main four parts of the questionnaire are as follows: Part One which seeks to find out the extent of using the initiatives (i. e. ABC, JIT, TQM) and the respondent's belief in the importance of using such initiatives. Part Two aims to measure the degree of awareness on the implementation of the Activity-Based Costing (ABC) system. Part Three is intended to measure the degree of awareness on the implementation of the Just-In-Time (JIT) production system and finally Part Four is designed to measure the degree of awareness on the implementation of concepts of Total Quality Management (TQM). It is noteworthy that the answers to questions in parts two, three and four have been worded by using the Likert scale for measuring degrees of agreements. So, five answers have been given to determine the extent of responses (i. e. extremely large, large, medium, little and very little).

### METHODS OF DATA ANALYSIS

For the purpose of analyzing the data and testing the hypotheses, the current study used the descriptive statistical analysis such as the mean and the standard deviation, also simple regression analysis is used to test the association between the level of awareness of the importance of using the initiatives and the level of adopting these initiatives. Multiple regression analysis is used to identify the improvement in ROA as a mean of financial performance which was associated with the initiatives. Furthermore one sample *t*-test is used to test hypothesis number 5.

### THE MODELS OF THE STUDY AND ANALYZING THE RESULTS

As mentioned earlier, the survey instrument intended to gather information about the level of using the well-known strategic initiatives: ABC, JIT and TQM in addition to some information about financial managers' awareness of the importance of using these initiatives. Also annual reports were used to collect information about the ROA in order to test to what extent the initiatives are related to the level of financial performance (ROA). As expected, and as has been noted by some other studies such as Balakrishnan, Linsmeier, and Venkatachalam (1996) in their dis-

TABLE 1 Non-users vs. formal users of initiatives

| Initiatives (ABC, JIT and TQM) | Number | Percentage |
|---|---|---|
| Users | 15 | 26.8% |
| Non-users | 41 | 73.2% |
| Total | 56 | 100% |

TABLE 2 The Awareness Level of the Importance of Using Initiatives

| | ABC | JIT | TQM |
|---|---|---|---|
| Mean | 4.475 | 4.393 | 4.467 |
| Std. | 0.48 | 0.63 | 0.51 |

cussion of strategic initiatives, a firm's pre-adoption operating efficiency will influence its ROA response to the increased efficiency of initiatives use. The strategic initiatives implementation variables measure the extent to which a firm is actually practising the strategic initiatives philosophy. The variables are expressed as a percentage of total possible strategic initiatives implementation, and calculated using the responses to the management practices questions from the survey. As tabulated in table 1, it is noted that (26.8%) of the selected companies showed a use of at least one of the strategic initiatives i. e. ABC, JIT and TQM.

Consequently, the first null hypothesis will be rejected and we can say that the Industrial Jordanian Shareholding Companies are using the strategic initiatives.

### THE LEVEL OF AWARENESS

In order to reach a level of good practice of the strategic initiatives, there is a need to get support from the top management. The top management might do so if it is aware enough of the importance of using the strategic initiatives. Top management is responsible for strategic planning, setting goals, authorizing strategic initiatives and allocating resources to enable implementation and support of all plans and initiatives. Top management awareness and commitment is necessary to implement and sustain a quality program and is an essential element for achieving successful implementation of strategic initiatives (Ahire, Golhar, and Waller 1996; Barker and Cagwin 2000). The results of analyzing the answers to the questions were used to measure the top management awareness, and are shown in table 2.

Consequently, and based on the results shown in table 2, it might be

concluded that financial managers of Industrial Jordanian Shareholding Companies are aware enough of the importance of using the strategic initiatives, i. e. ABC, JIT and TQM. The means for initiatives are all above 4, so hypothesis number two is rejected, since the maximum score was 5 which indicates strongly agree.

The Association between Adopting the ABC, JIT and TQM and the Awareness Level of the Importance of Using the Initiatives:

This section comes to test if there is any association between the awareness level of the importance of using ABC, JIT and TQM and the level of practicing the initiatives. It might be argued that if the managers are aware enough of the importance of using the initiatives, then the level of practicing these initiatives is higher in comparison with a case of lower level of awareness. Consequently, testing of hypothesis number three is achieved through estimation of the following regression models:

$$ABCit = a + 1AABCit + eit, \quad (1)$$

where

*ABCit* represents the level of adopting the ABC,

*AABCit* represents the awareness level of financial managers of the importance of using the ABC,

*eit* represents the unexplained error of the regression model utilized.

$$JITit = a + 1AJITit + eit, \quad (2)$$

where

*JITit* represents the level of adopting the JIT,

*AJITit* represents the awareness level of financial managers of the importance of using the JIT,

*eit* represents the unexplained error of the regression model utilized.

$$TQMit = a + 1ATQMit + eit, \quad (3)$$

where

*TQMit* represents the level of adopting the TQM,

*ATQMit* represents the awareness level of financial managers of the importance of using the TQM,

*eit* represents the unexplained error of the regression model utilized.

As shown in table 3 none of the suggested regression models was significant at the level of .05. This result confirms that no relationship exists between the awareness level of the financial managers of industrial Jordanian shareholding companies of the importance of using ABC, JIT and

TABLE 3 Use of Management Initiatives and the Awareness Level

| Regression model | Adjusted $R^2$ | *F* | *Sig.* |
|---|---|---|---|
| Regression model 1 (ABC) | .253 | 4.045 | .079 |
| Regression model 2 (JIT) | –.087 | .277 | .613 |
| Regression model 3 (TQM) | .042 | 1.391 | .272 |

TQM and the level of adopting ABC, JIT and TQM respectively. Consequently hypothesis three is accepted. This result gives an indicator that a high level of awareness is not associated with a real practice of the initiatives, an expected explanation for such results might be that while financial managers are aware enough to the importance of using the strategic initiatives of managerial accounting as shown in the previous results, the top management – which is the decision maker – probably does not take a real action toward adopting these initiatives. So the high awareness level of financial managers does not mean a high awareness level of top management.

### TEST OF ASSOCIATION BETWEEN STRATEGIC INITIATIVES AND FINANCIAL PERFORMANCE

Testing of hypothesis number four is achieved through estimation of the following multiple regression:

$$ROAit = +1ABCit + 2JITit + 3TQMit + eit, \quad (4)$$

where

*ROAit* represents the change on return on assets,

*ABCit* represents the level of adopting the ABC,

*JITit* represents the level of adopting the JIT,

*TQMit* represents the level of adopting the TQM.

The result of testing model 4 shows a significant relationship between financial performance and the level of using strategic initiatives. Consequently, and based on the figures shown in table 4 and table 5, hypothesis number four is rejected, so it might be argued that the level of using ABC, JIT and TQM has a positive effect with the financial performance. This confirms with the results of the previous studies which found a significant positive association between the use of management initiatives and improvement in financial performance.

Furthermore, a *t*-test is utilized in order to test hypothesis number five which examines if any difference exists between the financial perfor-

TABLE 4 The results of regression model 4

| | | |
|---|---|---|
| *F* | | 152.73 |
| *P*-value | | 0.000 |
| $R_2$ | | 0.762 |
| Adjusted $R_2$ | | 0.743 |
| Coefficients (dependent variable: ROA) | *T* | *Sig.* |
| Constant | 5.265 | .000* |
| TQM | 3.693 | .004* |
| JIT | 2.717 | .020* |
| ABC | 2.590 | .025* |

* Significant at $\alpha = 0.05$

TABLE 5 Correlation matrix of the study variables

| | ROA | ABC | JIT | TQM |
|---|---|---|---|---|
| ROA | 1.00 | — | — | — |
| ABC | .265* | 1.00 | — | — |
| JIT | .346 | .195** | 1.00 | — |
| TQM | .393 | .287** | .673** | 1.00 |

* Significant at $\alpha = 0.05$, ** significant at $\alpha = 0.01$.

mance of Industrial Jordanian Shareholding Companies that use at least one of the initiatives (i. e. ABC, JIT, TQM) and those do not use any of such initiatives. The results of the formal test of the hypothesis are reported in table 6. The model is significant with an *F*-statistic of 6.841 and the level of significance was .031.

Consequently, a significance difference exists between the financial performance of Industrial Jordanian Shareholding Companies which use at least one of the strategic initiatives and those companies which do not use any of such initiatives. Such results confirm the previous results in

TABLE 6 ANOVA analysis

| ROA | *F* | Significance | *T* |
|---|---|---|---|
| Equal variances assumed | 6.841 | .031* | 1.587 |
| Equal variances not assumed | — | — | 1.587 |

* Significant at $\alpha = 0.05$.

terms of the relationship between the using of strategic initiatives and improvement in financial performance.

**Conclusion and Recommendations**

As management accounting continues to evolve and become more involved in the strategic management of the firm, it is important for management accountants to understand not only how to account for strategic initiatives (e. g., TQM), but also how these initiatives should be implemented and managed to achieve maximum benefit for the firm. This paper investigates whether the financial managers of the Industrial Jordanian Shareholding companies are aware of the importance of using the initiatives and whether strategic initiatives are associated with improvement in financial performance in the manufacturing sector or not. The primary goal of the firm is to achieve and improve financial profitability (Galbraith 1985; Chenhall 1997) and it is vital that firms have empirical evidence of the effectiveness of strategic initiatives. This is particularly true in the case of ABC, JIT and TQM since there is considerable doubt as to the efficacy of ABC, JIT and TQM as initiatives that can assist in achieving improved financial performance. Based on the empirical results, it is found that 26.8% of the Industrial Jordanian Shareholding Companies are using at least one of the strategic initiatives. Moreover, the empirical evidence shows that the awareness level of the importance of using the strategic initiatives is high among the financial managers, but such a high level is not associated with the level of adopting these initiatives. Furthermore, it is found that there is a strong positive association between using ABC, JIT and TQM and improvement in financial performance. This is consistent with prior research such as Balakrishnan, Linsmeier, and Venkatachalam (1996) and Huson and Nanda (1995). A fruitful direction for further research would include replicating similar models on a larger sample and a longer time series to see whether these results continue to hold for the ASE. The conclusion of the study was directed from the results of this research that might be subject to some limitations. One of these is the model specification, consequently some of the results depend on the accuracy of the linear regression models. If the model is not relevant so the results would be distorted. The other limitation to be mentioned is the dealing with the industrial sector and ignoring the other sectors in the ASE. Furthermore, aalthough the respondents were targeted top executives with knowledge of ABC, JIT and TQM, it is possible that their responses do not represent actual company practices.

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# *Risk Taking Propensity and Export Performance of Croatian Exporters*

Mirna Leko-Šimić
Jasna Horvat

Export performance is today one of the most widely used measures of a company's success, due to the globalization and market liberalization processes. The rather bad export performance of Croatian exporters can be explained by a number of factors, one of which is assumed to be the low level of risk taking propensity, which is one of the three major dimensions of entrepreneurial behavior. The aim of this paper is to analyze company age, size and type of business as determinants of risk taking propensity in Croatian exporting companies. Cluster analysis based on four variable criteria was used in order to determine risk and non-risk takers' clusters and analyze the significant differences between them in relation to their export performance. The paper is based on research of 88 Croatian exporters.

*Key Words:* export performance, risk taking propensity, statistical analysis, international business, entrepreneurship
JEL *Classification:* D21, M13

## Introduction

Globalization and market liberalization processes determine to a large extent companies' behavior in both the domestic and the international market. Doing business internationally becomes a crucial element of company survival and growth, but it also involves higher risk. Therefore a number of studies are concerned with companies' risk taking propensity (Begley 1995; Keh, Foo, and Lim 2002; Das and Teng 2001 and others). Some of the studies of risk taking propensity deal with it specifically in the context of internationalization of business (Hisrich et al. 1996; Oviatt, Shrader, and McDougall 2004; Fernandez and Nieto 2005). This research is focused on Croatian exporting companies and analysis of their risk taking propensity.

*Dr Mirna Leko-Šimić is a Professor at the Faculty of Economics, University of Josip Juraj Strossmayer in Osijek, Croatia.*

*Dr Jasna Horvat is an Associate Professor at the Faculty of Economics, University of Josip Juraj Strossmayer in Osijek, Croatia.*

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Out of 67,000 registered companies in Croatia there are only about 6,700 (10%) exporting companies. Among them, only 3,144 can be called active exporters that made export value of over 1 million kuna (Croatian currency equaling about 135,000 Euro) in 2003. Over 95% of Croatian exports are made by large groups or companies. At the same time, the long-term export results in Croatia are rather unsatisfactory: imports are constantly growing and exports are stagnating, thus creating a disturbing balance of trade deficit.

The research (*Izvoznik* 2004) has shown that most managers in Croatia see several reasons for such a situation:

- problems with export financing,
- non-competitive export prices,
- insufficient or bad promotion activities, and
- export products' quality.

Obviously, some of the mentioned reasons can be associated with risk taking propensity. The aim of this paper is to analyze the risk-taking propensity of Croatian managers of exporting companies and find out if and how it influences their export performance.

There are four major hypothesis tested in this paper:

H1: *Risk taking propensity is correlated with company size.*

As it was noted by Balabanis and Katiskea (2003) company size directly influences risk taking propensity; a greater pool of resources gives larger companies more space to take risks and spread them among different products and markets. It also enables larger companies to tolerate losses from unsuccessful entrepreneurial efforts. Therefore, it was expected that larger companies would have a higher level of risk taking propensity.

H2: *Risk taking propensity is correlated with company age.*

The fact that older companies are usually more bound by traditions and routines in product and market choices and therefore less willing to take additional risks made us state the hypothesis that older companies would have a lower risk taking propensity.

H3: *Risk taking propensity is correlated with type of business.*

In our research the distinction was made between traditional, i. e. labor intensive and non-traditional, i. e. technology and knowledge intensive types of businesses. The non-traditional types of businesses were expected to have the higher level of risk taking propensity, since technology,

and especially knowledge are more likely to develop learning skills for adaptation and successful growth in new environments than are companies more dependent on traditional tangible resources (Autio, Sapienza, and Almeida 2000).

H4: *Higher risk taking propensity results in better export performance.*

As export markets are by definition more hostile than domestic one, and they differ to a certain level in market dynamism and diversity, it is usually necessary to take more risks when exporting than when doing business only in the domestic market. Therefore it was expected that companies that have better export performance would also have a higher level of risk taking propensity.

In order to test this hypothesis, a sample of 88 Croatian exporters was analyzed: they were clustered into 'risk-taking' and 'non-risk taking' segments, and their differences according to sample characteristics and managers' perception of external market characteristics (environment hostility, diversity and dynamism) were analyzed. Thereafter, the two clusters were analyzed with statistical inferential analysis against different aspects (objective and subjective) of export performance. The results are presented in this paper.

## Theoretical Framework

### RISK TAKING PROPENSITY AND RISK PERCEPTION

Risk propensity can be defined as a tendency to take or avoid risks. It is a relatively stable characteristic but can be modified through experience. Although it is viewed as an individual characteristic, the positive association between risk propensity and risky decision-making by individuals is expected to translate to organizations through top management teams (Panzano and Billings 2005).

Risk perception is the perceived degree of risk inherent in a certain situation.

Risk taking is defined as one of the three dimensions of entrepreneurial orientation of a company and refers to the willingness of the management to commit significant resources to opportunities that might be uncertain (Junehed and Davidsson 1998). Risk taking depends on risk propensity and risk perception. The higher the risk propensity and the lower the risk perception, the more likely it is that risky decisions will be made. Hostile environments, as are most international markets in comparison to the domestic one, speak in favor of using the en-

trepreneurial strategy (involving higher risk-taking willingness). Therefore, risk-taking initiatives should be more necessary in order to achieve good results in hostile markets. Or, in other words, mangers who dare to take more risks, take actions that are more suitable and perform better.

Abby and Slater (1989) found that management which has an international vision, favorable perception and attitudes toward exports, is willing to take risk and has the capacity to engage positively in export activities is likely to lead a company to export success.

In order to reduce risks, managers need to know which variables influence their export performance. If they have a higher risk-taking propensity, they positively affect export performance.

### EXPORT PERFORMANCE

Export performance is today one of the most widely used measures of a company's success, due to the globalization and market liberalization processes. As a result of these processes, an increasing number of Croatian companies have opted to engage in export activities. However, their exporting results are far from satisfactory.

Over the years, researchers have generated numerous studies on exports many of which focus on the determinants of performance. Although it is difficult to make generalizations, as much depends on the companies' business position and the environment they operate in, some determinants of export performance can be identified as general (Lefebvre, Lefebvre, and Bourgault 1995): company's characteristics that include size and experience on international markets; competencies of a company, i. e. how it organizes and uses its resources (management capabilities, information gathering activities and specific products or technologies); environment of the company, or what the company is influenced by (characteristics of the industry, markets, government activities); and moderating factors which include strategy related variables, such as marketing mix elements and the like.

The Appalachian Resource Centre Report (1997, see www.arc.gov) on SME export performance includes the following findings:

- the farther in the supply chain a company is situated, the lower its value added, and the more closely it works with its customers, the less likely it is to be an exporter;
- company size is directly related to the probability that it exports, but not necessarily to its success in exporting;

- management is a key factor in export performance: the greater a manager's innovativeness and knowledge, the greater the export performance.

### RISK TAKING PROPENSITY AND EXPORT PERFORMANCE RELATIONSHIP

Internationalization process theories are rooted in behavioral models of uncertainty avoidance. These models posit that internationalization progresses in a gradual and carefully controlled manner (Andersen 1993), in that companies choose to export to countries that are physically and culturally close to the home country and therefore require less resource intensive investments and are perceived as lower risk. However, these conventional theories on internationalization, where a period of domestic growth is expected prior to a gradual expansion into foreign markets, are being more and more contradicted today with a new term of global entrepreneurship. Global entrepreneurship indicates an emergence of mainly small companies that internationalize immediately or rapidly (Jones and Coviello 2002). Its emergence is due to the following:

- deregulation of international business,
- improvement in transportation and information technology, and
- emergence of knowledge based industries.

It seems that a lack of resources or appropriate knowledge is a lesser barrier to these companies, and that they appear to recognize and accept challenges and inherent risks in internationalization, and overcome them in innovative and entrepreneurial ways.

The internationalization process and consequently the export performance are influenced by the entrepreneurial behavior of the company owner/manager and of the company itself. Individuals, i. e. entrepreneurs with their mindset and attitudes towards internationalization, as well as with the social capital they bring to the company, their social networks, experience and general characteristics (for example, perception of risk and their risk tolerance) affect organizational culture and behavior. Beside that, company level behavior may be influenced by other internal factors (organizational structure, strategy, resource availability, etc.) and external factors (environment hostility and diversity, competition, legal framework, government support, etc.).

Exporting, in comparison to domestic business, is considered inherently risky because it involves potential loss of profits or assets as a result

of potential changes in political, legal, economic and socio-cultural factors in foreign markets (Roth 1992). Marketing theory recognizes a whole set of so called foreign transactional risks:

- general stability risk, which refers to management uncertainty about the future viability of the host country's political system,
- ownership/control risk, which reflects the management uncertainty about host government actions affecting the entrant's ownership or control position,
- operations risk, which is defined as a possibility of sanctions that could constrain entrant's operations in the host country, and
- transfer risk that refers to the limitations of entrant's ability to transfer capital out of the host country.

All of these factors strongly influence the company's willingness and commitment to exporting and, consequently, its export performance.

Miller (1992) recognizes two broad kinds of company actions considering foreign risk management: financial and strategic. Financial involve insurance purchasing, different financial instruments, such as forward contracts, swaps, options, etc. However, financial actions require the existence of insurance and financial markets, which sometimes do not exist. Therefore, most companies are required to use strategic actions to manage some of the international risks. The most widely used strategies are: imitation, i. e. copying the actions of another successful company in market choice, marketing strategy, etc.; risk avoidance, which companies apply when they believe that operating in a particular foreign market is unacceptably uncertain; flexibility, which decreases the cost of internal organizational adaptation to changing international circumstances; cooperation with foreign or domestic partners in order to share risk, and control, usually applied through vertical and horizontal integration.

**Research**

We have conducted a research into Croatian exporters in the period March-May 2004. The data collection model was postal survey. A questionnaire was sent to a sample of 300 exporters, which were randomly drawn from the Croatian Chamber of Commerce database as 10% of active exporters. The sample covers the whole territory of Croatia, 25 types of businesses according to SITC, three different company size groups according to Croatian law, and five age groups ranging from 1 to 300 years. The sample structure regarding the mentioned criteria does not differ by

more than + 4% of the total Croatian exporters. The key informant approach was used and the recipients of the questionnaire were chosen to be managing directors of the companies. Four weeks after initial mailing a reminder letter and a new questionnaire was sent to non-respondents. At the end, a total of 90 questionnaires were returned and 88 of them were usable for our research (2 companies were not exporting anymore). The effective responsive rate reached 29.3%.

### SAMPLE DESCRIPTION

Table 1 (see p. 320) shows the major characteristics of the sample. According to business activity the sample was divided into two groups: one that consisted of so called traditional activities that are characterized by labor intensity, and the other that is mostly technology or knowledge intensive. 46 companies (52.9% of the sample) belong to the first group and 42 (47.1% of the sample) to the second.

The most common measure of company size in entrepreneurship as well as in exporting research is the number of employees. According to this criterion, 20.5% of the sample has 100 or fewer employees. 50% of the sample employs 215 or fewer employees. Almost half (45.5%) of the sample belongs to large companies. The largest company has 3,880 employees.

According to the company age the following pattern in our sample shows: 50% of the sample is 44 years old or younger, i. e. 44 years old or older. The oldest company is 400 years old. Only 12 companies in our sample (13.6%) can be considered young (10 years or less).

Export performance was measured by objective measure of export sales ratio and subjective measure of perceived satisfaction of company managers with export performance. The analysis of exports sales ratio shows that the majority of companies (46.6%) in the sample are large exporters, selling over 50% of their products abroad. Overall export performance was marked with an average of 3.36, which is not very high. However, 47.7% of the sample marks the overall export performance with very good or excellent.

### QUESTIONNAIRE

Company risk-taking propensity was tested on two levels: one is according to the sample characteristics: traditional vs. non-traditional activity, company size and age; and the other according to general managers' evaluation on a 5 point Likert scale of the following criteria:

TABLE 1 Sample description

| | *n* | Valid percent |
|---|---|---|
| *Type of activity* | | |
| Traditional (labor intensive) activities | 46 | 52.9 |
| Non-traditional (technology or knowledge intensive) activities | 42 | 47.1 |
| *Number of employees* | | |
| Up to 50 | 13 | 14.8 |
| 50–250 | 35 | 39.8 |
| 250 and more | 40 | 45.5 |
| *Company age* | | |
| 0–10 | 12 | 13.6 |
| 10–30 | 24 | 27.3 |
| 30–50 | 18 | 20.5 |
| 50–80 | 18 | 20.4 |
| 80–300 | 16 | 18.2 |
| *Export sales ratio* | | |
| Less than 10% | 9 | 10.2 |
| 10–25% | 17 | 19.3 |
| 25–50% | 21 | 23.9 |
| Over 50% | 41 | 46.6 |
| *Perceived satisfaction of export performance* | | |
| Unsatisfactory | 4 | 4.7 |
| 2 | 10 | 11.6 |
| 3 | 31 | 36.0 |
| 4 | 33 | 38.4 |
| Excellent | 8 | 9.3 |
| Unanswered | 2 | 0.01 |

- risky business activities,
- gradual implementation of new projects,
- conservative approach to major business decisions,
- strong hold onto existing and experienced procedures and projects.

The results were then checked against variables describing environmental hostility (reliability of financial and material resources, possibilities for business development, competition, industry settings and general

climate for business), environmental diversity (key foreign markets and their economic and cultural diversity) and dynamism (importance and influence of political, economic and cultural changes in the key export markets).

Upon describing major differences of the defined clusters of 'Risk takers' and 'Non Risk takers', we have checked the differences in export performance of the two clusters.

Export performance was measured by the already mentioned objective measure of export sales ratio and subjective measures of perceived satisfaction of company managers with the following trends in their companies, again on a five point Likert scale:

- export growth,
- export profits growth,
- international image and corporate identity development, and
- overall export performance.

All these trends were used in order to capture both financial and non-financial aspects of export performance.

The correlation between the export sales ratio and different aspects of export performance measured by managers' satisfaction was checked, and analysis has shown that the only statistically significant correlation is between export sales ratio and mangers' satisfaction with export growth ($r = .293$; $p = 0.006$)

**Analysis and Results**

Cluster analysis was used on the four above-mentioned variables that define risk-taking propensity, including the managers' personal opinion on risk propensity. There are no completely satisfactory methods for determining the number of population clusters for any type of cluster analysis (Everitt 1979; 1980; Hartigan 1975; Bock 1985), but our aim was to define two stable clusters: risk-takers and non-risk-takers in order to test their differences in relation to export performance. The analysis was started with hierarchical cluster analysis to generate and profile the clusters and then nonhierarchical analysis was used to fine-tune the cluster membership. In this case, the centroids from hierarchical clustering were taken as the seeds for nonhierarchical clustering.

The dendrogram, a graph of hierarchical cluster analysis, has confirmed the existence of two clusters centers. The non-hierarchical k-means cluster analysis has segmented companies into two clusters of the

TABLE 2 Analysis of clustering criteria

| Variable evaluation* | Cluster | *n* | M | SD | *t*-test | *p* |
|---|---|---|---|---|---|---|
| New projects are implemented gradually, step-by-step | Non-risk takers | 45 | 3.98 | .75 | 3.491 | .001 |
| | Risk takers | 41 | 3.29 | 1.03 | | |
| We have a conservative approach to major business decisions | Non-risk takers | 45 | 3.67 | .93 | 8.247 | .000 |
| | Risk takers | 41 | 2.22 | .69 | | |
| We hold strongly onto known projects and procedures | Non-risk takers | 45 | 3.78 | .67 | 8.716 | .000 |
| | Risk takers | 41 | 2.59 | .59 | | |

*Notes:* * 5-point Likert scale; M – mean; SD – standard deviation.

same size ($n = 43$). However, ANOVA has shown that managers' personal opinion on risk propensity was not statistically significant ($p = 0.388$) and it was omitted in further analysis. The second cluster analysis based on three variables resulted in two clusters that can be defined as 'Risk-takers' ($n = 41$), and 'Non-risk-takers' ($n = 45$).

Interestingly enough, no statistically significant differences were found between the two clusters in basic company characteristics: company size, age and type of business activity. Therefore, the hypothesis H1, H2 and H3 cannot be accepted. They also do not differ in their export performance measured by the export ratio and by managers' personal evaluation of different financial and non-financial measures of export performance. This means that hypothesis H4 cannot be accepted, too.

The only statistically significant difference was found in their perception of some important factors that influence their company's business: competition and industry settings, as can be seen in table 3. Industry settings in the context of this research can be defined as the level of organization and cooperation of companies within the branch on the foreign market.

The risk-takers cluster evaluates competition and industry settings as of lesser influence and importance for their international business activities.

Further on, no statistically significant differences between risk-takers and non-risk takers cluster were found in managers' evaluation of all elements of their company's environment diversity or dynamism that were subject to our analysis.

TABLE 3 Statistically significant differences between the two clusters

| | Cluster | *n* | M | SD | *t*-test | *p* |
|---|---|---|---|---|---|---|
| Competition | Non-risk takers | 45 | 3.98 | .94 | 2.158 | .034* |
| | Risk takers | 40 | 3.48 | 1.18 | | |
| Industry settings | Non-risk takers | 45 | 3.33 | 1.02 | 2.317 | .023* |
| | Risk takers | 40 | 2.80 | 1.09 | | |

*Notes:* M – mean; SD – standard deviation.

## Discussion

The statistical analysis was based on exporters' clustering according to their evaluation of the three variables used for measurement of their risk-taking propensity in the international market. According to this, exporters were divided into two segments: the first one being 'non-risk takers' whose average score of criteria variables was 2.7, and the second one being 'risk takers' whose average score of criteria variables was 3.81. Although, this is a significant difference, we might say that Croatian exporters, according to this research, in general do not have a very high risk-taking propensity when doing business internationally. This probably can be explained by the findings of Estrin, Meyer, and Bytchkova (2005) who state that economies in ex-socialist countries are still run bureaucratically and that their previous concentration on plan economy still suppresses the appetite for risk and breeds habits of obedience and 'playing it safe' strategy. Also, the meta-analysis of Stewart and Roth (1999) found that growth oriented individuals, i. e. companies, no matter what their size or age, have a higher risk taking propensity. Due to the rather bad macroeconomic situation indicators as problems with exporting mentioned in the introductory section, many Croatian companies – including exporters – are concentrating not on growth, but on survival in either the foreign or the domestic market. The last but not least possible reason for such a situation in Croatia might also be the fact that a significantly larger proportion of entrepreneurial activities are so called 'necessity entrepreneurship' (TEA 3.09) than 'opportunity entrepreneurship' (TEA 2.92) (Singer et al. 2006), meaning that a significantly larger proportion of businesses in Croatia are started because of necessity – unemployment – than because of opportunity recognition. Therefore, it is quite understandable that such companies are trying to minimize their risks.

According to the theory, we have expected that both internal and ex-

ternal factors would influence the risk-taking propensity. Balabanis and Katiskea (2003) argue that company size and age strongly influence the risk-taking propensity of exporters: large companies have more financial and technical capabilities and resources than small ones that allow them to take risks. On the other hand, newer firms are not bound by traditions and routines and as a result have more freedom in making decisions and taking risks. We also have expected that non-traditional activities would be more risk-taking by their nature. However, all these internal factors show no significance in relation to the level of risk taking propensity of Croatian exporters.

This research shows that the only statistically significant differences between the two clusters – risk-takers and non-risk-takers – exists in their perception of the competition and industry settings as important factors of environment hostility. In both cases, the risk-takers' cluster evaluates these two factors as less important for making business decisions than the non-risk-takers' segment. Risk-takers consider competition more influential than industry settings. Other analyzed external elements that define environment hostility, dynamism and diversity show no significant differences between the two clusters.

Finally, no statistically significant differences were found in exporting results and managers' evaluation of export performance between the two clusters. This can be partly explained by the company characteristics, especially age: namely, 50% of the sample is 44 years old or more, so it could be assumed that these companies have spent a number of years doing business internationally and therefore they perceive it as less risky. Most of them probably have long-term business relations and active networks. Furthermore, the export orientation of the sample follows a specific pattern: about 1/3 of the sample has more than 50% export concentration in ex-Yugoslavian markets, which are perceived as 'quasi domestic' and, in any case, not very hostile or diverse. Also, the dynamism of changes in these markets is very similar to those in the domestic market.

Consequently, it can be presumed that Croatian exporters heavily lean on market avoidance and imitation strategies in managing foreign market risks, as is described by Miller (1992).

### Limitations and Future Research

This research has some limitations. One of them surely is a relatively small sample of 88 exporting companies. However, Stewart and Roth

(1999) give a list of studies on risk propensity with samples of 50 or even fewer respondents. We also assume that the sample might have been biased to a certain extent, in a sense that only those who have recognized the research problem have taken part in the research. The other limitation is the fact that many managing directors are also company owners in Croatia, so their objectivity might be questioned. Last but not least, wide generalizations of the research results cannot be made due to the rather specific local context of the research. It would however, be interesting to do comparative research of the topic in other ex-Yugoslavia countries.

To a great extent, the results of this research were not what was, according to the theory, expected. Therefore future research might take into account the application of a statistical instrument for measuring competition and industry settings as limiting factors of risk taking propensity.

The other interesting avenue of future research might be analysis of interaction of all entrepreneurial features for exporters – innovativeness, proactiveness and risk taking propensity.

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# *A Comparison Between Recent and Prospective Critical Success Factors in Lithuanian Printing Industry*

Viltė Auruškevičienė
Laura Šalčiuvienė
Rūta Kazlauskaitė
Andrius Trifanovas

The paper looks into the problem of identifying critical success factors in an industry. Though by definition all business organisations aim to be successful, companies within an industry differ a lot as regards their level of success. What makes some firms highly successful, when others have rather moderate success within the same industry? Can the above problems be explained by the wrong choice of strategic alternatives or inadequate strategy implementation? An empirical research of the Lithuanian printing industry was carried out with the purpose of identifying and differentiating the dominant success factors that are critical for the creation of competitive advantages.

*Key Words:* critical success factors, sustainable competitive advantage, printing industry
JEL *Classification:* L10, M30

## Introduction

Though by definition all business organisations aim to be successful, companies within an industry differ a lot as regards their level of success. What makes some firms highly successful, when others have rather moderate success within the same industry? Can the above problems be explained by the wrong choice of strategic alternatives or inadequate strategy implementation?

According to Aaker (1989), the essence of strategic management rests

*Dr Viltė Auruškevičienė is an Associate Professor at the* ISM *University of Management and Economics, Lithuania.*

*Dr Laura Šalčiuvienė is a Lecturer at the Manchester Metropolitan University, United Kingdom.*

*Rūta Kazlauskaitė is an Associate Professor at the* ISM *University of Management and Economics, Lithuania.*

*Andrius Trifanovas is a General Manager at Nuera Ltd, Lithuania.*

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on the ability to develop and maintain meaningful assets and on skills, and the selection of competitive strategies and arenas that would enable the above assets to form sustainable competitive advantages, which in turn should be created in view of critical success factors (CSFs). Most industries have a set of critical success factors that are determined by each industry's specific features and characteristics. A fit between competitive advantages and critical success factors of a particular industry may form a firm foundation for a firm's successful performance in that industry.

Identification of critical success factors in a particular industry is a valuable practice for a number of reasons. First of all, it leads to a better understanding of the competitive environment, which in turn may assist in making decisions related to new product development and marketing activities. According to Ketelhohn (1998), understanding and development of critical success factors enables a firm to make a successful entry into an industry, find a different position among other firms and successfully combine creation of the perceived value and cost reduction.

Vasconcellos, Sousa, and Hambrick (1989) carried out research which was aimed at testing the following two hypotheses:

1. critical success factors vary from one industry to another;
2. firms with strengths that are identical to the industry's success factors operate considerably more successfully within it.

Research carried out by an expert group on critical success factor rating in six industries supported the above hypothesis. Other expert groups from the same industries provided additional data that revealed a strong correlation between a firm's profitability and the fit of its strengths to an industry's critical success factors.

*Scientific problem.* The scientific problem may be formulated as a question: is there any difference in the perceived significance of current and prospective critical success factors among successful and unsuccessful companies?

*Research object* – critical success factors.

*Research objective* is to identify critical success factors leading to the creation of sustainable competitive advantage in a particular industry through a comparison and analysis of differences in the perceived significance of critical success factors among successful and unsuccessful firms.

*Research methods.* In parallel to its objective, the paper first provides an analysis of scientific literature on critical success factors, which then is

followed by an analysis of empirical research findings. Since critical success factors are industry specific, the paper focuses on the analysis of a particular industry, i. e. the Lithuanian printing industry. The above empirical research consisted of two parts: a qualitative research – interview with printing industry experts, which led to a primary list of critical success factors in an industry, and a qualitative research – survey of printing companies' managers.

## The concept of Critical Success Factors

### ORIGIN AND DEFINITION OF THE CONCEPT OF CRITICAL SUCCESS FACTORS

The concept of critical success factors was introduced in 1961 by Ronald Daniel (Daniel 1961). The author employed the above concept to identify information that is necessary in performing managerial duties. According to him, a firm's information system should focus on 'success factors' (Daniel 1961, 116). He also proposed that in most industries success is determined by three to six success factors. The above tasks should be carried out with particular care to ensure a company's success.

Anthony, Dearden, and Vancil (1972) further developed Daniel's concept by introducing the term 'critical success factors'. The above authors uplifted the above concept to the managerial level and demonstrated that at this level critical success factors vary from one company to another and one manager to another.

In the search for new methods of meeting the information needs of top level management, Rockart (1979) defined critical success factors as 'the limited number of areas in which results, if they are satisfactory, will ensure successful competitive performance for an organization' (Rockart 1979, 85). If the results in these areas are not satisfactory, performance of an organisation will fall short of expectations.

Rockart (1979) introduced four primary sources of critical success factors: the structure of a particular industry; competitive strategy, position in the industry, and location; environmental and temporal factors.

Munro and Wheeler (1980) applied the concept of critical success factors in their research on the managerial needs for information. According to them, the concept of critical success factors may be successfully employed to direct a company's effort towards the formation of a strategic plan. Furthermore, the concept may be applied not just merely for the selection of appropriate strategies, but also for the identification of major problems that arise in the strategy implementation process.

Dickinson, Ferguson, and Sircar (1984a) studied critical success factors in relationship to the design of management information systems. The authors offered a rather comprehensive definition of critical success factors, which comprises all levels of critical success factors. According to them, critical success factors can be defined as events, circumstances, conditions, or activities that, due to their significance, demand special attention (Dickinson, Ferguson, and Sircar 1984a). Critical success factors can be internal or external, and may have a positive or negative impact on a company's success. Their distinctive feature is the need for a special awareness or early warning system to avoid unpleasant surprises or missed opportunities.

### CRITICAL SUCCESS FACTORS: ADVANTAGES AND DISADVANTAGES

Dickinson, Ferguson, and Sircar (1984a) distinguished the following three advantages of critical success factors: operational value, comprehensiveness, and flexibility. In another work, Dickinson, Ferguson, and Sircar (1984b) studied the applicability of critical success factor approach to small businesses and stated that analysis of the critical success factors may be effective at various levels: evaluation of the chances of a start up, planning process of a company's further activities, and effective implementation of planned activities.

Boynton and Zmud (1984) approached the analysis of critical success factors' advantages and disadvantages on the basis of two case studies and an overview of earlier research results. They pointed out two advantages of the critical success factors approach that mostly contribute to its success: firstly, the fact that it has gained recognition among top level management, and, secondly, its input in promoting and easing structural analysis and planning processes. First, the critical success factors approach focuses on a set of critical success factors, whereas later on the analyst goes deeper into each of them, constantly checking on their thoroughness and appropriateness.

Boynton, Shank and Zmud (1985) analysed the application of the critical success factors approach in the planning of the management information system (MIS). Their research results exceeded expectations and demonstrated that the critical success factors approach can be successfully applied not only in MIS planning but also in information resource planning, strategic planning, and individual goal setting. This approach brings top management closer to other members of the organization,

and assists in matching personal and departmental goals to overall organizational goals. The above research also proved the usefulness and intuitive character of the critical success factors approach. It enables natural interrelating of tactical and strategic planning and promotes structural analysis processes.

## CRITICAL SUCCESS FACTORS CLASSIFICATION

In their study of the dependence of critical success factors on the hierarchical nature of an organisation and the level at which strategic decisions are made, Bullen and Rockart (1986) distinguished industry, corporate, sub-organisational, and individual success factors, which may be viewed as a critical success factors hierarchy. According to the assumption that business success is the attainment of pre-set goals, critical success factors become its prerequisites, which are strongly interrelated with business goals. In a hierarchical structure of the kind, business goals are dependent on certain factors that in their turn are dependent on other factors, which creates a logical dependency hierarchy.

The above hierarchical classification is just one approach to critical success factors grouping. Brotherton, Heinhuis, Medema and Miller (2003) distinguish internal and external critical success factors. The first are determined by the characteristics of a company's internal environment, i. e. its products, processes, people, and structures. These critical success factors reflect a company's core capabilities and competencies that are critical to its competitive advantages. The other group, i. e. external success factors, is conditioned by a company's external environment. According to Brotherton and Shaw (1996), external critical success factors are more difficult to control than the internal ones, though they may be measured and controlled to a certain degree. Critical success factors may also be viewed from their universality perspective. Accordingly they can be grouped into context specific and generic, the latter being common to a given combination of industry, market and broader environment conditions (Geller 1985). Grunert and Ellergard (1993) classified critical success factors into 'conjunctive or compensatory' and 'perceived or actual'. Ketelhohn (1998) studied differences between industry and operational critical success factors, which reflect the above-mentioned Brotherton, Heinhuis, Medema and Miller's (2003) context specific–generic dichotomy.

Starting with the lowest hierarchical level of critical success factors, i. e. individual managers, the critical success factor approach may be helpful

in defining major tasks, their selection from the multitude of everyday tasks that a manager has to perform, and setting priorities in a way that would enable the manager to focus on the core activities. Similarly, a managerial group may define their organisational critical success factors, and organisations within the same industry may identify industry critical success factors.

Bullen (1995) provided an example of the critical success factor approach application in an American high-technology engineering company, which serves as a good illustration of the possible benefits of the process for an organisation. At a critical success factors review meeting, the company's top management had to introduce their personal critical success factor lists. After CEO presented his critical success factors, the other managers were most surprised to find out that most of CEO's critical success factors were operational and almost identical to theirs. It became clear to everyone that the CEO, who was the company founder as well, was not willing to give up his control of everyday activities, which inhibited activities of the top management team without their clear recognition of it. Due to a clear focus on what each person considered vital, the critical success factor process revealed a conflict and enabled the top management team to find a constructive solution to the above problem. The above example also emphasises the significance of the critical success factors perceived significance. It is only natural that individuals have different views on the same matters. The top management, however, must not forget that, and from time to time get together to analyse and accommodate differences in the individually perceived significance of critical success factors.

## CRITICAL SUCCESS FACTORS AND SUSTAINABLE COMPETITIV ADVANTAGES

Grant (1998) suggests that critical success factors of an industry provide possibilities for creating competitive advantages. The identification of critical success factors reveals the potential for competitive advantages in a given industry. In order to survive in a market and prosper, an organisation must meet two criteria: offer a product/service that matches the demand and withstand the competition. According to Grant (1998), identification of critical success factors shall start with two key questions: what do our customers want and how can the company survive the competition?

According to Aaker (2001), critical success factors that most rivals in a

given industry posses, and the absence of which may weaken an organisation's position in the market, make strategic necessities; whereas assets and competencies that enable a company to stand out from among its rivals and to outride them form strategic strengths.

**Critical Success Factor Research Methodology**

There is no universal critical success factor research method. Rockart (1979) proposed a three to six hour interview with company executives as a critical success factor data collection method; however, this approach focused on managerial information needs and did not attempt to look into the strategic planning issues and their solutions. With the growth of the problematic and organisational scope of critical success factors, consultants and researchers used numerous critical success factor methods such as 'onion technique' interviews, analysis of related organisational activities, *a priori* list of critical success factors based on literature sources, mailed questionnaires, interviews in combination with subsequent questionnaires. Jenster (1987) supported the idea that critical success factor identification should be exclusively a CEO prerogative. Gengler, Peffers and Tuunanen (2003) claimed critical success factors to be one of a few approaches and methods applied in the planning profiling, which comprise company data simulation, company process simulation, application and database profiles, feasibility and risk analysis, exploratory research and interview.

Leidecker and Bruno (1984) suggested a number of methods for critical success factor identification: environment scanning, structural analysis of an industry, industry expert opinion, analysis of the competition, best practice analysis, company internal environment analysis, factor identification based on intuition, and profit impact of market strategy (PIMS) data analysis, which are further briefly described.

*Environment scanning.* This method is applied to forecast economic, political, and social forces surrounding and influencing activities of an organisation. Organisations often combine this method with the SWOT analysis. However, one of the method's limitations is its rather complicated application. A broader version of the method is the PESTEL system according to which environmental factors may be divided into political, economic, social, technological, environmental, and legal. As the system application requires plentiful resources, only large companies are able to use it.

*Structural analysis of an industry.* Analysis of the kind is usually based

on Porter's five forces of competition framework, comprising the following five components: entry barriers, substitutes, bargaining power of buyers and suppliers, and rivalry among existing firms. Analysis of each of these factors and their interrelationship may provide an organisation with a lot of useful data for critical success factors identification. This method is usually applied to identify general industry critical success factors and is not appropriate for individual company critical success factor identification.

*Industry expert opinion.* This method depends on the subjective opinion of individuals with rich work experience and comprehensive industry knowledge. Despite its subjectivity, the intuition of highly experienced experts often serves as a good source of critical success factors, which used along with other more objective methods provides lots of valuable information for critical success factor analysis.

*Analysis of the competition.* This method focuses on the competitive environment: how do companies compete, what are their competitive strategies, etc. The main drawback of the method is inability to provide any data on critical success factors not pertaining to rivalry among the companies.

*Best practice analysis.* This method is highly valuable in industries with one or two major market players. Critical success factors are identified through the determination of a company's most successful practices. However, due to a methodologically limited field of analysis, the method may inhibit identification of other critical success factors.

*Factor identification based on intuition.* The method relies on the intuition and insight of individuals with expert knowledge of an organisation's internal environment. It enables identification of temporal critical success factors that a company may fail to identify by means of a formal analysis. However, the method relies mainly on a subjective opinion.

PIMS *data analysis.* PIMS allows for identifying critical profitability factors that may be further used in the critical success factor analysis. The main advantage of the method is that it relies on empirical data; however, critical success factors identified by PIMS are of rather general character and lack specific information.

The authors of this paper support an integrated application of a number of the above methods for critical success factors identification. A combination of different methods should enable one to neutralise the drawbacks of the selected methods and provide rather objective results. Such analysis could start with a survey of industry experts, which could

result in a primary list of the industry's critical success factors that could enable further identification of the major dominant critical success factors. The application of such methods as the analysis of the competition, best practice analysis and factor analysis based on intuition may serve as a basis in the development of a questionnaire that would enable a quantitative determination of a given industry's critical success factors.

**Research Design**

*Research hypotheses*

H1: *critical success factors of the Lithuanian printing industry do not change in the course of time.*

H2: *there are significant differences in the perceived critical success factors' significance among successful and unsuccessful companies.*

*Research sample.* As critical success factors are industry specific, it is necessary to start with the definition of the scope of the industry under analysis, which will be based on Johnson and Scholes' (2002) definition of an industry that focuses on the prime product. The principal product of the printing industry is information transfer onto paper or any other physical substratum for commercial purposes. In other words, the principal product of the printing industry is commercial printing work.

Based on the data of the Lithuanian Department of Statistics (2004), there were 442 companies in Lithuania that fell under the publishing, printing and replication of record medium industry. As there are no specific data on the number of companies in the printing industry, the primary task was to define the research population. Companies were ascribed to the industry under research according to the following criteria:

1. The company does printing work itself or is engaged in secondary printing activities, such as bookbinding, production of plates, and photographic typesetting, which make a concurrent part of the printing industry.
2. Primary activities of the company shall be generating revenue, no less than half of which shall comprise income from sales.

The above selection criteria helped to eliminate companies that were not directly related to printing activities or undertook printing as a side activity. The primary company selection was executed based on the data provided in the online catalogue 'The Whole of Lithuania'. 108 companies were selected in line with the pre-set criteria. Based on the national statistics, 9 per cent of the above 108 companies fall under the category

of large-scale companies (over 250 employees), 15 per cent – medium-size companies (50–250 employees), and the rest are small-size companies (under 50 employees). Since the selection data related to a relatively small population, it was decided to survey top management of all the companies falling within the population.

*Questionnaire design.* To make a primary – unranked in order of importance – list of printing industry critical success factors, interviews were executed with experts from seven Lithuanian printing companies, two of which were CEOs of large printing companies, three were owners – general managers of SMEs, and two were specialists with many years of work experience in the printing industry. The above expert selection allowed for collection of miscellaneous information based on different experience in the same industry.

The above experts were given open questions. Following to Grant (1998), critical success factors were formulated in respect to the generalisation of replies to the following two questions:

1. What do customers of the printing industry want?
2. How does a company survive the competition?

Analysis of the expert responses led to a list comprising twelve critical success factors of the Lithuanian printing industry, which are as follows: long lasting relationship with clients, timely service/product development, reputation and reliability, new product/service development, geographical location, implementation of new technologies (latest electrostatic equipment, direct computerized control of printing machines, etc), active search for new clients, equipment upgrading (most of the equipment can only be used for specific purposes, besides there is practically no market for used equipment, which makes equipment upgrading more difficult and costly), order delivery time, employee qualification (Lithuanian printing companies have to train their labor themselves, which is highly time-consuming and necessitates possession of qualified and experienced staff capable of training others), service complexity, increase of production capacity. The above factors are listed in random order; they are not ranked as to the respondents' perceived significance.

It is also noteworthy that the respondents denied the significance of such widely acclaimed success factors as product and brand differentiation, access distribution channels, and good relationship with suppliers. Industry experts state that the above factors are not significant in the Lithuanian printing industry because the produce in the industry is by

large not differentiated, and brands do not play a major role. The larger part of product costs comprises the cost of materials (about 34 per cent), paper being the dominant one. Paper is a commodity good and its price is regulated by the world market, so suppliers cannot be taken as a success factor in the Lithuanian printing industry. As to distribution, it is usually done by publishers, thus access to distribution channels is of minor significance in the industry.

The questionnaire was developed on the basis of the twelve success factors identified in the qualitative research. It comprised four groups of questions. The first two were developed on the basis of the critical success factors list made after the expert interviews. In the first part of the questionnaire, respondents were asked to indicate the present significance of the critical success factors on a Likert-type ten-point scale, where 1 stood for 'totally irrelevant' and 10 – 'extremely significant'. The second group of questions was aimed at the evaluation of the significance of the analogous critical success factors for the respondent's business success in five to seven years on the same measurement scale. The 5–7 year period was selected intentionally – it is a typical time-span of lease agreements on the purchase of high-tech equipment, which is a popular way of purchasing equipment among companies in the Lithuanian printing industry. Besides, strategic plans of companies usually rest on the above time-span too. A comparative analysis of the questionnaire data was thought to provide a basis for the identification of tendencies in critical success factors changes, if there were any, thus supporting or rejecting the first hypothesis.

In the third part of the questionnaire, respondents were asked to indicate their company success level on a ten-point Likert-type scale, where 1 stood for 'not very successful' and 10 – 'highly successful'. The above question was one of the few that led to the identification of successful and unsuccessful companies.

The fourth part of the questionnaire looked into the company profile and objective evaluation of its level of success. Each company was described in terms of the following factors: employee number, yearly turnover, production and export proportion among all production. Company success was measured against the dynamics of the employee number, turnover and profitability, and the level of investment.

*Data collection.* The quantitative research was carried out by mailing questionnaires to the respondents. Questionnaires were posted to all 108 companies in the Lithuanian printing industry. To raise the re-

TABLE 1 Distribution of respondents' companies under various criteria

| Criterion | Number of companies | Percentage |
|---|---|---|
| *Employee number* | | |
| Under 50 | 17 | 68 |
| 51–250 | 6 | 24 |
| Over 250 | 2 | 8 |
| *Yearly turnover* | | |
| Under 1 mio € | 12 | 47 |
| 1–3 mio € | 9 | 35 |
| 3–7 mio € | 2 | 9 |
| Over 7 mio € | 2 | 9 |
| *Export percentage* | | |
| Under 20% | 11 | 44 |
| Up to 20% | 11 | 44 |
| 20–50% | 0 | 0 |
| Over 50% | 3 | 12 |

sponse rate, respondents were guaranteed anonymity and were provided a prepaid return envelope. Filled-in questionnaires could also be returned by fax (the number indicated in the questionnaire). In two weeks' time, companies e-mail addresses which were of access were e-mailed reminders requesting them to fill in the questionnaire. In the six weeks after the questionnaires had been mailed to the respondents, 26 were returned, 25 of which qualified as fitting.

Table 1 presents respondents' company characteristics. The survey results show that the distribution of companies under the survey corresponds to the general industry structure as regards company size and export proportion.

Low response rate is the principal factor conditioning the limitation of this research, as it did not allow for statistical procession of some data. Thus part of the survey results may be viewed only as tendencies, and does not allow for drawing solid conclusions.

## Research Results

### EVALUATION OF THE PERCEIVED SIGNIFICANCE OF RECENT AND PROSPECTIVE CRITICAL SUCCESS FACTORS

Firstly, SPSS package was used to calculate the rank mean of the perceived significance of recent critical success factors and estimate the sta-

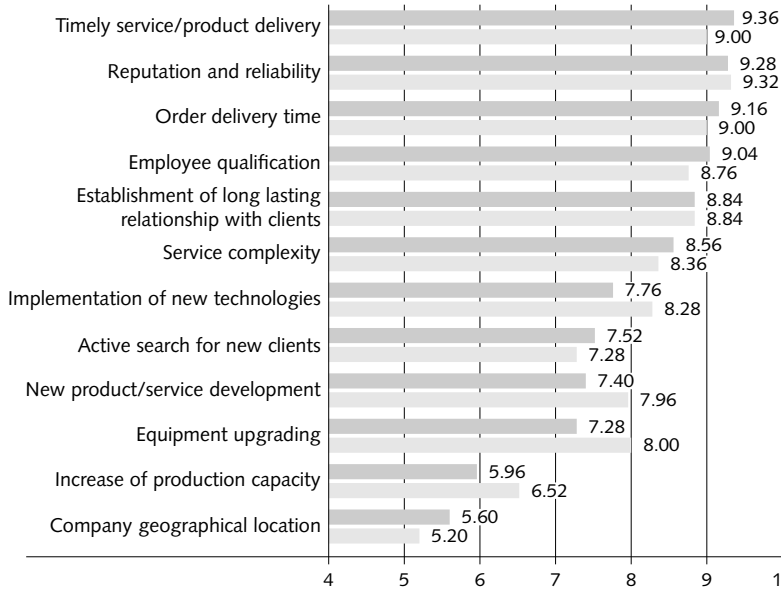


FIGURE 1 Comparison and ranking of recent and prospective critical success factors

tistical importance of individual critical success factors' significance. Statistical analysis of the collected data employed Wilcoxon's nonparametric signed-rank test. Differences between variables were considered significant where the respective $p$ value was lower than the allowed significance level $\alpha = 0{,}05$. Evaluation of the average value of each recent critical success factor significance is presented in figure 1.

Recent critical success factors are ranked from most significant to least significant. Four critical success factors were given the highest score with means exceeding 9, i. e. timely product/service delivery (mean = 9.36), reputation and reliability (9.28), order delivery time (9.16), and employee qualification (9.04). Analysis of the statistical significance of differences in the above factor value proved differences between all pairs of variables within the group to be statistically insignificant. Furthermore, the scoring of the less valued factor of long lasting relationship establishment with clients was statistically insignificant in comparison to the scoring of the factors under the first group. In comparison to the five top factors, differences in the value scoring among all other recent critical success factors, with the exception of service variety (8.56), is statistically insignificant.

Based on the results of the Wilcoxon test, the five top recent critical success factors may be ascribed to a separate group, i. e. dominant critical

TABLE 2 Statistical significance of value differences among recent and prospective critical success factors

| Factors | *p* |
|---|---|
| Establishment of long lasting relationship with clients | 0.851 |
| Timely delivery of products/services | 0.086 |
| Reputation and reliability | 0.854 |
| New product/service development | 0.251 |
| Company geographical location | 0.234 |
| Implementation of new technologies | 0.194 |
| Active search for new clients | 0.750 |
| Equipment upgrading | 0.157 |
| Order delivery time | 0.546 |
| Employee qualification | 0.254 |
| Service complexity | 0.501 |
| Increase of production capacity | 0.059 |

success factors as regards their perceived significance. The second most important group of critical success factors includes service complexity (8.56), implementation of new technologies (7.76), active search for new clients (7.52), new product (service) development (7.40), and equipment upgrading (7.28). Two critical success factors with the lowest score – production capacity increase (5.96) and geographical location (5.60) - may be considered of little significance in the contemporary Lithuanian printing industry.

Parallel SPSS estimations were done in the evaluation of the prospective critical success factors' significance. Picture 1 also depicts the arithmetical means of individual prospective critical success factors' significance.

The SPSS package was also used to estimate the Wilcoxon test for each pair of recent and prospective critical success factors (see Table 2). Results of the test demonstrate that differences in significance between recent and prospective critical success factors are statistically insignificant for all pairs of variables, i. e. from the point of view of statistical significance, the significance of recent and prospective critical success factors is equally valued. Regarding to the survey results, it may be stated that the dominant most significant critical success factors do not change in the course of time.

Research results proved the first hypothesis H1, i. e. critical success factors of the Lithuanian printing industry do not change in the course of time.

### ESTIMATION OF THE PERCEIVED CRITICAL SUCCESS FACTOR SIGNIFICANCE AMONG SUCCESSFUL AND UNSUCCESSFUL COMPANIES

The research aimed to analyse the perceived significance of critical success factors among successful and unsuccessful companies. Unfortunately, the very low response rate of the respondents made statistical analysis of the kind and testing of the second hypothesis impossible. Nevertheless, some general premises and tendencies may be suggested.

Table 3 provides data of the analysis of the perceived significance of recent and prospective critical success factors. This comparison helps to identify critical success factors that may serve as a basis in the competitive advantage formation.

Company success was estimated on the basis of objective criteria, such as company sales growth, profitability dynamics, and investment indexes, as well as respondents' subjective judgement. After summing up the above indicators, seven companies with the highest scores were ascribed to the group of successful companies, whereas seven with the lowest scores were grouped as unsuccessful. The analysis of the evaluation of the perceived significance of recent critical success factors revealed greatest differences in the evaluations of the following factors: new product development (difference in the means of successful and unsuccessful companies is +3.29), service complexity (+1.71), implementation of new technologies (+1.43), employee qualification (+1.29) and order delivery time (+1.15). In addition, research demonstrated that the evaluations of unsuccessful companies were parallel to the earlier defined group of dominant recent critical success factors with respect to their perceived significance. In the evaluations of successful companies, there were just three parallels of the kind. In comparison to unsuccessful companies, successful ones attach considerably more attention to new product (service) development, service complexity, and implementation of new technologies. These critical success factors do not fall under dominant as per perceived significance, though it is quite possible that namely these critical success factors ensure competitive advantage in the printing industry.

The analysis of the evaluation of the perceived significance of prospec-

TABLE 3 Evaluation of the critical success factor perceived value in successful and unsuccessful companies

| Critical success factors | Evaluation of recent critical success factors | | | Evaluation of prospective critical success factors | | |
|---|---|---|---|---|---|---|
| | A | S | I | A | S | I |
| Establishment of lasting relationships with clients | **8.84** | 8.57 | **8.29** | **8.84** | 8.14 | **8.43** |
| Timely delivery of products/services | **9.36** | **9.29** | **9.14** | **9.00** | **9.29** | **8.43** |
| Reputation and reliability | **9.28** | 8.86 | **9.29** | **9.32** | **9.43** | **8.71** |
| New product/service development | 7.40 | **9.00** | 5.71 | 7.96 | **8.57** | 6.29 |
| Company geographical location | 5.60 | 6.00 | 5.00 | 5.20 | 5.86 | 4.00 |
| Implementation of new technologies | 7.76 | 8.14 | 6.71 | 8.28 | 7.86 | 6.71 |
| Active search for new clients | 7.52 | 6.86 | 6.57 | 7.28 | 7.57 | 6.57 |
| Equipment upgrading | 7.28 | 7.43 | 6.71 | 8.00 | 7.14 | 7.29 |
| Order delivery time | **9.16** | **9.29** | **8.14** | **9.00** | **9.57** | **7.57** |
| Employee qualification | **9.04** | **9.29** | **8.00** | **8.76** | **9.29** | **7.43** |
| Service complexity (order acceptance to delivery) | 8.56 | **9.00** | 7.29 | 8.36 | 8.00 | 7.00 |
| Increase of production capacity | 5.96 | 5.71 | 5.14 | 6.52 | 6.43 | 5.14 |

NOTES Five highest scores in bold; A – all companies, S – successful companies, I – unsuccessful companies.

tive critical success factors demonstrated major differences in the evaluations of these factors: new product (service) development (+2.28), order delivery time (+2.00) and employee qualification (+1.86). It should be noted that new product (service) development ranked tenth according to the means of the perceived significance estimation among prospective critical success factors of unsuccessful companies. However, in the evaluations of successful companies, this critical success factor fell under the five top critical success factors. The above critical success factor does not fall under the group of dominant critical success factors as per perceived significance, however, it is quite likely that this factor is actually one of the leading critical success factors that ensure competitive advantage and will probably remain of utmost importance in the future too.

## Conclusions

Considering to the literature review provided in this paper, identification of an industry's critical success factors leads to a better understanding of

the competitive environment. The empirical research described in scientific literature (Vasconcellos, Sousa, and Hambrick 1989) demonstrates a strong correlation between company profitability and the fit between a company strengths and critical success factors of a given industry. It has also been noted that different authors tend to identify different critical success factors and often combine factors that condition surviving competition and factors ensuring a unique competitive position. The authors of this paper support Aaker's (2001) differentiation attitude, according to which critical success factors can be divided into strategic necessities and strategic strengths.

The conducted research allows for making the premise that critical success factors that are dominant in the Lithuanian printing industry are strategic necessities, as their relative significance is similarly valued by all industry companies.

A comparison of the perceived significance of critical success factors among successful and unsuccessful companies makes a clear distinction between strategic necessities and strategic strengths – dominant critical success factors are ranked similarly in both groups, whereas evaluations of a number of critical success factors that do not fall under the dominant group tend to differ considerably. Thus a conclusion may be drawn that success factors with the greatest differences in ranking between successful and unsuccessful companies are strategic strengths. The pointed out differences may also indicate inability of some companies in the given industry to identify all industry critical success factors, which also means that they do not attach sufficient significance to them. Research limitations conditioned by insufficient data for a statistical analysis inhibit a strong assertion of this conclusion. A further development of this research necessitates collection of more plentiful data that would allow for calculating the statistical significance of the above mentioned differences and would eliminate doubts regarding the validity of the above conclusions.

To sum up the analysis of the dominant industry critical success factors and differences in the perceived significance of critical success factors in successful and unsuccessful companies, the following differentiation of critical success factors in the Lithuanian printing industry may be made:

- *Strategic necessities:* timely product (service) delivery; reputation and reliability; establishment of lasting relationships with customers.

- *Strategic strengths:* new product development; service complexity; implementation of new technologies.
- *Integrated critical success factors:* order delivery time; employee qualification. Integrated critical success factors combine strategic necessities and strengths. Their presence points to the fact that part of the dominant industry factors may also serve as factors ensuring creation of competitive advantages.

Research results indicate that, at the time of conducting the survey, dominant critical success factors of the Lithuanian printing industry are not liable to change in the course of time, as their perceived recent and prospective significance does not manifest any significant statistical difference. More marked differences in the means of the perceived significance of individual critical success factors may signal tendencies in their change. To sustain or refute these tendencies, further research is necessitated.

### Managerial Implications

Research results demonstrated that critical success factors vary across industries (from the point of view of product and geographical location). Companies may lack financial recourses to conduct independent strategic market analysis, in which case they are recommended to merely use the critical success factor method as a means of strategic analysis. The application of the above method assists in associating short-term tactical and long-term strategic planning, and enables best allocation of effort and resources. This method can be used not only at an industry level; it is also highly practical at a business unit or organization department level as well.

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# *Globalization of Slovenian Agricultural and Food Trade*

Štefan Bojnec
Darja Majkovič

This paper analyses globalization patterns in the Slovenian agricultural and food trade. It examines prevailing trade structures and trade types to study differences and similarities in trade specialization patterns between primary and processed agricultural and food products across product groups, over time and in comparison with some other European Union countries. We distinguish agricultural and food trade flows by the degree of processing on primary, processed and other agricultural and food products separately for direct household consumption and for industry. With this, we add to the existent literature for Slovenia and for other new European Union members this product classification. Most of Slovenian agricultural and food trade is in the processed products. One-way or inter-industry trade dominates Slovenian agricultural and food trade structures. Within the matched two-way or intra-industry trade the significance in specialization is on low-quality vertical intra-industry trade. This kind of trade types in agricultural and food trade structures is not consistent with the findings for countries with developed food processing, suggesting that restructuring of the Slovenian food-processing sector has not yet been completed.

*Key Words:* agri-food, trade-structures, trade-types, intra-industry trade
JEL *Classification:* F020, F140, Q170

## Introduction

Agricultural and food trade over the last few decades have been widely analyzed for developed and developing countries. Attempts to explain agricultural and food trade flows have followed a number of different theoretical and methodological approaches of comparative trade advantage and intra-industry trade (IIT) (e. g. Balassa 1965; Grubel and Lloyd 1975). Several approaches have been developed in the literature for both

*Dr Štefan Bojnec is an Associate Professor at the Faculty of Management Koper, University of Primorska, Slovenia.*

*Darja Majkovič is a Young Researcher at the Faculty of Agriculture, University of Maribor, Slovenia.*

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the analysis of comparative trade advantages and IIT. The focus in this paper is on IIT. We investigate effects of trade liberalization and effects of adjustments toward the European Union (EU) on the degree of IIT in agricultural and food products.

The most widely used measure of IIT is the Grubel-Lloyd's (1975) index of degree of matched two-way trade in a certain product category. This measure distinguishes between IIT and inter-industry trade, but is not enough for in-depth analyses of trade types. Two main approaches using unit export and unit import values have been developed for assessing trade types. Greenaway, Hine, and Milner (1994) proposed the first methodological approach. They calculate IIT using the Grubel-Lloyd index. IIT is then split into horizontal and vertical components on the basis of the unit values of exports and imports. Fontagné, Freudenberg, and Peridy (1997) – FFP – proposed the second methodological approach. They employ a different definition of IIT in two-way trade flows when the value of the minority trade flow represents at least 10% of the majority trade flow in the similar product. When the minority flow is less than the set boundary the trade flow is defined as inter-industry or one-way trade. Similar as in the first approach, IIT can be separated into horizontally and vertically differentiated products, and the latter into high and low quality vertical IIT. The vertical IIT represents specialization in varieties of different quality requiring different factor endowments.

These approaches have been developed for analyzing trade types in general, but applied also in specific sector studies, including for agricultural and food products. Fertő (2004 and 2005) conducted analyses of agricultural and food trade in Central Europe focusing on Hungarian trade with the EU. Bojnec and Hartmann (2004) conducted a study on Slovenian agricultural and food trade developments using the IIT approach. However, their in-depth study does not cover the empirical analysis of horizontally and vertically differentiated products according to the level of processing. In spite of the fact that several studies on trade structures, nature of IIT and comparative trade advantage have been conducted for Central and Eastern European (CEE) countries (e. g. Hoekman and Djankov 1997; Eiteljörge and Hartmann 1999; Bojnec 2001; Fertö and Hubbard 2003), so far very rare studies have differentiated between processed and unprocessed agricultural products in the analysis of agricultural and food trade for CEE transition countries. Therefore, this paper adds differentiation between unprocessed and processed agricultural and food products to the analyses of the trade types in the Slovenian

agricultural and food products using the second approach by FFP. IIT is separated between horizontal and vertical product differentiation to study differences and similarities in trade specialization patterns between primary and processed agricultural and food products, over time and in comparison with some other countries. According to FFP, the different countries with different economic distances are likely to be engaged in IIT in vertically differentiated quality products, whereas similar ones are likely to be engaged in IIT of varieties within similar qualities. IIT between different varieties of the same product implies that neither substantial specialization process nor displacement of resources between industries is required. So this is the pattern that might be observed among similar countries with small economic distances. In such a case, reallocation costs, factor mobility and distribution of income are not a subject of special interest. However, the sector adjustments while entering in the economic integration may follow two different paths. On one side, the increased specialization along comparative trade advantages may rise in inter-industry trade with simultaneous exports and imports between industries, which may lead to more costly adjustments. On the other side, a convergence in production structures is likely to increase IIT. The latter specialization, based upon similarity of nations, may lead to cost-free adjustments, which are likely to increase efficiency and welfare gains associated with variety. In the late 1970s, Pelzman (1977) denoted that trade between centrally planned CEE economies was characterized by inter-industry specialization. As presented in this paper, this has remained strong for agricultural and food trade even after the decades passing.

In the structure of the global agricultural and food trade there is a tendency in trade from primary agricultural products towards processed food products. This is observed by Gehlhar and Coyle (2001), who found that agricultural and food trade over time tends to be more in processed foods rather than in primary agricultural produce in world exports of agricultural and food products. They argued that an important factor in the changing structures of the world agricultural and food trade is the dominant role of food consumption by the developed countries. The latter import a much greater share of processed consumer foods than do developing countries, while the opposite is true for bulk commodities. Surry, Herrard, and Le Roux (2002) also presented the increasing tendency in agricultural and food trade towards processed food products in their econometric investigation for France, using a differentiated-product approach. WTO (2004) reported that with the economic growth

the significance of processed food products in the world trade is increasing. The processed food products prevail in the trade of rich countries, while primary agricultural produce prevail in the trade of poor and less developed countries. Although the relative importance of primary agricultural products in trade declines, there is a considerable structural change within agricultural and food trade. Trade in processed food products tends to increase, while trade in primary agricultural products may even explore a declining tendency across some countries and product groups. The growth in imports of processed food products by developed countries is a reflection of increased per capita consumption, diet upgrading and diversification of consumption towards foreign varieties. Therefore, in this paper we investigate whether empirical evidence of a trade shift from unprocessed primary agricultural products to more processed food products in Slovenia is consistent with a well-known trend in world merchandise trade capturing the shift towards an increased share of manufactures at the expense of raw materials and primary products. We first present the methodology and data used. Then we present empirical results, followed by the final section, conclusion.

**Methodology and Data**

Trade flows on the basis of the overlap in trade flows can be classified into one-way and two-way trade, whereas the latter can be further classified by trade types according to the similarity/differences in unit values (UV) of exports vis-à-vis imports. Two main approaches to distinguishing trade types and the overlap in trade flows are developed in the literature. The first approach is developed by Greenaway, Hine, and Milner (1994; 1995) – GHM. They calculate IIT versus inter-industry trade components in trade flows using the Grubel-Lloyd (GL) index (1975). The IIT component is divided into horizontal and vertical components on the basis of a range of the similarity/differences in UV of exports and imports. The second approach is developed by Fontagné, Freudenberg, and Peridy (1997) – FFP. They apply a different definition of IIT or two-way trade: 'Trade in an item is considered to be "two-way" when the value of the minority flow (for example imports) represents at least 10% of the majority flow (exports).' The remaining part of trade is inter-industry (one-way) trade, depending on the degree of trade overlap. Therefore, the results of two-way versus one-way trade in the FFP procedures are sensitive to an overlapping criterion. As illustrated by Fertő (2004 and 2005) for agricultural and food trade between Hungary and the EU, the

TABLE 1 Classification criteria for decomposition of trade flows

| (1) | (2) | |
|---|---|---|
| | Yes (horizontal differentiation) | No (vertical differentiation) |
| Yes | Two way trade in similar products | Two-way trade in vertically differentiated products:<br>• LQVIIT: if $UV^{X}_{kk'pt}/UV^{M}_{kk'pt} < 1/1.15$ implies low export prices (indicates low export quality) and high quality of imports<br>• HQVIIT: if $UV^{X}_{kk'pt}/UV^{M}_{kk'pt} > 1.15$ implies high export quality and low import quality |
| No | | One-way trade |

*Note:* Column headings as follows: (1) Degree of overlap between exports *(X)* and imports *(M)* values: Does the minority flow represent at least 10% of the majority flow? (2) Similarity of exports and imports unit values: Do *X* and *M* unit values differ less than 15%? LQVIIT = low quality vertical IIT, HQVIIT = high quality vertical IIT. Source: Bojnec, Majkovič, and Turk 2005.

FFP measure implies results for two-way trade which are slightly higher than those by GHM, because once the overlap threshold is met the entire trade flow is treated as two-way. In spite of these differences and instabilities in results between the GHM and FFP approaches, these approaches are complementary in disentangling the importance of different trade types.

In our case, we are focusing on the bilateral agricultural and food trade flows. The FFP approach is used. Table 1 summarizes the criteria for decomposition of trade flows and trade flows' classification, as it is used in the empirical part of this paper. As can be seen, we are using two criteria. Firstly, the 10% FFP trade overlapping criteria to distinguish between the one-way trade and the two-way trade. Secondly, the 15% range of the similarity/difference in UV of exports and imports to distinguish between horizontal IIT, low quality vertical IIT and high quality vertical IIT.

This classification is applied to the agricultural and food trade data for Slovenia and other new EU member states. As agricultural and food trade are considered the first 24 chapters of the Combined Nomenclature (CN). The data used in the empirical analysis come from two main data sources. First, from the Slovenian Statistical Office, whose trade data are disaggregated at the six-digit CN product level for the selected years. Second, from the Statistical Office of the European Communities (Eurostat) that provided the Comext trade database. In this case the data base is at

the eight-digit CN product level for the period from 1999 to 2003. These basic trade data for agricultural and food products are then disentangled by the value added content according to the United Nations (UN) classification of the products using the Broad Economic Categories (BEC) classification Revision 3. According to this criteria classification, agricultural and food products are classified into the following categories by the degree of processing and the purpose (final or intermediate) in consumption: first, primary products (food and beverages) mainly for industry, which are captured in the three-digit BEC product category 111, and primary products mainly for household consumption (category 112). Second, processed products mainly for industry refer to product category 121, while category 122 captures processed food and products intended for final consumption in households. Third, some of agricultural and food products are labelled in the category of industrial supplies, not else specified. Primary ones refer to category 21, and processed ones fall into category 22.

**Results with Discussion**

The general finding in literature on trade patterns in agricultural and food products explains that developed countries largely specialize towards exports in high value-added processed food products, while developing countries tend towards exports in primary agricultural products (Gehlhar and Coyle 2001; WTO 2004). According to relative income per capita, Slovenia is classified as a high-income non-OECD country (WTO 2004, 197). On this basis one may expect that, if structures in the economy are approximately equally developed – including in agriculture and the food sector – then Slovenia should be among those countries specializing in exports of high value-added processed agricultural and food products. However, an examination of the trade structures and trade patterns suggests that low value-added products prevailed among the matched two-way trade structures and only a minority of the matched two-way agricultural and food trade is in higher value-added products (table 2). This suggests a comparative trade disadvantage in agricultural and food trade for Slovenia. Moreover, Bojnec and Fertő (2005) have presented the bilateral Hungarian-Slovenian agricultural and food trade developments. They found that one-way, inter-industry trade from Hungary to Slovenia is far the most significant component among types of agricultural and food trade, where Hungary experienced considerable surplus in agricultural and food products. The degree of the matched

TABLE 2 Slovenian agricultural and food trade balance (X–M) by degree of processing* and by regions (in mio € and in % of X or M) in the year 2002

| | Primary products | | Processed products | |
|---|---|---|---|---|
| | mio € | % | mio € | % |
| EU-*15* | | | | |
| Exports (X) | 26.78 | 31.61 | 56.41 | 17.48 |
| Imports (M) | 155.01 | 50.79 | 258.95 | 57.05 |
| Balance (X–M) | –128.22 | –19.18 | –202.55 | –39.57 |
| *Ex-Yugoslav markets* | | | | |
| Exports | 51.25 | 60.49 | 218.04 | 67.55 |
| Imports | 13.58 | 4.45 | 66.65 | 14.68 |
| Balance | 37.67 | 56.04 | 151.39 | 52.87 |
| *Central European Free Trade Agreement (CEFTA)** countries* | | | | |
| Exports | 3.08 | 3.64 | 8.26 | 2.56 |
| Imports | 67.14 | 22.00 | 62.53 | 13.78 |
| Balance | –64.06 | –18.36 | –54.26 | –11.22 |
| *Other* | | | | |
| Exports | 3.60 | 4.25 | 40.05 | 12.41 |
| Imports | 69.48 | 22.76 | 65.79 | 14.49 |
| Balance | –65.88 | –18.51 | –25.75 | –2.08 |
| *Total* | | | | |
| Exports | 84.72 | 100,00 | 322.77 | 100.00 |
| Imports | 305.21 | 100,00 | 453.93 | 100.00 |
| Balance | –220.49 | – | –131.16 | – |

*Notes:* * primary group of products includes the following three BEC categories: 111, 112 and 21. In the processed group of products are included the remaining BEC categories: 121, 122, and 22; **CEFTA includes Hungary, Poland, the Czech and Slovak Republics, Bulgaria and Romania. Source: Own calculations (Majkovič 2005) based on data from the Slovenian Statistical Office.

two-way IIT is found to be relatively low. Within Hungarian IIT, trade in vertically differentiated agricultural and food products is the most significant component of IIT. Almost all Hungary's vertical IIT is in high-valued products, but less so for Slovenia. This indicates that Hungarian agricultural and food exports' specializations in the matched two-way trade flows are in high quality varieties, but less so for Slovenia.

Looking from the trade perspective, Slovenian agriculture is certainly

not a driving force of the Slovenian economy. This is confirmed by the empirical results in tables 2 and 3 for the year 2002, which more or less reflects average Slovenian agricultural and food trade structures and performances before the EU accession. The Slovenian agricultural and food trade sector has performed with a traditionally negative trade balance in the last decade. The negative balance is recorded with all main trading partners, except with the former Yugoslav markets. To the latter markets, Slovenia exports more processed food products than primary agricultural products. The major proportion of agricultural and food trade deficit is in trade with the EU, particularly in processed food products, but also in primary agricultural products. Prior to the EU accession, trade deficit was also substantial with CEFTA countries. Trade deficit in agricultural and food trade is also with the rest of the world, where deficit in primary agricultural products is a bit more significant than in processed food products. Considerable Slovenian trade deficit in agricultural and food products and significant asymmetry in the geographical structures of agricultural and food trade flows with imports from the EU (and previously from the CEFTA countries, most of which are now new EU members) and exports to the former Yugoslav markets provide the indication that Slovenia lacks competitiveness in the agricultural and food sector vis-à-vis the majority of its developed trading partners.

These findings are also consistent with some other most recent studies. In the year 2004, compared to the year 2003, as reported by the Ministry of Agriculture, Forestry and Food (Mistrstvo za kmetijstvo, gozdarstvo in prehrano 2005), the substantial increase in agricultural and food imports by 15%, and decreased exports by 11.4% occurred. The agricultural and food trade deficit increased from 370 million € in 2003 to 531 million € in 2004. The similarities in trade patterns and in trade geographical asymmetry continued as the surplus is observed only with the former Yugoslav countries. But even in these former traditional markets, the Slovenian agricultural and food exports decreased by 15%, whereas imports increased by 7%. In 2004, the Slovenian agricultural and food trade surplus in the former Yugoslav markets was reduced by 19%. The continuation of trade asymmetry is with the EU countries, where Slovenian agricultural and food imports increased by 31%, whereas in the same period Slovenian agricultural and food exports to these markets increased only by 1%.

For Slovenia and other CEE countries during the last decade, Falcetti, Sanfey, and Tepic (2005) argued that it has taken time for business to

TABLE 3 Structure of trade types (%) in Slovenian agri-food trade by the value added content groups in 2002

| | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| Primary products mainly for industry | 98.86 | 0.17 | 0.97 | 0.00 |
| Primary products mainly for household consumption | 95.85 | 2.96 | 1.05 | 0.14 |
| Processed products mainly for industry | 85.53 | 3.09 | 10.00 | 1.38 |
| Processed products for consumption in households | 83.53 | 2.58 | 13.75 | 0.13 |
| Primary industrial supplies, not else specified | 92.42 | 1.90 | 5.18 | 0.50 |
| Processed industrial supplies, not else specified | 86.88 | 1.09 | 12.00 | 0.03 |

*Notes:* Column headings as follows: (1) one way trade; (2) two way trade in low quality; (3) two way trade in high quality; (4) two way trade in similar products. Source: Own computations (Majkovič 2005) based on data from Slovenian Statistical Office.

make new contacts, to develop acquired new marketing skills and to convince the EU and other clients abroad to trust that they are and will be the reliable partners. They also argued that the break-up of the former Yugoslavia had a significant effect on trade relations in the region as a whole. The CEE countries represent the third largest trading partner in the Euro's area, after the United Kingdom and the United States, whereas the Euro's area represents the most important trading partner for the majority of CEE countries, namely for the Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia (around 60% of their total trade) (Bussiere, Fidrmuc, and Schnatz 2005). However, this general trade orientation is not confirmed in the case of Slovenian trade in agricultural and food products.

Furthermore, table 3 presents trade types in Slovenian agricultural and food products, which are distinguished into the six product groups by the degree of processing on primary agricultural and processed food products and further disentangled by their final consumption. The analyzed trade types groups behave in a relatively stable way. Four main stylized facts can be derived from these results for Slovenian agricultural and food trade. Firstly, Slovenian agricultural and food trade is in general characterized by very high share of one-way, inter-industry trade

suggesting a trade specialization along lines of comparative advantages. Secondly, IIT is the lowest for primary agricultural products mainly for industry and the highest for processed food products for consumption in households. This finding is somehow consistent with theoretical expectations that IIT is increasing with the degree of food processing, where a greater role is given to product differentiation in varieties and qualities. Thirdly, within IIT, vertical IIT is far the more important component than horizontal IIT in similar variety products. Horizontal IIT is almost inexistent for primary agricultural products mainly for industry. It is the highest, but still relatively very low for processed food products mainly for industry. Finally, vertical high quality IIT, except for primary agricultural products mainly for household consumption, is much more important than vertical low quality IIT. This finding is inconsistent with the finding by Bojnec and Fertő (2005) for Slovenian agricultural and food exports to Hungary, but it holds for Hungarian agricultural and food exports to Slovenia. This suggests that our results for Slovenia are biased to the Slovenian agricultural and food trade to the former Yugoslav markets where Slovenia exports high quality agricultural and food products in exchange for lower quality ones in terms of their international trade prices.

As a result of the membership of Slovenia in the EU, we can expect an increase of IIT at the expense of inter-industry trade particularly in trade with the EU countries. This was the case in the previous EU enlargements, for example for Spain and Portugal, whose rise of IIT began already well before their entry into the EU. The greater proportion of IIT means that more trade exchanges within a certain product category are leading to greater varieties and qualities in similar products. However, there are some factors and circumstances in the Slovenian agricultural and food sectors that explain the Slovenian agricultural and food specificities and situation more deeply (see also Bojnec and Hartmann 2004). Firstly, the level of protection in the agricultural and food sector in Slovenia remained high over the transition period and adjustments towards the EU. Relatively high protection measurs, particularly border ones, hampered trade and trade creation effects. Secondly, Slovenian agricultural and food producers have not been successful in reaping economies of scale particularly in agricultural production due to the fragmental farm and agricultural structures but also in the food processing industry due to slow privatization and restructuring process of the food processing enterprises.

TABLE 4 Structure of trade types (%) in agri-food products of the new member states (NMS-10) of the EU in 1999 and 2003

| | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| *1999* | | | | |
| Czech Republic | 89.41 | 2.78 | 5.14 | 2.67 |
| Cyprus | 98.56 | 0.38 | 0.81 | 0.25 |
| Estonia | 92.65 | 2.47 | 2.56 | 2.31 |
| Hungary | 95.77 | 1.31 | 2.01 | 0.91 |
| Latvia | 88.05 | 4.18 | 5.77 | 2.00 |
| Lithuania | 95.97 | 1.55 | 1.58 | 0.91 |
| Malta | 96.82 | 0.68 | 1.83 | 0.67 |
| Poland | 95.70 | 1.71 | 1.94 | 0.65 |
| Slovakia | 76.88 | 8.98 | 11.20 | 2.95 |
| Slovenia | 92.55 | 2.65 | 3.63 | 1.17 |
| *2003* | | | | |
| Czech Republic | 81.64 | 6.87 | 6.09 | 5.41 |
| Cyprus | 98.04 | 0.55 | 1.30 | 0.11 |
| Estonia | 90.00 | 1.71 | 3.39 | 4.90 |
| Hungary | 92.54 | 3.38 | 2.66 | 1.43 |
| Latvia | 87.43 | 8.81 | 2.02 | 1.74 |
| Lithuania | 91.72 | 1.88 | 3.85 | 2.55 |
| Malta | 97.69 | 0.58 | 0.60 | 1.13 |
| Poland | 93.62 | 2.99 | 2.53 | 0.86 |
| Slovakia | 72.29 | 11.86 | 7.52 | 8.32 |
| Slovenia | 92.79 | 2.19 | 3.15 | 1.87 |

*Notes:* Column headings as follows: (1) one way trade; (2) two way trade in low quality; (3) two way trade in high quality; (4) two way trade in similar products. Source: Own computations (Majkovič 2005) based on data from Comext (Eurostat) database.

The structure of trade types in agricultural and food products of the ten new EU member states' (NMS-10), including Slovenia, are compared in table 4. Four main stylized facts are clearly observed. Firstly, a very high level of one-way, inter-industry trade represents the common characteristic of agricultural and food trade, but it varies between the NMS-10. While it is often around 90%, it is the lowest for Slovakia and the highest for Cyprus. Between 1999 and 2003, except for Malta and Slovenia, inter-industry trade has declined. This is consistent with theoretical

expectations that trade liberalization and economic growth induces increases in IIT, which do not hold for the Slovenian agricultural and food trade pattern. Secondly, the highest degree of IIT is significant for Slovakia with almost a third of its agricultural and food trade characterized as a two-way IIT, either with similar or vertically differentiated (high and low quality) products. So in this case, the biggest step toward EU average of agricultural and food trade structure is noticeable. The higher share of IIT of all ranges (vertically and horizontally differentiated products) is often arising due to the country similarities and similar tastes of consumers. Thirdly, vertical IIT is more significant than horizontal IIT. Horizontal IIT in similar quality products is the highest for Slovakia and then the Czech Republic, but the lowest for Cyprus. The structures of Slovak trade types in agricultural and food products seem to arise from strong orientation to the Czech markets, while the latter is more oriented towards the EU. Between 1999 and 2003, except for Cyprus and Latvia, horizontal IIT in the NMS increased. Finally, the NMS-10 agricultural and food trade types in general have not changed substantially over the analyzed period. The vertically differentiated products have gained a slightly higher proportion. Within vertical IIT the prevalence is on high quality vertical IIT rather than on low quality VIIT. However, some most recent changes have occurred in the cases of the Czech and Slovak Republics, Hungary, Poland and Latvia where increases in vertical IIT were in low quality vertical IIT, but less in high quality vertical IIT.

Dimensions of trade adjustments over time might, in the case of vertical differentiation, mean that a country might specialize inside industries on products with different levels of price ranges. For example it can specialize in high quality vertical IIT by importing low qualities and exporting high quality ones. Conversely, differences in quality would mean differentials arising from some specific factor endowments such as skilled and highly qualified labor, advanced capital or research and development. Specialization for a specific quality spectrum (high or low) may imply income distribution differences among individual countries and their trading partners. Table 5 presents historical developments in trade types in intra-EU trade. It compares between more processed food and beverages with primary agricultural products as well as with all trade in merchandise goods. IIT prevails in non agricultural and food products in intra-EU trade, but one way-trade prevails in agricultural and food products. From the dynamic point of view, one-way trade is reduced and thus IIT has increased with trade liberalization and economic growth. The

TABLE 5 Trade types in intra-EU trade by selected industries and for all industries

| Industry | Structure in 1994 (%) | | | Variation 1994 to 1985 (%) | | |
|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (1) | (2) | (3) |
| Food and beverages | 12.5 | 26.6 | 60.9 | 0.8 | 8.7 | –9.5 |
| Agriculture | 9.3 | 16.8 | 73.9 | 2.6 | 5.2 | –7.8 |
| All industries | 19.2 | 42.3 | 38.5 | 2.0 | 3.1 | –5.1 |

*Notes:* Column headings as follows: (1) two-way trade in similar products; (2) two way trade in vertically differentiated products; (3) one way trade. Source: Fontagné, Freudenberg, and Peridy (1997).

increase in IIT was faster for food and beverages than for agriculture as well as for non agricultural and food products. Within two-way IIT, vertically differentiated products are at least twice as important as horizontal similar products. The significance of both components is increasing by the degree of processing or product's sophistication, being the lowest for agriculture, higher for food and beverages, and being the most significant for non agricultural and food products. However, the fastest increases in vertical IIT are recorded for agriculture and particularly for food and beverages. Due to the relatively low proportion of IIT in agricultural and food products, also agriculture and the food sector during the last twenty years have been under the increased pressures for restructuring. The lower share of IIT often during liberalization implies higher pressures for adjustments due to restructuring and reallocation of industries. Such restructurings between industries are much more painful and costly than adjustments along the product differentiation within a same industry, which alters product lines.

## Conclusion

Agricultural and food trade has been analyzed for Slovenia in comparison with the EU and the other NMS-9. Agricultural and food trade flows have been analyzed using IIT approaches. The significance of the processed food products in Slovenian agricultural and food trade is increasing. The Slovenian agricultural and food sectors are becoming more exposed to global competition. Trade structures, trade types and the nature of IIT are changing under pressures of internal and external factors. The large proportion of Slovenian agricultural and food trade is in one-way, inter-industry trade. Among determinants of inter-industry trade type specialization are differences in factor endowments and productivity dif-

ferential, which are causing restructuring and adjustment costs along the economic activities, more than along the qualities.

The significance of IIT is increasing with the degree of product processing. It is the lowest for primary agricultural products and the highest for processed food products for household consumption. With income per capita increases, demands are towards varieties and qualities. Within IIT low-quality exports in vertical IIT prevail. This type of agricultural and food trade specialization on lower value-added products raises the question of the Slovenian agricultural and food sector competitiveness. The potential effect of EU integration is likely to lead to the specialization along comparative advantages. Greater efforts are needed to upgrade the relative quality of agricultural and food exports. This can be induced by internal restructuring at industry and firm level, and also by new investment activities to improve quality and international price competitiveness.

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# *Impact of Personality and Emotional Intelligence on Successful Training in Competences*

Aleksander Zadel

Many modern management theories and researches deriving therefrom seek those personality features and traits that ought to ensure the efficient development of an individual's competences. In my research we found out that managers are able to develop top quality management and top quality competences irrespective of their personality traits. Since there is no uniform method that would offer an explanation as to how individuals should develop their competences, we presented how an individual training programme and the development of competences should proceed. However, we can only attain optimum success in training needed competences if we take into consideration individual features of a person, his/her emotional intelligence and the requirements of his/her working environment. What the dynamic and variable working environment expects from a modern leader is a wide range of good or even perfect competences. The article at hand presents the importance of a long-term basis training that has a systematic influence on the improvement of management techniques.

*Key Words:* competences, training, personality traits, management, behaviour

JEL *Classification:* J24, M53, M54

## Introduction

A leader in a modern company has, for quite some time now, not only played the role of a manager and director of activities in the narrower sense of the word but has also been more and more becoming a person who makes sure that the people for whom he/she is made responsible are able to reach and maintain optimum work performance. Therefore his/her interaction competences are gaining increasing importance. The changing conditions in the world of management have led to the situation where business knowledge, financial management, information technologies and other types of managerial expertise are generally accessible and commanded by the majority of managers or management teams in successful companies. Distinguishing successful leaders from

*Dr Aleksander Zadel is an Asistant Lecturer at the Faculty of Management Koper, University of Primorska, Slovenia*

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unsuccessful ones today are their competences. However, I do not have in mind the competences in the sense of the scope of their responsibilities but in the sense of their ability to apply their knowledge in solution solving. Svetlik (2001) lists five groups of competences:

- *methodological competences* constitute the ability to perform time management, the ability to make decisions, the knowledge to deliver solutions to problems, communication skills;
- *social competences* are persuasive abilities, abilities to conduct negotiations, ability to manage people;
- *standpoint (value) competences* include the ability to establish values and positive standpoints;
- *learning competences* comprise the ability to learn, ability to assess what will bear crucial importance for an individual in the future, the ability to collect and process information;
- *specific work-related competences* are competences that distinguish one line of work from the other.

The world of modern management undoubtedly requires a new style of leadership and a new type of leader. The trend is shifting from leadership, characteristic of which was delegating and assigning orders or instructions (reactive leadership), towards the agenda-driven leadership based upon the formation of a company's visions and goals as well as the mobilisation of its employees with their participation (Svetlik 1996). An important role in this process is also attributed to interactive leadership, rendering the leader into an instructor who learns together with his colleagues in the processes of problem solving and developing new projects (Rasmunsson 1992). Furthermore, according to Svetlik (1996) the locus of leaders' activities is shifting from 'hard' to 'soft' factors, such as organisational culture, knowledge, communication, motivation through work and career, and so forth.

Even though leadership researchers (Hickman 1990; Kotter 1988; Yukl 1994) believe that it is reasonable to consider management and leadership as two distinct roles, they at the same time deem it inappropriate to view managers and leaders as two different types of people. While an individual may be both a leader and a manager, this does not necessarily mean that a good manager can also be a good leader. According to Conger and Kanungo (1998), the key distinction between a manager and a leader is provided in the book by Burns (1978). At that time, Burns was the author who first introduced a claim that the style of leadership may be defined

as transformational or transactional. In his opinion, both the leader and the led are in a position to offer each other certain advantages. Transformational leadership involves mutual encmyagement of the leader and the led, the inclusion of the led into the processes of creating new visions and establishing the processes of continuous changes. This results in the changes that occur in both, the leader and the led. Transactional leadership, on the other hand, involves a completely different process, since it is founded exclusively on a one-way influence that the leader has on the led. Burns' work bore a major influence on Bass. The latter claims that transformational leadership is that which has been subject to the most insightful research in the last decade (Bass 1998). The reasons for such an interest are most likely based on the findings that transformational leadership, in principle, delivers the greatest share of positive results (Barling, Weber, and Kelloway 1996).

With transformational leadership the leader stimulates the employees with ideals and values. He/she makes use of intrinsic motivation. Transformational leadership derives from my fundamental premises (Bass and Avolio 1993):

- *charisma:* the leader presents the vision and the meaning of the company's mission, instils pride, evokes respect and confidence;
- *inspiration:* motivates high expectations, makes use of symbols in effort-oriented guiding, expresses crucial intents in a simple manner;
- *intellectual stimulations:* develop creativity, rationality and systematic problem solving methods;
- *consideration of the interests of individual staff members:* invests personal interest in an individual's development, treats each individual as a respective personality, coaches, offers advice.

Transactional leadership is founded upon concertations between the leader and his/her subordinates concerning all kinds of material, personnel, social and other advantages that an employee may benefit from, insofar they comply with the rules or requirements stipulated by their superior. The transactional leader makes use of extrinsic motivation, and complies with rules and regulations. The transactional leader's work is based on (Bass and Avolio 1993):

- *rewarding:* negotiates rewards for accomplished tasks, promises rewards for future job performance, gives acknowledgements for achievements;

- *leadership-by-exception (active):* monitors ongoing activities, looks for divergences from the rules and standards, makes decisions on corrective actions;
- *leadership-by-exception (passive):* intervenes only in the event of the set standards not being met;
- *laissez faire leadership:* renounces the responsibility and avoids team-based decision-making.

Transformational leadership development programmes have proven to be very effective. Their purpose is to teach those techniques and methods of leadership that may be defined as transformational forms of leadership. The key conditions for efficient functioning of learning models for transformational leadership relate to appropriate feedback information. The employees improve their effectiveness if they can assess that their superiors apply those leadership techniques that may be classified as transformational. In order for this to happen we have to provide for a flow of information as direct as possible on the manner of leadership and reactions thereto (Kelloway, Barling, and Helleur 2000).

**Is it Possible to Influence the Development of Competences?**

Let us look at an example of competence development within the context of emotional intelligence. Among the authors dealing with and conducting research on this phenomenon there is a strong consensus that emotional intelligence may be developed through emotional competences (Goleman 1998; Steiner 1997; Höpfl and Linstead 1997; Cooper and Sawaf 1997; Martinez 1997). There is an enormous body of literature devoted exclusively to the development of emotional competences. Despite the indisputable fact that emotional competences are easiest to learn in childhood and that this form of learning poses greater problems at later stages of life, it also cannot be denied that high quality programmes can bear significant influence on the development of emotional competences in the desired direction.

The research conducted in management, sport and behavioural psychology shows that the competences may be enhanced, developed or acquired. In this case it is also necessary to take into account the fact that social and emotional learning differs from cognitive and technical learning. Therefore this type of learning requires a different approach. Managers are aware that competences constitute an important herald of success in work; however, it is in their interest to know how to ensure that

a maximum number of employees will develop their competences to the highest level possible. In order to facilitate my understanding of the likely influence on the improvement of competences, let us take a look at two types of learning.

There are two fundamental reasons as to why it is appropriate to strive for the on-the-job improvement of competences.

1. Competences constitute a crucial factor in work performance. The results obtained from various studies make it evident that more than two thirds of competences necessary for successful job performance are determined by emotional competences.
2. A vast majority of adults involved or introduced in the working process do not have the appropriate competences that are required by ever more demanding working environments. A particularly acute problem is posed by the lack of motivation and the absence thereof, respectively.

**The Significance of Effective Training**

With their roots in the early 1950's, trainings influencing the development of social skills present no novelty. The effectiveness of such trainings has been proven by objective criteria (reducing absenteeism and increasing profit). Even greater, however, was the subjective perception of the changes that were measured by means of various questionnaires. The results have shown an improved level of self-assurance, heightened sensitivity to other people's problems, increased confidence and so forth (Cherniss 2000).

Figure 1 shows the plan and implementation of the process for the development of competences. The learning process comprises fmy key phases. Figure 1 clearly demonstrates what approach has to be taken in education and competence training. The more defined the methodology is, the easier it is to follow the plan and the greater the opportunity is to succeed. The complexity of the scheme crucially relies on the essential differences between cognitive learning and competence learning.

Let us take a closer look at respective phases within the entire process of influencing the changes in organisations' competences. Applying the following rules it is possible to ensure an optimum systematic impact on the objectives concerning the development of employees' competences. Such guidelines can bear influence on the development of the widest scope of activities, including team work, leadership, conflict and stress

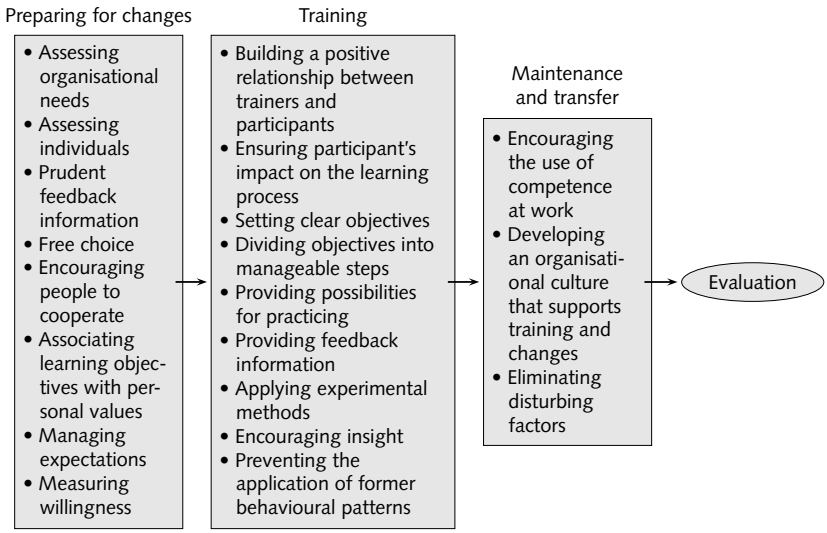


FIGURE 1 Optimum process for the development of competences in organisations (adapted from Cherniss and Goleman 1998)

management, as well as the enhancement of customer and buyer relations. The rules apply to the changes in an individual's behaviour; due to their synergic effect, they increase the chances of success, provided also that they are consistently implemented. The rules are grouped into the following fmy spheres of activities: preparation, training, maintenance and evaluation, with each of them being further subdivided (Cherniss and Goleman 1998).

*Preparing for Changes.* The initial period, which is critical to the success of the competence-developing process, comprises preparations for changes. Preparations are implemented on both levels, personal and organisational. Motivation of participants is of key importance to the success of training. Generally, adult people have deep-rooted behavioural patterns. Altering these patterns constitutes a rather difficult task.

*Training.* Training includes all the activities which allow for the introduction of changes. The quantity of time, energy and potential fear of change invested by individuals during the period of training in competences is so abundant that it may bear a significant impact on reducing the motivation for changes. For this reason, the trainers must be aware of such obstacles at all times and actively contribute to the reduction of their negative impacts on motivation.

TABLE 1 Average age and number of senior staff members included in the research

| Gender | Average age | *N* |
|---|---|---|
| Women | 40.08 | 10 |
| Men | 44.03 | 30 |
| Total | 43.22 | 40 |

*Maintenance and Transfer.* Maintenance and transfer relates to post-training phases and ensures that the acquired and trained competences will be transferred into all desired spheres of activities. When the training participant returns to his/her old working environment, he/she will most likely encounter numerous factors that will encourage the application of those former behavioural patterns which we have been trying to replace during the training process.

*Evaluation.* Evaluation[1] must at all times be an inherent part of the training process, since it is only in this way that the effectiveness of performed activities can be measured (Cherniss and Goleman 1998).

## Research

The research was conducted on the sample of 40 managers and 154 persons who assessed the competences of participating managers. The article at hand will focus on the managers, their personality traits and emotional competence.

Let us first take a look at the tables containing basic socio-demographic variables for managerial staff. Since the numerus is below 100 I did not calculate percentage values. Despite the low numerus in the case of the experimental group I was able to apply classic statistical procedures, since on the other hand I had a group of 154 assessors. Their socio-demographic data were not statistically processed due to the fact that an appreciable number of them wished to remain anonymous, not only by virtue of their names but other personal data as well. Their wish, of cmyse, was respected.

The results obtained from the Eysenck's Personality Questionnaire (EPQ) show average values for fundamental personality traits. Eysenck's Personality Questionnaire is the most frequently used and quoted personality questionnaire in psychological practice (Musek 1993).

Table 2 compares the difference between the results obtained from my sample and the standardised results obtained from the sample of the Slovenian population. What can be noticed is that there is no signifi-

TABLE 2 Average values for my sample and standardised result obtained from a sample of the Slovenian population that was subject to subtests contained in the Eysenck's Personality Questionnaire for managerial staff

| | Average value of the sample | Average value of the standardised result |
|---|---|---|
| EPQ P | 5.45 | 4.27 |
| EPQ E | 16.55 | 15.84 |
| EPQ N | 7.28 | 5.05 |
| EPQ L | 10.50 | 13.84 |

cant difference between the results obtained from the first two subtests and the standardised results. Slightly higher are the levels of psychoticism (amounting to a little more than one point) and extraversion; the neuroticism/emotional stability dimension exhibits an average result that is higher by two points; a little more than three points lower is the result on the sincerity scale.

The result on the psychoticism scale (P) is somewhat higher than its counterpart typical of the Slovenian population sample. With regard to the fact that the psychoticism dimension at the higher end of the continuum is determined by the characteristics of aggression, toughmindedness, inconsideration and so forth, I can claim that the slightly higher result obtained for the group of leaders does not come as a surprise. The characteristics of strictness in mutual relations are, as a rule, fairly desirable. A somewhat higher result on the P scale for managerial staff is expected and in agreement with the indications from the relevant literature.

On the extraversion scale (E), the result exceeding the value of the standardised result determines the typical characteristics of talkativeness, outgoingness, sociableness, good communication skills and the ability to establish social contacts. This result, as well, is expected in the case of my experimental group. A good leader should have the communication skills which will enable him/her to effectively manage the social network. A good measure of extraversion will facilitate his/her achieving this goal.

With regard to the neuroticism/emotional stability dimension, the above-average result means a higher level of emotional instability or neuroticism. The persons who attain an above-average number of points are restless, moody and easily become anxious. This result serves as a warning that the managerial staff has to be provided with the knowledge

and the means to help them tackle the major environment-induced stress factors. Since it is very difficult to bring influence to bear on the working environment, the main effort should be invested in people. One of the methods to reduce the impact of a stressful environment is training for the purposes of more efficient leadership that would ensure a higher quality fulfilment of needs and requirements. Or, in other words, stress constitutes nothing else than a very condensed series of unsatisfied needs (Glasser 1998).

Finally, there is also the sincerity dimension, which, according to Eysenck, does not constitute a real personality dimension, but a mere tool for measuring the tendency 'to pretend'. Measuring this personality characteristic is crucial when we wish to verify as to what extent an individual tends to opt for socially more acceptable answers[2] (i. e. tries to present himself/herself in a different light). According to Eysenck, the tendency to pretend is made more evident in certain situations when a person in question wishes to make a better impression (for example, when filling out the questionnaire accompanying the employment interview; Musek 1993). In addition to pretence, this scale also demonstrates the level of social naivety or conformism. The higher the result is, the more explicitly expressed the characteristics are. Persons included in my research on average achieved up to three points lower results on this scale. This means that we are dealing with people who convey a typically lower tendency to pretend, as well as a lower level of conformism. For senior managers such a result is as much expected as it is desirable.

In conducting my research I used the EPQ with a view to establishing whether the personality characteristics were in correlation with emotional competence.

### The Association between Personality Traits and Emotional Competence

This part of the task will deliver answers to the questions of my research. I will establish in what way emotional competences are associated with personality traits and whether leaders with better evaluated emotional competences also work with subordinates who are more satisfied in terms of both their personal and the organisation's needs. Thus I will be able to set up the foundations to confirm or reject the hypothesis on the association between emotional competences and personality traits.

Table 3 presents calculated correlations between personality traits and the result from the personality questionnaire on emotional competences.

With regard to emotional competences and personality traits there are 80 calculated correlations and 16 with regard to the clusters of emotional competences and personality traits. According to Petz, in the event of a large number of calculated statistical values the amount of envisaged statistically characteristic correlations will depend on the height of the risk[3] (Musek 1993). In my case, where I am dealing with 96 calculated correlations, I may confirm the 'zero hypothesis' when we do not obtain more than five statistically characteristic correlations. It is also important to emphasise that such conclusions can be drawn only when we deal with large numbers.

In reviewing the correlation matrix, I conclude that among all calculated correlations there are three statistically characteristic correlations at the 5% risk level. The first is the correlation between the P dimension and organisational awareness, the second is the correlation between the E dimension and prudence, with the third being the correlation between the L scale and self-control. Since, owing to the large number of calculated correlations, I will accept the interpretation on accidental statistically characteristic correlations, I will not interpret these associations as substantial but accidental.

According to claims made in the relevant literature, emotional competences are not deemed to be in correlation with personality traits (Mayer and Salovey 1993; Goleman 1995). The results of my research confirm these claims. I can conclude that personal characteristics merely constitute a specific potential that acquires its substantial validity in association with competences and behaviour. Personal characteristics do not bear influence on the level of the possibility that someone will develop a certain emotional competence. Therefore, even though I can find differences in personal characteristics between 'normal'[4] population and managers, these characteristics do not constitute a factor that is crucial for a successful leadership.

## Conclusion

My presupposition was that there was no statistically characteristic correlation between emotional competences and personality traits. The results of my research proved this hypothesis. My conclusions match with the results from the literature, which confirm that emotional intelligence is independent from fundamental personality traits (Mayer, Caruso, and Salovey 2000). How could we apply the acquired knowledge for a better understanding of leadership?

TABLE 3 Correlations between personality traits in the EPQ questionnaire and emotional competences in the ECI questionnaire

| | EPQ P | | EPQ E | | EPQ N | | EPQ L | |
|---|---|---|---|---|---|---|---|---|
| | *r* | *p* | *r* | *p* | *r* | *p* | *r* | *p* |
| *Self-acknowledgement* | −0.01 | 0.962 | 0.06 | 0.723 | 0.00 | 0.986 | 0.02 | 0.883 |
| Emotional self-acknowledgement | 0.13 | 0.438 | 0.22 | 0.191 | 0.03 | 0.867 | 0.08 | 0.620 |
| Self-assessment | 0.02 | 0.885 | −0.04 | 0.798 | −0.04 | 0.827 | −0.10 | 0.536 |
| Self-confidence | −0.07 | 0.679 | 0.04 | 0.813 | 0.02 | 0.891 | 0.06 | 0.707 |
| *Self-control* | −0.07 | 0.663 | −0.11 | 0.499 | −0.06 | 0.739 | 0.17 | 0.307 |
| Self-supervision | −0.06 | 0.740 | −0.14 | 0.400 | −0.08 | 0.630 | 0.32 | 0.048* |
| Reliability | −0.09 | 0.608 | 0.04 | 0.813 | −0.09 | 0.579 | 0.22 | 0.183 |
| Prudence | −0.09 | 0.586 | −0.35 | 0.034* | 0.05 | 0.755 | −0.05 | 0.765 |
| Adaptability | 0.09 | 0.604 | 0.04 | 0.823 | 0.01 | 0.976 | 0.17 | 0.314 |
| Achievement-orientedness | 0.00 | 0.992 | −0.08 | 0.612 | −0.19 | 0.242 | −0.01 | 0.953 |
| Initiative | 0.04 | 0.818 | 0.03 | 0.836 | 0.01 | 0.965 | 0.18 | 0.274 |
| *Social awareness* | 0.01 | 0.929 | −0.04 | 0.818 | −0.14 | 0.395 | 0.13 | 0.449 |
| Empathy | 0.03 | 0.879 | 0.02 | 0.918 | −0.23 | 0.163 | 0.19 | 0.263 |
| Obligingness | −0.16 | 0.329 | −0.13 | 0.436 | −0.03 | 0.844 | −0.14 | 0.401 |
| Organisational awareness | 0.34 | 0.038* | 0.02 | 0.908 | 0.03 | 0.844 | 0.20 | 0.231 |
| *Social skills* | −0.10 | 0.549 | −0.01 | 0.975 | −0.20 | 0.224 | 0.09 | 0.595 |
| Developing others | −0.07 | 0.664 | −0.12 | 0.475 | −0.09 | 0.574 | 0.00 | 0.995 |
| Leadership | −0.18 | 0.283 | −0.11 | 0.530 | −0.05 | 0.755 | −0.02 | 0.920 |
| Influence | −0.02 | 0.901 | 0.08 | 0.651 | −0.13 | 0.447 | 0.23 | 0.160 |
| Communication | 0.08 | 0.624 | 0.14 | 0.410 | −0.09 | 0.584 | −0.01 | 0.948 |
| Fostering changes | −0.24 | 0.150 | −0.17 | 0.299 | −0.23 | 0.164 | 0.10 | 0.567 |
| Conflict management | −0.03 | 0.867 | 0.02 | 0.928 | −0.26 | 0.109 | 0.16 | 0.333 |
| Establishing contacts | 0.02 | 0.884 | 0.21 | 0.209 | −0.08 | 0.615 | 0.13 | 0.447 |
| Team work and cooperation | −0.14 | 0.387 | −0.01 | 0.969 | −0.23 | 0.158 | 0.02 | 0.918 |

* Statistically characteristic correlations with less than 5% risk.

We often look for the differences between successful and unsuccessful people, between successful and unsuccessful leaders. In a similar vein, we also wonder whether leaders possess specific personal qualities that

other people do not. Since an appreciable number of researches deliver affirmative answers to these questions, we tend to make over-generalised statements based on the conclusions that these personality traits and differences are crucial for a successful performance in leadership. But this is far from true.

How is an individual, without any psychological education and psychological questionnaires, able to establish the type of personality traits of a person with whom he/she is in a certain relationship? By observing their behaviour. Personality traits are thus expressed through an individual's behaviour. Behaviour may be effective or ineffective, socially more or less acceptable, or more or less appropriate. But at all times, it is something that an individual has learnt (excluding instinctive and reflex behaviour). Personality and behaviour are interrelated only to the extent on the basis of which we are able to draw conclusions on the fundamental personality traits.

If we can define behaviour as good or bad, are we then, in a similar vein, also able to determine an individual's personality traits? No. Even though the general, non-professional opinion states otherwise, the quality of behaviour is completely independent from personality traits. The latter, more likely, constitute a potential. They represent the material that may be developed through learning into a certain type of personality which, in itself, cannot be deemed as good or bad.

Why did we claim that we can draw conclusions on personality traits on the basis of an individual's behaviour? Because the quantitative side of behaviour is, in fact, directly determined by personality traits, while the same does not apply to its qualitative side. An individual who has achieved a high result on the E scale (extraversion) will, undoubtedly, be more talkative than an individual who has attained a lower result. However, the quality of their respective communication behaviours will be determined by factors that are completely different from their personality traits.

Personality is a relatively permanent system of an individual's behavioural, emotional and physical characteristics (Musek 1993). Personality potentials are genetically determined. The way in which an individual realises his/her personality potential, however, is not completely defined in his/her genetic system. At least with regard to behaviour we can claim that it can be acquired through learning, subject to change or given up. Today we can also claim with certainty that it is also possible to improve competences that constitute a crucial factor for an individual's successful performance.

In principle, each individual has to accept his/her personality as a potential determining the quantity of his/her behaviour. The selected behaviour quality, conversely, will depend on other, situation-specific factors.

Competences are expressed through behaviour. I can conclude that leaders are able to develop high quality form of behaviour and thus also high quality competences, irrespective of their personality traits. Each individual has to be aware of his/her potentials and translate them into best possible practice. However, there is no single recipe for all. Within the process of training in competences we will be able to deliver optimum results only if we will take into consideration respective characteristics of each individual and the requirements posed by a specific working environment. Dynamic and variable working environments require from a modern leader a wide spectrum of good or even perfect competences. It is only in this manner that a leader can play his/her role successfully and efficiently.

**Notes**

1 Evaluation is a procedure used for the assessment of the current state or process. It does not present a critique, since it does not treat the personality traits of an individual but merely establishes the gap between the actual and the desired states.

2 The first three personal dimensions were proven by Eysenck also by human physiology studies. Eysenck discovered physiological correlants that confirmed the existence of three key personality traits. The fourth dimension is a type of a tool that helps us determine the level of reliability of the results obtained with regard to the first three scales. If the result on the L scale is too high, (above 17 points), Eysenck recommends that great care is taken in interpreting the other three dimensions (Musek 1993).

3 In adopting conclusions with a 5% risk, there is a possiblitiy of accidentally obtaining five statistically characteristic correlations in 100 calculated correlations. In accepting 1% risk, we would most probably accidentally obtain one statistically characteristic correlation.

4 In statistical terms, the word 'normal' means normal distribution.

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