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International Journal of Organizational Innovation

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# THE EFFICIENCY, SUFFICIENCY, COMPETITIVENESS AND POTENTIAL OF THE ASIAN ECONOMY AND CHALLENGES TO ASIAN PRODUCTIVITY

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## ABSTRACT

In this study, global competitiveness and change are considered. Next, the comparative advantage of Thai exports is addressed. This is followed by a comparative advantage of other countries, including the competitiveness and cooperation for foreign direct investment in ASEAN regions. Competition for FDI from other countries is illustrated and competitiveness of the public sectors is shown. Innovation and its significance for the Thai economy and its sufficiency are studied.

Other topics include: Asian markets and future growth, Asian economic development, shifts in competition from manufacturing to total productivity, and Asian critical challenges in the future. Moreover, competition policy, Asian globalization and global competitiveness are reviewed. Asian countries going international are reviewed and competitiveness in Japan, China and ASEAN is identified. Finally, the challenge of Asian productivity and Asian roles in consolidations are suggested.

Key words: ASEAN, global competitiveness, economic development, Asian business, Foreign Direct Investment FDI

## INTRODUCTION

*Global Competitiveness Change*

Products of each country which are globally competitive are those for which the country has a comparative cost advantage to other nations. In consequence, in absence of trade distortions, the nation will export these products and their market share will be higher than for other countries. Regarding the trade patterns of different nations, we conclude that these products generally utilize resource inputs which the nation possesses in relative abundance. If the resource is composed of two elements, namely labor and capital, the more labor abundant nation will have a comparative advantage in exporting labor intensive products. While it will import capital-intensive products from other nations, it will also import more capital resources. The global competitiveness of a nation can change according to its resource endowments. Another factor to consider is natural resources, especially in the early stages of development, when capital endowment is small. The nation that is relatively abundant in natural resources possesses comparative advantage in natural resource-based products. Comparative advantage changes in 3 stages: Stage 1, resource-based processing; Stage 2, the diversification of exports to labor-intensive manufactured product; Stage 3, the creation of technology-intensive production and capital.

*Comparative Advantage of Thai Exports*

The comparative advantage of Thailand rests primarily of agricultural products. Exports are rising rapidly in chicken, woven textiles, clothing, and jewelry related products. At present, labor in Thailand is becoming increasing expensive so exports are shifting to higher valued-added items to sustain growth.

*Comparative Advantage of Other Countries*

(1) Singapore

Traditional exports are vegetable oil, rubber and rubber products, petroleum products, wood products and wood, coffee, animal feeds and clothing, and spices. Raw materials are imported from foreign countries.

(2) Indonesia

Indonesia has comparative advantage in agricultural and mineral resources, textiles, clothing, and electrical machinery. These exports are labor intensive goods.

(3) The Philippines

Exports are light manufacturing goods and agro-based and resource-based products: metal ores, wood and cork, vegetables, animal feeds and furniture, and fruit, footwear, clothing, and electrical machinery.

(4) Malaysia

Malaysia possesses abundant natural resources. Her resource-based products are wood and wood products, vegetable oil, nonferrous metal products, seafood, rubber and rubber products, metal ores, and petroleum product rank at the top of their comparative advantage, while other products consist of woven man-made fabric, electrical machinery, woven cotton fabric, and petroleum products.

(5) Taiwan

Comparative advantage exports are footwear and clothing, textile yarn, metal products and organic chemicals as well as more capital-intensive products such as machinery, fertilizers and electronic products for some industries. The Association of Southeast Asian Nations (ASEAN) pattern of exports has changed to comparative advantage in exporting both labor-intensive products and agro-based.

(6) Hong Kong

Comparative advantage is travel goods, clothing, and miscellaneous products: cotton fabric, jewelry, nonmetallic mineral products, footwear, yarn, pharmaceuticals, crude animals, metal products dyes and tanning, and fish preparation and fish. More products include woven man-made fabrics, watches, photo equipment and clocks, electrical machinery, and telecommunications as they apply much capital and technology in their production processes.

(7) South Korea

Their comparative advantage is in transport equipment, man-made woven fabric, metal products, telecommunications, iron and steel, fertilizers, and electrical machinery.

(8) The U.S.A.

The U.S.A. possesses many natural resources. Their export comparative advantage is in natural-resources-based products: tobacco, maize, animal feeds, rice, and vegetable oil, and includes products of capital-intensive industries, such as transport fertilizers and equipment.

(9) Japan

Competitive exports are electrical machinery, telecommunications, industrial machinery, transport equipment, photo equipment, as well as technology-intensive and capital goods.

*Competitiveness and Cooperation for Foreign Direct Investment: An Asian Regions Perspective*

The significance of Foreign Direct Investment (FDI) by Multinational Corporations is underscored by the fact that the rate of growth of FDI in the world exceeded the rate of growth of world output and exports. This may be attributed to the increasingly competitiveness world environment, while facing the changes in attitudes of developing nations toward FDI in the last decade. While developed nations remain the largest sources and recipients of FDI, the share of developing nations in global investment inflows has been increasing. Of the developing nations, ASEAN is an important beneficiary of inflow of FDI. Nonetheless, rapidly changing global economic conditions with increasing globalization and competitiveness growth in regionalism imply demand for ASEAN nations to enhance their economic cooperation beyond the boundaries of trade in goods and services into the realm of investment.

*Competition for FDI from Other Countries*

FDI were in a general dynamic towards the liberalization of trade and increased FDI in other nations as well. Particularly of interest is the opening up of China, which has created a formidable contender for FDI. China changed, moving toward trade liberalization. A program of tariff reduction was begun. China changed through various reforms in economic systems and influenced by the regular framework for FDI. For example, decentralization of their decision-marking process enabled local authorities to approve small projects, expand investment in the services sector and adjust in the investment environment in the acquirement provision of intellectual property protection.

China has several advantages including serving as the host economy for FDI, and their potential for a large domestic market. In addition, China has many other advantages as a new production base. Other nations have compelled China to develop an improved level of their technology base and skills. For example, wages of skilled and unskilled workers are also low in Singapore, Thailand and Malaysia. China has an increasing number of joint-ventures with low initial investment through the utilization of existing plant buildings and personnel.

Similarly, India also has an attractive potential market, especially for FDI in consumer goods. In China, the abundance of human resources and natural as well as low labor costs make it a very suitable host for FDI inflows in a wide variety of industries.

Porter (1990) stated that governments should play the facilitating role of a pusher and challenger. Porter pointed out that it is the firms which compete, not governments and nations. Public sector infrastructure is one of the crucial factors which can affect the level of competitiveness of the firm, as there are crucial interfaces between the firm and the public sector. Public services must be related in order to have a positive impact on the level of competitiveness to enterprises.

*Competitiveness of Public Sectors*

Public sector competitiveness provides service needed at a performance level expected by its users to satisfy target groups. There are two aspects of public service quality. First, customer public service needs a good standard of service from public agencies. Examples of good services include accuracy, timeliness, reliability, availability, in formativeness and politeness. Second, public agencies must guarantee to provide the required service standard consistently. Management of these services must ensure that quality objectives retain a sufficiently high standard.

*Innovation Significance for the Thai Economy and its Sufficiency*

Innovation is the special function of enterprises if an existing firm, public service business or a new enterprise began by a lone individual. It means the entrepreneur either creates new resources or existing resources for enhancing potential wealth. At the heart of this activity is innovation, the effort to create change in a firm's social or economic potential. However, there are a number of reasons that firms are faced with difficulties recognizing the market rationale and technological behind an innovation. These sources of difficulty include: the firm itself, how it collects and processes information, uncertainty, its local environment, the type of innovation, the firm's organizational structure, strategies, systems, and human resources all affect new product development.

New products, ideas, or processes also affect consumers who adopt it at different times. Decision-making processes during adoption of an innovation have five-steps: awareness, attitude formation, decision, confirmation, and implementation. Innovation success involves:

- Preparing strategic approaches to innovation and problems of its management
- Developing and applying effective implementing mechanisms and structures
- Adjusting and supporting the organizational environments for innovation
- Creating and maintaining effective external linkages.

Critical elements of organizational creativity include:

1. Rewarding innovators
2. Support of good ideas by top management
3. Giving employees opportunity to access knowledge sources
4. Supply a free flow of information
5. Accept new ideas and ways of doing things
6. Risk taking is acceptable

The United States has experienced growth in R&D partnerships, marketing alliances, outsourcing, and alliances between small and large firms. Strategic goals are composed of controlling knowledge transfer, the competitive domain and acquisition, and maintaining institutional links to technology environment. Cooperative strategic and research alliances are forms of arrangements in technology appropriation. Licensing is a major way by which enterprises extract value from technology developed in-house.

All collaborative arrangements involve three categories of risk: loss of intellectual property, organizational risk, and competitive risk. Protection of the knowledge & values that a firm possesses is the basis of competitive advantage and is a central support activity in management of technology. Intellectual property is a legal concept that provides legal protection. The four vehicles of legal protection are: copyrights, patents, trademarks, and trade secrets. Copyrights protect forms of expression; patents protect product designs and processes; trademarks protect brands and logos; and trade secrets protect sensitive information to competitors.

*Asian Markets and Future Growth*

Rent collection as a profit producer is a crucial part of the Asian competitive environment. This is followed by Asian market demand growth. Exports to the United States are the primary source of growth. This trend is likely to strengthen in the future because currently a more open China is becoming an important drive of Asian internal growth through increasing imports of Asian service and goods. The future work force has already been born and more Asian women come to the workforce. Rapid growth in Asian income through the productivity improvements is created by implementing processes and technologies that have already been used effectively elsewhere in the world. If Southeast Asian nations, including Malaysia and Thailand, are to move up to the productivity levels currently reached by Korea, average income levels should double. The China potential to grow depends on improved productivity. If average Chinese workers can be as productive as Korean, China's market shall be thirteen times as large as it is currently. China's economy should be more than twenty-five times its present size. Productivity is achievable because technologies, systems, and processes required to support this kind of increase already exist. Asian's capacity to grow its markets require improvements in education. Asian employees must be much better educated than before. In the more developed Southeast Asian countries like Malaysia and Thailand, between 30 percent and 20 percent of those beginning their first full-time job have completed their educational studies. In Indonesia and China, the volume is 6 percent and 11 percent, and rising quickly. Moreover a high proportion of well-qualified workforces supports Asian companies and offers a strong opportunity of quickly improving productivity levels. Asian people are savers and there is a new generation of income earners who are prosperous than in the past.

Certainly, Europe and United States shall be important markets for Asian firms. Asian shall be a major driver of international economic growth for the future. Asian strategies need to apply in the future because that means that instead of displacing services and goods produced in Europe and United States, they can compete with other Asian nations to share Asian's markets. The cost benefits that permit Asian firms to take market share from high-cost suppliers in Europe and United States shall be of little help. Rivals in other Asian companies or multinationals operating in Asian will have the same Asian cost advantages.

Creating efficient and effective channels of distribution of across Asia shall be critical. Gaining approaches to distribution in Europe and the United states is of high priority. Compared to Asia, Europe and the United states have sophisticated networks of distribution and efficient retailing and wholesaling already in place. European and U.S. channels already can not only get services and goods to consumers but also have effective means of transferring information from and to consumers and providing back-up support service. The situation is different in Asia where, in various markets, the distribution network and retail and wholesale channels within it are not taken full advantage of. Asian distribution systems lack of consumers demand, responsive service, and delivery of marketing information. To be successful in Asia's future growth markets, firms have to strengthen their distribution networks, not just gain entry. The shift from Europe and U.S. markets to Asian markets as the primary source of growth gives new opportunities but presents different challenges in how to compete.

*Asian Economic Development*

Asia's economic development traditionally starts by exporting and manufacturing simple, labor-intensive goods like shoes and garments. As it accumulates more know-how and capital, it changes to intermediate industries like basic plastic molding and chemicals, then to high-value-added products like pharmaceuticals and semiconductors. While one nation goes on to the next level of value-added industries, concomitant with supporting increased labor costs as well as a higher living standard, another developing nation shall take its place at the lower value end. Japan led these companies followed by Singapore, Hong Kong, Taiwan, and South Korea. Then come Thailand, Malaysia, Indonesia, the Philippines, and Vietnam. It enlarged its Asian-owned firm investment and it is where multinationals located their companies in Asia. Then along arrived China, which produces everything from simple manufactured products to high-technology equipment and components, plastics and rag dolls, specialized machinery and semiconductors. In the future of Asian rivalry, it shall posses may more capabilities and higher quality.

China is now a key part of the Asian business, with successful companies supplying specialized products, components, and services as well as focus on special activities within the overall supply chain. Enterprises in different locations and in every industry exchange a wide variety of differentiated services and products. China sells specialized container-handling equipment to Korea and Korea sells robots to China. Thailand designs circuits on silicon wafers, while Malaysia packs them into complete chips & attaches them to the mother board. Singapore provides marketing services to Hong Kong while TV commercials are produced in Hong Kong. Vietnam sell broccoli to China, while purchasing Chinese soybeans. Economists name this *co-specialization.* In this competitive environment, different firms specialize in exchanging specialized products as well as services as well as different parts of the value chain across borders. In a co-specialization environment, merchandise flows in both directions between two nations, even in the same industry.

The creation of co-specialization in Asia shows a fundamental change in the rival environment. Difference in cost and quality between nations still exists, but they are insignificant compared to the difference between each industry. Achieving high productivity in a special activity and devising specialized services and product that are unique, the leading enterprises in new Asia shall open up a huge rivalry advantage. Firms from China, Singapore, the Philippines, Malaysia, Thailand, and Taiwan are all doing business together. Asian owned firms select various assets across industries from agricultural products to manufacturing, financial services, and property. Different industries stay within their country borders to permit Asian companies to use their strong relationships with national or domestic governments, maximize their bargaining power with domestic suppliers and distributors, and access capital from domestic bank. Asian firms and nations which concentrate on subsidiaries of multinationals shall have to begin looking beyond their traditional processes, learn to compete with local companies and with newcomers from across their countries' borders.

*Shifts in Competition from Manufacturing to Total Productivity*

The next phase of rivalry does not depend on high productivity in operations and manufacturing alone. In the future environment, the focus of competition is increasingly for Asian markets rather than export orders which are being competed for by new rivals. Chinese manufacturing set the benchmarks for efficiency which shall differentiate rivals in their total cost of delivering and supporting services and products to Asian customers. Successful firms require striving for dominant specialized segments right across Asian markets. Their strategy depends on doing the same thing as rivals, but trying to do it more efficiently, effectively and cheaply. This new environment requires that the winning firms succeed in achieving strategy different from rivals, and better. Branding and improved service and quality are necessary to extend their role in the new value-driven competition. Asian-owned firms must enlarge their assets across industries. This permits them to apply strong relationships with national governments, to maximize their bargaining power with local suppliers and distributors, as well as gain access to capital from local banks.

*Asian Critical Challenges in the Next Cycle of Competition*

Winning in future Asian markets depends on the firm's ability to meet the following challenges: (1) Driving Asian industry consolidation, (2) Connecting their global networks, (3) Building strong Asian brands (4) Creating new capabilities of innovation, and (5) Forming incremental changes towards total productivity.

*Driving Asian Industry Consolidation*

Enterprises striving for industry consolidation are applying acquisitions and mergers to change from current fragmented Asian industries to a more efficient structure with enhanced potential profit. They also must to know how to deal effectively with the problem of integration and multiple acquisitions, more in alliance than takeover. The challenges presented by Asian business in the next cycle of rivalry shall require a strategic rethink among Western enterprises as they are forced to cope with much competition from leading domestic rivals who challenge by creating distinctive and the new type of Asian multinationals.

*Connecting their Global Networks*

Extending international networks is necessary to compete successfully, rather than being isolated national champions. Western multinationals have built around the world. Asian economies must create distinctive, "Asian-style" multinationals that apply Asian expertise in managing networks of alliances and to corporate objectives with the goals of Asian governments.

*Building Strong Asian Brands*

Enterprises are required to build strong Asian brands that are able to create customer loyalty and capture higher value added.

*Creating New Capabilities of Innovation*

Successful enterprises require a new capacity for innovation to exactly differentiate themselves from rivals and break out of present Asia's commoditization trap to become different and better. This needs a change of mentality that permits them to concentrate on innovation in its broadest sense and comprehensive innovation in all of the company not just the development of technologies or new products.

*Incremental Change in Total Productivity*

Incremental change in total productivity means concentration on maximizing the value added per worker, not just minimizing the cost. Asian countries are not able to be successful simply by copying the systems and processes in the West. Manufacturing productivity increases in Japan were accomplished through unique ideas developed domestically. Tomorrow's broader productivity adjustments shall have to be accomplished by giving an Asian flavor to the new processes and systems learned from foreign countries. In Asian firms, these productivity adjustments are necessary to liberate the resources to invest in innovation, reforming, and brand building the Asian roles.

*Competition Policy, Asian Globalization and Global Competitiveness*

The increasing globalization of trade, business and financial transactions has importance for competition issues on an international business. Global competitiveness is critical to support operation of globalization. Competition policy and deregulation, as well as laws, are related, supporting the development and importance to serve the interest of all trading members and partners. Since, competitiveness and competition have been the interest and preoccupation of the US and the EU, these concepts also must become important in the Asian region. South East Asia nations must move towards the global economy. Small- and medium-sized companies must adapt to deal with the introduction of competition law and policy in the development economy in China, to implement their own competition law and policy in order to raise their living standard, as well as to go to international trade relations.

International competitiveness is faced with economic crises as well as increasing globalization. Legislation must be implemented to liberalize international and local business and trade, to facilitate accomplishment in competitive market orientation and economic development policy and challenges, as well as facing the obstacles of increasing growing international competitiveness and globalization influence. They must consider concrete and practical policy recommendations to ameliorate the country’s competitive trade and business environment, international economic integration and improvements in standard of living. Competition, law and policy in Vietnam promote development and growth as well as impacting competition law and policy on the operation of the private sector. Company and private entrepreneurship reform plays a critical role in the restructuring of the economy for the benefits of income enhancement and non-farm employment. Effective enforcement of legislation aids the nation to improve it's enhance its international economic relations and integration, as well as its competitive business environment.

*Asian Countries Go International*

Forces creating new pressures for the internationalization of Asian companies include (1) Limitation to growth imposed by the need to check, (2) Pressure to Asian firms to match the international economies, (3) National policies to promote multinational's growth, and (4) Barriers to cross-border investment and trade.

*Limitations to Growth Imposed by the Need to Check*

Opportunities to diversify into a large number different industries are the main way many Asian firms grow. This strategy prefers local access to raw material supplies, capital, license, distribution, to compete with more players across a wide variety of businesses. Asian firms are focusing their attention to opportunities for growth by geographic diversification with specialist capabilities for greater internationalization among Asian companies. The following forces, barriers to investment and trade, national policies to promote multinationals, and the need to contest cross-border advantages available to Western multinationals, shall force Asian firms to face the challenge of internationalization in the next cycle of competition. The manufacturing sectors and levels of foreign assets and sales are increasing and being internationalized still further. Some industries that are national, such as process industries and the real estate, also begin to make significant move overseas. High level of foreign assets and sales in sectors, like services and commercial and consumer goods, reacted by internationalizing their sales. Internationalization is a tool required to compete in the future.

*Pressure to Asian Firm to Match the International Economies*

Asian multinationals need to respond to the stimulus promoted by their governments that shall encourage an increasing number of Asian firms to become more international. Western multinationals shall be able to accomplish this presents barriers to the flow of services and goods across Asia.

*National Policies to Promote Multinationals Growth*

Asian governments apply policies to encourage local multinationals by promoting the internationalization of their leading companies. Such government policies are crucial drivers of international expansion by Korean and Japanese companies that created many of the well-known Asian multinationals. Currently, Singaporean, Malaysian, as well as Chinese governments are following policies to promote a new wave of globalization by companies headquartered in their home countries. Singapore's government actively promoted the internationalization of firms headquartered in Singapore and Singapore is now very competitive in the global market. The reasons are clear. (1) Since its population is limited, increased gross domestic product must come from exploiting the skills of Singaporeans internationally and (2) Singapore's home market is small, so if their companies are to grow, they must expand overseas. China expands their international investment and trust corporations with the aim of securing supplies of key raw materials and the knowledge and access to technology from overseas. Internationalization leads to more cross-border competition.

*Barriers to Cross-Border Investment and Trade*

Singapore implements the most far-reaching international competition plan and has made rapid changes in this direction. Thailand has initiated trade liberalization processes, as has Taiwan, Korea, Malaysia and Indonesia. Singapore already has a free trade agreement with Japan, and negotiates with India, Philippines, and the Thailand. Bilateral negotiations to reduce trade barriers are on-going between the United States and ASEAN countries. Indonesia permits wholly owned foreign subsidiaries in retail trade and wholesale as well as in all manufacturing sector. Thailand requires foreign investors to locate in the country. Long-term trends toward the greater integration of China with the global and Asian economies are clear. Asian firms who traditionally controlled their national fiefdoms shall face competition from imports as well as from foreign investors.

*To Overcome Obstacles Imposed By Asia's Companies*

Successful internationalization comes from underinvestment in intangible assets, over centralization of decision making, as well as the fact that a long period of depending on national barriers. This has resulted in many firms relying on sources of competitive advantage that come from lacking the capabilities required to build and their home-country location as well as run successful international organizations. Internationalization tends to depend on taking services or products and systems firms perfected at home and replicating these offerings in new, national markets. To accomplish sales growth, firms begin selling in "nearby" nations where economic and cultural closeness is more important than geographic distance. In consequence they can enter new markets without significantly changing specifications of their processes, operations, as well as systems. Such companies begin internationalizing by establishing sales, service offices, and distribution networks overseas. The internationalization strategy often leads to widely diverse networks of international subsidiaries linked with headquarters to get new markets. Outdated plants of Asian corporations shall be unable to build successful Asian multinationals.

The Asian firm is unable to compete with their multinational competitors from other parts of the world. Asian firms possess "resource-based" advantages: preferential access to capital, low-cost raw materials and labor, and government licenses obtained through local relationships, can export their product competitively. Foreign direct investors possess intangible assets like quality systems, technology, competence, marketing, and know-how that are proprietary. These are competitive advantages that may go to markets where systems are lacking. Asian firms have not invested enough in intangible assets to give themselves a strong platform of brands, systems, as well as technologies to complete when they go to overseas markets.

*Asians Strengthen International Capabilities*

Asian firms need the skill base necessary for effective expansion across borders. Successful firms must invest in acquiring a cadre of management and staff with the necessary experience and skills to create operations overseas and apply international network. An eventual handicap is that decision making in their organizations highly centralized. They rely on close personal ties from same family grouping for decisions and their family criteria are implicit to managing their firms. Organizations which possess reliance on explicit procedures, rules, and policies find easier transition to internationalization. They can apply increased use of communication technologies and information to bridge time zones as well as distances. Some Asian firms utilize only trusted persons or family members to manage their overseas subsidiaries. Asian firms' international expansion will be impeded by their management processes compared to rivals that have grown up in a different management tradition.

Asian firms build world-class capabilities in the key functions that drive competitiveness in the home nation: marketing, operation, quality, sales, and finance. This helps to strengthen functional organization where each group is clearly based on accomplishing excellence in its functional specialized activity. Successful Asian multinationals must build managing networks of capability and alliances for rapid adaptability, as well as learning. The application of alliances to underpin international expansion can aid to overcome providing a way to compensate for gaps and barriers to entry in capabilities and experience to operate in international foreign markets. No company in the world nowadays has sufficient resources to use the full potential of the Chinese market. It therefore strives to approach other multinational companies to mutually share costs and develop business. Application of processes playing to the traditional strengths of corporate Asia, in competing through networks of relationships, is necessary.

*Guidelines to Going International*

The following are guidelines to going international:

a. *Equipment and technology purchasing*. Negotiations with suppliers to improve their service and prices
b. *Product development*. To make new products.
c. *Benchmarking and Knowledge management*. To keep employees updated on key developments across the region.
d. *Human resources*. To apply highly talented workers to different markets so that skilled individuals are prepared for higher responsibilities in an overseas unit.

Establishing these processes and structures to access and mobilize knowledge internationally were both practical and immediate. Asian firms become more international, expanding opportunities for learning from the world, not just project home-based formula into new markets. They are potentially powerful strategies for addressing the challenges they face as latecomers to the global game.

*Asian Countries Adaptability*

Adaptability is Asian company's strength to meet the internationalization challenge. Asian firms must adapt with local cultural differences and customer behavior in each countries. Significant internationalization is never accomplished from linear, incremental change.

Internationalization is also resource-intensive over time. Asian companies who have successfully gone to international expansion have worked out how to apply a unique competitive advantage to the foreign market. Asian nation should identify capability gaps that shall impede their firms from operating effectively outside its home environment, be it in people, management style, or systems.

Capabilities must be in place concerning local presence and context-specific capabilities through acquisitions, investment, or alliances to overcome home-based advantages. To accomplish this, a mix of effective leverage and internal capability building of local hires as well as external advisers may be necessary. Asian firms should restructure their functional organization to build a set of corporate departments and smaller business units that accept their role as providing services rather exerting control. This requires reorganization of the headquarters organization, not only to integrate overseas, but new subsidiaries into unchanged home-base structures. Rewards and incentives, career planning, and management development also need to be international performance objectives. Two-way flow of knowledge between overseas and home must be established. The headquarters should permit workers to learn from its overseas operations. The foreign section could act as a powerful source of new technological, ideas, as well as innovations about how customers in a different environment might consume the service or product in new ways that give greater opportunity for international advantage.

*Western Multinational New Comers*

Western multinationals come to access the potential benefits of cross-border integration in Asian countries. They possess an international reach through established experience and subsidiaries of how to apply to local conditions. Western multinationals are beginning to come to Asia in search of lower–cost locations for their service or manufacturing operations. Others search growth markets, so that service units and sales formed the core of their Asian operations. Asian subsidiaries start as an extension of a global function such as sales or manufacturing within the multinational. Such a subsidiary needs strong links with the multinational's global headquarters. Asian unit's role must be directed from headquarters or to apply a business formula already success at home base. Western multinationals in Asia design their operations around national subsidiaries that limit integration to their Asian sister units. Western multinationals have experience in applying its global business formula to local Asian markets. Western multinationals in Asia can exploit the learning they are accumulating inside their Asian operations. Asian multinationals are much better in applying alliances as a way to internationalize, and applying international expansion to acquire new capabilities. Asian multinationals emphasize adaptation that harnesses the power of local diversity.

*Industrial Competitiveness in East Asia*

Competitiveness comes from a number of factors: production management, material costs, and wages, logistics aspects such as custom clearance and transportation network, and trade, as well as export specialization in East Asia. Late-starters begin industrial development in an introductory stage or by importing new products. Then they move to import substitution. To move to the export stage, the latecomer can catch up in terms of competitiveness with the forerunner as the later comer catches up, the forerunner fails to maintain at the export stage and move to a more advanced or mature stage in which competitiveness is declined. If the forerunner fails to upgrade to more advanced goods with high value added or fails to differentiate its products from the latecomer, it shall move into the reverse-import stage, and eventually be forced to the extreme of this stage which the latecomer creates a few niche products. In machinery based industries, they follow up comes first in light machinery and very late in heavy machinery, because FDI is in the former industry for mass production, but not into latter industry which is not good for mass production. Catching-up time differs between intermediate good and finished goods, while within light machinery, catching-up comes fast in assembly. Different catching-up attempts to address the development of regional intra-industry specialization.

Regarding internationalization, Japan came first before other groups in East Asia and was followed by the followers of Asian NIES: Korea, Singapore and Taiwan, as well as the latecomers of ASEAN Four: Thailand, Malaysia, Indonesia and the Philippines, and by the latest beginning ASEAN new members: Laos, Vietnam, Cambodia and Myanmar. Apparel from Japan is at the reverse import stage, Taiwan, Korea, Hong Kong and Singapore are in mature stage, as well as China and ASEAN Five are in export stage. The forerunner, Japan, goes into reverse import stage. The following economies, Taiwan and Korea, attain the mature stage, and latecomers including China and the ASEAN Four are in the export stage as well as the latest starter, Vietnam which is still in import substitution stage. Example, home electrical appliances which Japan is still competitive. In the mature stage, Korea, Taiwan and Singapore are arriving at the export stage as well as the ASEAN Four are in the import substitution stage and export stage, but Vietnam is in the import substitution stage. Japan exports high-value key electrical appliances to other economies in the region. With machine tools, industrial machinery, iron petrochemical, and steel, Japan is in export stage of followed by Taiwan, Korea and Singapore in import stage.

Forerunner-followers were in the current stage for a long time but latecomers proceeded to the more advanced competitive stage. China and Thailand go up to export stage but Korea still in import substitution stage. Local industry, with implementation from foreign technology, climb up slowly to export stage in competitiveness, from the import substitution stage. Going up quickly to the export stage from import substitution stage is supported by inflow of FDI.

*Comparative Competitiveness in Asian Industries and Products*

***Singapore***

a. Basic petrochemicals and petrochemicals product and material industries are competitive
b. Machine tools and heavy machinery industries are increasingly competitive in import substitution.
c. The development of parts industry sustains competitiveness of light machinery.
d. Light machinery in Singapore is strong.
e. Light industries are uncompetitive except for miscellaneous manufactured products.
f. Agricultural goods are uncompetitive in Singapore as well as processed agricultural products are uncompetitive.

***Thailand***

a. Synthetic fiber textiles, yarn & fabric and cement & glass production are competitive.
b. Heavy machinery industries, commercial vehicle and motorcycle products are competitive.
c. Office & communication apparatus, home electrical appliance parts, electronics, and precision apparatus are competitive.
d. Thai’s light machinery industries are very competitive. Office & communication apparatus, home electrical appliances and personal computers are competitive.
e. Apparel, leather articles & footwear, and furniture are competitive in export stage.
f. Agricultural products, processing agricultural products are competitive.

***Malaysia***

a. Fabric industry & the yarn as well as cement manufacture & glass are competitive.

b. Malaysia is most competitive in home electric appliances. Communication apparatus and the office industry go to the export stage. Malaysia replaces Japan as the most competitive producer in East Asia. Peripheral equipment industries and personal computer are going to export stage. Precision apparatus production is in the import substitution.

c. Apparel, light industries, leather article & footwear and furniture are in export stage. Miscellaneous manufacturing goods are competitive.

d. Processing agricultural products maintain competitiveness in export stage. Malaysia succeeds in increasing the income value-added of agricultural products.

***Indonesia***

a. Glass & cement and yarn & fabric, petrochemical products, synthetic fiber textiles, iron & steel and basic petrochemicals are all competitive.

b. Motorcycle manufacture is competitive.

c. Metal processing is competitive in import substitution stage. Office & communication apparatus, home electrical appliance parts and electronics are competitive.

d. Light industry is very competitive because of low wages.

e. Processing agricultural products are competitive.

***The Philippines***

a. Cement manufacture & glass are competitive.

b. Advanced hard disc drives, electronics parts and central processing units, are very competitive. Automobile parts industries and motorcycle are competitive.

c. Furniture and apparel are competitive.

d. Office & communications apparatus and home electrical appliances are competitive.

e. Agricultural products and processed agricultural products are uncompetitive.

***Vietnam***

a. Synthetic fiber textiles are competitive in import substitution stage.

b. Motorcycle industry is competitive.

c. Footwear & leather articles, light industries of apparel, and furniture are competitive in export stage.

**d.** Agricultural and processing products are competitive.

**Japan Competitiveness**

a. Heavy machinery industries are competitive. Commercial vehicles, motorcycles, machine tools, passenger cars, and industrial machinery are in export stage.

b. Motorcycle parts, precision apparatus parts, machine tools, automobile parts and industrial machinery are competitive in the export stage. Metal processing and office & communications apparatus, home electrical appliance parts and electronics are in mature stage and competitiveness.

c. Office & communications apparatus, home electrical appliances and precision apparatus are competitive.

**China Competitiveness**

a. Commercial vehicle production and motorcycle are competitive.

b. China is very competitive in metal processing. Motorcycle parts are in export stage. Office & communications apparatus, home electrical appliances parts, precision apparatus, electronics, machine tool, automobile and industrial machinery are competitiveness.

c. China raises competitiveness quickly in many industries. Footwear & leather articles, apparel and furniture are competitive.

d. Office & communications apparatus, home electrical appliances, peripheral equipment & personal computers, and precision apparatus are all competitiveness, are in export stage.

e. Agricultural and processing products are competitive in mature stage.

*Asian Innovation Difficulty*

Asian firms allocate some of their investment resources to innovation. Asian firms profit from resource-based advantages, for example: access to competitive raw materials, low wages, local knowledge, and government permits. By importing foreign technology, systems, and product designs they could have same advantages. Asian firms lack experience in basic scientific and market knowledge as well as in engineering skills. Government investment in R&D and innovation in most Asian nations is low. Asian nation's lack of investments in R&D, innovation and differentiation among competitors' suppliers force them to compete in price. Because their innovation is underdeveloped, they cannot satisfy Asian consumers' increasing demand for novelty and variety in Asian markets.

The key to get market share in rapid growth market is sufficient capacity available to supply. Lower costs and large investments allow investors to offer consumers more competitive pricing. Raising capital and buying proven technology and bringing new capacity quickly will attain market share. Asian firms are faced with excess capacity and applying similar technologies, at large-scale, with similar costs, producing almost same services and products. Lack of product differentiation from competitors and from rivals and on real technological advantage and systems, leave firms with no choice. Many firms can only make adequate returns during economic growth but capacity is scarce, and their profitability shall be limited by their lack of differentiation from rivals. Profit may come from the ability to bring innovation new products and technologies. Asian change innovation is a critical ingredient to compete in industries with rivals through increased greater economies of scale and capacity.

*Asian Customers' New Demand*

Customers are willing to accept standardized, basic consumer goods. Customers look for features including: styling, exact performance, color, and so on according to their needs. Consumers demand higher product quality and variety, not only more volume. Consumers begin look for particular special varieties, flavors, sizes, presentations, and so on or for products and satisfy their needs. As consumers possess higher standards, they demand more customized offerings and better, not more of the same. Mass market nowadays reached a stage of development where customers are no longer satisfied with reliable but standard, and demand services and goods with the innovative features, variety. Firms who are unable to provide more innovative flexible products will literally be left on the shelf. Asian consumers want a complex mix of higher fashion, quality, a desire to express more individualism, and new mentality. They demand greater variety, innovation, and customization from suppliers. Asian buyers begin to forget their historic emphasis on cost. Asian companies need a careful reassessment of exactly what kind of innovation is likely to bring competitive success in a uniquely Asian context.

*Stages of Asian Innovation*

Asian companies select their markets both in terms of services and products and the stage in the chain of innovation activities which makes sense to target market. The chain of innovation focuses on the following: (1) Introduction Stage Of Innovation, (2) Innovative Extension, And (3) Innovative Improvement Stage.

*Introduction Stage of Innovation*

Various innovative firms effectively outsource during introduction stage by licensing everything from new science or new materials. Various final process patents and product may be theirs. Research is a way for Asian firms to meet the innovation challenge.

*Innovative Extension Stage*

Innovative extension concerns taking an existing service or product concept and extend the functions or sources of value offered to consumers for example, applying it to more convenient use. This supplies an attractive alternative to many firms. This makes the payback period usually shorter and the success generally higher, and extension helps firms to build its innovative processes and capabilities. It can therefore aid in establishing a solid foundation for more innovation objectives in the future. Asian firms need to apply importing technologies or adapting and product concepts them to local conditions. Selective extension innovation allows a company to revolutionize it's successfully and profitability.

*Innovation Forms in Asian Nations*

Beginning businesses always bet their investment in innovation on set of assumptions or a single technology about how the market will develop. Investment of innovation covers market discontinuities and main technological that firms believe they may face. Facing competition from powerful global rivals, it shall risk loss of market share. To solve problems by investing in a set of innovation projects would enable firms to test market acceptance and technical feasibility service, response to evolving market to competitive threat. Firms can spread their risk across alternative services and technologies, while conserving capital by limiting the initial investment. Innovation forms include the following:

1. *Venture* where a guide that has been started as a stand-alone business, but not yet balanced up revolved out into a full blown division.
2. *An experiment or guide* that has been tested market proposition or a new business model.
3. *A new idea* for a new opportunity that is through but not yet tested.

The selection of whether to maintain alternative for the future as experimental, an idea, or venture involves a trade-off between cost and speed. If the alternative is maintained as an idea, minimizing the cost of the alternative means no investment of an idea. But the speeds where we can exercise that alternative and its power as a beginning a new business are limited because of not testing the idea or developed it into a business venture. Contrarily, if we decide to develop every alternative that we need to maintain our right to start as a venture, the total investment needed is likely to be huge. The development of alternatives through to the venture stage disables quicker scale-up when we discover that the environment makes opportunity to exercise the alternative. To invest in innovation projects creates alternatives of the future at different stages of development. Maintaining and generating innovation alternatives for Asian innovators is problematic given their quick environmental change. Chinese firms have gone out managing risk. These firms reduce their exposure by limiting maximizing their opportunities to learn and their initial investments before decisions regarding future commitments. Creating innovation alternatives can be exercised through future investment at a later stage. Investment in innovation has created alternatives and risks to diversify and success no longer to leads to correct predicting the continuous single trend or the success of a special technology. Uncertainty of the future environment means not all alternatives will be exercised.

*Asian Productivity Cooperation with Network Alliances*

Asian firms have low productivity from inventory management, customer service and administration as well as finance within Asian manufacturing firms, and low investment in technology. Improvements of productivity are able to be accomplished by better training, management, and cultural change. It demands time, accumulated experience, and right skills. Asian firms like to invest in tangible assets such as machinery, property, and computer equipment rather than in intangible assets, such as training, soft systems, and process development. Lack of investing in software affects the productivity of activities outside manufacturing. Distribution productivity and supply chains, as well as support and consumer service, always depends on the quality of local infrastructure: communications and transport systems, the efficiency of service supplies and government authorities decision making.

*Asian Diversification*

In fact, diversification depends on opportunities. While firms have assets and licenses in place to operate, they may lack specialist capabilities necessary to maximize their productivity. In the same vein, they often fail to invest in systems to improve productivity of their core distribution network and to develop new competencies; for example, foreign exchange management expertise that becomes necessary to compete. Productivity issues that come from lack of target investment arise from traditional centralization of decision making. This occurs in various Asian firms that hamper the evolution of organizational structures that facilitate improvement in total productivity and the supply chain. Productivity improvement obstacles include the following:

a. Poor suppliers impact on productivity.
b. Unnecessary lead time and delays often occur.
c. Lack of knowing what happens in distribution functions: of retailers, wholesalers, maintenance service, and agents.
d. Organizational structures create specialized functions: distribution, sales, marketing, and operations then no functions focus on overall service or delivery.

*Asian Productivity Improvement*

Various Asian firms are composed of strong functional departments: marketing, sales, finance, operation, and product development. They need team work to facilitate development and learning to be best, and practice to motivate and attract staff. Each function may perform effectively. Functional structures aid Asian firms in competition while building rapidly capabilities and capacity is key source of advantage. Productivity growth, logistics and transportation, and retail and wholesale trade have lagged far behind manufacturing. Costs are accrued by retailers and wholesalers behaviors, and by the quality of their own internal controls and processes. Failure to collect accurate and timely information from consumers for can force these costs up through replacement, returns, error correction, reworking, and retraining. Some of these costs are:

a. Costs of credit, bad debt, or late payment.
b. Cost of educating consumer concerning a special service or product
c. Cost refusal to schedule services or returns product
d. Costs of deliver of services or products

Controlling this cost challenge is heightened by the fragmentation of corresponding underinvestment in retail systems and retailing throughout much of Asian nations.

*Asian Consumers' Complaints*

Consumer complain about the following: waiting times to be scheduled, input into process of production, determined price and cost, taken from ware house, as well as delivery. In consequence, they delay equipment and work waits for materials, services, or components. Then capacity utilization and productivity of both labor and capital are diminished. Lead time leads to forecast errors decreasing efficiency of whole supply chain. Contrarily, Asian low wages should automatically guarantee competitiveness. Otherwise, outsourcing permits improvement in productivity to access economies of scale, and expertise by applying specialist suppliers to substitute in-house activities, and productivity improvement. Asians possess cost advantage compared with Europe and the United States.

*Asian Efficiency*

Cheap inadequate support service or raw materials, leads to more reworking, higher lead time, and consumer dissatisfaction. In addition, they can force redesign of service, products, as well as internal processes. In response, Asian nations can integrate components, materials as well as improve specification of supplies; support services more smoothly; cooperation in new product development. Asian opportunities for productivity are following: applying new technologies, dealing with consumers and broadening channels of communication and suppliers.

*Asian Productivity Strategies*

Asian needs new approaches and new organizational structures to deliver effective management. Also needed are a new capacity to satisfy consumer's orders, improvement in the contributions of workers, and creation of a new networked supply chain and administration. Key functions of sales, operations, and finance, dominate many Asian firms. Technologies, supply chain, and processes can be efficiently deliver specific component, service, and product. Investment in consumer's relationship management systems is important in facilitating improved control and visibility. Key success depends on combining systems with Asian relationship management strengths to apply new technology to strengthen existing relationships with consumers, and distributors, applying new systems to open up broader and new channels of communication with consumer and distributors. Agents and new alliances with distributors, innovative delivery channels to remove possible investments in the greater capacity, and chain to deal direct with consumers, shall be required. In Asian firms, employees must be held responsible for the extra lead time. Standard timing is necessary to become commonly applied to standard costs. Managers must be handle lead times, and remove bottlenecks that contribute to delays. Asian firm's workers still have low productivity. Some Asian firms also have inefficiencies, particularly in overhead areas like accounting, administration, and consumer service rest waste and low worker productivity.

*Asian Government's Roles*

Asian governments must enforce interventions to restrict the takeover of firms by foreign firms. Asian governments should require foreign direct investment to get foreign money by promoting acquisitions that build globally competitive industry structures. Asian companies ought to be considering acquisitions. In consequence, these developments and the feasibility of strategies designed to support industry consolidation, is increasing. Future Asian strengths include adaptability, industry activity chain, and capability to learn from acquired firms as well as the application of alliances to increase the opportunities of success.

*Asian Industrial Consolidations*

Future industrial structure to cope with the competitors that are left can be created. Long-term opportunity for profitability is clearly profound. In the United States and Europe, this cycle has played a successful role in many industries. To reach this level of suitability, acquisition candidates and capabilities to manage the acquisition process, are necessary for success. Industry consolidation channels are needed, and inefficient suppliers can integrate network for economies of scale with industry leaders. Then the consolidated firm can be highly profitable at market prices. Consumers find advantage from markets to renegotiate prices and reassess their suppliers. To protect market share and consumers, as well as to keep volume, the strategic assemblers must offer successful and better terms.

*Asian Consolidation Target*

To expand retail franchise networks, local firms must introduce new technology, and invest in creating brand loyalty. For successful strategic assembly it is clearly crucial to study outcomes in terms of relative strengths of remaining rivals, the market structure competitive concentrate on brand, price, convenience, and technology that will emerge. It is the chain of activities to consolidate and try. Consolidation strengths can easily constrain the entry of new rivals. Firms can improve profitability by driving consolidation. Excess capacity can be consolidated, building new idea where there is overcapacity, rather than shortage.

*Asian Potential Industry Consolidation*

To begin consolidation efforts too late leads to considerable risks. The pressure of potential sellers is always increasing and there is additional pressure from larger, merged firms that start to improve their cost competitiveness by eliminating duplication of fixed cost as well as taking advantage of economies of scale. Opportunity for industry consolidation can come from potential new sources advantage. The creation of new consolidation depends on the confluence of changing new technology as well as consumer behavior leading to shifts in shopping patterns. Improvements in communication, infrastructure and transport are necessary. Industry consolidation leads to a higher level of service or product quality to consumers or to accomplish at least a comparable offer at more competitive cost. Consolidation potentially contributes to consumer satisfaction by supplying a wider range services or products than is supported by smaller-scale operations. Ability to satisfy Asian customers with greater customization and variety shall be a key in the next competition cycle. Strategic consolidation can increase scale in any national market or permit accumulation of demand in different nations. It can have a crucial role in presenting opportunities to offer more and wider customized offering at competitive prices. Industry consolidation tends to intensify and gets competition from new rivals. Strategy deterioration may come from failure to invest in new technology. Receiving timely investment in careful analysis should quickly reduce the risks associated with strategic assembly.

*Role of Regulation in Asian Economies*

Because of change in regulation, Asian governments have always indirectly or directly removed legal barriers to industrial consolidation or composed government initiatives designed to force consolidation. Asian government restarts need inflow of foreign direct investment by applying regulatory changes indirectly to open channel for strategic industry and assembly consolidation. Change in foreign direct investment regulations open foreign acquisitions. Some Asian governments introduced measures directly to encourage consolidation such as: change in accounting rules, tax incentives, and legislation. Regulation change is an opportunity for leading companies to drive industry consolidation, but clearly desirability and opportunity are not the same things. Indicators of new advantages emerge to proceed with strategies to drive industrial consolidation. The outcome of strategic assembly often reflects a mix of opportunities and strategy. Basic strategies of consolidation depend on the effectiveness of integration and acquisition as well as screening process.

*Asian Marketing Challenges*

In Asian nations, China is the major competitor for foreign direct tourism and investment. Asian countries have strong brands in the world that attract investment, for both visitors and resident. Asians possesses the same culture in comparison to other countries. Asians have easier regional Internet strategies and travel regulations than other locations. Each country must be responsible for their own marketing. Strategic advantages include comprehensive outsourcing financing, self-auditing to meet goals, building meaningful seller-buyer relationships, marketing infrastructure and managing, and promoting products skills. Capital, infrastructure and skilled workforces are all important to entrepreneurs, and the technology to create opportunities, as well as to meet major markets. Technology supplies the application of the Internet. Desktop publishing and faxing need communications management skills and strategies. Higher standards need communities to recognize their weaknesses and strengths, as well as systematically to upgrade their products and services. Asian countries need to study the experience of other nations in how to accomplish positive growth, to build opportunity and jobs.

*Asian Areas of Attractive Business*

High accomplishing business areas build other value-added job and technology that further stimulates attractive businesses. High accomplishing in Asian business can attract positive nations and promote effective marketing strategies for other regions. Global rival lack of knowledgeable employees means that economies need to continue to develop innovative marketing strategies. Many Asian governments look at the Internet and technology as growth sectors. They invest many resources in development of projects and research to stimulate technology. If government direct intervention can build technology clusters, it is likely that new economic sectors are forcing change in the way how companies do business as well as how Asians live. Asians will attribute future prosperity to more than Internet and technology. Asians can achieve a stronger position as markets, as well as destinations for investment, for visitors as well as residents.

*Asian Strategic Marketing*

Various countries outside Asian have accomplished critical growth and brand identity by using principles of strategic market planning. In a rapidly changing worldwide market, there is opportunity for developing a niche and repositioning in the Asian mix of businesses and workers. In Asia, at the domestic level, there are large numbers of organizational groups working to improve identities of their economies as well as reputations. In Asian nations, the first level of public organization is at the proximity level. Each nation possesses its own image, positioning possibilities and problems. Asian nations must try to develop their own strategies for the future. Various regional and local decision-makers are involved. Intensive competition between markets is clearly an investment attraction.

*Asian FDI Attraction*

The critical source of FDI in emerging economies and those newly industrializing, finds shifts in manufacturing capacity to low-wage economies. Nowadays markets are exposed to foreign competition following liberalization. Asian economies have pressure to increase value-added services and products. Many Asian countries tend to move towards their markets as well as liberalization which are significantly more open to attract new investors and companies. Asian economies are aggressively compete in the New Economy domains such as Internet, information technology and communication business. Strategic marketing planning is a necessary process to meet these competitive challenges. The challenges to attain both the global and Asian marketplaces have never greater. At the least, success depends on more aggressive investment and dynamic attraction activity commitment to long term strategic planning. Since the impact of globalization on how business is performed as well as the accelerating change worldwide, past practices always no longer workable. The emerging international economy needs new thinking for future opportunities. Prosperous brand positioning for investment convincing depends on the ability to adjust demands of international marketplace change. Any nation that does not adapt enough risks having their reputations decreased for investment, new residents and tourists.

## SUMMARY

Many location based advantages can be used to explain the surge in the inflow of foreign capital into ASEAN nations in the last decade. Political and macro-economic stability in Singapore, Malaysia, Indonesia and Thailand are critical factors. The importance of political stability has a prime example in the case of the Philippines. Good infrastructure and low wages is found in Singapore, Thailand and Malaysia. India and China possess foreign investment laws and trade and regulations that attract foreign investment into their nations. At present, global demand for FDI has increased significantly, and there exists competitive pressures for FDI. The growing development in the world and increasing globalization, as well as global competitiveness are described in this paper. To promote global competitiveness, the implementation and development of law and competition policy is a pre-requisite for all trading nations. Because the final objectives of global competitiveness and globalization are to liberalize investment and trade around the world to enhance the welfare of their populations, well-managed competition and an effective policy and law can contribute to achieving these objectives. The underlying concept is simply the principle of laissez-faire or a group of markets or a perfectly competitive market that carries out business and trade among themselves.

Many Japanese companies in ASEAN have product differentiation in upgrades of their products, responding to competition from China. Japanese companies produce technology-intensive products in ASEAN. Thailand plans to produce an electrical jet fuel injection unit for diesel engines, a product that requires high precision technology. Technology-intensive goods are developed in Japan and partly produced by factories in ASEAN. Japanese affiliates in ASEAN and uses R&D design to reduce costs. ASEAN must strengthen its capacity to build and support industries, human resource development, the improvement of production management to lessen lead times from procurement to shipment, administrative capacity, and the development of efficient distribution systems.

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# USER SATISFACTION WITH MOBILE SERVICES IN PAKISTAN

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## ABSTRACT

The aim of this research study is to find out the user's satisfaction with the Pakistani mobile phone Operators. Investments in Pakistan's mobile market have been enormous in the past few years. There are now six mobile operators operating in Pakistan. This paper discusses the relationship between user loyalty, corporate image, user perceived quality, user perceived value, user expectation and complaint handlings with user satisfaction. They are thought as driving force for achieving user satisfaction in Mobile Telephone marketing.

**Keywords:** Pakistan, Mobile, User Satisfaction**,** User Loyalty, User Perceived Quality, User Perceived Value, User Expectation.

## INTRODUCTION

Monopoly is the situation where the users are considered not to be well facilitated by the service provider. To remove the monopoly from telecom sector of Pakistan the government decided to deregulate and liberalize this sector. There has been incredible increase in the teledensity since 2000 due to large investment in the telecom industry and government strategies towards promoting liberalize culture in the respective sector. PTA has declared that number of mobile users has passed 70 million. Thus initiatives towards deregulation and liberalization of telecom sector attracted investors to invest in the telecom industry of Pakistan. Today there are six major operators namely Mobilink, Ufone, Telenor, Warid, China Mobile and Instaphone and there is a severe competition among these operators for mobile services in the country. Overall the service provided by these operators can be categorized as voice, data and video. These services can be in the form of voice calls, SMS, GPRS, mobile TV, mobile banking and many entertainment services.

Mobilink is considered to be the pioneer in mobile sector by launching GSM technology in Pakistan. It claims to have 28.57 million subscribers. They have well established nationwide infrastructure, excellent network and is in fact the largest cellular company in Pakistan. Ufone the subsidiary of PTCL is providing good quality services across Pakistan. They have introduced number of new services like GPRS, internet bill payment, web to SMS chat and mobile banking. It claims to have 15.42 million subscribers and coverage to over 100 key cities of the country. Telenor as emerging service provider in the industry is devoted to provide high quality services to their increasing number of users. Telenor always tries to facilitate its users by introducing new packages and services like Easy load package, mobile TV, high connectivity GPRS, unlimited validity of connection and many other services. They are serving about 15.46 million users in

Pakistan. Warid, a UAE Group started its operation on May 2005 in Pakistan. Warid has many features like low call rates, attractive packages, GPRS service and may more. Warid has about 11.86 million users in the country. China Mobile operator previously known as Paktel is China operated service provider. China Mobile is now attracting users by their user caring services and low call rates. They are claiming to have 3 million users in the country. Instaphone a small cellular company is providing good quality services. Although they have good network coverage and infrastructure and providing quality of services but have AMS network unlike their competitors who have GSM network.

Competition exists between these operators in retaining their existing users and to reach maximum number of new users. The result of this competition is a wide range of high quality services available with efficient, cost effective and competitive telecommunication services throughout Pakistan. To retain existing users, satisfaction plays an important role in the retention of existing customers in the telecom industry. To attain higher user satisfaction, operators are introducing advance services and new packages. The aim of this study is to find the user satisfaction with mobile service in Pakistan.

**LITERATURE REVIEW**

Mobile carriers should understand the importance of user satisfaction and loyalty while making strategies for user retention. Mobile technology has provided a new means to access users. Mobile users are now able to communicate with each other by voice as well as data due to emerging technologies. The advancement in technology has forced mobile operators to provide users with new features in their connection in order to retain existing users. The relation between service quality and perceived value should be highly focused by the service provider in concern with user loyalty and satisfaction. User satisfaction is their overall assessment after using a service for a period of time. Different factors have different impact on users. All these factors should be taken in to account while devising a strategy for user satisfaction. (Heejin 2006)

User loyalty is considered to be an important factor in telecom sector for preserving the service in long run. Switching cost, trust and user satisfaction are important agents for user loyalty where switching cost is observed to be high but in the case of low switching cost the agent are considered to be trust and user satisfaction for loyalty. Moreover switching cost has temperate effect on the relationship of loyalty with user satisfaction and loyalty. The result showed that switching cost is a quasi moderator with regard to user satisfaction and trust. (Gokhan 2005)

Firms should distinguish themselves with their competitors by providing value added services for building high user loyalty which is critical factor for measuring user satisfaction. Similarly users have pre-purchase expectations about a service, meeting those expectations with services increases user satisfaction. Handling user complaint is another factor that is very helpful in increasing user satisfaction and has negative impact on user satisfaction.

Corporate image has significant impact on user loyalty although statistics does not support this relation. It is also observed that customer satisfaction is also dependent on perceived quality and has positive role towards the dependent. Similarly perceived value also have stronger link with user satisfaction therefore proper care should be taken while formulating any long term policy for user satisfaction. At last for building user loyalty, user satisfaction is a major determinant. (Serkan 2005)

In the business when discussing factors for service providers quality of service, user value and user satisfaction are becoming prominent. That is why high service quality should be focused for greater user value to achieve higher user satisfaction and to gain exceptional competitive advantage. Keeping in view user satisfaction the operator should not ignore reliability and assurance because there is positive effect of reliability, assurance, and network quality and user value on their satisfaction. User perceived sacrifice have negative effect on user satisfaction thus service provider should try to reduce this factor. (Hing-Po 2002)

Mobile services have grown contrary to the expert's expectations. This growth is also responsible for the intense competition between service operators in the telecom industry. This competition is forcing the operators to adopt effective strategies in order to satisfy the users. Perceived quality reveals positive impact on one's view about quality of services and user satisfaction. The similar attitude is shown by the perceived value towards users' satisfaction and should be considered in developing a strategy by operators. Moreover satisfied users exhibit greater likelihood of repurchase of same service or product. In the same way when a user is highly satisfied with a service he does not take in consideration the price factor of the service, thus satisfaction brings with its price tolerance thus user satisfaction and price tolerance are directly related to each others.

Price tolerance and likelihood of repurchase are two apparent measure of user loyalty which has significant response towards user satisfaction. It was also noticed that users will submit less complains if they are more satisfied thus showing that users complain and user satisfaction has indirect relation or negative connection with each others. (Ofer Turel 2004)

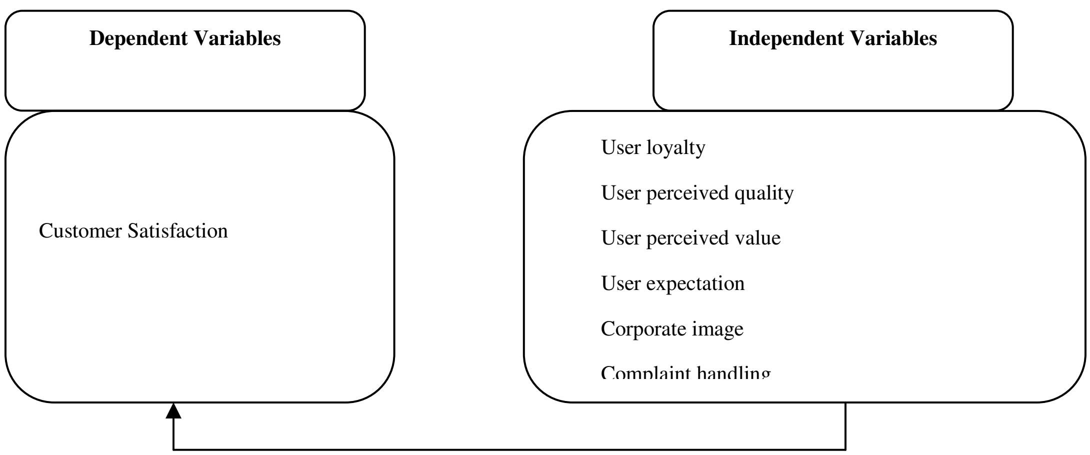
**RESEARCH METHODOLOGY**

This research is based on the data taken from the mobile users in Pakistan. Simple sampling technique was used to make research process faster. To acquire data from the Mobile users, questionnaires were distributed among different mobile users. This whole data collection process took thirty days and response rate was of 82 %.

*Variables*

Variables are shown in Figure below. In this research, seven variables are considered for analysis. Out of these, six are independent variables (user loyalty, corporate image, user perceived quality, user perceived value, user expectation and complaint handlings) and one is dependent variable (user satisfaction). These independent variables are affecting user satisfaction.

Figure 1




User satisfaction depends on two things that is expectation before purchase and product performance after the purchase which directly effects the user expectations. So users were asked about their pre-purchase expectation and comparison with other service provider for the same expectation, their trust on service provider, reliability etc. As defined earlier user loyalty is directly affected by user satisfaction and user complaints (Fornell, 1992).

Under User loyalty they were asked about their preference, recommendation to other and their intention to use the same service in future. Corporate image is the overall concept of society towards the corporation or service provider. For its evaluation, users identified the stability, innovation and image in the society of the operator. Perceived quality is the limit up to which the product or service provide the necessary needs of users with more satisfaction value.

To determine about the service quality of an operator, users rated these companies for their billing system, coverage area, Value added services, messaging services and network coverage. User perceived value deals with perceived quality on price paid.

User perceived value was judged from the Users ideas about the pricing plan with respect to quality, superiority of overall pricing option by service providers. User expectations are their requirements for the quality and meeting expected needs from the service. To know about the expectations of the users, they were asked about their expectations for services, billing tariff. User complaint handling is the degree up to which the service provider is caring user complaint. Only one question was asked under this topic that how much your service provider is caring about your complaints.

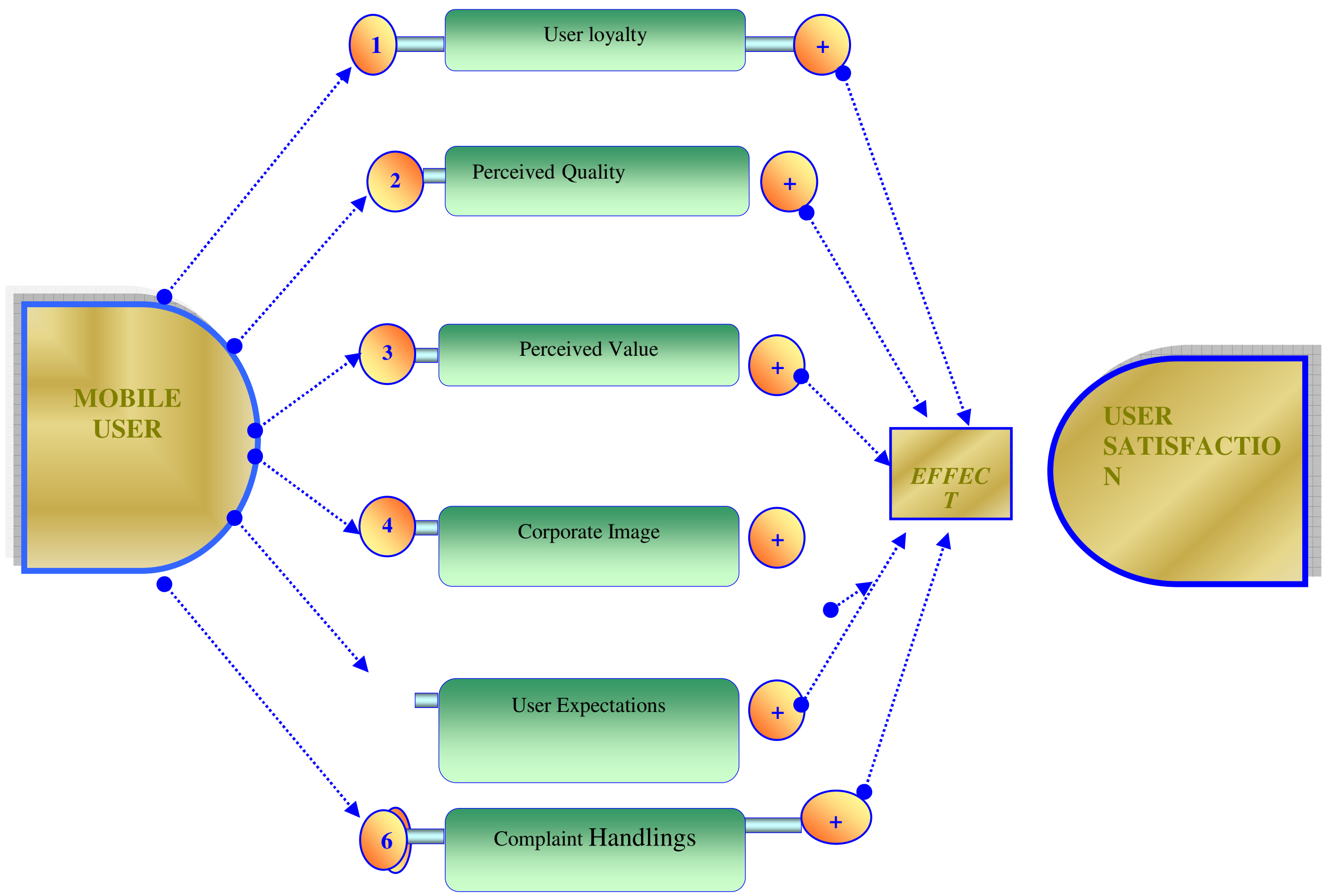
*Questionnaire*

The data collection was achieved through questionnaires. Seven variables (user expectations, user loyalty, user perceived quality, user perceived value, user expectation, corporate image and complaint handling) are used to measure and explain user satisfaction. The questionnaire was developed depending upon the extensive literature review (Hirschman, 1970; Fornell and Wernerfelt, 1987 Peters, 1988; Reichheld and Sasser, 1990 Johnson et al., 2001 Phillips et al., 1983; Buzzell and Gale, 1987 Fullerton, 1998) on Likert scale.

*Research Model*

The research model is developed on the basis of previous research studies, we have included following variables (perceived quality, user expectation, user loyalty, corporate image, user perceived value and complaint handlings). Equation tested is following:

(Research Model)




Equation no.1

y= a+bX1+bX2+bX3+bX4+bX5+ bX6+e
US= a+b(CL)+b(PQ)+b(PV)+b(CI)+b(CE)+b(CH)+e

Where as:
Y = US = User Satisfaction = Dependent variable

"a" is constant.
"e" is common error or other variable.

1. X1=UL= User Loyalty
2. X2=PQ= User Perceived Quality
3. X3=PV= User Perceived Value
4. X4=CI= Corporate Image
5. X5=UE= User Expectation
6. X6=CH= Complaint Handling

*Hypotheses*

On the basis of extensive literature review hypotheses are developed for the study as follows:

***H1:*** *There is a positive/significant relationship between the User loyalty and user satisfaction.*

***H2:*** *There is a positive/significant relationship between the User perceived quality and user satisfaction.*

***H3:*** *There is a positive/significant relationship between the User perceived value and user satisfaction.*

***H4:*** *There is a positive/significant relationship between the corporate image and user satisfaction.*

***H5:*** *There is a positive/significant relationship between the User expectations and user satisfaction.*

***H5:*** *There is a positive/significant relationship between the complaint handling and user satisfaction.*

## RESEARCH FINDINGS

For finding the strength of the relationship between several variables, Pearson Product Moment Correlation Co-efficient is used, in this tool both variables are treated symmetrically, i.e. there is no distinction between dependent and independent variables. Two variables are said to be correlated if they tend to simultaneously vary in same direction. If both the variables tend to increase or decrease together, the correlation is said to be direct or positive. When one variable tends to increase and the other variable decreases, the correlation is said to be negative or inverse.

Table 1 is showing correlations for all the variables and Table 2 is indicating descriptive statistics comprised upon values of standard deviations, means, median, mode, minimum, maximum values and ranges. There is a high correlation among the independent and dependent variables.

According to Table 1 there is high correlation between the independent and dependent variables. We can also see that that the correlation between user satisfaction and user loyalty is 0.40 while the mean of user loyalty is 3.95 and standard deviation is 0.73. The correlation value indicates that both the variables are moving in same direction and the ratio is 0.40. This shows those users who are loyal to their operators are satisfied from them. Similarly 0.34 is the correlation between corporate image and user satisfaction which is positive which indicates corporate image in the society effect positively the satisfaction level of the users.

The mean of corporate image is 3.94 and the standard deviation is 0.74. The table shows that user satisfaction and user perceived value which have the mean value 3.56 and standard deviation 0.84, are positively correlated to each other because the correlation value 0.18 between these two variables is positive and highlighting that user will be more satisfied if they get more value with respect to price paid.

User perceived quality whose mean is 3.75 and standard deviation is 0.59 shows that both the variables are moving in same direction and the ratio is 0.12. This shows the positive behavior of these variables upon each other. So if users entertain more quality from their operator they will be satisfied and will recommend this operator to other users. Another important factor which can guide these operators to satisfy user is to fulfill the user expectations, which they have from an operator. According to our research users remain more careful about their expectation from operator as there are 0.18 positive correlations between user expectation and user satisfaction.

Table 1

| | US | UL | CI | UPQ | UPV | UE | CH |
|---|---|---|---|---|---|---|---|
| **User Satisfaction** | 1 | | | | | | |
| **User loyalty** | 0.40 | 1 | | | | | |
| **Corporate Image** | 0.34 | 0.31 | 1 | | | | |
| **User Perceived Value** | 0.18 | 0.20 | 0.22 | 1 | | | |
| **User Perceived Quality** | 0.12 | 0.23 | 0.14 | 0.25 | 1 | | |
| **User Expectation** | 0.18 | 0.20 | 0.17 | 0.42 | 0.28 | 1 | |
| **Complaint Handling** | 0.26 | 0.19 | 0.30 | 0.10 | -0.00 | 0.099 | 1 |

According to table 2 the mean of user expectation is 3.61 while the standard deviation is 0.74. According to the figures in table 1, users value their complaints very much that is why there is positive correlation between user complaint handling and user satisfaction. The correlation value between these is 0.26. This shows that if operator reacts in efficient manner

Table 2

| | US | UL | CI | UPQ | UPV | UE | UCH |
|---|---|---|---|---|---|---|---|
| Mean | 3.63 | 3.60 | 3.95 | 3.75 | 3.56 | 3.62 | 3.74 |
| SE | 0.05 | 0.06 | 0.05 | 0.04 | 0.06 | 0.05 | 0.08 |
| Median | 3.80 | 3.67 | 4.00 | 3.80 | 3.50 | 3.67 | 4.00 |
| Mode | 3.60 | 3.67 | 3.67 | 4.00 | 3.50 | 4.00 | 4.00 |
| SD | 0.74 | 0.83 | 0.75 | 0.60 | 0.84 | 0.74 | 1.10 |
| SV | 0.55 | 0.69 | 0.56 | 0.36 | 0.71 | 0.55 | 1.20 |
| Range | 4 | 3.67 | 4 | 3.4 | 4 | 4 | 4 |
| Minimum | 1 | 1.33 | 1 | 1.6 | 1 | 1 | 1 |
| Maximum | 5 | 5 | 5 | 5 | 5 | 5 | 5 |

to solve the problem of user, it will satisfy the user and he will remain loyal to the operator. The mean of complaint handling is 3.79 while the standard deviation is 1.09.

*Regression*

In regression, dependence of one variable that is random upon the other variable which is non random or fixed can be calculated. For finding the contribution of independent variable towards dependent variable, we use Multiple Regression.

Table 3 contains the regression outcomes for Pakistani user in telecom sector.

Table 3

| *Regression Statistics* | | |
|---|---|---|
| Adjusted R Square | | 0.50 |
| | Coefficient | P-VALUE |
| Intercept | 1.18 | 0.002 |
| User Loyalty | 0.26 | 2.53 |
| Corporate Image | 0.18 | 0.006 |
| User Perceived Quality | 0.05 | 0.55 |
| User Perceived Value | 0.04 | 0.99 |
| User Expectation | 0.05 | 0.43 |
| Complaint Handling | 0.09 | 0.03 |

This table shows that by increasing 1 unit of user loyalty will increase user satisfaction by 0.26 units which means this variable is having strong impact on user satisfaction. This result is significant at significance level of 2.53**.** According to the table 3, one unit increase in corporate image will produce 0.18 unit's increment in the user satisfaction showing strong impact of corporate image over user satisfaction at significance level of 2.53.

Similarly if user perceived value is increased by 1 unit it will show 0.04 unit increase in user satisfaction at 0.99. It shows that user perceived value has high impact on the user satisfaction. The table shows that by increasing 1 unit of user perceived quality, user satisfaction will increase by 0.05 showing strong impact of user perceived quality over user satisfaction which is significant at 0.55**.** Moreover 1 unit increase in user expectation will increase user satisfaction by 0.05 units showing high impact of user expectation over user satisfaction at 0.43. At last the table shows that by increasing 1 unit of complaint handling the user satisfaction will increase by 0.09 units, at 0.03. According to the regression technique there is strong positive relationship among effective user satisfaction, user loyalty, corporate image and user expectation, user perceived value, user perceived quality and complaint handling.

## CONCLUSION

There is an enormous increase in investments in Pakistan Mobile market. Now we have six mobile operators operating in Pakistan. These operators are introducing new services and low call rates packages to attract more users, as well as to retain them. Findings of this research paper are very informative for mobile operators. The results indicate that user loyalty; corporate image and user expectations have high impact on the user satisfaction.

According to this research these factors are the driving force for achieving user satisfaction in the Pakistani mobile telephone market. Operators need to deal with complaints lodged by the users and properly trained staff should be available to the users for their queries. The managers should focus on these factors to attain high user loyalty and user satisfaction which will lead to user retention.

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# MANAGING RISK: HOW TO MANAGE WHAT WE DO NOT KNOW

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## ABSTRACT

The ability of an organization to manage the external and internal risks is characterized by three aspects: the financial strength of organization, the size of risk and the size of the organization. An investor's evaluation of risks involved in investing in a specific company depends on: the shareholder relationship, the growth record and the health of the company's accounts. There is a need for research to examine the technical, sociopolitical and economic aspects of risks and the way the interactions between these risk factors are able to influence risk in both negative and positive ways. There are a number of factors that affect public opinion about the acceptability of risks. These factors include cultural and scientific knowledge factors like perceptions, attitudes and beliefs, and the impact of their activities in terms of potential of harm to installations, harm to people and harm to the environment. The capability of organizations to cope with the financial implications of risks is limited and the obligations of managing risk may be more than the resources available. The true cost of risks may originate from other sources apart from the original owner of the risk. Disaster in one company may have consequences for a whole industry. Assessing of the true total cost of risk must take into account the cost in terms of economic, the technical and socio-political factors involved. Before there is real commitment to a project, there should be an audit of all the risks involved. This audit would be aimed at identifying the whole spectrum of associated economic, technical and their cost implications and socio-political risks. This article concerns why consideration of risk is necessary in decision making. It discusses the benefits of risk management. More than that, it explains business risks. Moreover, it considers risks evaluation. Furthermore, it addresses marketing risks. In addition, it explores operational risk. It is followed by risk taking, risk intelligence and random risk. Methods of coping with risk are discussed. Finally, various risks are illustrated.

Key Words: Risk Management, Assessing Risk, Decision Making

## INTRODUCTION

### Why Is Consideration Of Risk Necessary In Decisions Making?

Risk should be an important part of the decision-making process. The potential for bad decisions is increases without an assessment of risk. For example, suppose the selection of alternative projects is based only on an evaluation of returns; the highest-return project should be chosen over lower-return projects. However, considering financial criteria, projects with higher returns may bear higher risk. Instead of depending solely on bottom-line profits, a project should be assessed based on its return and its risks. Without risk analysis, a manager would, in theory, be indifferent in selecting any of the projects. Change in population also affects the environment of decision making.

Business risk in decision making is composed of several aspects of risk as follows.

*Management Risk Benefits*

The basis for considering managerial risk is that it can reduce transaction costs, reduce taxes, as well as improve investment decisions. One of the critical objectives of risk management is to reduce the sensitivity of a firm's benefit. Managers must be responsible for managing risk. Investors are able to reduce risk through a diversified investment portfolio. Managing the risks of a business firm is the direct management responsibility, not shareholders. Risk management is able to help the firm to achieve its objectives and maximize shareholder value. Risk management is a crucial issue for any firm.

The problems of decision-making change along with the size of the proposal being considered. General decision-making consists of five elements: feasibility, concept, implementation, specification, detailed and operation. A unique set of factors influences on decision-making process must be described. In decision-making of comprehensive assessment of economic aspects, examination of all the technical and socio-political factors involved is necessary. Ideally the importance of the factors involved in decision-making should be made in quantitative terms, but the ideal method is not always possible and evaluations may have to be made in qualitative terms. Evaluation in qualitative terms depends on the qualitative factors presented by experts. The relationship between decision-makers and expert advisers is usually based on the nature of trust, and trust must be understood. Trust relies on the complex interaction of a series of social, psychological, political and cultural factors. It needs a long time to prepare trust, but a single event is able to destroy that trust.

Before decision making commits an organization contractually to a specific course of action a pre-contractual risk audit may be made. The risk audit should identify and assess the whole of risks in the proposal. Factors that must be considered in a proposal may include legislation, design, environmental, construction, operational, decommissioning and maintenance factors.

*Business Risks*

Business risks have many forms, and the ability of businesses to manage them in a way that minimizes the harm they cause to the firm, is classified into two main topics, as follows:

1. External risks
2. Internal risks.

External risks are the factors of the organizational environment in which the business must operate. These factors, which are usually out of control of the firm, includes: legal requirements, changes in competition, taxation, terms of trade, employment regulations, interest rates, environmental regulations, safety regulations, and terrorist activities.

Internal risks are similar to external risk. The important difference is that with internal risks, the entrepreneur has a large degree of ability to monitor them and can take direct action to keep their effects at an acceptable level. Internal risks include: financial strength, product, production processes, workforce, and size.

*Marketing Risk*

Market risk indicators, are "early warning systems." They are designed to give timely information that change in risk conditions to permit management to take appropriate action to mitigate risk. There are three categories of market risk: asset/liability risk, trading risk, and liquidity risks. Evaluation of risk cannot be separated from the aim of the investor. Evaluation of the risk an investor places on the security of an investment includes the risk level accepted for the return expected. In evaluating a consumer's industry-specific risk, the ideal situation is to identify the risk characteristics which affect all firms operation in the industry, regardless market quality or positions of management. Trading risk concerns the risks that a company faces with trading portfolios and its investment due to dynamic changes in interest exchange rates, rates, commodity prices, and equity prices. Trading risk is the importance market risk faced by dealers and investment banks. Asset/liability risk creates from difference in interest rate sensitivities of liabilities and assets describe on the balance sheet. Liquidity risk is the risk that a firm may be unable to receive the funds to meet its financial obligations as they come due. The objective of the assessment of industry risk is improved future profitability, and the liquidity of companies represented in the industry.

Market risk also includes the risk that prices may move in a way that possesses negative consequences of company. Credit risk is the risk that a consumer or supplier may fail to meet its obligations. Operational risk is the risk that people, systems, or processes may fail, or an external event may negatively impact the company.

Business risk is the risk that future operating output may not meet expectations. Organizational risk is the risk that comes from not good designed organizational structure or lack of sufficient human resources. A more effective practice is to make risk a part of every employee’s thinking and job responsibility. For business development, risk acceptance criteria, may be established to guarantee that risk management problems viewed as part of the evaluation market opportunities and new product.

*Operational Risk*

Operational risk is the risk of indirect or direct loss come from failed internal or inadequate processes, systems, and people or from external events. Operational risk concerns risk policy and organization, event risk, system risk, business risk, people risks, process risk, risk finance and transfer, risk, and monitoring. A company should determine an operational risk management policy that defines what it needs to accomplish. Some tasks that are needed include:

- Operational risk management to guarantee that an overall framework is designed to measure and manage operational risks.
- Strategic planning to guarantee that a firm risks are considered in business plans and revised in the acquisition of new product plans and strategies.
- Finance accounting to guarantee accuracy, timeliness, quality of records accounts and firm profitability and projections models.
- Auditing to ensure firm unit coordinate with corporate procedures and policies.
- Obtaining legal guarantees that the firm's activities are complying with all regulations and laws.

- Information technology (IT) based guarantees that the firm's recovery plans are established and tested, and that information security safeguards are in place.
- Corporate security guarantees are in place so that corporate assets are protected and maintained.

*Event Risk*

Event risk is the risk of loss from single events that are unlikely but may possess serious consequences if they do occur.

*System Risk*

As technology has become increasingly sophisticated in all areas of firms' processes, the operational risk events of systems failures have become an increasing concern. If the development of a firm’s technological infrastructure does not keep pace with the development of the firms, there is potential for new risks. System risks are composed of data integrity, systems availability, unauthorized access, systems capacity and use, and business recovery from various contingencies.

Operational risk management also includes the following: risk finance and transfer, risk control and mitigation, capital performance measurement and allocation, risk assessment and identification, risk organization and policy.

*Business Risk*

Business risk is the risk of loss from unexpected in the competitive environment. Consumer management, pricing and sales, product development, are essentially the risk that profit will not cover costs within a given period.

*People Risks*

People risks arise from staff incompetence, operational constraints, corporate culture, and not cultivating risk awareness. Staff constraints are created when firms are not able to fill crucial open position because of low compensation or because of labor shortages and other factors that are not attractive to potential new candidates. Incompetence becomes a problem when employees lack the necessary level of knowledge and skills to implement their jobs correctly. Lack of professional development and training further compounds these human errors.

*Process Risk*

Operational process risk occurs through inefficient or ineffective processes. Ineffective processes are identified as those that fail to achieve their objectives. Inefficient processes are those that achieve their objectives but utilize excessive expenses. A firm may be efficient but not effective, effective but not efficient, or inefficient and ineffective. The goal is to be both efficient and effective.

**Risk Finance and Transfer**

A firm should decide if the best strategy is to operate executive risk or, through internal controls, risk transfer strategies. Operational risk monitoring is concentrated on reducing the probability and severity of operational events, with compliance procedures and audits to guarantee that accounts, operations, and records were accurate and orderly.

**Risk Monitoring**

Evaluating and measuring operational risk is necessary but pointless unless directed toward the improved management of operational risk by controlling and improving critical risk factors. The goal of operational risk management is to aid management in accomplishing their firms' objectives. Once a measurement framework is in place, the next step is to operate a process that identifies actions that will reduce operational losses. These actions include:

increasing training, human resources and development, automating processes or improving, changing organizational structure and inducements, adding internal controls and upgrading systems capabilities.

**Risk Taking**

Risk taking also arises by making decisions which extremely difficult, but the failures of those decisions are able to be written off to events that could not identified at the time of the making decision. The highest risk can come from investing money in a business that is unfamiliar. Risk management requires not risking the core business by processing a good management team before embarking on any risking venture in a new business, and also depends on others to do the job they know. Company risk can be reduced by involvement in the new business. Lacking corporate plans and strategies for the investment concern risk taking, it becomes extremely difficult to invest wisely. Managers must also be prepared to walk away from an involvement thereby reducing the risk. Pre-commitments must be avoided. Various enterprises are very greedy about how they share the benefits from investment and the amount of risk taking. Another method to reduce risk is through joint ventures. Other ways include having a way out of a high risk venture. One of the critical risks in investment is lack of flexibility. When businesses grow, look out for management losing touch with the basics, including knowledge of the consumer.

**Risk Intelligence**

Market risk may include foreign exchange risk or interest rate risk. Credit risk is a concern if one of distributors seems fragile. Risks are driven by market prices which are truly random. Risk management essential to a modern economy; however, it is not clear that the risk other businesses manage are random like financial risks. There is a significant risk that market forecasts may be wrong. If enough is known about the potential consumer base, uncertainty can be reduced. Rule of risk intelligence depends upon recognizing which risks can be known. Risks are ones we could make less uncertain if we have resources and time to learn more about them.

All risks are random. After all, they arise from uncertainty. Limits to knowledge are the cause of uncertainty. Risks depend on major exchange rates. If someone can routinely predict their direction, they can get unlimited profits of foreign exchange trades. But no one can do that. Market prices reflect new information very quickly. The fact is that foreign exchange risk is random, so no one can predict it. Other natural risks are also random. Differences in assessment effect different expectations of return on investment; the risk will likely lead them to manage it differently. Financial institutions expect a stable relationship between random risks and the rewards for taking them. Risks taking affects the prices they will accept for the risky activity or service, depending on how good risk takers can make judgments about it. No institution can get a persistent pricing advantage from its prediction about the risk. People may have differences in how to assess risks and how to manage them, besides their ability to manage them. Businesses must assess risks in order to know how hard to try to monitor them.

**Random Risks**

We can ask whether risks reflect limits on what the company knows about future needs or random factors and business conditions. Risk assessment ability is a crucial skill that can determine success. Risk is an uncertain measure of uncertainty. Different people and different organizations possess different information in assessing any new risks. They may develop a competitive advantage in assessing risks. No one has the advantage of assessing random risks. Even if someone has an advantage to assess risk, and the quality of the assessment makes a practical difference in business results, then they might never earn a fair return on the risk.

Ability to manage risks is part of general management skill. An advantage to assess risk refers to have better raw material in information for managing it. That advantage may become obscure as the complex of management practices changes over time. Losers and winners may arise regardless of their management skills. The risk of the job seeker is obvious, such as hiring the wrong person. History is a guide to the variability of random risk factors, and no one has privileged knowledge of whether history will change. Risks come from lack information. Obtaining the information may be expensive.

**Methods of Coping With Risk**

One method to cope with risk is holding extra capital to absorb losses. If someone overestimates risk, they may raise more capital than necessary and must cover the cost of that extra capital. Another way to deal with risk is to implement controls. If someone overestimates risk, they may spend more on controls than necessary. Competitors who underestimate risks may be unprepared for the occasional losses they may suffer and must abandon or adjust their projects. If plans concern new risk, then businesses should think about relative skill from their information assets and knowledge to assess it. Whoever has the best handle on this new risk has a good chance of dealing with challenge more accurately. Businesses prefer to run a lower-cost operation that can still deal with the risk's uncertainties. If they think randomness is bad, they must consider the effects of ignorance. Risks create competitive issues. Project risk, improvement processes, or acquisition depends on the major risk it has. Random risks, for example risks being driven by energy prices, are hard to manage because they are random. Learnable risks create issues of managing variability from the risk as well as learning as much and as rapidly about that variability as anyone else. If you think randomness is bad, try ignorance. The reality of risk from competition should raise real alarms in some enterprises. It refers to being able to reduce its major risks as fast as competitors. They probably will not resource their efforts as efficiently as competitors do. Should they overprotect themselves with a careful sales ramp with the risk falling behind; or should they under protect themselves, perhaps over committing sales resources to the goods and service, as well as raising the risk of financial trouble.

It may be preferable to sell goods and services that pose truly random risks for enterprise. Various competitive differences in risk management are more malleable and changeable than fundamental differences in learning speed. By selecting projects to launch with given risks, the project may be evaluated and managed. Random risks concern financial risks, and variability of prices in markets. Nonfinancial risks are also random, and are very threatening. If the major risks of new project seem unrelated to the some security and random movements, product or price, it can probably be assumed that the risks are learnable. In the same vein, if no market is driving a risk, businesses may hope to learn something about its variability and what are the safe mistakes to make. If it is accepted that learnable risk is random, then they not worry about whether other businesses are able to learn more about the worst case loss. Contrary, if someone can get a better handle on the risk, they may find themselves unable to break even on the project that bears it. Business may pay attention to learning about risk and thereby not inadvertently under protecting or over protect themselves from it. Risks also reflect market prices.

In summary, if the skills that various organizations and people use to learn risk vary, risk measurement and evaluation must change. The risk also depends on what we know and who else is taking the risk. If someone expects losses from risk, they may spend different amounts controlling it. The return from identical projects will vary. Machines cannot perform risk prediction. Learnable risks are actually unknown. Random risks are unpredictable. Information technology contributes to the management of business, and is learnable. Managing learnable risks is growing to competition to other information costs. The costs differ from one organization to another, from one division in a firm to another, and even from one person to another. The more the costs of labor, material, capital, and productivity, the more open international competition, the greater the importance of differences in information costs becomes. Some enterprise's costs come from handling uncertainty. The possibility that the cost of risk now lies on the cost frontier of the modern enterprises describes why our efforts to get clear about business risks will repay us more than ever before.

**Various Other Risks**

A business has internal and external risks. External risks are generally concerned the control of the entrepreneur involved. Internal risks are those inside the business and the entrepreneur can more keep these under monitoring. Regulators specify qualitative criteria to determine acceptability of risks, such as Health and Safety. The risk audit may not be able to measure all the risk because the exact nature of the risks may not be known until some work has been done. Decision making in financial arrangements to cover risk cannot be defended until the risk has become reality. The arrangements depend on the result of the risk audit which underlines the importance of the audit being as comprehensive and as accurate as possible. Managers may decide not to cover all potential risks or only to partly cover some of the risks. The decision will be made on the basis of the managers' view of their financial strength and their evaluation of the likely occurrence and significance of the risks. One reason for managing risk is to be able to maximize shareholder value. Entrepreneurial risks organizations in both the private and state sectors deal with risk. Risks should be evaluated from four points of view: a bank's, an investor's, an entrepreneur's and a government's view of an organization. Generally, risk managers should consider market risk and credit risk as financial risk, and group all other risks as part of operational risk. Credit risk may come from several sources, from a borrower default to a supplier missing deadlines because of credit problems. These risks need specialized attention.

Since risk is a part of every business decision, the process requires a risk evaluation. That refers to the fact that the risk of business transactions should be fully evaluated and incorporated into pricing and profitability targets. Specifically, expected losses and the cost of risk capital should be included in the pricing of a product or the required return on an investment. Operational risk cannot measure what is not able to be defined. In most enterprises are faced with a number of risk management, control and oversight groups that have some connection to operational risk management. It is crucial that specific responsibility and roles be defined for these functions. There are also other essential operational risk management functions, for example legal, insurance and compliance, human resources, and quality management. In some companies, the operational risk management group acts as a consultant for the business units and senior management, the audit group acts as a checker, and the legal group acts as both.

**SUMMARY**

Generally in market risk management, firms are making asset allocation decisions across all assets, off-balance sheet items, and liabilities held by the overall business, not just in their investment portfolios. Risk practitioners recommend that common standards should be established for measuring and managing all aspects of risk within an institution. The Internet may provide an interactive medium that establishes best practices and common risk standards for risk management. Lawyers are able to put new supervisory proposals on their websites and get feedback from a wider audience of the professional's risk.

Risk professionals, composing risk managers, market makers, technology providers, and consultants, should find new methods to leverage the power of this technology, and, in particular, the distributive power of related technologies and the Internet. Risk assessment and identification is necessary to link risk to performance evaluation through the capital allocation process. Risk is the measure of the uncertainty concerned the frequency and consequences of unacceptable events. Risk management is the sum of the actions to try to keep risk at an acceptable level. Each type of activity composes of its own risk characteristics.

This article is concerned with risk acceptability decision-making, public environment risks, working environment risks, the character of business risks, the costs of risks, forms of risk management and insurance of risks. Risk is uncertainty and random. No one can predict risk, such as foreign exchange rate. National risk is also random. Risk can come from hiring wrong persons. More than that, random risks, for example risk driven from energy prices, are hard to manage because they are random. To reduce risk, businesses must invest to get more information. Machines cannot manage risk because the exact nature of the risks may not be known until some work has been done.

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# THE EFFECTS OF ALIGNMENT COMPETITIVE STRATEGY, CULTURE, AND ROLE BEHAVIOR ON ORGANIZATIONAL PERFORMANCE IN SERVICE FIRMS

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## ABSTRACT

In this study, we empirically examined the alignment level of service firm's competitive strategy and its context. This research uses a configuration and contingency approach to establish if there is a relationship with organizational performance. The sample used in this research was taken from service firms in Yogyakarta and Central Java. The technique of sampling was non probability sampling. The examining of the configuration and contingency approach included regression euclidience distance. The result of the configuration and contingency approach explained that there is alignment between competitive strategic and elements of contingency such as organizational culture and role behavior. Upon further analysis, it was determined that there is no alignment between the competitive strategic of defender strategy and contingency variable such as role behavior.

Key words: alignment, competitive strategic, culture, role behavior and organizational performance.

## INTRODUCTION

Historically, one of the biggest challenges facing the service firms is human resources management and its context. The strike alteration in human resources role is the more important of human resources in developing and implementing the strategy (Dessler, 1997). Since a competition is a game, particularly the service firms in hostile environment that the competed firms look for way to defend their success for a long time and not be imitated their competitor easily. It means that the service firms want to attain competitive superiority. Increasingly, the strategy depends on empowering organizational response and organizing a loyal team work, and it is placed human resources become the central role. In contrast to manufacturing related activities, service work involves primarily symbolic interactions-interchanges with other people of tangible product as well as intangible service (Fenkel, 2000; Singh, Hu, & Roehl, 2007).

Singh, et al. (2007) suggest that human resources management will continue to be one of the challenge faced by managers throughout the foreseeable future. Some scholars suggest that these organizations are unique (i.e., different than manufactures), and, as such require the development of new models in order to further our understanding of them (Mills, Hall, Leidecker, & Margulies, 1983; Skaggs & Youndt, 2004). In Indonesia, growing of service industry is very significant for service firms, government and society in order to assist in achieving pro-growth, pro-job and pro-poor. Therefore, research concerning in improving of performance especially organizational performance in service industry is most actualized.

This research concerns in significance of *“alignment/fit”* competitive strategy. It is followed by contingency variable that has effect on organizational performance of service firms either configuration or contingency, such as culture and role behavior. Some experts like Kotter

& Heskett (1992); Gordon & Tomasso (1992); Tidball (1988), Cremer (1993), Besanko, Dranove & Shanley (2000); Hickman & Silva (1984); Schuler & Jackson (1995); and Muafi (2008a, 2008e, 2007) have taken researches that linked between competitive strategy and contingency variables, such as culture and a role behavior. Generally, the result conclude that *"alignment"* of contingency between competitive strategy as the main variable and contingency variable have effect on performance, however, not at all have *"alignment"* of strategy. More increasing of alignment relation between competitive strategy and contingency variables is more increasing the organizational performance, vice versa. This research will examine the effect of "*alignment*" among competitive strategy, culture and role behavior to organizational performance, since these three variables have typology in the level of organizational analysis, so there is possible examined by configuration and contingency approaches.

Moreover, the configuration approach takes holistic approach by looking at the ideal type and explicitly adopts a system assumption of equifinality (Doty, Glick, & Huber, 1993). They examine how a pattern of several independent variables relates to a dependent variable. Wright & McMahan (1992) argued that to be effective, a firm's HRM system must be aligned with the firm's strategy and with each other. The contingency approach links choice of practices within HRM system to firm level position (Schuler & Jackson, 1987). Both the contingency and configurational approach hold the idea that given a competitive strategy, certain will support that strategy through shaping behaviors and outcomes (Twomey & Drew, 2000). Muafi (2008a, 2008c) explains that the configuration perspective means examining two sides of alignment concept; they are horizontal fit and vertical fit. The horizontal fit shows consistency of human resources practices or internal employment system, whereas the vertical fit shows appropriation of relation among strategy, culture and role behavior that will influence the performance finally.

The concept of horizontal fit in configuration perspective is principally similar with the concept of Human Resources Bundles (Macduffie, 1995), it is said that the concept of Human Resources Bundles is more appropriate to analyze the relation to organizational performance, than analyze it individually. Similar with Dyer & Reeves (1995) argue that (1) bundles or configuration from human resources activity is more important in increasing labor productivity than single productivity, and (2) can control the employee shifting and enhance product quality. So HRM Bundles must be integrated into the practice of other business function or complementary bundles in order the organization more effective. This argument is held up by Delaney and Husehild (1996); Bjorkman & Xiucheng (2002); Luo (1999); Guest (1997).

## LITERATURE REVIEW

### Culture and Competitive strategy

The organization values are the basic of the organizational culture from the interaction strategy, structure, system, style, staff and skill (Muafi, 2008b). Many researchers defines the organizational culture is the values, ideology, philosophy, trust, ritual, symbol and norm that influence organizational performance (Bourantas, Anagnostelis, & Mantes, 1990; Bourantas & Papakadis, 1996; Hatch, 1993; Muafi, 2008b; Kreitner & Kinicki, 2007; Helriegel & Slocum, 2004). Some expert like Kotter & Heskett (1992), Tidball (1988), Cremer (1993), Besanko, Dranove, & Shanley (2000), have established that corporate culture has a significant effect on an organization's long-term sustainability, economic performance and outcomes such as profitability, turnover and commitment. They indicate that congruence of beliefs seems to create a unifying force that boosts organizational performance. Vestal, Fralicx, & Spreier (1997) explain that there is relationship between organizational culture and strategy. This result is also supported by Semler (1997); Tushman & O' Reilly (1996). Bates (1992) provided empirical support for a theoretical model that links manufacturing strategy to organizational culture. Related empirical support, in the case of public sector organizations, is provided by Weber & Pliskin (1996) who explain culture as a determinant of quality strategy in public sector organizations.

Previous research concerning the management of Greek organizations suggests that management as an art and science is underdeveloped relative to other national European Union (EU) partners (Bourantas & Papakadis, 1996). From the few empirical studies referring to the Greek culture of management, is not easy to classify Greece as belonging to any one of the clusters of countries suggested (Bourantas & Papakadis, 1996). The management culture in Greek organizations has been researched by the first author and his colleagues (Bourantas & Mantes, 1988; Bourantas, et. al., 1990; Bourantas & Papakadis, 1996). The conceptual framework for this research was provided by Harrison (1972); Handy (1978, 1980).

According to Bourantas & Papakadis (1996), this framework conceives of a manager as possessing some characteristics of one of four gods of Greek mythology. These gods are chosen as representing the four main pillars of wisdom. The name of each of the four gods is used to describe the cult or philosophy of management and an organizational culture. The following four types of organizational culture were measured:

*The Club Culture (Zeus).* Zeus culture, which is similar to Handy's power culture, is seen as a spider in the centre of a web with informal colleagues sharing the same thinking as their leader. Zeus culture, like power culture, is verbal and intuitive (Zwaan, 2006). Zeus the king of gods who is feared and respected by all other gods is the patron gods of the club culture. He represents the power-centered patriarchal tradition with irrational but often benevolent power, impulsiveness and charisma. Historically, the Club Culture is found in smaller entrepreneurial organization. Organizations which use this culture are most likely to be divided either along functional or product lines, and experience a centralized management style.

*The Role Culture (Apollo)*: Apollo culture, which is similar to that of Handy's role culture, is highly formalized, centrally directed and are bureaucratic (Zwaan, 2006). The role culture places at the center of its conceptual framework the role rather than personalities. Apollo, the god of order and rules, is the patron of god. The culture assumes that humans are rational and that everything can be and should be analyzed in a logical fashion. The culture's symbol is the Greek temple which draws its strength and its beauty from its pillars. The pillar represents function and divisions in a role organization. The role, or the set or duties, is fixed. Individual of the role culture are parts of the machines, doing their job, more or less in a freely interchangeable fashion.

*The Task Culture (Athena-the gods of wisdom).* Athena culture, like Handy's task culture, consists of inter-disciplinary project groups organized around a task. Work is decentralized but still formalized by the disciplines that should be joined (Zwaan, 2006). The task culture recognizes only expertise as the basis of power and influence. Management is concerned with the successful solution of problems. To achieve this it draws resources from various parts of the organization in order to focus them on a particular knot or problem. The youth, energy and creativity associated with Athena fit the task culture very well.

*The Existential Culture (Dionysus).*

Dionysus culture, like Handy's atomistic culture, is a decentralized, informal culture. Bonds of respect and affection often characterize this relationship of free spirits united by common interests. This culture would by typical of independent experts joined together for mutual convenience (Zwaan, 2006). It assumes that the world is not part of some higher purpose and that everybody is the charge of her or his own destiny. This philosophy has tremendous implications for management. In all other cultures, the individual is subordinated to the organization, but in a Dionysus culture, the individual is there to help the organization to reach its goals and the organization is there to help the individual achieve his or her purposes. This is the culture preferred by professionals. They can preserve their own identity and freedom, feeling owned by no one, but nevertheless they can be part of the organization.

According to Bourantas et. al. (1990), typology of organizational culture can be classified into two cultures: *Apollo* and *Athena*. These typologies have two contradictory continuums. Priyono (2004; Muafi, 2008b) underlines that culture and competitive strategy will have an effect on the organizational performance. The interaction between prospector competitive strategy and Athena culture will result higher performance than if the firm implementation prospector competitive strategy and Apollo. This result is also supported by Peters & Waterman (1996); Hickman & Silva (1984). Gomez (2004) state that strategies have the ability to effect employee behavior and instill certain values that build an internal culture and can therefore be used as a control mechanism in the firm.

**Role Behavior and Competitive Strategy**

Noe, Hollenbeck, Gerhart, & Wright (2006) states that while all of the strategic types require competent people in a generic sense, each of the strategies also requires different types of employees with different types of behaviors and attitudes. Role behavior is the behaviors required of an individual in his or her role as a job holder in a social work environment.

Whereas linked to the role behavior aspect, the different strategy and organizational condition need different role behavior from manager or employee. The profiles of employee's role behavior who choose innovative strategy are: long term focus; cooperative; free behavior;

moderate in quality; moderate in quantity; balance in process and result; like take the risks; and tolerant with ambiguity and uncertainty. The profiles of employee’s role behavior who choose the cost leadership strategy vice versa are: relatively repetitive; predicted behavior; short term focus; pressure in authority or individual activity; moderate in quality; high pressure in quantity from output; main concern in result; taken low risks and relatively agree or comfort with stability (Schuler & Jackson, 1987). According researcher, this role behavior is identical with strategic posture which study about the trend of employee’s behavior that has competitive orientation (Muafi, 2008a, 2008c, 2008e). This strategic posture is divided into two: entrepreneur and conservative. Entrepreneur has characteristics like: product innovation and intensive technology, aggressive competitive orientation, brave to take the risks, and proactive (Covin & Slevin, 1989). While vice versa, conservative has characteristics like: minimal product and technology innovation, careful competitive orientation and less brave to take the risks, reactive and passive. Hunger & Wheelen (1996) argue that experience, skill and personal factors of CEO tend to have relation to one type of strategy or combination of some strategies. Covin & Slevin (1989) find a result that the interaction between posture strategy entrepreneur and hostile environment will have influence towards the export performance. Whereas fit orientation strategy conservative and benign environment also will have influence towards the export performance. Therefore, the entrepreneur strategic posture will alignment with innovative strategy and conservative strategic posture will alignment with cost leadership strategy.

Schuler & Jackson (1987); Baker & Feldman (1991) stated that several role behaviors are assumed to be instrumental in the implementation of the competitive strategies. The dimensions shown are the ones which there are likely to be major differences across competitive strategies. Overall, then, for firms pursuing a competitive strategy of innovation, the profile of employee behaviors includes; a high degree of creative behavior; a long term focus; a relatively high level of cooperative, interdependent behavior; a moderate degree of concern for quantity; an equal degree of concern for process and result; a greater degree of risk taking; a high tolerance of ambiguity and unpredictability. The implications of pursuing a competitive strategy of innovation for managing people may include selecting highly skilled individuals, giving employees more discretion, using minimal controls, making a greater investment in human resources, providing more resources for experimentation, allowing and even rewarding occasional failure, and appraising performance for its long run implications. As a consequence of these conditions, pursuing as innovation strategy may result in feelings of enhanced personal control and morale, and thus a greater commitment to self and profession rather than to the employing organization. The profile of employee behaviors necessary for firms pursuing a strategy of quality enhancement is; relatively repetitive and predictable behaviors; a more long term or intermediate focus; a modest amount of cooperative, interdependent behavior; a high concern for quality; a modest concern for quantity of output; high concern for process; low risk taking activity; and commitment to the goals of the organization. In summary, the profile of employee role behaviors necessary for firm seeking to gain competitive advantage by pursuing the competitive strategy of cost reduction is as follows; relatively repetitive and predictable behaviors; a rather short term focus; primarily autonomous or individual activity; modest concern for quality; high concern for quantity of output (goods or services); primary concern for result; low risk taking activity; and a relatively high degree of comfort with stability.

In this research, the role behavior has point at typology conservative (cost reduction) role behavior and entrepreneur (innovation) role behavior because these typologies have two contradictory continuum. This explanation is also supported by Muafi (2008e) claims that innovation role behavior, hostile environment, and organic structure have positive relationship with entrepreneur strategic IT management. More increasing of alignment relation level between competitive strategy and role behavior, environment, and structure is more increasing the organizational performance, by configuration, vice versa. Alignment prospector strategy-innovative's role behavior will influence the performance. Research explains that there is significant effect of role behavior and strategy to organizational performance (Offstein, Gnyawali, & Cobb, 2005; Edelman, Brush, & Manolova, 2005; Alleyne, Doherty, & Greenidge, 2005; Carmeli, 2004; Hoogervorst, Koopman, & Flier, 2002; Wielemaker & Flint, 2005; Baker & Feldman, 1991).

**Competitive Strategy**

According to Miles & Snow (1984) classify strategy into three types: defender, prospector and analyzer. In the same typology, Porter (1980, 1985), typology of strategy can be classified into three generic strategies: cost leadership, differentiation and focus. Refer to strategy classification from Porter and Miles Snow. Schuler & Jackson (1987) clearly differentiate the classification of competitive strategy in Human Resource Management strategy into three: cost reduction, innovation and quality enhancement. In the competitive strategy of cost reduction, the firm typically achieves competitive superiority through low cost production. Innovative competitive strategy is applied to develop a different product or service from the competitors; the main focus is offering a new or a unique thing. Meanwhile, strategy of product or service quality enhancement is the major focus in the strategy of quality enhancement. This strategy is pure for single unit or in functional area, but it also overlaps where in a business unit or functional area has two or more competitive strategies simultaneously all at once (Schuler & Jackson, 1987). It is said that this strategy must not be separated apart since an organization is possible concerning about one strategy for one product or service and different strategy for another product or service (Mathis & Jackson, 2000).

Based on Muafi (2008a, 2008c, 2008d); Kumar, Subramanian, & Yauger (1997), actually generic strategy of Miles and Snow is similar with Porter. *Defender* (Miles & Snow) is similar with *Low cost* (Porter) and *Efficiency. Prospector* (Miles and Snow) is similar with *Differentiation/Innovation* (Porter/Miller and Friesen's). Porter explains that Cost Leadership and Differentiation is mutually exclusive. It is also said that if both of them are combined it will be stuck in the middle, since they are completely contradictory. However, if each strategy Cost Leadership or Differentiation is combined with focus strategy, it will be Hybrid. It does not mean that stuck in the middle condition can not happen. Refer to one of researches by Kumar, et al. (1997) and Hlavacka, Bacharova, Rusnakova, & Wagner (2001) this condition precisely said that the generic strategy by Porter is not mutually exclusive and each strategy can be related to other variation strategy. These variation strategies are able to create competitive superiority. Remember that condition of stuck in the middle can not be predicted previously. Like reactor strategy explained by Miles & Snow, this stuck in the middle never recommended as a way to success (Robbins, 1990).

In this research, not all of the Miles and Snow's typology is applied but there are two typologies of strategy mainly applied in the research, prospector and defender. Miles and Snow argue that the strategy of prospector and defender is two types of strategy on two extreme points. Prospector emphasizes innovation in the process of organizational adaptation in its environment, and defender emphasizes the efficiency. Nevertheless, the strategy of analyzer and reactor do not have distinct characteristics. According to Delery & Doty (1996), the Miles and Snow's typology of strategy has some considered superiorities; (1) it relatively has ability as predictor of organizational performance, (2) it has implication on policy of human resources, (3) it is applicable and implemented in many literatures of human resources management strategy, (4) it is more available in contingency and configuration approaches. Therefore, Simon (1987) asserts that; (1) the strategy of prospector and defender has significant relation to the performance improvement and cost minimization or as the pioneer in creating product or service, (2) the Miles and Snow's typology of strategy affirm that the system of company control should have the appropriateness with the strategy, (3) the Miles and Snow's typology of strategy is successfully examined in many researches and applicable as generic strategy in some kinds of industries either service or manufacture.

**Organizational Performance**

Most studies on organizational performance use a variety of success measures both financial and non financial. Some experts have examined the organizational performance theoretically and empirically and the results show different measurement (Muafi, 2008a; 2008c). The result is shown in Table 1.

Beal (2000) clarifies that performance plays the key role in research strategy. Nevertheless, there is considerable controversy in the conceptualization and measurement of performance. Performance complexity is the main contribution in debate. Moreover, agreement among theoreticians who measuring the performance are better based on the manager's perception. As the reason there is no available objective field collecting data, even less a small firm which never publishing it (Muafi, 2008a, 2008c, 2008d). Furthermore, when there is an available financial report, it is not accurate because not audited. So the owner of the firm or CEO can prepare subjective evaluation for the firm performance. Some experts convinced that a good performance organization will have a few non-alignments, on the contrary, a bad organizational

**Table 1: Organizational Performance Measure**

| Measure | Indicator | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) | (14) | (15) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Non Financial measure | Effectivity | * | * | | | | | | | | | | | | | |
| | Efficiency | * | | | | | | | | | | | | | | |
| | Organisastion adaptation | * | | | | | | | | | | | | | | |
| | Service | | * | * | | | | | * | * | | | | | | |
| | Productivity | | | * | | | | | * | | | | * | | | * |
| | Employee Stability Innovation | | | | | | | | | | * | | | | | |
| | Morale of employee | | | | | | | | | | * | | | | | |
| | Customer relationship | | | | | | * | | | * | | | | | | |
| | Supplier relationship | | | | | | * | | | | | | | | | |
| | R&D Outlay | | | | | | * | | | | | | | | | |
| | Commitment & loyalty | | | | | | | | * | | | | | | * | |
| | Corporate image | | | | | | | | * | | | | | | * | |
| | Corporate Ability | | | | | | | | * | | | | | | * | |
| | Work Satisfaction | | | | | | | | * | * | | | | | | |
| Financial measure | Financial performance | | | * | | * | | | * | | | | * | | | |
| | Market share | | | * | * | | | | | | * | | | | | * |
| | Sales growth | | | * | | | | | * | | * | | | | | * |
| | Total revenue | | | | * | | | | | | | | | | | |
| | Total Asset | | | | * | | | | | | | | | | | |
| | Net Income | | | | * | | | | | | | | | | | |
| | Overall | | | | * | | * | | | | | | | | | |
| | Export Performance | | | | | * | | * | | | | | | | | |
| | ROA | | | | | | * | | | | | | | * | | |
| | ROS | | | | | | * | * | | | * | | | * | | |
| | ROI | | | | | | | * | | | | | | | | |
| | Profit Margin | | | | | | | | | | * | * | | | | * |
| | Domestic Sales Volume | | | | | | | * | | | * | | | | | |

Source;

(1) Homburg, et al. (1999); (2) Mathis and Jackson (2001); (3) Alleyne, et al. (2005); (4) Allen and Helms (2002); Bou and Beltran (2005); (5) Lefebvre, et al. (1997); (6) Gilley, et al. (2004); (7) Hidayat (2004); Edelmen, et al.. (2005); Coltman, et al. *(2003)*; Heijltjes and Witteloostuijn (2003) (8) Priyono (2004); (9) Harel and Tzafrir (1999); (10) Huang (1999); (11) Cunha and Cunha., (2004); (12) Dolan, et.al. (2003); (13) Choe (2002); (14) McCarthy and Keefe (2000) and (15) Adu (1999).

performance will have a lot of non-alignment. If it has alignment, so the organization will be designed and positioned well, effective and efficient in each activity.

## RESEARCH MODEL AND HYPOTHESES

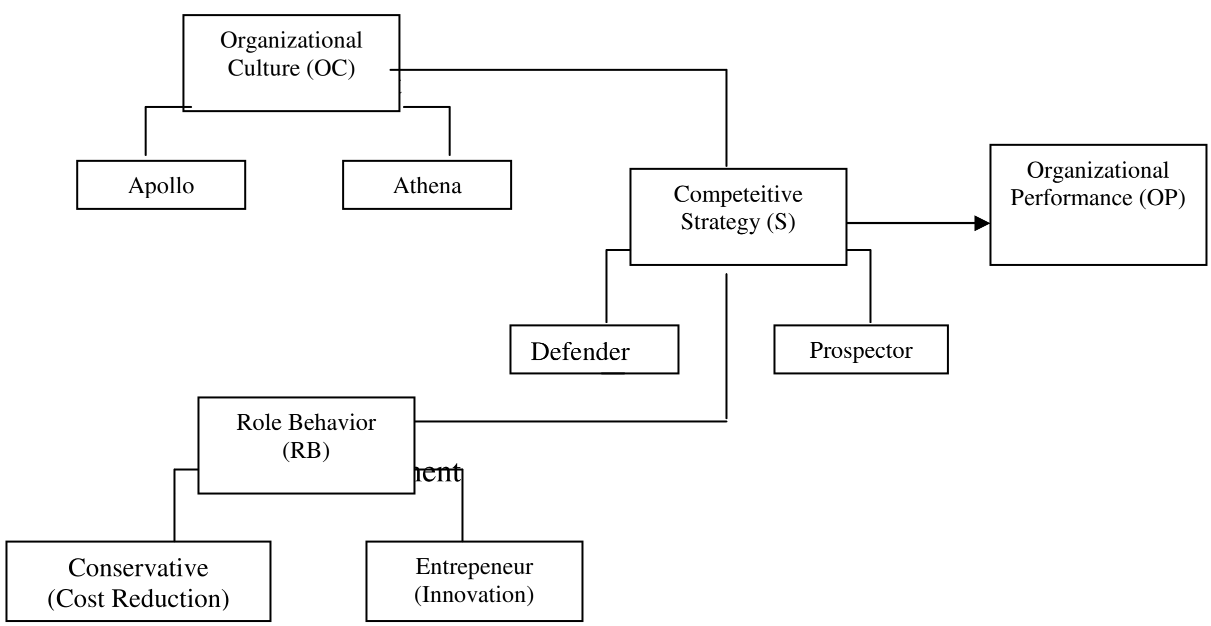
The research model proposed here is described in figure 1. The research hypotheses are as follows;

H1. In configuration approach, there is more alignment between competitive strategy and each variable of organizational culture and role behavior; it will be able increase the organizational performance.

H2. In contingency approach, there is more alignment between competitive strategy and variable of organizational culture; it will be able increase the organizational performance.

H3. In contingency approach, there is more alignment between competitive strategy and variable role behavior; it will be able increase the organizational performance.

**Figure 1: The Effect of Alignment Competitive Strategy, Culture, Role Behavior to Organizational Performance**



## METHODOLOGY AND RESEARCH DESIGN

### Sampling and Data Collection

The sample targets in this research are 200 service firms in Yogyakarta and Central Java. The result of questionnaire spreading is respondents who answer the questions completely are 196 respondents. The subjection mean of employee is 50. Service firms with less than 50 employees were not included in the sample because they usually do not have a formal organizational unit dealing with human resources (Minner & Minner, 1995). We then used criterion of greater than 100 million rupiah in sales and larger than employers in order to increase the likelihood the organizations possessed somewhat formalized strategic and HR activities (Skaggs & Youndt, 2004). The investigated services firms are industries of banking, hospital, currier service, and entertainment. The technique sampling applies non probability sampling by giving questionnaires to be filled in mail. The managers in those firms are determined as the key information in this survey. The questionnaires were sent to managers for two main reasons. First and foremost, they have the greatest access to the data related to organizational activities. Second, they have the firms of knowledge about the overall activities of the organization at the macro level. They attempted to minimize the respondents' subjectivity as much as possible (Becker & Gerhart, 1996).

### Research Instrument

Technique of scale arrangement applied in this research in asserting the organizational culture, competitive strategy, role behavior utilizes semantic differentials scale, whereas for variable of organizational performance uses Likert scale. This semantic differentials scale is utilized to measure an object or a concept for a respondent and it contains two contrary adjectives (Muafi, 2008a, 2008c, 2008d, 2008e). The result of validity and reliability examining conclude that for each indicator in examined variable points out significant or loading factor >0.5 (valid) (Appendix A). However, in reliability examining points out Cronbach's alpha >0.6 (reliable) (Appendix B).

Technique of statistics carried out in this research is Regression Euclidience Distance, and also Anova (analysis compare means one way Anova). Van de Vend & Drazin (1985); Selto & Renner (1995); Muafi (2008a, 2008c, 2008d, 2008e) suggest that the most appropriate in operationalization of configuration and contingency approaches is alignment system approach by looking for Euclidience Distance (ED). The excess of this method is the coefficient of regression negative and significant. The bigger of euclidience distance score the smaller of alignment among variable, it means give effect on organizational performance.

## RESULTS

### Result of the Research

A simple regression analysis is utilized to examine the hypotheses like stated in H1, H2, and H3 for group of firms applying prospector and defender strategies. In the simple linier regression equation, each independent variable of euclidience distance is examined its effect on organizational performance. The result is shown in Table 2.

**Table 2: The Result of Hypotheses Testing Regression The Prospector and Defender Strategies**

| Regression equation model | $R^2$ | Constanta | Coefisient (beta) | t | sign |
|---|---|---|---|---|---|
| H1. Y = a + b1 dist (OC.RB.S)+e | 0.346 | 6.085 | -0.588 | -10.128 | 0.000* |
| H2. Y = a + b1 dist (OC.S)+e | 0.063 | 4.482 | -0.251 | -3.624 | 0.000* |
| H3. Y = a + b1 dist (RB.S)+e | 0.262 | 5.008 | -0.512 | -8.325 | 0.000* |

* significance at the 5% level

Regression analysis is carried out in examining H1, H2, and H3. Actually, all of group points out negative and significant coefficient regression in all model of equation. Seen from t-test result on table 1, significance of each hypothesis is less than 0.05 it means that the first until the third hypotheses are accepted. (H1, H2, and H3 accepted).

Research continued by proving whether hypothesis 1 until hypothesis 3 is still consistent to be implemented in groups of prospector and defender. In the regression analysis, data is classified into two groups; (1) firm group with prospector strategy (n=108) and (2) defender strategy group (n=88). By applying Anova the result shows that F value is significant (F value = 18, 4 with sign. 0.000), it means clearly there is different strategy between prospector and defender groups.

**Regression Analysis of Prospector and Defender Strategy Groups**

The final result of examining prospector strategy group concludes that by configuration and contingency there is obviously alignment between prospector strategy and organizational culture, role behavior towards the organizational performance by significant level 0.000 (Table 3). Nevertheless, in the defender strategy groups conclude that there is no alignment relation between strategy of defender and role behavior towards organizational performance by significant level 0.741 (Table 4).

## DISCUSSION

Generally, these research findings are prospector and defender strategies applied in service firms in Yogyakarta and Central Java have had alignment strategy with contingency variable such as organizational culture and role behavior from the point of view either configuration or contingency. It means supporting research findings carried out by Kotter &

Heskett (1992); Gordon & Tomasso (1992); Tidball (1988), Cremer (1993), Besanko, et al. (2000); Hickman & Silva (1984); Schuler & Jackson (1995); Muafi (2008a, 2007).

**Table 3: Regression Result of Hypotheses Testing Innovation Strategy**

| Regression equation model | $R^2$ | Constanta | Coefisient (beta) | t | sign |
|---|---|---|---|---|---|
| H1. Y = a + b1 dist (OC.RB.S)+e | 0.359 | 5.658 | -0.600 | -7.748 | 0.000* |
| H2. Y = a + b1 dist (OC.S)+e | 0.089 | 4.034 | -0.299 | -3.239 | 0.002* |
| H3. Y = a + b1 dist (RB.S)+e | 0.278 | 4.578 | -0.527 | -6.419 | 0.000* |

* Significance at the 5% level

**Table 4: Regression Result of Hypotheses Testing Cost Leadership Strategy**

| Regression equation model | $R^2$ | Constanta | Coefisient (beta) | t | sign |
|---|---|---|---|---|---|
| H1. Y = a + b1 dist (OC.RB.S)+e | 0.179 | 5.619 | -0.423 | -4.422 | 0.000* |
| H2. Y = a + b1 dist (OC.S)+e | 0.234 | 5.211 | -0.484 | -5.245 | 0.000* |
| H3. Y = a + b1 dist (RB.S)+e | 0.001 | 4.751 | 0.035 | 0.332 | 0.741 |

* Significance at the 5% level

Therefore, in service firm utilized prospector strategy, based on configuration or contingency it has alignment in variable of organizational culture and role behavior. However, in service firms utilized strategy of defender does not have alignment in its role behavior yet.

Based on the study findings, it is necessary giving understanding for the service firms especially which concern in service business orientation in Yogyakarta and Central of Java that the chosen and implemented strategy should be consistent and appropriate with deal variable of contingency. Based on configuration and contingency, service firms which applying prospector strategy operating in Athena culture and innovative role behavior are expected having more enhancing of organizational performance than the firm which utilized prospector strategy operating in Apollo culture and conservative role behavior.

In this case, the no alignment on defender strategy is caused by demand for the service firms' managers to be able to produce high quality and innovative service/product, so it is more proactive and innovative behavior, but in other side it is faced on troubled industry setting, tight competitive intensity, hard and tight business climate, less opportunity be exploited, full of risks, pressure and domination from competitors. Moreover, the condition of role behavior is still limited in predictable behavior, very short term focus, highly cooperative, very low risk taking, and very inflexible to change. If this condition is neglected, so it will be decreasing organizational performance at service firms in Yogyakarta and Central Java.

According to Noe et. al. (2006; Arthur, 1992), recent study of HRM among steel mini-mills in the United States found that mills pursuing different strategies used different system of HRM. Mills seeking cost leadership tended to use control oriented HRM systems that were characterized by high centralization, low participation, low training, low wages, low benefit, and highly contingent pay, whereas differentiator mills used 'commitment' HRM systems, characterized as the opposite on each of those dimension. A later study from the same sample revealed that the mills with the commitment systems had higher productivity, lower scrap rates, and lower employee turnover than those with the control system. Therefore Porter (1985, 1980) stated that competitive advantage stems from a company's being able to create value in its production process. Value can be created in one of two ways. First, value can be created by reducing costs. Second, value can be created by differentiating a service or product in such a way that it allows the firm a charge a premium price relative to its competitor. In conclusion, the differentiation value attempts to create the impression that the firm's service is different from that of others in the same industry. The perceived differentiation can come from unique customer service, from creating a brand image, from technology, or from offering unique feature. If a firm succeeds in differentiating its service, it will achieve above average returns, and the differentiation may protect it from price sensitivity. For example, IBM has consistently emphasized its brand image and its reputation for superior service while charging a higher price for its computer.

Accordingly, HR policies must be consistent with other organizational aspects in order to be effective and that is important that there be appropriate alignment between HR strategy and culture or role behavior in which the organization operate. Furthermore, the configuration among competitive strategy-organizational culture and competitive strategy-role behavior will influence organizational performance. The more implementation of competitive strategy the more it will influence culture, role behavior and organizational performance. Prospector strategy will alignment with Athena culture. Defender strategy will alignment with Apollo culture. Prospector strategy will alignment with entrepreneur role behavior. Defender strategy will alignment with conservative role behavior. Differentiation of choosing the strategy will influence the differentiation of managers' perception towards culture and role behavior.

## CONCLUSION, IMPLICATIONS AND LIMITATIONS OF THIS STUDY

In this case, the service firms entirely in Yogyakarta and Central Java have alignment of strategy with organizational culture and role behavior in enhancing organizational performance either configuration or contingency. Therefore, it goes on service firms which chose and implemented prospector strategy. However, in service firms which chose and implemented defender strategy do not have alignment with role behavior. Accordingly, the service firms in Yogyakarta and Central Java: (1) necessity to analyze and diagnose the environment aspects which have influence to competitive strategy, culture and role behavior and finally it influence organizational performance; (2) take care in classifying the aspects Athena and Apollo culture, and entrepreneur and conservative role behavior; (3) alignment configuration and contingency between competitive strategy-culture and competitive strategy-role behavior are required in order to enhance the organizational performance; (4) necessity to consider the flexibility concept in configuration and contingency between competitive strategy-culture and competitive strategy-role behavior are required in order to enhance the organizational performance, and (5) necessity to care the implementation of the competitive strategy to influence the organizational performance.

A further implication of this study is that prospector firms achieve better organizational performance than defender ones, while firms that adopt no explicit business strategy may have trouble retaining entrepreneur (innovation) role behavior and maintaining Athena culture. By implementing this alignment competitive strategy, culture and role behavior can significantly improve organizational performance.

It should be emphasized that this study suffer form certain limitation. F*irst*, one of its limitations is single industry focus. Undoubtedly, each industry is subject to varying issues arising from competition, service form, government regulation and level of technological advancement. *Second,* a reliance on subjective measures, due to an inability to source objective data. *Third,* no efforts were made to investigate and interview the nature of causality therefore the inclusion of this issue in the future research will be particularly useful. *Fourth,* the performance indicators used in the present study are based on subjective response to question comparing the performance respondent service firms with that of competitors. A few scholars believe that such subjective measures may be as reliable as more objective indicators (Dess & Robinson, 1984).

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**Appendix A.**

**Correlation between multiple and single measure**

| | Pearson Correlation | Sign. |
|---|---|---|
| Organizational Culture (5 item) | 0.324 | 0.000 |
| | 0.219 | 0.002 |
| | 0.282 | 0.000 |
| | 0.363 | 0.000 |
| | 0.559 | 0.000 |
| Role Behavior (4 item) | 0.244 | 0.000 |
| | 0.184 | 0.009 |
| | 0.963 | 0.000 |
| | 0.974 | 0.000 |
| Competitive Strategy (5 item) | 0.239 | 0.000 |
| | 0.616 | 0.000 |
| | 0.701 | 0.000 |
| | 0.495 | 0.000 |
| | 0.342 | 0.000 |
| Organizational performance (4 item) | 0.208 | 0.000 |
| | 0.412 | 0.000 |
| | 0.189 | 0.000 |
| | 0.390 | 0.000 |

**Appendix B.**

**Scale Reliability**

| | Standardised Alpha |
|---|---|
| Organizational culture (5 item) | 0.733 |
| Role Behavior (4 item) | 0.774 |
| Competitive Strategy (5 item) | 0.657 |
| Organizational performance (4 item) | 0.716 |

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# COMMUNICATION IN GLOBAL CULTURAL TEAMS AND INTERNATIONAL COMMUNICATION CHALLENGE

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**ABSTRACT**

In this study, communication in global cultural teams is considered. Organizational culture is addressed. This is followed by intercultural communication challenge. In addition language and intercultural communication is studies. Finally international communication challenges are discussed.

Key Words: Global teams, communication, culture

## INTRODUCTION

*Communication in Global Cultural Teams*

Global teams function across space, time, cultures and organizational boundaries whose members communicate mainly through electronic technologies. In face-to-face contact, these teams are faced with the challenge of maintaining and building trust as they work toward achieving the team's objectives. Miscommunication between team members from different backgrounds and cultures is likely to negatively affect the development of trust which usually reduces effective team functioning. One way of coping with these potential issues is to provide each member of their effective teams with cross-cultural training. The training should have several objectives.

First, cross-cultural training should concentrate on helping each team member to better understand his/her own cultural beliefs; nonverbal and verbal communication styles; space, attitudes toward time, and work ethic. Second, cross-cultural training for effective team members should concentrate on teaching how to work effectively with colleagues from difference cultures. Team members should understand how to interpret the nonverbal and verbal communication styles and cultural backgrounds of team members, as well as how to react effectively to these unique hints.

Without cross-cultural training, these global team members may be confronted with difficult in building trust and wasted time communicating. Without such trust, the ability of teams to perform at an optimal level may be greatly diminished.

*Organizational Culture*

A "competing values" view of an organizational culture deals with the differentiation view of culture. Group cultures differ in organizations. Culture is a mechanism for solving organizational conflict. Cultural differences influence when members disagree what action to take, arguing that is not the way they do things around here. Managers argue in order to protect the employment status and reward their loyalty. Cultures can guide people in evaluating the difficult alternatives that they face in the normal course of business decision making. Every organization is faced with issues affecting their stability and change.

Market intelligence is collecting market information and the organization's responsiveness to it. Team members expect to find some consistent relationships between extent of customer orientation and organizational culture type. There are four facets of organizational culture: its strategic emphasis, its leadership, its dominant characteristics, and its commitment mechanisms.

*Intercultural Communication Challenge*

Learning to understand people whose background is diverse from our own is not an easy assignment. Team members become effective and successful intercultural communicators as they communicate with neighbors who might speak a "strange" language or a business partner who arrives in the middle of a meeting. To be successful in communicating with the thousands of others team members can face in the ever changing world, team members should communicate with people whose entire backgrounds, whose very method of viewing the world and doing things, may be different from theirs. Functioning in this new environment requires effective intercultural communication.

Intercultural communication means people from different cultural backgrounds interact with one another. Cultural differences can create the potential to make intercultural communication very difficult, and sometimes utterly impossible. Culture strongly affects values, beliefs, world views, nonverbal behavior, language, and how to have relationship with others.

*Language and Intercultural Communication*

It is difficult to separate culture and language. Language is not simply words and grammatical rules. Each time when a person chooses words, forms sentences, and sends a message, oral or written, they are also influenced by their cultural choices. Language contributes in communicating with people from different backgrounds. If team members choose language without understanding cultural implications, it may not communicate well or worse, send the wrong message.

Professionals must focus their interest on the business partner not the interpreter. Many businessmen look at the interpreters as they speak and neglect the business partner. When the interpreter translates the message, team members should watch the other business partner for all the nonverbal signals. In some cultures, nonverbal signals may be obvious, but in others, team members must concentrate and watch more closely. Team members should ask the interpreter for specifics of the discussion, and also the cultural translation of the response.

Regarding to Porter, R.E. & Samovar, L.A. (2007, pg. 9), intercultural communication happens when a member of one culture sends a message to a member of another culture. These messages have both nonverbal and verbal behavior. To communicate effectively across cultures, team members must know the assumptions of the team members preparing for the discussion and must understand the assumptions of team members from another culture. Barriers to intercultural communication come from socialization. They occur because of personal and professional habits; and the human condition. If someone understands other cultures, but others do not want to know, it is clear that ignorance and lack of knowledge both are critical barriers to intercultural communication.

Knowing the characteristics of different cultures and understanding our own culture are the first steps toward meeting the challenge of successful intercultural communication. Consider the Arab proverb: “The eyes are of little use if the mind is blind.” Diverse language, dress, food, work habits, attitudes toward time, and social behavior, all may cause intercultural exchanges to be frustrating unsuccessful.

People need to understand the broad definition of inter-culture and have a clear understanding that much of communication is intercultural. It affects both Receivers and Senders. Traditions, values, political relationships and social, and worldview all influence the thinking of both receiver and senders, and communication is affected. If our values, traditions, social and political relationships, and worldview are different from others, given the same subject to react to, with everything else in the communication the same, the receiver may compose a significantly different communication than the sender intended..

Both nonverbal and verbal messages are influenced by intercultural communication. Team members must recognize time of communication that it occurs into history: past, present, or future events.

*International Communication Challenge*

Communication facilitates effective management. Team members must be able to communicate in all directions to subordinates, to supervisors, to peers to consumers, and to the public at large. The art of receiving messages across culture effectively is a vital part of being successful manager. Managers can have major impact on the effectiveness and long-term success of their organizations in their roles as team leaders and decision makers. More effective and improved use of information technology enables organizations to delegate teams to make decisions, reducing the decision making burden of individual managers and supervisors.

Intercultural communication presents us with a challenge which team members must face with if they are to become effective communicators in the current business environment. Co-cultural communication refers to communication between members who have two or more cultural experiences that can influence the communication process. As enterprises expand internationally, their communications requires change. The communication needs of the local business very different from those of an international company. An international company, with one or more international divisions, faces the challenge of rivalry between international and domestic divisions. A global company requires staff with intercultural communication expertise at all levels in all divisions. More than that, adapting communication to the growing internal diversity, international companies should adapt to the varying communication practices of other companies around the world. Intercultural communication competence is defined as one's skill in facilitating successful intercultural communication in terms of satisfaction and other positive evaluations. Intercultural competence in communication requires the development of skills that transform a person from a mono-cultural to multicultural. Multicultural people are those who respect cultures and have tolerance for differences behaviors such as: communication skills, personality strength, cultural awareness, and psychological adjustment.

- Communication Skills

Individuals should be competent in both nonverbal and verbal behaviors. Intercultural communication skills need behavioral flexibility, message skills, social skills, and interaction management. Message skills mean the ability to understand and apply feedback and language. Behavioral flexibility refers to the ability to choose an appropriate behavior. Interaction management is handling cultural conversion. Social skills mean empathy to think and feel the same thoughts and emotions as the other person. A competent communicator should be able to deal with people in different situations.

- Personality Strength

The major personal traits that affect intercultural communication are self-concept, self-disclosure, self-monitoring, and social relaxation. Self-concept is the way a person views their self. Self-disclosure means willingness of each person to be open and reveal information about themselves to their counterparts. Self-monitoring is to use social comparison information to control and modify their self-presentation.

- Cultural Awareness

In order to be competent in intercultural communication, individuals should understand the social system and social customs of the host culture.

- Psychological Adjustment

Effective communicators should be able to handle the feeling of "culture shock", for example: frustration and alienation in ambiguous situation caused by new environments. Communication competency in the intercultural business negotiation context is to affect culture of origin, communication abilities, knowledge of other cultures, and the importance of the negotiation relationship reflected in the global business community. Also needed are communication skills, as well as the motivation to negotiate. Multicultural refers to the result of cognitive restructuring, which guides the communicator to an integration stage in cultural sensitivity. International negotiators must know the other party's individual communication style in order to communicate in an appropriate manner.

An organization's concern is not at the individual level but at the team level. Teams must continuously exercise their practice of the discipline of learning. In consequence, they develop critical powers as stakeholders in the enterprise. In enterprises that apply a team-based philosophy, it is essential to reward based on team effort rather than individual effort. Teams often involve conflict and frustration, commitment of resources, and pressure to unethical and harmful positions; but they also have numerous advantages. Cooperative teamwork enables accomplishing higher quality results, maximizing the participation of members, and leading to greater workforce commitment and satisfaction. Communication is the fundamentally essential for organizations.

In summary, all aspects of a global manager's job concern communication. If everyone with whom the global manager communicates has a common point of view, communicating should be easy. Unfortunately, such is not the case in the international business arena, Colleagues and customers from diverse cultures come to the table each with a unique personality, background, language, frame of reference, and experience. All of these factors influence the ability of individuals to communicate effectively across cultures. The research base of communication explains basic elements in the process of cross-cultural communication and what it takes to communicate effectively with individuals from diverse cultures. These factors are essential whether the communication is delivered by telephone, face-to-face talking, intranet, e-mail or teleconference. Several common cross-cultural communication barriers and various means to ameliorate communication were discussed.

**SUMMARY**

Co-cultural communication means communication between members who have two or more cultural experiences that might influence the communication process. Intercultural communication presents business people with challenges. Team members must face these challenges if they are to become effective communicators in the current business environment.

Cross cultural communication is a necessity. Ever changing innovation, growth in the world's population, and shifts in international contracts all require effective cross-cultural communication skills. People world-wide also need to communicate about their environment and finite natural resources to avoid or reduce inter-national conflict.

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# IMPACT OF USERS ON NETWORK SECURITY IN UNIVERSITIES OF PAKISTAN

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## ABSTRACT

The number of universities in Pakistan has grown in recent years and are well equipped and have relatively large networks. They are offering information technology courses, so it is necessary for them to equip themselves with new technology to compete in the market. These universities are also using different online systems such as a digital library, online fee submission, online attendance records, and also have fast internet connections. Teachers and students in these universities store important data on the university's network including personal information, research data, student assignments, and test results. Thus, the importance of Network security in universities can be well understood. Network administrators of universities should be aware of various threats to their networks since their networks are connected to the internet which is the main source for incoming viruses and other threats for data on the network. The paper discusses the impact of users on the university's network and the relationship among users and network security in universities of Pakistan.

**Keywords:** Network, Network Security, Universities, Network Users, Descriptive Survey Design, Correlation, Regression.

## INTRODUCTION

In the last few years, advancements in computer technology have greatly changed the tools available for the means of communication used in universities in Pakistan. Networks have the essential tools for top level education standards and for an efficient administration in a university. Systems linked to networks are exposed to various threats through the network.

Computers have been an integral part of research and academics for a while, and after the increase in processing power and availability of software, they have become indispensable tools for business (Abdullah, 1996). One facet of this movement is network security which is a complex topic. However, as more and more people in Pakistan becoming wired, a growing number of people in the universities need to understand the security basics in a university network.

This paper addresses the basic computer users and network administrator and explains the concepts considered necessary for security in the university, the internal and external risks, and methods to deal with them.. The users in a university can be divided into four groups: students, faculty members, network administrators and staff. Students are the users with less security requirement and confidentiality for the data on the network. Faculty members involved in education progression are users who require both security and confidentiality from internal and external threats. Network administrators and university staff have definite security and integrity needs including accounts and university administration department data.

For academic users, it is ideal to be able to browse among other users or system data sets on the network. The primary concern seems to be in learning how the system worked and in how others were cleverly using the facilities of the system (Kerievsky, 1976).

**Significance of Network Security**

Network security came to surface as a designed and methodical approach in the latter half of the 20th century. Network security is a very broad topic, but can be summarized as controlling access to the hardware, software and data of the computer network.

When computer networks of university are taken into account, the basic understanding is that the university is a platform with an important role of the creation and distribution of knowledge. Network users in a university should respect each other's privacy. They should not misuse the technological facilities being provided to them for information seeking and for other academic needs.

In a university, students usually store their academic data and personal data on home drives provided to them by the network staff. Students also use the internet facility for their assignments and emails. Faculty members are involved in teaching as well as in research activities and need to update their lectures by having up-to-date information on the internet. Importantly, their data which is on the network is of high importance. The staff includes personnel in accounts, administration, human resources, and finance departments and they also require security for their data.

The Computer Security institute in 2001 surveyed universities on security harms and found problems with unauthorized access, internet usage and viruses. The computers on the network have access to the internet as most of the users in university require the internet for email and research. The internet is a threat to network security along with this data stealing which is common in university environments. Data stealing is aided by the use of portable storage devices.

## LITERATURE REVIEW

The implementation of network security is one of the main barriers to internet usage. Universities and colleges apply a variety of safeguards on their networks. System administrators can activate various systems on their network for monitoring abnormal file access on the network (Hawkins, Yen & Chou, 2000). Everything on the network is inherently insecure because of various threats caused by open, unmonitored and shared networks. Communication software usage causes more and more problems for the network and thus, the security of network is becoming an extensive problem for the institutions (Ratnasingam, 2002).

Establishing security on the network is adopted by establishing the interface between internet and the network. Various solutions for network security, including user registration and provisions, are provided by network administrator (Loew, Stengel, Bleimann and McDonald, 1999).

Major security threats are instigated by human hackers and can be prevented by adequate security plans. These security plans should be constantly updated and monitored with network rules that should be enforced and based on knowledge rather than on feelings (Perry, Perry, and Hosack-Curlin, 1998).

## RESEARCH METHODOLOGY

*Purpose*

Identification of network security internally is a difficult task, but many universities claim that their networks are secure. This idiom has been so often repeated that it is now a golden favorite. Despite this, numerous universities still decline to invest resources in the network security within the institution. This assumption of being secure needs to be carefully tested. This research study addressed these assumptions directly and therefore, the focus of the research was whether or not network security makes a difference in the university.

The main objectives of this research study were to:

- To examine and realize the association between network security and users in the Pakistani universities, and
- To scrutinize and recognize the degree of association between network security and users of the Pakistani universities.

*Research Design*

In this research study, the "Convenience Sampling" (a form of non-probability sampling) method has been used. This technique is used to create a research process more rapidly by obtaining a large number of completed questionnaires quickly and efficiently. Only Higher Education Commission (HEC) listed universities having a minimum three years of operation were selected for this study. The platform used to select the institutions was the website of HEC since the website contained all of the necessary information about the universities. The postal addresses of the campus of these universities were collected and questionnaires were mailed to respondents using these addresses..

*Survey Methods*

Due to the deficiency of time and inadequate resources, the mail survey was used for data collection. Through this method, 109 responses were collected from the network administrators, faculty members, staff and students of the universities. Some problems reduced the response rate efficiency as people from different universities were not quick in answering and therefore, the data collection was slow. To alleviate this problem, personal one-to-one interviewing method was started. Universities in the twin cities, e.g. Rawalpindi and Islamabad, were personally visited and the questionnaires were dispersed in the universities. As a result, the response rate was better with higher quality. Responses were collected from eight universities, but there were other problems like time consumption. To make responses quicker and to eliminate excessive traveling, the telephone interviewing method was used. This method was comparatively more productive and through this method, 284 responses were collected.

Expressive surveys were used to provide a depiction of the current matters and relational surveys were developed for empirical analysis. This research attempt is relational for exploring the association between network security and network users. For the survey, questionnaires developed consisted of a five point Likert scale with five used for strongly agree (yes) and one used for strongly disagree (no). Many times, people were not clear about the terminologies used in the questionnaire, but this matter was solved through detailed clarification and by one-to-one discussion.

*Response Rate*

Information regarding network security was collected from the network administrators of the target universities. The network professionals were requested to respond to all the questions to the best of their knowledge with reference to the network implemented in their institutions. There was an open option that any person from the university network department at the administrator level could fill out the questionnaire. During the data collection process, it was observed that a few universities did not have a separate network administration department, but other departments like Information Technology and Computer Science were taking care of the computer network activities.

The overall response rate was 60%. Table 1 shows the percentage of the responses that came from each university, for example, of the responses, 42% of them came from International Islamic University.

Table 1. University Response Rate

| | ***University Name*** | ***Sample %*** |
|---|---|---|
| 1 | International Islamic University | 42 |
| 2 | Bahria University | 12 |
| 3 | Air University | 8 |
| 4 | National University of Modern Language | 7 |
| 5 | Quaid-a-Azam University | 13 |
| 6 | Comsat University | 8 |
| 7 | Federal Urdu University | 3 |
| 8 | National University of Computer & Emerging Science | 7 |

*Description of the Instruments*

This study was conducted on a basic level as there was no data available prior to this research. Therefore a Likert scale questionnaire was developed to find out the network security aspects with an impact on organizational performance. The questionnaire included the age of the university, number of faculty members and number of networks as a control variable with network security as the dependent variable. Faculty members, network administrators, staff and students were selected as independent variables. The response rate for these questionnaires was 60% as mentioned earlier. Statistical tools used were multiple regression and correlation since they are easy to understand produce remarkable and meaningful results. After the data collection, it was coded in Excel 2003 and SASS 10.0.

*Variables*

Variables are given in Figure 1 and the research model is given in Figure 2. In this research, eight variables were considered for analysis. Out of these, four were independent variables, three were control variables and one was a dependent variables. These independent variables affected network security internally.

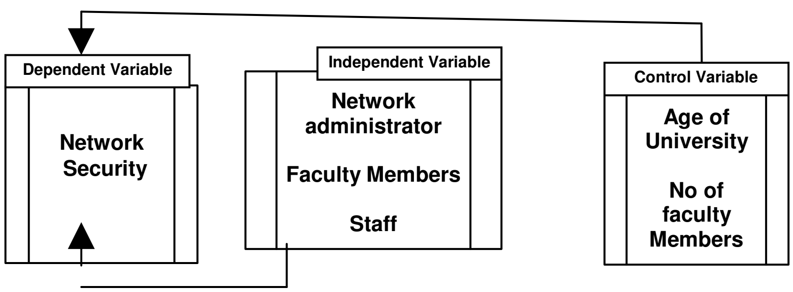


Figure- 1 : Relationship between Variables

*Questionnaire*

The data collection was through questionnaires consisting of a dependent variable (network security), independent variables (faculty member, network administrator, staff, students) and control variables (life of university, number of faculty members and number of networks). The questionnaire was developed depending upon the extensive literature review cited earlier in this paper.

Research Model

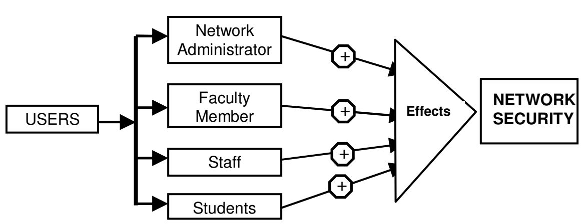


Figure 2. Research Model

*Equations*

The equations used in this study were:

$$y = \alpha + \beta_1 (x_1) + \beta_2 (x2) + \beta_3 (x_3) + \beta_4 ( x_4) + \varepsilon$$
$$NS = \alpha + \beta_1 (NA) + \beta_2(FM) + \beta_3(S) + \beta_4(ST) + \varepsilon$$

Where as:

$\varepsilon$ = is common error

$\alpha$ = is constant

$\beta$ = gradient or slope of the line

Y = is dependent variable

$X_1, X_2, \text{--------}, X4 =$ independent variables

And

1. $X_1$ = NA = Network Administrator
2. $X_2$ = FM = Faculty Members
3. $X_3$ = S = Staff
4. $X_4$ = ST = Student
5. Y = NS = Network Security

*Hypotheses*

Based on literature review, four hypotheses were developed for the study:

***H1*** *There is a positive/significant relationship between network security and the behavior of network administrator.*

***H2*** *There is a positive/significant relationship between network security and the behavior of faculty member.*

***H3*** *There is a positive/significant relationship between network security and the behavior of staff.*

***H4*** *There is a positive/significant relationship between network security and the behavior of student.*

## RESEARCH FINDINGS

<u>*Descriptive Statistics*</u>.

Descriptive statistics were a part of statistics used to summarize a set of data. Following are the steps used in descriptive statistics.

*Correlation.* Correlation coefficient indicated the strength and direction of a linear relationship between two random variables with different coefficients are used for different situations. The best known is the Pearson product-moment correlation coefficient which is obtained by dividing the covariance of the two variables by the product of their standard deviations.

*Pearson Correlation Coefficient*. Pearson correlation coefficient is a measure of the correlation of two variables X and Y measured on the same object that is a measure of the tendency of the variables to increase or decrease together. Table 2 shows correlations for all the variables. Table 3 indicates descriptive statistics which are based upon values of standard deviations, means, median, mode, minimum, maximum values and ranges. There was a high correlation amongst the independent and dependent variables, especially between network security and faculty members at 0.49. The mean of the Network Administrator was 3.17, whereas the standard deviation was 0.47 which indicated that if the network administrator is working well, then a secured network will be created . The correlation between staff members and network security was -0.01 which indicated that staff members were not highly beneficial and had a negative impact on network security. The student showed a correlation value of -0.16 which showed that students also had a negative impact on network security.

For the correlation independent variables, the network administrator had a high value of correlation with staff members of 0.58 which indicated that it has strong positive

Table 2. Correlations of Variables

| | ***Network Security*** | ***Network Admin*** | ***Faculty member*** | ***Staff*** | ***Students*** |
|---|---|---|---|---|---|
| Network Security | 1 | | | | |
| Network Admin | 0.49 | 1 | | | |
| Faculty member | 0.37 | 0.064 | 1 | | |
| Staff | -0.01 | 0.58 | 0.44 | 1 | |
| Students | -0.16 | 0.22 | 0.07 | 0.03 | 1 |

impact on network security. Moreover, awareness of faculty members and students showed that these variables are also have good correlation (0.64). The significant association between the faculty member and network security was 0.37 and network administrator was 0.49 which reflected the psyche of the users in the Pakistani universities and showed that if these two independent variables are powerfully connected, then there would be high positive impact on network security as measured on the basis of quantifiable results.

The mean of the network administrator is 3.17 and the standard deviation is 0.47 which is comparatively lower than the faculty members. The impact of the faculty member on network security showed a positive relationship up to 0.43. While it was not very high, still it was important. It indicated that faculty members should be more and more confident about network security so that a network can be truly safe. Finally, it provided an opportunity to suggest improvements in the way of thinking.

Table 3. Descriptive Statistics

| | *Network Admin* | *Faculty member* | *Staff* | *Students* |
|---|---|---|---|---|
| **Mean** | 3.17 | 3.50 | 3.59 | 3.32 |
| **Standard Error** | 0.06 | 0.06 | 0.067 | 0.05 |
| **Median** | 3.13 | 3.5 | 3.6 | 3.25 |
| **Mode** | 3.25 | 3.8 | 3.6 | 3.75 |
| **Standard Deviation** | 0.47 | 0.43 | 0.52 | 0.40 |
| **Sample Variance** | 0.22 | 0.19 | 0.26 | 0.17 |
| **Range** | 1.75 | 1.4 | 1.8 | 2 |
| **Minimum** | 2.25 | 2.8 | 2.4 | 2.25 |
| **Maximum** | 4 | 4.2 | 4.2 | 4.25 |
| **Sum** | 190 | 210.2 | 215.6 | 199.25 |

*Regression*. The contribution of independent variable towards dependent variable was also critical. To explain this, the multiple regression technique was used. Table 4 exhibits the regression outcomes for selected Pakistani universities and represents the regression of network security.

Table 4. Regression

| | *Coefficients* | *P-value* |
|---|---|---|
| Intercept | 3.42 | 16 |
| Network Administrator | 0.06 | 0.39 |
| Faculty member | 0.21 | 0.01 |
| Staff | -0.11 | 0.09 |
| Students | -0.07 | 0.22 |

## CONCLUSIONS

Universities in Pakistan today are being well equipped with new technology. Students, teachers and administrators in universities are enjoying many facilities for their use. Computer networks have become an important variable in providing information to teachers and students and they are not only providing internet services, but are also being used for information sharing and access to data bases.

The users need to be aware of different threats present in the university computer networks and they should abide by the network usage policy and respect the privacy of other users on the network. Network administrators need to ensure the safety and reliability of the network, enforce the network usage policy, and make clear to users that network should be used only for academic and research purpose.

The staffs of universities should use computers responsibly and trainings should be conducted for them on computer network usage. Students should be briefed about the policy of network usage, the services provided to them for information seeking, and the expectation that their behavior towards learning should be positive.

All of the users of a university computer network are responsible for their network security. They all have an impact on network security. In order to improve and secure a university network, the four groups of users should cooperate with network administration staff and use the facilities provided to them responsibly.

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# SMES, ENTREPRENEURSHIP AND DEVELOPMENT STRATEGIES

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## ABSTRACT

In this study, SMEs (small and medium sized enterprises) going international entrepreneurship methods are considered. The study discusses new developments to expand to international markets. It also introduces how entrepreneurs are able to take advantage of exporting opportunities, and illustrates the entrepreneurial benefits of importing. In addition, it explains the benefits of foreign direct investment by entrepreneurs and demonstrates the disadvantages and advantages of entrepreneurial joint ventures. Furthermore, it exhibits advantages and disadvantages of licensing arrangements. Finally, it establishes key steps for enhancing opportunities in the international market place.

New global entrepreneurs depend on global networks for resources, distribution, and designs for growth. The new global entrepreneurs realize that success in the new marketplace requires agility, ingenuity, and certainty with a global perspective. Entrepreneurs can expand their business by participating in the global market. Every year thousands of small business enterprises are actively engaged in the international arena. Reasons for this emerging opportunity include the decline in trade barriers, particularly among major trading countries, and the emergence of major trading blocs in the European Union and the North American Free Trade Agreement. Over the past decade, Asia has presented entrepreneurial opportunities. This article reports studies of new developments in the global marketplace that directly affect entrepreneurial opportunities. It also considers methods of international participation. Finally, the article examines the steps to internationalizing. “Global thinking” is critical because, now clients can choose ideas, products, and services from many countries and cultures.

Entrepreneurs who expand into international markets must be global thinkers in order to design and adopt strategies for different nations. Applying business globally is rapidly becoming a popular and profitable strategy for many entrepreneurial ventures. Small ventures are participating more in the global marketplace.

Key Words: SMEs, International Markets, Entrepreneurship, Development Strategies

## INTRODUCTION

*SME International Entrepreneurship Methods*

Entrepreneurs can actively compete in the international market through five avenues: exporting, importing, joint ventures, direct foreign investment, and licensing. Each of these avenues is discussed below.

*Exporting*

When an SME entrepreneurial company decides to deal actively in the international arena as a seller, it becomes an exporter. Exporting is critical for entrepreneurs because it may lead to increased market potential. The enterprise now has a broader sales sphere. Increased sales lead to more efficient production and lowered cost per unit. The lower cost enables the enterprise to compete more effectively in the marketplace. Exporting is increasing in importance as a method for venture growth and increased profitability among small enterprise. There are four critical competitive strategies in exporting. The first concerns market differentiation through competitive pricing, through innovation in marketing techniques, or through the development of brand identification. The second involves new product development or specialty products for special clients. The third strategy is accomplishing technological superiority of certain product. Finally, the fourth crucial strategy is a product oriented emphasis applying the elements of high quality and consumer service.

Small enterprises can engage the services of an export management company that is a private enterprise serving as an exporter for several manufacturers. The company provides this service in return for a commission and/or salary. Export management companies can supply many of the aspects of the export process by handling all of the details from making the shipping arrangements to locating the client. One of the dangers the entrepreneur faces when using an export management company is the possibility of losing control over the export function. If the export enterprise decides to start exporting on its own, the entrepreneur may have no idea where its products can successful. To prevent this issue, the entrepreneur ought to receive reports detailing the activities performed on its behalf by the export management company.

Importing plays a role in change of trade status for a variety of reasons. One is the rising cost of energy. A second reason is the low labor cost in other nations which make their products financially attractive. A third reason is that some products are not produced or available domestically. How does an entrepreneur become aware of import opportunities? One way is to attend product fairs and trade shows where firms gather to display their service and products. Many of these shows are international in scope with firms from different nations exhibiting their services and products. Generally the trade show provides to the prospective client the opportunity to window shop. Another way is to read trade publications. Firms advertise in trade publications to make themselves known to potential clients.

Generally, just because the entrepreneur decides to export the company's product, it does not guarantee additional profits. The following are the most common mistakes potential exporters make.

First, failure to consider all aspects of licensing or joint venture agreements. The company must be careful to examine import restrictions, insufficient financial resources and personnel, or a too limited product line. All of these can cause firms to dismiss international marketing as simply not feasible.

Second, failure to treat international distributors on an equal role with domestic counterparts. This must be considered.

Third, unwillingness to adapt products to meet cultural preferences or regulations of other countries.

Fourth, failure to have qualified export counseling and to develop a master international marketing plan before starting an export business. This first may be difficult to accomplish successfully without qualified outside guidance.

Fifth, insufficient commitment of top management to overcome the initial difficulties and financial requirements of exporting. It takes more time and focused effort to establish the enterprise in a foreign market than it does in the domestic market.

Sixth, insufficient care in selecting overseas distributors. The selection of each foreign distributor is critical. The new exporter's history, reputation, and trademarks are normally unknown in the foreign market, causing the foreign consumer to buy on the strength of the distributor.

*Foreign Direct Investment*

An entrepreneur may make foreign direct investment for various reasons. One is trade restrictions. Some nations have restrictive trade barriers or prohibitions on imports of certain products. These barriers can influence exporting costly or impossible. Moreover, foreign governments may give tax incentives to a seeking direct investment in that nation. This incentive is attractive if the rate of return is estimated to be higher at the foreign location than domestically. Direct investment can be an exciting venture for small enterprise making efforts to augment their sales and their competitive position in the marketplace. Sometimes, however, it may not be practical for an enterprise to make a direct investment in a foreign location.

*Joint Venture*

Another alternative for the entrepreneur to go international is the joint venture. A joint venture refers to the sharing of profits, assets, venture ownership, and risks with more than one enterprise. Enterprise can decide to participate in a joint venture for several reasons. The enterprise is able to gain an intimate knowledge of the local condition and government. Another reason is that each participant can apply the resources of the other firms involved in the venture. One of the disadvantages associated with joint ventures is the issue of fragmented control.

*Licensing*

Licensing is a business arrangement where the manufacturer of a product or a enterprise with property rights over certain trademarks or technology, patents, and manufacturing expertise, grants permission to other individual or groups to manufacture that product in return for specified royalties. The entrepreneur may not have to make an extensive capital outlay to participate in the international market. Licensing can be an extremely attractive channel to go the international arena. Licensing is a more realistic means of expansion than exporting, especially for the high-tech enterprise. Moreover, access to the market is easier and foreign governments are more likely to give their approval because technology is beginning to be brought into the nation.

Disadvantages to licensing also emerge. Firstly, it is possible the licensee shall become a competitor after the contract expires. Secondly, the licenser must get the licensee to provide additional services or to adjust products or to meet contractual obligations to fit the licensee’s market. Thirdly, the licensing entrepreneur is obliged to manage the relationship’s circumstances and conditions, as well as misunderstandings or resolve conflicts as they occur.

**Key Steps For Enhancing The International Marketplace**

*Prepare Research*

One of the most difficult phases of entering the international arena is that of conducting research on the market. Not all nations have the marketing research capabilities required. One of the best methods is to begin is with the Federal Depository at a major library. It can assist entrepreneurs searching for international markets. There is a listing of exports by product and by nation. These data help the potential exporter identify the markets with a strong historical demand for the product.

*Conduct a Feasibility Study*

A feasibility study should be undertaken to determine if the proposed project has the potential for profit and the feasibility to be carried out.

*Prepare Adequate Financing*

After preparing the project feasibility study, arrangements must be made to secure proper financing. Quite often payments from overseas consumers require particular attention. If the consumer processes an excellent credit history, the entrepreneur may be willing to establish an open account with the business. Another type of financial assistance available to entrepreneurs is the financial guarantee. Several government agencies have programs that shall guarantee payment.

*Obtaining the Proper Documents*

Obtaining the documentation needed to export products to foreign countries is often a frustrating experience for the exporter. Some banks provide assistance in this process.

*Establish & Implement the Plan*

The enterprise ought to establish international policy in accordance with its overall objectives as specified in its operational plan. When it defines these objectives, the enterprise must ensure that they are realistic and attainable. Eventually, after establishing the plan, it must be put into effect. An important of this activity should be a schedule, or a timetable that indicates who has responsibility for each step in the implementation process.

**SUMMARY**

Global business is quickly becoming popular strategy and is profitable for many entrepreneurial ventures. NAFTA, forged among the United States, Mexico, and Canada, and the European Union are examples of the powerful economic forces creating opportunities for entrepreneurs in the international marketing. This study shows ways the entrepreneur can actively engage in the international market such as: importing, exporting, joint ventures, foreign direct investment, and licensing. The final part of the article examines the five steps required to enter the international marketplace: (1) prepare research, (2) conduct a feasibility study, (3) prepare adequate financing, (4) prepare the proper documents, and (5) establish and implement the plan.

In the beginning, entrepreneurs who decided to go international faced many risks and uncertainty. Entrepreneurs explored opportunities in China, India, and other parts of Asia, Eastern Europe, and Latin America. Formerly, the United States was a major exporter, especially after World War II, when goods were in short supply and the worldwide market was insatiable. After production of goods in other countries, U.S. exporters found themselves being compressed out of markets by Japanese and European producers, who took the initiative away from them.

For various entrepreneurs, exporting remains the biggest opportunity for their expansion. Various countries vary by their proportion and quantity of resources which are a competitive advantage of nations. There are resource rich countries such as the OPEC, labor rich in developing countries in India, Sri Lanka, Brazil, the Philippines, and market rich countries, in the United States, Mexico, Europe, and Brazil. These courtiers have purchasing power, contrary to China or India, who possess large populations. Each nation has something that others need, leading to an interdependent international trade system. The entrepreneur's view of the rewards and risks of internationalizing can be found by feasibility studies of potential gains to be won. An entrepreneur who would like to take advantage of international markets may have to study a foreign language, may have lived abroad and may be face with culture shock. Entrepreneurs must realize their company's competitive advantage such as: technology, price, financial superiority, or marketing, product innovation, an efficient distribution network or possession of exclusive information about the foreign market.

Declining market conditions at home may cause entrepreneurs to seek foreign markets to help their business. Successful global entrepreneurs should have the following characteristics: a global vision, international management experience, innovative marketing or technology processes, a strong international business network, and effective organizational coordination worldwide.

When global opportunities occur, entrepreneur are likely more open-minded about internationalizing. The advantage of international trade is that a company's market is expanded much and growth prospects are greatly raised. Other advantages are minimizing seasonal slumps; reducing idle capacity; getting knowledgeable about products not sold in target market and technology used in other countries, and learning about other cultures.

Before going to a foreign market, it is essential to study the unique culture of the potential consumers. Concepts of how the product is used, psychographics, demographics, and political norms as well as legal normally differ from entrepreneurs' countries. Entrepreneurs must study the following information. First, they must study foreign government regulations: patent, import regulations, trademark laws, and copyright that affect their products. Second, they must know political climate: relationship between business and government or public attitudes and political events in a given country affect foreign business transactions. Third, they must consider infrastructure: packaging, distribution system, and shipping of their export product. Fourth, they must research distribution channels: accepted trade both retail and wholesale, service charges and normal commissions, distribution agreements and laws pertain to agency. And fifth, they must study competition: number of competitors in target nations and their market share, as well as their price, place, product and promotion. Additionally, they must find market size: of their product stability, size, country by country, and know what nations are markets expanding, opening, maturing, or declining. Eventually, they must understand culture of their products. Small businesses can study international cultures by business travel, participating in training programs, reading the current literature, and undertaking formal educational programs. Small business, who wants to sell product on a worldwide basis must realize different standardization in each country. In some cases, goods must be adapted for different local markets if it is to be accepted. Consumer goods always require much more adaptation.

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