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# *Managing Global Transitions*

## *International Research Journal*

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# *Exploring Consumer Reactions to the Recession in Slovenia and Bosnia and Herzegovina*

Tomaž Kolar  
Vesna Žabkar  
Nenad Brkić  
Ismir Omeragić

In order to analyze the impact of the current economic crisis on consumers of FMCG products in the Balkan region this paper investigates changes and trends in consumer values and attitudes between years 2007 and 2009 in Slovenia and Bosnia and Herzegovina. A comparison of value ranks and factor scores between the two years and two countries shows some significant differences and surprising findings in terms of changes in consumer values and attitudes, which were otherwise expected to be relatively stable over a short time period. In order to provide an insight into questions of *if*, *why* and *how* the crisis differently affected Slovene and Bosnian consumers, possible causes for identified differences are discussed from the theoretical and practical standpoint and several managerial implications are suggested.

*Key Words:* recession, consumers, attitudes, values, Slovenia, Bosnia and Herzegovina

*JEL Classification:* M31

## **Introduction**

In order to adjust strategies to changing marketing conditions, companies were recently advised to analyze how customers' needs and spending patterns shift during and after economic crisis (Quelch and Jocz 2009; Flatters and Willmott 2009). This wisdom is not new. More than a quarter of a century ago Piercy (1983) asserted that recession has affected how consumers behave as well as how much they spend, which is a vital con-

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sideration in applying the right strategy. According to him the companies will have to spend more time, money, and effort on market research during crisis. Yet remains the question of whether companies do follow these suggestions and whether existing knowledge on how consumers behave during recessions is sufficient in order for companies to develop effective strategies to cope with recessions. The literature review unfortunately reveals that the existing body of knowledge on this topic is rather scarce and narrowly focused. It often deals solely with consumer behavior in terms of aggregate analysis of current and future (down) spending (see e. g. Eppright, Arguea and Huth 1998). Such (macro) analyses are, however, not sufficiently precise in order for companies to be able to use them for development of marketing strategies. One cannot expect that consumers will be consistent in their reactions and down-spend all product categories equally, as is the commonly held assumption in macroeconomic analyses. Contrary to this assumption Curtin (2003) for instance predicts that the 21st century consumer will be inconsistent in his expectations and spending patterns. Another problematic assumption that needs to be tested is whether consumers are all equally rational, thrifty and sober during recession, or this could be the vital information for strategic decisions like segmentation. Despite some attempts to segment consumers on this basis, this is often done on an ad hoc basis, without sufficient empirical arguments (see e. g. Quelch and Jocz 2009). Comprehensive knowledge which could explain why different consumers react differently to a recession thus still seems fairly limited. Therefore, the purpose of this paper is twofold.

First, in order to probe behind consumer observable reactions, the paper is focused on two general concepts that could explain and predict consumer behaviors, namely on consumer attitudes and values. Consumer attitudes and expectations towards the economy were already found to be powerful predictors of consumption on aggregate level (Easaw, Garratt and Hearvi 2005; Eppright, Arguea and Huth 1998). Much less is known about these two concepts in this regard on a micro level; that is, how more specific attitudes and consumer values are affected by recessions. In order to provide better insight into this issue, a comparison of various consumption related attitudes and general values will be done in two time periods: before and during the current economic crisis. The second purpose is related with the assumption that differences among consumer reactions to a recession are dependent upon various factors like economic development and political stability, but also upon

cultural differences. For this purpose we compared the attitudes and values of consumers in two countries that exhibit many similarities and differences, namely Slovenia and Bosnia and Herzegovina (BH). In what follows, a brief theoretical background of the concept of consumer attitudes and values is presented, together with the existing knowledge on how they are related with the consumer reactions to the recession in both countries. In the empirical part a methodology and results of comparative analysis are presented, followed by discussion of findings and managerial implications.

### **Literature Review**

In the domain of macroeconomics, the analysis of consumer attitudes has a long tradition, where they are termed consumer sentiments. Analyses of trends of various consumer sentiment indexes indicate that these aggregate measures affect the aggregate consumer expenditures more often than the economic indicators and might provide predictive power not possessed by the economic indicators (Eppright, Arguea and Huth 1998). These studies found that consumer attitudes correspond with various macroeconomic indicators of economic growth/recession like, GDP, unemployment, inflation rate, etc. (Curtin 2003). Still, caution is needed at (over)generalizations of the attitude–economy relationship. According to Curtin (2003), consumer confidence is a fairly accurate predictor of macroeconomic change, where some correlations with actual expenditures are stronger (e. g. for home) than others (e. g. for vehicles). Similarly Easaw, Garratt and Heravi (2005) found that consumer sentiment does predict the households' consumption of durable goods, where predictions based on the UK indicators are better than predictions based on the US indicators. Based on this treatment of attitudes as a monolithic variable it seems inappropriate, as consumer expectations regarding various economic and personal/financial issues (jobs, incomes, interest rates, inflation, stock process, home values, etc.) exhibit divergent changes and correlations with actual expenditures, but also depend upon national factors.

Examination of consumer attitudes and their relationship with economic prosperity/crisis warrant attention from the conceptual aspect as well. The macroeconomic approach treats consumer attitudes as a concept which could be measured by a single question. The MORI 'confidence' measure, for instance, is a straightforward index based on a single question which asks consumers 'Do you think the general economic

condition of the country will improve, stay the same, or get worse over the next 12 months?’ (Easaw, Garratt and Heravi 2005). Consumer attitudes in (macro)economy are implicitly understood as a simple, one-dimensional construct that is synonymous with consumer’s estimations, perceptions, predictions, expectations, confidence, sentiments, etc. – in regard to the state of economy. While detailed conceptual distinctions between attitudes and these concepts are beyond the scope of this paper, it is obvious that this is a rather big (over)simplification if not misunderstanding of the attitudes concept.

Attitude is defined as the enduring organization of cognitive, but also emotional and motivational processes, with some link to our environment. It is a learned predisposition to respond in a consistently favorable or unfavorable manner with respect to a given object (Hawkins, Best and Coney 1989). For the purpose of explaining how attitudes affect and predict actual behavior towards a certain object, various models have been used (see Schiffman and Kanuk 2004). According to the three-component attitude model, attitudes consist of a cognitive component (knowledge, perceptions and experiences), affective component (emotions and feelings) and conative component (likelihood or tendency of taking a specific action). On the other hand, multiattribute models explain attitudes with regard to specific attributes of the particular object. Among these, the Fishbein multi-attribute model is considered to be the most influential and measures three components of attitude, namely salient beliefs (key attributes of an object that are considered during its evaluation), object–attribute linkages (the perceived probability that the object has a key attribute) and the evaluation of the important attributes. For the purpose of the improved predictive ability of attitudes, Fishbein’s model was revised and improved with several moderating variables (attitude to behavior, subjective norm, perceived control, behavioral intention), which resulted in the theory of planned behavior. Regardless of the various conceptualizations and models that could be adopted for the purpose of investigation of attitudes, ‘macroeconomic’ conceptualization seems too narrow. In our case such oversimplification is problematic at least from two aspects. Firstly, attitudes are complex evaluative constructs, and reduction to a single dimension might importantly hinder its explanatory and predictive value, if we measure only a certain/narrow aspect (e. g. cognitive) of it. Besides, it is of vital importance how attitudes are measured. Formulation of questions (items) that are used for measurement might namely impact the attitude–behavior relationship. In a



well known experiment consumers were for instance asked 'to evaluate the taste of two cola drinks' (Pepsi vs. Coca-Cola) and preferences were clearly on Pepsi's side. However, when respondents were asked 'which cola they would choose to drink,' Coca-Cola was the clear winner (see Gladwell 2002). This suggests that the aspects of attitudes that are evaluated might be decisive for the outcomes and consequences of evaluation. Consequently the more complete, comprehensive and holistic is the conceptualization and measurement of the attitudes employed, the more firm, valid and reliable are the established relations of attitudes with various consumer behaviors – reactions to crisis in our case. Secondly, attitudes might be focused on various objects and issues. While macroeconomics is mainly interested in consumer attitudes toward 'general economic conditions,' companies are probably more interested in how recession affected consumer attitudes toward certain product categories, particular brand(s), consumption pattern(s), preferred product/brand attributes, choice criteria, etc. Marketers might also be interested in how crisis affects attitudes towards marketing, advertising, pricing, and so on. Collectively these issues are termed consumerist attitudes and pertain to various positive and negative evaluations of marketing issues and activities. While lack of research that would investigate the impact of recession on consumerist attitudes is evident, the available literature indicates that consumerist attitudes are related with economic development and levels of inflation (Lysonski and Durvasula 2003).

Next to attitudes, values are another relevant concept for investigation of how consumer reaction to a crisis might be explained. Values namely share some similarities, but also some important differences in comparison to attitudes, which makes them a complementary and relevant concept for the purpose of the study. Chow and Amir (2006) point out that within the turbulent global economy and marketplace, consumer values tend to be more stable and innate than other human characteristics. Values are considered to be an important evaluative and adaptation mechanism, which impacts the attitudes people hold and is antecedently related to overall attitudes (Wharton and Harmatz 1995). In a study which examined consumer responses to the economy these authors found important differences among consumers for whom inner directed values are more important than for consumers with other-directed values. They found that internal oriented respondents are more information sensitive and are more inclined to use their perceptions of economic indicators (interest rates, inflation, etc.) as factors in their own economic

behavior. According to Chow and Amir (2006) motivation for more specific decisions like brand selection is also deeply rooted in our guiding principles, thus in our values. Values are defined as beliefs about some desirable end-state that transcends specific situations and guides consumer behavior (Salomon et al., 2002). For the conceptualization and measurement of values, several models and corresponding instruments have also been developed, including the List of Values (LOV), Values and Lifestyles (VALS), the Rokeach Value Survey and the Schwartz values survey (Schiffman and Kanuk 2004). Rokeach (1973) identified two basic and complementary sets of values which are a set of terminal and a set of instrumental values. Terminal values are desired end-states or personal goals that apply to various degrees in many different countries, while instrumental values represent the basic approaches or actions needed to achieve terminal values. A different approach to finding (cultural) value differences was taken by Schwartz et al. (2001). Schwartz did not ask for preferred outcomes (end-states), but asked respondents to assess 57 values as to how important they felt these values were as 'guiding principles of one's life.' Schwartz's typology consists of 10 distinct value types (power, achievement, hedonism, stimulation, self-direction, universalism, benevolence, tradition, conformity and security) in an individual-level analysis. Rokeach's and Schwartz's value surveys have been extensively used in the marketing domain (Salomon, Bamossy and Askegaard 2002). Pitts and Woodside (1983), for instance, found that Rokeach's value structures were found to be linked to choice criteria, beliefs, intentions and past behavior for various products and brands. On the global scale Chow and Amir (2006) found six segments according to the value structure (strivers, fun-seekers, creative, devout and intimate) that can be further condensed to two underlying dimensions of hedonism versus pro-social and conformity versus self-direction. The distribution (size) of particular segments differs considerably between various countries. In countries like the UK and Canada, fun-seeker and intimate are often dominant, while in a cluster of Eastern European countries (Czech Republic, Poland, Hungary and Russia) the strivers and intimate segments are dominant. Various national, economic and cultural factors thus impact the prevailing value structure and consequently we might expect that values and attitudes that explain reactions to a recession are also dependent upon these factors. Values in addition offer interesting conceptual implications for an explanation of reactions to crisis. If the assumption of stability of value holds, consumers' values should be more

stable in recession and change less than corresponding attitudes. In addition, consumers with different values (i. e. internal vs. external oriented) should react differently to a recession.

### **Empirical Evidences Regarding Consumer Reactions to a Recession**

While there are strong theoretical arguments that relate consumer attitudes and values with recession, there is a lack of empirical investigations of these relationships on a micro-level. Existing evidences often concur with theoretical or commonsense assumptions regarding general trends and the impact of recession on consumers, while there is much less agreement regarding specific reactions, trends and regional/national commonalities/differences. In general consumers react to a recession by spending less (Eppright, Arguea and Huth 1998; Easaw, Garratt and Heravi 2005; Curtin 2003) and by being thriftier and sober (Flatters and Willmott, 2009). Quelch and Jocz (2009) however suggest that marketers should segment customers according to their recession psychology (from fearful to carefree) and how they categorize their purchases (from essentials to expendables). While some segments are expected to be characterized by lower risk of down-spending and extent of the behavioral change during recession, others might be on the opposite side of these two dimensions. Regarding specific products these authors predict that some will not be affected by recession as they are an essential or justifiable expense (e. g. big screen TV), some are expendable and thus their consumption will be reduced (e. g. upscale magazines, health clubs), while sale of some products might in fact increase due to the consumer's concern for safety (e. g. home security) or thriftiness (e. g. frozen food will replace meals in restaurants). Based on more thorough research, Flatters and Willmott (2009) suggest that the following trends are being accelerated during recession: demand for simplicity, higher expectation for ethical business governance, a desire to economize and decreased loyalty toward products and brands. On the other hand four other trends are slowed: green consumerism, ethical consumption, decline in respect to authorities/institutions and extreme experience seeking. Findings of Ang, Leong and Kotler (2000) indicate that consumer countries hit by the Asian crisis in 1997 exhibit some similar trends, namely more comparative shopping, delaying purchases of expensive items, placing more emphasis on product durability and functionality, switching to lower end and local brands, developing a product life cycle cost perspective, relying

more on informative and less on imagery-based advertisements and buying more often at discount stores. Trends reported by Dong-Hun (2009) for responses of Korean consumers to the current recession in general correspond with these findings, while some trends are new or somewhat surprising. As key trends he reports harmony and stability (as a response to anxiety and risks experienced), increased preference for retro products (as a reminder of happier times), polarized consumption (extreme luxury products affordable to a few, while others aspire toward and imitate these few by looking for affordable mass-market luxury), economical consumption (price comparison and discount stores shopping), value shopping in career, education, wealth and infotainment products.

In the absence of entirely comparative information regarding how Slovene and Bosnian consumers respond to the current recession, available findings are presented. In Slovenia, research into consumer perceptions and reactions to the recession in 2009 was intensified, when recession was at its peak. In March 2009 a study titled 'Marketing Monitor' was started and was repeated in September 2009 (DMS 2009). From March to September the proportion of Slovene consumers that 'experienced the impact of recession on daily life' had grown from 52% to 63%, while the percentage of consumers that experienced 'lower buying power' had grown from 27 to 37%. More than half of consumers (51%) do 'spend less in the last months.' This percentage however differs substantially across various product categories. In tourism it is as high as 45%, similar (41%) is for sweets, durable products (furniture), clothes and sport (40%) and electronic entertainment products. This is followed by culture and home appliances (34%), cosmetics (31%), mobile telephony (28%), transport (26%), food (24%), education (23%), health (14%) and insurance (11%). In terms of shopping habits Slovene consumers are more prudent and planning, price conscious, they shop more in discount stores and instead of bulk buys they prefer several small buys. What is however surprising is that the percentage of consumers that prefer store brands is decreasing as the recession progresses! Additional (qualitative) research on how consumers perceive recession, performed by Valicon Company enabled additional insights (Zorko 2009). They found that a lot of consumers perceive crisis as being constructed by the media rather than being reality. Recession is often perceived as an external problem, which is not necessarily negative on a personal/individual level (additional benefits offered, lower prices). Still, crisis has a strong psychological effect, as it causes tensions and dissatisfaction. If needed,

the consumers will save on 'less necessary' products, while they are not prepared to downspend on food.

Similar research on reactions to a recession was presented by a GfK company (Mrkun 2009), with some interesting differences. This study briefly addresses consumer values and encompass as the whole CEE region, including BH (while results for Slovenia unfortunately were not available). Among the examined countries, recession most strongly affected Serbian consumers – where 61% of them estimate that their financial situation has worsened during the past 12 months (other countries vary from 31% to 60%). In the region product categories that will be mostly affected (rough estimation is that spending will be reduced between 30–50%) by recession are telecommunications, energy, home equipment, transport and restaurants. The category of personal indulgences (coffee, cigarettes, alcohol) will not be substantially affected (20–30%), while health, education, cleaning products will be affected least (less than 20%). The GfK report also put forwards the following trends, which are global yet relevant for the investigation of values. They suggest that consumers will try to escape reality as a response to a fast pace of life, and will seek for relaxation after hard work. While some trends are consistent with the previously mentioned (i. e. simplicity, thriftiness, safety), other predicted trends are not entirely consistent (i. e., authenticity, bricolage multicultural ideas and products, youth, individuality, status/success), while some even seem to be counter trends (e. g. ecological consumption, experiences/adventures).

Regarding BH, the GfK study suggests that their consumers are pessimistic as well and are prepared to downspend mostly on expenses for telephone communication, expenses for electricity, water and gas, smoking, tourism and car expenses. Almost 20% of them will also reduce expenses for durable products and household appliances, entertainment (restaurants, theater and cinema). They are however not prepared to give up enjoyment of good food, which will be more often prepared at home.

Other data regarding BH (Omeragic 2009) point out similar conclusions like those in Slovenia (see Zorko, 2009). Recession evokes negative associations like depression, unemployment, loss of jobs and alike. In BH the first things that consumers are prepared to spend less on are 'luxuries' like cigarettes, cosmetics, clothes, tourism. As expected in BH there is a higher share of consumers that personally experience the impact of recession on their daily life (66%) than in Slovenia (52%). Also, recession is in both countries largely perceived as constructed by the mass media

and thus the psychological effect is even larger than the actual effect of recession on personal financial position. This assumption is confirmed by the substantial gap between percentages of consumers that personally experience financial difficulties and the percentages of consumers who actually spend less. The percentage of consumers that already spend less is namely in both countries substantially higher (i. e. 48% in Slovenia and 51% in BH) than the percentage of consumers that personally experience financial difficulties (i. e. 23% in Slovenia and 30% in BH). The current recession thus stimulated a lot of research (and even more speculative predictions) about consumer reactions in terms of behaviors. Despite the fact that the observed reactions indicate possible implications for consumer attitudes and values, they are rather implicit and often inconsistent. More explicit empirical examination of how consumer attitudes and values (might) have actually changed due to the recession is thus needed. There is an evident lack of the studies that would compare consumer attitudes and values before and during recession, but also of the studies that would enable comparison of the differential impact of recession in various countries – what is the focus of the next, empirical part of this paper.

### **Methodology and Results**

In accordance with the purpose of the paper the research design and hypotheses are developed. In order to analyze the effect of the recession, the levels and structure of consumerist attitudes and values of Slovene and Bosnian consumers are compared in the pre-recession period (year 2007) and during recession (2009). In developing the hypotheses, the existing economic conditions are considered (such as political stability and general economic development), but also more specific differences between these two countries that were established previously. In previous studies Žabkar, Kolar and Sunko (2009) and Kolar, Sunko and Žabkar (2009) found important differences between Slovene and Bosnian consumers in terms of consumer attitudes and national character. Bosnian consumers were, for instance, found to hold more positive attitudes towards shopping as fun, peer influence, value for money shopping and on pragmatism in shopping (which denotes lesser emphasise on interior design, differences among brands and store types), suggesting that Bosnian consumers could be described as ‘pragmatic hedonists’ as opposed to Slovene consumers, who are ‘sophisticated rationalists.’ In line with theoretical and empirical findings the following hypotheses are proposed.

The first hypothesis is based on the argument that consumer's attitudes and values are mutually related and that both serve as adaptive mechanisms within changing economic conditions (Wharton and Harmatz, 1995; Lysonski and Durvasula 2003; Chow and Amir (2006). Therefore:

- H1 *The recession significantly affected consumers' values and attitudes, hence the average importance of key values and average consumerist attitudes changed significantly between years 2007 and 2009.*

The second and third hypothesis are based on theoretical and empirical evidences, which support the notion that during recession consumers become more thrifty and sober, and that during crisis they suppress the importance of and interest in enjoyment and lavish spending behavior (Flatters and Willmott 2009; Ang, Leong and Kotler 2000; Dong-Hun 2009; MS 2009; Zorko 2009; Mrkun 2009; Omeragic 2009):

- H2 *In both countries, the value structure is changed in favor of traditional/internal values (as opposed to modern and external values). Hence, it is expected that change in the average importance of traditional/internal values (fairness, safety, health, freedom, self-discipline) will be significantly more positive than modern/external values (materialism, enjoyment, social power).*
- H3 *In both countries, the attitude structure is changed in favor of more economical and cautious consumption instead of hedonistic consumption. Hence, it is expected that the change in average importance for items that are related with economical/cautious attitudes will be significantly higher than for items related with enjoyment/hedonism.*

The fourth hypothesis is based on logical argument and available evidence that Slovene consumers, due to their higher incomes, are less affected by recession than Bosnian (Zorko 2009; Omeragic 2009). Hence, the need for adaptation and change of attitudes and values is stronger in Bosnia:

- H4 *In Slovenia, both the consumerist attitudes and the value structure are less affected (changed), than in Bosnia and Herzegovina. Thus, the average importance of key values and average consumer attitudes changed more in Bosnia than in Slovenia.*

Data for analysis were derived from two representative samples of 4612 Bosnian customers and 3219 Slovene consumers in two years (2007 and 2009) by means of a syndicated field survey. The PGM syndicated field survey measures brand-related perceptions, values, shopping attitudes and various other psychographic and demographic characteristics

of consumers. Since the  $2 \times 2$  cross-sectional studies for the two countries and two years shared identical research methodology, including research instruments and field work, they enable comparisons for the examined period and the two countries. Values were measured with 24 items which were taken from Rokeach's (1973) and Schwartz's et al. (2001) value structure. Since our main concern was to identify the most important values for the two countries and how they changed between 2007 and 2009, only selected values that ranked high in importance are reported here (see table 1). All differences in mean values between the two years were significant ( $p$  below 0.01) in both samples. It is evident that in both Bosnia and Slovenia values, such as wealth, social power, authority and influence, have significantly increased in importance in 2009 compared to 2007, while, on the other hand, safety of the family, enjoyment of life, concern for the environment, freedom, self-discipline and even health have significantly decreased. Fairness, which was highly valued for Slovenians in 2007, lost importance in 2009 and is now on a comparable level with respondents from Bosnia (for them, it rose significantly between 2007 and 2009).

These findings refer to the second hypothesis, which is not supported. Results not only indicate that during recession traditional/internal values are not becoming more important than modern/external, but the contrary. The majority of traditional values (safety, health, freedom, self-discipline, environment protection) actually became less important during recession, while wealth and social influence became more important. A more detailed interpretation of this finding is discussed in the last part, yet the basic conclusion regarding the second hypothesis seems straightforward. During recession, consumers do not return to traditional values, but rather the opposite – degrade traditional values and embrace modern/external ones (where enjoyment of life is an important exception).

Consumer attitudes to shopping were measured with 20 items covering social influence in shopping (Bearden, Netemeyer and Teel 1990), ethnocentrism (Shimp and Sharma 1987), hedonic shopping (Faber and O'Guinn, 1989), value for money (Lichtenstein, Ridgway and Netemeyer, 1993) and other external influences. Comparison of mean values for consumer attitudes in 2009 compared to 2007 shows some interesting differences (see table 2).

Analysis of the first hypothesis was based on results provided in tables 1 and 2. Given that all important values changed significantly in



TABLE 1 Values: scores for selected items

Items	Year	Bosnia		Slovenia	
		(1)	(2)	(1)	(2)
Fairness (to be frank, natural, genuine)	2007	2.97	2.115	6.01	1.510
	2009	4.14	.840	4.30	.770
Wealth (material possessions, money)	2007	3.03	2.120	2.50	2.107
	2009	3.25	.966	2.86	.792
Social power (control over others, dominance)	2007	2.16	2.359	1.71	2.236
	2009	2.92	1.142	2.63	.928
The safety of the family (security of those we love)	2007	5.77	1.705	5.77	1.745
	2009	4.37	.815	4.28	.839
Authority (the right to lead the other)	2007	2.92	2.416	1.90	2.301
	2009	3.25	1.112	2.59	.909
Enjoyment of life (enjoyment of leisure, food, beverages)	2007	4.12	1.909	4.62	2.050
	2009	3.64	.918	3.75	.935
Protecting the environment (nature conservation)	2007	4.12	1.834	4.65	1.824
	2009	3.62	.861	3.67	.809
Freedom (freedom of thought and action)	2007	4.94	1.756	5.32	1.758
	2009	3.94	.851	3.99	.862
Self-discipline (sustainability of the temptations)	2007	4.27	1.832	4.19	1.930
	2009	3.66	.874	3.51	.832
Influence (the impact on people or events)	2007	2.87	2.397	2.14	2.283
	2009	3.20	1.103	2.64	.901
Health (to be healthy both mentally and physically)	2007	6.07	1.544	6.10	1.529
	2009	4.60	.699	4.58	.718

Column headings are as follows: (1) mean, (2) standard deviation. Significance for all items (comparing 2007 and 2009) below 0.01.

both countries, and that average values for more than half of all attitude items also changed significantly, these results provide strong support for the first hypothesis. Based on this finding we may assert that both consumers' values and attitudes during recession serve as an adaptation mechanism.

The results in tables 1 and 2 are also relevant for testing of the fourth hypothesis. Regarding attitude change, the results indicate less significant changes in Bosnia (10 out of 19 items) than in Slovenia (11 out

TABLE 2 Consumer attitudes: scores

Items	Year	Bosnia		Slovenia	
		(1)	(2)	(1)	(2)
Shopping is fun	2007	3.28	1.067	2.95	1.116
	2009	3.25	1.018	2.89	1.121
When I go shopping, I cannot stop ***/*	2007	2.60	1.077	2.42	1.092
	2009	2.75	1.011	2.34	1.051
I am interested in what my friends think about products I bought ***/**	2007	2.56	1.085	2.46	1.056
	2009	2.81	1.015	2.59	1.065
I prefer to endorse Bosnian/Slovenian products, although this costs me more in the long run -/**	2007	2.99	1.085	3.12	1.077
	2009	2.95	.983	3.00	1.078
I usually buy in shops where prices are most favorable ***/-	2007	3.73	.897	3.56	.986
	2009	3.57	.927	3.55	.905
When shopping I always look to get as much as possible for my money ***/*	2007	3.78	.938	3.72	.939
	2009	3.68	.920	3.79	.879
Bosnians/Slovenians should buy Bosnian/Slovenian products and services	2007	3.34	1.169	3.21	1.104
	2009	3.38	1.046	3.20	1.117
I like shopping -/***	2007	3.39	1.016	3.18	1.095
	2009	3.34	.970	3.03	1.106
Before purchases I sometimes like to consult my relatives ***/***	2007	2.87	1.083	2.65	1.086
	2009	3.19	.938	3.17	1.005
I often buy products only because they are on special offer ***/***	2007	2.77	1.089	2.57	1.093
	2009	3.07	1.023	2.72	1.089

*Continued on the next page*

of 19 items). Regarding values, we found that all examined values in both countries changed significantly. More detailed calculation of mean value differences for each country however reveals that the average value change for all 11 values in Slovenia is larger (i.e. 1.00) than in Bosnia (0.75). Based on that we can conclude that the fourth hypothesis is not supported. During recession, the values and attitudes of Bosnian consumers therefore did not change more than the values and attitudes of Slovene consumers.

In 2009, consumers in both countries are significantly more interested in what their friends think about products they buy, also, they like to consult relatives before shopping and often talk to friends about shop-

TABLE 2 Continued from the previous page

Items	Year	Bosnia		Slovenia	
		(1)	(2)	(1)	(2)
I always check prices before I buy a product **/–	2007	3.68	.952	3.59	1.040
	2009	3.59	.926	3.57	.990
I like to watch advertisements	2007	3.11	1.042	2.81	1.180
	2009	3.12	1.039	2.81	1.202
I often talk to friends about shopping ***/***	2007	2.88	1.062	2.48	1.032
	2009	3.01	1.012	2.66	.994
I often buy products only because of the attractive packaging ***/**	2007	2.53	1.038	2.22	1.013
	2009	2.68	.969	2.32	.986
I prefer products of Bosnian/Slovenian producers.	2007	3.04	1.118	2.92	1.070
	2009	3.03	.995	2.91	1.063
When shopping I prefer to consult than to decide by myself ***/***	2007	2.77	.996	2.62	.975
	2009	2.92	.915	2.83	.975
I trust things recommended by experts		3.12	.927	3.06	.945
	2009	3.09	.867	3.05	.888
I am ready to pay more for environmentally friendly products _/*	2007	3.18	.977	3.31	.979
	2009	3.14	.897	3.23	.940
Brands of products that people use tell a lot about them	2007	3.21	1.010	3.22	.974
	2009	3.22	.899	3.17	.987

Column headings are as follows: (1) mean, (2) standard deviation. Significant differences for 2007 and 2009 (Bosnian/Slovenian sample): \*\*\* below 0.001, \*\* below 0.01, \* below 0.05.

ping. Both Slovenians and Bosnians would buy products more often because of the attractive packaging. Preference for domestic products has not changed significantly for Bosnians while it decreased for Slovenians. While Bosnians agree with the statement that they cannot stop shopping significantly more, Slovenians agree significantly less. Buying in stores where prices are favorable and checking prices before purchasing has not significantly changed for Slovenians, while it has significantly decreased for Bosnians in 2009 compared to 2007. Slovenians agree significantly more with the statement that they search for value ('to get as much as possible for their money'), while Bosnians agree significantly less. Finally, enjoying in shopping ('shopping is fun') and readiness to pay more for environmentally friendly products has not changed significantly for

Bosnians, while it has decreased significantly for Slovenians in 2009 compared to 2007.

Factor analysis was used for data reduction and summarization of consumer attitudes to shopping for both Bosnian and Slovenian respondents, since our concern was to identify the underlying dimensions of items included in the survey. The analysis was common factor analysis with principal axis factoring with SPSS 17.0. The factors were rotated (oblimin rotation and Kaiser Normalization due to high correlations among factors). The Kaiser-Meyer-Olkin Measure of Sampling Adequacy was above 0.80 in both Bosnian and Slovenian samples and therefore acceptable. Variables that correlated highly with more than one factor are excluded from further analysis; leaving 19 variables in the analysis for the Bosnian respondents and 17 variables for the Slovenian respondents. The number of factors and variables was selected based on eigenvalues exceeding 1 and factor loadings exceeding 0.6. Factor loadings for the two samples are presented in table 3.

The obtained factors in both samples can be interpreted as follows: 1. Social influence (explains 24.3% of the variance for the Bosnian sample and 22.8% for the Slovenian sample); 2. Ethnocentrism (8.5% of the variance for Bosnia and 14.4% for Slovenian); 3. Value shopping (7.2% and 11.3% of the variance respectively); 4. Hedonism in shopping (4.6% and 8.2%); and 5. External influences (3.3, and 6.6% of the variance respectively). In all, the five factors explain 47.9% of the total 'attitudinal' variance for the Bosnian respondents and 63.5% for the Slovenian respondents. In both samples, the Social influence factor contains items like 'Before purchasing I sometimes like to consult my relatives' and 'When I shop I prefer to consult than make decisions on my own.' The Bosnian sample also contains 'I like to watch advertisements,' which was not significantly related to any factor in the Slovenian sample. In both samples, ethnocentrism includes the following items consistently: 'Bosnians/Slovenians should buy Bosnian/Slovenian products and services,' 'I prefer products of Bosnian/Slovenian producers,' and 'I prefer to endorse Bosnian/Slovenian products, although this costs me more in the long run.' Similarly, Value shopping contained the following items in both samples: 'I usually buy in shops where prices are most favorable,' 'When shopping I always look to get as much as possible for my money,' and 'I always check prices before I buy a product.' Hedonism in shopping includes 'Shopping is fun,' 'When I go shopping, I cannot stop,' and 'I like shopping.' Finally, External influences contain items like 'I trust

TABLE 3 Factor loadings for consumer attitudes for the two countries

Attitudes	Bosnia					Slovenia				
	F1	F2	F3	F4	F5	F1	F2	F3	F4	F5
I often buy products only because they are on promotion	0.546					0.629				
I like to watch advertisements	0.348									
I often talk to friends about shopping	0.528					0.599				
I often buy products only because of the attractive packaging	0.504					0.646				
When shopping I prefer to consult than to decide by myself	0.573					0.713				
I am interested in what my friends think about products I bought	0.579									
Before purchasing I sometimes like to consult my relatives	0.505					0.635				
I prefer to endorse Bos./Slov. prod., although this costs me more in the long run		0.743					0.847			
Bosnians/Slovenians should buy Bosnian/Slovenian products and services		0.695					0.857			
I prefer products of Bosnian/Slovenian producers		0.856					0.865			
I always check prices before I buy a product			0.575					0.677		
I usually buy in shops where prices are most favorable			0.746					0.817		
When shopping I always look to get as much as possible for my money			0.769					0.853		
Shopping is fun				-0.89					0.908	
When I go shopping, I cannot stop				-0.536					0.748	
I like shopping				-0.735					0.87	
I trust things recommended by experts					0.548					-0.709
I am ready to pay more for environmentally friendly products					0.656					-0.696
Brands of products that people use tell a lot about them.					0.53					-0.647

Notes: F1 – social influence, F2 – ethnocentrism, F3 – value shopping, F4 – hedonism in shopping, F5 – external influences.

TABLE 4 Differences in the factor scores for the two years in the two samples

Items	Year	Bosnia		Slovenia	
		(1)	(2)	(1)	(2)
Social influence ***	2007	-0,144	0,929	-0,119	1,007
	2009	0,116	0,840	0,234	0,943
Ethnocentrism	2007	0,000	0,999	0,019	1,001
	2009	0,000	0,852	-0,038	0,997
Value shopping***	2007	0,060	0,874	-0,023	1,013
	2009	-0,048	0,891	0,045	0,972
Hedonism in shopping	2007	0,004	0,955	0,042	1,004
	2009	-0,004	0,902	-0,084	0,988
External influences	2007	-0,004	0,871	-0,006	1,010
	2009	0,003	0,792	0,012	0,980

Column headings are as follows: (1) mean, (2) standard deviation. Significance: \*\*\* below 0.001, \*\* below 0.01.

things recommended by experts' and 'Brands of products that people use tell a lot about them.' We need to point out that Hedonism is a negatively oriented factor in the Bosnian sample, while External influences are a negatively oriented factor in the Slovenian sample, therefore high values on either of the dimensions a mean low level of agreement with statements that compose the two factors.

The test of differences in the factor scores for the two samples revealed some interesting results. For Bosnians, the social influence has significantly increased in 2009 compared to 2007, while value shopping significantly decreased. Differences for other factors (ethnocentrism, hedonism, external influences) were not significant for the two years in the study. This means that Bosnians in 2009 significantly more appreciate the opinion of friends and relatives compared to 2007, while they do not claim that they would buy more in stores where prices are lower or that they would always check prices before buying a product. Slovenians, similarly, significantly more appreciate the opinion of friends and relatives compared to 2007, on the other hand, shopping is less fun in 2009 compared to 2007. There were no significant differences in other factors examined (see table 4).

Such detailed examination of changes in consumer attitudes is relevant for the dis/confirmation of the third hypothesis. Here, however, the obtained results are not consistent and hence not conclusive. From ta-

ble 2 we can conclude, that some aspects of attitudes changed as expected (Slovene consumers, for instance, enjoy less in shopping during recession), while some changes are in the opposite direction as predicted (Bosnian consumers for instance, enjoy more in shopping during recession). Perhaps the biggest surprise is finding that Bosnian consumers are less price-sensitive in recession (!). An attempt to interpret this finding is provided in discussion, while in regard to the third hypothesis we might conclude that it is not supported. The obtained results therefore do not support the conclusion that consumers during recession develop more rational and sober attitudes.

### **Discussion and Implications**

The presented results provide an interesting insight into psychological reactions on the current recession by Slovene and Bosnian consumers. Some important and ‘taken for granted’ assumptions are supported, while some of them are challenged and require additional discussion. In general, and contrary to assumptions, values seem to be less stable than attitudes, as the importance of most of the examined values changed significantly between 2007 and 2009 – in both countries. Contrary to expectations and arguments in favor of values (see e.g. Chow and Amir 2006), attitudes might be more appropriate segmentation variables when companies aim for long-term segmentation as the basis for strategic decisions. Caution is however needed in such decisions, as there are some significant differences among various attitudes – where attitudes towards peer influence seem to be more affected by recession (i. e. became more important) than other consumer attitudes. An obvious implication here is that companies in recession should rely more on word-of-mouth tools for promotion. As expected, consumers in Slovenia (but not in BH!) experience less fun in shopping. Surprisingly, value for money shopping is not affected by recession in either country. The somewhat speculative explanation and corresponding implication for this finding is that consumers predominantly save money by reduced purchases of selected products and not by purchasing cheaper products and brands (!). Another assumption that consumers in recession tend to buy more local brands (Flatters and Wilmot 2009) also does not seem to be supported, as ethnocentrism is not affected by recession.

Regarding values, the results indicate that the majority of them are significantly affected by recession – in both countries. Here it must be first emphasized that the basic structure of values in both countries remained

approximately the same before and during the crisis. The three most important values before and during recession (in Slovenia and Bosnia) are namely health, safety and fairness. However, the importance of the impact of recession on values was stronger than on attitudes, and their relative importance changed as well. As the importance of most values declined during crisis it does not seem that values play the function of a coping mechanism during crisis and assure psychological stability, but rather that recession further multiplies the erosion of values! Decreased importance is however not equal for all values, but was importantly and differentially affected by recession. As expected, enjoyment is less important in recession, while wealth and social influence – contrary to expectations – remains stable. What is indeed surprising is the finding that traditional values like safety, health, freedom, wisdom and self-discipline are significantly less important in recession. Interestingly, the importance of fairness decreased in Slovenia but increased in Bosnia, which is the only value that actually became more important during recession.

In general consumers thus do not retain and/or return to (traditional, intrinsic) values as expected (and degrade materialistic and status oriented values), but rather decrease their importance in order to avoid psychological imbalance or cognitive dissonance. The results namely show, that while they value enjoyment less, the importance of status oriented values (power, wealth, influence, authority) is not decreased, while traditional values are less important. Rather than social status and other instrumental values, it seems that consumers would prefer to sacrifice, or at least reevaluate the terminal values like safety, health, freedom and wisdom. Putting it another way, it is likely that consumers do not adapt their consumption to existing values, but rather adjust and reframe the structure of values. This finding might have important managerial implications, as value based segmentations might be importantly affected by economical conditions. The size and structure of segments in recession might be more profoundly affected than is commonly assumed. Also, the assumed emphasis on positioning statements might be affected contrary to expectations. The status appeal therefore seems to be more stable than expected, while return to traditional values in appeals might even have adverse effects in promotional efforts.

Given that straightforward interpretations of the results and corresponding implications provided so far are to a large extent surprising, they warrant some additional discussion in order to provide possible explanations. Although such deliberations often open up additional ques-



tions rather than clarify all dilemmas, we are including them as well, as stimulation for future work in theory and empirical research in this field. One such point that requires additional deliberation is the general assumption that crisis affects consumers in such a way that they became more rational and therefore less emotional. Supposedly, and according to available empirical evidences, consumers indeed are thriftier, more sober and spare less for hedonistic, luxurious, impulsive purposes. The question is, however, whether consumers entirely discard or just temporally suppress or perhaps redirect their emotions – and how these reactions affect consumption. From the psychological standpoint it is illogical that the emotional part of consumption would completely vanish. Consumers in fact during crisis exhibit a plethora of different emotions like surprise, concern, fear, anxiety, pessimism, which are all an emotional part of reaction to a crisis. We may assume that these negative emotions could be indeed essential for explaining the often observed irrational reactions of consumers to a crisis. It was for instance found that even if consumers personally do not experience that their economic conditions are worse, they react with downspending (Zorko 2009). Is this just a precaution or fear that causes such reactions? On the other hand, we might expect that consumers would have a need for stability, consolation, for hope and would seek for some positive emotional gratifications, which in the end is reflected in the consumption. How do consumers cope with emotional burdens, where do they find consolation, optimism, how do they compensate for negative emotions? Is it possible that products that satisfy these needs are in fact consumed more during crisis? Quelch and Jocz (2009) suggest that consumers will react rationally and purchase more safety-related products or replace some products with cheaper alternatives (e. g. frozen food will replace meals in restaurants). On the other hand, we can expect that consumers next to (or even instead of!) long-term oriented, prudent and carefully planned purchases seek exit out of crisis in relatively cheap short-term gratifications like alcohol, gambling, smoking and alike? This explanation seems especially relevant when consumers degrade the importance of traditional values as in our case. Again, some products – and services – related with such motives might potentially be more sought in crisis.

Another point which warrants discussion is the point of reference, from which consumers judge the crisis and its consequences. Logically, consumers with lower incomes are normally more adversely affected by economic recession. As in general, incomes in Bosnia and Herzegovina

are lower than in Slovenia, so we might expect that consumers in Bosnia are more strongly affected by recession. The obtained results in general support this notion, but the expected differences are rather small and the trends are very similar. On the other hand, some observations and opinions suggest that the effect of recession on Bosnian consumers is less significant, because they are more familiar with and adapted to crisis, as they are in a state of constant recession, so the current recession is nothing new. As put by some market researchers, their consumers are 'well trained to a crisis, as they have recession every day and all the time' (Omeragić 2009). On the other hand, besides the different economic point of reference Bosnian consumers might judge crisis from a different cultural point of reference. As they live in a different cultural context to that of Slovene consumers, their perceptions and reactions might be framed by their cultural context and hence different for this reason. The main differences were expected in value structure, as Bosnian consumers are considered to be more carefree, relaxed, hedonistic, social and extroverted than Slovene consumers. However, the value structure is relatively similar in Slovenia and Bosnia, which is yet another possible explanation for the similar reactions of consumers in both countries to a crisis.

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# *Restructuring and Barriers: Cross-Country Evidence on the Competitiveness of Exporters in Transition*

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The behaviour of exporters attracts the attention of researchers and policy makers interested in the competitiveness of their economies. Through participation on the international market, domestic firms can generate foreign exchange needed to pay for imports and learn about new technologies which can be used at home to improve the overall competitiveness of their industries. The paper develops a model in which the ability of firms from transition economies to compete on the international market is defined as a function of their activities, characteristics and features of their environment. The results of our research indicate that sunk costs of entry, technology transfer, innovations and competition play an important role for the decision of firms to export, while once they are on the international market cost advantages become more important.

*Key Words:* export competitiveness, entry costs, transition economies, restructuring, institutions

*JEL Classification:* D02, D22

## **Introduction**

In a globalised world, the ability of nations to grow and to provide their citizens with a better standard of living is embedded in the ability of their firms to compete on the international market. Through participation on the international market, domestic firms can generate foreign exchange

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needed to pay for imports and learn about new technologies which can be used at home to improve the overall competitiveness of their industries. Also, international trade literature argues that the competitive profile of exporters has an important role in explaining the growth potential of their economies. In that context, a distinction can be made between price competitive firms which enter the international market with low-technology intensive products and simple standardised technologies and those whose competitiveness is based on knowledge and skill intensive products which are known to contain higher value added and to bear higher potential for growth (Lall 2001). The exporting is particularly important for firms whose growth is constrained by the size of the domestic market, as through participation on the international market these firms can more easily achieve economies of scale.

The competition on the international market requires firms to make numerous export-specific adjustments in their behaviour. To be able to compete with other rivals, firms must develop knowledge about the rules of competition and trends on foreign markets. They also need to purchase specific assets and develop routines intended for servicing the international market. Exporting literature labels these adjustments as the sunk costs of entry on the international market and postulates that in order to bear such costs firms must possess some kind of advantages which may arise from their activities, characteristics or features of their environment. A substantial body of empirical evidence supports such reasoning. In their study on the behaviour of US exporters, Bernard and Jensen (1999) have found that exporters have higher productivity and pay higher wages than non-exporters in the years before they started exporting. Their findings are in line with those of Schank, Schnabel, and Wagner (2010) for Germany who have reported the existence of wage premium among exporters in years prior to their entrance on the international market. Several other studies for various countries have reported evidence of a positive relationship between innovation activities of firms and their export competitiveness (Wakelin 1998; Becchetti and Rossi 2000; Basile 2001; Clausen and Pohjola 2009).

Another line of reasoning postulates that the international position of a firm may be affected by its characteristics such as size or age (Wagner 1995; Roberts and Tybout 1997; Basile 2001; Bleaney and Wakelin 2002; Majocchi, Bacchiocchi and Mayrhofer 2005). The logic behind this thinking is that sunk costs of entry on foreign markets can be lowered if the firm has previously accumulated experience or if it is able to reach

economies of scale more easily due to its size. Still, empirical studies have not unanimously supported such a thesis. The evidence of several authors indicates that experience and size may not be important elements in explanations of a firm's export competitiveness (Bonaccorsi 1992; Balabanis and Katsikea 2003). According to Majocchi, Bacchiocchi and Mayrhofer (2005) such divergent findings should be seen in light of variations in technological intensity of the sectors under analysis. In that context, the experience will be more important for firms in low-technology intensive sectors which compete in standardised products. The accumulated knowledge about market relationships may be employed by these firms to penetrate new markets and attract new clients.

Several previous studies have observed the positive impact of inter-enterprise networks on the behaviour of exporters. In general, the co-operation with other rivals, location in agglomerations or industrial districts have been identified as channels that increase the probability of firms to export and also their export intensity (Roberts and Tybout 1997; Becchetti and Rossi 2000; Basile 2001; Clausen and Pohjola 2009). Two explanations for such a finding are commonly put forward. On one hand, it is argued that networking with other firms eases access to information and export-specific assets, thus lowering the previously mentioned entry costs. On the other hand, it has been recognised that the proximity of potential and actual rivals acts as a positive incentive for the firm to improve its efficiency and quality of its products.

Our paper is concerned with the factors and forces that drive competitiveness of exporters in transition economies. In that context, we develop a model in which the ability of firms to compete on the international market is specified as an outcome of their activities, characteristics and features of their environment. The model includes different factors which have been recognised in transition literature as elements of firm behaviour, such as cost efficiency, innovations, investment in human capital or networking. We also investigate whether specific institutional circumstances of particular transition economies have affected the ability of their exporters to compete on the international market and for that reason include variables for several elements of the firm's environment, such as the quality of institutions, access to finance or pressure of competition. Finally, in order to test for the presence of entry costs on the exporting market, we include several firm-specific characteristics such as size, age and particularly ownership, which we believe might be important determinants of behaviour of exporters in transition. In the next

section we develop the theoretical framework of our research, while the third section will discuss the specification of model. The methodology of research will be discussed in the fourth section, while the main characteristics of the dataset will be analysed in the fifth section. The results of investigation will be presented in the sixth section. Finally, conclusion will be given in the seventh section.

### **Theoretical Framework**

The question of why some firms perform better than others has occupied the attention of researchers for a long period of time. Within exporting literature, the answers to this question have been looked for among assumptions of various economic theories, such as institutional economics, evolutionary and Austrian schools or the transaction cost approach and resource-based view. The general message coming from this literature is that the market imperfections provide some firms with the opportunity to seize the market share of their rivals. The failure of markets to optimally perform their function results in an ignorance which increases uncertainty over future outcomes and raises costs of transactions. In such a setting, firms with different information about final markets, different skills, organisational capabilities and technology are likely to exhibit varying degrees of success on the international market (Wagner 1995).

Under the assumptions of institutional economics, the key to the ability of firms to compete lies in the quality of their environment. This line of thinking emphasises the role of institutions as factors that can reduce information and transaction costs within society, thus reducing the overall level of uncertainty. The impact of institutions on the behaviour of firms is defined along three dimensions: regulative, normative and cognitive. Through the regulative framework, institutions signal to individuals how they can maximise their objectives (North 1990). The normative function of institutions signals to individuals what are the appropriate rules of behaviour in society (Brinton and Nee 2001). Finally, the cognitive view of institutions argues that individuals respond to institutions because of their conceptions, i. e. the inability to conceive of other ways of doing things (Hall and Taylor 1996). The institutional perspective on the behaviour of exporters has been mainly used in literature on national competitiveness (Fagerberg 1988; Lall 2001). These studies tend to emphasise the role of government, infrastructure, business climate and macroeconomic performance as factors



that shape the ability of firms to compete with their rivals from other countries.

While acknowledging the importance of institutions for the ability of firms to compete, other economic schools have placed more emphasis on their characteristics and behaviour. The Austrian school emphasises the role of discoveries which help firms to reduce uncertainty and seize the market share of their rivals by offering products at lower prices or of better quality (Kirzner 1997). In addition to discoveries, the learning is identified as the key to the ability of firms to compete in the long run. It has been argued that knowledge accumulated through learning about the past outcomes of one's own and the actions of rivals can be used by firms to predict future outcomes of their actions. The view of evolutionary economics is that innovations present decisive cost or quality advantages for firms as well as being the force that moves the economic system from one state of equilibrium to another (Schumpeter 1942). This line of reasoning argues that the transitory nature of the firm's environment makes past outcomes weak predictors of the future ability of firms to compete. Hence, in a changing environment, firms can survive either through imitation of actions of other more successful rivals or by developing new and better ways of doing things (Nelson and Winter 1982; Nelson 1993). Although the latter pattern of behaviour bears a higher risk of failure, it is also associated with higher returns.

In the context of international trade, the above mentioned assumptions have served as the foundation for several theories such as technology gap or product life-cycle theory. Technology-gap theory argues that the international position of firms, industries and nations depends on the interaction between the complexity of their production processes and the level of technological development (Posner 1961; Castellacci 2002). The higher these are the more easily the firm will be able to differentiate itself from its rivals. Under view of product-life cycle theory, during their life on the international market competitiveness of products goes through several stages starting from innovation-based, the competitiveness and ending with a cost-based one (Vernon 1966). These models point out that by improving cost efficiency the competitiveness can be improved only until a certain point. In adherence, when the possibilities for further improvements in cost efficiency have been exploited, an economic entity that wishes to stay dominant must introduce radical change in the technology.

The resource-based literature argues that the competitiveness of firms

can be maintained either through differentiation from other rivals or by offering products of the same quality as those of rivals but at lower prices. The competitive advantage of the firm is defined as its ability to exploit the physical, human and organisational capital at its disposal (Barney 1991). In that context, three features of the firm's resources are put forward as decisive factors in the building of its competitiveness. These resources need to be rare, imperfectly imitable and without substitutes. It is also argued that changes in the firm's environment may cause its resources to stop having any of these features, in which case the firm needs to engage in innovations if it wishes to maintain its distinctiveness over other rivals. Finally, transaction costs literature argues that through creation of specific governance structures firms can reduce the level of ignorance and these costs of transactions. According to Majocchi, Bacchiocchi and Mayrhofer (2005), participation of firms on the international market requires investment in specific assets and increases the level of uncertainty with which firm is confronted. As creation of specific governance structures entails high fixed costs, it is likely that larger firms and those with more business and international experience will be more likely to export, as they have more ability to spread these costs across their activities.

### Specification of the Model

Putting together the pieces of our previous discussion indicates that the ability of firms to compete on the international market depends on interaction between their environment, characteristics and features of their behaviour. In the simplest form such a model can be written as

$$CI_i = f(A_i, C_i, E_i), \quad (1)$$

where  $CI$  stands for international competitiveness of firm  $i$ , and letters in brackets denote firm's activities, characteristics and features of its environment respectively. Previous studies on the behaviour of exporters have focused either on their decision to export or on the export intensity defined as the ratio of export and sales revenues (Bonaccorsi 1992; Roberts and Tybout 1997; Bleaney and Wakelin 2002; Clausen and Pohjola 2009). Our paper encompasses both of these measures. In choosing elements of our model we combine propositions from our theoretical framework with insights from exporting literature and the literature on behaviour of firms in transition. Table 1 presents a list of variables with their brief explanations.

TABLE 1 Description of variables

DEPENDENT VARIABLES	
Decision to export	Dummy = 1 if firm reported positive level of export
Export intensity	Total exports/Total sales $\times$ 100
EXPLANATORY VARIABLES	
<i>Restructuring</i>	
Unit labour costs (Ulc)	Costs of employees/Total sales $\times$ 100
Unit material costs (Umc)	Costs of material/Total sales $\times$ 100
Innovations (NewProd)	Dummy = 1 if firm introduced new products in 3 years prior to survey
Product line discontinuation (Discontinue)	Dummy = 1 if firm discontinued any of its product lines in 3 years prior to survey
Product line upgrading (Upgrade)	Dummy = 1 if any of product lines have been upgraded in 3 years prior to survey
Outsourcing of activities (Outsource)	Dummy = 1 if firm outsourced any of its activities in 3 years prior to survey
Licensing of foreign technology (Licensing)	Dummy = 1 if firm purchased licence to use foreign technology
Education of staff (univ_staff)	No. of employees with university degree/Total no. of employees $\times$ 100
Wage premium (WPrem)	Dummy = 1 if firm pays wage above average in its 4-digit industry
Training of employees (Training)	Dummy = 1 if firm invests in training of its employees
Skill intensity (skill_int)	No. of skilled employees in production/Total no. of employees in production $\times$ 100

*Continued on the next page*

The ability of firms from transition economies to compete has been severely constrained by problems such as inefficiency or outdated technology inherited from the pre-transition period. For this reason, transition literature emphasises the enterprise restructuring as a process through which these firms could improve their international position (Grosfeld and Roland 1996; Djankov and Murell 2002). In our model we introduce several variables which are intended to act as control for the role of enterprise restructuring. As the substantial body of evidence points out that the competitiveness of firms from transition economies was driven by cost advantages (Havlik 2000; Wziatek-Kubiak and Winek

TABLE 1 *Continued from the previous page*

<i>Firm characteristics</i>	
Size	Number of employees
Age	No. of years since foundation
Managerial expertise	No. of years of manager working in firm's sector
State ownership (State-Own)	Dummy = 1 if more than 50% of ownership rights are controlled by the state
Domestic private ownership (DomOwn)	Dummy = 1 if more than 50% of ownership rights vested to domestic private entities
<i>Environment</i>	
Agglomerations (Location)	Dummy = 1 if firm is located in a city with more than 250 000 inhabitants
Competition <sub>1</sub> (Comp)	Dummy = 1 if firm perceives actions of rivals as obstacle to its operations
Competition <sub>2</sub> (Comp_Prod)	Dummy = 1 if pressure of competition motivates firm to introduce new product
Competition <sub>3</sub> (Comp_Cost)	Dummy = 1 if pressure of competition motivates firm to reduce costs
Medium-low technology intensive industry (Mlow)	Dummy = 1 if firm operates in a medium-low technology intensive industry
Medium-high technology intensive industry (Mhigh)	Dummy = 1 if firm operates in a medium-high technology intensive industry
High-technology intensive industry (High)	Dummy = 1 if firm operates in a high-technology intensive industry

*Continued on the next page*

2004), we include unit labour and unit material costs in order to investigate whether firms with lower costs are more successful on the international market. Hence, we expect a negative sign for these variables in the case of price-competitive firms. The responsiveness of firms to changes in market trends is captured with two dummy variables which take a value of one if the firm in three years prior to the survey had discontinued or upgraded any of its product lines. In addition, we include a dummy variable for firms which have outsourced some of their activities in three years prior to survey and for firms which have purchased a license for use of foreign technology in the same period. As these features of firm behaviour are recognised in transition literature as elements of strategic

TABLE 1 *Continued from the previous page*

SEEC	Dummy = 1 if firm operates in a South East European country
CIS	Dummy = 1 if firm operates in Commonwealth of Independent States or East European country
Provision of subsidies (Subs)	Dummy = 1 if firm receives governmental subsidies
Access to finance (ObstFin)	Dummy = 1 if firm perceives access to finance as obstacle to its operations
Tax regulations (ObstTax)	Dummy = 1 if firm perceives tax regulations as obstacle to its operations
Legal system (ObstCourt)	Dummy = 1 if firm perceives functioning of courts as obstacle to its operations
Political instability (ObstInstb)	Dummy = 1 if firm perceives political instability as obstacle to its operations
Corruption (ObstCorr)	Dummy = 1 if firm perceives corruption as obstacle to its operations
Obtaining of licenses and permits (ObstLic)	Dummy = 1 if firm perceives obtaining of licenses and permits as obstacle to its operations

restructuring which creates the foundations for development of competitiveness in the long run, we expect a positive sign for them as well. Our theoretical framework implies that the innovations may be important factor for explanation of international competitiveness of firms. Previous exporting literature had experimented with different proxies for innovation activities ranging from decision to innovate over R&D expenditure or number of patents to measures of product or process innovations (Wakelin 1998; Becchetti and Rossi 2000; Basile 2001; Clausen and Pohjola 2009). Our study uses the dummy variable which takes a value of one if the firm in three years prior to the survey introduced new products. In that respect, we follow recent advancements in innovation literature which postulate that the improvements in performance and competitiveness of firms should result from outputs of the innovation process rather than from its inputs (Kemp et al. 2003). For this variable we expect also a positive sign.

Another thesis put forward in our theoretical framework is that the ability of firms to compete on the international market may be related to the quality of their human capital. The line of reasoning behind such a thesis is that educated and skilled employees increase the productiv-

ity of the firm as they may have a higher ability to acquire and decode information about costs or to adapt to technological changes in their environment. Following Becker's (1962) distinction between general human capital (formal education) and specific human capital (on-the-job training), we introduce several variables intended to capture this effect. General human capital is modelled as the percentage of staff with a university degree within the firm and with the dummy variable, which takes a value of one if the firm offers above-average wages in order to attract educated and skilled workers, while the effect of specific human capital is controlled for by dummy variable taking a value of one if the firm invests in training of its employees and with the firm's skill intensity measured as a ratio between the number of skilled production workers and the total number of production workers in the firm. We expect that the stronger quality of human capital enables firms to more easily offer products at both lower prices and of higher quality, for which reason we expect a positive sign for these variables.

In order to test for the presence of sunk costs of entry on the international market, we also control for size, age and different types of ownership. We expect that in a turbulent environment such as transition, the costs of obtaining information or some specific assets, bargaining and monitoring would be higher than usual. Hence, size and experience would have a positive impact on the international competitiveness of firms, as larger firms and those with more experience could more easily bear the costs of entry on foreign markets. In addition to these characteristics, several studies have pointed to differences in ownership of firms as an important determinant of their exporting activity (Buck *al.* 2000; Filatotchev *et al.* 2001). To control for these characteristics we introduce the number of employees as proxy for size, and the age since incorporation and years of manager's experience in the sector as proxies for experience. In general, we expect that accumulation of experience leads to higher export competitiveness and thus expect to find for it a positive sign.

Transition literature has in general recognised the superiority of foreign owners over other types of ownership. Firms owned by foreigners have demonstrated higher restructuring efforts and they were able to benefit from knowledge and technology spillovers and easier access to finance (Djankov and Murell 2002). With respect to ownership we introduce two dummy variables for firms predominantly owned by state and domestic private entities, thus taking predominantly foreign owned firms as the base category. In line with transition literature we also

expect that foreign owned firms will be more competitive than their domestically-owned counterparts and thus expect to find a negative sign on both dummy variables in our regression.

In modelling of the firm's environment we make a distinction between agglomerations, technological intensity of firm's industry, the extent of competition in the industry and its institutional environment. The impact of agglomeration economies is captured by the dummy variable which takes a value of one if the firm is located in a city with more than 250 000 inhabitants. We do not have an a priori expectation on the direction of this relationship. On one hand, technology-intensive and innovative firms are more likely to be located in large urban zones which provide benefits such as lower costs of transport and access to upstream firms, a better pool of skills and expertise and also a better flow of information between firms (Krugman 1993; Venables 1996). On the other hand, low technology intensive firms which compete in standardised products and place more emphasis on costs in building up their competitiveness are more likely to be located in smaller urban areas (Lall 2001).

The industry-specific effects are controlled for by the dummy variables for effect of competition on the firm's actions and by dummy variables for technological intensity of their industry. The effect of competition is approached with three variables. We include a dummy variable for firms which consider the actions of rivals as an obstacle to their operations, and two dummy variables for firms which were motivated by pressure of competition to introduce new products or to reduce costs. For the first variable we expect to find a negative sign, while for latter two the expected sign of variable is positive. Also, the technological intensity of the firm's industry has been recognised as the source of heterogeneity among exporters (Wagner 1995; Bleaney and Wakelin 2002). Following the OECD (2007) classification of industries we distinguish between firms in low, medium-low, medium-high and high technology intensive industries, taking low-technology intensive firms as the base category. We expect that factors such as minimum efficient scale, which are more important in high technology intensive industries, will exert pressure on firms to penetrate foreign markets.

Finally, several variables are introduced as controls for features of the firm's institutional environment. We acknowledge the specific nature of transition in different countries and follow the distinction between Central and East European and Baltic Sea countries (CEECS), the South East

European Countries (SEECS) and the Commonwealth of Independent States and East European countries as proposed by EBRD (2010).<sup>1</sup> We expect to find evidence of stronger international competitiveness among firms in CEECS, bearing in mind the fact that the extent of restructuring was much stronger in this group of countries. We also include the dummy variable for firms which have received government subsidies and the group of dummy variables for features of institutional framework, which are perceived by firms as obstacles to their operations. This group includes access of firms to finances, tax regulations, quality of judicial system, political instability, corruption and obstacles in obtaining licenses and permits. On one hand, we expect that access to subsidies facilitates ability of firms to participate on the international market. On the other hand, the obstacles to activities of firms are likely to exercise a negative impact on their export competitiveness as well.

While the above discussion has mainly concentrated on the impact of explanatory variables on the export competitiveness of firms, we must also take into consideration the possibility of reverse impact. This is particularly true for the relationship between firm behaviour and dependent variables. While features of firm behaviour may have a positive impact on the ability of firms to compete, it is also possible that the accumulation of experience through participation on the international market leads to improvements in the way firms perform their activities. This process is usually labelled as learning-by-exporting and it is an important feature of firm behaviour when observed in a dynamic context. However, as will be explained below, our dataset is cross-sectional, which prevents us from controlling for the impact of previously accumulated experience on the behaviour of firms. Having said this we next turn to the methodology of our research.

### Methodology

The specific nature of our dependent variables prevents us from using the classical linear regression method. The decision to export is modelled as a discrete variable which takes a value of one if the firm has reported a positive level of export. From there it follows that the probability that the firm is an exporter can be expressed as

$$P(y = 1|x) = f(\alpha + \beta x), \quad (2)$$

where  $y$  is a dependent variable taking values strictly between zero and one,  $x$  and  $\beta$  stand for explanatory variables and their corresponding co-



efficients, while the  $\alpha$  is a constant term. The application of linear estimation techniques on models with such a dependent variable has several disadvantages, such as the fact that fitted values may lie outside of the interval of the dependent variable, or the fact that the partial effect of any explanatory variable is treated as constant (Wooldridge 2006).

Another dependent variable, export intensity, is by construction bounded between 0 and 100. Furthermore, for a substantial part of the population which does not participate in exporting, this variable is unobserved, which means that we are dealing with a non-random sample. When this is the case, the coefficients obtained by classical linear regression are likely to be inconsistent and biased. Finally, we must also take into account the possibility that the international position of firms is influenced by some other characteristics for which we cannot control. A substantial body of exporting literature argues that this unobserved heterogeneity is likely to influence both the decision of firms to participate in export and their export intensity.

To overcome the above mentioned problems we employ the method of generalised tobit which is part of a large family of limited dependent variable models (Wooldridge 2002). Let us suppose that the decision to export  $z_i$  serves as an indicator of some unobserved variable  $z_i^*$  and the  $y_i$  represent the observable part of the unobserved export intensity of firm  $y_i^*$ . The decision of the firm to export and its export intensity can then be expressed as

$$z_i = \beta_0 x_i^0 + u_i^0, u_i^0 \sim N(0, 1), \quad (3)$$

$$z_i = \begin{cases} 1 & \text{if } z_i^* > 0 \\ 0 & \text{if } z_i^* \leq 0 \end{cases} \quad (4)$$

and

$$y_i = \begin{cases} \beta_1 x_i^1 + u_i^1 & \text{if } z_i^* > 0 \\ - & \text{if } z_i^* \leq 0 \end{cases}, u_i^1 \sim N(0, \sigma^2), \quad (5)$$

$$\text{corr}(u_i^0, u_i^1) = \rho. \quad (6)$$

In these expressions  $x_i^0, x_i^1, \beta_0, \beta_1$  are vectors of independent variables and their corresponding unknown parameters which reflect the impact of certain determinants on the firm's decision to export and its export intensity. The  $u_i^0$  and  $u_i^1$  are random error terms with zero mean, con-

TABLE 2 Number of firms in sample and exporting activity

Sample	Number of firms	Number of exporters	Mean export intensity
CEEC	556	333	30.62
SEEC	300	187	25.91
CIS	1196	320	11.27
Total sample	2052	840	18.65

Source: EBRD 2010.

stant variances and not correlated with any of the explanatory variables. However, it is assumed that the two error terms are correlated with each other on the basis of unobservable characteristics of firms. The generalised tobit estimates these two stages jointly with a maximum likelihood estimation method, where the first stage is estimated on the entire population of firms and the second stage is estimated only on the population of exporters.

### Descriptive Statistics

The investigation is based on the dataset from the fourth round of Business Environment and Enterprise Performance Survey (BEEPS) conducted by EBRD and World Bank in 2009. The dataset covers firms from the manufacturing sector in 29 transition countries. Table 2 shows the number of firms in our sample and their characteristics with respect to exporting behaviour. In total, we are dealing with 2052 firms, of which more than a half come from the group of CIS countries, about one fourth are from CEEC and the rest are from group of the SEEC. Exporters form about 40% of our sample. However, the percentage of exporters in CEEC and SEEC is substantially higher, as about 60% of firms from these regions have reported that they have been involved in export. There are also notable differences in export intensity of firms in the sample. Firms from CIS countries have substantially lower export intensity (10%) than their counterparts in SEEC (26%) and CEEC (30%) countries. The number of firms and information about export behaviour of firms in individual countries are presented in table 3.

Descriptive statistics in table 4 provide some information about the profile of firms in our sample. Judging by the average size of firms, our sample is mainly populated with medium-sized firms. Furthermore, the average age of firms and the number of years of manager's work in the firm's sector indicate that we are mainly dealing with firms founded in

TABLE 3 Descriptive statistics of dataset by country

Country	Number of firms	Number of exporters	Mean export intensity
Bulgaria	48	15	18.67
Croatia	47	22	23.59
Czech Republic	39	28	34.31
Estonia	55	44	47.29
Hungary	81	42	24.22
Latvia	60	35	32.40
Lithuania	57	36	36.07
Poland	65	38	17.62
Romania	67	20	23.24
Slovak Republic	32	17	20.84
Slovenia	72	67	48.28
Albania	45	20	23.13
Bosnia and Herzegovina	81	57	36.41

*Continued on the next page*

first years of transition. Such a conclusion, however, needs to be taken with precaution as it is likely that many of the firms in our sample have been created through spin-offs and privatisation of former socialist enterprises.

Restructuring variables indicate that there are substantial differences in cost efficiency among three groups of transition countries. This difference is particularly pronounced between the advanced group of transition economies (CEECS) and the group of CIS countries where average unit costs of labour are nearly three times higher than in the former group. With respect to innovations, there appear to be no great variations among the three sub-samples, as about 60% of firms have reported that they have introduced new products in the three years prior to survey. Of other restructuring variables it is worth mentioning that about 80% of firms have upgraded some of their product lines, while about half of them have offered their employees on-the-job training. Licensing, outsourcing and discontinuation of product lines have been considerably less represented forms of enterprise restructuring among firms in our sample.

Nearly all firms in our sample are predominantly owned by private owners, as the share of state-owned firms in any sub-sample does not

TABLE 3 *Continued from the previous page*

Country	Number of firms	Number of exporters	Mean export intensity
Kosovo	30	6	5.78
FYR Macedonia	90	65	46.20
Montenegro	12	4	23.42
Serbia	99	66	14.52
Armenia	82	23	12.55
Azerbaijan	52	10	7.08
Belarus	42	14	10.64
Georgia	18	3	10.39
Kyrgyz Republic	83	22	16.00
Kazakhstan	100	12	4.50
Moldova	74	25	21.04
Mongolia	115	33	15.65
Russia	394	101	5.29
Ukraine	240	72	15.16
Uzbekistan	108	30	10.06
Tajikistan	88	16	9.49
CEEC	623	364	30.09
SEEC	357	218	28.12
CIS	1396	361	10.61
Total sample	2376	943	

Source: EBRD 2010.

cross 4%. Among privately owned firms, domestic owned firms account for more than 80% of all firms, while the share of foreign owned ones is considerably lower. Taking the whole sample, about half of our firms are located in large urban areas. However, the proportion of firms located in these areas varies across subsamples, being lowest in CEEC (26%) and highest in CIS (62%). The proportion of firms that receive subsidies is fairly low, about 15% with the exception of CEECS, where about 28% of firms have declared that they receive government subsidies. Finally, more than 80% of our firms come from low and medium-low technology intensive industries. The proportion of firms from high technology intensive industries is particularly low, ranging between 2% and 3% among our groups of transition economies.

Among features of their environment most of the firms in our sam-

TABLE 4 Descriptive statistics of sample

Item	(1)	(2)	(3)	(4)
Size*	124	112	97	136
Age*	18	18	21	17
Managerial expertise*	16	17	17	15
NewProd**	65	66	64	65
Ulc*	0.54	0.26	0.31	0.73
Umc*	0.43	0.44	0.44	0.43
Licensing**	22	19	31	22
Outsourcing**	28	34	27	26
Discontinue**	30	35	22	29
Upgrade**	80	83	81	78
Training**	43	47	44	40
Pressure of competition (products)**	39	37	55	35
Pressure of competition (costs)**	38	41	53	33
Location**	49	26	42	62
Domestic private ownership**	87	81	86	89
Foreign private ownership**	10	15	10	8
State ownership **	3	4	4	3
Subsidies	14	28	16	6
Low tech. intensive industry**	59	53	61	61
Medium low tech. intensive industry**	22	31	26	17
Medium high tech. intensive industry**	17	13	11	20
High tech. intensive industry**	2	3	2	3

Column headings are as follows: (1) total sample, (2) CEEC, (3) SEEC, (4) CIS. Notes: \* mean value, \*\* percentage of firms. Source: EBRD 2010.

ple perceive tax regulations, corruption and political instability as main obstacles to their operations (table 5). Interestingly, only a small proportion of firms perceives actions of their rivals (18%) and access to finance (13%) as factors that may impede their activities. However, there are substantial differences among the three groups of transition economies with respect to perceptions of firms about the quality of their institutional framework. A substantially larger proportion of firms in SEEC and CIS perceive the quality of their legal system, actions of other rivals, corruption and political instability as obstacles to their activities than is the case with firms in CEEC.

TABLE 5 Obstacles to doing business (percentage of firms)

Item	(1)	(2)	(3)	(4)
Access to finance	13	6	11	17
Tax regulations	73	72	67	76
Legal system	37	31	46	37
Obtaining of licences and permits	35	29	29	39
Corruption	51	35	54	58
Actions of other rivals	18	11	19	21
Political instability	57	52	67	56

Column headings are as follows: (1) total sample, (2) CEEC, (3) SEEC, (4) CIS. Source: EBRD 2010.

## Results

In order to control for heteroscedasticity we estimate our model with robust standard errors. Also, as our methodology requires that the selection equation includes at least one variable which is not in the outcome equation in order for the latter to be identified, we include three dummy variables for pressure of competition in the first but not in the second equation. It is our reasoning that pressure of competition on the domestic market may motivate firms to engage in exporting, but their position on the international market would have to be determined by their competitive advantages. In continuation of the section we discuss our main findings.

The test-statistics for independence of our two equations in table 6 indicate that there are some unobserved factors which affect both the decision of firms to export and their export intensity, thus supporting our decision to estimate them jointly. Furthermore, the hypothesis that the independent variables jointly have no explanatory power is rejected with very high probability. As an additional check for validity of our model we investigate the proportion of correctly predicted outcomes from the selection equation and do the Hosmer-Lemeshow test of goodness-of-fit. Our model has a relatively high rate of correctly predicted outcomes (76%) and we do not have sufficient evidence to reject the null hypothesis that our model fits the data well.

In order to interpret the effect of individual variables on the behaviour of exporters we compute marginal effects for both of our equations. In the case of categorical variables these effects give the change of probability that the firm will export or that its export intensity will be higher if the

TABLE 6 Marginal effects from selection and outcome equation

Item	(1)	(2)
<i>Restructuring</i>		
Unit labour costs (Ulc)	-0.039(0.193)	0.055(0.063)*
Unit material costs (Umc)	-0.018(0.531)	-0.054(0.054)*
Innovations (NewProd)	0.317(0.000)***	-0.364(0.000)***
Product line discontinuation (Discontinue)	0.111(0.156)	0.023(0.813)
Product line upgrading (Upgrade)	0.048(0.645)	-0.113(0.326)
Outsourcing of activities (Outsource)	0.236(0.003)***	0.041(0.645)
Licensing of foreign technology (Licensing)	0.278(0.000)***	0.042(0.666)
Education of staff (univ_staff)	0.050(0.195)	-0.168(0.000)***
Wage premium (WPrem)	0.318(0.664)	-0.024(0.777)
Training of employees (Training)	-0.011(0.878)	-0.121(0.162)
Skill intensity (skill_int)	0.048(0.449)	-0.042(0.548)
<i>Firm characteristics</i>		
Size	0.377(0.000)***	0.113(0.007)***
Age	0.087(0.061)*	-0.076(0.182)
Managerial expertise	-0.012(0.797)	0.008(0.884)
State ownership (StateOwn)	-0.356(0.167)	-0.422(0.243)
Domestic private ownership (DomOwn)	-0.43(0.000)***	-0.379(0.001)***

*Continued on the next page*

independent variable shifts from 0 to 1, while for continuous variables the coefficients reflect change of probability if the independent variable changes by 1%. Among restructuring variables we find that the probability of firms to export increases if they have introduced new products in the three years prior to the survey, as well as if they have obtained a licence to use foreign technology or if they have outsourced any of their activities. These results highlight the role of networking and technology transfer as a motive for firms to engage in export, but also imply that firms from transition economies expect that their new products will have higher returns on foreign markets.

The evidences from the export intensity equation suggest that innovative firms export less of their output than do their non-innovative counterparts. This finding indicates the inability of firms from transition economies to differentiate themselves from rivals in technology intensive branches. Also, the export intensity of firms tends to be negatively associ-

TABLE 6 *Continued from the previous page*

Item	(1)	(2)
<i>Environment</i>		
Agglomerations (Location)	-0.149(0.053)*	-0.264(0.004)***
Provision of subsidies (Subs)	0.190(0.070)*	0.289(0.003)***
Access to finance (ObstFin)	-0.012(0.911)	0.091(0.507)
Tax regulations (ObstTax)	-0.002(0.978)	-0.307(0.002)***
Legal system (ObstCourt)	0.113(0.197)	-0.024(0.812)
Political instability (ObstInstb)	0.051(0.532)	0.118(0.209)
Corruption (ObstCorr)	-0.004(0.963)	-0.062(0.561)
Obtaining of licenses and permits (ObstLic)	-0.143(0.071)*	-0.163(0.108)*
Medium-low technology intensive ind. (Mlow)	-0.061(0.477)	0.024(0.823)
Medium-high technology intensive ind. (Mhigh)	0.518(0.000)***	0.098(0.355)
High-technology intensive industry (High)	-0.101(0.621)	0.182(0.377)
SEEC	0.121(0.308)	-0.169(0.126)
CIS	-1.04(0.000)***	-0.068(0.595)
Competition1 (Comp)	-0.193(0.060)*	–
Competition2 (Comp_Prod)	-0.118(0.204)	–
Competition3 (Comp_Cost)	0.202(0.035)**	–
Wald test of independent equations ( $\rho = 0$ )	$\chi^2(1) = 7.22$	$\text{Prob}>\chi^2 = 0.0072$
Wald test for joint expl. power of variables	$\chi^2(29) = 188.38$	$\text{Prob}>\chi^2 = 0.0000$
% of correctly predicted outcomes	76.67	
Hosmer-Lemeshow goodness of fit test	$\chi^2(8) = 12.02$	$\text{Prob}>\chi^2 = 0.1502$

Column headings are as follows: (1) decision to export, (2) export intensity. Notes: \*, \*\* and \*\*\* denote statistical significance of variables at 1, 5 and 10% respectively.

ated with unit costs of material and proportion of staff with a university degree, but positively with their unit labour costs. Together with findings for the role of innovations, these insights offer a picture typical for firms from low and medium low technology intensive industries, where the ability of firms to compete is based on standardised technology and cost efficiency and any action that increases firm's costs – such as investment in human capital or innovations – deters its competitive advantage. Interestingly, we do not find evidence of association between other forms of investment in human capital and the ability of firms to compete on the international market.



Our findings with respect to the firm characteristics seem to support the thesis about sunk costs of entry on the international market. The probability of firm exporting is positively associated with its size and age, while larger firms also have higher export intensity. The ability of firms to reach economies of scale and their general business experience play an important role for their position on the international market. However, we do not find any evidence of a relationship between the experience of managers and the export behaviour of their firms. There is, however, strong evidence in favour of the thesis about the superior behaviour of firms owned by foreign owners. Firms owned dominantly by domestic private owners are less likely to engage in exporting and have lower export intensity than those owned by foreigners. The coefficient on state owned firms in both equations has a negative sign but it is statistically insignificant, most likely reflecting the small proportion of these firms in our sample. On one hand, these findings may be interpreted as evidence of the risk-aversion of domestic owners towards foreign markets, while on the other they provide support to the thesis often mentioned in transition literature that firms owned by foreigners have better knowledge, access to finance and other specific assets needed for exporting.

The ability of firms to export is negatively correlated with their location in large urban areas. As we explained earlier, firms from low and medium technology intensive industries tend to be located in smaller urban areas which provide them with cost-based competitive advantages. Another argument in favour of cost-based competitiveness of exporters from transition economies is the positive relationship between access to subsidies and their behaviour. Firms which have stated that they receive government subsidies have a higher probability to export and also higher export intensity. Most of our variables for obstacles to doing business are statistically insignificant. Tax regulations have a negative impact on export intensity of firms, while problems with obtaining licenses and permits reduce both the probability of firms to export and their export intensity. With respect to differences between the three groups of transition economies, there appears to be no statistical difference in terms of export intensity, but our findings indicate that firms from the CIS group are less likely to participate on the international market than firms from CEEC. Having in mind that the most important international markets for transition economies have been countries of the EU, this finding can be explained with benefits which the latter group accrues from stronger integration in the family of EU countries. However, we

are unable to control for the market orientation of firms in our sample.

As a last group of variables, we address industry specific characteristics of firms. Among variables for technological intensity we find a significant coefficient only in the participation equation for firms from medium-high technology intensive industries. The positive sign of this coefficient suggests that these firms have a higher probability of exporting than those from low technology intensive industries. The findings about the effects of competition are more interesting. It appears that impediments in the operations of firms caused by actions of their rivals reduce their probability of exporting. Also, the probability of exporting is higher among firms which have reduced their costs under pressure of their rivals, which may be taken as another evidence of cost-based competitiveness of firms in transition.

### Conclusion

The ability of firms to compete on the international market has important implications for the growth potential of their economies. Bringing together elements of firm behaviour, their characteristics and features of their environment, we have attempted to investigate what factors and forces motivate firms from transition economies to export and determine their export intensity. Our findings point out that innovations, technology transfer and cooperation among firms play an important role in explaining the decision of firms to participate on the international market. However, once they are on the international market, the cost efficiency becomes a more important element of their competitive advantage. These results can be interpreted as evidence in favour of the product-life cycle thesis. The transfer of technology from developed countries into transition ones and the development of new products motivate firms from transition economies to enter on the international market, but in competition with rivals from other countries they compete as producers of standardised products with prices being their main competitive advantage.

The results of our research confirm that entry costs play an important role in the decision of firms to engage in exporting. Our data show that size and general business experience increase the probability of firms' exporting and their export intensity. These results suggest that in order to export, firms need to establish networks and gather knowledge about foreign market trends. As these processes are costly and take time, larger and older firms have a higher probability to compete on the international

market. Also, we are able to confirm the thesis about the positive impact of foreign ownership on the international position of firms. It appears that channels identified in transition literature as key for the survival of firms – such as foreign knowledge and expertise as well as access to financial means – play an important role in explaining the behaviour of exporters.

When taken together, these findings suggest that in order to reduce costs of entry on the international market, managers of firms in transition economies should consider organisational structures that are more conducive to cooperation between firms and their environment. Primarily, this refers to the agglomeration externalities of cooperation with scientific and professional institutions. Equally important are interactions with other firms on the market through horizontal or vertical cooperation. Finally, the openness of firms towards knowledge gathered through spillovers from other competitors may be considered as a means towards reduction of the costs of entry on the international market.

The features of institutional environment do not seem to be a major determinant of behaviour of firms in our sample. In general, it appears that firms in transition economies consider as important only factors of their environment which enable them to compete in terms of prices. We find some support for the negative impact of tax regulations and obstacles in obtaining licenses on the ability of firms to compete on the international market and positive effect of government subsidies. These findings indicate that cost advantages play an important role in building competitiveness of firms in transition economies. There is also strong evidence which suggests that agglomerations and actions of other rivals do determine the ability of firms to compete on the international market. Also, there does not appear to be any major difference between firms from specific groups of transition countries or by technological intensity of their industries.

The main results emerging from this paper, however, concern the competitive profile of exporters from transition economies. International trade literature makes a distinction between international competitiveness of nations based on the technological intensity of their products and postulates that the competitive advantage of producers from particular industries will be based on a different set of factors. Our findings indicate that characteristics of exporters from transition economies are closest to characteristics of firms from low and medium-low technology intensive industries. This finding may be an indicator for policy

makers interested in the competitiveness of these economies. Finally, it is worth mentioning some potential limitations of our work. The size of our dataset prevents us from undertaking analysis for behaviour of exporters at the level of individual countries or even groups of countries. Another potential limitation is the lack of longitudinal data. As we are constrained to data for single year, we are unable to control for the learning-by-exporting effect or to distinguish between short and long run effects of individual variables on the international position of firms. These issues remain open for further research.

### Notes

- 1 According to EBRD, the group of CEECS encompasses Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia; the group of SEECS includes Albania, Bosnia and Herzegovina, Kosovo, FYR Macedonia, Montenegro and Serbia; while the CIS group includes Azerbaijan, Armenia, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Mongolia, Russia, Tajikistan, Ukraine and Uzbekistan.

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# *Foreign Tour Operators and Travel Agents Knowledge of a Potential Tourism Destination: The Vojvodina Region of Serbia*

Ivo Mulec  
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Vojvodina is an autonomous region of Serbia, and has the potential to become a successful tourism destination. Twenty years of changes have elapsed since the disintegration of Yugoslavia, and destination planners in Vojvodina are now looking to accommodate visitors and generate service related jobs. The method for collecting data was through survey responses from those in the travel industry. The objective for conducting this research is to analyze the knowledge and awareness of the developing destination of Vojvodina. From here, it is possible to get a sense of the region's awareness, and role tour operators and travel agents act as opinion makers in promoting destinations to their clientele. Results suggest that Vojvodina is not known as a tourism destination among foreign travel experts; furthermore, this would suggest that their clientele base is not informed of this region of Serbia as a tourism destination. Although not known, this is better than having a negative image. With a non-image, tour operators and travel agents then have the ability to creatively market and promote an image that will generate further awareness of the Vojvodina region as an emerging tourism destination.

*Key Words:* destination awareness, destination image, destination knowledge, Vojvodina region

*JEL Classification:* R, Y, Z

## **Introduction**

Tourism is a growing service sector industry around the world, and travel agents and tour operators offer a myriad of organized travel itineraries to meet consumer trends and demands. Tourism represents a nascent economic paradigm shift as countries see reductions in agriculture, mining, and heavy production (Holmes 2001). Moreover, the tourism industry is 'one that has been pivotal for the creation of new markets' (Holmes

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2001, 177). Many countries, regions, and cities offer a host of destinations that are quite reputable or well-known. Many well-visited destinations have successfully succeeded in developing an image that is recognized internationally. For instance, many venture to New Zealand to take advantage of the ubiquitous adventure tourism opportunities, while others stop in Paris to gaze upon the Eiffel Tower. Such promotions as adventure tourism or iconic features in the landscape have forged touristic identities of these places and have oriented destination images and international awareness (see, for example, Cartier and Lew 2005; Goulding and Domic 2009; Kneesel, Baloglu and Millar 2010; Morgan, Pritchard and Pride 2010; Upshaw 1995). However, some places around the world struggle to develop a tourism industry due to the lack of awareness. In some instances, newer destinations that are unable to attract sufficient numbers of tourists often struggle to compete with well established or notable (i. e. well-branded) destinations (Urry 2002). For certain places to become competitive tourism destinations, knowledge must be mediated by tourism experts, tour operators, or travel agents. When a reputable image has been forged an emerging destination must commence popular marketing strategies to promote awareness; tourism experts, operators, and agents must further promote the destination to potential tourists and visitors.

This paper focuses on the case of the Vojvodina region of Serbia. This study uses data from a web-based survey concerning image and awareness of Vojvodina as a tourism destination. Vojvodina is an autonomous region, located in the northern part of Serbia. Physiographically, Vojvodina is situated in the southern section of the Pannonian lowland. In terms of area, this region covers over 21,500 square kilometers and has approximately 2 million inhabitants. The region is also one of the most ethnically eclectic places in Europe, with more than 30 different ethnic groups of people living together, and with seven official languages spoken in the region's parliament. Culturally, Vojvodina has always been known as a granary, with agriculture being the most important source of income of the majority of its inhabitants. It must be noted that many changes have occurred since the 1990s. Apart from drastic political, social, and demographic changes, the region has experienced economic restructuring as well. Agriculture, although still an important sector of the region's economy, has seen drastic declines. As a result, many of the younger cohorts of the population are departing rural areas and seeking service oriented employment in towns and cities, resulting in a depopulation of rural areas.



In order to reduce rural to urban migrations, investments in developing rural tourism activities represent a chance for many of the younger population to find a job in their respective rural areas without being forced to leave.

Currently, tourism in the Vojvodina region of Serbia is composed primarily of day visitors travelling aboard international river cruise ships along the Danube River, and generally stopping at two ports in Serbia, Novi Sad and Belgrade. Novi Sad has a long tradition of hosting many domestic and international meetings, incentives, conventions, and exhibitions; this is often regarded as MICE tourism. Apart from Novi Sad in the Vojvodina region, smaller towns such as Sombor, Subotica, and Palić are commencing further tourism developments, which initially attracted cyclists. Additionally, Orthodox followers would host pilgrimages to visit Fruška Gora, considered a holy mountain. Little academic research has been done and published on the Vojvodina region of Serbia. Recent academic literature concerning tourism in this region has focused on, for example, undeveloped regions in rural areas (e. g. Todorović and Bjeljac 2009), hunting tourism (e. g. Ristić et al. 2010), and associations of resource exploitation (e. g. Košić et al. 2011). However, what is missing from this discourse is research that deals with image and destination awareness of the region.

The purpose of this research is to analyze destination awareness and knowledge of the Vojvodina region of Serbia among foreign tour operators and travel agents. This work shows that emerging destinations, minimally recognized, can be of interest to tour operators whose clientele seek nascent destinations. The framework of this paper begins by reviewing the literature focusing on destination image and awareness to position an appropriate framework that conceptually aligns this case-study. The methodology section puts into perspective how surveys were administered and important questions addressed to travel consultants. Thereafter, the results section provides the statistical analysis of the survey followed by exploratory findings and discussion. The final section offers concluding remarks and observes directions for future research.

### **Destination Image and Destination Awareness**

Hennessey et al. (2010, 218–19) note, ‘given the ever-expanding number of tourism destinations and the increased supply of products and services, the competition for visitors is intense and bound to become

more so in the future.' With this context acknowledged, tourists are, now more-than-ever, able to choose from a growing number of places for traveling to. Tourism destinations are now often associated as brands, whilst tourists are the consumers (Keller, 2003). To become a successful and competitive tourism destination, all destinations must strategically promote specific location endowments that distinguish one place from another. In this regard, tourism experts, tour operators, and travel agents, in addition to independent travelers, acquire knowledge and awareness (Binns and Nel 2002; Kim and Perdue 2011). Therefore, destination knowledge comprises two core components: destination image and destination awareness (see Cai 2002; Keller 2003; Xiang, James and Yuan 2008).

Milman and Pizam (1995) suggest that a destination's image is promoted vis-à-vis what awareness tourists have of a place. Furthermore, to acknowledge Keller's (2003) conceptualizations, it is argued that for a specific tourism destination to be successful, tourists must have a well-known awareness of the destination and the place must possess a positive image (see also, Morgan, Pritchard and Pride 2010; Urry 2002). In many cases awareness is dependent upon a place's image, or the imagination of how people perceive places (Urry 2002; Wise 2011). In this regard, an image represents a vision (or an imagination) that may have been constructed during some point in the past (see for example, Barthel 1996; Cartier and Lew 2005; Govers, Go and Kumar 2007; Hernández-Lobato et al., 2006; Pan, 2011; Richards and Wilson, 2007). Places are also dependent upon positive perceptions, whilst negative visions often burden places, regions, or countries (see Winter 2008).

Moreover, destination image is often referred to as the visual or mental impression of a place (Milman and Pizam 1995). Impressions refer to attractions, uniqueness, the physical environment, accommodations, safety, public management, and user facilities (see also Reuland, Coudrey and Fagel 1985; Urry 2002), each intended to develop 'imagescapes' (see Wang 2005). Aligned with this regard, Hernández-Lobato et al. (2006) suggest that a 'tourism destination image is a mental schema developed by a tourist on the basis of impressions.' Subsequently, in Wise's (2011) study on Bosnia and Herzegovina and Croatia, for example, he addresses how past communications of places have forged imaginations, before alluding to the role of tourism as presented via newspaper and web-based content, (re)create images of places previously perceived negatively. Whilst much academic work addresses destination image and per-

ception, it is important to understand the effect image has on destination awareness.

The notion of destination awareness correlates with destination image, and can involve familiarity, but ultimately relies on a place's perceived image, attractiveness, and appeal (see Crompton 1992; Milman and Pizam 1995). As directly alluded to in Minman and Pizam's (1995) work, destination awareness represents a vital first step if an emerging tourism destination is to become successful. To reiterate: brand awareness, introduced above, refers to the knowledge people have of destinations (Konecnik and Gartner 2007). In order for the knowledge of a destination to be distributed, marketing campaigns must commence to strategically highlight place's strengths (Li, Lin and Chu 2008). Marketing awareness is also often carried out by tour-operators and travel agents to their respective markets (see Hennessey et al. 2010).

Although, and requisite of consideration, for tourists, travel agents, and tour operators to fully become aware of destinations generally absent from the tourist map, considerable media attention is needed to brand a place's image to an international audience (Milman and Pizam 1995; Pan 2011; Ritchie and Crouch 2003). In some instances, mega-events assist awareness endeavors (Ritchie and Crouch 2003), as can be considered the case with the 2008 Olympic Games hosted by China in Beijing (Gibson, Xueqing and Zhang 2008). Other strategies surrounding destination awareness promotions are carried out in well-established destinations; for example, Montana in the United States promotes/markets the natural beauty of their state in Seattle, Washington, which is already an internationally renowned destination. Such strategies surrounding destination awareness relate back to destination knowledge. Therefore, mental schema involved in producing touristic knowledge involve branding place images to generate a distinctive imagination (Ashcraft 2002; Keller 2003; Kneesel, Baloglu and Millar 2010; Wise 2011; Xiang, James and Yuan 2008).

According to Xiang, James and Yuan (2008, 82) 'destination awareness is not simply whether consumers have heard about a destination, but the likelihood the destination will appear in tourists' destinations choice set,' when identifying places to visit. However, among the problems that often arise, as Milman and Pizam (1995, 22) have suggested, is that 'awareness may not always lead to an interest in the product [being offered] or to purchasing behavior.' Furthermore, different brands, or products (i. e. destinations), vary in awareness in terms of both their depth and breadth

(see for example, Keller 1998; Hoeffler and Keller 2002). Hennessey et al. (2010) see awareness relative to intentions for travelling to a destination. Higher depth, or awareness of a certain destination, likely means that potential tourists may consider one certain destination over others when travel planning. The breadth of destination awareness represents the broad range of traveling purposes, in which, then, other destinations may be considered (see Keller 1998).

### **Survey Method**

Surveys are appropriate when the researcher intends to acquire a large amount of responses from a specifically intended, but relatively scattered population, as is the case with this study. The survey concerning the image and destination awareness of Vojvodina was prepared specifically for foreign tour operators and travel agents. This also included others employees working in the tourism industry, including travel agents and tour operators in all the former Yugoslav Republics, except for Serbia. The survey was written in English focusing on three sections. The first series of questions was set to obtain general information from the respondents regarding gender, age group, place of work and business activities, period of time they have been working in the tourism sector, educational level, and finally their country/state/region of origin. Part two of the survey was dedicated to the respondents' travel experience and interests. These questions were focused on how many times each year they travel abroad, purpose of travel, when travelling for leisure what their prime motive of travel is, and when travelling to a new destination, while travelling for leisure, what they consider of top priority when selecting a destination.

The third section's set of questions were aimed at gaining insight into Vojvodina's image and awareness as a potential tourism destination. Preceding the questions included on the actual survey was a brief introduction of the Vojvodina region, presenting key information concerning the region's most important endowments and resources. This introduction briefly narrated the history, geography, and culture of Vojvodina. One part also mentioned that Vojvodina is an autonomous region of the Republic of Serbia, underlining some most important tourist attractions and facts that might attract tourism to the region. It was also noted that Vojvodina is an integrated part of Serbia, and is seldom represented as an independent tourism destination. Also, in the introduction to the survey respondents were assured that their responses to the survey would be confidential and only the general results would be published.

This survey was conducted between March and April, 2010, active on-line through the web site: [www.e.SurveysPro.com](http://www.e.SurveysPro.com). Using an online survey proved most beneficial due to requests sent around the world. In order to acquire accurate results regarding destination image and awareness, respondents were requested to respond only once from their e-mail address. E-mails with direct links to the survey were sent to 600 e-mail addresses. Of the 600 questionnaires sent out, 162 were returned, of which 161 were usable, accounting for a 27 percent response rate. The respondents came from thirty-eight different countries around the globe. The largest number of respondents, forty-three, came from Slovenia, followed by thirteen from Croatia and Norway, nine from Italy and Sweden, six from Iceland and Finland, five from Albania and the United Kingdom, four from the United States, three from Canada, Czech Republic, France, Greece, the Netherlands, Poland, and Portugal, two from Australia, Brazil, Denmark, India, Macedonia, Philippines, and South Korea, and one from Austria, Bosnia and Herzegovina, Bulgaria, Cyprus, Estonia, Ethiopia, Iran, Israel, Morocco, New Zealand, Romania, Taiwan, Turkey, and Uzbekistan.

### **Survey Results**

As a result of the initial questions, out of the total 161 respondents comprising the data used in this research, sixty-one percent were female and thirty-nine percent male. The respondents were divided into four age cohorts, the most represented being fifty-one years and over, with twenty-nine percent, followed by twenty-seven percent from the next most represented cohort being between thirty-one to forty years old, twenty-five percent were from the forty-one to fifty years cohort, and nineteen percent represented the youngest cohort, aged twenty-one to thirty. The majority of the respondents, fifty-six percent, were tourist agency or tour operator managers, seventeen percent were hospitality sector managers, six percent worked in government offices or were public administration employers, four percent from transportation companies, and the remaining seventeen percent from selected other occupations. Regarding the length of time employed in the industry, the returned sample showed thirty-nine percent of respondents are tourism stakeholders who had been working in different sectors of the tourism industry for less than ten years, twenty-nine percent of them have been in the industry eleven to twenty years, sixteen percent from twenty-one to thirty years, and sixteen percent have worked in the industry for over thirty-one years. Based

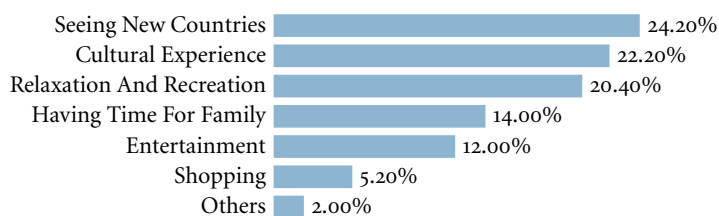


FIGURE 1 Prime motives for travelling abroad for leisure and holidays among English speaking respondents

on education – the majority, thirty-nine percent – of respondents had completed college or university levels of education, twenty-seven percent hold masters degrees, and nine percent received a PhD, while the remaining twenty-five percent completed secondary or professional level education. Based on these respondents' results, the majority of participants who completed the survey are female, and the majority of the total respondents' have been working in the tourism industry less than ten years. A promising indicator is the high educational level of the relatively mature population of respondents.

The second series of survey questions was directed towards respondents' travel experience. The objective for obtaining these data was aimed at getting an idea of their travel habits and their culture of travelling. It was found that the vast majority of them, forty-five percent, travel abroad more than five times a year, with twenty-nine percent of the respondents going abroad three to five times a year, twenty-six percent once to twice a year. Purposes for traveling abroad were sequenced into three primary motives, these being business trips, holidays, or general leisure trips (e. g. visiting friends and relatives). It was found from this sample that forty-three percent travel abroad during holidays, thirty-nine percent of them for business, and the remaining eighteen percent travel abroad to visit friends and relatives. The following question concerned prime motives for travelling abroad when travelling for leisure and holidays; the results are detailed in figure 1. The final question was concerned with participants' priorities when selecting destinations when travelling; these results are represented in the figure 2.

The final series of survey questions focused on image and awareness. Participants were first asked if they had already visited Serbia. Of the 161 respondents, sixty-one have previously travelled to Serbia and one-hundred respondents have never been to Serbia. The results were even lower for the same question, concerning previous visits to Vojvodina. Of



FIGURE 2 Priorities in the destination selection process among English speaking respondents

the sixty-one respondents who have visited Serbia, over half, thirty-eight, have been to the Vojvodina region.

Results from the survey found that, the majority, fifty-six percent, of the respondents considered Vojvodina as a part of Serbia, peaceful and stable, while five percent of them thought it was not, and the remaining thirty-nine percent of respondents had no idea about this question. Similar results were given to the question of whether Vojvodina is a safe region for foreign tourists to visit. Regarding this query, sixty-one percent answered yes, only two percent said no, and thirty-seven percent did not know how to answer this question. Therefore the results of the next question regarding the image of Vojvodina as a potential tourism destination were subsequently similar. Thirty-four percent of respondents thought that the image of Vojvodina in their country was positive, ten percent thought it was negative, and 56 percent had no idea of how Vojvodina's image is perceived in their country. In terms of whether Vojvodina is an attractive and interesting destination, in addition to being good value for the money, fifty-three percent of the respondents answered positively, three percent reported negatively, and forty-four percent had no idea.

The following questions explored destination awareness concerning Vojvodina. Based upon these responses, only four percent reported that Vojvodina is known as being a tourism destination in their country, forty-two percent said that Vojvodina is little known, and fifty-four percent said this region was not known at all. In the following question, the objective was to gain insight into how respondents suggest that Vojvodina as a tourism destination could be promoted to attract foreign

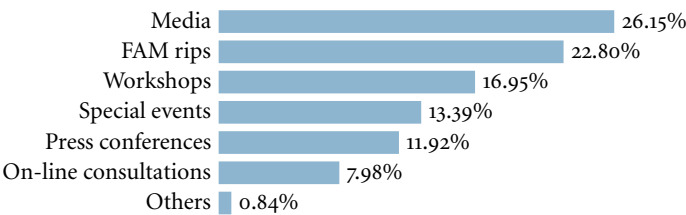


FIGURE 3 Suggested activities to promote Vojvodina as a tourism destination

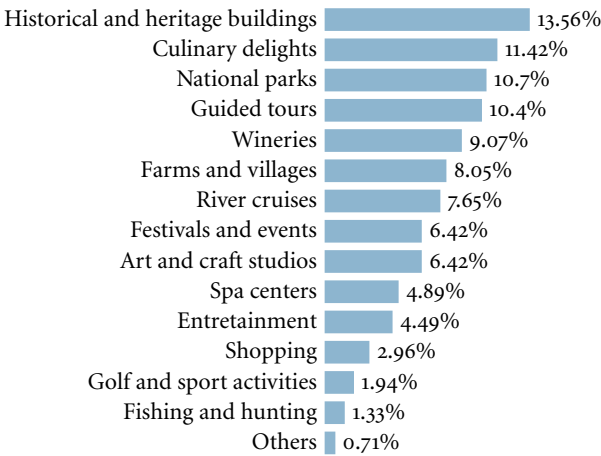


FIGURE 4 Tourism activities respondents would chose for Vojvodina

tourist from respondents' countries. These results are shown in figure 3.

Stimulating results were given to the question: would you like to come to visit Vojvodina for yourself? Seventy-six percent of respondents said yes, three percent mentioned no, and twenty-one percent had no idea. Encouraging results were reported for the question inquiring whether or not respondents would send their clients to Vojvodina. Based on these responses, forty-seven percent replied yes, seven percent listed no, and forty-six percent were undecided. The final question in this series was formulated according to the natural and created resources of Vojvodina and existing tourism products. The purpose of this lengthy list encouraged respondents to select among them; these results are presented in figure 4.

Exploratory Findings and Discussion

This paper analyzed the results of a web-based destination awareness and destination image survey for the potential and new tourism destination



of Vojvodina. Previous literature (e. g. Gibson, Xueqing and Zhang 2008; Kneesel, Baloglu and Millar 2010) indicated that destination images administered through survey responses provide much insight regarding people's general awareness of places, which corresponds to the case of Vojvodina. Through such inquiries, researchers can gain insight into how well destinations are known, and if known, how their image is conveyed to those residing outside the region (Gibson, Xueqing and Zhang 2008). In this exploratory study, it was important to seek responses regarding image and awareness to position how tour operators and travel agents perceive the region to draw some exploratory findings regarding their potential roles as opinion makers and marketers for presenting an emerging destination to travelers.

Some general findings from this study suggest that Vojvodina is not known as a tourism destination among foreign travel experts; furthermore, this would suggest their clientele base is not informed of this region of Serbia as a tourism destination. This likely stems from the results that show only one-quarter of the total respondents have personally visited Vojvodina, while the majority of others respondents have not. However, based on the relatively few respondents who have already visited the region, the majority of respondents who have not been to Vojvodina would like to visit, while only a few would prefer not to visit. Additionally, the remaining twenty-one percent were undecided. These initial questions offer much towards the interpretation of the region's awareness, and the role of those in the tourism industry as opinion makers who help shape opinions of tourists, as further explored below. Foremost, it could be presumed that their indecision was due to the lack of awareness of this destination, and not due to its negative image. While almost half of the respondents would send their clients to the destination, a few still noted they would not. Although most respondents answered whether or not they would send clients to Vojvodina, there was still a large number of respondents who did not answer this question. The high response rate of those who did not answer whether they would or would not send clients to Vojvodina suggests that there is a considerable lack of destination awareness among tour operators and travel agents.

As mentioned above, those in the tourism industry in many cases act as opinion makers. In light of such results from the survey, for a destination such as Vojvodina to become known, it is vital for knowledge of the destination that tour operators and travel agents become familiar with the region first. Milman and Pizam (1995) conclude that once tourists be-

come familiar with a place, then the overall image of the place increases, and they are able to further attract tourists. As is the case with Vojvodina, with which few are relatively familiar, tour operators and travel agents must first become aware and familiar with the region to persuade future tourists to visit the region. Then, tour operators and travel agents become the opinion makers, and take the lead towards influencing their clients to seek these relatively unexplored destinations by transmitting a positive image of the region to influence potential travelers. This fact can be explained as general, applicable to any developing destination around the world, not only regarding the case of Vojvodina. In addition, it is also relevant to suggest that non-image, or lack of a destination's awareness, as opposed to a negative image is potentially better for an emerging destination. This also plays along with tourism industry officials as opinion makers. Whilst negative images can be difficult to overcome, a destination without an image or an identity forging its existence, allows for creativity among those in the tourism industry to establish a destination's image. As Wise (2011) suggested, negative images can burden a place's reputation, non-image then gives a new destination an advantage towards building their tourism infrastructure and associated image from the ground up.

Supplemental findings from the data collected also suggest that the image of Vojvodina among foreign tourism experts is not negative. Vojvodina is only little known, or not known at all as suggested by the survey results. As noted above, one-third of the respondents believe that the image of Vojvodina is positive, while very few associate the region as displaying a negative image. However, the large majority of respondents could not report on their perception of Vojvodina's image. Based upon the analysis of responses to the survey, a lack of awareness regarding a destination is better in regard to the place's image than attempting to correct and overcome a negative image.

Based upon the literature addressed above, negative images can potentially burden a destination's image and tourism industry, especially when the place's image is associated with war and conflict. Specific to the case of Vojvodina, this destination's image may be linked to the wars in the Balkans during the 1990s, and even the situation of Kosovo. Specific to Novi Sad, intensive bombings destroyed much of the bridge infrastructure over the Danube River, isolating the regions primary city. As Vojvodina represents an autonomous region of Serbia, over half of the respondents were convinced that Vojvodina is peaceful and stable. Other

rather positive responses to corresponding survey questions showed that a significant number of survey respondents perceive the region as a safe area for foreign tourists to visit, and also reported that Vojvodina is an attractive destination and good value for money. An interpretation of these highly favorable results could relate to the fact that news does not last long; even bad news can be overshadowed by more recent events somewhere else. Sooner or later the 'curiosity factor' prevails. The ever increasing and insatiable desire to see the unseen, or an unknown destination, referred to as no-name destinations above, is a strong indicator that past memories of a potentially unsafe destination can change with time as places start to welcome tourists and attract visitors.

Vojvodina has all the necessary inherited and created resources, as do many successful and competitive destinations. The only limitations regarding the region's tourism potential results from Vojvodina's non-awareness, or lack of knowledge of a destination image. Survey participants were asked what activities that they might undertake while visiting Vojvodina. This question was included to get a sense of and to understand what priorities are deemed significant to tourists when selecting tourism activities. The respondents chose these activities according to their own interest and their own previous experiences of visiting other destinations. It is acknowledged that determined priorities would have likely been different if more respondents knew more about the various tourism attractions Vojvodina has to offer. Relevant to tourism destinations such as Vojvodina, where general knowledge and destination awareness is low, the role of tour operators and travel agents is essential in the promotion of the destination by creating well-informed tour packages, to guide tourists through a destination, and focus on the destination's 'must sees' and 'not to be missed' attractions.

### **Concluding Remarks and Positioning Further Research**

As the results of the survey suggest, Vojvodina is not a well-known tourism destination among tourism experts around the world. The results of the survey are limited due to the fact that 36 percent of the respondents are from former Yugoslav republics. This is based upon the fact that the autonomous Vojvodina region of Serbia was once, until 1991, part of the country from which these respondents are reporting; therefore their knowledge of the region as a potential tourism destination is relatively high. Moreover, twenty-four percent of the respondents have already travelled to and visited Vojvodina. For those who have previously

travelled to Vojvodina, they may assume that the region has always been a tourism destination, while for the remaining respondents Vojvodina is a new name, or a potential tourism destination to be explored and developed. For them the role of local travel agents and tour operators is more important in their own destination awareness building process by promoting specific tourism products and packages than creating a positive image by promoting the destination in the mass media. We support the idea that local tourism managers should provide knowledge about the possibilities a potential tourism destination has to offer. It remains the responsibility of foreign tour operators and travel agents to include such destinations with relatively low awareness in their catalogues and brochures, as this will introduce the destination to their potential clients.

In this regard, tour operators and travel agents become the main promoters and generators of 'launching' or 're-launching' developing destinations among the already established, known and subsequently requested destinations. Tour operators and travel agents are only not the opinion makers. Journalists and the mass media also play a significant role in promoting awareness of a destination, but those in the tourism industry are the 'architects' or the designers of a destination's image and awareness, relevant to Hennessey et al. (2010) case. By adding an emerging destination such as Vojvodina to their catalogues, brochures, or websites, they begin to promote a destination to their clientele base.

This preliminary study was aimed at acquiring destination awareness of this autonomous region of Serbia. Future work will further explore the significance of the role of travel agents and tour operators in promoting awareness of an emerging and/or developing destination. The building process of a 'new name destination' is dependent upon those skilled in the travel industry promoting a destination's image to promote awareness to encourage potential tourists to visit the intended destination to sustain its emerging service sector. Future work seeks to determine if being an unknown or 'no name' tourism destination is better than having a negative image. Well travelled tourists are always seeking for new destinations, and tour operators are eager to find or (re)invent the emerging destinations to promote place awareness.

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# *Empirical Evaluation of a Preliminary Model to Identify Low-Risk MBA Applicants*

Christo A. Bisschoff

This article reports on the second stage of the model, namely to empirically evaluate the model's performance and validity across all three of the identified categories. These categories are 'Low-to-no risk' applicants for the MBA; and those applicants who did not complete the degree in 3 years, classified as 'Medium-to-low risk' applicants who are expected to complete their degree in extended study year, and 'High-risk' applicants who are not expected to complete their degrees and who drop out of the programme. The final-year MBA students at the PBS in 2004 and 2005 served as the research population. The results were very satisfactory. Concerning the categories *Low-to-no risk* and *Medium-to-low risk* applicants, the model can be used as predictive tool, presenting a validity higher than 60% ( $p = 0.9$ ) and 90% ( $p = 0.7$ ) respectively. Caution, however, looms at the category of *High-risk* applicants where the model judges too harshly with an error of 13.7% ( $p = 0.7$ ).

*Key Words:* predictive model, MBA, validity, MBA applicants, risk

*JEL Classification:* M10, M50

## **Introduction**

This article empirically evaluates the findings of the research by Bisschoff (2005, 300–309) on a predictive model for MBA applicants. The focus of this article is, therefore, to report on the empirical evaluation of the already developed predictive model. Although a short summary of the model and history of the research is provided as a frame of reference to readers, those readers who wish to obtain more detailed information about the stages of model development and the model itself, are referred to the article as published in the *South African Journal of Economic and Management Sciences*. Table 1 shows the research project and the progress.

In addition, the results are discussed and contextualised with similar studies that aimed to predict MBA success rates by making use of selection criteria. This discussion follows after the results of this study were presented.

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TABLE 1 Design and Progress of Research Project

Planning and structuring of research project	Completed
Literature research	Completed
Empirical research: data collection	Completed
Stage 1: construct; developing a predictive model for MBA admissions	Completed
Stage 2: validate; empirical evaluation of the predictive model	Current research
Stage 3: adapt & generalise; model is fit for use in other MBA application settings	Future research
Stage 4: employ fully; use predictive model in practice for MBA admissions	Future research

### Historical Perspective and Context

Throughout the world academic institutions are constantly aware of the discrepancy between the number of students who enrol for tuition, and those who actually obtain the qualification. This erosion effect of students is two-fold, namely the complete academic dropouts and those students who change their study discipline to some related or unrelated course. In both events, this erosion results in the loss of revenue for the academic institution, ineffective time spent by lecturers on students not completing or passing the course and possible damaging perceptions to the image of the institution. On the part of the student, a loss of money and time, damaged self-esteem and lower self-confidence are but a few of the consequences of failing or dropping out of academic programmes.

Regarding the degree *Masters in Business Administration* (hereafter referred to as MBA), the market value and image surrounding it, makes it a favourable option for post-graduate management studies. As a result, a vast number of applicants strive for acceptance at business schools on their MBA programmes. This market demands further emphasis on the responsibility of business schools to admit suitable applicants.

However, although most business schools in South Africa and the First World apply clear and above board criteria in their admission process, few have been able to predict the success of their students during admission to the programme. The *Potchefstroom Business School* (hereafter referred to as PBS), therefore, aimed to construct a tailor-made model that could fulfil this purpose, namely to predict outcomes of MBA students applying to be admitted on the MBA programme. The model aimed to:

- *Primarily*: introduce a preliminary model with the purpose of predicting the academic success of an MBA applicant (thus the risk to

drop out or fail) by categorising them into ‘*medium to low risk*’ (consisting of 230 cases) and ‘*low to no risk*’ applicants (consisting of a total of 368 cases); and to

- *Secondarily*: identify ‘*high-risk*’ applicants (those applicants that show a high probability to fail or drop out of the MBA programme consisted of a total of 118 cases).

The initial research to construct the model was conducted amongst a total of 729 respondents, consisting of MBA graduates and MBA dropouts. All the MBA students who studied at the PBS between 1998 and 2003 were used in the research. The *first* stage of research aimed to construct the predictive model, using *Discriminant Analysis* as a statistical tool (Bisschoff 2005). The specific choice to use discriminate analysis, as an evolved multiple regression technique, was based on its strong classification capabilities which are required to classify the MBA students into the three risk groups envisaged (Youngblood and Martin 1982, 1157–8; Clayton and Cate 2004, 238; Steyn 2006).

This article serves as the *second* stage of the research, and reports on the validation of the aforementioned predictive model, thus, to evaluate its correctness in its predictions in quantitative terms. Obviously this is a first step in the validation process, and the process needs to be repeated to substantiate the results obtained in this round of evaluation. For this part of the process, 2004 and 2005 graduates and drop-outs were evaluated.

### Problem Statement

Although the primary problem (as stated in the mentioned article on the construction of the model) remains to admit the ‘*right*’ students to the MBA programme, this article is more concerned in determining whether the model could be used as a reliable predictive tool to assist in the admission process. In essence, the research in this article reports on the results obtained in the scientifically conducted evaluation and resulting conclusions regarding the validity of the predictive model. Therefore, the problem on is faced with is if the model is suitable to make predictions to admit the ‘*right*’ students onto the MBA programme of the PBS. As a result, this article reports on the *second* stage of the research project, namely to empirically evaluate the soundness of the model’s predictive powers.

### Theoretical Base: A Summary of the MBA Admission Tests

As discussed by Bisschoff (2005, 302–4) business schools try (with varying success) to increase the quality of applicants via specified admission

criteria, and an array of screening tests. Although these criteria and tests may be successful in increasing 'quality' or suitability of admittees, their predictive capabilities are unproven in the fields of management and leadership (a core discipline in MBA education).

In summary, these tests include:

- *General Management Admission Test* (GMAT). Although being one of the most popular admission tests, the GMAT is also fairly criticised. Closer investigation reveals not only a debate on the validity of tests and their predictive value, but also contrasting research results. The major controversy seems to be not the validity of GMAT, but rather the significance of the positive correlation between performance in the test and business success. Hong (2001:1) pointed out that strong performance on GMAT does not necessarily translate into success in business, while Arbor (2001: 1) highlights the value of GMAT to be an internationally standardised test. Standard GMAT scores are also influenced by experience, and although Tyson (2002, 33) regards it to be a fair predictor of performance, it is pointed out by Sternberg, et al. (2000) that in a study by Hedlund (1999–2001) it was found that disparity exists in the scores by gender, race and nationality. Although various researchers such as McCloud (1991), Nebel (2002) and Wilt (in Hindo 2002) scrutinised GMAT as a predictive tool, some other researchers (Sternberg 1997–2001; Hedlund 1999–2001), according to Tyson (2002, 34–7), engaged in new research on predictive models.
- *Test of English as a Foreign Language* (scored on a scale of 200 to 677 and commonly referred to as the TOEFL test). This test is important in the assimilation of studies, and a number of universities employ it (in addition to other tests) to ascertain that language does not constitute educational barriers (University of Texas 2004).
- *SHL tests* is an application test that is utilised in a number of business schools in the RSA such as the PBS, Graduate School of Business and Graduate School of Management (USB 2006; UP 2006 and PBS 2006). The company SHL is well established in more than 40 countries on a global scale, and is also active in the human resources sciences. The tests closely resemble GMAT and in admission applications report on communicative skills, numerical ability and group functioning to name but a few of the test areas (Scholtz 2006).
- *Standardised* and/or in-house tests such as the *Thinking test* at the

University of Arcadia (2004) require applicants to apply basic science knowledge, maths and verbal skills to reading comprehension, biology, verbal skills, quantitative analysis and chemistry (thus also testing ability in non-business related fields for admission to their MBA programme).

- *Common Admission Test* (CAT) predicts academic success in the business application setting by categorizing student admissions on MBA (and other) programmes. According to the University of Arcadia (2004) in Philadelphia, USA it is a pre-requisite to qualify for any of the post-graduate programmes. The CAT, which is regarded to be one of the toughest qualifying or entrance tests in the world, tests two subjects, namely *English* and *Maths*. These subjects are subdivided further into areas of *Quantitative Ability*, *Data Interpretation*, *Data Sufficiency*, *Logical Reasoning*, *Reading Comprehension*, *Verbal Reasoning* and *Verbal Ability* (IMS Learning resources 2004).
- *Successful Intelligence Assessment* (SIA) by Sternberg and Hedlund which consists of a model to predict successful business, workplace and academic performance (Holmes 2004, 1–2). The core of the model resides in problem-solving abilities. Two core problems are employed, namely *case-based* and *situational-judgement problems* (Holmes 2004, 2). The focus of the test concentrates primarily on the quality of the response, and secondarily, on the actual correctness thereof (Oswald et al. 2004, 3; Tyson 2002, 1). The researchers found that the higher the scores on these two criteria, the better MBA students fared in their grade point averages (Arbor 2001, 1), as well as in academic discussions and in leadership positions (Holmes 2004, 2; Hong 2001, 1).

In addition to these tests, Truitt (2002, 2) points out that the use of the undergraduate Grade Point Average (GPA) can also serve as a predicting variable of student success as it shows significant positive correlations between success on undergraduate level and success on the MBA programme. However, caution should be taken because a student with a high GPA point should perform better in any post-graduate programme (including MBA). The GPA is, therefore, a useful but general predictor of academic performance, and not per se a predictor of success on an applied managerial education programme such as the MBA (Truitt 2002, 3).

Typically, entrance to an MBA programme has certain pre-requisites. Analysis of three Ivy League business schools reveals that both GMAT and

TOEFL tests are employed in their admission procedure. Harvard Business School requires a GMAT score of 705 or higher, Stanford requires a GMAT (with no minimum score) as well as a TOEFL score of 250 or higher, while at Wharton Business School 'satisfactory' scores on both GMAT and TOEFL tests are required (Harvard Business School 2004; Stanford Graduate School of Business, 2004; Wharton Business School 2004). Be it as it may, there are as many different admission criteria as there are different business schools. This is also true for business schools in South Africa where some of the business schools make use of GMAT and/or other supplementary tests.

A new avenue of research was pursued in a joint research project between the Universities of Yale and Michigan in the USA by the researchers Sternberg (1997) and Sternberg and Hedlund (1997–2001). The latter of the two projects is regarded to be one of the most significant relating to predictability of business and academic success (Tyson 2002, 34).

In conclusion to pre-testing with the purpose of predicting performance, it is clear that various models and tests do exist. Naturally, some seem to perform better than others. Generic or standardised tests have the advantage of a wide application setting. Customized tests, on the other hand, have a limited application setting, but could lead to better results designed for specific business schools.

### **Research Methodology**

The *second* stage research, namely to validate the model, evaluated 378 student cases (the actual academic record of a student and the prediction by the model for this student represents a case). A total of 18 students have dropped out of the MBA programme, either by their own choice or by disqualification due to unsatisfactory academic performance. They were discarded from the research project. The remaining 360 students obtained their MBA degrees at the end of either 2004 or 2005. This represented a continuous database of 2 years of MBA graduates that served as research cases. The research population was limited to PBS students. All the students either graduated or exited the MBA programme (due to poor academic performance or otherwise) by December 2005. Table 2 shows the research subjects employed to evaluate the validity of the predictive model.

The research makes use of a comparative analysis between the predictive powers of the model and the actual outcome of the specific student. It thus employs '*hindsight as perfect science*' to validate whether the model

TABLE 2 Classification of research population ( $N = 360$ )

Year	MBA in 3 years	MBA in 4 years
2004	149 (41%)	22 (6%)
2005	165 (46%)	24 (7%)

correctly or incorrectly classified a student (based on his/her historical data during application for admittance onto the MBA programme) as being a *high*-, *medium*- or *low-risk* applicant. This classification is then compared to the actual outcome and study record of the specific student to verify if the model succeeded in correctly classifying the student. As such the predictive model is empirically evaluated case-by-case, and the validity is determined. The statistical analysis was performed by the software Statistical Analysis System (SAS), while data-recording and the comparative spreadsheet analysis made use of Microsoft Excel.

The research methodology to evaluate the validity of the predictive model is shown in figure 1.

The cut-off value applicable to the comparative analysis has been set at a minimum probability of 0.50, signifying that at least 50% of cases need to be predicted correctly for the model to be even considered useful. Clearly, with a success rate of less than 50%, the model would not be suitable for further use (Steyn 2006). In addition, the probabilities have also been increased to 0.60, 0.70, 0.80, 0.90 and eventually to 0.95 in an attempt to identify the point-of-breakdown for the predictive model.

## Results

The analysis has been performed on all three of the identified categories, namely to identify *Low-to-no risk* applicants, *Medium-to-low risk* applicants, and *High-risk* applicants.

### LOW-TO-NO RISK APPLICANTS

The analysis made use of the data representing all cases where the students obtained their MBA degree within the minimum time of 3 years. This constituted a research population of MBA graduates from 2004 ( $n = 149$ ) and 2005 ( $n = 163$ ). The probability of success of the predictive model for both the years 2004 and 2005 is shown in table 3. From the table it is clear that the model is successful in predicting if the applicants will complete their degrees within the 3 years as required.

Table 3 clearly shows that up to a probability of 0.9 the predictive

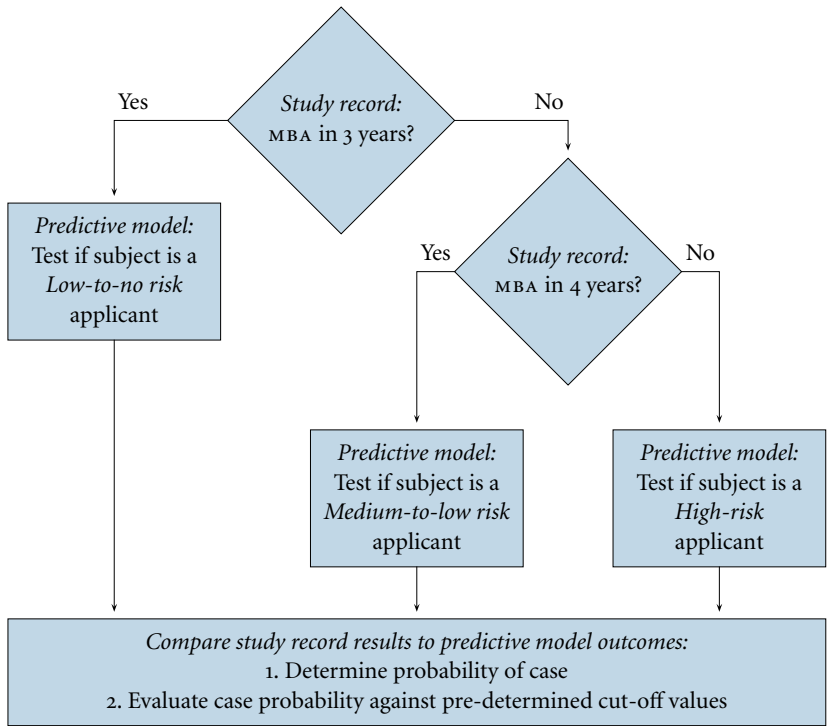


FIGURE 1 Research methodology of validation process

TABLE 3 Predicted success at different probability levels

Year	Probability					
	0.50	0.60	0.70	0.80	0.90	0.95
2004	66.44	66.44	64.43	63.76	63.76	34.90
2005	80.00	79.39	76.97	76.97	75.76	50.12

model provides sound predictions. Even at the probability of 0.9 of success in prediction, the model is able to predict on a very satisfactory level of 64% (2004) and 76% (2005) if an applicant could be categorised as a *No-to-low risk* applicant. The model ultimately fails at the probability level of 0.95 for both years and becomes unreliable. The fact that the predictive trends of reliability for the two years are closely related, supports reasoning that the point-of-breakdown of the model on the first category is between 0.90 and 0.95.

Considering the results based on the years 2004 and 2005, the first



TABLE 4 Predicted success at different probability levels

Year	Probability		
	0.50	0.60	0.70
2004	90.91	86.36	86.36
2005	95.83	91.33	91.33

TABLE 5 Predicted probability of failure in MBA

Year	Probability		
	0.6	0.7	0.8
2004	13.7	13.7	8.5
2005	8.2	8.2	4.1

category of applicants shows that the predictive powers of the model are very satisfactory.

#### MEDIUM-TO-LOW RISK APPLICANTS

The results from the analysis of the *Medium-to-low* risk applicants' category revealed that the predictive model also succeeds in predicting if an applicant is not suitable to complete the degree in 3 years, he/she will complete it in 4 years. Once again, table 4 shows that very satisfactory predictions result from applying the model to the second category of MBA applicants (above 0.90 for 2005 while above 0.85 for 2004). A total of 22 and 24 cases were respectively analysed for the years 2004 and 2005.

The model, however, breaks down at the 0.80 probability level, and is thus highly predictive up to a probability of 0.70. The years 2004 and 2005 follows the same trends once again in the decline of the predictive powers.

Although these predictions are very satisfactory and well above expectations, it is also important to employ the model inversely, namely to determine to what extent the model disqualifies applicants from the programme when these applicants actually completed the programme successfully. These applicants would fall into the *high-risk* category.

#### HIGH-RISK APPLICANTS

The model was used to analyse all the cases (360) to identify high-risk applicants. Regarding the *No-to-low risk* category (312 cases), the model did identify 3 cases incorrectly to be of a *Medium-to-low risk* ( $p = 0.6$  and  $p = 0.7$ ). However, when the analysis was performed on the remainder of the cases, namely the *Medium-to-low risk* applicants, the model incorrectly identified another 4 cases to be of high-risk. Although this constitutes an error of only 1.9% of the total population, it results in a predictive error of 13.7% ( $p = 0.6$  and  $p = 0.7$ ) in the *Medium-to-low risk* category where, in total, 7 applicants were classified incorrectly. See table 5.

Although an error of 13.7% is statistically acceptable, the fact remains that the model disallowed 7 people to follow their dream and to study towards an MBA. Therefore, the model should be very carefully used as screening tool if it is used as such to disqualify applicants to enrol for an MBA.

In summary (with reference to tables 3 and 4), it is clear that the discriminant functions 1 and 2 (Bisschoff 2005, 306) display very satisfactory predictive powers in the categories *No-to-low risk* applicants and *Medium-to-low risk* applicants. However, concerning the discriminant functions dealing with the high-risk applicants, the functions seem to be a bit too harsh a judge of the applicant. These functions, although delivering statistically acceptable margins of error, incorrectly disallow 13.7% of the *Medium-to-low risk* applicants as students. The model is, therefore, valid to be employed in the first two categories as predictive tool, but care has to be taken when employing the model as predictive tool in the high-risk category.

### Discussion

Academic institutions all over the world are pressurised to increase the flow-through of students on academic programmes. This is especially relevant to public universities and colleges who receive, according to the subsidy formula, funding from the state (Elof 2011). Amongst an array of possible interventions such as better facilities, improved educational techniques, educator education levels, and more, features also the striving for a better quality student, and allowing students onto programmes they have an aptitude for. This is also true for the MBA degree.

Resultantly, as early as 1974, research was already focused on how to ensure that the applicants allowed onto the MBA degree of the Carnegie-Mellon University in New York, would be successful (Weinstein and Srinivasan 1974). Other schools and researches soon followed suit. Some of these studies also used discriminant analysis (as a variant of multiple regression) to predict MBA success (Clayton and Cate 2004), other researchers used multiple regression (step-wise and logistic) (Weinstein and Srinivasan 1974; Yang and Lu 2001; Truitt 2002), while the neural network was also employed as predictive tool in one study (Naik and Srinivasan 2004). Other researchers sought merely for relationships between success and selection criteria, following the less complicated statistically pathway of correlation analyses (Sulaiman and Mohezar 2006; Siegert 2008). The studies that employed correlations, however, largely lost the

advantage of prediction, as correlations merely show relationships between variables and not the inter-relationships and importance of each of the variables in a unified predictive formula (such as a regression or discriminate analysis formula) (Steyn 2006).

In the study by Weinstein and Srinivasan (1994, 208) the step-wise regression revealed that solely using academic criteria (junior grades and mathematics, statistics of engineering as majors) for admission to MBA, leads to ignorance of other important variables that pose predictor powers. These variables are the applicant's fields of interests, analytical ability, extra-curricular activities (time?) and years of work experience. These authors also placed a lot of emphasis on the GPA and the in-house ability test at the Carnegie-Mellon University called the *Administration Test for Graduate Study* (ATGSB). It is interesting to note that a New York judge ruled against the wide use of the *Scholastic Aptitude Tests* (SAT) for admission to colleges and universities because it violated equal protection rights of the US constitution (Truitt 2002, 2). This brought a new dimension to admission tests and admitting students onto programmes via selection criteria. Tests and admission criteria evolved towards the obligation to (Truitt 2002, 3):

- Prove relevance to the performance on the specific programme; and to
- Show applicability of the test to the specific programme.

Research by Yang and Lu (2001, 17) showed that although the GMAT (when applied as admission test) does possess predictive powers towards successful completion of the MBA and graduation, the GPA is an even better predictor for success (especially if the GPA refers to a degree in the economic and management sciences faculty). Clayton and Cate (2004, 236) support Yang and Lu in their views on GMAT's predictive powers, and continue to state that the most important academic predictors are the GPA and GMAT, and that the GPA should be employed as minimum entry level. When applying these two variables together in a range of discriminant analyses scenarios with other variables, these researchers found that these two variables, when applied together, have a predictive power of 94.2% in predicting if the student will graduate or not (Clayton and Cate 2004, 242).

Following a new avenue in research, Naik and Srinivasan (2004, 144) employed neural networks as a predictive statistical tool in their quest to identify variables with predictive powers on MBA success rates. Their re-

search substantiated the findings of the previous researchers on the GPA and GMAT, and achieved an eventual success rate of 89.13% with their learning artificial intelligence model in predicting if a student will graduate with an MBA degree or not. Errors in prediction led to a 19.1% Type I error (Classified as successful, but they were not) and 6.62% Type II error (Classified as unsuccessful, but they graduated). From the error analysis, it thus showed that the model would disallow 6.62% of students admitted that would have been successful, while 19.1% that would have been admitted would have failed.

Moving away from the sole academic approach, Sulaiman and Mohezar (2006, 331–4) also investigated correlations between demographic and psychographic variables, and the success on an MBA programme. Their research found that:

- Work experience is a predictor of MBA student performance;
- Age is a predictor of MBA student performance;
- Undergraduate GPA is a predictor of MBA student performance;
- Undergraduate discipline is a predictor of MBA student performance;
- Gender is not a predictor of MBA student performance; and that
- Ethnicity is not a predictor of MBA student performance.

This research substantiated the importance of research by Truitt (2002), Yang and Lu (2001), Clayton and Cate (2004) and Naik and Srinivasan (2004). However, the research also showed that, already in 1994, Weinstein and Srinivasan (1994, 208) correctly commissioned other variables (such as work experience) as academic performance predictors.

Research in 2008 by Siegard, however, reverted back to the pure academic approach, and analysed the individual components of the GMAT as predictors for MBA success. In this analysis, Siegard found that the verbal and quantitative components accounted for 30% and 36% of the variance, respectively, in the prediction model. This means that although both these scores are important, the quantitative scores are more important than the verbal scores. Siegard (200, 226) adds that interviews should be added in the admission process, especially so when marginal applications are reviewed. These interviews should be chaired by experienced personnel such as deans, school directors and senior academic staff.

The research reported on in this article employed a wide array of variables (in excess of 30 per category). These variables were academic as well as demographic and psychographic variables. From the initial analysis

(Bisschoff 2005, 306–8), the statistical analysis identified the following variables as ones possessing predictive powers:

1. Complete MBA studies in minimum time of extended studies with one year
  - Undergraduate degree at reputable university
  - Undergraduate degree at not so reputable university (*negative predictor*)
  - Undergraduate degree at distance learning university
  - Mathematics at final school year level or higher
  - Number of modules failed at undergraduate level
2. Complete MBA studies in extended time or drop out
  - Diploma, other studies (no degree; allowed on experience) (*negative predictor*)
  - Mathematics at final school year level (Grade 12 symbol below C) (*negative predictor*)
  - Mathematics at final school year level (Grade 12: symbol above C)
  - B-Tech degree (technical degree)
  - Work experience
  - Undergraduate degree at distance learning university

From the variables above, it is clear that the predictive powers reside with the academic variables as the literature discussion on the previous studies also indicated. In this study, all the variables relating to being classified as a no-risk applicant (completing the degree in 3 years) are academically orientated. To be classified as a low-risk (completing the degree in 4 years) includes only one non-academic variable that positively counters the negative variables. This is the variable ‘work experience,’ meaning that good work experience can positively influence the applicant with no degree or low mathematics grades.

The results from the empirical analyses are very satisfactory. Concerning the category *Low-to-no risk* applicants, the model can be used as predictive tool. It presents a validity of 63.7% for 2004 ( $p = 0.9$ ) and 75.7% for 2005 ( $p = 0.9$ ) respectively. The model can also be used for the category and *Medium-to-low risk* where the model presents a validity of 86.4% for 2004 ( $p = 0.7$ ) and 91.3% for 2005 ( $p = 0.7$ ) respectively. In both cases the model breaks down at a probability of 0.9 and 0.8 respectively for the categories *Low-to-no risk* and *Medium-to-low risk*. Concerning the category of *High-risk* applicants, although the model only

displays errors in 1.9% of the cases of the total population, it does judge the category of students who complete their MBA degree in 4 years too harshly. The model displays an error of 13.7% ( $p = 0.7$ ) in this discriminant function.

### Summary and Conclusion

The results in this research are a function of the data from the PBS, thus an MBA degree and a specific business school. It would be unwise to use the model in another application setting without validating the model first. The application of the model in another business school environment is one of later stages of the model development, and is scheduled as a future research project.

The research presents a valuable insight into the validity of the predictive powers of the model. Furthermore, although far from complete, the empirical evaluation clearly indicated that the model shows promise for refinement and development. Although the research does not represent a complete evaluation, it does supply a sound scientific base from which incremental improvements could result. As a result, future research is directed towards the continued statistical validity of the model and its predictive powers embedded in the discriminant functions.

Finally, it is concluded that although the research and the model provides valuable insights and very satisfactory predictive powers, it is not yet ready to implement as predictive tool in the MBA selection process at the PBS. The model still needs to be validated further before it determines the fate of any prospective student future.

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# *Logistics Outsourcing: Lessons from Case Studies*

Aldo Srabotič  
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This paper investigates key success factors in logistics outsourcing. A model is used to illustrate outsourcing relationships and then applied to three examples from the logistics sector. The model is presented as a tool which can help managers to minimize the chance of failure by explicitly addressing key issues prior to the implementation of a partnership. In order to fully capture the complexity of the outsourcing process, the model is refined by the analysis of implementation of outsourcing methodology and the analysis of the presence of outsourcing myths in each case. We find that the implementation of outsourcing methodology is critical to successful outsourcing. Overall, we find that the main common factors leading to logistics outsourcing success, after the right third party service provider has been selected, are improved service levels and commercial viability for both parties, joint vision and objectives of the partnership, clear roles, top management commitment and support, communication and trust. The results of the case analysis shed light on what is the key to a successful outsourcing relationship and indicate how the architecture of logistics outsourcing can be analyzed and improved.

*Key Words:* third-party logistics, outsourcing, transportation service, service provider, partnership

*JEL Classification:* L24

## **Introduction**

In the global economy, every company must compete against customer choices coming from everywhere and anywhere. The single most visible result of this hyper-competitive environment is rapid commodization. Growth and profitability are expected and increased shareholder value is demanded. Doing the right thing is becoming more important than doing everything. Therefore, organizations are becoming better focused and more specialized. They evaluate each activity to determine if and how it provides a unique competitive advantage. The ar-

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eas that provide an advantage are likely to receive increased internal investment, while those that do not are likely to be either eliminated entirely or put in competition with an ever-expanding marketplace of external service providers, that is, they are considered for outsourcing. According to Corbett (2004), outsourcing is a management tool which is used to move an organization away from the traditional vertically integrated, self-sufficient structure; one that is increasingly ineffective in today's hyper-competitive, performance-driven environment. Through outsourcing, the organization moves toward a business structure where it is able to make more focused investments in the areas that provide its unique competitive advantage.

Logistics outsourcing is one of the fastest growing areas. The number of outsourcing companies and logistics service providers has increased dramatically and competition has intensified. Both, outsourcing companies and service providers, face great challenges in their outsourcing venture. A better understanding of success and failure factors and the concerns involved is needed so that outsourcing companies can take better advantage of the outsourcing opportunity. Since the early 1990s, there has been a significant increase in the number of organizations that have decided to outsource all or some aspects of their logistics function. As a result, research into logistics outsourcing has also increased. A careful review of existing literature reveals a mismatch between theory and practice in outsourcing. Collectively, these studies suggest that outsourcing companies should take great care in what, how and whom they choose to outsource an activity. Such research papers have limitations and are not useful to everyone, as organizations have their own unique circumstances. There is a need to gain insight into the key success factors to logistics outsourcing so that others can learn from their experiences.

Different authors (Ellram 1995; Lambert, Emmelhainz and Gardner 1999; Tate 1996; Greaver 1999; Mayer Brown 2003; Cohen and Young 2006) ascribe different importance to key success factors. Successful outsourcing does not relate only to financial and business goals. As outsourcing may have considerable impact on a company's competitiveness over time, it is a comprehensive vision of managing the relationship that demands careful consideration. Without an understanding of different participants' perspectives on those involved and affected in the process, measuring the success of outsourcing is not possible. Furthermore, outsourcing companies need conceptual tools to evaluate their outsourcing case in order to understand which key success factors must be consid-

ered for their outsourcing opportunity, especially during the preparation phase.

Therefore, this paper seeks to enrich this research by examining the ways in which the identification of key success factors in outsourcing occurs. The content of the study provides a brief description of outsourcing and logistics outsourcing. The literature relevant to outsourcing is then reviewed. A set of outsourcing key success factors that are considered by different authors are proposed and a 'Partnership Model' is used to illustrate factors which need to be present in outsourcing relationships. Three case studies examples from the logistics industry are used to show the application of the 'Partnership Model.' This includes a discussion of how outsourcing companies might better define and develop successful logistics outsourcing relationships.

### **Theory and Hypotheses**

It is important to understand why some logistics outsourcing relationships work well and why others fail. A careful review of existing literature reveals a mismatch between theory and practice in outsourcing. In order to help minimize the chance of failure in an outsourcing relationship, the 'Partnership Model' was developed (Lambert, Emmelhainz and Gardner 1999). While this model cannot guarantee that all partnerships are successful, it can serve as a powerful tool for logistics managers to develop and maintain effective relationships. Other authors (Greaver 1999) have proposed the implementation of 'The Seven Steps to Successful Outsourcing.' Methodology, which, in their opinion, is critical to successful outsourcing (Planning Initiatives, Exploring Strategic Implications, Analyzing Cost/Performance, Selecting Providers, Negotiating Terms, Transitioning resources, Managing relationships). Others (Mayer Brown 2003) state that outsourcing companies should streamline operations and fix the problems before outsourcing the process. They should not transfer key employees to the vendor. It is also important that they manage the relationship, plan adequately for the co-management process and establish control points.

Rosenthal (2000) discovered that logistics service providers are often too rigid when it comes to change. They do not put enough emphasis on pricing strategies and they have to learn how to build alliances and be frank about them. They put too much focus on service levels and not enough on strategy. Reagan and Chauanxu (2002) advise outsourcing companies to pay attention to identifying hidden risks and preventive

measures. Preventive measures can help build successful logistics outsourcing partnerships. Different potential risks in third party logistics can result in inefficient management, loss of internal logistics management capability, latent information asymmetry, reduced contact with the final customer, loss of logistics innovative capacity, hidden costs, coordination costs, dependence on the third party logistics provider, loss of control over the third party logistics provider, problems of evaluating and monitoring provider performance and conflicts of culture.

Mayer Brown (2003) define a number of key factors for customer success in outsourcing. Those factors are: top management commitment and support, the right people on the outsourcing team, clear objectives, fully defined scope, established financial baseline, rational process, the right vendor selection, an agreed contract and definition of outsourced services, acceptance of responsibilities, managing the transition phase as a project, maintaining competitive pressure, open and honest information flow, support and respect to individuals and personal development opportunities for any staff who transfer, improved service levels and commercial viability for both parties. While the KPMG study (2000) identified the most important factor for success of the partnership as improved service levels, the second and third most important success factors are support and commitment from top management and a contract specifying responsibilities and agreement on key performance indicators.

Gartner sourcing experts Cohen and Young (2006) argue that yesterday's ad hoc sourcing approaches are ineffective in today's complex world. They have introduced a new operational model called 'Multi-sourcing,' a model in which internally and externally delivered services are blended seamlessly, governed closely, and evaluated continuously for effectiveness and efficiency. They state that the root of the disconnection between theory and practice in outsourcing can be traced to eight myths that pervade current outsourcing management approaches: the myth of sourcing independence, the myth of service autonomy, the myth of economies of scale, the myth of self-management, the myth of the enemy, the myth of procurement, the myth of the steady state, and the myth of sourcing competency. Moving beyond outsourcing to multisourcing requires dispelling these myths and taking a new approach to all sourcing initiatives and actions.

Collectively, these studies suggest that outsourcing companies should take great care in what, how and whom they choose to outsource an activity. As outsourcing may have considerable impact on a company's

competitiveness over time, it is a comprehensive vision of managing the relationship that demands careful consideration. The first critical step is how to select the third party logistics provider (how to outsource logistics service providers). Based on Aghazadeh's view (2003), there are five steps of the logistics outsourcing process (Making the Decision, Evaluating the Operations and Developing Criteria and Objective, Making the List and Sending Letters, Consideration and Selection, Beginning the New Partnership), while Greaver (1999) proposes seven steps of the logistics outsourcing process. The number of outsourcing steps is not as important as their method. Therefore, we propose the following hypothesis:

- H1 *The implementation of outsourcing methodology is critical to successful outsourcing.*

The second factor which helps companies to be successful in outsourcing is to know the key success or management techniques to operate the outsourcing successfully and maintain that success. Managers need a systematic, replicable method of partnership development and implementation. Lambert, Emmelhainz and Gardner (1999) developed the 'Partnership Model,' which provides explicit methods for dealing with problems that may lead to partnership failure. The analysis and discussion of drivers and facilitators greatly minimizes the likelihood of mismatched perception between the parties. An understanding of the drivers ensures that both organizations have to benefit from the partnership and that each knows what is motivating the other. The analysis of facilitators identifies potential conflicts between the two organizations.

The model has three major elements: drivers, facilitators, and management components. Drivers are compelling reasons to partner. They are strategic benefits that will result from strengthening a relationship: asset/cost efficiencies, enhanced customer service, marketing advantage, and profit/growth stability. In order for a partnership to succeed, each party must have sufficient drivers, but not all need to be present. The drivers do not need to be the same for each party. If both parties do not perceive and do not have a realistic chance of obtaining significant benefits from the relationship, then it will fail. In using the model, each party should first independently determine its own drivers. A joint session is then held at which the parties share their expected drivers; this aligns expectations and identifies potential conflicts in desired benefits from the partnerships. Facilitators provide a supportive environment for growth and maintenance of a relationship. The four primary facilitators in ev-

ery relationship are corporate compatibility, similar managerial philosophy and techniques, mutuality, and symmetry. Five additional facilitators exist that cannot be expected in every relationship but when present will strengthen it. These situations or specific facilitators are exclusivity, shared competitors, physical proximity, a prior history of partnering, and a shared end user. Facilitators reflect the degree of compatibility between the two firms and indicate the likelihood of partnership success. Facilitators should be assessed jointly by the two parties, since this measures the compatibility of the environments of the two organizations. Within the partnership context, there can be a varying degree of integration. The combined strength of drivers and facilitators determines the potential for partnership integration. While the level of drivers and facilitators determines the most appropriate degree of integration, whether that integration is achieved depends upon management components. Drivers and facilitators only establish the potential for a relationship; management components determine how it is achieved. Even with strong drivers and facilitators, a partnership can still fail if the components are not implemented appropriately. The way in which they are put into place and managed will determine how the partnership operates. Management components are joint activities and processes used to build and sustain a partnership (planning, joint operating controls, communication, risk/reward sharing, trust and commitment, contract style, scope and financial investment).

If appropriately established and effectively managed, a partnership should improve performance for both parties. Outcomes include profit enhancement, process improvements, and increased competitive advantage. The outcomes achieved by each party should reflect the drivers that motivated the development of the partnership. For this reason, it is important to establish specific targets for each driver. Therefore, we propose the following hypothesis:

- H2a *The analysis and discussion of drivers and facilitators before the formalization of the partnership greatly minimizes the likelihood of mismatched perceptions between the parties.*

Gartner sourcing experts Cohen and Young (2006) argue that ad hoc sourcing approaches are ineffective in today's complex world. A new operational model-multisourcing-is introduced as a model in which internally and externally delivered services are blended seamlessly, governed closely, and evaluated continuously for effectiveness and efficiency. In or-

der to ensure the success of outsourcing initiatives, organizations need to adopt a more holistic and strategic approach to sourcing as a whole. A new approach requires that the selection of the 'right' sources for business services – whether internal or external – be an integral part of the enterprise strategy. It requires identifying the desired business outcomes and creating contracts, relationships, measurement, and governance that support and enable those outcomes. According to them, organizations and executives vastly underestimate the complexity of managing and integrating multiple outsources. Compulsive outsourcing and outsourcing for cost reasons without an integrated planning strategy and ongoing management has masked the rapidly changing complexity of the services outsourcing world. Outsourcing companies are striving to standardize their services so that these companies too can grow rapidly while keeping costs under control. This has often created huge tensions between the expectations of service recipients and the needs of service providers.

The experiences of many firms show that the current state of chaotic and compulsive outsourcing creates as many challenges as it solves. And the problems are more often not with the external provider; they lie within the organization itself and in the shortcomings of their sourcing practices: miscommunication, misalignment, poor governance, and a lack of coordinated management. The root of the disconnection between theory and practice in outsourcing can be traced to the following eight myths that pervade current outsourcing management approaches: The myth of (1) sourcing independence; (2) service autonomy; (3) economies of scale; (4) self-management; (5) the enemy; (6) procurement; (7) steady state; and (8) the myth of sourcing competency. Therefore, we propose the following hypothesis:

*H2b Successful outsourcing requires dispelling outsourcing myths.*

Some key success factors are identified in relation to the specific outsourcing situation, while others are common for all circumstances. According to different authors (e. g. Schwartz 2003; Murphy and Poist 2000; Whipple and Frankel 2000; Howarth, Gillin and Bailey 1995; Jonsson and Zineldin 2003; Tate 1996; Moore 1998), the keys for success in logistics outsourcing after selecting the third service provider are trust, performance evaluation, sharing information and communication, top management support, clear goal, vision and roles.

Trust is the first and one of the most significant factors for succeeding in outsourcing logistics as the companies have to share information,

benefits, and risks with each other (Tate 1996). Because of trust, the logistics company gains a chance to improve its service level and develop the relationship for a longer period of time, especially strategic alliance and 4PL. Performance measurement is one of the major factors to measure the success and maintain the achievement after outsourcing starts; this factor is also among the top five key success factors identified in the KPMG study (2000). Companies outsource logistics services to improve their operations and service or to reduce the cost. If the performance is not satisfied, the outsourcing can be ceased or fails because the objective of outsourcing is not achieved. To maintain the alliance and succeed in the long term, it is necessary to measure or evaluate the performance regularly (Jonsson and Zineldin 2003; Whipple and Frankel 2000; Murphy and Poist 2000; van Laarhoven, Berglund and Peters 2000). Sharing information and communication leverages the efficiency and effectiveness in logistics outsourcing because both partners know what they want and provide the relevant information. Lack of information and communication can fail the outsourcing especially in strategic alliance (Murphy and Poist 2000; Whipple and Frankel 2000). Top management can help the staff to overcome initial resistance by identifying the concrete goal and offering support. Lack of support from top management will discourage the operational level's decision in management, sharing information, and communication (Whipple and Frankel 2000; Murphy and Poist 2000; van Laarhoven, Berglund and Peters 2000). According to the KPMG study (2000), support and commitment from top management is the second most important success factor. Top management commitment and support is considered important, since they can make the necessary funds and resources available for the project as well as provide strategic direction and offer solutions for overcoming obstacles. The goal, vision and roles are required to prevent confusion among staff and organizations (van Laarhoven, Berglund and Peters 2000; Whipple and Frankel 2000; Murphy and Poist 2000). Contract specifying responsibilities are the third important success factor according to the KPMG study (2000). A contract is perceived as a success factor, as it specifies costs and responsibilities and provides guidelines for the execution of the partnership as well as the resolution of issues. Moreover, other key success factors can be relationship commitment (Moore 1998; Tate 1996), sharing benefits and risks (Murphy and Poist 2000; Tate 1996), flexibility (Tate 1996), etc. Both sides may have to adopt these issues in their considerations or improved service level (KPMG 2000).



In addition to the abovementioned success factors, we can add some others as a result of own experience and literature review:

- Rational process;
- The right people on the outsourcing team;
- Managing the transition phase as a project;
- Fully defined scope;
- Established financial baseline;
- Maintaining competitive pressure (the option to move to another provider at reasonable cost and risk, the ability to require a provider to offer market-value prices and terms);
- Frank, open and honest information flow (communication);
- Commercial viability for both parties.

It can be concluded that, according to different research studies on logistics outsourcing, the hypothesis of this study is that some factors leading to outsourcing partnership success are common for all circumstances, while other key success factors are related to the specific outsourcing situation in each case. We propose the following hypothesis that is directly related to logistics outsourcing:

- H3 *The main common factors leading to logistics outsourcing success (after the right third party service provider is selected) are: improved service levels and commercial viability for both parties, joint vision and objectives of the partnership, clear roles (contract specifying responsibilities and agreement on key performance indicators), top management commitment and support, communication (open and honest information flow) and trust.*

## Methodology

Case studies are widely used in organizational and across the social sciences, for example, in sociology, organizational psychology, employment relations, political science. There are some suggestions that the case study method is increasingly being used (for example Yin (1994), Robson (2002) and a number of publications examine the approach (for example Yin (1994), Stake (1995), Eisenhardt (1989), Abrahamson (1992), and Hamel, Dufour and Fortin (1993). There is growing confidence in the case study as a rigorous research strategy in its own right.

This exploratory study utilized the case study method to develop an understanding of a successful outsourcing relationship and indicate how

the architecture of logistics outsourcing can be analyzed and improved. Most studies on logistics outsourcing have been conducted using surveys, a methodology that seeks to obtain generalizations about a specific population. By conducting three exploratory case studies, the researchers sought to gain further insight into logistics outsourcing relationships in a given context. The relationship of each case was believed to be unique, based upon the context of each partner in the specific case. Case study as a research method was selected to develop an understanding of the details of a particular factor from the viewpoint of the participants by using multiple sources of data.

### SAMPLING

The emphasis of the research work was placed on understanding processes within the organizational and the relationship contexts. For this reason, we strove to find typical medium to large size organizations in different industries in order to present the contrast between the chosen cases.

We have chosen to study a combination of more traditional firms and firms operating internationally. All three examples of logistics service providers developed from being freight forwarders and transport companies, entering the field from a more traditional and standardized transport firm perspective. However, they differ considerably in size and type of resources. In all three cases, the logistics service providers are logistics service integrators and as such have a service developer perspective. In this respect, the three examples illustrate different types of logistics firms.

According to research criteria, medium to large size outsourcing and logistics service providers operating internationally in different industries fit the criteria for research. The cases chosen are appropriate for this study because they offered an examination of processes related to outsourcing as a part of the logistics function, and because the management of outsourcing companies and logistics service providers were willing to disclose their outsourcing relationships.

Three case studies were selected arbitrarily within Slovenian large manufacturing companies to verify the proposed hypothesis. The companies were export oriented, had higher value added per employee than average in industry and a large network of subcontractors, which enabled us to explore the selected relationship. Following is a description of each selected company and their relationship with the outsourced logistics service provider.

*Case 1 description.* Outsourcing Company 1 / Logistics Service Provider 1: The core business of the Outsourcing Company 1 (OC1) is the production and sales of large household appliances. The company is one of the eight largest manufacturers of household appliances in Europe. Logistics Service Provider 1 (LSP1) is a Denmark based logistics company specializing in the transport of packages rather than bulk goods. The company has several distribution terminals located throughout Denmark and operates its own trucks. Customer service and competitive prices had become a key competitive differentiator, and LSP1 saw a clear opportunity to gain an advantage by providing a better service at competitive prices to foreign producers and importers of household appliances such as OC1. The relationship between OC1 and LSP1 is one of the relationships with third parties for warehousing and distribution of OC1 appliances to all retailers (customers) of OC1 in Denmark. LSP1 is a logistic company in Denmark that offers logistics services (warehousing and transportation) to several producers/importers of household appliances in Denmark. In the analyzed case, the logistics company LSP1 provides transportation of goods and storage services for two Italian, one French and one Slovene producer of household appliances. The transportation of goods is usually executed for all producers simultaneously on the same transport route, as the supply is being delivered to the end users, who are mainly the same for all the producers (retailers-distribution centres). Both OC1 and LSP1 obtained a number of positive outcomes from this relationship. For OC1 there has been significant improvement in customer service levels. OC1 customers reported satisfaction. For LSP1 the most significant outcomes have been profit stability and a competitive advantage.

*Case 2 description.* Outsourcing Company 2 / Logistics Service Provider 2: Outsourcing Company 2 (OC2) is part of a well-known French car manufacturer and acts as a retail sales outlet in Slovenia. Logistics Service Provider 2 (LSP2) is a prime contractor offering logistics services to the whole organization (parent company) and to the market at large. LSP2 is a single provider that manages service delivery to the parent company. It is an external service provider that delivers a set of services by engaging other service providers to provide best-in-class capabilities. LSP2 is one of Europe's leading logistics groups and one of the top ten in the worldwide logistics industry. LSP2 engaged 'LSP2 subcontractor,' which is an internationally active family business, whose core service is vehicle logistics. The company specializes in the preparation and distribution of finished vehicles from production to delivery to the dealer. Within 50 years, LSP2 subcontractor developed into an international specialist

in the field of vehicle outbound logistics. Releasing Agent responsibilities are one of the main pillars of the LSP2 subcontractor's international range of services, in addition to vehicle transportation and a great variety of Pre-Delivery Services. LSP2 subcontractor carries out the OC2 vehicle distribution from the main branch in France to its distributors in Slovenia. This service includes the collection of vehicles from the main branch. The contractual capacity includes vehicle inspection (detection of damage – visual inspection); transportation of vehicles to the warehouse in Slovenia; storage of vehicles in LSP2 subcontractor's warehouse; repair of potential minor transportation damage; vehicle modification from private vehicles to cargo carriers (owing to tax benefits); and distribution (transport) of vehicles to authorized dealers. The full extent of these services has been carried out since 2005 by LSP2, the authorized company for the organization and transportation of vehicles for the OC2 parent group. Both companies (and subcontractor) benefit from this business relationship. OC2 improved its service level for customers and the reclamation amount declined. LSP2 subcontractor profit margin increased as well as their operating range and stability, as did their competitive position in the market with the incorporation of additional services for their clients.

*Case 3 description.* Outsourcing Company 3 / Logistics Service Provider 3: Outsourcing Company 3 (OC3) has been manufacturing stone wool thermal insulation and has more than 30 years of tradition in the manufacture of sealants. The company earns more than 70 percent of its turnover in Western European markets. Logistics Service Provider 3 (LSP3) offers customers a variety of logistics solutions in the area of continental, sea and air transport, in terminal services and in customs broking. They organize door-to-door transport, express delivery and courier services, warehousing and distribution. They also offer shipping agency services and border dispatch in their range. OC3 is a successful player in more complex logistics projects and the realization of entire logistics services-logistics outsourcing. LSP3 has been given the task of acting as a logistics service provider to perform the organization and transportation required by OC3. LSP3 assumed control over the following activities in the OC3 logistics process: the registration of orders and coordination with the sales/purchase department of OC3; the selection of transporting agents and transportation methods; and the implementation of transportation in synch with the given disposition. Regardless of LSP3 improved level of services and transport optimiza-

tion, OC3 evaluated their business interaction with LSP3 as financially unsound and terminated the contract, so this case is a case of outsourcing failure.

#### DATA COLLECTION AND ANALYSIS

The survey in this paper is based on semi-structured interviews (all face to face) with buyers and suppliers of logistics services in Slovenia. The choice of semi-structured interviews was deliberate since open-ended questions allow interviewees to develop their views and ideas and also lead to the identification of unforeseen research dimensions. The chosen design enabled the researchers to collect in-depth information on buyers and suppliers' perceptions and concerns regarding logistics outsourcing.

The interviews were conducted in 2006 over a period of 6 months. Interviews with logistics and supply chain directors/managers of 3 companies (6 interviews, 3 hours each), all operating in Slovenia, were conducted. An interview guide was developed with the purpose of exploring a number of themes identified in the literature. Contextual information was gathered regarding key success and failure factors, specific factors relating to each outsourcing case and information regarding drivers, facilitators, management components and presence of outsourcing myths.

Case studies were analyzed by applying the 'Partnership model' (Lambert et al. 1999) to the relationship between three outsourcing and logistics service providers. Each case study was analyzed regarding the use of appropriate outsourcing methodology according to Greaver (1999) and to Cohen and Young (2006) when developing and implementing the outsourcing relationship. Additionally, each case was examined in terms of possible outsourcing myths (Cohen and Young 2006). The specification of questions posed to managers of the outsourcing companies and logistics service provider firms included 21 open questions (specified in the Appendix), which had previously been used by other researchers in the 2000 KPMG study and research study (Boyson et al. 1999).

#### Findings

Our first hypothesis was that the implementation of outsourcing methodology is critical to successful outsourcing. It was found that in two relationships (Case 1 and 2), managers had been using outsourcing methodology, but not all necessary steps were developed and/or implemented. In Case 3, which is a failure, essential elements in the outsourcing process were missing, such as established baseline, sourcing governance models,

evaluation model and scoring system, communication plan, transitioning plan and measurement of progress.

Companies that enter outsourcing contracts must have a coherent plan for the ongoing management of the relationship and the services that are provided. It is evident that OC3 did not develop any plan. In order to ensure success, outsourcing companies need to have required management competencies in house to perform all steps according to outsourcing methodology. Therefore, we can conclude that the first hypothesis, that the implementation of outsourcing methodology is critical to successful outsourcing, can be supported.

Hypothesis H2 proposed that the prior analysis and discussion (of drives and facilitators) to the formalization of the partnership is critical and increases the likelihood of the outsourcing success. We have found that the partnership reasons are well-defined in all three cases, while the partners realized their partnership drivers in two cases only, which is why they were successful. In the third case, the outsourcing company did not experience the full benefit and therefore the relationship was not successful. Facilitators were present in Cases 1 and 2, ensuring a suitable growth environment for the partnership. In Case 3, facilitators were not as prominent as in the other two cases. Management components as joint planning and joint operating controls were recognized in two successful cases as the key element of successful partnership.

Good communication was noted among the partners in Case 2. In Case 3, one could detect a two-way multilevel communication, however, it was not balanced. In Case 3, performance measures were not discussed, agreed upon or suitably defined. This was also the reason for unsuitable evidencing of transport expenses. In Case 3, the following elements of a successful partnership were especially lacking: failure of financial expectations to materialize, an agreement on key performance indicators, communication, lack of trust and lack of top management commitment. The relationship between OC3/LSP3 encountered a lack of top management support. This reason for failure could have been eliminated during the phase where both parties defined varied factors to facilitate the partnership. The official reason for their contract termination was the increase in transportation costs, which was denied by LSP3. In the event that the two companies had suitably defined their extent of mutuality, trust and commitment, they would have come to an arrangement over their disagreement and maintained their working relationship. This supports the hypothesis that companies which use a method for partnership

development and implementation have a better chance for success. It is evident that in the two cases where drivers for partnering were achieved relationships are successful, whereas in the failed third case, drivers and facilitators were not properly discussed and management components were not implemented.

The evidence of the myth of self-management and the myth of sourcing competency was found in all three cases. In Case 3, management had entered the outsourcing contract with no plan for the ongoing management and the relationship. With regard to the myth of sourcing competency, in all the three cases the management believed that they already had the required management competencies in house to perform the necessary governance. Unfortunately, these companies did not recognize that managing external services requires different competencies than managing the same internally provided services.

The case analysis findings confirm that the success of logistics outsourcing agreements depends heavily upon the management skills (internal capability to manage the outsourcing process) of the firms engaging the services of third party logistics providers. Since most of the myths of outsourcing were evident, and some of them also lowered the potential success of the outsourcing partnership, our findings also give support to Hypothesis H2B.

Moreover, we have found support for the third hypothesis, since in Cases 1 and 2 most success factors for logistic outsourcing success were identified, while in Case 3 the following elements of a successful partnership were especially lacking: failure of financial expectations to materialize, an agreement on key performance indicators, communication, lack of trust and lack of top management commitment.

It is essential that all parties understand each other's expectations, and that there is a solid contractual basis on which to work with the new partner. It is critical to manage the relationship, which means managing the contract, measuring performance, collecting the service level credits, paying the bills, dealing with disputes, escalating severe problems, and making sure the logistics service provider provides the resources that it promised to provide. Failure in outsourcing is seldom caused by the inability to perform. Rather, poor relationship management causes a mismatch in results and expectations. This causes a breakdown in communications, which leads to dissatisfaction or an inability to recognize a cultural gap. Open and honest communication goes hand in hand with mutual trust and accepted responsibility. In Case 3, the outsourc-

ing company also faced the failure of financial expectations to materialize.

In addition to common factors leading to logistics outsourcing success, some specific key success factors have been found in each case. For instance, Case 1 and 2 companies enjoyed the benefits of economies of scale as they allowed servicing providers to provide standardized services. Furthermore, we have found that each case needs to be examined carefully to understand the real reasons for outsourcing success, the importance of each success factor and the importance of specific key success factors relevant for each case.

### **Conclusions, Implications and Limitations**

One of the main findings of the case analysis is that in two relationships managers had been using outsourcing methodology, but not all the necessary steps were developed and/or implemented as proposed by (Greaver 1999) and (Cohen and Young 2006). In Case 3, which is a failure, essential elements in the outsourcing process were missing.

The next important finding is that companies which use a systematic method for partnership development and implementation (e. g. Partnership Model) have a better chance for success. It is evident that in two cases where drivers for partnering were achieved, relationships are successful, whereas in the third case, which is a failure, drivers and facilitators were not properly discussed and management components were not implemented. By applying the 'Partnership Model,' the interviewed companies would have minimized their chances of failure by addressing key issues prior to the implementation of the partnership. In order for a partnership to succeed, outsourcing companies and third party service providers must have sufficient drivers, facilitators and management components.

Successful outsourcing relationship practice needs to dispel myths that pervade current outsourcing management approaches. The evidence of the myth of self-management and the myth of sourcing competency was found in all three cases, while the unsuccessful case reveals that the management had entered the outsourcing contract with no plan for the ongoing management and the relationship. With regard to the myth of sourcing competency, in all three cases the management believed that they already had the required management competencies in house to perform the necessary governance. The case analysis findings confirm the assumption that the success of logistics outsourcing agreements depends



heavily upon the management skills of the firms engaging the services of third party logistics providers.

The main common factors leading to logistics outsourcing success, after the right third party service provider has been selected, are improved service levels and commercial viability for both parties, joint vision and objectives of the partnership, clear roles (contract specifying responsibilities and agreement on key performance indicators), top management commitment and support, communication (open and honest information flow) and trust.

In addition to common factors leading to logistics outsourcing success, some specific key success factors have been found in each case and need to be taken into consideration for successful outsourcing.

In all three cases, the interviewees identified a number of potential future key success factors and/or failure factors. For managers it is important to perform a realistic assessment of the problems and opportunities. Risk management must take account of differences which can result from differing perceptions and conflicting objectives between outsourcing companies and logistics service providers. In the analyzed cases, the results indicated an obvious difference in perception between the outsourcing company and the logistics service provider with respect to the extent of the logistics function to be outsourced, service implementation and issues related to prices. The outsourcing company must have confidence in the logistics service provider's capabilities and needs to develop clear specifications as well as share with them all information crucial to successful outsourcing. Different potential problems and opportunities for logistics outsourcing success have been identified within each case. The research findings show that in order to develop an understanding of key success and failure factors of logistics outsourcing, it is necessary to seek different views relating to those factors. There is a need to gain an understanding about which factors need to be taken into consideration. Different authors ascribe different importance to key success factors. It is obvious that successful outsourcing does not relate only to financial and business factors.

Findings also uncovered some conflicting objectives of the parties that may hinder the development of successful logistics outsourcing relationships, such as a preference for a short-term contract, which according to the service provider's opinion limits the extent of outsourcing success. It was found that each of the three cases discussed is unique and complex, and thus has specific factors which are important for successful

outsourcing. Case studies offer a learning opportunity for other organizations facing similar difficulties.

This paper has reviewed and analyzed three case studies, and in doing so, complemented the normative literature and also made a distinct contribution towards the outsourcing debate.

Managers need conceptual tools to identify key issues prior to the implementation of a partnership, such as the presence of outsourcing myths and implementation of all phases of outsourcing methodology. Such a 'refined model' is presented in this paper and can be a useful tool for logistics managers to set up an appropriate structure of their logistics outsourcing relationship, as all aspects related to the success of logistics outsourcing are taken in consideration.

This research was undertaken to improve the understanding of key success factors in logistics outsourcing. By analyzing the factors to a successful outsourcing relationship and ways, how the architecture of logistics outsourcing can be analyzed and improved, this research sought to help logistics managers from different industries and logistics service provider managers to become more effective in their tasks related to their outsourcing case and thus improve firm performance through the engagement of their knowledge and skills.

Overall, there are limits to the generalization of the conclusions on key success and failure factors and suggestions with regard to the proposed vision of key success factors due to the limited cases studied in this paper. We need to conduct more case studies and to test the hypotheses empirically in a larger survey in order to fully understand the practices of logistics outsourcing. Furthermore, some limitations in regard to the case selection should be considered. Namely the potential bias in results may arise from all interviews being conducted just in Slovene companies. In an effort to establish the degree to which logistics operations are successfully outsourced, a systematically yearly survey on logistics outsourcing should be conducted. Such systematic data collection would help researchers to continue their study of the partnering phenomenon, which could benefit both practitioners involved in partnerships as well as academics.

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## Appendix

The research is based on the interview data collected about the case. The semi-structured interview included the following questions:

- Which logistics function is currently outsourcing;
- Geographical scope of logistics partnerships;
- Why was the decision to use third party provider made;
- Objectives of logistics outsourcing;
- Which methods have been used for identifying a third party logistics firm;
- The effectiveness of various methods for evaluating a potential third party firm;
- The importance of various characteristics when choosing a third party logistics provider;
- How necessary is the inclusion of individual provisions in contracts with third party logistics providers;
- Perceived effectiveness of corporate entities at managing the relationship with a third party logistics provider;
- Perceived effectiveness of monitoring methods in a logistics relationships;
- How do outsourcing companies set up the management and control structure for their logistics partnerships;
- What is the average length of contract for logistics partnerships;
- On which price structure is the outsourcing based;
- Which performance indicators do they use for measuring the performance of the partnership, what is the relative frequency of performance measurement;
- Which competencies do they require from a transport and logistics company;

- Which difficulties do they encounter when building (designing) outsourcing relationships, which difficulties do they encounter when implementing the partnerships;
- Which are the most important factors for success of the partnership (key success factors), which are the most important key failure factors in partnerships;
- Perceived effectiveness of logistics outsourcing to contributing to competitive advantage, perceived effectiveness of logistics outsourcing to contributing to the improvement of customer service level;
- The percentage reduction in total logistics costs during the first year of outsourcing;
- The average reduction experienced in the second, third, and fourth years;
- Overall logistics cost savings from the outsourcing of logistics functions.



**Raziskovanje odzivov porabnikov na recesijo v Sloveniji  
ter Bosni in Hercegovini**

*Tomaž Kolar, Vesna Žabkar, Nenad Brkić in Ismir Omeragić*

Z namenom ugotoviti vpliv aktualne ekonomske krize na porabnike izdelkov vsakdanje potrošnje pričujoči članek proučuje spremembe in trende vrednot in stališč porabnikov med letoma 2007 in 2009 v Sloveniji ter Bosni in Hercegovini. Primerjava pomembnosti vrednot in faktorskih vrednosti stališč v obravnavanem obdobju v obeh državah nakazuje nekatere pomembne razlike in presenetljive spremembe, saj tako stališča, še posebno pa vrednote, na kratek rok veljajo za relativno stabilne konstrukte. Z namenom ugotoviti, ali, zakaj in kako je kriza drugače vplivala na slovenske in na bosanske porabnike, smo identificirali možne vzroke razlik. Ti so obravnavani tako s teoretičnega kot s praktičnega vidika, podana pa so tudi priporočila za management.

*Ključne besede:* recesija, porabniki, stališča, vrednote, Slovenija, Bosna in Hercegovina

*Klasifikacija JEL:* M31

*Managing Global Transitions* 10 (2): 121–144

**Prestrukturiranje in ovire: primeri konkurenčnosti izvoznikov  
v različnih tranzicijskih državah**

*Nebojša Stojčić in Heri Bezić*

Vedenje izvoznikov privlači pozornost raziskovalcev in načrtovalcev politik, ki se ukvarjajo s konkurenčnostjo gospodarstev. S sodelovanjem na mednarodnem trgu podjetja ustvarjajo mednarodno menjavo, ki uravnotežuje uvoz, in spoznavajo nove tehnologije, s katerimi povečujejo konkurenčnost celotne panoge na domačem trgu. V članku je prikazan razvoj modela, v katerem so zmožnosti podjetij iz gospodarstev v tranziciji definirane kot funkcije njihovih dejavnosti, značilnosti in lastnosti njihovega okolja. Izsledki raziskave kažejo, da imajo stroški vstopa na trg, prenosa tehnologije, inovacij in tekmovanja s konkurenco pomembno vlogo pri odločitvi podjetja o vstopu na tuje trge, ko pa so že na tujih trgih, postanejo pomembnejše cenovne prednosti.

*Ključne besede:* izvozna konkurenčnost, vstopni stroški, tranzicijska gospodarstva, prestrukturiranje, institucije

*Klasifikacija JEL:* D02, D22

*Managing Global Transitions* 10 (2): 145–170

### **Poznavanje tujih tour operatorjev in turističnih agentov srbske avtonomne pokrajine Vojvodine kot potencialne turistične destinacije**

*Ivo Mulec in Nicholas Wise*

Vojvodina je avtonomna pokrajina na severnem delu Srbije in ima vse potencialne, da nekoč postane uspešna turistična destinacija. Od razpada Jugoslavije je minilo dvajset turbulentnih let in zdaj si turistični managerji v Vojvodini prizadevajo posodobiti turistično infrastrukturo in ustvariti nova delovna mesta. Podatke za raziskavo smo dobili iz ankete turističnih agentov in drugih zaposlenih na področju turizma po vsem svetu. Cilj te raziskave je bil ugotoviti prepoznavnost in poznavanje razvijajoče se turistične destinacije Vojvodine. Iz rezultatov raziskave smo ugotovili, kakšna je njena prepoznavnost in kakšna je vloga tour operatorjev in turističnih agentov v promociji turistične destinacije. Rezultati tudi nakazujejo, da med tujimi turističnimi poznavalci in tour operaterji Vojvodina ni poznana kot turistična destinacija in posledično tudi ne med njihovimi potencialnimi turisti. In vendar, boljše je biti neznana destinacija kot imeti negativen imidž. Turistični agenti in tour operatorji tako lažje soustvarjajo imidž destinacije, kar bo v končni fazi prispevalo k boljši destinacijski prepoznavnosti Vojvodine kot nove turistične destinacije.

*Ključne besede:* destinacijska prepoznavnost, destinacijski imidž, poznavanje destinacije, turistična destinacija Vojvodina

*Klasifikacija JEL:* R, Y, Z

*Managing Global Transitions* 10 (2): 171–187

### **Empirična ocena pripravljalnega modela identificiranj kandidatov za MBA z nizkim tveganjem**

*C. A. Bisschoff*

Članek obravnava drugo stopnjo razvoja modela, tj. empirično oceno učinkovitosti in veljavnosti modela pri vseh treh skupinah kandidatov: »malo tvegani« oziroma »netvegani« kandidati za MBA, kandidati, ki niso diplomirali v treh letih, klasificirani kot »srednje do nizko tvegani« kandidati, za katere je pričakovati, da bodo za diplomu potrebovali še eno dodatno leto, ter »zelo tvegani« kandidati, za katere ni pričakovati, da bodo diplomirali, oziroma ne bodo dokončali študija. Raziskava je bila opravljena na študentih zadnjega letnika MBA študija na poslovni šoli v Potchefstoomu v Južni Afriki. Rezultati so bili zelo dobri. Pri kategorijah »malo tveganih« oziroma »netveganih« kandidatov je testirani model mogoče uporabiti kot orodje za napovedovanje, saj je njegova veljavnost več kot 60-odstotna pri  $p = 0,9$  oziroma več kot 90-odstotna



pri  $p = 0,7$ . Previdnost pa je potrebna pri skupini »zelo tveganih« kandidotov, pri katerih je model preveč restriktiven z napako 13,7 % (pri  $p = 0,7$ ).

*Ključne besede:* napovedovalni model, MBA, veljavnost, kandidati za MBA, tveganje

*Klasifikacija JEL:* M10, M50

*Managing Global Transitions* 10 (2): 189–204

### Zunanje izvajanje logistike: študije primerov

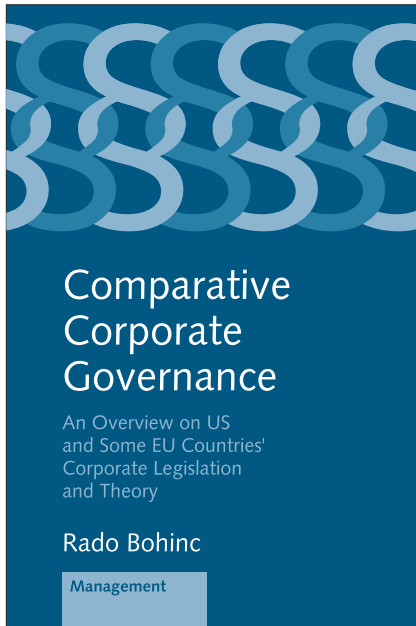
*Aldo Srabotič in Mitja Ruzzier*

Namen članka je raziskati ključne dejavnike uspeha na področju zunanjega izvajanja dejavnosti logistike. Partnerski odnosi pri zunanjem izvajanju dejavnosti so ponazorjeni z modelom, ki je uporabljen na treh primerih s področja zunanjega izvajanja logistike. Model je predstavljen kot orodje za pomoč managerjem. Uporablja se za minimiziranje možnosti neuspeha, tako da se ključne težave obravnavajo pred dejansko vzpostavitev partnerstva. Z namenom, da se v celoti zaobjame kompleksnost procesa zunanjega izvajanja dejavnosti, je model dodatno podkrepjen z analizo izvedbe metodologije zunanjega izvajanja dejavnosti ter z analizo prisotnosti zmot s področja zunanjega izvajanja dejavnosti. Podana je ugotovitev, da je implementacija metodologije za zunanje izvajanje dejavnosti odločilna za uspešno zunanje izvajanje dejavnosti. Ugotovili smo, da so ob pravi izbiri zunanjega izvajalca izboljšana raven storitev, ekonomski interes za sodelovanje obeh partnerjev, skupna vizija in cilji partnerstva, jasno definirane vloge, vključenost in podpora najvišjega vodstva ter komunikacija in zaupanje ključni dejavniki, ki vodijo do uspeha na področju zunanjega izvajanja storitev. Rezultati študije primerov razkrivajo ključne elemente za zagotavljanje uspešnih razmerij na področju zunanjega izvajanja logistike ter ponaazarjajo, kako analizirati in izboljšati strukturo zunanjega izvajanja logistike.

*Ključne besede:* zunanje izvajanje logistike, zunanje izvajanje dejavnosti, ponudnik storitev, partnerstvo

*Klasifikacija JEL:* L24

*Managing Global Transitions* 10 (2): 205–225



**Comparative Corporate Governance:  
An Overview on US  
and Some EU Countries'  
Corporate Legislation  
and Theory**

*Rado Bohinc*

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# Managing Global Transitions

## International Research Journal

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