

ISSN 2227-7935



Asian Business Research Conference

Full Paper Proceedings

ABRC

Published By:



facebook.com/Asian.Research.Society
www.asmmr.com

Second Asian Business Research Conference

6-7 October, 2013

Held at Burj Al Arab Hotel

Dubai

United Arab Emirates

Full Paper Proceedings

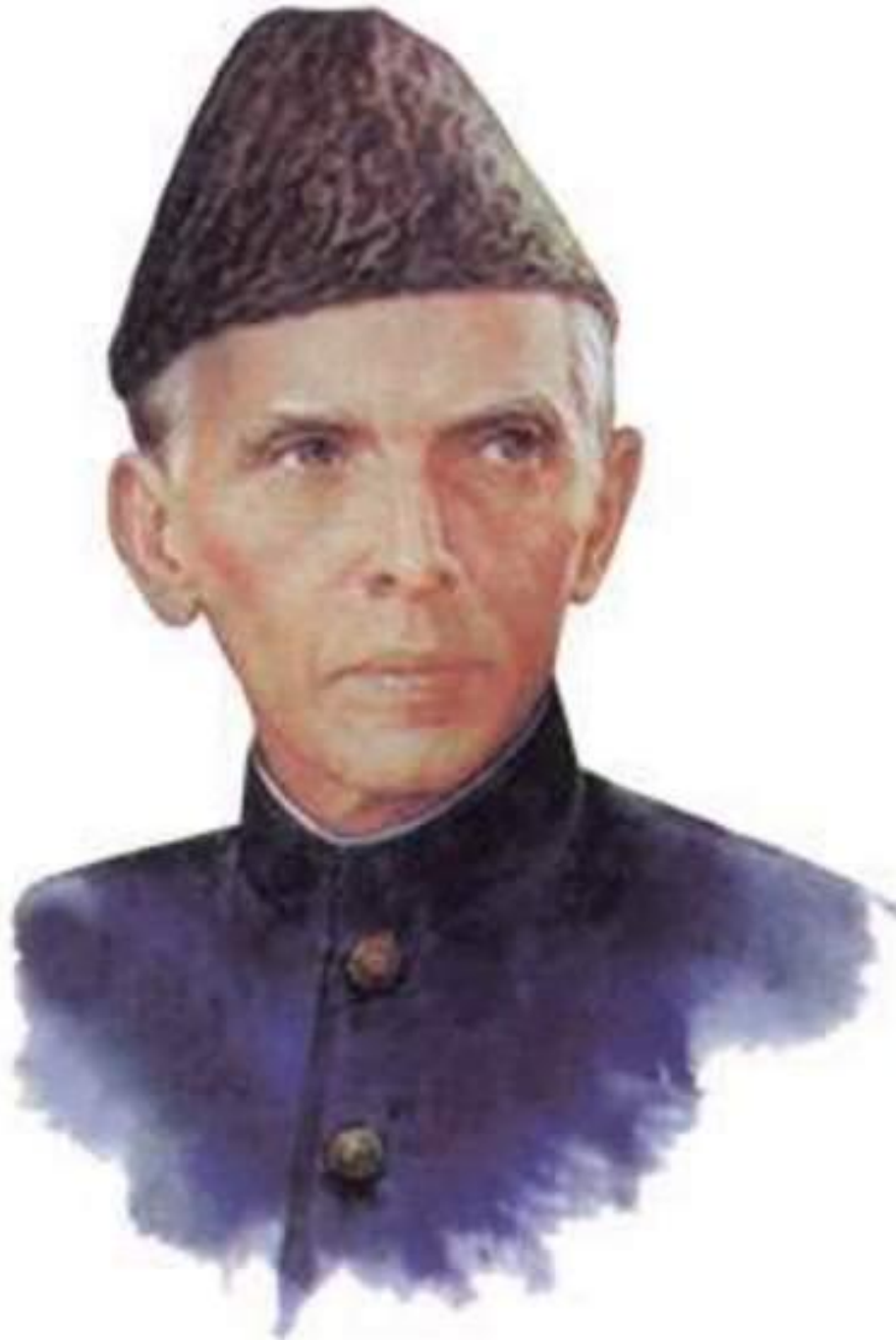
Editors:

Dr. Atiq ur Rehman

Mr. Usman Ehsan

Volume 2, Number 1

ISSN 2227-7935



Quaid-e-Azam
(Founder of Pakistan)

Conference Co-Chair's Welcome Note

Respected delegates,

It is my great pleasure to welcome all of you in the Second Asian Business Research Conference (ABRC) being held at Burj Al Arab, Dubai; United Arab Emirates.

ASMMR is a humble endeavor to provide a platform to the researchers and academia for promoting research culture in the areas relating to business and management and for fostering internationalization and integration of research conducted at various institutions. We are people-centered and our goal is to help researchers in Asia in general and Pakistan in particular, to learn, to conduct, to apply creative interdisciplinary research and outreach to solving management, business and marketing problems. We will ultimately transform into a cutting-edge research center.



In this Second Asian Business Research Conference (ABRC), we have experienced an overwhelming response from researchers. This year conference objective was to improve the quality of papers to be presented. In this conference we limit the papers so that we can focus on improving the quality. For this conference we selected only 15 papers for presentation representing 15 institutions (universities, research centers and companies) from 10 countries. We are confident that researchers will be able to explore some new dimensions to their research.

Finally, on behalf of whole team of ASMMR, I am privileged to welcome speakers at Second Asian Business Research Conference and wish you a great learning and sharing experience.

“Dreams, hope and attitude brings success”

Sincerely,

Dr Azhar Mansur Khan

Founding President ASMMR

Faculty SKEMA Business School France

BMC (USA) Consultant

Welcome Note

It is indeed great pride, pleasure and privilege to welcome all of you in the Second Asian Business Research Conference, of the ASMMR, being held in Dubai at 6th and 7th October, 2013. I would also like to say very special and heartiest thanks and gratitude to key note speaker Dr. Nicholas J Ashill, for gracing the occasion. He is a renowned scholar. He is currently associated with American University of Sharjah and is the associate editor of European Journal of Marketing. I am sanguine; participants will find his comments on the articles, very valuable and useful.



Taking the opportunity let me introduce the Asian Society of Marketing and Management Research (ASMMR). It came into being in 2012 by a group of researchers in Pakistan. The idea behind its creation was to create a forum for the business, management and academia for promoting and developing the research culture in region of Asia. The society organized its first Asian Business Research Conference in Pakistan last year. It was attended by delegates from eight different countries.

The response to call for papers for this conference has been quite encouraging. We received 55 manuscripts which were routed through blind review. Through this exercise, the review board found 20 papers suitable for presentation in the conference. Out of 20 authors, 15 have managed to register for the conference from 11 different countries. We are confident that we the participants of the conference will be able to explore many new dimensions to our research endeavors. The authors presenting their research articles will be bringing lot of fresh insights into the current literature on marketing and management. Their valuable contributions in knowledge dissemination are highly appreciated. It would be an opportunity for them too to reflect on their research and make improvements for publishing in reputed journals.

I am sure, we all will not only take away a wealth of knowledge presented in the conference but we will also be able to strengthen our professional networks. If you are aspiring to publish your research work in reputed journals, comments on the presented articles will be of immense significance and importance for you.

Finally, on behalf of whole team of ASMMR, I am privileged to welcome speakers at Second Asian Business Research Conference and wish you a great learning and sharing experience.

Dr. Atiq ur Rehman

Vice President ASMMR

Training Consultant at PIFRA (A Project of World Bank)

Adjunct Faculty at AIR University & SZABIST

Welcome

I am delighted and honored to welcome you to the Second Asian Business Research Conference, of the ASMMR, being held in Dubai at 6th and 7th October, 2013. It will be pleasure to spend time with you at the conference and I am sure you will find my presentation on 'How to get published' interesting and informative. Getting research published in high ranking journals can be very challenging and time-consuming. The process however, is very rewarding.



I am currently the Head of the Department of Marketing at the American University of Sharjah and I hold the Chalhoub Group Professorship in Luxury Brand Management. My research interests are very diverse although I have particular expertise in the areas of service quality, human-resource management practices, branding and customer satisfaction. I am now in my fourth year as Associate Editor of the European Journal of Marketing (EJM). My keynote address will focus specifically on this role on what researchers need to do to get published in a high ranked journal such as EJM.

I would like to take this opportunity to thank the Asian Society of Marketing and Management Research for organizing this conference in Dubai. The objective of creating a forum to promote and disseminate research about the region is extremely important. Academic research on business and management topics in the region remains undeveloped. I look forward to hearing about your work and providing valuable feedback to move your research towards publication.

Have a great conference and enjoy the wonders and hospitality of Dubai!

Dr. Nicholas Jeremy Ashill (New Zealand)

Professor of Marketing (American University of Sharjah)

Head of Marketing Department

Associate Editor of European Journal of Marketing

Alumni of University of Bradford (UK) & University of Wales (UK)

The Asian Business Research Conference (ABRC), a regional and scholarly outlet, is published by Asian Society of Management and Marketing Research (ASMMR).

Online Access: The Asian Business Research Conference (ABRC) can be accessed online FREE from the official website (www.asmmr.com) of Asian Society of Management and Marketing Research (ASMMR).

Subscription: For printed copy and annual subscription, please contact Managing Editor of Asian Business Research Conference (ABRC) at secretary@asmmr.com.

Important Note: All rights reserved. No portion of the contents may be reproduced in any form without written permission from the publisher.

Disclaimer: ASMMR will make all possible efforts to ensure the originality of all the information (the "Content") published in the Asian Business Research Conference (ABRC). However ASMMR, its team, members and reviewers make no representations or warranties whatsoever as to the accuracy, completeness or suitability for any purpose of the Content and disclaim all such representations and warranties whether express or implied to the maximum extent permitted by law. Responsibility for the contents of a paper rests upon the authors and not upon the editors, reviewers or the publisher. Furthermore, if any article will be found plagiarized, even after publication, it will be discarded from the issue and author(s) will be banned for lifetime to publish in ABRC. Any views expressed in this publication are the views of the authors only and are not related to ASMMR in any capacity.

Scope and Coverage:

Asian Business Research Conference (ABRC) invites scholarly manuscripts from a wide range of categories in the field of business and management. The journal broadly covers following areas of business and management research but not limited to:

- Accounting & Finance
- Brand Management
- Business Ethics
- Change Management
- Consumer Behavior
- Economics
- General Management
- Human Resource Management
- Knowledge Management
- Management Information System
- Marketing
- Organizational Development
- Services Marketing
- Social Marketing
- Supply Chain Management
- Training & Development

Target audience

Asian Business Research Conference (ABRC) overall targets the following audience:

- Academicians
- Practitioners
- MS and PhD Scholars

About ASMMR

Introduction:

The Asian Society of Management and Marketing Research (ASMMR) started voyage of promoting and developing the quality of research in the world of academics in January 2012. Society's mission is to make significant contribution in the research field of business administration, by developing theory and humane practice of these fields in Asia and beyond. In pursuit of its objectives, ASMMR collaborates with regional and international organizations to organize conferences, awards, scholarships, case competitions, workshops under academic writing and publishing program. In addition to that Society has several publications including journal, conference proceedings and case studies series. For further details, visit www.asmmr.com.

Conferences:

The ASMMR organizes its annual conferences in different parts of world. Every conference has its panel of experts and high profile keynote speakers (renowned researchers, editors etc.) to ensure and improve the quality of research. Scholars from around the globe participate and present their types of research including papers, case studies etc. Accepted papers published in conference proceedings (ISSN – 2227-7935) and sponsored journals. Globally acclaimed publishers and societies, partner in each conference to exhibit their portfolios. For further details, visit www.asmmr.com/conference.html.

Academic Writing and Publishing Program:

The ASMMR has established an Academic Writing and Publishing Program (AWPP) to equip researchers with knowledge, skills and tools that are pivotal to become a reasonably good researcher. Under this program, ASMMR is organizing several workshops on diversified training modules in collaboration with leading publishers, societies and institutions. For further details, visit www.asmmr.com/seminars.html.

Publications:

The ASMMR publishes a variety of publications including journals, case studies, conference proceedings and newsletters. For further details, visit www.asmmr.com/publications.html.

Awards & Scholarships:

In order to promote research and case studies writing, ASMMR launched initiatives like MS-PhD scholarships, case study competitions and travel grants. For further details, visit www.asmmr.com.

Global Partners:

The ASMMR believes in strengthening the relationships with international and regional research associations in the globe. In order to do so ASMMR has joined hands with globally acclaimed publishers and societies. For further details, visit www.asmmr.com/partners.html.

Editorial Team

As per policy of double blind; peer-review JABR has well qualified editorial team.

Editor in Chief

Dr Atiq ur Rehman (*Vice President ASMMR*)

Managing Editor

Usman Ehsan (*Director ASMMR*)

Advisory Board

- **Dr. Azhar Mansur Khan** (President, ASMMR)
- **Dr. Nicholas J. Ashill** (*American University of Sharjah, UAE*)
- **Dr. Sajid Khan** (*American University of Sharjah*)

Members of Review Board

- **Dr. Arshad Zaheer** (*Army Public College of Management and Sciences, Pakistan*)
- **Dr. Fabrizio Rossi** (*University of Casino and Southern Lazio, Italy*)
- **Dr. Faisal Aftab** (*Bahria University, Pakistan*)
- **Dr. Ghulam Dastgeer** (*Air University, Pakistan*)
- **Dr. Kamran Naqi** (*Hamdard University, Pakistan*)
- **Muhammd Kashif Saeed** (*GIFT University, Pakistan*)
- **Nadeem Khan** (*Air University, Pakistan*)
- **Dr. Noureen Adnan** (*COMSATS Institute of Information Technology, Pakistan*)
- **Dr. Qadar Baloch** (*Islamia College University, Pakistan*)
- **Dr. Usman Mustafa** (*PIDE, Pakistan*)
- **Dr. Wong Ming** (*Shantou University, China*)
- **Dr. Yasir Kamal** (*University of Peshawar, Pakistan*)

To join us as a reviewer, please write to us at secretary@asmmr.com

Second Asian Business Research Conference

Volume 2, Number 1

ISSN 2227-7935

Burj Al Arab Dubai

United Arab Emirates

Table of Contents

| | |
|--|-----------|
| Green Marketing Influence to the Company “X” Consumer Behavior and Branding Image..... | 2 |
| Gender and Entrepreneurial Intentions of Asian Business Students: Case of the Lebanese Society | 9 |
| A study on investment patterns of sovereign wealth funds from developing countries: The case of China | 30 |
| The Role of Emotional Intelligence as a Moderator of Perception of Politics and Work Outcomes..... | 45 |
| Factors Affecting Gender Diversity in Malaysia..... | 59 |
| To study the relationship between altruism and control concentration on stewardship: A case of service oriented public organization, NADRA..... | 67 |
| Project Management Risk – Cognitive, Cultural and Conditioning Factors..... | 83 |

Green Marketing Influence to the Company “X” Consumer Behavior and Branding Image

By:

Ir. AMA Suyanto

Telkom Institute of Management-Bandung

Indonesia

amasuyanto@gmail.com

Abstract:

Impact of Green marketing concept to The Company “X” consumer behavior and branding image is very interesting. This study used descriptive and causal method with 400 respondents investigated concerning on consumer behavior and branding image to the company. Analysis technique uses partial least square. The result shows that green marketing, consumer behavior and brand image perception was 7.44; 7.67; and 7.90 consecutively with scale of 10.00. Green Marketing has simultaneously significant influence on consumer behavior and brand image. Value of T-statistic test of green marketing to consumer behavior was more than 1.96 with 63.8% influence and the T-statistic test of brand image was more than 1.96 with 69.81% influence.

Keywords: *Green Marketing, Brand Image, Consumer Behavior*

Introduction:

Recently there has been an influx of green products in the marketplace. Customers change their attitudes towards a green lifestyle. People are actively trying to reduce their impact on the environment. Company “X” is one of the companies known as the main player in green industry. The Company is a cosmetics company who implement green marketing concept to it product, promotion, outlet design and activities concern to the earth. These activities certainly create a different view of the consumer opinion to the company.

However, this phenomenon has been met with excitement and skepticism on the part of consumers who either believe in the conservation of our planet, or feel they are being “green washed” by companies who produce these products (Ferguson, 2011). Some sources even noted that environmental factors are not a strong incentive in attracting Indonesia customer attention.

(Source: http://m.handiirawan.com/articles/the_uniqueness_of_indonesian_consumer/ramah_lingkungan-_siapa_peduli.html).

Hernawan (2012) study says that Indonesia customers have 10 unique characters in consumer behavior are: short memory, non-planning, gregarious, and adaptable to new technologies, focusing on context instead of content, prefer to the imported products, religious, ostentatious, influenced by the subculture and do not care about the environment. This different character of Indonesia customer behavior has seen as a potential opportunity in the green industry. *Nonetheless, company “X” has not been consistent to maintain consumer image and a brand value, as shown their rating changing every year, shown in TABLE 1.*

Table 1: *Top Brand Survey 2011 & 2012*

| Company | Brand Image | | | | | | | |
|------------------|--------------|-------------|-------------|-------------|--------------|-------------|-------------|-------------|
| | 2011 | | | | 2012 | | | |
| | Body Cologne | Hand Body | Lip Stick | Lip Gloss | Body Cologne | Hand body | Lip Stick | Lip Gloss |
| Eskulin | 16.4% | - | - | - | 8.0% | - | - | - |
| She | 14.7% | - | - | - | 14.5% | - | - | - |
| Pucelle | 10.8% | - | - | - | 10.3% | - | - | - |
| Puteri | 9.5% | - | - | - | 8.1% | 1.2% | - | - |
| Fresh | 8.9% | - | - | - | - | - | - | - |
| Shower to shows | 5.2% | - | - | - | 3.3% | - | - | - |
| Company X | 4.5% | 8.1% | 9.5% | 8,1% | - | 1.2% | 3.6% | 2,8% |
| Casablanca | 4.3% | - | - | - | 7.1% | - | - | - |
| Marina | - | 12.5% | - | - | 7.0% | 13.1% | - | - |
| Vitalis | - | - | - | - | 6.0% | - | - | - |
| Citra | - | 46.3% | - | - | - | 42.2% | - | - |
| Vaselin | - | 15.7% | - | - | - | 18% | - | - |
| Nivea | - | 10.6% | - | - | 9.3% | - | - | - |
| Gatsby | - | - | - | - | - | 1.7% | - | - |
| Ponds | - | 1.8% | - | - | - | - | - | - |
| Shinzui | - | - | - | - | - | 1.3% | - | - |
| Pixy | - | - | 15,3% | - | - | - | 20,3% | - |
| Oriflame | - | - | 14,8% | 8,0% | - | - | - | 3,6% |
| Ponds | - | 1.8% | - | - | - | - | - | - |
| Shinzui | - | - | - | - | - | 1.3% | - | - |
| Pixy | - | - | 15,3% | - | - | - | 20,3% | - |
| Oriflame | - | - | 14,8% | 8,0% | - | - | - | 3,6% |
| Sari Ayu | - | - | - | - | - | - | 8.1% | - |
| Red-A | - | - | 11,8% | - | - | - | 7,5% | - |
| Maybeline | - | - | 10,2% | - | - | - | 6,5% | - |
| Lip Ice | - | - | - | 51,3% | - | - | 5.8% | 45,6% |
| Latulip | - | - | 3.6% | - | - | - | - | - |
| Mirabela | - | - | 2,6% | - | - | - | - | - |
| Viva | - | - | - | - | - | - | 4.5% | - |
| Belia | - | - | - | - | - | - | 4.2% | 5,8% |
| Loreal | - | - | - | - | - | - | 4.0% | - |
| Nivea | - | - | - | 6,8% | - | - | - | - |
| Red-A | - | - | - | 3,4% | - | - | - | 1,7% |

Source: (<http://topbrand-award.com/>)

Table 1 shows percentage of brand cosmetics and body care category. The figure shows that consumer image of the company. The data is taken from Indonesian Top Brand survey. The survey was conducted in eight big cities: Bandung, Jakarta, Makassar, Medan, Semarang, Surabaya, Balikpapan and Pekanbaru with 400 respondents. Respondents were male and female between 15 and 65 years old with income rank from E (the average monthly expenditure of more than Rp. 750,000) to A (the average monthly expenditure of more than Rp. 3.5 million). The result shows that company still unable to compete with other brands of cosmetics that both organic and inorganic product. It also can be seen the rate of decline in some of brand image products years 2011 to 2012. Furthermore, Company “X” is required to change, develop and improve their green marketing strategy.

Holistic Marketing and Green Marketing Concept:

Holistic marketing concept is design, development and implementation of marketing programs, processes, and activities that recognize the breadth and nature of mutual dependence. Holistic marketing realize that "everything has mean" in marketing and that a broad and integrated perspective is necessary. According to Kotler and Keller (2008:20) holistic marketing approach are seeking to realize and reconcile the scope and complexity of the marketing activity.

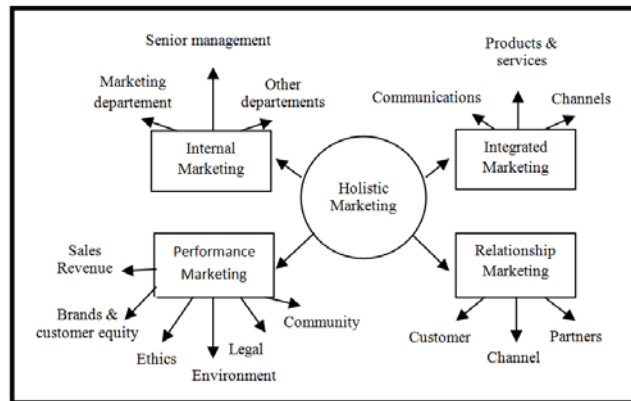


Figure 1: *Holistic Marketing, Sources: Kotler and Keller (2009:61)*

The scheme of four components that characterize broad holistic marketing consists of internal marketing, integrated marketing, performance marketing, relationship marketing and integrated marketing.

American Marketing Association (Yazdanifard et al., 2011) defines green marketing is eco-friendly marketing products, combining several activities such as product modification, changes to the production process, packaging, advertising strategies and also raise awareness on marketing compliance among industries. Meanwhile, according to Dahlstorm (2010:6) green marketing is the process of planning and implementation of the marketing mix to facilitate the consumption, production, distribution, promotion, packaging, and product reclamation in a way that is sensitive or responsive to ecological interests.

Bukhory (2011) stated that Green Marketing refers to the process of selling products or services based on their environmental benefits. Product or service may be environmentally friendly, manufactured, or packaged in an environmentally friendly way. So, green marketing is the marketing mix process that utilizes changes in consumer awareness of the product/service by changing the production and packaging more environmentally friendly to satisfy and meet the needs of consumers and reduce negative impacts on the environment as well as invites consumers more concerned with the environment.

Consumer Behavior:

Kotler and Keller (2009:190) note that consumer behavior is a lesson how people, groups and organizations select, buy, use and dispose of goods, services, ideas or ways to satisfy their needs.

Meanwhile, according to Schiffman (2010:23) consumer behavior is behavior when customer wants to find, buy, evaluate and consume products or services that expect will satisfy their needs. Another, Hawkins (2007:6) says that

consumer behavior is the learning process of individuals, groups or organizations to select, secure, use, and consume products, services, experiences, or ideas to satisfy needs and the impacts on consumers and social.

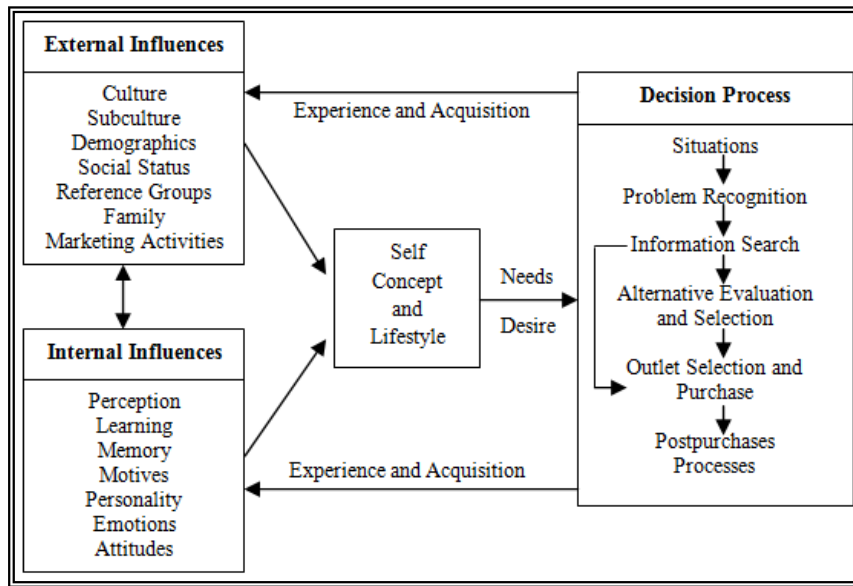


Figure 2: *Nature of Consumer Behavior*, Source: Hawkins (2007)

Figure 2 is a model used to capture the common structure and common processes of consumer behavior. The customer build self-concept and lifestyle depends on a variety of internal and external encouragement. Self-concept and life style will result in needs and desires, which have decisions to consume and provide satisfaction to them. When individuals face relevant situations then decision process will occur. Acquisition of process and experience affect consumer lifestyle and self-concept by influencing external and internal environment.

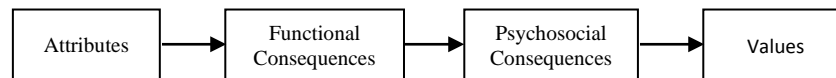


Figure 3: *Means-End Chains of Product Knowledge*, Source: Peter and Olson (2010:77)

Method and Discussion:

In this study, 3 latent variables are conducted such green marketing as the exogenous variable (X), and consumer behavior and brand image as the endogenous variables (Y1) and (Y2). The observed variables are:

- Exogenous latent variables (X) are a green product (X1), green price (X2), green place (X3) and green promotion (X4).
- Endogenous latent variables (Y1) is information process (Y1.1), attitude (Y1.2), intention (Y1.3) and behavior (Y1.4) and action (Y1.5).
- Endogenous latent variables (Y2) are the strength of association (Y2.1), favorability of brand association (Y2.2) and uniqueness of brand association (Y2.3).

To meet the sampling criteria component-based on SEM analysis or variance – PLS with Slovin formula (Sofyan et al, 2011), the study used 400 samples. Data collection was done using questionnaires. Literature and analysis with partial

least square analysis of structural equation modeling (SEM). The majority of respondents 354 are women and 46 are men. This consideration because women are generally more concerned of body beauty than men. Also, the products offered by The Company "X" are generally more to meet the needs of the women; while results of the respondent's education background are dominated by scholar education with a percentage of 50.25%. This is consistent with the target market of the company are educated customers. The consumers with higher educational backgrounds will be more care about the environment because of their breadth of knowledge.

The study found that that the majority of respondents from 5 major cities are: Jakarta, Bandung, Medan, Makassar and Surabaya majority earn between RP. 2.500.000 - 5.000.000. It is considered affordable to buy The Company "X" products are offered at the premium price.

The result shows that 221 respondents (55.25%) chose The Company "X" products because they believe the safety of its products, 72 respondents (18%) chose because the benefits obtained, 41 respondents (10, 25%) because delicious fragrance, 39 respondents (9.75%) for cosmetics and social awareness, 3 respondents (0.75%) for prestige and only 1 respondent (0.25%) choose for eco-friendly products. This result need to be considered by The Company "X". It would be vain their green programs. From the results it can be seen that the implementation of green marketing in 5 major cities of Jakarta, Bandung, Medan, Makassar and Surabaya obtain an average value of 7.72 with scale of 10.00. and entered into each category. It can be concluded that in general the implementation of green marketing with indicators described above are considered good, but not maximized.

The concept of green marketing has been done in various ways to achieve marketing goals that are environmentally friendly. Application of the concept of green marketing is best achieved by company for green products. However, consumers chose company products because the quality more than being environmentally friendly or even because a company stand on social awareness. It supported by a profile of respondents who stated that 55.25% respondents chose the reason because of quality safety products. On the other side, customers who care about the environment only at 5.75%; though the campaign was a very loving environment in company highlight.

The impact of green sub variable pricing has the smallest value in each category is 7.44 with scale of 10.00. Consumer considers the price tag is too high compared to other products. However, consumer willing to pay the high price which consider appropriate with the benefit. The study also found that in terms of green place, got responses from respondents was 7.68 with scale of 10.00. This considers good category means that the process of implementing green place at company has been met the respondents need. Respondents were agreed the suitability of the store concept store which applied the purpose to delivered company conveying a message to protect the environment.

The Company "X" succeed delivers the advantages of the products to the environment in the long term. It can be seen that the consumer behavior in the five major cities of Jakarta, Bandung, Medan, Makassar and Surabaya obtain an average value of 7.72 out of scale 10.00. The concept of green marketing created consumer concerns to the environment and begin to reduce the impact of global warming. As mentioned above, Indonesia customers have different character to the environment. The results of the descriptive analysis in the five major cities of Jakarta, Bandung, Medan, Makassar and Surabaya show that quality of the products attracting consumer to purchase not because the environmental impact either the social impacts. This situation need to be considered by the company "X" that the concept of green marketing not only inspire customer awareness to the environment but need to educate consumer increase sense of desire social activism and protecting the environment. Overall, the brand image achieved a score of 7.90 out of scale 10.00 and getting

into the good category. It means the implementation of green marketing are considered good but has not reached the optimum value.

Based on the results of the exposure analysis of statistical calculations on the evaluation models, green marketing variables have a significant influence on consumer behavior with a total contribution of 63.88% and a significant influence on brand image of 69.81%. So, it is proved that the green marketing positively affects to brand image and consumer behavior. The concept of green marketing will be created to address concerns of consumers who care about the environment and realize the impact of global warming. So, it is proved that green marketing positively affects to brand image and consumer behavior. This confirms the opinion of Dahlstorm (2011:119) says that the promotional program by using the concept of green marketing gives purpose to define the brand image and to change behavior. Results of the study also proves the Keller (2008:56) states that creating a positive brand image requires a strong marketing program linking, favorable and unique association to facilitate the description of the brand in memory (Keller, 2008:56).

Conclusion and Recommendation:

Based on descriptive analysis of statistical calculations, the average value is equal to 7.72, means that *green marketing* categorize as good. But consumer volition to spend more money to get an environmentally friendly product is still lacking. The respondents perceived lack of understanding of the company values products especially to the long-term impact. Consumer understands the advantage in the quality of the product is safe only. This is noted by the average of green promotion activities that are good but not perfect. The company should increase the promotional activities and educate the consumers to understand the objective properly. When consumers' awareness of the environment and social activities is increase, price will consider less important.

Based on the results, the average value of consumer behavior is equal to 7.67, means that consumer behavior categorize as good. Although Indonesia customers do not care to the environment issue, they have intention to buy more natural products and begin aware to the environmental issue. This found to the respondents in the five major cities of Jakarta, Bandung, Medan, Makassar and Surabaya want to buy company natural products.

Based on the results the average value of *brand image* is equal to 7.90, means that company brand image categorized as good. For customers, the Company "X" is known as an eco-friendly cosmetics company. Consumers begin enjoy the natural cosmetics and approve the uniqueness of the company brand as well as invited consumer to participate in social activities to protect the environment.

Based on the results on the inner evaluation models, the green marketing variables have a significant influence on consumer behavior with a total contribution of 63.88% and a significant influence on brand image with a total contribution of 69.81%. Green marketing affects positively company brand image and consumer behavior. Concept of green marketing created to increase consumers concern to the environment and starting awareness the impact of global warming.

References

- Ferguson, Keith Edmund. (2011). *Consumer Perceptions of Green: Are We Expecting Too Much?* SSRN Working Paper Series, Aug 2011.
- Dahlstorm, Robert. (2011). *Green Marketing Management, International Edition*: South-Western Cengage Learning: USA

- Hawkins, Del & David L. Mothersbaugh & Roger J. Best. (2007). *Consumer Behaviour: Building Marketing Strategy*, 10th edition. New York: McGraw Hill.
- Hernawan. (2012). *10 Karakter Unik Konsumen Indonesia*, *Marketing.co.id*, 21 January, dilihat 04 November 2012, <<http://www.marketing.co.id/blog/2012/01/21/10-karakter-unik-konsumen-indonesia/>>.
- Kotler, Philip & Kevin Lane Keller (2009). *Marketing Management*, 13th edition, United States of America: Prentice Hall.
- Kotler, Philip & Kevin Lane Keller (2008) *Manajemen Pemasaran*, edisi 12, Indonesia: Indeks.
- Kotler, Philip & Gary Armstrong (2009) *Principles of Marketing*, 13th edition, USA: Pearson.
- Schiffman, Leon G & Leslie Lazar Kanuk Collaborate with Joseph Wisenblit. (2010). *Consumer Behavior*, 10th edition. United States of America: Pearson.
- Sofyan, Yamin & Heri Kurniawan. (2011). *Partial Least Square Path Modeling*, Salemba Infotek
- Yazdanifard, Rashad and Mercy, Igbazua Erdoo. (2011) *Green Marketing on customer satisfaction and environmental safety*. International Conference on Computer Communication and Management Proc .of CSIT vol.5 (2011) © (2011) IACSIT Press, Singapore

Gender and Entrepreneurial Intentions of Asian Business Students: Case of the Lebanese Society

By:

Cendrella Abou Fayad

Antonine University

Lebanon

Abstract:

Due to recent events in the Middle East region, many politicians, economists and sociologists are raising questions about the negative impact of these actions on many concerned countries. Having to face instable economic and political conditions, these countries need to invest in their resources and strength elements, especially the qualified human resources and the university students. Allowing graduating university students to have greater access to economic opportunities and to launch their businesses could have a positive impact on the growth of per capital income in these countries. However, a literature review highlights the fact that entrepreneurial intentions may differ among male and female entrepreneurs. This leads to consider closely the effect that gender could have on entrepreneurial intention of this specific population. The present paper intends to contribute to a better understanding of gender differences in entrepreneurial activities by studying entrepreneurial intentions among Asian graduating university students, specifically Lebanese students. The impact of gender on these activities will be analyzed by using the Theory of Planned Behavior (TPB) that identifies the gender effects in the variables that shape entrepreneurial intentions. Hypotheses are tested by assigning a questionnaire to a random sample of graduating female and male business students in both public and private Lebanese universities. Data collected and analyzed present interesting findings related to the entrepreneurial intentions of the Lebanese business students who have positive personal attitudes towards becoming entrepreneurs. This positive feeling of internal control is combined to a negative external feeling of control resulting from a lack of governmental and institutional supports. In addition, students surveyed expressed a high social acceptability for this activity. On the other hand, it is important to mention that the present paper has many research implications since few variations are noticed among the entrepreneurial intentions of both male and female Lebanese business students. This minimizes the impact of the Lebanese social and cultural environments on the personal behavior of the young citizens, which suggests future researches studying other countries in the MEA and GCC region and taking into consideration a third element of the macro-environment: the economic environment. Finally, it is important to mention that such a study of gender differences in entrepreneurship is an original endeavor due to the specific characteristics of the Lebanese society, but not a new one since many researchers have already studied this question among many international societies.

Key words: *entrepreneurial intentions, Lebanese society, impact of gender, graduating business students, Theory of Planned Behavior.*

Introduction

Due to recent events in the Middle East region, many politicians, economists and sociologists are raising questions about the negative impact of these actions on many concerned countries. Having to face instable economic and political conditions, these countries need to invest in their resources and strength factors, especially the qualified human resources

and the university students. Allowing graduating university students to have greater access to economic opportunities and to launch their businesses could have a positive impact on the growth of per capita income in these countries.

However, a literature review highlights the fact that intentions play a very important role in the decision to start a business. The relevance of cognitive variables in understanding this personal decision has been highlighted by many researchers such as Shaver and Scott (1991) and Baron (2004). According to these authors, this type of variables offers further insights in understanding the complicated process of entrepreneurship from a new perspective, the gender one. The main purpose of this paper is to contribute to a better understanding of *gender differences in entrepreneurial activities by studying entrepreneurial intentions among Asian business university students, specifically Lebanese students*. The impact of gender on these activities will be analyzed by using the Theory of Planned Behavior (TPB) that identifies the gender effects in the variables that shape entrepreneurial intentions. Furthermore, in order to understand the gender impact on the intentional behavior, it is essential to study well the social and cultural environments in which the potential future entrepreneurs are developing.

This paper will be divided into two parts: while the first part presents the theoretical approach of the entrepreneurial intentions and the framework of the research (1), the second part intends to study in depth the social and cultural profile of the Lebanese society before presenting the research methodology and the main findings of this paper (2).

1- Entrepreneurial intention: theoretical approach

The theoretical part of this paper will start by presenting an overview of entrepreneurship, entrepreneurial activities and entrepreneurial intentions (a). This general information intends to better understand the theoretical frame of this research, the Theory of Planned Behavior TPB (b), as long as the hypothesis tested via the TPB model in the practical part.

a- Overview of Entrepreneurship, entrepreneurial activities and entrepreneurial intentions

Entrepreneurship is considered to be an important mechanism for economic development, innovation and welfare effects (Acs and al., 2011). Plus, entrepreneurial activities have long been perceived as one of the most important factors leading to development, growth and sustainability of a country and a region. However, defining the entrepreneurial activity is not simple. Since Schumpeter, many researchers have presented their own description and definition of the entrepreneurial process. Schumpeter, pioneer of the entrepreneurship concept, defines it with an emphasis on innovation, such as new products, new production methods, new markets and new forms of organizations. However, the present study will adopt the definition presented by Moore and Buttner (1997) and quoted by Farr-Wharton and Brunetto (2009), *entrepreneurs are defined as those who use their knowledge and resources to develop or create new business opportunities, who are actively involved in managing their businesses, and own at least 50 per cent of the business and have been in operation for longer than a year*.

Developing a new business requires the availability of entrepreneurial intentions. This topic has been the subject of many studies and research among both the academic and the professional societies. Many international researches such as the ones conducted by the “Global Entrepreneurship Monitor” in 2011 and by “The International Survey on Collegiate Entrepreneurship” in 2006 highlights significant differences in indicators of entrepreneurial activity and intent respectively. According to Carree and Thurik (2002), entrepreneurial activities present many social and economic advantages, advantages that led many researchers and research institutions to study the factors influencing entrepreneurial intentions

This research aims to contribute to this growing knowledge domain by focusing on the understanding of the gender impact on the entrepreneurial activity of business students in a specific Asian country: Lebanon. In fact, such a study of gender differences in entrepreneurship is an original endeavor due to the specific characteristics of the Lebanese society, but not a new one since many researchers have already studied this question among many international societies.

The research conducted by the GEM 2011 highlights the fact that there are significant differences when comparing the ratio of entrepreneurial activity comparing women versus men; in fact, this study indicates that over the previous decade men typically had a higher average score on the total entrepreneurial activity (TEA) index as compared to women and that in spite the fact that this difference has declined over the years, a gender-gap still remains. Furthermore, Allen and al. (2007) established that this gender-gap in TEA is the largest in many countries¹. Studying the reasons lying behind the international gender-gap in TEA would be an interesting way to understand the impact of gender on entrepreneurial intentions of any population, particularly, the Lebanese business students. Studying the reasons lying behind the international gender-gap in TEA requires the use of an appropriate theoretical framework related to the intentions lying behind the entrepreneurship activities led by a group of young people of both genders.

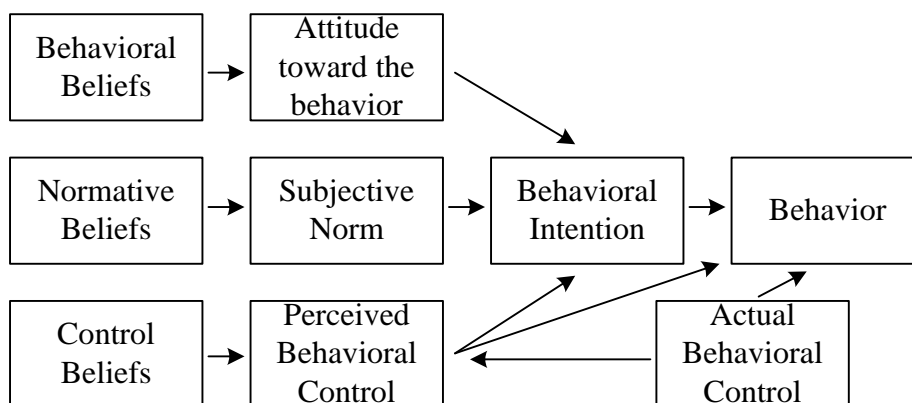
Therefore, this research will build on the Theory of Planned Behavior (TPB) to develop a theoretical framework that investigates gender differences in entrepreneurial intentions among Lebanese business students.

b- Theoretical framework: Theory of Planned Behavior TPB

The TPB developed by Ajzen (1991) is an instrument rooted in social cognitive psychology literature. It studies the link between an individual's attitude towards a certain behavior and the actual behavior intentions serving as a mediator between attitudinal beliefs and the actual behavior.

Furthermore, this theory represents the different factors that impact the intention to engage in a particular behavior: the personal desirability of entrepreneurship (personal attitude), the social acceptability of entrepreneurship to a normative reference group (social norms) and the control of actually becoming an entrepreneur (perceived behavioral control) (figure 1).

Figure 1: Theory of Planned Behavior.



Source: Ajzen (1991).

¹ For example, in high income countries, men are almost twice as likely to be early stage or established business owners.

The literature review emphasizes on the successful use and interesting outcomes of all researches that adopted the TPB as a theoretical framework; in fact, this theory has been successfully used to investigate, test and answer many research questions as:

- Clarifying and forecasting a wide range of behavior (Armitage and Conner, 2001);
- Explaining entrepreneur's start-up intentions (Krueger and al., 2000);
- Highlighting the reasons behind starting up a new business (Kolvereid and Isaksen, 2006).

In order to study the impact of gender on the entrepreneurial intention of a specific group of students, this research will adopt the TPB to test a list of hypothesis related to specific factors: the personal attitude, the social norms and the perceived behavioral control.

A literature relief allows us to formulate the following hypotheses and there mediation via the three factors already listed.

H1: the impact of gender on entrepreneurial intentions is related to personal attitude

H1a: male-oriented success indicators are more likely to be money, challenge and economic development;

H1b: female-oriented success indicators are more likely to be work-life balance, career satisfaction and autonomy.

H2: the impact of gender on entrepreneurial intentions is related to subjective norms².

H2a: normative beliefs of significant others does not differ between men and women;

H2b: women are more motivated to abide by normative referents than their male counterparts.

H3: the impact of gender on entrepreneurial intentions is related to perceived behavioral control³.

H3a: there are important gender differences in feelings of behavioral control;

H3b: concerning internal feeling of control, female place more value on these factors than men;

H3c: concerning internal feeling of control, these factors are being outweighed by internal feelings of control in prediction of entrepreneurial intentions.

The list of hypothesis presented above is a continuum of the problematic of this paper. Furthermore, it can be considered as a summary of the main concepts to be studied in the practical part to better investigate the impact of gender on the entrepreneurial intentions of the group of business students surveyed.

2- Impact of gender on entrepreneurial intentions: case of Lebanese business students

² Subjective norm is measured as normative belief without including motivation to comply.

³ Perceived behavioral control is a function of the importance weighted by the power of control beliefs towards starting up a company. Moreover, Ajzen (2002) differentiated between internal and external beliefs as important predictors of perceived behavioral control:

- Internal feelings of control are related to personal capabilities (know-how, abilities in opportunity recognition, being creative, etc.);
- External feelings of control are related to situational characteristics.

In order to better understand the entrepreneurial intentions of the Lebanese business students in general, and the impact of gender on these intentions in particular, it is essential to first present the social context in which these students are evolving (a). The research methodology (b), the results and the discussions will be then developed in addition to the main findings and research implications of this paper (c).

a- Overview of the Lebanese society

By its geopolitical position, Lebanon has always been at the crossroads of three continents and the obligatory passage between the West and the Arab world, benefiting of the access to Central Asia and Russia⁴. The country has been since long time, the Middle Eastern center of industry, trade and especially tourism. In fact, Lebanon has undeniable individuality distinguishing geographical regions bordering its terrain and climate: it is an open country linking both the mountain and the sea. As for the sea, large passageway, it develops on its shores economic and cultural exchanges with the outside world. Both Lebanese geographical fronts, including a look at the continent on the East and at the sea on the West, profoundly marked the history of the nation and of its inhabitants who were recognized by their innate love for trade. Who says trade, says business. Undertaking business by Lebanese entrepreneurs may have its own characteristics since it is obvious that the physical conditions of a country, the soil, the topography, the climate and particularly its culture print its inhabitant's general characteristics.

In fact, the Lebanese society is a society to moderate male pattern compared, first to other regional societies with a strong masculine and second, to European societies with a female tend (Semerdjian; 2007). According to Chaoul (2003), the identity of the Lebanese society is based on a triptych reflecting the family membership, the regional relationships and the religious relationships:

- *The family membership*: in Lebanon, the system of kinship is rooted in Arab Bedouin structure whose unit feeds on blood ties and kinship clans. This structure is characterized by the exclusion of women from public life, the separation of the genders in social life and rallying around a unifying leader by consensus rather than exercising authority through coercion. The structure is patriarchal with a hierarchy of notable families in a pyramid shape and the presence of a specific protocol and codes of inclusion and exclusion of family groups, knowing that a key role is given according to rank and material wealth;
- *The regional membership*: Lebanese citizens give importance to the geographical area including the place of birth or the original family village often with surnames derived, names of towns and villages to continue the relationship;
- *The religious membership*: these communities have gained over time a legitimacy of leadership in society, through their influence on legislation and the judiciary, their social role played by their charities and their influence on the behavior of citizens in setting prohibited and providing exemplary behavior.

⁴ By doing so, the country was repeatedly invaded and conquered by virtually all peoples of the Mediterranean basin and by nomadic tribes that went up out of the Arabian Peninsula. Finally, because of its rugged configuration, this mountainous country has often hosted refugees from many lands. All these people have left not only an architectural footprint, but also an important historical and cultural contribution.

Modernity and social changes triggered by foreign missionaries as well as ideologies of equality among citizens transmitted during colonization and recaptured by national socialist regimes dominance failed to destroy these affiliations in favor of a purely national belonging and citizenship.

Conducting the present research in this specific social and geographical Lebanese context may highlight the root causes and intentions for undertaking business, particularly by young university business students. Furthermore, this study could bring to light the impact of gender on entrepreneurial intentions of students, testing the hypothesis related to the fact that entrepreneurial intentions may vary according to the gender.

Methodology

The present research uses a sample of 293 respondents to investigate the impact of gender on entrepreneurial intentions of Lebanese business students. In order to test the hypothesis already presented above, a survey based on a questionnaire⁵ was conducted (appendix 1). The primary quantitative data were collected between January and March 2013 from students of both public and private Lebanese universities. The key variables that were measured through the answers to the questions of the survey are both dependent and independent variables.

The independent variables are mainly related to the student's profile and discuss the following characteristics: gender, age, matrimonial status, cultural profile (religion, geographical region, and mother language), educational profile (major, educational level), and professional profile. Furthermore, two additional related variables were considered: whether one or both of the parents are an entrepreneur and whether the student had attended entrepreneurial courses and/or participated to entrepreneurial competitions and/or entrepreneurial workshops/conferences.

The dependent variables are classified under six categories: the personal preference, the expectations, the value, the perceived feasibility, the belief strength and the belief power. Students surveyed were asked to answer 30 questions related to these categories.

The data collected was analyzed and the main findings of this research as long as its discussion and interpretations are presented below.

Results and discussion

The sample studied includes Lebanese business students mainly aged between 18 and 24 (93.9%). Almost the majority of these students are undergraduate students (77.1%) and approximately half of them are not working (62.5%) and preparing for a bachelor degree in finance (47.4%). The composition of the sample is relatively balanced between genders with a small overrepresentation of females (50.9% female students against 49.1% male students).

Furthermore, it is important to mention that although these students are from both public (41.3%) and private universities (57.7%), they have not much attended entrepreneurial courses (64.2%) and have been less implicated in entrepreneurial competitions (19.1%) and entrepreneurial workshops/conferences (15.3%). Finally, it is essential to refer to the fact that only 25.3% of these student's parents are entrepreneurs (table 1).

⁵ This questionnaire was inspired from the survey items developed by Meuleman (2009).

Table 1: Sample characteristics

| | | | | | |
|---|-----------------------------|--|------------------|--------------------|-----------------|
| Gender | Male: 49.1 % | Female: 59.1% | | | |
| Age | <18 : 1.7% | 18-21: 64.5% | 22-24: 29.4% | 25-30: 3.8% | >30: 0.7% |
| Major | Accounting: 7.2% | Marketing: 23.2% | HRM: 1% | Management: 14% | |
| | Finance: 47.4% | Others: 5.5% | No answer: 1.7% | | |
| Educational level | Undergraduate: 77.1% | M1: 9.9% | M2: 11.3% | No answer: 1.7% | |
| Type of university | Public university: 41.3% | Private university: 57.7% | No answer: 1% | | |
| Matrimonial status | Single: 96.2% | Married: 2.7% | No answer: 1% | | |
| Religion | Christian: 54.4% | Muslim: 49.3% | No answer: 1.7% | | |
| Region | Beirut: 34.8% | Mount Lebanon: 28% | South: 10.6% | Bekaa: 8.5% | North: 17.7% |
| Occupation status | Working: 37.5% | Not working: 62.5% | | | |
| Is one of your parents an entrepreneur? | | Yes: 25.3% | No: 74.1% | No answer: 0.7% | |
| As a student, you have: | | Attended entrepreneurial courses: 64.2% | | | |
| | | Participated to entrepreneurial competitions: 19.1% | | | |
| | | Participated to entrepreneurial workshops/conferences: 15.3% | | | |

When testing the hypothesis related to the dependent variables, students participating to the survey answered a list of 30 questions according to the Likert scale. These questions, divided into six categories, were developed from the TPB model in order to study:

- The link between an the Lebanese student's attitude towards becoming an entrepreneur;
- The impact of gender on the actual behavior intentions towards becoming an entrepreneur, since, as already mentioned, the intentions serve as a mediator between attitudinal beliefs and the actual behavior.

The cross tabulation results show many interesting findings (appendix 2). In fact, according to the survey conducted, Lebanese business students dream of becoming entrepreneurs and find this activity extremely attractive although it

evokes mainly negative thoughts, presents more ups than downs and is accompanied by a lot of stress. These findings related to the entrepreneurial intentions of the Lebanese business students, highlight the fact that this population have positive personal attitudes towards becoming entrepreneurs (hypothesis H1 verified). However, this positive feeling of internal control is combined with a negative external feeling of control resulting from a lack of governmental and institutional supports although this activity has a high the social acceptability.

Another important observation that must be mentioned at this level is the low variance between the answers of female and male business students; the highest percentage of each statement was noted in both gender groups in 20 over the 30 statements tested. Furthermore, the answers of the Likert scale in the remaining 10 statements had a very low variance between genders⁶. Therefore the hypotheses H1a, H1b, H2 and H3 are proven false since few variations are noticed among the entrepreneurial intentions of both male and female Lebanese business students. This minimizes the impact of the Lebanese social and cultural environments on the personal behavior of the young citizens, which suggests future researches studying other countries in the MEA and GCC region and taking into consideration a third element of the macro-environment: the economic environment.

Conclusion

Creating a business is an important mean for creating jobs and wealth. However, this business creation, itself, is preceded by the intention to create. This intention, the entrepreneurial intention, has been studied throughout the present paper in order to highlight the relationship between entrepreneurial intentions and gender of business students a particular Asian region: Lebanon.

Although the Lebanese society is known for its tendency for patriarchal and masculine dominance, the findings of this research show a low level of correlation between the gender and the entrepreneurial intentions of Lebanese business students. The impact of the social and cultural environments of this population seems to be neutralized by the common educational environment in which they are evolving; as business students, the education they had as long as the professional experience gained by working or having internships in firms, allowed them to have the same perspective of the entrepreneurial activity. Both male and female students have very similar expectations, values, perceived feasibility, belief strength and power towards the entrepreneurial process.

To conclude, the main findings of the present paper highlight the fact that, Lebanese students enrolled in business faculties or holders of business degrees, have a high perception of their abilities and a positive attitude towards becoming entrepreneurs. However, the subjective norms and the perceived social pressure to engage in such a behavior are negatively affected by the lack of social, financial and governmental support. While there is a consensus to the fact that entrepreneurial activities plays a significant role in creating an active and dynamic economy geared for globalization, policies promoting this process should be set out in an action plan which has clear time frames and evaluation procedures. This action plan could include many procedures related to 1) capacity building mechanisms, 2) support themes, 3) investments into social infrastructures and services, 4) opening up of public contracts to SMEs, 5) raising credit ceilings to encourage micro and small enterprises to expand and invest in their business as long as many other projects susceptible of ensuring a healthy environment for both male and female Lebanese business students to develop their entrepreneurial activities in. However, concerned organizations may have to consider different action plans

⁶ Only one degree level of variance has been noted among these statements.

according to the gender of the potential entrepreneur; in fact, proving that the gender factor does not have a significant impact on the entrepreneurial intentions of Lebanese business students does not necessarily mean that both men and women will engage in entrepreneurial activities with the same score on the TEA. It will be interesting to conduct further researches assessing the TEA per gender in Lebanon and evaluating the impact of the economic environment on this indicator.

References

- Abou Fayad C. (2009), "La fille successeur dans l'entreprise familiale non cotée: le cas du Liban", *Thèse de Doctorat en Sciences de Gestion*, IRGO – Bordeaux IV.
- Abou Fayad C. and Kassab E. (2013), "Impact of the female entrepreneurial activity on the economic and business development of societies. Case of Arab Asian countries", 9th Eurasia Business and Economics society EBES Conference 2013, Rome - ITALY.
- Acs, Z. and al. (2011), *The dynamics of entrepreneurship: Theory and evidence*, chapter Entrepreneurship in World Cities. OUP: Oxford.
- Ajzen I. (1991), "The theory of planned behavior", *Organizational behavior and human decision processes* 50, 179-211 (1991).
- Allen E. and al., *Understanding the gender entrepreneurship gap: A multi-country examination*, In: M. Minniti (ed.) *The Dynamics of Entrepreneurial Activity: Theory and Evidence*, in press. Oxford: Oxford University Press.
- Armitage C. and Conner M. (2001), "Efficacy of the theory of planned behaviour: a metaanalytic review", *British Journal of Social Psychology*, 40, 471-499.
- Baron R. (2004), "The role of affect in the entrepreneurial process", *Academy of Management Review*, volume 33, number 2, 328-340.
- Carree M. and Thurik A (2002), *The Impact of Entrepreneurship on Economic Growth*, *International Handbook of Entrepreneurship Research*, edited by Zoltan Acs and David Audretsch.
- Chaoul M. (2003), "L'hybride reproducteur: regard sur le social et le politique au Liban", *Travaux et jours*, Automne, numéro 72.
- De Bruin A., Brush CG. and Welter F. (2007), "A gender-aware framework for women's entrepreneurship", *International Journal of Entrepreneurship*, 1(1):8-24.
- Ducassy I. et Prevot F.(2010), "Stratégies de diversification des entreprises familiales », *EUROMED Management*, AIMS.
- Fagenson E. (1993), "Personal value systems of men and women entrepreneurs versus managers", *Journal of Business Venturing*, (8).
- Fahed-Sreih J. (2006), *Lebanon, Handbook of Family Business and Family Business Consultation A Global Perspective*, International Business Press, Binghamton, NY.
- Farr-Wharton, R. and Brunetto, Y. (2009), "Female Entrepreneurs as Managers - The Role of Social Capital in Facilitating a Learning Culture", *Gender in Management: An International Journal*, Vol. 24, No. 1, pp. 14-31.
- Gupta V. and al. (2008), "The effect of gender stereotype activation on entrepreneurial intentions", *Journal of Applied Psychology*, volume 93, number 5, 1053-1061.

- Karali S. (2013), *The impact of entrepreneurship education programs on entrepreneurial intentions: an application of the theory of planned behavior*, Master Thesis, Erasmus School of Economics, Rotterdam.
- Kargwell S. (2012), "A Comparative Study on Gender and Entrepreneurship Development: Still a Male's World within UAE cultural Context", *International Journal of Business and Social Science* Vol. 3 No. 6.
- Kelley D. and al. (2011), 2011 Global Report, GEM.
- Kolvereid L. and Isaksen I. (2006), "New business start-up and subsequent entry into self-employment", *Journal of Business Venturing*, 21: 866-885.
- Krueger N. and al. (2000), "Competing models of entrepreneurial intentions", *Journal of Business Venturing*, 15: 411–532.
- Leroy H. and al. (2009), "Gender effects on entrepreneurial intentions: a TPB multi-group analysis at factor and indicator level", Working Paper Steunpunt STOIO.
- Linan F. and Chen Y. (2007), "Testing the entrepreneurial intention model on a two-country sample", *Document de Treball 06/7*, Universitat Autònoma de Barcelona.
- Lorz M. (2011), "The impact of Entrepreneurship Education on Entrepreneurial Intention", *Difo Druck GmbH, Bamberg*.
- Martins L. and Parsons C. (2007), "Effects of gender diversity management on perceptions of organizational attractiveness: the role of individual differences in attitudes and beliefs", *Journal of Applied Psychology*, volume 92, number 3, 865-875.
- Pushkarskaya H. (2008), "Gender differences in determinants of entrepreneurial intentions in a rural setting", *Innovative Marketing*, volume 4, issue 1.
- Shang Z. and al. (2009), "The genetic basis of entrepreneurship: effects of gender and personality", *Organizational Behavior and Human Decision Processes*, 110 (2009) 93 – 107.
- Shaver K. and Scott L. (1991), *Process, Choice: The Psychology of New Venture Creation*. Entrepreneurship Theory and Practice, Person, 16: 23-45.

Appendix 1 – Questionnaire

Questionnaire number:

Thank you for taking part in this research project. The purpose of this study is to collect data in order to determine the impact of gender on entrepreneurial intentions among business students in the Euromed region, particularly the Lebanese society.

Your participation in this project is very significant. If you choose to participate, you will be required to complete one set of questionnaire, and it will take approximately five (5) minutes. All information collected from the survey will be remained private and confidential and no individual particulars will be identified throughout the research. The finding of this survey will only be used for academic purpose.

We appreciate your willingness, time and effort in participating in this survey for making it a success.

| | | | | | |
|--|--|--------------------------------------|---|---------------------------------------|-------------------------------------|
| 1- Gender | <input type="checkbox"/> Male | <input type="checkbox"/> Female | | | |
| 2- Age | <input type="checkbox"/> <18 | <input type="checkbox"/> 18-21 | <input type="checkbox"/> 22-24 | <input type="checkbox"/> 25-30 | <input type="checkbox"/> >30 |
| 3- Major | <input type="checkbox"/> Accounting | <input type="checkbox"/> Marketing | <input type="checkbox"/> Finance | <input type="checkbox"/> HRM | <input type="checkbox"/> Management |
| | <input type="checkbox"/> Other: | | | | |
| 4- Educational level | <input type="checkbox"/> Undergraduate | | <input type="checkbox"/> M1 | <input type="checkbox"/> M2 | |
| 5- Matrimonial status | <input type="checkbox"/> Single | <input type="checkbox"/> Married | <input type="checkbox"/> Divorced | <input type="checkbox"/> Widowed | |
| | If married, number of children: | | | | |
| 6- Religion | <input type="checkbox"/> Christian | <input type="checkbox"/> Druze | <input type="checkbox"/> Muslim | <input type="checkbox"/> Other: | |
| 7- Region | <input type="checkbox"/> Beirut | <input type="checkbox"/> North | <input type="checkbox"/> South | <input type="checkbox"/> Bekaa | <input type="checkbox"/> Mt Lebanon |
| 8- Mother language | <input type="checkbox"/> Arabic | <input type="checkbox"/> English | <input type="checkbox"/> French | <input type="checkbox"/> Other: | |
| 9- Social class to which you belong | <input type="checkbox"/> Low | <input type="checkbox"/> Medium | <input type="checkbox"/> High | | |
| 10- Occupation status | <input type="checkbox"/> Working | <input type="checkbox"/> Not working | | | |
| If working specify the: | <input type="checkbox"/> Starting date: | | | | |
| | <input type="checkbox"/> Current occupancy: | | | | |
| | <input type="checkbox"/> Current position: | | | | |
| 11- Is one of your parents an entrepreneur? | <input type="checkbox"/> No | <input type="checkbox"/> Yes | <input type="checkbox"/> Both | | |
| 12- Have you ever seriously considered becoming an entrepreneur? | <input type="checkbox"/> No | | <input type="checkbox"/> Yes | | |
| 13- You are in a: | <input type="checkbox"/> Public university | | <input type="checkbox"/> Private university | | |
| 14- As a student, you: | <input type="checkbox"/> Attended entrepreneurial courses | | | | |
| | <input type="checkbox"/> Participated to entrepreneurial competitions | | | | |
| | <input type="checkbox"/> Participated to entrepreneurial workshops/conferences, etc. | | | | |

Kindly indicate to which extend the following statements are true

1 2 3 4 5

1 (minimum) to 5 (maximum)

15- PERSONAL PREFERENCE

It seems attractive to become an entrepreneur.

Being an entrepreneur evokes mainly negative thoughts.

Entrepreneurship would present more up than downsides.

I dream of being an entrepreneur one day.

16- EXPECTATIONS

Entrepreneurs experience a lot of autonomy.

Entrepreneurship is accompanied by a lot of stress.

As entrepreneur you make a good living.

Entrepreneurship is a profession full of challenges.
As entrepreneur you can better balance work and private life

17- VALUE

I value autonomy in my future profession.
I would abhor stressful situation at work
I think it is important to earn enough money.
I would like to meet a lot of new challenges in my profession.
I consider the balance between work and private life as important

18- PERCEIVED FEASABILITY

I have every confidence that I can become an entrepreneur.
I believe I can overcome most obstacles in becoming an entrepreneur.
I believe to possess sufficient capacities to become an entrepreneur.
Becoming an entrepreneur seems a feasible option.

19- BELIEF STRENGTH

An entrepreneur requires having applied knowledge (knowhow).
Entrepreneurship requires good external business opportunities.
Becoming an entrepreneur requires creativity in business ideas..
Starting-up a company requires a lot of financial means.
There is not enough governmental support for entrepreneurship.
A favorable entrepreneur-climate is important to start a business

20- BELIEF POWER

I think I have the knowledge (knowhow) to become entrepreneur.
I see myself as able to detect good business opportunities.
I am creative enough to devise new business ideas.
Lack of financial means does not stop me becoming entrepreneur.
Governmental support doesn't affect my entrepreneurial decision.
An unsupportive climate will not hinder my entrepreneurship.

Thank you for your participation.

**Appendix 2 –
Cross tabulation results.**

Gender * P.P.: Attractive Cross tabulation

| | | | P.P.: Attractive | | | | | Total |
|--------|-----------------|-----------------|------------------|-------|-------|-------|-------|--------|
| | | | 1 | 2 | 3 | 4 | 5 | |
| Gender | Male | Count | 6 | 14 | 32 | 40 | 48 | 140 |
| | | % within Gender | 4.3% | 10.0% | 22.9% | 28.6% | 34.3% | 100.0% |
| | | % of Total | 2.1% | 4.9% | 11.1% | 13.9% | 16.7% | 48.6% |
| | Female | Count | 10 | 12 | 41 | 36 | 49 | 148 |
| | | % within Gender | 6.8% | 8.1% | 27.7% | 24.3% | 33.1% | 100.0% |
| | | % of Total | 3.5% | 4.2% | 14.2% | 12.5% | 17.0% | 51.4% |
| Total | Count | | 16 | 26 | 73 | 76 | 97 | 288 |
| | % within Gender | | 5.6% | 9.0% | 25.3% | 26.4% | 33.7% | 100.0% |
| | % of Total | | 5.6% | 9.0% | 25.3% | 26.4% | 33.7% | 100.0% |

Gender * P.P.: Negative thoughts Cross tabulation

| | | | P.P.: Negative thoughts | | | | | Total |
|--------|-----------------|-----------------|-------------------------|-------|-------|-------|------|--------|
| | | | 1 | 2 | 3 | 4 | 5 | |
| Gender | Male | Count | 39 | 32 | 37 | 18 | 11 | 137 |
| | | % within Gender | 28.5% | 23.4% | 27.0% | 13.1% | 8.0% | 100.0% |
| | | % of Total | 13.9% | 11.4% | 13.2% | 6.4% | 3.9% | 48.8% |
| | Female | Count | 33 | 55 | 29 | 19 | 8 | 144 |
| | | % within Gender | 22.9% | 38.2% | 20.1% | 13.2% | 5.6% | 100.0% |
| | | % of Total | 11.7% | 19.6% | 10.3% | 6.8% | 2.8% | 51.2% |
| Total | Count | | 72 | 87 | 66 | 37 | 19 | 281 |
| | % within Gender | | 25.6% | 31.0% | 23.5% | 13.2% | 6.8% | 100.0% |
| | % of Total | | 25.6% | 31.0% | 23.5% | 13.2% | 6.8% | 100.0% |

Gender * P.P.: Present more up than downsides Cross tabulation

| | | | P.P.: Present more up than downsides | | | | | Total |
|--------|-----------------|-----------------|--------------------------------------|-------|-------|-------|-------|--------|
| | | | 1 | 2 | 3 | 4 | 5 | |
| Gender | Male | Count | 9 | 11 | 50 | 41 | 25 | 136 |
| | | % within Gender | 6.6% | 8.1% | 36.8% | 30.1% | 18.4% | 100.0% |
| | | % of Total | 3.2% | 4.0% | 18.0% | 14.7% | 9.0% | 48.9% |
| | Female | Count | 4 | 22 | 55 | 33 | 28 | 142 |
| | | % within Gender | 2.8% | 15.5% | 38.7% | 23.2% | 19.7% | 100.0% |
| | | % of Total | 1.4% | 7.9% | 19.8% | 11.9% | 10.1% | 51.1% |
| Total | Count | | 13 | 33 | 105 | 74 | 53 | 278 |
| | % within Gender | | 4.7% | 11.9% | 37.8% | 26.6% | 19.1% | 100.0% |
| | % of Total | | 4.7% | 11.9% | 37.8% | 26.6% | 19.1% | 100.0% |

Gender * P.P.: Dream Cross tabulation

| | | | P.P.: Dream | | | | | Total |
|--------|-----------------|-----------------|-------------|-------|-------|-------|-------|--------|
| | | | 1 | 2 | 3 | 4 | 5 | |
| Gender | Male | Count | 6 | 12 | 24 | 37 | 58 | 137 |
| | | % within Gender | 4.4% | 8.8% | 17.5% | 27.0% | 42.3% | 100.0% |
| | | % of Total | 2.1% | 4.3% | 8.5% | 13.2% | 20.6% | 48.8% |
| | Female | Count | 17 | 17 | 27 | 30 | 53 | 144 |
| | | % within Gender | 11.8% | 11.8% | 18.8% | 20.8% | 36.8% | 100.0% |
| | | % of Total | 6.0% | 6.0% | 9.6% | 10.7% | 18.9% | 51.2% |
| Total | Count | | 23 | 29 | 51 | 67 | 111 | 281 |
| | % within Gender | | 8.2% | 10.3% | 18.1% | 23.8% | 39.5% | 100.0% |
| | % of Total | | 8.2% | 10.3% | 18.1% | 23.8% | 39.5% | 100.0% |

Gender * Exp.: Autonomy Cross tabulation

| | | | Exp.: Autonomy | | | | | Total |
|--------|-----------------|-----------------|----------------|-------|-------|-------|-------|--------|
| | | | 1 | 2 | 3 | 4 | 5 | |
| Gender | Male | Count | 7 | 15 | 37 | 38 | 40 | 137 |
| | | % within Gender | 5.1% | 10.9% | 27.0% | 27.7% | 29.2% | 100.0% |
| | | % of Total | 2.5% | 5.3% | 13.2% | 13.5% | 14.2% | 48.8% |
| | Female | Count | 9 | 16 | 44 | 41 | 34 | 144 |
| | | % within Gender | 6.3% | 11.1% | 30.6% | 28.5% | 23.6% | 100.0% |
| | | % of Total | 3.2% | 5.7% | 15.7% | 14.6% | 12.1% | 51.2% |
| Total | Count | | 16 | 31 | 81 | 79 | 74 | 281 |
| | % within Gender | | 5.7% | 11.0% | 28.8% | 28.1% | 26.3% | 100.0% |
| | % of Total | | 5.7% | 11.0% | 28.8% | 28.1% | 26.3% | 100.0% |

Gender * Exp.: Stress Cross tabulation

| | | | Exp.: Stress | | | | | Total |
|--------|-----------------|-----------------|--------------|------|-------|-------|-------|--------|
| | | | 1 | 2 | 3 | 4 | 5 | |
| Gender | Male | Count | 10 | 12 | 37 | 49 | 31 | 139 |
| | | % within Gender | 7.2% | 8.6% | 26.6% | 35.3% | 22.3% | 100.0% |
| | | % of Total | 3.5% | 4.2% | 13.0% | 17.3% | 10.9% | 48.9% |
| | Female | Count | 5 | 5 | 36 | 53 | 46 | 145 |
| | | % within Gender | 3.4% | 3.4% | 24.8% | 36.6% | 31.7% | 100.0% |
| | | % of Total | 1.8% | 1.8% | 12.7% | 18.7% | 16.2% | 51.1% |
| Total | Count | | 15 | 17 | 73 | 102 | 77 | 284 |
| | % within Gender | | 5.3% | 6.0% | 25.7% | 35.9% | 27.1% | 100.0% |
| | % of Total | | 5.3% | 6.0% | 25.7% | 35.9% | 27.1% | 100.0% |

Gender * Exp.: Good living Cross tabulation

| | | | Exp.: Good living | | | | | Total |
|--------|-----------------|-----------------|-------------------|-------|-------|-------|-------|--------|
| | | | 1 | 2 | 3 | 4 | 5 | |
| Gender | Male | Count | 4 | 14 | 45 | 37 | 35 | 135 |
| | | % within Gender | 3.0% | 10.4% | 33.3% | 27.4% | 25.9% | 100.0% |
| | | % of Total | 1.4% | 5.1% | 16.2% | 13.4% | 12.6% | 48.7% |
| | Female | Count | 2 | 5 | 33 | 54 | 48 | 142 |
| | | % within Gender | 1.4% | 3.5% | 23.2% | 38.0% | 33.8% | 100.0% |
| | | % of Total | .7% | 1.8% | 11.9% | 19.5% | 17.3% | 51.3% |
| Total | Count | | 6 | 19 | 78 | 91 | 83 | 277 |
| | % within Gender | | 2.2% | 6.9% | 28.2% | 32.9% | 30.0% | 100.0% |
| | % of Total | | 2.2% | 6.9% | 28.2% | 32.9% | 30.0% | 100.0% |

Gender * Exp.: Challenges Cross tabulation

| | | | Exp.: Challenges | | | | | Total |
|--------|-----------------|-----------------|------------------|------|-------|-------|-------|--------|
| | | | 1 | 2 | 3 | 4 | 5 | |
| Gender | Male | Count | 4 | 6 | 26 | 50 | 50 | 136 |
| | | % within Gender | 2.9% | 4.4% | 19.1% | 36.8% | 36.8% | 100.0% |
| | | % of Total | 1.4% | 2.2% | 9.3% | 17.9% | 17.9% | 48.7% |
| | Female | Count | 2 | 10 | 11 | 45 | 75 | 143 |
| | | % within Gender | 1.4% | 7.0% | 7.7% | 31.5% | 52.4% | 100.0% |
| | | % of Total | .7% | 3.6% | 3.9% | 16.1% | 26.9% | 51.3% |
| Total | Count | | 6 | 16 | 37 | 95 | 125 | 279 |
| | % within Gender | | 2.2% | 5.7% | 13.3% | 34.1% | 44.8% | 100.0% |
| | % of Total | | 2.2% | 5.7% | 13.3% | 34.1% | 44.8% | 100.0% |

Gender * Exp.: Balance work and private life Cross tabulation

| | | | Exp.: Balance work and private life | | | | | Total |
|--------|-----------------|-----------------|-------------------------------------|-------|-------|-------|-------|--------|
| | | | 1 | 2 | 3 | 4 | 5 | |
| Gender | Male | Count | 6 | 15 | 41 | 35 | 37 | 134 |
| | | % within Gender | 4.5% | 11.2% | 30.6% | 26.1% | 27.6% | 100.0% |
| | | % of Total | 2.2% | 5.5% | 15.0% | 12.8% | 13.5% | 48.9% |
| | Female | Count | 9 | 19 | 53 | 31 | 28 | 140 |
| | | % within Gender | 6.4% | 13.6% | 37.9% | 22.1% | 20.0% | 100.0% |
| | | % of Total | 3.3% | 6.9% | 19.3% | 11.3% | 10.2% | 51.1% |
| Total | Count | | 15 | 34 | 94 | 66 | 65 | 274 |
| | % within Gender | | 5.5% | 12.4% | 34.3% | 24.1% | 23.7% | 100.0% |
| | % of Total | | 5.5% | 12.4% | 34.3% | 24.1% | 23.7% | 100.0% |

Gender * Value: Autonomy Cross tabulation

| | | | Value: Autonomy | | | | | Total |
|--------|-----------------|-----------------|-----------------|------|-------|-------|-------|--------|
| | | | 1 | 2 | 3 | 4 | 5 | |
| Gender | Male | Count | 4 | 11 | 43 | 37 | 37 | 132 |
| | | % within Gender | 3.0% | 8.3% | 32.6% | 28.0% | 28.0% | 100.0% |
| | | % of Total | 1.4% | 4.0% | 15.5% | 13.4% | 13.4% | 47.7% |
| | Female | Count | 4 | 13 | 43 | 41 | 44 | 145 |
| | | % within Gender | 2.8% | 9.0% | 29.7% | 28.3% | 30.3% | 100.0% |
| | | % of Total | 1.4% | 4.7% | 15.5% | 14.8% | 15.9% | 52.3% |
| Total | Count | | 8 | 24 | 86 | 78 | 81 | 277 |
| | % within Gender | | 2.9% | 8.7% | 31.0% | 28.2% | 29.2% | 100.0% |
| | % of Total | | 2.9% | 8.7% | 31.0% | 28.2% | 29.2% | 100.0% |

Gender * Value: Stress Cross tabulation

| | | | Value: Stress | | | | | Total |
|--------|--------|-----------------|---------------|-------|-------|-------|-------|--------|
| | | | 1 | 2 | 3 | 4 | 5 | |
| Gender | Male | Count | 6 | 18 | 45 | 40 | 28 | 137 |
| | | % within Gender | 4.4% | 13.1% | 32.8% | 29.2% | 20.4% | 100.0% |
| | | % of Total | 2.1% | 6.4% | 16.1% | 14.3% | 10.0% | 48.9% |
| | Female | Count | 15 | 13 | 43 | 42 | 30 | 143 |
| | | % within Gender | 10.5% | 9.1% | 30.1% | 29.4% | 21.0% | 100.0% |
| | | % of Total | 5.4% | 4.6% | 15.4% | 15.0% | 10.7% | 51.1% |
| Total | | Count | 21 | 31 | 88 | 82 | 58 | 280 |
| | | % within Gender | 7.5% | 11.1% | 31.4% | 29.3% | 20.7% | 100.0% |
| | | % of Total | 7.5% | 11.1% | 31.4% | 29.3% | 20.7% | 100.0% |

Gender * Value: Money Cross tabulation

| | | | Value: Money | | | | | Total |
|--------|--------|-----------------|--------------|------|-------|-------|-------|--------|
| | | | 1 | 2 | 3 | 4 | 5 | |
| Gender | Male | Count | 5 | 12 | 32 | 45 | 41 | 135 |
| | | % within Gender | 3.7% | 8.9% | 23.7% | 33.3% | 30.4% | 100.0% |
| | | % of Total | 1.8% | 4.3% | 11.3% | 16.0% | 14.5% | 47.9% |
| | Female | Count | 3 | 5 | 28 | 50 | 61 | 147 |
| | | % within Gender | 2.0% | 3.4% | 19.0% | 34.0% | 41.5% | 100.0% |
| | | % of Total | 1.1% | 1.8% | 9.9% | 17.7% | 21.6% | 52.1% |
| Total | | Count | 8 | 17 | 60 | 95 | 102 | 282 |
| | | % within Gender | 2.8% | 6.0% | 21.3% | 33.7% | 36.2% | 100.0% |
| | | % of Total | 2.8% | 6.0% | 21.3% | 33.7% | 36.2% | 100.0% |

Gender * Value: Challenges Cross tabulation

| | | | Value: Challenges | | | | | Total |
|--------|--------|-----------------|-------------------|------|-------|-------|-------|--------|
| | | | 1 | 2 | 3 | 4 | 5 | |
| Gender | Male | Count | 4 | 10 | 29 | 50 | 44 | 137 |
| | | % within Gender | 2.9% | 7.3% | 21.2% | 36.5% | 32.1% | 100.0% |
| | | % of Total | 1.4% | 3.5% | 10.2% | 17.6% | 15.5% | 48.2% |
| | Female | Count | 5 | 7 | 31 | 47 | 57 | 147 |
| | | % within Gender | 3.4% | 4.8% | 21.1% | 32.0% | 38.8% | 100.0% |
| | | % of Total | 1.8% | 2.5% | 10.9% | 16.5% | 20.1% | 51.8% |
| Total | | Count | 9 | 17 | 60 | 97 | 101 | 284 |
| | | % within Gender | 3.2% | 6.0% | 21.1% | 34.2% | 35.6% | 100.0% |
| | | % of Total | 3.2% | 6.0% | 21.1% | 34.2% | 35.6% | 100.0% |

Gender * Value: Balance work and private life Cross tabulation

| | | | Value: Balance work and private life | | | | | Total |
|--------|--------|-----------------|--------------------------------------|-------|-------|-------|-------|--------|
| | | | 1 | 2 | 3 | 4 | 5 | |
| Gender | Male | Count | 1 | 14 | 23 | 30 | 68 | 136 |
| | | % within Gender | .7% | 10.3% | 16.9% | 22.1% | 50.0% | 100.0% |
| | | % of Total | .4% | 5.0% | 8.2% | 10.7% | 24.3% | 48.6% |
| | Female | Count | 0 | 4 | 13 | 37 | 90 | 144 |
| | | % within Gender | 0.0% | 2.8% | 9.0% | 25.7% | 62.5% | 100.0% |
| | | % of Total | 0.0% | 1.4% | 4.6% | 13.2% | 32.1% | 51.4% |
| Total | | Count | 1 | 18 | 36 | 67 | 158 | 280 |
| | | % within Gender | .4% | 6.4% | 12.9% | 23.9% | 56.4% | 100.0% |
| | | % of Total | .4% | 6.4% | 12.9% | 23.9% | 56.4% | 100.0% |

Gender * P.F.: Confidence Cross tabulation

| | | | P.F.: Confidence | | | | | Total |
|--------|-----------------|-----------------|------------------|-------|-------|-------|-------|--------|
| | | | 1 | 2 | 3 | 4 | 5 | |
| Gender | Male | Count | 7 | 13 | 34 | 41 | 40 | 135 |
| | | % within Gender | 5.2% | 9.6% | 25.2% | 30.4% | 29.6% | 100.0% |
| | | % of Total | 2.5% | 4.6% | 12.1% | 14.5% | 14.2% | 47.9% |
| | Female | Count | 8 | 20 | 45 | 46 | 28 | 147 |
| | | % within Gender | 5.4% | 13.6% | 30.6% | 31.3% | 19.0% | 100.0% |
| | | % of Total | 2.8% | 7.1% | 16.0% | 16.3% | 9.9% | 52.1% |
| Total | Count | | 15 | 33 | 79 | 87 | 68 | 282 |
| | % within Gender | | 5.3% | 11.7% | 28.0% | 30.9% | 24.1% | 100.0% |
| | % of Total | | 5.3% | 11.7% | 28.0% | 30.9% | 24.1% | 100.0% |

Gender * P.F.: Overcome obstacles Cross tabulation

| | | | P.F.: Overcome obstacles | | | | | Total |
|--------|-----------------|-----------------|--------------------------|-------|-------|-------|-------|--------|
| | | | 1 | 2 | 3 | 4 | 5 | |
| Gender | Male | Count | 5 | 15 | 47 | 41 | 28 | 136 |
| | | % within Gender | 3.7% | 11.0% | 34.6% | 30.1% | 20.6% | 100.0% |
| | | % of Total | 1.8% | 5.3% | 16.7% | 14.5% | 9.9% | 48.2% |
| | Female | Count | 3 | 24 | 43 | 61 | 15 | 146 |
| | | % within Gender | 2.1% | 16.4% | 29.5% | 41.8% | 10.3% | 100.0% |
| | | % of Total | 1.1% | 8.5% | 15.2% | 21.6% | 5.3% | 51.8% |
| Total | Count | | 8 | 39 | 90 | 102 | 43 | 282 |
| | % within Gender | | 2.8% | 13.8% | 31.9% | 36.2% | 15.2% | 100.0% |
| | % of Total | | 2.8% | 13.8% | 31.9% | 36.2% | 15.2% | 100.0% |

Gender * P.F.: Capacities Cross tabulation

| | | | P.F.: Capacities | | | | | Total |
|--------|-----------------|-----------------|------------------|------|-------|-------|-------|--------|
| | | | 1 | 2 | 3 | 4 | 5 | |
| Gender | Male | Count | 3 | 13 | 39 | 48 | 33 | 136 |
| | | % within Gender | 2.2% | 9.6% | 28.7% | 35.3% | 24.3% | 100.0% |
| | | % of Total | 1.1% | 4.6% | 13.9% | 17.1% | 11.7% | 48.4% |
| | Female | Count | 4 | 10 | 65 | 41 | 25 | 145 |
| | | % within Gender | 2.8% | 6.9% | 44.8% | 28.3% | 17.2% | 100.0% |
| | | % of Total | 1.4% | 3.6% | 23.1% | 14.6% | 8.9% | 51.6% |
| Total | Count | | 7 | 23 | 104 | 89 | 58 | 281 |
| | % within Gender | | 2.5% | 8.2% | 37.0% | 31.7% | 20.6% | 100.0% |
| | % of Total | | 2.5% | 8.2% | 37.0% | 31.7% | 20.6% | 100.0% |

Gender * P.F.: Feasible option Cross tabulation

| | | | P.F.: Feasible option | | | | | Total |
|--------|-----------------|-----------------|-----------------------|-------|-------|-------|-------|--------|
| | | | 1 | 2 | 3 | 4 | 5 | |
| Gender | Male | Count | 10 | 19 | 39 | 45 | 21 | 134 |
| | | % within Gender | 7.5% | 14.2% | 29.1% | 33.6% | 15.7% | 100.0% |
| | | % of Total | 3.6% | 6.9% | 14.1% | 16.3% | 7.6% | 48.6% |
| | Female | Count | 11 | 21 | 52 | 41 | 17 | 142 |
| | | % within Gender | 7.7% | 14.8% | 36.6% | 28.9% | 12.0% | 100.0% |
| | | % of Total | 4.0% | 7.6% | 18.8% | 14.9% | 6.2% | 51.4% |
| Total | Count | | 21 | 40 | 91 | 86 | 38 | 276 |
| | % within Gender | | 7.6% | 14.5% | 33.0% | 31.2% | 13.8% | 100.0% |
| | % of Total | | 7.6% | 14.5% | 33.0% | 31.2% | 13.8% | 100.0% |

Gender * B.S.: Having applied knowledge Cross tabulation

| | | | B.S.: Having applied knowledge | | | | | Total |
|--------|-----------------|-----------------|--------------------------------|-------|-------|-------|-------|--------|
| | | | 1 | 2 | 3 | 4 | 5 | |
| Gender | Male | Count | 1 | 15 | 16 | 46 | 57 | 135 |
| | | % within Gender | .7% | 11.1% | 11.9% | 34.1% | 42.2% | 100.0% |
| | | % of Total | .4% | 5.3% | 5.7% | 16.4% | 20.3% | 48.0% |
| | Female | Count | 5 | 3 | 21 | 40 | 77 | 146 |
| | | % within Gender | 3.4% | 2.1% | 14.4% | 27.4% | 52.7% | 100.0% |
| | | % of Total | 1.8% | 1.1% | 7.5% | 14.2% | 27.4% | 52.0% |
| Total | Count | | 6 | 18 | 37 | 86 | 134 | 281 |
| | % within Gender | | 2.1% | 6.4% | 13.2% | 30.6% | 47.7% | 100.0% |
| | % of Total | | 2.1% | 6.4% | 13.2% | 30.6% | 47.7% | 100.0% |

Gender * B.S.: Good external business opportunities Cross tabulation

| | | | B.S.: Good external business opportunities | | | | | Total |
|--------|-----------------|-----------------|--|------|-------|-------|-------|--------|
| | | | 1 | 2 | 3 | 4 | 5 | |
| Gender | Male | Count | 2 | 7 | 40 | 44 | 41 | 134 |
| | | % within Gender | 1.5% | 5.2% | 29.9% | 32.8% | 30.6% | 100.0% |
| | | % of Total | .7% | 2.5% | 14.2% | 15.7% | 14.6% | 47.7% |
| | Female | Count | 2 | 5 | 25 | 57 | 58 | 147 |
| | | % within Gender | 1.4% | 3.4% | 17.0% | 38.8% | 39.5% | 100.0% |
| | | % of Total | .7% | 1.8% | 8.9% | 20.3% | 20.6% | 52.3% |
| Total | Count | | 4 | 12 | 65 | 101 | 99 | 281 |
| | % within Gender | | 1.4% | 4.3% | 23.1% | 35.9% | 35.2% | 100.0% |
| | % of Total | | 1.4% | 4.3% | 23.1% | 35.9% | 35.2% | 100.0% |

Gender * B.S.: Creativity Cross tabulation

| | | | B.S.: Creativity | | | | | Total |
|--------|-----------------|-----------------|------------------|------|-------|-------|-------|--------|
| | | | 1 | 2 | 3 | 4 | 5 | |
| Gender | Male | Count | 5 | 11 | 18 | 34 | 67 | 135 |
| | | % within Gender | 3.7% | 8.1% | 13.3% | 25.2% | 49.6% | 100.0% |
| | | % of Total | 1.8% | 3.9% | 6.4% | 12.1% | 23.8% | 47.9% |
| | Female | Count | 0 | 5 | 15 | 34 | 93 | 147 |
| | | % within Gender | 0.0% | 3.4% | 10.2% | 23.1% | 63.3% | 100.0% |
| | | % of Total | 0.0% | 1.8% | 5.3% | 12.1% | 33.0% | 52.1% |
| Total | Count | | 5 | 16 | 33 | 68 | 160 | 282 |
| | % within Gender | | 1.8% | 5.7% | 11.7% | 24.1% | 56.7% | 100.0% |
| | % of Total | | 1.8% | 5.7% | 11.7% | 24.1% | 56.7% | 100.0% |

Gender * B.S.: Financial means Cross tabulation

| | | | B.S.: Financial means | | | | | Total |
|--------|-----------------|-----------------|-----------------------|-------|-------|-------|-------|--------|
| | | | 1 | 2 | 3 | 4 | 5 | |
| Gender | Male | Count | 6 | 14 | 31 | 36 | 50 | 137 |
| | | % within Gender | 4.4% | 10.2% | 22.6% | 26.3% | 36.5% | 100.0% |
| | | % of Total | 2.1% | 4.9% | 10.9% | 12.7% | 17.6% | 48.2% |
| | Female | Count | 2 | 7 | 18 | 57 | 63 | 147 |
| | | % within Gender | 1.4% | 4.8% | 12.2% | 38.8% | 42.9% | 100.0% |
| | | % of Total | .7% | 2.5% | 6.3% | 20.1% | 22.2% | 51.8% |
| Total | Count | | 8 | 21 | 49 | 93 | 113 | 284 |
| | % within Gender | | 2.8% | 7.4% | 17.3% | 32.7% | 39.8% | 100.0% |
| | % of Total | | 2.8% | 7.4% | 17.3% | 32.7% | 39.8% | 100.0% |

Gender * B.S.: No governmental support Cross tabulation

| | | | B.S.: No governmental support | | | | | Total |
|--------|-----------------|-----------------|-------------------------------|-------|-------|-------|-------|--------|
| | | | 1 | 2 | 3 | 4 | 5 | |
| Gender | Male | Count | 5 | 16 | 31 | 26 | 56 | 134 |
| | | % within Gender | 3.7% | 11.9% | 23.1% | 19.4% | 41.8% | 100.0% |
| | | % of Total | 1.8% | 5.7% | 11.1% | 9.3% | 20.0% | 47.9% |
| | Female | Count | 10 | 18 | 31 | 39 | 48 | 146 |
| | | % within Gender | 6.8% | 12.3% | 21.2% | 26.7% | 32.9% | 100.0% |
| | | % of Total | 3.6% | 6.4% | 11.1% | 13.9% | 17.1% | 52.1% |
| Total | Count | | 15 | 34 | 62 | 65 | 104 | 280 |
| | % within Gender | | 5.4% | 12.1% | 22.1% | 23.2% | 37.1% | 100.0% |
| | % of Total | | 5.4% | 12.1% | 22.1% | 23.2% | 37.1% | 100.0% |

Gender * B.S.: Favorable climate Cross tabulation

| | | | B.S.: Favorable climate | | | | | Total |
|--------|-----------------|-----------------|-------------------------|------|-------|-------|-------|--------|
| | | | 1 | 2 | 3 | 4 | 5 | |
| Gender | Male | Count | 2 | 7 | 27 | 46 | 52 | 134 |
| | | % within Gender | 1.5% | 5.2% | 20.1% | 34.3% | 38.8% | 100.0% |
| | | % of Total | .7% | 2.5% | 9.7% | 16.6% | 18.8% | 48.4% |
| | Female | Count | 2 | 10 | 20 | 48 | 63 | 143 |
| | | % within Gender | 1.4% | 7.0% | 14.0% | 33.6% | 44.1% | 100.0% |
| | | % of Total | .7% | 3.6% | 7.2% | 17.3% | 22.7% | 51.6% |
| Total | Count | | 4 | 17 | 47 | 94 | 115 | 277 |
| | % within Gender | | 1.4% | 6.1% | 17.0% | 33.9% | 41.5% | 100.0% |
| | % of Total | | 1.4% | 6.1% | 17.0% | 33.9% | 41.5% | 100.0% |

Gender * B.P.: Knowledge Cross tabulation

| | | | B.P.: Knowledge | | | | | Total |
|--------|-----------------|-----------------|-----------------|-------|-------|-------|-------|--------|
| | | | 1 | 2 | 3 | 4 | 5 | |
| Gender | Male | Count | 11 | 16 | 42 | 38 | 28 | 135 |
| | | % within Gender | 8.1% | 11.9% | 31.1% | 28.1% | 20.7% | 100.0% |
| | | % of Total | 3.9% | 5.7% | 14.8% | 13.4% | 9.9% | 47.7% |
| | Female | Count | 4 | 9 | 68 | 49 | 18 | 148 |
| | | % within Gender | 2.7% | 6.1% | 45.9% | 33.1% | 12.2% | 100.0% |
| | | % of Total | 1.4% | 3.2% | 24.0% | 17.3% | 6.4% | 52.3% |
| Total | Count | | 15 | 25 | 110 | 87 | 46 | 283 |
| | % within Gender | | 5.3% | 8.8% | 38.9% | 30.7% | 16.3% | 100.0% |
| | % of Total | | 5.3% | 8.8% | 38.9% | 30.7% | 16.3% | 100.0% |

| | | | B.P.: Good business opportunities | | | | | |
|--------|-----------------|-----------------|-----------------------------------|-------|-------|-------|-------|------|
| | | | 1 | 2 | 3 | 4 | 5 | 54 |
| Gender | Male | Count | 2 | 15 | 46 | 56 | 16 | 0 |
| | | % within Gender | 1.5% | 11.1% | 34.1% | 41.5% | 11.9% | 0.0% |
| | | % of Total | .7% | 5.3% | 16.3% | 19.8% | 5.7% | 0.0% |
| | Female | Count | 3 | 10 | 50 | 64 | 20 | 1 |
| | | % within Gender | 2.0% | 6.8% | 33.8% | 43.2% | 13.5% | .7% |
| | | % of Total | 1.1% | 3.5% | 17.7% | 22.6% | 7.1% | .4% |
| Total | Count | | 5 | 25 | 96 | 120 | 36 | 1 |
| | % within Gender | | 1.8% | 8.8% | 33.9% | 42.4% | 12.7% | .4% |
| | % of Total | | 1.8% | 8.8% | 33.9% | 42.4% | 12.7% | .4% |

Gender * B.P.: New business ideas Cross tabulation

| | | | B.P.: New business ideas | | | | | Total |
|--------|-----------------|-----------------|--------------------------|------|-------|-------|-------|--------|
| | | | 1 | 2 | 3 | 4 | 5 | |
| Gender | Male | Count | 4 | 12 | 41 | 44 | 30 | 131 |
| | | % within Gender | 3.1% | 9.2% | 31.3% | 33.6% | 22.9% | 100.0% |
| | | % of Total | 1.4% | 4.3% | 14.7% | 15.8% | 10.8% | 47.1% |
| | Female | Count | 2 | 14 | 46 | 55 | 30 | 147 |
| | | % within Gender | 1.4% | 9.5% | 31.3% | 37.4% | 20.4% | 100.0% |
| | | % of Total | .7% | 5.0% | 16.5% | 19.8% | 10.8% | 52.9% |
| Total | Count | | 6 | 26 | 87 | 99 | 60 | 278 |
| | % within Gender | | 2.2% | 9.4% | 31.3% | 35.6% | 21.6% | 100.0% |
| | % of Total | | 2.2% | 9.4% | 31.3% | 35.6% | 21.6% | 100.0% |

Gender * B.P.: Lack of financial means Cross tabulation

| | | | B.P.: Lack of financial means | | | | | Total |
|--------|-----------------|-----------------|-------------------------------|-------|-------|-------|-------|--------|
| | | | 1 | 2 | 3 | 4 | 5 | |
| Gender | Male | Count | 13 | 24 | 40 | 31 | 26 | 134 |
| | | % within Gender | 9.7% | 17.9% | 29.9% | 23.1% | 19.4% | 100.0% |
| | | % of Total | 4.7% | 8.6% | 14.3% | 11.1% | 9.3% | 48.0% |
| | Female | Count | 9 | 22 | 45 | 40 | 29 | 145 |
| | | % within Gender | 6.2% | 15.2% | 31.0% | 27.6% | 20.0% | 100.0% |
| | | % of Total | 3.2% | 7.9% | 16.1% | 14.3% | 10.4% | 52.0% |
| Total | Count | | 22 | 46 | 85 | 71 | 55 | 279 |
| | % within Gender | | 7.9% | 16.5% | 30.5% | 25.4% | 19.7% | 100.0% |
| | % of Total | | 7.9% | 16.5% | 30.5% | 25.4% | 19.7% | 100.0% |

Gender * B.P.: Governmental support Cross tabulation

| | | | B.P.: Governmental support | | | | | Total |
|--------|-----------------|-----------------|----------------------------|-------|-------|-------|-------|--------|
| | | | 1 | 2 | 3 | 4 | 5 | |
| Gender | Male | Count | 14 | 27 | 29 | 37 | 27 | 134 |
| | | % within Gender | 10.4% | 20.1% | 21.6% | 27.6% | 20.1% | 100.0% |
| | | % of Total | 5.0% | 9.7% | 10.4% | 13.3% | 9.7% | 48.0% |
| | Female | Count | 10 | 20 | 46 | 45 | 24 | 145 |
| | | % within Gender | 6.9% | 13.8% | 31.7% | 31.0% | 16.6% | 100.0% |
| | | % of Total | 3.6% | 7.2% | 16.5% | 16.1% | 8.6% | 52.0% |
| Total | Count | | 24 | 47 | 75 | 82 | 51 | 279 |
| | % within Gender | | 8.6% | 16.8% | 26.9% | 29.4% | 18.3% | 100.0% |
| | % of Total | | 8.6% | 16.8% | 26.9% | 29.4% | 18.3% | 100.0% |

| | | | B.P.: Unsupportive climate | | | | | |
|--------|-----------------|-----------------|----------------------------|-------|-------|-------|-------|------|
| | | | 1 | 2 | 3 | 4 | 5 | 21 |
| Gender | Male | Count | 11 | 22 | 49 | 24 | 28 | 0 |
| | | % within Gender | 8.2% | 16.4% | 36.6% | 17.9% | 20.9% | 0.0% |
| | | % of Total | 4.0% | 7.9% | 17.6% | 8.6% | 10.1% | 0.0% |
| | Female | Count | 6 | 21 | 47 | 46 | 23 | 1 |
| | | % within Gender | 4.2% | 14.6% | 32.6% | 31.9% | 16.0% | .7% |
| | | % of Total | 2.2% | 7.6% | 16.9% | 16.5% | 8.3% | .4% |
| Total | Count | | 17 | 43 | 96 | 70 | 51 | 1 |
| | % within Gender | | 6.1% | 15.5% | 34.5% | 25.2% | 18.3% | .4% |
| | % of Total | | 6.1% | 15.5% | 34.5% | 25.2% | 18.3% | .4% |

A study on investment patterns of sovereign wealth funds from developing countries: The case of China

By:

Ewa Cieřlik

Poznan University of Economics

Poland

Abstract:

Chinese sovereign wealth funds have invested more and more aggressively in the foreign capital markets recently. They have focused not only on financial markets in developed countries (e.g. the European Union and the U.S.), but they have also concentrated on commodity investment in emerging markets (mainly in African or Central Asian markets) recently. The aim of this article is to examine investment performance and patterns of the two largest Chinese sovereign wealth funds: the State Administration of Foreign Exchange Investment Company and the China Investment Corporation. The paper bases on the multidimensional analysis of press releases and companies' reports in terms of investments directions and behavior of China's SWFs. The article presents sectorial and geographical directions of China's SWFs investment and attempts to describe how the investment strategy of mentioned vehicles has changed until mid-2013. The main limitation of adopted methodology derives from the lack of information and poor transparency of analyzed funds. Moreover to obtain the correct information on the details of funds investment (size, value, date) each press release requires extensive verification.

Key words: *sovereign wealth fund, China, State Administration of Foreign Exchange Investment Company, China Investment Corporation, investment strategy*

Introduction

The term "sovereign wealth fund" (SWF) often appears in press reports over the current global economic crisis. In the time of global economic downturn, the funds in developing countries have become very active, especially in Asia and the Middle East. Although national investment vehicles have been in operation for 60 years⁷, their activity was never as extensive as nowadays. The existence of such funds has emerged as a result of the processes of internationalization and progressive abolition of restrictions on the movement of capital, and the global economic crisis has only enhanced the scale of capital available to these vehicles. The activity of SWFs in the capital markets arises mainly due to the need for more profitable investments in the light of the U.S. dollar depreciation, and the declining rates of return on investment in safe debt instruments (e.g. treasury bonds). Since mid-2008, SWFs have invested heavily in the largest international corporations at the brink of financial bankruptcy. In view of the prevailing economic downturn, sovereign investment funds often play the role of the lender of last resort for many of the capital market institutions, corporations, and even whole countries suffering from the crisis. At the end of 2012 all SWFs in the world officially managed the assets worth of \$ 5.2 trillion (roughly 1/3 of the GDP of the U.S.) (SWF Institute, 2013).

⁷ The first such fund, Kuwait Investment Board (recently renamed Kuwait Investment Authority), was established in Kuwait in 1953 after the discovery of oil. The purpose of the fund was the management of surplus revenues from oil exports. Another small SWF, The Revenue Stabilization Fund, deriving capital from gas fields, was established 13 years later on an island in the Pacific - Kiribati.

Economic analysts watching the activities of the SWF agree that they play an important role in mitigating the consequences of the crisis. However, the same economists are concerned with the growing dependence of many corporations, and even entire countries, on the capital belonging to SWFs. In addition, the lack of transparency in the functioning of many sovereign investment funds do not allow for a clear evaluation of the activities of these institutions and increases concerns about the real intentions of SWFs⁸. Other doubt raising factors include the aggressive conduct of SWFs, their investment focused on strategic sectors of the given countries (e.g. energy sector, telecommunication, transport) and the ability to pursue geopolitical objectives of the countries they represent.

The SWFs particularly observed by economists since the end of 2007 are the Chinese vehicles. State Administration of Foreign Exchange Investment Corporation, China Investment Corporation, National Social Security Fund, and China-Africa Development Fund together officially manage nearly \$ 1.2 trillion. It means that they own 22.8 percent of total SWFs' assets (figure 1). The available funds are invested in various projects around the world - from the purchase of small blocks of shares in global markets to direct foreign investment. The China Development Bank, one of the three banks pursuing economic policies of the Middle Kingdom, the so-called "policy banks", is occasionally included among the Chinese national investment vehicles. Although the activity of the bank is focused on national projects⁹, its investment strategy in recent years has visibly expanded to include purchases of shares of foreign institutions, e.g. the United Kingdom (Wearden, 2007), or engaging in international investment projects, particularly related to the commodity sector, e.g. in developing countries: South Africa (Bloomberg, 2011).

The article focuses on the characteristics of investment patterns and performance of the two largest Chinese SWFs: State Administration of Foreign Exchange Investment Corporation (SAFE IC) and China Investment Corporation (CIC). The aim of this article is to outline the overall investment strategy of SWFs and the breakdown of the largest investments made by these sovereign investment funds in recent years. In the absence of official data on the activities of the funds, the article was based largely on the press releases relating to the operation of funds and corporate reports of the companies invested in by the Chinese SWFs.

The characteristics of sovereign investment funds: The concept of SWF is difficult to define (O'Brien, et al., 2011). Numerous definitions of the funds coexist side by side; however, some aspects are common. Sovereign investment fund is defined as a state owned investment vehicle managing funds from reserve assets denominated in foreign currencies. Some authors assume that SWF defines a vehicle that belongs to the sovereign authority of a state, manages a portfolio of non-official foreign exchange reserves of the country and is involved in foreign investment. According to this definition, some SWFs (e.g. Saudi Arabian Monetary Agency Foreign Holdings also performing the central bank functions) have been excluded from this group (Shemirani, 2011). The most important features of SWF were accurately stated in the Morgan Stanley report, including five characteristics distinguishing SWFs from other investment vehicles: full sovereignty, high currency exposure, high risk tolerance, long-term investment horizon and being free of encumbrances (IMF, 2008). The article adopts the above definition of SWF.

⁸According to the SWF Institute, the largest SWFs in 2012, in terms of managed assets, were the Norwegian Government Pension Fund, Abu Dhabi Investment Authority, the Chinese SAFE IC, Saudi Arabian Monetary Authority Foreign Holdings and China's CIC. Only the Norwegian fund is characterized by high transparency; other major funds place at the end of the ranking in terms of transparency.

⁹ CDB is a specific bank focusing on the execution of infrastructure projects. The most spectacular projects financed by the bank include Three Gorges Dam construction or the construction of an airport in Shanghai Pudong area. The total assets of CDB in 2011 amounted to over \$ 990 billion. (China Development Bank, 2011)

Trading in part of the reserves accumulated by the state by a purposefully appointed fund allows for higher efficiency in the multiplication of the national surplus than in the case of traditional, less risky forms of reserve management. Therefore SWFs operate on similar principles to the popular investment funds (mutual funds) or hedge funds with a high risk tolerance and the purpose of maximizing investment returns.

Most sovereign investment funds originate from countries with significant natural resources (figure 1). It was believed that there is a direct link between the appointment of the major SWFs and the prices of raw materials such as oil, gas, and copper (the so-called "commodity SWFs") (Farrel & Lund, 2008). Recent years, however, have also seen the emergence of vehicles from countries with economies only to a small extent, or not at all, based on the export of natural resources whereas the funds of SWFs come from foreign exchange reserves accumulated over the years. Most of these "non-commodity SWFs" were established in the region of South and East Asia as well as Oceania¹⁰. Most of these countries are characterized by significant resources of relatively cheap workforce, in comparison to Western countries, the export-focused economies, ranging from labor-intensive goods to the most technologically advanced products. Although the most dominant type of SWFs are still those collecting funds from the export of raw materials, their share is reduced each year. In 2007, the assets of "commodity SWFs" accounted for almost 67 percent of all known assets of SWFs. By 2012, however, this share fell to 57 percent, mainly due to the emergence of Asian "non-commodity" sovereign investment funds (SWF Institute, 2013).

The investment directions of Chinese sovereign investment funds: Analyzing the Chinese SWFs investment trends, the article focuses on the two largest funds, in terms of the assets managed, SAFE IC and CIC. SAFE IC has been separated from the State Administration of Foreign Exchange managing the foreign reserves of People's Republic of China (PRC) and registered in June 1997 as a subsidiary in Hong Kong. As a direct branch of SAFE, the fund is under the control of the Chinese central bank (People's Bank of China). CIC was founded a decade later, in September 2007, by the decision of the Ministry of Finance. CIC's funding has come in the form of debt not equity. For the initial capitalization of CIC, Ministry of Finance issued special government bonds denominated in renminbi that were purchased by the largest China's commercial banks. The proceeds were then used to buy foreign exchange from the CIC operates independently of People's Bank of China, but is an entity subordinate to the State Council. The role of both sovereign investment funds is to diversify investments and achieve higher rates of return than in the case of investments in debt securities.

State Administration of Foreign Exchange Investment Company: On the establishment of SAFE IC, the assets of the fund amounted to only \$ 13 million. According to the data available, in 2012 the SAFE IC had assets estimated at nearly \$ 570 billion. This represented about 17 percent of the total official foreign exchange reserves of China in 2012 (State Administration of Foreign Exchange, 2013). Establishing the Hong Kong SAFE enabled SAFE IC to diversified, and more risky, investments, however, in practice SAFE IC in 2007 focused on investments in safe, usually low-yielding securities, mainly bonds¹¹. It is estimated that about a half of the reserves managed by SAFE is invested in the U.S.

¹⁰ The financing of funds comes mostly from central banks and ministries of economy or finance ministries. In some cases the source of funding is based on government shares in state-owned enterprises (such as Temasek).

¹¹ Part of the SAFE investments was conducted through a controlled entity, Central Huijin Investment Ltd, submitted to CIC at the end of 2007. Central Huijin Investment Ltd, "...in accordance with authorization by the State Council, makes equity investments in major state-owned financial enterprises, and shall, to the extent of its capital contribution, exercise the rights and perform the obligations as an investor on behalf of the State in accordance with applicable laws, to achieve the goal of preserving and enhancing the value of

treasury securities¹². The activity of SAFE IC was shrouded in mystery from the very beginning. In addition, the lack of transparency of the fund is compounded by the fact that its investment strategy has not yet been made public. It does not have any website to publish reports on its investment, financial statements or any annual reports. The investment strategy of the fund can only be surmised based on the few press reports on SAFE IC equity in the world.

Analyzing the SAFE IC operation since the outbreak of the global crisis, it appears that the fund focuses its investments on developed countries. Geographically, the fund is interested in the countries of the European Union (mainly in the capital market of the UK), Australia and the United States (figure 2). The SWF has diversified its investments into four sectors: financial, energy, real estate, and in lesser extent agriculture (figure 3). At the beginning of its activity, SAFE IC had invested the largest amount of funds in petrochemical industry and corporations operating in industries associated with the extraction and processing of crude oil. Generally, SAFE IC was interested in energy sector investment. The largest disclosed SAFE IC investment include the \$ 2.8 billion purchase of 1.6 percent shares of the French corporation Total, and the acquisition of less than 1 percent shares of the British BP petrochemical corporation for nearly \$ 2 billion. Further SAFE IC transactions in the British market include the minority equity holdings in other corporations related to the energy sector: Royal Dutch Shell, Rio Tinto, BG Group, or BHP Billiton. SAFE IC has invested also in real estate industry since mid-2011. Through registered in Britain SAFE IC's fund Gingko Tree Investment Ltd, Chinese vehicle has invested in real estate deals: student housing (UPP Group), and office buildings in London (Drapers Gardens) and Manchester (One Angel Square) (Mcmahon, 2013). The relatively unusual SAFE IC's transaction was the purchase of 10 percent of British Veolia Water and water utility - Affinity Water Ltd. British Veolia Water Chinese vehicle bought in cooperation with group of investors (Fortado, 2012). Broadly speaking, in non-financial sectors SAFE IC has invested about \$ 6.4 billion (56 percent of total investment), excluding purchasing the minority shares on UK capital market (which amount has not been reported yet) (table 1, figures 2, 3).

To a lesser extent SAFE IC had focused on foreign financial institutions, although it could have bought many sinking American corporations during the global financial crisis. The possible explanation for the SAFE IC withdrawal from this sector is that a competitive vehicle, China Investment Corporation, has been particularly active in this area for the past few years¹³. Between 2009 and 2010 SAFE IC refrained from any investment activity (diagram 1). Only since mid-2011 SAFE IC has invested in financial sector more aggressively, though still has avoided more risky ventures. Interestingly, SAFE IC shows little involvement in the United States. The only revealed purchase so far was a 20 percent stake in Texas Pacific Group for more than \$ 2.5 billion in 2008. SAFE IC is also speculated to have repurchased stakes in vehicles managed by the largest U.S. asset management companies from the General Motors pension fund (Pignal & McCrum, 2013). The transaction amount and types of shares purchased, however, were not disclosed. The last SAFE IC's transaction in American market was the injection of \$ 500 million in private equity fund - Blackstone million in mid-2012 (table 1). The purchases of minority shares of Australian banks (ANZ Bank, Commonwealth Bank of Australia and National Australia Bank) in January 2008 for a relatively moderate amount (\$ 800 million), more than 3 percent of shares in German Munich Re, injection in Blackstone, and stake acquisition in Texas Pacific Group are the only revealed

state-owned financial assets. Central Huijin does not conduct any other business or commercial activity. It does not intervene in the day-to-day business operations of the firms in which it invests." (Huijin Investment, 2013)

¹² According to the U.S. Treasury, by the end of June 2012, China held \$ roughly 1.16 trillion in the U.S. government bonds. China's commitment to the U.S. debt decreased, compared to the first half of 2011, when it was estimated at \$ 1.73 trillion. (Orlik & Davis, 2012) (U.S. Department of the Treasury, 2013)

¹³ After the creation of CIC, press reports indicated competition and even conflict between IC SAFE and CIC.

SAFE IC projects in the financial sector. It is estimated that SAFE IC has invested in foreign financial sector roughly \$ 5.4 billion so far (46 percent of total investment), of which at least half invested in period 2011-2012 (table 1, figure 3). Analyzing the information available in the media about SAFE IC investments, it is difficult to clearly identify the strategy and objectives of this vehicle. Sector-wise, the investments made by SAFE IC are considerably diverse. We can observe the shifting from energy sectors towards real estate. The financial sector also plays more important role than in 2008. Geographically SAFE IC is still “developed countries loyalist” in its investment strategy. The vehicle has focuses on American and British markets for almost five years and invested nothing in developing states yet (diagram 1, figure 2).

China Investment Corporation: The financial services corporation - UBS estimated that, in period 2003-2006 China earned round 2–4 percent return on reserves. With a higher domestic rate of investment (4 percent) than returns from U.S. dollar holdings (3.5 percent), maintaining large US dollar assets for China meant living with losses in value of its holdings (National Bureau of Asian Research, 2013). Moving investments out of the dollar would have led to depreciation of remaining dollar holdings, which would not have been a viable strategy. China has caught itself in a “dollar trap”. Described situation was the main reason of CIC establishing. When in 2007 the Chinese government decided to create CIC¹⁴, \$ 200 billion were deposited under its management from a special bond issued by the Ministry of Finance of PRC. “The mission of CIC is to make long-term investments that maximize risk adjusted financial returns for the benefit of its shareholder.” (China Investment Corporation, 2013) In 2012, the fund assets had already amounted to \$ 482 billion. From the beginning, CIC was active commercially; dependent on financial instruments, and consequently its attitude to investment operations is rather commercial. CIC also shows a slightly higher transparency than SAFE IC. Although CIC refrains from indicating the sectors of investment focus, it emphasizes its interest in long-term projects (China Investment Corporation, 2013).

Similarly to SAFE IC, CIC has invested most resources in developed countries, North American (43.8 percent of total investment) region in particular, primarily in the U.S. financial market (figure 2). In recent years, the fund has shown interest in projects in developing countries (Mongolia, Brazil, Vietnam, South Africa, Kazakhstan, or Russian Federation), particularly investments in raw materials and energy sectors. According to the last official “Annual Report 2011”, CIC concentrated its investment on long-term projects (31 percent of total assets)¹⁵, then on shares (25 percent of total assets) and fixed-income financial instruments (21 percent of total assets). Investment structure in 2011 differs than in 2008, when CIC invested mainly in safe cash funds. In 2011 CIC investments focused on equities and cash funds’ investments practically did not exist anymore. More funds have been directed to risky assets. CIC’s alternative investment (usually higher-return assets and more risky) have comprised real estate funds, energy market funds, hedge funds, and private equity. CIC managers seem to prefer higher returns to higher risk. The share of alternative investments between 2008 and 2011 rose from 0.6 percent to 27.6 percent (figure 5).

The CIC sector strategy is clearly moving towards the portfolio diversification. Since 2007, a significant reconstruction in the CIC investment orientation can be observed. In the light of the global economic crisis and the threat of bankruptcy for major financial institutions of the U.S. and European markets, CIC has focused on buying shares of declining financial sector institutions involved in the real estate market at bargain prices (table 1). Some of the CIC investments

¹⁴ Although CIC took over Central Huijin from SAFE, the article considers only the CIC investments.

¹⁵ Disclosed mainly by CIC subsidiary - China Central Huijin,

aroused much controversy, especially those conducted in the U.S. at the beginning of the global crisis. The most media oriented CIC projects in the United States include investments in Morgan Stanley and Blackstone¹⁶. From unsuccessful investments CIC's authorities learned much. First, CIC restrained its investment activity in order to limit the loss. CIC disclosed just a single investment in 2007 and 2008. It invested \$ 3.2 billion in American private equity company - JC Flowers (table 1).

At the time of gradual mitigation of the global economic crisis, the Chinese fund shifted its focus to corporations associated with an activity linked to China's economic development strategy (The Central People's Government of the PRC, 2011). Closer analysis of the investments list discovers that CIC had focused on financial sector till 2008. After unsuccessful deals at the beginning of the global financial crisis, SWF diversifies its investment directions. First, CIC concentrated on real estate and energy sectors. In time CIC begins to invest in foreign agricultural sector, technology, and transport. According to official data, between 2007 and mid-2013 CIC has disclosed 48.3 percent of total investment in financial sector, in energy sector – 28.6 percent (e.g. JSC KazMunaiGas Exploration Production, Sunshine Oilsands, Penn West Energy), and in real estate – 16.1 percent (e.g. Goodman Group) (figure 3, table 1). Now the fund's portfolio also includes small shareholdings of developing and prospective corporations from outside the mentioned sectors, i.e. pharmacy, cosmetics, energy, information technology, food processing, and the media. Finally, at the end of 2011, the CIC assets in held shares included the Bank of America, Burlington Northern Santa Fe, Apple, Chesapeake Energy, Citigroup, Coca Cola, Eli Lilly, Hartford Financial Services, Ingersoll-Rand, Johnson & Johnson, Merck, Metlife, Motorola, News Corp, Pfizer, Sprint Nextel, Terex, or Wells Fargo (Martin, 2010). In most cases CIC remained in the role of a passive investor. Though in time more and more CIC authorities have become the boards' members in the corporations which shares SWF had bought (Wu, et al., 2011).

CIC is also interested in cooperation with other funds. While trying to find an optimal allocation for its assets, CIC has continually changed the way it manages its investments. SWF has outsourced 57 percent of its global investment portfolio and has made over 30 major transactions with external fund managers. Recently, State Corporation Vnesheconombank and its Russian Direct Investment Fund (RDIF) and CIC signed Memorandum of Understanding which sets forth a number of principles to promote future cooperation on investments into infrastructure projects and projects in the Russian Far East Region (Russian Direct Investment Fund, 2013). It is difficult to state whether this initiative focuses only on commercial benefit or political interests are also included.

As was mentioned above, CIC invests mainly in developed states, but recently has invested in developing ones too. Between 2007 and mid-2013 CIC has disclosed 48.3 percentage of total investment in financial sector, in energy sector – 28.6 percentage, and in real estate – 16.1 percentage. At the time of gradual mitigation of the global financial crisis, CIC focused on real estate and energy sectors (according to the China's development strategy set in 12th Five Year Plan). The energy sector has generated 46 percent of CIC's total investment value since 2011. Financial sector has become less important. CIC allocated more capital to alternative investments (figure 5). At the beginning of 2013 CIC's vice-president stated that real estate would not be a major target for fund's investments, but would continue to be a part of its portfolio. The fund will concentrate on long-term investments (Xiaotian, 2013). Announced strategy may yield a profit. In 2012 China's sovereign wealth fund registered a 10.6 percent return ratio on its investments (figure 6). Although CIC

¹⁶ These investments eventually exposed CIC to high losses. It is worth to mention that CIC disclosed Blackstone investment before the fund was officially established.

characterizes higher transparency than SAFE IC, plenty of its investments have slipped to the press releases after much delay. Vehicle's sector strategy is clearly moving towards the portfolio diversification (Cieřlik, 2013).

Conclusion

Using the current global downturn, Chinese SWFs made many portfolio investments and acquisitions of entities on a global scale. The number and value of investments made indicates that the Chinese SWFs are becoming increasingly important investor in the global market. Although the China's SWFs investment tactics has not been specified, a significant dependence on China's long-term development plans is observed. The investment strategies of Chinese SWFs clearly represent the state's "Go Global" strategy and the politics of maintaining raw materials and energy security. Therefore, through SWFs, resources are continually invested in projects related to China's priority industries. The numerous of SAFE IC and CIC transactions are not very high. They are within the ranges: less than \$ 300 million and between \$ 500 and \$ 999 million (figure 4).

In general, a clear outline of strategies and motives of Chinese SWFs is an extremely complicated task, especially in the light of the limited information on SWFs. The main constraints of this analysis derive from the lack of information and poor transparency of these funds. Moreover to obtain correct information on the details of funds' investment (size, value, date) each press release requires extensive verification.

The economists usually perceive Chinese SWFs as the actors who play an important role in mitigating the consequences of the global crisis and an increasingly important factor in economic development in emerging markets, helping the creation of new jobs and transfer technology. SWFs seek strong and stable financial returns in order to multiply their assets and can be ideal financiers of large infrastructure projects (focus on the long-term investments). Generally governments are in a deepening quandary over doing business with Chinese SWF because two main reasons. First, CIC and SAFE IC are government-linked entities raising the fear of politically motivated investments designed to pursue state policy aims than economically driven decisions. China's SWF's can be perceived as the potential threat of a rival nation employing SWF capital to acquire strategic assets and use them as a potential "weapon" against the host country. There is also the risk that a foreign government will use an SWF to acquire proprietary knowledge, patented technology, or trade secrets. Second, analyzed two funds disclose little information about their strategy. Consequently economists wonder about their real purpose and activities (O'Brien, et al., 2011). Although, there is no consensus among the economists whether these vehicles are threat or salvation (Truman, 2011); However, the undeniable fact, however, is that the Chinese sovereign investment funds have become an important subject of global institutional investor community and their role is likely to increase.

Table 1:
The most important investment of SAFE IC and CIC between 2007 and mid-2013

| Year | Month | Value of transaction (million USD) | Shares | Investment target | Country |
|---------|-------|------------------------------------|--------|---|-----------|
| SAFE IC | | | | | |
| 2008 | I | 180 | <1% | ANZ Banking, Commonwealth Bank of Australia, National Bank of Australia | Australia |
| 2008 | IV | 2800 | 1,6% | Total | France |
| 2008 | IV | 1990 | <1% | BP | UK |
| 2008 | VI | 2510 | 20% | TPG | U.S. |
| 2011 | VIII | 720 | 3,04% | Munich Re | Germany |
| 2012 | VI | 200 | 10% | Veolia Water | UK |
| 2012 | VII | 500 | n.a. | Blackstone | U.S. |
| 2012 | VII | 1500-2000 | n.a. | shares bought back from General Motors' Pension Fund* | U.S. |
| 2012 | V | 438 | 100% | Drapers Gardens** | UK |
| 2012 | VI | 186 | 10% | Affinity Water** | UK |
| 2012 | XII | 107 | 49% | One Angel Square** | UK |
| 2013 | II | 840 | 40% | UPP Group** | UK |
| CIC | | | | | |
| 2007 | V | 3 030 | 9% | Blackstone | U.S. |
| 2007 | XII | 5 000 | 10% | Morgan Stanley | U.S. |
| 2008 | III | 100 | | Visa | U.S. |
| 2008 | IV | 3 200 | 80% | JC Flowers | U.S. |
| 2008 | X | 200 | 3% | Blackstone | U.S. |
| 2009 | III | 800 | | Morgan Stanley | U.S. |
| 2009 | VI | 1 210 | 1% | Morgan Stanley | U.S. |
| 2009 | VI | 500 | | Blackstone | U.S. |

| | | | | | |
|------|------|-------|---------|--|--------------------|
| 2009 | VI | 710 | 3% | Blackrock | U.S. |
| 2009 | VII | 1 500 | 17% | Teck Resources | Canada |
| 2009 | VII | 370 | 1% | Diageo | UK |
| 2009 | VIII | 450 | 19% | Songbird Estates | UK |
| 2009 | VIII | 1 090 | 17,8% | Goodman Group | Australia |
| 2009 | IX | 940 | 11% | JSC KazMunaiGas E&P | Kazakhstan |
| 2009 | IX | 600 | | Oaktree Capital Management distressed asset fund | U.S. |
| 2009 | IX | 600 | | Goldman Sachs distressed asset fund | U.S. |
| 2009 | X | 250 | 13% | South Gobi Energy | Mongolia |
| 2009 | X | 300 | 45% | Nobel Holdings | Russian Federation |
| 2009 | XI | 1 580 | 15% | AES | U.S. |
| 2009 | XII | 500 | | CVRD (Vale) | Brazil |
| 2010 | II | 960 | 2% | Apax Finance | UK |
| 2010 | II | 1 500 | | Lexington Partners, Pantheon Ventures, Goldman Sachs | U.S. |
| 2010 | III | 200 | 12,5% | Brookefield fund | Canada |
| 2010 | V | 1 220 | 5% | Penn West Energy | Canada |
| 2010 | XI | 1 030 | 29% | General Growth Properties | U.S. |
| 2010 | XII | 200 | 18,6% * | BTG Pactual | Brazil |
| 2011 | II | 100 | | VTB Group | Russian Federation |
| 2011 | II | 190 | | Morgan Stanley | Japan |
| 2011 | VIII | 3 240 | 30% | GDF Suez | France |
| 2011 | VIII | 360 | 19% | AES and POSCO | Vietnam |
| 2011 | X | 1 000 | | Russian Direct Investment Fund | Russian Federation |

| | | | | | |
|------|------|-----|-------|---|--------------------|
| 2011 | XI | 850 | 10% | GDF Suez | Trinidad-Tobago |
| 2011 | XII | 800 | | Government of Singapore Investment | Japan |
| 2011 | XII | 250 | 25% | Shaduka Group | South Africa |
| 2012 | I | 920 | 9% | Thames Water | UK |
| 2012 | II | 300 | | Sunshine Oilsands*** | Canada |
| 2012 | IV | 200 | | Blackrock | U.S. |
| 2012 | V | 420 | 5% | Polyus | Russian Federation |
| 2012 | VI | 490 | 7% | Eutelsat | France |
| 2012 | VIII | 500 | | Cheniere Energy (joint investment with GIC) | U.S. |
| 2012 | X | 730 | 10% | Ferrovial | UK |
| 2012 | XI | 400 | | Deutsche Bank | UK |
| 2012 | XI | 110 | 13% | Brookefield | Canada |
| 2012 | XI | 460 | 34,2% | Government of Singapore Investment and Canada Pension Plan – 2 joint ventures | Brazil |
| 2013 | II | 100 | 20% | Moscow Stock Exchange | Russian Federation |
| 2013 | IV | 100 | | Russia Forest Products | Russian Federation |

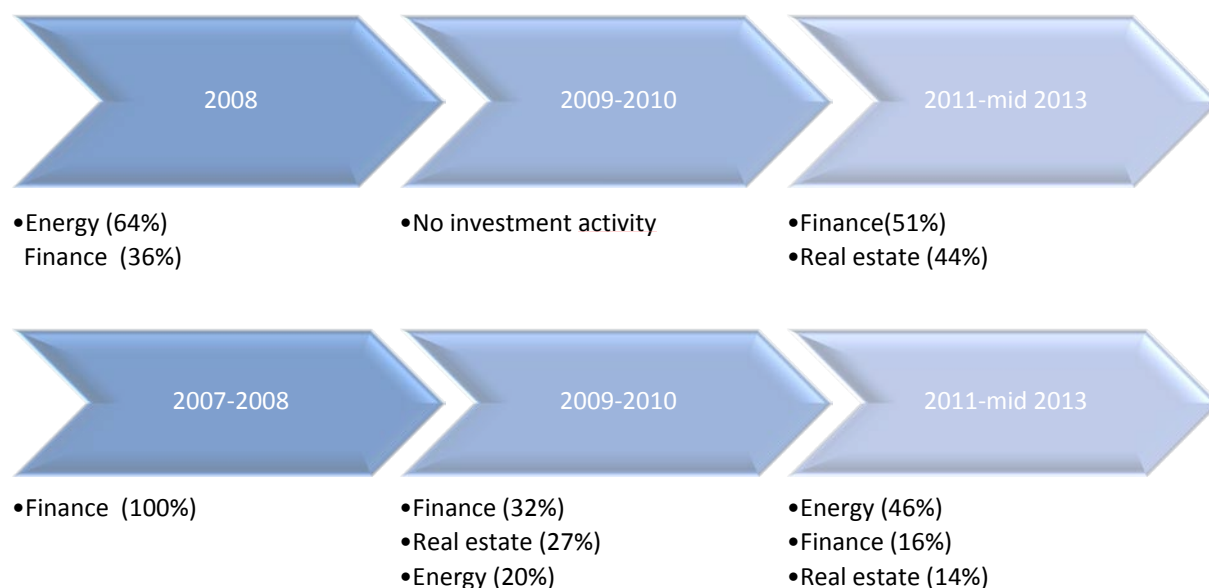
* together with GIC, Ontario Teachers' Pension Plan Board, ADIC, JC Flowers, RIT Capital Partners, Grupo Santo Domingo and wealthy families Rothschild, Agnelli, and Motta

** investment was disclosed by Gingko Tree Investment Ltd belonging to SAFE IC

*** with Sinopec

Source: authorial study on a basis of Heritage Foundation, The New York Times, The Guardian, The Wall Street Journal, Reuters, and Bloomberg.

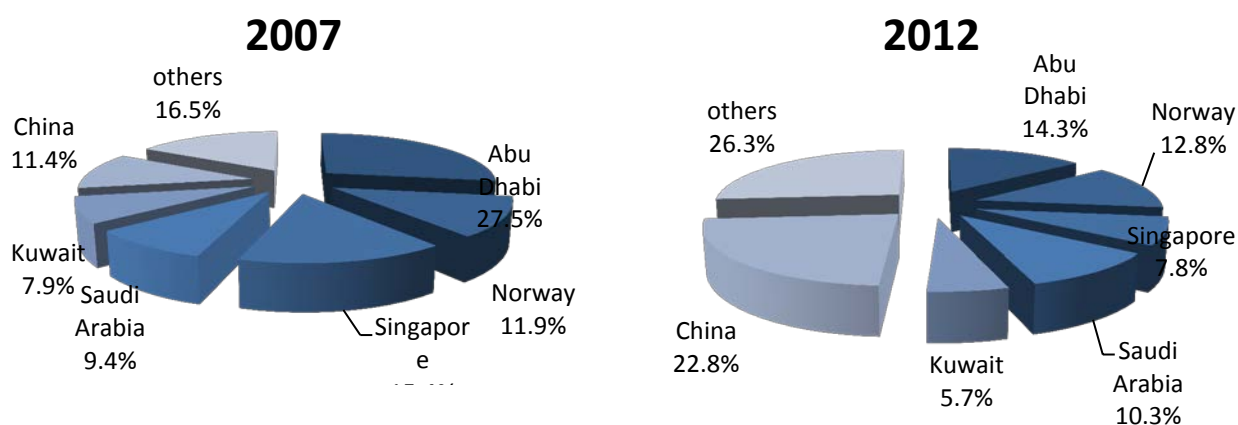
Diagram 1:
The investment strategy of SAFE IC and CIC - roadmaps



Numbers in parenthesis means “of total investment value in analyzed period”

Source: authorial study on a basis of CIC’s annual reports.

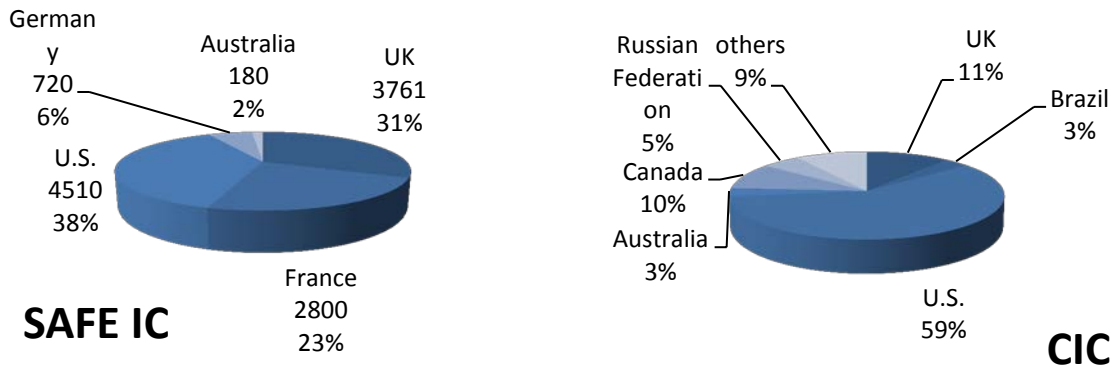
Figure 1:
Share of SWFs’ assets in 2007 and 2012 by country



* the others comprise mainly of assets belong to: Hong Kong Monetary Authority Investment Portfolio, Australian Future Fund and Russian National Welfare Fund.

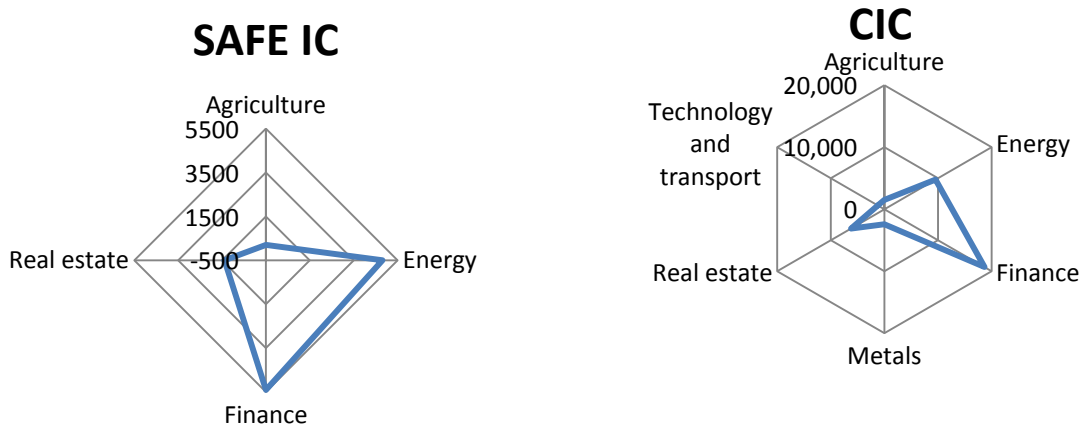
Source: authorial study on a basis of SWF Institute.

Figure 2. SAFE IC's and CIC's investments by country till mid-2013



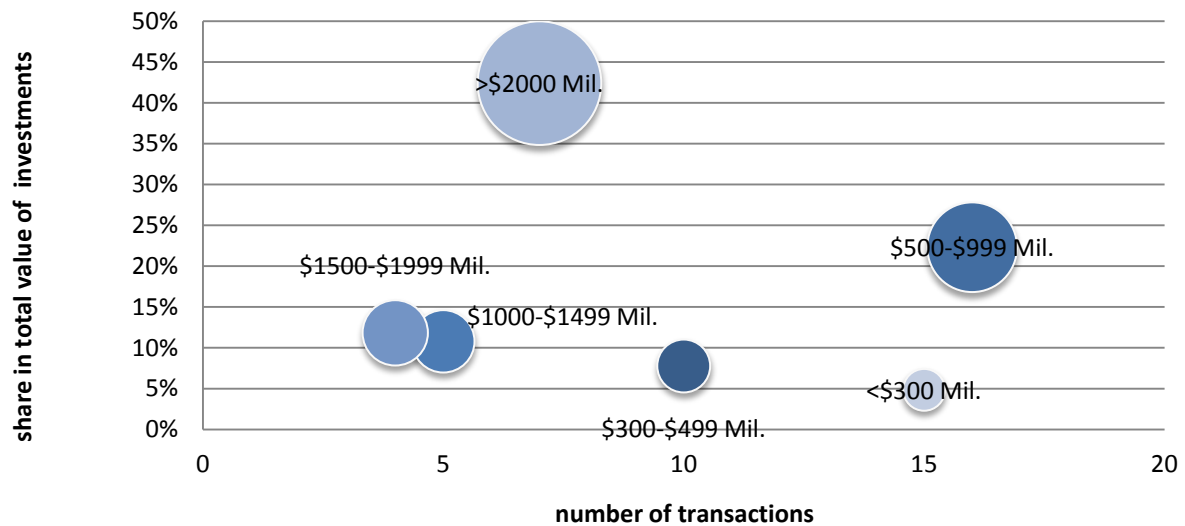
Source: authorial study on a basis of CIC's annual reports.

Figure 3. Sectoral structure of SAFE IC's and CIC's international investments in 2007-mid 2013



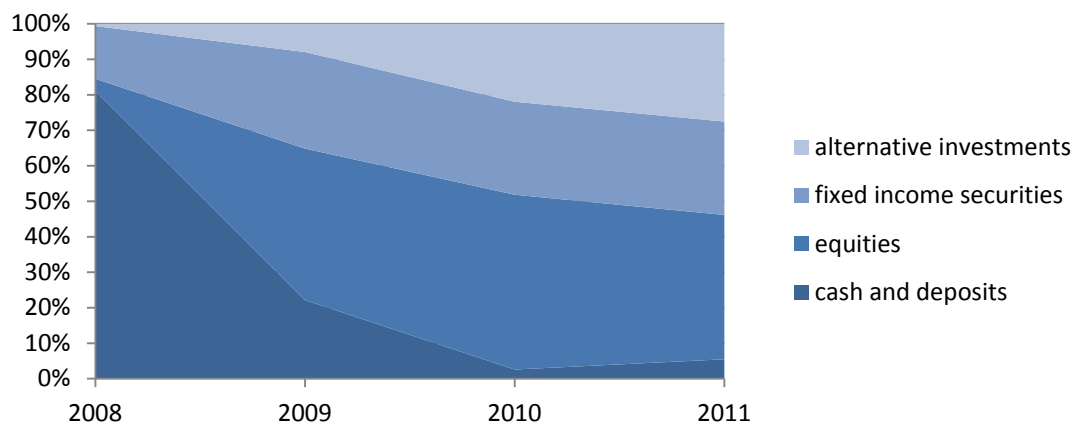
Source: authorial study on a basis of press releases.

Figure 4. Number of transactions and their share in total investments of SAFE IC and CIC together till mid-2013



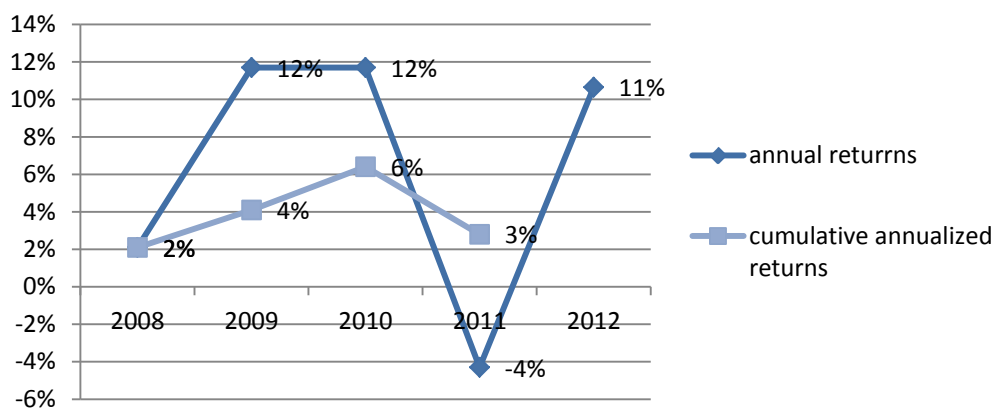
Source: authorial study on a basis of press releases.

Figure 5. Structure of CIC's foreign investments in 2008-2011



Source: authorial study on a basis of CIC's annual reports.

Figure 6. CIC's international investment portfolio returns in 2008-2012



Source: authorial study on a basis of CIC's annual reports and the Wall Street Journal.

References

- Bloomberg, 2011. *Bloomberg*. [Online]
Available at: <http://www.bloomberg.com/news/2011-05-16/chinese-state-investment-group-buys-gold-one-for-its-south-african-assets.html>
[Accessed 21 08 2013].
- China Daily, 2013. *China Daily*. [Online]
Available at: <http://www.chinadaily.com.cn/china/>
[Accessed 22 08 2013].
- China Development Bank, 2011. *2011 Annual Report*, s.l.: CDB.
- China Investment Corporation, 2008. *Annual Report 2008*, s.l.: CIC.
- China Investment Corporation, 2009. *Annual Report 2009*, s.l.: CIC.
- China Investment Corporation, 2010. *Annual Report 2010*, s.l.: CIC.
- China Investment Corporation, 2011. *Annual Report 2011*, s.l.: CIC.
- China Investment Corporation, 2013. *China Investment Corporation*. [Online]
Available at: <http://www.china-inv.cn/>
[Accessed 21 08 2013].
- Cieřlik, E., 2013. *The Investment Strategies of China's Sovereign Wealth Funds during Global Financial Crisis*. Istanbul, Emerging Economies Conference 2013.
- Farrel, D. & Lund, S., 2008. The New Role of Oil Wealth in the World Economy. *McKinsey Quarterly*.
- Fortado, L., 2012. *The Bloomberg*. [Online]
Available at: <http://www.bloomberg.com/news/2012-07-01/china-owns-10-of-veolia-water-uk-after-sale-sunday-times-says.html>
[Accessed 25 08 2013].
- Huijin Investment, 2013. [Online]
Available at: http://www.huijin-inv.cn/hjen/aboutus/aboutus_2008.html?var1=About
[Accessed 21 08 2013].
- IMF, 2008. *Sovereign Wealth Funds—A Work Agenda*, s.l.: IMF.
- Martin, M., 2010. China's Sovereign Wealth Fund: Developments and Policy Implications. *Congressional Research Service*, 23 September, p. 4.
- Mcmahon, D., 2013. *The Wall Street Journal*. [Online]
Available at: <http://online.wsj.com/article/SB10001424127887323699704578323670119279066.html>
[Accessed 25 08 2013].
- National Bureau of Asian Research, 2013. *National Bureau of Asian Research*. [Online]
Available at: <http://www.nbr.org/>
- O'Brien, P., McKibbin, W. & Fry, R., 2011. *Sovereign Wealth: The Role of State Capital in the New Financial Order*. Singapore: Imperial College Press.
- Orlik, T. & Davis, B., 2012. Beijing Diversifies Away From U.S. Dollar. *The Wall Street Journal*, 2 March.

- Pignal, S. & McCrum, D., 2013. China to Buy US Assets via GM Pension. *Financial Times*.
- Reuters, 2013. *Reuters*. [Online]
Available at: <http://www.reuters.com/>
[Accessed 23 08 2013].
- Russian Direct Investment Fund, 2013. *Russian Direct Investment Fund*. [Online]
Available at: http://rdif.ru/Eng_fullNews/236/
[Accessed 20 08 2013].
- Shemirani, M., 2011. *Sovereign Wealth Funds and International Political Economy*. s.l.:Ashgate Publishing Limited, 2011.
- State Administration of Foreign Exchange, 2013. *SAFE*. [Online]
Available at: www.safe.gov.cn/
[Accessed 20 08 2013].
- SWF Institute, 2013. <http://www.swfinstitute.org>. [Online].
- The Central People's Government of the PRC, 2011. *Report on the Work of the Government*, Beijing: s.n.
- The Heritage Foundation, 2013. *The Heritage Foundation*. [Online]
Available at: <http://www.heritage.org/>
[Accessed 22 08 2013].
- The New York Times, 2013. *The New York Times*, s.l.: The New York Times.
- The Wall Street Journal, 2013. *The Wall Street Journal*. [Online]
Available at: <http://europe.wsj.com/home-page>
[Accessed 22 08 2013].
- Truman, E., 2011. *Sovereign Wealth Funds. Threat or Salvation*. Washington, D.C.: Peterson Institute for International Economics.
- U.S. Department of the Treasury, 2013. [Online]
Available at: <http://www.treasury.gov/Pages/default.aspx>
[Accessed 21 08 2013].
- Wearden, G., 2007. *The Guardian*. [Online]
Available at: <http://www.guardian.co.uk/business/2007/jul/23/china.internationalnews>;
<http://www.reuters.com/article/2008/02/04/anglo-china-idUSL0432174320080204>
[Accessed 20 07 2013].
- Wu, F., Gog, C. & Hajela, R., 2011. China Investment Corporation's Post-Crisis Investment Strategy. *World Economics*, pp. 144-145.
- Xiaotian, W., 2013. *China Daily*. [Online]
Available at: http://www.chinadaily.com.cn/bizchina/2013-03/04/content_16274302.htm
[Accessed 25 08 2013].

The Role of Emotional Intelligence as a Moderator of Perception of Politics and Work Outcomes

By:

Mazen Shams

Ramiz Akbar

Junaid Subhani

Adil Shams

University of Central Punjab, Lahore

Abstract:

By taking a sample of 134 paired responses from 9 different organizations in Pakistan, the authors tried to study the moderating effect of Emotional Intelligence over the relationship among Perceptions of Politics and job outcomes. They proposed that Emotional Intelligence will minimize the POP's effect on Organizational Citizenship Behavior, Affective Commitment, Job Performance and Intentions to Quit. As anticipated, they managed to find a substantial weakening relation between Perception of Politics and Affective Commitment as well as Intentions to quit when EI was high. Contrary to their propositions, no significant impact of Emotional Intelligence was found on the negative relation of Perceptions of Politics with Organizational Citizenship and Job Performance. The research scope could have been broader for a better interpretation of the results. In future, the authors would like to see a similar but expansive research with same or other moderators like Psychological Capital that may negate the effect of Perception of Politics on work outcomes.

Keywords: *emotional intelligence, politics, organization, performance, outcomes.*

Introduction:

A lot of research work has been done during the past decades on the existence of *perception of politics* and how it adversely effects the *work outcomes* of an individual in an organization (Ferris 1992; Vigoda-Gadot & Kapun 2005; Vigoda-Gadot 2007; Kacmar et al. 1999; Randall et al. 1999). It is a common situation in any organization. In this paper, we addressed the same problem but in another dimension in such a way that it displays a reducing effect in the negativity of the phenomenon.

Despite of the exploration done in problems arising due to perceptions of politics and discussing their consequences (Ferris, G. R., Russ, G. S., & Fandt, 1989; Kacmar, Bozeman, Carlson & Anthony, 1999; Randall, Cropanzano, Bormann & Birjulin, 1999), researchers seems to have failed to propose a way to tackle this problem as we see no clear and definitive solution for this matter.

This situation is somewhat similar like a doctor who identifies an infection but without mentioning its cure. Therefore, we are future directed by the studies of (Chang et al. 2009) who urged to test specific moderators in order to diminish the negative aspects of perceptions of politics and its consequences.

The dimension which we are using to minimize the negative effect of perceptions of politics over the work outcomes is *Emotional Intelligence*.

What does Emotional Intelligence mean? This term was first proposed by two American professors Peter Salovey and John D. Mayer as a sub-branch of *Social Intelligence* in their research that is “the ability to monitor one’s own and others’ feelings and emotions, to discriminate among them, and to use this information to guide one’s thinking and action” (Salovey & Mayer 1990). We took the research gap identified by Salovey to the next level. According to (Brackett, M. A., & Salovey 2004), a lot of research is required to understand that how people with high Emotional Intelligence choose the most appropriate strategy for overcoming and managing different problems in different situations. To be more specific, let us take an *example*. An old employee of an organization feels discrimination due to the fact that a new employee gets more incentives than him. This makes a direct impact on the attitudes of the old employee and generates the feelings of *intentions to quit*, decreases *work performance*, *affective commitment* and *organizational citizenship behavior*. Let us change the scenario a bit. What will happen if that old employee excels in high emotional intelligence? How would he react to the same situation if he read, manage and control emotions of himself better? The foremost purpose of our research is to answer this question.

Furthermore, our study is focused on the future direction of (Matthews et al. 2004) aimed to analyze the moderating effects of Emotional Intelligence that could give significant understanding about the work attitudes and outcomes in an organization.

An area of research put forth by (Ferris, G. R., Russ, G. S., & Fandt 1989) also acts our focal point of research that describes the study of the consequences led by Perceptions Of Politics by an individual working in an organization.

As stated earlier, we will be demonstrating how Perceptions of Politics’ negative effect on work outcomes can be minimized with the help of Emotional Intelligence acting as a moderator.

Politics in an organization, better termed as *Organizational Politics*, is an undeniable fact in an organization (Mintzberg 1983). Organizational Politics has been deeply studied in the past literature (Kacmar & Carlson 1997; Kacmar & Ferris 1991) and thus it is acclaimed that the effect of OP highly depends upon the way how people feel and perceive Organizational Politics. Perceptions Of Politics (Ferris, G. R., Russ, G. S., & Fandt 1989) in an organization is how much individuals observe and feel their work environment effected by political influences that is both discriminant and unfair.

As mentioned earlier, we are here to find out how EI influences a situation that effects adversely onto an individual's behavior in an organization. The previous researches suggests that Perceptions Of Politics has an negative effect on work attitudes and outcomes (Witt et al. 2000; Ferris, G. R., Russ, G. S., & Fandt 1989; Drory 1993; Bozeman et al. 1996; Parker et al. 1995), therefore, we used POP as the independent variable in our research while EI will play its role as a moderator with *Organizational Citizenship Behavior*, *Job Performance*, *Affective Commitment* and *Intentions To Quit* acting as depending work outcomes. This initiative was taken with the motive to fulfill the research gap that could not present ways to diminish POP's effects on an individual's job outcomes.

If we peek into Emotional Intelligence, we will find people with High EI as well as with Low EI. But the question is how Emotional Intelligence is measured so? EI is measured with the help of a test, MSCEIT (Mayer, J. D., Salovey, P., & Caruso 2002) designed specifically for this purpose. This test measures the four abilities of Emotional Intelligence termed as *perceiving*, *using*, *understanding*, and *regulating* emotions of an individual. People scoring high in this test are attributed to have High EI whereas people getting low scores are characterized as Low EI people. High EI people are

better in mood maintenance and regain positive memories in a negative mood usually with mood repair (Ciarrochi et al. 2000).

As we will be discussing how EI moderates the negative relationship between POP and work outcomes, therefore, we are not using people who have low EI as it will not help our basis of study. To get the most effective result out of our model, we will use High in Emotional Intelligence people so that it deals with the situation appropriately.

Literature Review

Most of the times, the constructs of Organizational Politics and Perceptions Of Politics are termed as similar variables whereas they are quite unlike in reality.

To notice the difference, let us uncover some literature from the past. Organizational Politics was first defined by (Mayes & Allen 1977) as the use of power for attaining benefits not authorized by organization and acquiring advantages via means unapproved by the organization.

Our point of the discussion continues with the argument that there may be numerous activities that are termed as 'Political' by an employee in an organization. But it may not be necessary that those activities are also characterized political by another observer within that organization (Mayes & Allen 1977). An argument put forth by various researchers is that it is not the political behavior within the organization that leads to effect the work outcomes – rather it is the personal perception of organizational politics of an individual working in that organization (Miller et al. 2008; Vigoda-Gadot 2007). Therefore, we can now predict that Organizational Politics is the actual and objective phenomenon whereas Perceptions Of Politics is the subjective observation of one's mind (Gandz & Murray 1980). It may vary from person to person. The same idea was proposed by (Lewin 1936) in his research on topological psychology that people tend to perceive reality instead of the actual reality.

Perceptions of Politics: Therefore, *Perceptions Of Organizational Politics* is defined as: “An individual's perceptions of others' self-interested acts or behaviors; these acts are frequently associated with the manipulation of organizational policies and often include coercive tactics even at the expense of others for short-term gains.” (Abbas, Raja, Darr, & Bouckennooghe, 2012 Page. 3)

We express POP as the subjective assessment of the workplace environment to the degree which is categorized by the co-workers as well as the supervisors to be political (Ferris, G. R., Harrell-Cook, G., & Dulebohn, 2000, Page 90). Although a subjective insight, yet the importance of POP's study cannot be denied in an organization (Porter 1976), because its after-effects are not attached to an individual only.

Now that we understand POP well enough, we must know the possible determinants and antecedents that lead to POP. This notion was proposed by (Ferris, G. R., Russ, G. S., & Fandt 1989) as a future direction in order to better understand the happenings before a person perceives an organization's work environment to be political.

According to the studies of (Ferris, G. R., Russ, G. S., & Fandt 1989; Ferris 1992), it is theorized that POP can originate from these three types of scenarios in an organization: *Co-worker's Behavior, Supervisor's Behavior and Organizational Policies & Practices*. This is because these sources have direct interactions with the employees of an organization. Anyone of these can cause employees POP, if not kept checked and under regulation (Vigoda-Gadot 2007).

Once POP takes place, the next burning question arises how it affects the work outcomes of an individual? A lot of literature from the past supports the negativity caused by the POP on employee's behavior and his/her job outcomes.

(Ferris 1992) suggested that POP may lead to employee's dissatisfaction and thus effects his/her behavioral outcomes. Similarly, (Vigoda-Gadot & Kapun 2005) studied the adverse effects of POP on several work outcomes. As shown by latest studies of (Abbas et al. 2012), POP impacts negatively on the environment that a worker is working in. Furthermore, POP harms the social cohesion i.e. attachment of people with each other, within the organization (Vigoda-Gadot 2007). Therefore, POP is often seen as a nonfunctional and conflict creating variable in a work environment (Krackhardt & Mintzberg 1985).

Emotional Intelligence: "Anyone can become angry—that is easy. But to be angry with the right person, to the right degree, at the right time, for the right purpose, and in the right way — this is not easy." (Aristotle, 350 BC). Emotional Intelligence is different but closely linked with two other concepts: Intelligence and Emotions. Many psychologists termed 'intelligence' as the ability to understand information and 'emotion' as a corresponding response to the environment (Vigoda Gadot & Meisler, 2010). Figure 1 depicts how Emotional Intelligence slightly differs from 'Intelligence' and 'Emotion'.

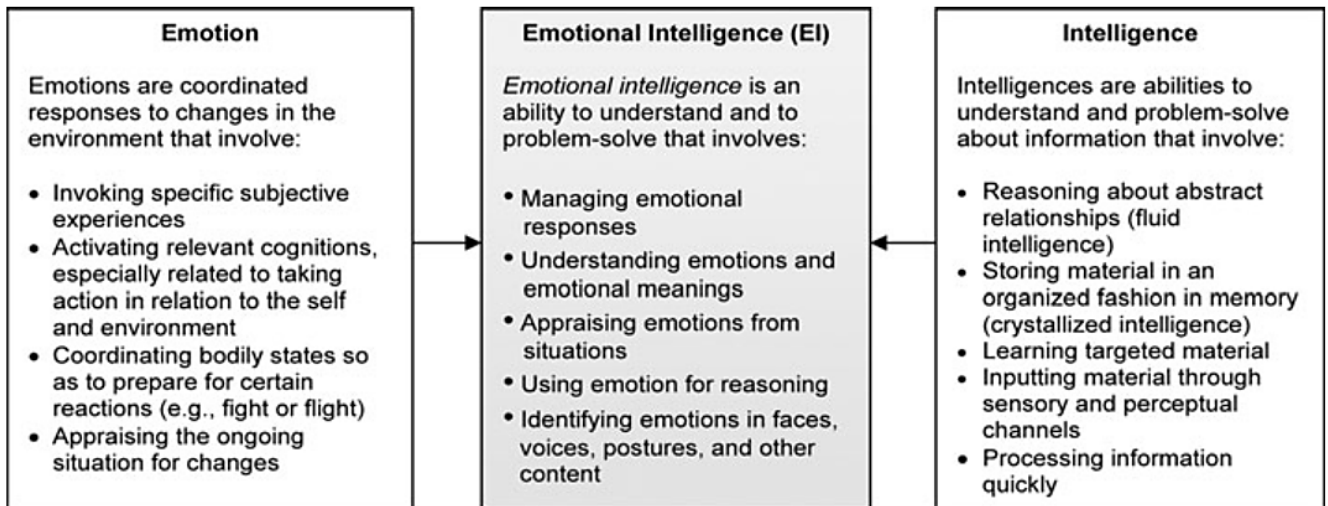
According to (Mayer, J. D. & Salovey 1997), Emotional intelligence is " the ability to perceive emotions, to access and generate emotions so as to assist thought, to understand emotions and emotional knowledge, and to reflectively regulate emotions so as to promote emotional and intellectual growth."

Four-branch model of EI was introduced by (Brackett & Salovey 2006) that consisted of: *Perceiving Emotions, Usage Of Emotions To Facilitate Thought, Understanding Emotions* and *Managing Emotions*. Psychologist Daniel Goleman discussed the EI concept in detail in his best seller *Emotional Intelligence* in 1995. He compared EI as a divergent concept to IQ (Goleman 1995).

According to him, EQ (Emotional Intelligence Quotient) isn't inherited nor it develops in early childhood like IQ. Instead, it is largely learned after teen years and continues to develop throughout our lives from our experiences (Goleman 1998).

In his survey at nearly 200 big international companies, Goleman found that while the traditional qualities for a leader — such as intelligence, toughness, determination, and vision—are essential for success, but they are inadequate. Efficient leadership is also famed by high levels of emotional intelligence, which includes self-awareness, self-regulation, motivation, empathy, and social skills because a good leader is always excellent at understanding people's emotions and makes plans judgments according to them.

Figure - I



Source: Mayer, Roberts, and Barsade (2008, 537).

As EI makes an individual capable of controlling and regulating his emotions in response to the changing environment, people who excel in Emotional Intelligence are likely to cope up against the negative situations in their daily life better than people with low EI (Ciarrochi et al. 2000).

POP and Outcomes: Politically influenced behaviors occur usually when there is some uncertainty or vagueness in the work environment (Ferris, G. R., Russ, G. S., & Fandt 1989). The perceptions employees hold against the political nature of the working environment do effect their jobs deeply (Kacmar & Carlson 1997; Gandz & Murray 1980). POP is always seen as a conflict making variable in an organization (Krackhardt & Mintzberg 1985) as its negative aspects on work outcomes are highlighted by vast researches in the past (Ferris, G. R., Russ, G. S., & Fandt, 1989; Kacmar, Bozeman, Carlson & Anthony, 1999; Randall, Cropanzano, Bormann & Birjulin, 1999).

Whenever an employee perceives political behavior going on in an organization, it decreases his job performance, job satisfaction, organizational commitment, and organizational citizenship behavior while increasing his intentions to quit (Mayes & Allen 1977; Kacmar & Carlson 1997; Miller et al. 2008; Vigoda-Gadot & Kapun 2005; Abbas et al. 2012). These results support the notion that the impact of perceived organizational politics is unfavorable towards work outcomes.

As discussed earlier, ambiguity and uncertainty act as a base for perceiving a work environment to be political. Similarly, power distance also increases the negative impact of POP on an individual (Vigoda 2001).

According to (Hofstede 1983), Pakistan ranks high in uncertainty avoidance as well as power distance which gives a strong support to our view of POP effects on work outcomes. Therefore, we can derive a hypothesis from the above arguments:

Hypothesis 1 : POP will be positively related to Intentions to Quit and negatively related to Affective Commitment, Job Performance and OCB.

EI and Outcomes: People high in EI tend to better respond to unpredictable situations as they engage themselves in a positive mood and mindset in an organization (Ciarrochi et al. 2000). High EI people are also good at coping things

during unwanted and unexpected conditions. Therefore, it has a direct effect on an individual's behavioral outcomes in a workplace.

Managing and regulating your emotions at the right time, at the right place shows positivity in the work outcomes like Job Satisfaction, Job Performance, OCB (Sy et al. 2006; Wong & Law 2002; Bar-On et al. 2003; Carmeli & Josman 2006; Vigodaâ€ Gadot & Meisler 2010) commitment (Jordan et al. 2002) while reducing the intentions of quitting (Carmeli 2003). Keeping this in view, we draw our next hypothesis:

Hypothesis 2: EI will be negatively related to Intentions to Quit and positively related to Affective Commitment, Job Performance and OCB.

EI as moderator: According to (Goleman 1998), an emotionally intelligent person possesses five emotional capabilities that enables him to successfully cope up with different unexpected situations. These are: *Self Awareness, Self-Regulation, Social Skill, Empathy and Motivation*. Therefore, employees in high EI are more likely to come out of the sequence of negative behaviors (Jordan et al. 2002).

EI person also have a more positive outlook on their lives and may gather more intrinsic benefits by helping other individuals (Isen et al. 1976). Furthermore, emotionally intelligent people do not hold the organization responsible for every frustration they face in the workplace (Abraham 1999) because they adapt themselves in positive state of minds that has harmless consequences whenever they experience an action negative in nature (Salovey & Mayer 1990). EI proves to be a good performance moderator of POP-outcomes in public sector (Vigodaâ€ Gadot & Meisler 2010).

Also stated by (Van Rooy & Viswesvaran 2004), "*like most predictors of performance, the influence of EI may best be understood by examining the influence of potential moderators*", Emotional Intelligence as a moderator will help a great deal in minimizing the negative of POP on outcomes. On this basis, we propose that:

Hypothesis 3: EI will moderate the relationship between POP and work outcomes (Intentions to Quit, Job performance, Affective Commitment, OCB) such that the relationship will be weaker when EI is high.

Methodology

Sample and Procedure: Politics may vary from organization to organization. Therefore, to spread our research results, we took data from 9 companies. All companies were situated in Lahore – the second largest city and business center of Pakistan.

We were able to gain access to employees as well as their supervisors because our research demanded the supervisory response too for Job Performance and Satisfaction. We gathered responses from diverse companies like Software Houses, Sui Northern Gas Pipe Line Company, Ittefaq Mills, Hira Terry Mills, PEL Electronics, University Of Health Sciences, SWIFT and from Divisional Public School in Lahore. We collected equal data from employees as well as their supervisors to evaluate their Job Performance and OCB. We ensured the employees as well as the supervisors that their feedback is totally confidential and will not be used other than for research purposes.

We collected data about perception of politics, big five inventories and organizational citizenship behavior from blue collar workers and job performance from their supervisors. Respondents also mentioned their Gender, Age, Qualification, Marital Status, Designation, Department, Organization and Experience in demographic part of survey.

We distributed 141 questionnaires out of them we received 134 completed self-responses. Questionnaires were equally filled (134 each) from employees and supervisors. Survey distributed to employees working as Audit Officers, Accountants, Managers, Export Executives, OG, Software Developers, Researchers, Teachers, Data Entering Officers, Administrators, Coordinators and Registrars. Out of 134 questionnaires, we sent 32 to Software House and received 32 (response rate 100%), 7 to Hira Terry Mill and received 7 (response rate 100%), 12 to Sindh bank and received 12 (response rate 100%), 25 surveys was sent to DPS and got 23 back (response rate 92%), 20 questionnaires was sent to SNGPL and received 20 back (response rate 100%), 5 surveys was sent to SWIFT and out of them 5 was response back (response rate 100 %), we sent 25 surveys to UHS and got 22 back (response rate 88%), 10 were sent to Ittefaq Mills and got 8 back (response rate 80%) and remaining 5 was sent to PELL and out of them, we got 5 back (response rate 100%). Collective response rate of whole survey was 97%.

The respondent had mean age of 31.02 with Standard Deviation of 9.18. 67% of the respondents were male and remaining 33% were female. Mean tenure of organization was 4.89 and S.D was 2.24. The occupational level of respondents was 20% Software Developers, 9% Administrators, 19% Teachers, 13% Managers, 5% research scholars, 6% OG, 13% accountants, 4% audit officers and 11% was data entering officers. The qualification of respondents was Masters 40%, M.Phil. 4%, ACCA 5% and 50% respondents have Graduation Degree.

Measures: All the measures used during the data collection were self-reported by the employees with the exception of Job Performance and OCB. These were filled and returned by the supervisors as per demand of the scales. All responses were recorded through 5 point likert scale. The anchors were 1 = *Strongly Disagree*, 2 = *Disagree*, 3 = *Neutral*, 4 = *Agree* and 5 = *Strongly Agree*. For all scales used, high scores meant higher level of the construct measurement. Synonyms were used in brackets against words that may be difficult to understand.

POP: We used the popular 12 item scale by (Kacmar & Ferris 1991) to assess Perceptions Of Politics. This scale contained questions like “Policy changes help only a few” and “Pay and promotions are not politically applied” (reverse coded) which directs the respondents to answer about the political atmosphere of his workplace. The reliability of this scale was 0.69.

EI: We measured Emotional Intelligence with a 33 item scale by (Schutte et al. 1998). Examples of some questions are “When my mood changes, I see new possibilities” and “I know what others people are feeling just by looking at them”. The alpha reliability was 0.84.

Outcomes: We used a single 21 item scale for Job Performance and OCB provided by (Williams & Anderson 1991). First seven questions were measuring Job Performance. Questions include “Goes out of way to help employees”. The Cronbach Alpha for Job Performance was 0.71. The rest fourteen questions measured OCB which included questions like “Gives advance notice when unable to come to work.” The alpha reliability of OCB was found 0.70. Affective Commitment was measured through a 8 item scale by (Meyer et al. 1990). The scale consisted of questions like “My organization has a great deal of personal meaning for me.” The alpha reliability of this measure was 0.76.

The Intentions To Quit was measured through a 3 item scale given by (Kelloway et al. 1999). This scale consisted of questions like “I am planning to look for a new job”. The Cronbach Alpha of this measure was 0.83.

Control Variables: We used age and gender as control variables because of their possible effects on work outcomes (Furnham & Bachtiar 2008). A diverse range of businesses were surveyed like universities and hospitals to textile and electronic industry. Therefore, we finally included age, gender as well as organization as our control variables so that our results remain least affected.

Results

Table 1 represents the means, standard deviations, bivariate correlations and the estimated alpha reliability of the data with the Cronbach alphas ranging from 0.69 to 0.84. The Cronbach Alphas can be seen diagonally in the Table 1. The correlations partially supported our hypothesis because EI showed significant results with Perception of Politics ($\beta = -0.19$, $p < 0.05$), Affective Commitment ($\beta = 0.26$, $p < 0.01$) and Job Performance ($\beta = 0.19$, $p < 0.05$). A correlation of ($\beta = 0.11$) and ($\beta = -0.12$) is reported with OCB and Intentions to Quit respectively, which meant insignificant results.

TABLE - I

| Means, Standard Deviations, Correlations & Reliabilities | | | | | | | | | | | |
|---|-------------|-----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| | Mean | SD | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| <i>Age</i> | 31.02 | 9.18 | | | | | | | | | |
| <i>Gender</i> | 1.35 | 0.48 | 0.13 | | | | | | | | |
| <i>Organization</i> | 4.90 | 2.25 | -0.31** | -0.10 | | | | | | | |
| <i>Emotional Intelligence</i> | 3.58 | 0.42 | 0.06 | 0.29** | -0.27** | (0.84) | | | | | |
| <i>POP</i> | 2.95 | 0.54 | 0.07 | -0.19* | -0.07 | -0.19* | (0.69) | | | | |
| <i>Affective Commitment</i> | 3.44 | 0.69 | 0.23** | 0.34** | -0.11 | 0.26** | -0.37** | (0.76) | | | |
| <i>Job Performance</i> | 3.77 | 0.57 | 0.16 | 0.37** | -0.12 | 0.19* | -0.09 | 0.16 | (0.71) | | |
| <i>OCB</i> | 3.53 | 0.46 | 0.12 | 0.09 | -0.20* | 0.11 | 0.12 | 0.15 | 0.57** | (0.70) | |
| <i>Intentions to Quit</i> | 2.47 | 1.01 | -0.22** | -0.26** | 0.13 | -0.12 | 0.25** | -0.59** | -0.06 | 0.08 | (0.83) |

NOTE: N = 134 ; alpha reliabilities are shown in parentheses

* $p < 0.05$, ** $p < 0.01$; POP = Perceptions Of Politics, OCB = Organizational Citizenship Behavior

This shows that EI is positively related to Perception of Politics, Affective Commitment and Job Performance which supports our hypothesis. Organizational Citizenship Behavior and Intentions to Quit were unable to have a significant relationship with Emotional Intelligence which negates our proposition.

Regression Analysis: The linear regression analysis (Baron & Kenny 1986) was undertaken to test the entire main effect hypothesis. We entered Age, Gender and Organization as control variables in Step 1 followed by the independent variable, Perception of Politics, in Step 2.

Table 2 represents the regression results of POP on Intentions to Quit, Affective Commitment, Job Performance and Organizational Citizenship Behavior.

Our results reveal a partial support of the Hypothesis 1 as Affective Commitment ($\beta = -0.34$, $p < 0.001$) and Intentions to Quit ($\beta = 0.23$, $p < 0.05$) gave us significant results with Perceptions of Politics. The results failed to show significant results for Job Performance ($\beta = -0.045$) and Organizational Citizenship Behavior ($\beta = 0.12$).

The regression analysis suggests that there is a strong positive relation of POP with Affective Commitment and Intentions to Quit whereas no support is rendered for POP's relation with Job performance and Organizational Citizenship Behavior.

Moderation Analysis: We did a three step multiple regression analysis (Cohen et al. 2003) to test Hypothesis 3. In step 1, we tested the control variables similar to what we did in Table 2. In step 2, we have entered the values of independent variable (POP) and the moderator (EI). In the last step, we used the values gained by the interaction of POP and EI which if significant, confirmed moderation.

TABLE II

| Regression Analysis | | | | | | | | | | | | |
|---|---------|-------|--------------|---------|-------|--------------|---------|-------|--------------|----------|-------|--------------|
| | I2Q | | | JP | | | OCB | | | AC | | |
| | β | R^2 | ΔR^2 | β | R^2 | ΔR^2 | β | R^2 | ΔR^2 | β | R^2 | ΔR^2 |
| STEP 1 | | | | | | | | | | | | |
| Control Variables | | 0.1 | | | 0.15 | | | 0.49 | | | 0.15 | |
| STEP 2 | | | | | | | | | | | | |
| POP | 0.23* | 0.16 | 0.05* | -0.045 | 0.15 | 0.00 | 0.12 | 0.06 | 0.15 | -0.34*** | 0.27 | 0.11*** |
| NOTE: N = 134 ; * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$ | | | | | | | | | | | | |
| Control Variables = Age, Gender, Organization | | | | | | | | | | | | |

After running the moderation analysis, we came to know that the results were partly confirming our hypothesis 3. Our tests showed a ($\beta = 0.16$, $p < 0.05$) for Intentions to Quit and ($\beta = -0.10$, $p < 0.05$) for Affective Commitment which were significant to our proposition. Oppositely, we failed to garner significant support for Job Performance and Organizational Citizenship Behavior as they showed ($\beta = 0.04$) and ($\beta = -0.02$) respectively.

Our tests revealed that Intentions to Quit and Affective Commitment were moderated by EI when POP was influencing them. EI negated the adverse effects of POP on an individual and his quitting intentions were significantly minimized

whereas its commitment to the organization boosted. This accepted of Hypothesis 3 partially. Differing this, there was no substantial effect of Emotional Intelligence on POP's relation with Job Performance and Organizational Behavior, thus rejecting our notion partly.

TABLE III

| Moderation Regression Analysis | | | | | | | | | | | | |
|--|------------|----------------------|-----------------------|-----------|----------------------|-----------------------|------------|----------------------|-----------------------|-----------|----------------------|-----------------------|
| | I2Q | | | JP | | | OCB | | | AC | | |
| | β | R² | ΔR² | β | R² | ΔR² | β | R² | ΔR² | β | R² | ΔR² |
| STEP 1 <i>Control Variables</i> | | 0.1 | | | 0.15 | | | 0.04 | | | 0.15 | |
| STEP 2 <i>EI</i> | 0.00 | 0.16 | 0.05 | 0.07 | 0.15 | 0.00 | 0.07 | 0.06 | 0.02 | 0.12 | 0.28 | 0.12 |
| <i>POP</i> | 0.23** | | | -0.03 | | | 0.13 | | | -0.32*** | | |
| STEP 3 <i>INT - POP cen X EI cen</i> | 0.16* | 0.18 | 0.02 | 0.04 | 0.16 | 0.00 | -0.02 | 0.06 | 0.00 | -0.10* | 0.29 | 0.01* |

NOTE: N = 134 ; *p < 0.05, **p < 0.01, ***p < 0.001

Control Variables = Age, Gender, Organization

Discussion

Our research shows that Perceptions of Politics do have a relationship with work outcomes. We tested EI as a moderator between POP-outcomes relationship in order to see its effects on outcomes.

Our hypothesis was partially accepted as EI significantly moderated the relationship between POP and Affective Commitment as well as Intentions to Quit. It weakens the effect of POP on both variables as suggested in our hypothesis. Contradictory to our proposition, we were unable to find a significant moderating relationship with other outcomes like Job Performance and OCB.

Pakistan ranks high in Uncertainty Avoidance and Power Distance as suggested by (Hofstede 1983). POP has more adverse effects in countries with high power distance among individuals (Abbas et al. 2012). Therefore, POP's influence is a lot greater in Pakistan which also helped POP in minimizing EI's moderating effect.

We could not find a substantial effect of EI on OCB while keeping POP as an independent variable supporting the opinion presented by (Carmeli & Josman 2006). They argued that Emotional Intelligence does not affect OCB especially when it is termed as a personal characteristic. We also think that this result has happened due the fact that it is not necessary that an Emotionally Intelligent person is a rule abiding person. It totally depends on the nature of that particular person if he wants to take part in informal activities that have a good effect on organization.

Furthermore, EI could not considerably affect POP's influence on Job Performance. This may be because people in Pakistan mostly have a lot of Work Family Conflicts due to a strong Joint Family system. It can heavily affect the Job Performance of an individual. She/he could not give proper attention to his work due to problems at home. In this case, it doesn't matter if a person is high in EI or Low. As long as he is suffering from Work Family Conflict, his Job Stress will

increase and Satisfaction will diminish (Mesmer-Magnus & Viswesvaran 2005) – ultimately decreasing Job Performance.

Limitations

The nature of our research was cross sectional as it took three months for its completion which was not enough as surveys should be floated in more areas for getting better and effective result. Although our overall response rate was exceptional (95.035%), but we think the number of questionnaires were less which made our research scope limited. We would like to see a similar research on a greater level with more respondents filling surveys which would likely show emotional intelligence's influential role in minimizing POP affects.

Future Directions

In future, research should be conducted on such cultures where the power distances are comparatively low unlike Pakistan. We expect to see greater effect of EI in future over POP as this variable has strong potential to overcome the negative aspects caused by POP. Other positive moderators such as Psychological Capital could be tested with possible Job Outcomes and Perceptions of Politics.

Our research is a base line for those scholars who are willing to find ways to reduce POP's harmful effect in an organization. It should provide helpful resource for HR organizations who are more willing to recruit EQ people over IQ as suggested by (Goleman 1998).

Furthermore, this work for EI could be vital for big organizations as 75% of Forbes Top 100 companies prefer recruiting EQ people (Bradberry & Greaves 2009).

We hope that our research will prove a good contribution in the field of Organizational Behavior by finding ways to deal with the negative atmosphere within an organization and its after-effects on individuals.

Acknowledgments: Grateful acknowledgements to Mr. Ali Abbas, Adil Naeem, Osama Qaiser and Professor Inam Ul Haq who helped a lot in collecting data and giving their valuable suggestions while compiling this report. Without them, our work would not be in the current form.

References

- Abbas, M. et al., 2012. Combined Effects of Perceived Politics and Psychological Capital on Job Satisfaction, Turnover Intentions, and Performance. *Journal of Management*. Available at: <http://jom.sagepub.com/cgi/doi/10.1177/0149206312455243> [Accessed December 4, 2012].
- Abraham, R., 1999. Emotional intelligence in organizations: A conceptualization. *Genetic, Social, and General Psychology Monographs; Genetic, Social, and General Psychology Monographs*.
- Aristotle, 350AD. The Nicomachean Ethics. *Translated by W. D. Ross*.
- Bar-On, R. et al., 2003. Exploring the neurological substrate of emotional and social intelligence. *Brain*, 126(8), pp.1790–1800.
- Baron, R.M. & Kenny, D.A., 1986. The moderator-mediator variable distinction in social psychological research: conceptual, strategic, and statistical considerations. E. Inc, ed. *Journal of Personality and Social Psychology*, 51(6), pp.1173–1182. Available at: <http://www.ncbi.nlm.nih.gov/pubmed/3806354>.
- Bozeman, D.P. et al., 1996. An examination of reactions to perceptions of organizational politics. In *Southern Management Association Meetings, New Orleans*.

- Brackett, M. a & Salovey, P., 2006. Measuring emotional intelligence with the Mayer-Salovey-Caruso Emotional Intelligence Test (MSCEIT). *Psicothema*, 18 Suppl, pp.34–41. Available at: <http://www.ncbi.nlm.nih.gov/pubmed/17295955>.
- Brackett, M. A., & Salovey, P., 2004. Measuring emotional intelligence with the Mayer-Salovey-Caruso Emotional Intelligence Test (MSCEIT). In *Measuring emotional intelligence: Common ground and controversy*. Hauppauge, NY: Nova Science Publishers, p. Pages: 181–196.
- Bradberry, T. & Greaves, J., 2009. *Emotional Intelligence 2.0*, TalentSmart.
- Carmeli, A., 2003. The relationship between emotional intelligence and work attitudes, behavior and outcomes: An examination among senior managers. *Journal of Managerial Psychology*, 18(8), pp.788–813. Available at: <http://www.emeraldinsight.com/10.1108/02683940310511881> [Accessed October 30, 2012].
- Carmeli, A. & Josman, Z., 2006. The relationship among emotional intelligence, task performance, and organizational citizenship behaviors. *Human Performance*, (November 2012), pp.37–41. Available at: http://www.tandfonline.com/doi/abs/10.1207/s15327043hup1904_5 [Accessed December 12, 2012].
- Chang, C.-H., Rosen, C.C. & Levy, P.E., 2009. THE RELATIONSHIP BETWEEN PERCEPTIONS OF ORGANIZATIONAL POLITICS AND EMPLOYEE ATTITUDES , STRAIN , AND BEHAVIOR : A META-ANALYTIC EXAMINATION. *Academy of Management Journal*, 52(4), pp.779–801. Available at: <http://doi.wiley.com/10.1111/j.1467-6486.2010.00933.x>.
- Ciarrochi, J. V, Chan, A.Y.. & Caputi, P., 2000. A critical evaluation of the emotional intelligence construct. *Personality and Individual Differences*, 28(3), pp.539–561. Available at: <http://linkinghub.elsevier.com/retrieve/pii/S0191886999001191>.
- Cohen, J., Cohen, P. & Stephen, G., 2003. West, and Leona S. Aiken (2003). *Applied multiple regression/correlation analysis for the behavioral sciences*, 3.
- Cropanzano, R. et al., 1997. The relationship of organizational politics and support to work behaviors, attitudes, and stress. *Journal of Organizational Behavior*, 18(2), pp.159–180. Available at: [http://dx.doi.org/10.1002/\(SICI\)1099-1379\(199703\)18:2<159::AID-JOB795>3.0.CO](http://dx.doi.org/10.1002/(SICI)1099-1379(199703)18:2<159::AID-JOB795>3.0.CO).
- Drory, A., 1993. Perceived Political Climate and Job Attitudes. *Organization Studies* , 14 (1), pp.59–71. Available at: <http://oss.sagepub.com/content/14/1/59.abstract>.
- Ferris, G.R., 1992. Perceptions of Organizational Politics. *Journal of Management*, 18(1), pp.93–116. Available at: <http://jom.sagepub.com/cgi/doi/10.1177/014920639201800107> [Accessed December 10, 2012].
- Ferris, G. R., Harrell-Cook, G., & Dulebohn, J. (2000), 2000. Organizational Politics: The nature of the relationship between politics perceptions and political behavior. In *Research in the Sociology of Organizations*. Emerald Group Publishing Limited, pp. 89–130. Available at: <http://books.google.com/books?id=KOp6ILNfwGMC>.
- Ferris, G. R., Russ, G. S., & Fandt, P.M. 1989, 1989. Politics in Organizations. In *Impression Management Cl.* Psychology Press, pp. 143–170. Available at: <http://books.google.com/books?id=KOp6ILNfwGMC>.
- Furnham, A. & Bachtiar, V., 2008. Personality and intelligence as predictors of creativity. *Personality and Individual Differences*, 45(7), pp.613–617.
- Gandz, J. & Murray, V. V, 1980. The experience of workplace politics. *Academy of Management Journal*, 23(2), pp.237–251. Available at: <http://www.jstor.org/stable/255429>.

- Goleman, D., 1995. *Emotional intelligence*, Bantam Books. Available at:
<http://books.google.com.pk/books?id=XP5GAAAAMAAJ>.
- Goleman, D., 1998. *Working With Emotional Intelligence*, Bantam Books. Available at:
<http://scholar.google.com/scholar?hl=en&btnG=Search&q=intitle:Working+With+Emotional+Intelligence#0>
 [Accessed December 12, 2012].
- Hofstede, G., 1983. The cultural relativity of organizational practices and theories. *Journal Of International Business Studies*, 14(2), pp.75–89.
- Isen, A.M., Clark, M. & Schwartz, M.F., 1976. Duration of the effect of good mood on helping: “Footprints on the sands of time.” *Journal of Personality and Social Psychology*, 34(3), p.385.
- Jordan, P., Ashkanasy, N. & Hartel, C., 2002. Emotional intelligence as a moderator of emotional and behavioral reactions to job insecurity. *Academy of Management ...*, 27(3), pp.361–372. Available at:
<http://amr.aom.org/content/27/3/361.short> [Accessed December 12, 2012].
- Kacmar, K.M. et al., 1999. An Examination of the Perceptions of Organizational Politics Model: Replication and Extension. *Human Relations*, 52 (3), pp.383–416. Available at:
<http://hum.sagepub.com/content/52/3/383.abstract>.
- Kacmar, K.M. & Carlson, D.S., 1997. *Further Validation of the Perceptions of Politics Scale (Pops): A Multiple Sample Investigation*, Available at: <http://jom.sagepub.com/cgi/doi/10.1177/014920639702300502> [Accessed December 10, 2012].
- Kacmar, K.M. & Ferris, G.R., 1991. Perceptions of Organizational Politics Scale (POPS): Development and Construct Validation. *Educational and Psychological Measurement*, 51(1), pp.193–205. Available at:
<http://epm.sagepub.com/cgi/doi/10.1177/0013164491511019> [Accessed December 25, 2012].
- Kelloway, E.K., Gottlieb, B.H. & Barham, L., 1999. The source, nature, and direction of work and family conflict: A longitudinal investigation. *Journal of Occupational Health Psychology*, 4(4), p.337.
- Krackhardt, D. & Mintzberg, H., 1985. Power In and Around Organizations. J. W. Lorsch, ed. *Administrative Science Quarterly*, 30(4), p.597. Available at: <http://www.jstor.org/stable/2392702?origin=crossref>.
- Lewin, K., 1936. *Principles of topological psychology* G. M. Heider, ed., McGraw-Hill. Available at:
<http://www.amazon.com/dp/1406746797>.
- Matthews, G., Zeidner, M. & Roberts, R., 2004. *Emotional intelligence: Science and myth*, Available at:
<http://books.google.com/books?hl=en&lr=&id=Fy9gXBgREtQC&oi=fnd&pg=PR11&dq=Emotional+Intelligence+Science+and+Myth&ots=lqoOvMfEIC&sig=eRPz4kImQMGAFSNwOuxNmC1ir1o> [Accessed August 3, 2013].
- Mayer, J. D. & Salovey, P., 1997. What Is Emotional Intelligence? In *Emotional Development And Emotional Intelligence: Educational Implications*. New York: Basic Books, pp. 3–31. Available at:
http://www.unh.edu/emotional_intelligence/EI Assets/Reprints...EI Proper/EI1997MSWhatIsEI.pdf.
- Mayer, J. D., Salovey, P., & Caruso, D.R., 2002. Mayer-Salovey-Caruso Emotional Intelligence test (MSCEIT). *Mayer–Salovey–Caruso Emotional Intelligence Test (MSCEIT)*, Toronto, Canada: Multi-Health Systems.
- Mayes, B. & Allen, R., 1977. Toward A Definition of Organizational Politics. *Academy of Management Review*, pp.672–679. Available at: <http://amr.aom.org/content/2/4/672.short> [Accessed December 14, 2012].
- Mesmer-Magnus, J.R. & Viswesvaran, C., 2005. Convergence between measures of work-to-family and family-to-work conflict: A meta-analytic examination. *Journal of Vocational Behavior*, 67(2), pp.215–232.

- Meyer, J.P., Allen, N.J. & Gellatly, I.R., 1990. Affective and continuance commitment to the organization: Evaluation of measures and analysis of concurrent and time-lagged relations. *Journal of applied psychology*, 75(6), p.710.
- Miller, B.K., Rutherford, M.A. & Kolodinsky, R.W., 2008. Perceptions of Organizational Politics: A Meta-analysis of Outcomes. *Journal of Business and Psychology*, 22(3), pp.209–222. Available at: <http://www.springerlink.com/index/10.1007/s10869-008-9061-5>.
- Mintzberg, H., 1983. *Power in and around organizations*, Prentice-Hall Englewood Cliffs, NJ.
- Parker, C.P., Dipboye, R.L. & Jackson, S.L., 1995. Perceptions of organizational politics: An investigation of antecedents and consequences. *Journal of Management*, 21(5), pp.891–912.
- Porter, L.W., 1976. Organizations as Political Animals.
- Randall, M.L. et al., 1999. Organizational politics and organizational support as predictors of work attitudes, job performance, and organizational citizenship behavior. *Journal of Organizational Behavior*, 20(2), pp.159–174. Available at: [http://dx.doi.org/10.1002/\(SICI\)1099-1379\(199903\)20:2<159::AID-JOB881>3.0.CO](http://dx.doi.org/10.1002/(SICI)1099-1379(199903)20:2<159::AID-JOB881>3.0.CO).
- Van Rooy, D.L. & Viswesvaran, C., 2004. Emotional intelligence: A meta-analytic investigation of predictive validity and nomological net. *Journal of Vocational Behavior*, 65(1), pp.71–95.
- Salovey, P. & Mayer, J., 1990. Emotional intelligence. *Imagination, cognition and personality*. Available at: <http://baywood.metapress.com/index/duggp24e52wk6cdg.pdf> [Accessed December 12, 2012].
- Schutte, N.S. et al., 1998. Development and validation of a measure of emotional intelligence. *Personality and Individual Differences*, 25(2), pp.167–177. Available at: <http://linkinghub.elsevier.com/retrieve/pii/S0191886998000014>.
- Sy, T., Tram, S. & O'Hara, L.A., 2006. Relation of employee and manager emotional intelligence to job satisfaction and performance. *Journal of Vocational Behavior*, 68(3), pp.461–473.
- Vigoda, E., 2001. Reactions to organizational politics: A cross-cultural examination in Israel and Britain. *Human Relations*, 54(11), pp.1483–1518.
- Vigoda-Gadot, E., 2009. Leadership style and emotions in management and the management of emotions: The impact of emotional intelligence and organizational politics on public sector employees. *Public Administration Review*, (February). Available at: <http://onlinelibrary.wiley.com/doi/10.1111/j.1540-6210.2009.02112.x/full> [Accessed December 12, 2012].
- Vigoda-Gadot, E., 2007. Leadership style, organizational politics, and employees' performance: An empirical examination of two competing models. *Personnel Review*, 36(5), pp.661–683. Available at: <http://www.emeraldinsight.com/10.1108/00483480710773981> [Accessed November 17, 2012].
- Vigoda-Gadot, E. & Kapun, D., 2005. Perceptions of politics and perceived performance in public and private organisations: a test of one model across two sectors. *Policy & Politics*, 33(2), pp.251–276. Available at: <http://www.ingenta.com/rpsv/cgi-bin/cgi?ini=xref&body=linker&reqdoi=10.1332/0305573053870185>.
- Williams, L.J. & Anderson, S.E., 1991. Job satisfaction and organizational commitment as predictors of organizational citizenship and in-role behaviors. *Journal of management*, 17(3), pp.601–617.
- Witt, L.A., Andrews, M.C. & Kacmar, K.M., 2000. The role of participation in decision-making in the organizational politics-job satisfaction relationship. *Human Relations*, 53(3), pp.341–358.
- Wong, C.-S. & Law, K.S., 2002. The effects of leader and follower emotional intelligence on performance and attitude: An exploratory study. *The Leadership Quarterly*, 13(3), pp.243–274.

Factors Affecting Gender Diversity in Malaysia

By:

Shamsul Nahar Abdullah

Faculty of Economics and Management Sciences,

International Islamic University Malaysia,

MALAYSIA

shamsulnahr@iium.edu.my.

Abstract:

The representation of women at the decision-making level in Malaysia has received special attention from the government since 2004, the year in which it adopted a policy requiring that 30 per cent of the posts at decision-making level in the public sector be filled by women. The objective of this paper is to examine the factors that determine the appointment of women to the boards of Malaysian large firms. Large firms were chosen in this study because they have the resources and the capacity to adopt the policy more readily compared to smaller firms. The results reveal that gender diversity is positively associated with board size and the presence of family on the board. That is, the larger the board is, the more likely it is that women sit on it. The fact that the presence of women on the board is associated with the presence of one or more family members on the board means that the appointment of women to the board is very much influenced by family ties rather than commercial reasons. The results also show that firm performance is negatively associated with gender diversity. That is, firms with low financial performance are more likely to have women on their boards. Hence, taken altogether, the evidence suggests that the appointment of women to the board is very much driven by tokenism and family connection rather than by the business case.

Introduction

In 2004, the Malaysian government introduced a policy which stipulated that at least 30 per cent of decision-making positions in the public sector should be occupied by women to ensure women's participation at the decision-making level. The success of the policy was seen when, in July 2011, the Prime Minister of Malaysia, Najib Razak announced that the percentage of women occupying decision-making positions in the public sector had increased to 32.3 per cent in 2011 from 18.8 per cent in 2004. As a continuation, he announced that the policy was to be expanded to include the private sector, namely public listed firms (i.e. plcs), and that by 2016 all plcs would be expected to have at least 30 per cent women on their boards. This is considered a major milestone in the corporate governance of Malaysian listed firms and, in fact, Malaysia is the first country in Asia to have introduced such a measure. To ensure that the initiative is taken seriously, the Securities Commission has incorporated this requirement into the Malaysian Code on Corporate Governance 2012 (MCCG 2012) and companies are required to disclose in their annual reports their policies and achievement with respect to women on their boards beginning from 2012 financial year (Securities Commission 2012). Given the importance of the relation between board diversity and board effectiveness, this study thus aims at investigating the factors that lead to gender diversity among Malaysian large firms. Employing agency theory, the present study examined whether board independence, board size and the presence of family members on the board are associated with the appointment of women to the board. It is argued that the appointment of women to the board is associated with the proportion of independent directors on the board: as firms allocate more seats to independent directors, the chances of

female directors being appointed to the board as independent directors increases as well. As for board size, the larger the board is, the higher the likelihood is of women directors serving on the board. In fact, it has been found that women directors are more likely to be appointed to the board as additional rather than as replacement members (Luoma and Goodstein 1999; Bilimoria 2000; Klein 2002). Finally, Malaysian firms are closely held and are usually family-owned (Claessen et al. 2000). As a consequence, family members dominate the board of directors. It is likely that female members of the family are also appointed to the board to protect the interest of the family. Hence, the presence of family directors on the board is associated with the presence of women directors.

The remainder of the paper is structured as follows. In the next section, theoretical developments in respect of board gender diversity and its determinants are presented. This is followed by the research methodology section. The findings and discussion are presented in the subsequent section. Finally, some conclusions are offered.

Literature review and hypothesis

Due to concentrated ownership, the boards of Malaysian listed firms are usually controlled by the firms' substantial shareholders. Moreover, their influence goes one step further because they have control over the appointment of the chief executive officers (CEOs). Hence, in the light of this, board decisions tend to be biased towards favoring the firm's substantial shareholders at the expense of the firm's minority shareholders. It has been suggested that board diversity can mitigate this imbalance.

The most important indicator of women's participation in boards is the number of women occupying board seats at a particular time. In its report, Catalyst (2011) reported the percentages of women on boards in several countries worldwide, some of which are as follows: Norway (39.5 per cent), US (15.7 per cent), UK (12.5 per cent), Spain (9.3 per cent), Hong Kong (8.9 per cent), Singapore (7.3 per cent), Malaysia (6.8 per cent) and Japan (0.9 per cent). Previously, the percentage of female directors in the US was 4.7 per cent in 1987 but rose to 13.6 per cent in 2003 (Catalyst, 2003). For Muslim-dominated countries, with the exception of Turkey (10.3 per cent), women's representation on boards was very low: e.g. Kuwait (2.7 per cent), Oman (2.3 per cent) and Bahrain (one per cent) (Catalyst 2011).

Empirical evidence in respect of the UK shows that the proportion of female directors in UK FTSE 100 companies was 3.7 per cent in 1995 but improved to 8.6 per cent in 2003 (Conyon and Mallin 1997; Vinnicombe and Singh 2003). In Nordic countries, the representation of women is relatively high, even in the absence of any law enforcing the requirement of appointing a certain proportion of women to the board. For instance, in Norway where there is a law that requires 40 per cent of directors to be female, whereas in Sweden and Finland, where there is no prescription in law, the percentage of women on boards is still fairly high at 27.3 per cent and 24.5 per cent, respectively. It does therefore seem that the Nordic countries are very open to appointing women to boards as opposed to other countries including the US and the UK. Moreover, it also appears that the glass ceiling for aspiring women directors in the UK and the US is harder to break as compared to that in the Nordic countries, and it is even harder to break through in Muslim countries and in Japan. Even the situation in Spain is not encouraging because, even though companies in Spain are required by law to have 40 per cent of their board seats filled by women by 2015, as it stands, only 9.3 per cent of the members of the boards of companies in Spain are women, and thus the gap remains huge. In addition to Norway and Spain, the lower house of France's parliament, in 2010, approved a new law which will force companies to increase the proportion of women on their boards to 40 per cent by 2016.

Based on the findings of earlier studies (e.g. Adler 2001; Catalyst 2004), Stephenson (2004) points out the reasons why women in particular should be on boards. First, research shows that boards with more women are more likely to pay more attention to audit and risk oversight and control. Second, women directors would help companies attract and retain valuable female employees, and promote positive attitudes among female employees. Third, women directors not only focus on financial performance measures, but also place an emphasis on non-financial performance measures such as innovation and social responsibilities. In addition, Daily and Dalton (2003) argue that “Women’s communication styles tend to be more participative and process-oriented.”

In terms of financial performance, the link between women directors and firm performance is not clear. However, it is worth noting that it is impossible to observe a consistent and strong link between women directors and firm performance due to the fact that the majority firms that appoint women to their boards have only one woman director. Thus, women’s direct influence on firm performance is very small, as argued by critical mass theory (Kramer et al. 2006). Several studies have found a positive association between women directors and firm performance, but this link should not be used as the sole indicator of women’s contributions to boards. For instance, Keys et al. (2003) show that there are significantly higher average cumulative abnormal returns among 200 Fortune 500 firms that have women directors. Similarly, Erhardt et al. (2003) also show that gender diversity is associated positively and significantly with a firm’s return on assets (ROA) and return on investment (ROI). Nevertheless, Shrader et al. (1997) show a negative association between female directors on boards in the US and two accounting measures (ROA and return on equity (ROE)) of 200 Fortune 500 firms. Zahra and Stanton (1988) also offer similar evidence outside of the US. Adams and Ferreira (2009) also find that, on average, diversity affects firm performance negatively. In Malaysia, Abdullah and Ku Ismail (Forthcoming) also document a negative association between women on the board and firm performance (i.e. ROA and Tobin’s q). Rose (2007) finds that the presence of female directors does not influence the performance of Danish firms. Carter et al. (2010) also do not find any evidence linking gender diversity and a firm’s performance in terms of ROA and Tobin’s q in the US.

The lack of women serving on boards can be attributed to the current practice of identifying nominees; i.e. whenever there are board seat vacancies, the nomination committees will search for potential candidates and one of the inputs that the committee receives is from the CEO himself. The process of identifying potential directors is not as rigorous as the process of identifying potential candidates to fill the CEO post. While the process in the former relies heavily on networks, the process for the latter uses not only networks, but also advertisements or perhaps headhunting. Hence, since women are not in the directors’ or CEOs’ networks, their chances of being identified are very small if not remote.

Agency theory predicts that the likelihood of women being appointed to the board increases as the number of independent directors on the board increases. Independent directors are seen as: strict monitors (Weisbach 1988; Beasley 1996), professional referees (Fama 1980), experts in decisions and control (Fama and Jensen 1983) and providers of advice to corporate boards on strategic decisions (Fama 1980). Further, Daily and Dalton (2003, p. 9) argue that “Women’s communication styles tend to be more participative and process-oriented.” Kesner (1988) reveals that women directors are more likely to be independent directors. In fact, Kesner (1988) reveals that women directors are more likely to be outside directors than inside directors. Hence,

H₁: Board independence is positively associated with gender diversity.

A large board is expected to be more able to accommodate the appointment of female directors as opposed to a smaller board as predicted by resource dependency theory. It is argued that because gender diversity is still considered by society as something that is voluntary and a gesture of goodwill, only large boards can afford to have more diversity among their directors (Luoma and Goodstein 1999; Klein 2002). Nevertheless, Kang et al. (2007) do not find an association between board size and gender diversity in Australia's top 100 firms. The insignificant association, they argue, is attributable to the small number of female directors in their sample. This argument is consistent with critical mass theory where the impact of a subgroup is only observed when a certain threshold is achieved (a critical mass) (Kramer et al. 2006). However, this present study maintains that large board size leads to the appointment of women directors because large board size is more accommodative in appointing female directors as opposed to small board size. Hence,

H₂: Board size is positively associated with gender diversity.

Being a typical Asian country, Malaysian firms are predominantly controlled by families (Claessens et al. 1999; Claessens et al. 2000). Abdullah and Mohd. Nasir (2004) also reveal that, on average, 73 per cent of the shares of a Malaysian listed firm are held by the firm's top 20 shareholders. They also document that, on average, the board of a listed firm collectively holds 26 per cent of the firm's shares. By virtue of ownership and control, these families appoint their family members to sit on the board of firms which they control. In fact, a report by the Stock Exchange of Hong Kong (1996, p. 21) states that "substantial shareholders are often themselves directors." This practice is also prevalent in Malaysia because the majority of Malaysian listed firms are controlled by Chinese families, who share the same culture as the Chinese in Hong Kong. The appointment of directors in family-controlled firms is likely to be influenced more by the ties of prospective directors to the controlling family, and by the expectation that they will support the management in major decisions (Chen and Jaggi 2000). It is also highly likely that these family-owners will appoint their female family members to the board because this is also a source of income for the family members. Hence,

H₃: The presence of family directors on the board is positively associated with gender diversity.

Methodology

A total of 100 non-financial firms listed on the Malaysian Stock Exchange, the Bursa Malaysia, in 2007 were included in the sample. Previous studies on gender diversity have also examined the top 100 firms in Malaysia (e.g. Conyon and Mallin 1997; Singh et al. 2001; Grosvold et al. 2007; Kang et al. 2007). Data were collected from the sample firms' 2007 annual reports, which were accessed via the Bursa Malaysia website. The year 2007 was chosen because it was prior to the 2008 global financial crisis. Gender diversity is measured by the presence of women on the board, which is treated as a dummy variable with the value of "1" being given to a firm that has at least one female director on the board and "0" otherwise. Finally, family directors on the board are measured by the presence of at least one family member of the controlling shareholder on the board with a value of "1" being given if there is and a value of "0" otherwise.

Going against the traditional male world is not something that a listed company would readily do. Thus, not all companies are willing to appoint women directors. Hence, only profitable firms and large firms are expected to appoint women to the board as compared to less profitable and smaller firms. Hence, firm performance and firm size are included as control variables. To this end, two measurements of firm performance are utilized, i.e. ROA and Tobin's *q*. The ROA is computed by dividing profit before interest and taxes by the firm's total assets. Tobin's *q*, on the other hand, is the sum of the market value of equity and book value of total debts divided by the book value of total assets.

Results and Discussion

The evidence reveals that a total of 851 board seats are available in all the top 100 non-financial firms for the 2007 financial year. Further, scrutiny revealed that out of these 851 board seats, only 54 seats are allocated to women, i.e. 6.3 per cent of the total board seats. In addition, it is found that only a total of 39 Malaysian firms (i.e. 39 per cent) have female directors on their boards. This evidence indicates that firms in Malaysia lag behind Australia, where the rate is 67 per cent, and behind the UK, where, in 2005, 78 per cent of UK boards had at least one female director (Grosvold et al. 2007). Out of these 39 large firms, only 12 per cent have more than one female director. This evidence is generally consistent with Australia, where the proportion is 13.5 per cent (Equal Opportunity for Women in the Workplace Agency 2006), but is behind Europe and the US, where the proportion is 28 per cent (European Professional Women's Network 2004) and 25 per cent (Adams and Ferreira 2009), respectively. Out of the 54 board seats allocated to women in Malaysian large firms, 16 are executive director positions, another 24 are non-executive director positions, and the remaining 14 are independent director posts. Therefore, about 75 per cent of these women directors are related to the controlling shareholders and are appointed either as executive or non-executive directors. Table 1 presents the descriptive statistics for the sampled firms.

Table 1: Descriptive Statistics

| Variable | Min | Max | Mean | Std. Deviation | Skewness | Kurtosis |
|--------------------------------|-------|--------|-------|----------------|----------|----------|
| Gender | 0 | 4 | 0.54 | 0.797 | 1.64 | 3.08 |
| Proportion of female directors | 0 | 0.40 | 0.06 | 0.09 | 1.64 | 2.62 |
| Board independence | 0.22 | 0.71 | 0.42 | 0.10 | 0.54 | -0.10 |
| Board size | 4 | 15 | 8.51 | 0.485 | 0.606 | 0.627 |
| Family on the board | 0 | 1 | 0.370 | 0.485 | 0.547 | -1.736 |
| ROA | -0.04 | 1.42 | 0.11 | 0.16 | 5.76 | 42.15 |
| Tobin's q | 0.33 | 27.23 | 1.898 | 2.907 | 7.046 | 59.21 |
| Total assets (in RM million) | 216 | 67,000 | 6,549 | 10,442 | 3.29 | 13.06 |

Results in Table 1 show that the sample firms generally comply with the minimum requirement set out by the Malaysian Code on Corporate Governance with respect to the number of independent directors (i.e one-third of the board size or two directors, whichever is higher. With an average of 42 per cent of boards consisting of independent directors, each board thus has about three independent directors and thus complying with the one-third requirement. Results in Table 1

indicate that almost 40 per cent of the sample firms have family directors on their boards. It is also found that 113 family directors serve on the boards of the sample firms, or an average of one family director on each board.

Table 2 presents the results from the multiple regression analyses. To reduce the problem of non-normality of Tobin's q and ROA, these variables were normalized using the Van der Waerden procedure available in SPSS.

Table 2: Regression Results

| Variable | Coefficient | Standard error | Wald |
|------------------------------------|-------------|----------------|--------------------|
| Constant | -5.276 | 4.653 | 1.286 |
| Board independence | 2.722 | 2.448 | 1.236 |
| Board size | 0.403 | 0.139 | 7.295 [#] |
| Family on board | 0.822 | 0.486 | 8.392 [#] |
| Return on assets | -0.098 | 0.296 | 0.109 |
| Tobin's q | -0.591 | 0.322 | 3.375 [*] |
| Firm size | 0.007 | 0.216 | 0.001 |
| Percentage with correct prediction | | | 72 per cent |
| Nagelkerke R square | | | 25 per cent |

^{#*/} Significant at 1 per cent/5 per cent/10 per cent respectively.

Results in Table 3 support H_2 and H_3 , where board size and the presence of family directors on the board are associated with a higher likelihood of the presence of women directors. The evidence also supports the finding by Bilimoria (2000) who finds that when a woman director is appointed to a board, she is appointed as an additional director rather than as a replacement director, resulting in an increase in the board size. The positive and significant association between the presence of family members on the board and gender diversity supports the contention proposed by Chen and Jaggi (2000) who argue that the appointment of directors in family-controlled firms is likely to be influenced more by the ties of prospective directors to the controlling family and by the expectation that they will support the management in major decisions.

As for board independence, results show that it is not associated with the likelihood of the presence of women directors. Hence, H_1 is not supported. Interestingly, it is revealed that a firm's market performance, i.e. Tobin's q , is negatively and significantly associated with women directors, be it their presence or their extent on the board. Hence, based on the findings, a firm's poor market performance is associated with both the presence and a high proportion of women directors.

Conclusion

While arguments in favor of appointing women directors are numerous, their actual appointments have not increased as much as the proponents of increased women's representation would like. Even though the number of companies that have appointed women to their boards has increased, the majority of firms have only one woman on their boards. This leads many to believe that the appointment of women is a result of tokenism rather than evidence of a board's genuine intention to become gender diverse.

The multivariate analyses reveal that board independence appears to be irrelevant in predicting the presence of women on the board. Possibly, the low representation of independent directors in the firms, i.e. three to four independent directors (42 per cent) out of a total of eight to nine directors, means that it is not possible for them to propose that there be more women on the board, which is dominated by directors who represent the controlling shareholder of the firm. Hence, as a result of the concentration of ownership in Malaysian companies, the effectiveness of the independent directors is at risk

when the board is dominated by the chairman, CEO, executive directors and non-executive directors who are connected to the firm's controlling shareholder. In a concentrated ownership environment, such as Malaysia, related party transactions, involving the controlling shareholders, are rampant.

The fact that there is a negative association between Tobin's q and the presence of women directors on the board is unexpected. One explanation for this finding is that poorly performing firms appoint women to the board in the hope that they will add value to the firm because they know the market better (Stephenson 2004). This perhaps is also the case in Malaysia. The evidence in this study is consistent with that of Ryan and Haslam (2005) who reveal that during five months prior to the appointment of a woman director, a firm experiences worse performance than a firm which decides to appoint a male director. They argue that women are sometimes appointed to the board when a firm is in trouble. Alternatively, the negative association could be due to the over-monitoring by women directors (Adams and Ferreira 2009).

References

- Abdullah, S.N. & Ku Ismail, K.N. Forthcoming., Gender, Ethnic and Age Diversity and Performance of Large Malaysian Firms. *Jurnal Pengurusan*, 36(September).
- Abdullah, S.N. & Mohd Nasir, N. 2004 Accrual management and the independence of the boards of directors and audit committees. *IIUM Journal of Economics and Management Sciences*, 12(1), 49-80.
- Adams, R. & Ferreira, D. 2009 Women in the Boardroom and their Impact on Governance and Performance, *Journal of Financial Economics*, 94, 291-309.
- Adler, R.D. 2001 *Women in the Executive Suite Correlate to High Profit*. Glass Ceiling Research Center, <http://glassceiling.com/InTheNewsFolder/HBRArticlePrintablePage.html>, accessed on 30 June 2009.
- Beasley, MS. 1996 An empirical analysis of the relation between the board of director composition and financial statement fraud. *The Accounting Review*, 71(4), 443-465.
- Bilimora, D. 2000 Building the business case for women corporate directors. In Burke, R.J. and Mattis, M. (eds.) 2000 *Women on Corporate Boards of Directors: International Challenges and Opportunities* (pp. 25-40). Dordrecht, The Netherlands: Kluwer Academic Publishers.
- Carter, D. A., D'Souza, F.P., Simkins, B.J. & Simpson, W.G. 2010 The gender and ethnic diversity of US boards and board committees and firm financial performance. *Corporate Governance: An International Review*, 18(5), 396-414.
- Catalyst 2004 *The Bottom Line: Connecting Corporate Performance and Gender Diversity*. New York: Catalyst Publication Code D58.
- Catalyst 2011 *Women on Boards*. http://www.som.cranfield.ac.uk/som/dinamic-content/media/Research/Research_per cent20Centres/Centre_per cent20for_per cent20Women_per cent20Leaders/6_per cent20month_per cent20monitoring_per cent20report-final_per cent20pdf.pdf. Accessed on 1 April 2012.
- Chen, C.J.P. and B. Jaggi 2000 Association between independent non-executive directors, family control and financial disclosures in Hong Kong, *Journal of Accounting and Public Policy*, 19, 4-5, pp. 285-310.
- Canyon, M.J. & Mallin, C. 1997 Women in the boardroom: Evidence from Large UK companies. *Corporate Governance: an International Review*, 5(3), 112-117.
- Claessens, S., Djankov, S., Fan, J.P.H. & Lang, L.H.P. 1999 Expropriation of Minority Shareholders: Evidence from East Asia. *World Bank Working Paper* 2088.

- Claessens, S., Djankov, S. & Lang, L.H.P 2000 The separation of ownership and control in East Asian corporations. *Journal of Financial Economics*, 58, 81-112.
- Daily, C. M. & Dalton, D.R. 2003 Women in the boardroom: A business imperative. *Journal of Business Strategy*, 24(5), 8-10.
- Erhardt, N.L., Werbel, J.D. & Shrader, C.B. 2003 Board of director diversity and firm performance. *Corporate Governance: an International Review*, 11(2), 102-111.
- Fama E.F. 1980 Agency problems and theory of the firm. *Journal of Political Economy*, 88(2), 288–307
- Fama, E.F. & Jensen M.C. 1983 Separation of ownership and control. *Journal of Law and Economics*, 26 (2), 301–325
- Grosvold, J., Brammer, S. & Rayton, B. 2007 Board diversity in the United Kingdom and Norway: An exploratory analysis. *Business Ethics: A European Review*, 16(4), 344-357.
- Kang, H., Cheng, M. & Gray, S.J. 2007. Corporate governance and board composition: diversity and independence of Australian boards. *Corporate Governance: an International Review*, 15(2), 194-207.
- Kesner, I.F. 1998 Directors' characteristics and committee memberships: An investigation of type, occupation, tenure and gender. *Academy of Management Journal*, 22, 409-438.
- Keys, P.Y., Ellis, K.M., Newsome, P.T. & Friday, S.S. 2003 Shareholder Benefits of Diversity. <http://fisher.osu.edu/fin/dice/seminars/diversity20.pdf>. Accessed on 10 December 2010.
- Klein, A. 2002 Economic determinants of audit committee independence. *The Accounting Review*, 77, 2, 435-452.
- Kramer, V.W., Konrad, A.M., & Erkut, S. 2006 Critical mass on corporate boards: why three or more women enhance governance. Wellesly Center for Women. Report WCW 11.
- Luoma, P. & Goodstein, J. 1999 Stakeholders and Corporate Boards; Institutional Influences on Board Composition, Research Note, *Academy of Management Journal*, 42, 553-563.
- Rose, C. 2007 Does female board representation influence firm performance? Danish evidence. *Corporate Governance: an International Review*, 15(2), 404-413.
- Ryan, M. K. & Haslam, S.A. 2005 The glass cliff: Evidence that women are over-represented in precarious leadership position. *British Journal of Management*, 16(2), 81-90.
- Securities Commission 2012 *Malaysian Code on Corporate Governance 2012*. Kuala Lumpur: Securities Commission.
- Stock Exchange of Hong Kong Limited 1996 Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (3rd ed.). Hong Kong: Stock Exchange of Hong Kong Limited.
- Singh, V., Vinnicombe, S. & P. Johnson, P. 2001 Women directors on top UK boards. *Corporate Governance: An International review*, 9(3), 206-216.
- Shrader, C.B., Blackburn, V.B. & Iles, P. 1997 Women in management and firm financial value: An exploratory study. *Journal of Managerial Issues*, 9(3), 355-372.
- [Stephenson, C.](#) 2004 Leveraging diversity to maximum advantage: The business case for appointing more women to boards. *Ivey Business Journal*, 69(1), 1-5.
- Vinnicombe, S. & Singh, V. 2003 *The Female FTSE Index*. UK: Cranfield School of Management.
- Weisbach, M.S. 1988 Outside directors and CEO turnover. *Journal of Financial Economics*, 20 (Jan-March), 431-460.
- Zahra, S.A. & Stanton, W.W. 1988 The implication of board of directors composition for corporate strategy and value. *International Journal of Management*, 5(2), 229-236.

To study the relationship between altruism and control concentration on stewardship: A case of service oriented public organization, NADRA.

By:

Silvia A.Khattak

FAST University Islamabad

Pakistan

Abstract:

This study is basically an amalgamation of two studies on theories of corporate governance, with specific focus on stewardship theory. The propositions stem from the study conducted by Davis, Schoorman and Donaldson (1997). Their propositions relate extrinsic and intrinsic motivation and power distance with stewardship. However, the focus of this paper is a public sector organization where beauracracy and aggressiveness very much prevail in the organization. The model has been modified from a study conducted by Eddleston and Kellermanns (2007). They propose that altruism is an element of stewardship and that control concentration hinders the practice of participation and thus performance of the organization is affected. This paper in turn studies the effect of motivation and power distance, from the study of Davis et.al (1997) on altruism and control concentration, from the study of Eddleston and Kellermanns (2007) and then the relationship between altruism and control concentration on stewardship.

The study has been conducted utilizing self-administered questionnaires from the middle management of NADRA, a public sector organization in Pakistan. Linear regression has been applied on the model to understand the causation of these elements. It is interesting to find that although many of the propositions hold true for the study but the effect of altruism on stewardship is not very significant, hence concluding that since aggressiveness is an element of a public sector organization in Pakistan, stewardship behavior seems to be less prevalent in such organizations. This provides room for further research on how organization structures and culture might determine the type of theory to be applied on a certain organization.

Keywords: *Motivation, power distance, altruism, control concentration, stewardship. (JEL: M)*

Introduction

Employing more than 11,000 workers, National Database and Registration Authority (NADRA) proudly boasts in providing an integrated and secures system which is reliable and operates in the best of interest of the client and providing a source for public facilitation in Pakistan. Currently, it is operating as a monopolistic organization in providing various automated registration services. The four components against which NADRA is operating are as follows:

- a. Software Integration
- b. Data warehousing
- c. Network Infrastructure Development
- d. Project Management

NADRA began its operations in March 2000 by starting with a project of registering and issuing secure Computerized National Identity Cards in order to reduce the level of identity thefts and has been successful in doing so. It has stored the data of 96 million citizens and is not only the National Data Warehouse for which it is known but the services of NADRA has expanded internationally as well. It extends its services to Kenya, Sudan and Bangladesh for various projects which includes passport issuing systems, security driver's license and Civil Registration Management System.

NADRA is a merger of National Data base Organization (NDO) and Directorate General of Registration (DGR). This union took place in March 2000 to provide more autonomy to a governing body which could replace the manual and paper based national registration process.

NADRA's main achievements include outstanding achievement award in Cairo, May 2007; ID Talent Award in November 2007 at Milan; Tamgha-e-Imtiaz by the Government of Pakistan and also maintaining the ISO quality standards. ID World Magazine has placed NADRA one of the top 50 e- passport technology supplier.

NADRA currently works under Ministry of Interior, Government of Pakistan. In order to understand the structure of NADRA, it is important to understand the working of Government organizations in Pakistan.

Working of Public Sector Organization in Pakistan: The Public Sector Organizations follow a bureaucratic system that was introduced by the British when they invaded the Indian sub-continent. After a decade of the invasion, the same system has prevailed since then (Bashir, khattak, Hanif and Chohan, 2011)

According to a study conducted in Islamabad on health professionals working in the public sector, it was found that the job satisfaction rate in such public health institutions is only 41% (Kumar, Ahmed, Sheikh and Hafeez, 2013). Job satisfaction was linked with environment of the organization, job responsibilities, power and time pressures. It was found that there was relatively low level of satisfaction among workers in public sector health care organizations (Kumar et.al, 2013)

One of the important factors that have been observed frequently in public sector organizations working in Pakistan is deviant working behavior. Deviant working behavior means any distraction that would allow an employee's propensity to indulge in all other factors but the work content itself. This may include fraud, aggression, and nepotism or putting work to red tape (Nasir and Bashir, 2012). The research found organizational injustice and job satisfaction to be closely related to workplace deviance. So in light of the above studies, one can infer that organizations that are working under a bureaucratic system has the tendency to work in an environment where favoritism, injustice and aggression are common norms of the system. If such is the case then one can infer that low job satisfaction may prevail in such an organization.

NADRA is a unique example of an organization relating to the public sector, yet it has sufficient autonomy to make certain decisions relating to Information technology and other technological changes. Despite the fact that it works under the Ministry of Interior, which is an integral part of the governmental machinery, it has lived up to the expectations to its clients and the public masses in general. This paper highlights the relationship of two components, extrinsic motivation, intrinsic motivation and power distance on altruism and control concentration which then has an effect on stewardship theory overall. It will be interesting to find their impact on an organization which is public in nature, yet has some kind of autonomy in making certain strategic decisions.

Aims and objectives

- i. To find if motivation and power distance leads to increase/decrease in altruism in a public sector organization

- ii. To find if motivation and power distance leads to increase/decrease in control concentration in a public sector organization
- iii. To find if there is any relationship between altruism and control concentration in a public sector organization
- iv. To find if altruism has any effect on stewardship
- v. To find if control concentration has any effect on stewardship
- vi. To find if extrinsic/intrinsic motivation and high/low power distance has an indirect influence on stewardship.

Methodology

The sampling technique used in the research is probability sampling and within that, stratified random sampling, the strata being the middle management, including Assistant Managers, Deputy Managers and Managers. Close ended self-administered questionnaires will be distributed amongst 60% (120 out of 202 middle managers at Head Office) of the total population size within these strata. SPSS will be used for the analysis of data. The research paper will use primary, secondary as well as tertiary techniques for research findings.

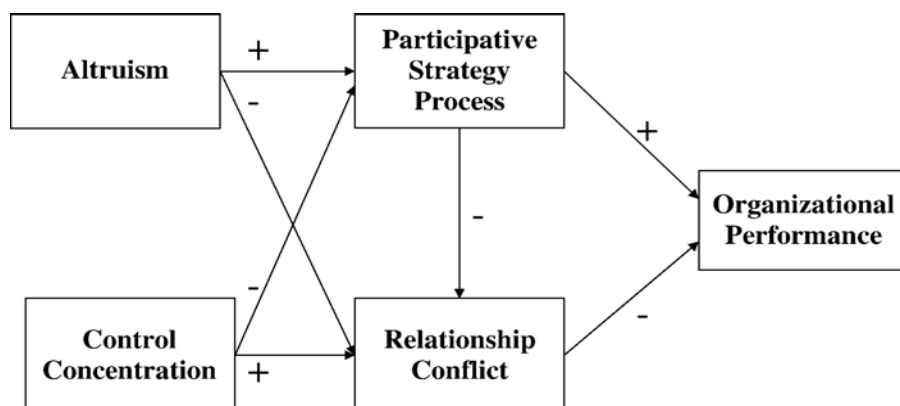
| Primary resource | Secondary resources | Tertiary resources |
|------------------|--|--------------------------------------|
| Questionnaires | Books, Articles, Journals, Newspapers, Websites, Company's brochures | Dictionary, Encyclopedias, Abstracts |

Theoretical framework

The model adapted and modified for this purpose is an amendment from the work of Eddleston and Kellermanns (2007). The model is depicted in the figure given below. The model hypothesizes that altruism is negatively related to relationship conflict but positively related to participative strategy. Similarly control concentration is negatively related to participative strategy process but positively related to relationship conflict. Participative strategy has a positive influence on organizational performance while relationship conflict has negative influence on organizational performance.

In their study Eddleston and Kellermanns (2007) has provided some evidence that altruism and participative strategy can help firms improve their performance while relationship conflict hinders the process. They also pointed out that altruism is an element of stewardship theory while control concentration is an element of agency theory.

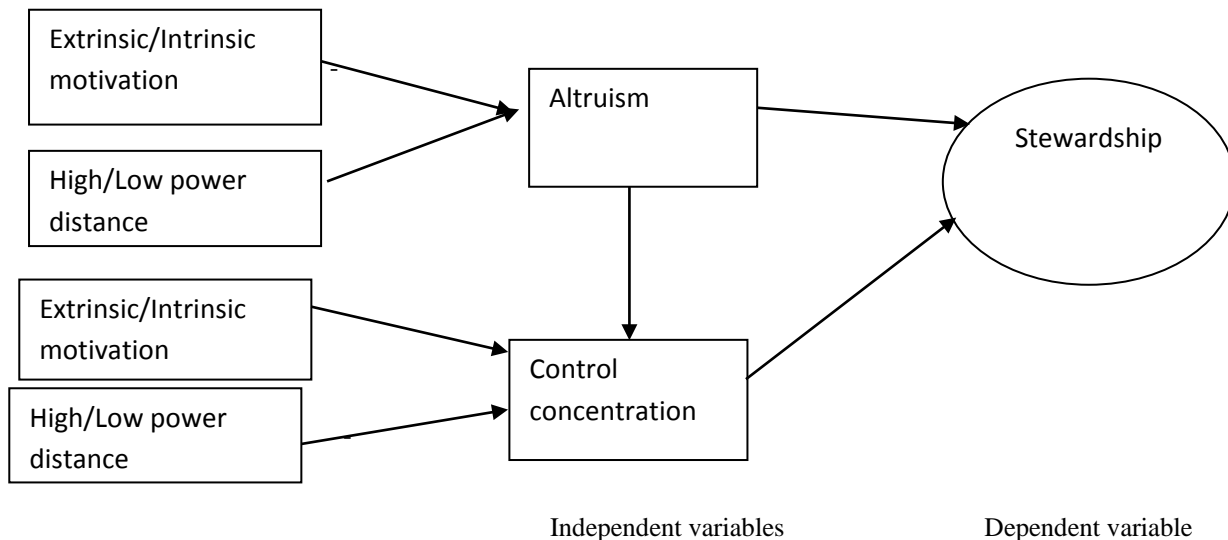
Figure1: Theoretical Framework



Source: Eddleston and Kellermanns (2007)

The study builds up on this model and examines two of the basic propositions provided by Davis, Schoorman and Donaldson (1997). Therefore the hypothesis has been adopted by the study of Davis et.al (1997). The study is an attempt to compare and contrast the differences and commonalities between agency theory and stewardship theory moving forward in favor of stewardship theory. The researcher's study is a combination of both these studies being applied on NADRA. This is going to be interesting because where studies on stewardship or agency theories have been largely based on family firms, this one is aimed at a public limited corporation. It will be interesting to find any variations or commonalities in the type of organizations being studied with regard to agency or stewardship theory.

Figure 1: Model depicting relationship between altruism and control concentration on stewardship



Hypothesis

The original hypothesis by Davis et.al is given at annexure 1. These hypotheses according to the model given above are amended into:

- H1.a: Extrinsic motivation does not have significant relationship with altruism.
- H1.b: Extrinsic motivation has a significant relationship with control concentration
- H2.a: Intrinsic motivation has a significant relationship with altruism
- H 2.b: Intrinsic motivation does not have significant relationship with control concentration
- H3.a: High power distance has significant relationship with control concentration
- H3.b: High power distance does not have a significant relationship with altruism
- H4.a: Low power distance has significant relationship with control concentration
- H4.b: Low power distance has a significant relationship with altruism
- H5: Altruism does not have significant relationship with control concentration
- H6: Altruism has significant relationship with stewardship
- H7: Control concentration does not have significant relationship with stewardship.

Deliverables

1. Report based on recommendations and suggestions to NADRA about factors that can enhance or evade stewardship in the organization
2. An insight into the working of a public sector organization with regards to the stewardship theory.
3. This paper is aimed at an organization from the public sector of Pakistan. Therefore this paper will be instrumental in helping other researchers to comparatively analyze with companies working in private sector as well, for future determination of the difference between the two, thereof providing room for further research and investigation.

Literature review

Genesis and overview of various corporate governance perspectives

Joo (2010) describes in a very chronological order the evolution of corporate governance theories over a period of time. The study talks of organization evolving into an artificial person. It talks of agency theory. It talks of contracts theory and the theories that followed. Where it points out that a court case has considered a company nothing but a group of individuals whereas at some places it has considered it as an artificial entity, there is little need of extensively discussing the point that corporation is an artificial entity or not, since it has always been considered an artificial entity. We find sufficient literature in history where the artificial existence of a company has been accepted several places.

Company as an artificial entity

Schane (1986) argues that there are sufficient similarities between a biological being and a corporation, on the virtue of which it can be categorized into an artificial person. Phillips (2009), contests that corporations are responsible for its member's actions thus indicating its existence as a person in artificial terms. This artificial person bears some responsibilities, hence lessening the burden of accountability on two other important contributors to this triangle, the shareholders and the managers.

Agency theory

Daily, Dalton and Canella (2003) argues that the agency theory is simplistic as it views the organization based on two factors only, majorly the principals and the agents; and perhaps that is why it is very popular among the corporate governance theories as well.

Resource Dependence Theory

The study further goes on to say that in resource dependence theory, the directors act as boundary spanners, as their role is confined to bringing in resources from the environment. Hillman and Dalziel (2003) argue that there is a balance between the monitoring function of the board and resourcefulness for the organization, hence arguing that both these functions of the board members moderate each other.

Stewardship theory

Armstrong defines stewardship as '*willingness to be accountable for the well-being of the larger organization by operating in service rather than in control of those around us.*' (Nafees and Nayani, 2011). Daily, Dalton and Canella (2003) uses the term isomorphic relating it to the stewardship theory, believing that their interests are isomorphic with the shareholder's interests.

Stakeholder's theory

Rowley (1997) argues that the stakeholders of a firm are actually networked and tied together in a web and has certain influences on the corporation.

Jones (1995) shares his views about corporations of today and its environment. He specifies that there are numerous stakeholders in the company and the firm has contracts with these stakeholders. These include professional managers, markets having competitive pressures, and together they create the context for fostering an instrumental stakeholder theory of firm behavior.

Enlightened Value maximization theory

Jensen (2001) provides a good insight into value maximization from a holistic perspective and hence gives a name of enlightened value maximization. He argues that the balance scorecard by Kaplan is a good source of information predicting about performances from each department but does not describes the relationship between each outcome and does not specify the weight ages to be assigned to each outcome.

He goes on to say that organizations in today's world are living in micro-cosmos and macro-cosmos and that to be successful in the longer run, one has to look at both the perspectives and work in an environment where one has to manage both the micro and the macro aspects of the working systems.

Managerial Hegemony theory

Cohen, Krishnamurthy and Wright (2008) argues about the theoretical perspective suggesting that senior management selects cronies and colleagues who will not curtail their actions, are willing to be passive participants in the governance process, and are dependent on the company management for information and insights about the firm and its industry. This approach can be viewed as more symbolic meeting regulatory requirements rather than substance a tool to effect organizational change or provide substantive oversight of management. This is in contrast to an agency theory perspective where emphasis is placed on the board acting as an independent and an effective monitor over management's actions. Indeed, a survey conducted by Epstein and Palepu (1999) found that 87 percent of "star analysts" hold that the board of directors represents only the interests of corporate management to the exclusion of other stakeholders.

Existence of stewardship in an organization, in contrast and comparison to the agency theory

This paper is based on 3 propositions reviewed in detail by work of Davis, Schoorman and Donaldson (1997). The study is a deliberate attempt to have an insight into the extent of stewardship existence in a public limited company. The study hovers around the concepts of agency theory in general and stewardship theory in particular.

The purpose of selecting a service oriented organization is the fact that stewardship dominates the service industry. Kuppelweiser (2011) states that stewardship behavior is more highly marked in service companies than in other industries.

Davis et.al (1997) continues to describe the differences between agency theory and stewardship theory in order to find common grounds between the two as well. Where it purports that managers in agency theory are individualistic, opportunistic and self-serving, it also depicts that managers in stewardship theory are collectivists, pro-organizational and trustworthy. Exclusive reliance upon agency theory is undesirable because the complexities of organizational life are ignored.

Agency theory proposes that agents will have interests according to their needs and this will have a clash with the needs or goals of the principals. Stewardship theory, on the other hand, purports that the steward's objectives are in line with

the broader spectrum objectives of the principals. Both these theories are contextual which means that if one of the theories will work in one context, it might not work in another context and vice versa Wasserman (2006)

In more capitalist economies such as the US and the UK, managers have a very strong duty to maximize shareholder's profit. Efficiency of the resources is linked to how efficient the objectives of the shareholders are met. Such is not the case in German context. In Germany, the obligation to maximize the shareholder's wealth is not the sole obligation; it takes into account a variety of other stakeholders as well. In larger organizations, the employees too can make decisions in the supervisory board of the company Allen and Gale (2002).

It is important to mention here that maximization of utility functions are involved in both the cases but agency theory is more focused on interest of individuals, whereas stewardship theory is based on interest of the organization.

Extrinsic and intrinsic motivation

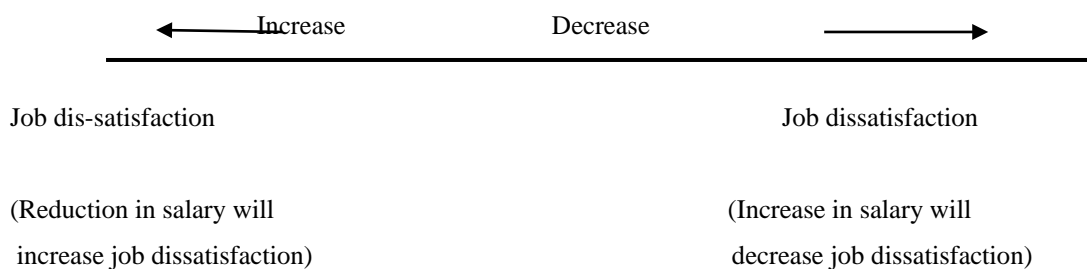
According to Ryan and Deci (2000), motivated means to be moved to do something, where intrinsic motivation is defined as the doing of an activity for its inherent satisfactions rather than some separable consequence. Extrinsic motivation is a construct that pertains whenever an activity is done in order to attain some separable outcome.

The two propositions will become clearer when the two factor theory of motivation proposed by Herzberg, Mausner and Snyderman (1959) is considered under study. Herzberg divided work and the motivation related to it in two parameters; dis-satisfiers and satisfiers. Herzberg put the dis-satisfiers, or what he called more scientifically hygiene factors into lower order needs. He then put the satisfiers, or what he called the motivators into higher order needs. The lower order and higher order needs stems from the work of Maslow (1970)

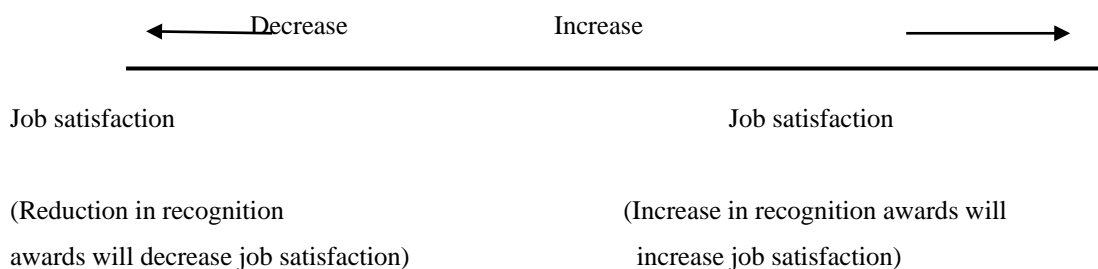
Consequently job satisfaction and dissatisfaction are separate dimensions and not the two ends of a single dimension. This is a flat contradiction of the traditional view in psychology that satisfaction and dissatisfaction constitute a single dimension Gardner (1977)

In light of the above statement, we can say that job dissatisfaction (hygienes) are on a continuum from factors that would increase job dis-satisfaction to reduction in job dissatisfaction.

Hygiene factors



Motivators



In a study to find the satisfiers and dis-satisfiers among employees of the public and private sector, Maidani (1991) experimented with the two factor theory. The two factor theory or the motivation and hygiene theory purports to differentiate between intrinsic and extrinsic aspects of the job. The authors referred to the intrinsic factors as content or motivators and they include achievement, advancement, the work itself, responsibility and recognition. The extrinsic factors were referred to as hygienes and included company policy and administration, technical supervision, working conditions, salary and interpersonal supervision.

His study concluded that the public sector employees are more satisfied with their job as compared to the private sector employees surveyed, since there were no significant difference in the motivators provided, but the public sector employees placed a significant higher value on the hygiene factors.

Relating the above factors to the study by Davis et.al (1997) where it is argued that a steward's autonomy should be deliberately extended to maximize the benefits of the steward, one can infer that the autonomy mentioned above means extension of empowerment to the stewards. We can also infer that this is because the level of trust increases in such a situation because the interest of stewards coincide with the interest of the organization. This means that intangible rewards such as recognition, applause, work satisfaction are more involved in stewardship theory and hence the motivator factors of Herzberg's theory dominates in this aspect.

Similar in fashion, where it says that in agency theory, the focus is on extrinsic rewards: tangible, exchangeable commodities that have a measurable market value; one can infer that although motivators will be an added advantage to the agents in agency theory, it is basically the hygiene factors that count in this theory; which is true for the above two propositions.

High/Low power distance

According to Hofstede (2006), the power distance index was calculated by Hofstede (1980) based on three questions:

- i) The preference of boss's decision style
- ii) The actual decision style of the boss
- iii) The hesitation to disagree with the boss (for non-management cadre employees).

A case study conducted by Paulus, Bichelmeyer, Malopinsky, Pereira and Rastogi (2005) included two teams, one consisting 23 American students and the other International students of various nationalities. The two groups were given three different projects. It was found that the Alpha group (International students) was more efficient than the Beta group (American students). It was found that the element of low power distance for which they were being observed, was more likely to be present in the alpha group.

However, Zhang and Begley (2011) argue that it is actually high power distance which leads to more team participation. The study was based in China and was a comparison between Chinese employees working for American companies and Chinese employees working for Chinese owned companies. It was found that Chinese working for Chinese owned companies, where power distance was high, exhibited more efficiency in teamwork. Humborstad, Humborstad, Whitfield and Perry (2008) suggest the same in the Chinese culture, with a difference that they provide suggestion of enhancing empowerment within the Chinese high power distance culture. Chao, Cheung and Wu (2011) states that when the attribution of power distance is low in employees, they tend to resist random behaviors from their superiors.

Merkin's (2006) work shows that employees having large power distance cultures employ more of cooperative strategies and are involved more in indirect face saving strategies, as compared to the employees of low power distance cultures.

Altruism and control concentration

Khalil (2004) defines altruism as charity-as something which is not sentimentally foolish but which is pragmatically altruistic. Walker (2004) goes on to comment on Khalil's (2004) definition of altruism and argues that it is still not clear what exactly the term is and that one is only left to think that voluntary sympathetic motives lead to altruism. Burns, Reid, Toncar, Fawcett and Anderson (2006) has found out that most of the young adults are motivated to participate in volunteer work due to the presence of feeling of altruism.

Burns et.al (2006) continues to paraphrase Chou (1996: 297). "True" altruism has been defined as "*voluntary, intentional behaviour motivated to benefit another that is not motivated by the expectation of external rewards or avoiding externally produced punishments or aversive stimuli*"

Fontaine (2007) has discussed the concept of altruism as unselfish behavior and that this term has been more popular with social related subjects and lesser with economists. However the economists' term altruism as something of utility interdependence, but this concept is now evolving into theory of social interaction within the economist group.

We can see from the above studies that altruism has been defined differently by different researchers; however, one can infer that it leads to unselfishness which is an element of stewardship.

Shute (1985) comments on Clark's unpublished work saying that the greatest field open to invention for bettering the lot of mankind is the field of improvements in our systems of social control. He continues to say that Clark's study on cost and social control explained the economic theories of those times. Burkart and Panunzi (2006) suggest that when there is an increase in the legal protection of the company, the ownership concentration decrease hence indicating an inverse relationship between the two. Parigi and Pellizon (2008) argues that when there is poor investor protection, the ownership concentration is amplified.

Analysis

Linear regression model has been used for the analysis. This has been done to check the causation element in the study. The study of Eddleston and Kellerman (2007) only pointed at the relationship between the variables but this study is an attempt to observe the causation aspect as well; though it might not be a perfect analysis, however, it will leave room for further improvement in conducting such analysis. Linear regression, T tests and F test has been used in the model. To have a better understanding of the hypothesis and the relationship of the variables, all the elements of the study has been consolidated in table 1 given below.

Table1: Analysis of the hypothesis

| Hypothesis | R square | T test | F test | Validity |
|------------|----------|--------|---------|------------------|
| H1. a | 0.025 | 20.742 | 1.537 | Valid |
| H1.b | 0.176 | 4.922 | 25.648 | Invalid |
| H2. a | 0.845 | 2.43 | 160.053 | Valid |
| H2.b | 0.199 | 7.957 | 7.285 | Valid |
| H3.a | 0.54 | 2.045 | 71.149 | Somewhat valid |
| H3.b | 0.278 | 23.47 | 15.173 | Valid |
| H4.a | 0.054 | 7.073 | 2.258 | Valid |
| H4.b | 0.362 | 3.29 | 33.779 | Invalid |
| H5 | 0.24 | 3.5 | 18.741 | Valid |
| H6 | 0.26 | 7.5 | 42.878 | Somewhat invalid |
| H7 | 0.05 | 8.779 | 6.380 | Valid |

Findings

Table 1 depicts some interesting findings. We can see that some of the hypothesis stood invalid while the rest were valid. One of the invalid hypotheses was that extrinsic motivation had a significant relationship with control concentration. This proved invalid. This means that it is not necessary that extrinsic motivation such as increase in salary or benefits will result in centralization of control. There can be other factors such as government regulations or a national interest which in this study has not been taken into account and leaves room for improvement.

Another hypothesis which stands invalid is the relationship between low power distance and altruism which was hypothesized to have significant relationship, however the study shows that it is not necessary that if the subordinate and the boss has a good relationship, it will end in selfless service to the organization. This is only a minute contributing factor but there might be other major factors related to it. Factors such as personal choices or national concern can prevail dominant over the factor of power distance. The hypothesis that altruism has a significant relationship with stewardship shows low significance, despite the fact that altruism is an element of stewardship. However it is not the main element in determining the feelings of stewardship amongst employees at NADRA. The rest of the hypothesis stood valid and the findings overall provides a view of how things might work differently with an organization of the public sector.

Conclusion

The study provides helpful insight into workings of a public sector organization. As mentioned earlier in the document, the environment in the public sector is more bureaucratic and nepotism and aggressive behavior prevails in such an organization, therefore, the feelings of altruism, might not arise as compared to private organizations and therefore, we can conclude that because of this very reason, altruism is not the main source of instigating stewardship in NADRA. On the other hand, control concentration does not have significance with stewardship which means that control in the upper management discourages feelings of stewardship in the organization, which holds true according to the study.

References

- Allen, F., & Gale, D. (2002). A comparative theory of corporate governance. *Wharton Financial Institutions Center*.
- Bashir, S., Khattak, H. R., Hanif, A., & Chohan, S. N. (2011). Whistle-blowing in public sector organizations: Evidence from Pakistan. *The American Review of Public Administration*, 41(3), 285-296.
- Burns, D. J., Reid, J. S., Toncar, M., Fawcett, J., & Anderson, C. (2006). Motivations to volunteer: the role of altruism. *International Review on Public and Nonprofit Marketing*, 3(2), 79-91.
- Burkart, M., & Panunzi, F. (2006). Agency conflicts, ownership concentration, and legal shareholder protection. *Journal of Financial Intermediation*, 15(1), 1-31.
- Chao, J. M., Cheung, F. Y., & Wu, A. M. (2011). Psychological contract breach and counterproductive workplace behaviors: testing moderating effect of attribution style and power distance. *The International Journal of Human Resource Management*, 22(04), 763-777.
- Cohen, J. R., Krishnamoorthy, G., & Wright, A. M. (2008). Form versus substance: The implications for auditing practice and research of alternative perspectives on corporate governance. *Auditing: A Journal of Practice & Theory*, 27(2), 181-198.
- Davis, J. H., Schoorman, F. D., & Donaldson, L. (1997). Toward a stewardship theory of management. *Academy of Management review*, 22(1), 20-47.
- Daily, C. M., Dalton, D. R., & Cannella, A. A. (2003). Corporate Governance: Decades of Dialogue and Data. *Academy of Management Review*, 28(3), 371-382.
- Eddleston, K. A., & Kellermanns, F. W. (2007). Destructive and productive family relationships: A stewardship theory perspective. *Journal of Business Venturing*, 22(4), 545-565.
- Epstein, M. J., & Palepu, K. G. (1999). Features-What Financial Analysts Want-Even Wall Street analysts don't understand some footnotes, according to this survey, which means financial managers aren't doing their job as well as they. *Strategic Finance-Montvale*, 80(10), 48-57.
- Fontaine, P. (2007). From philanthropy to altruism: Incorporating unselfish behavior into economics, 1961-1975. *History of Political Economy*, 39(1), 1-46.
- Gardner, G. (1977). Is there a valid test of Herzberg's two-factor theory?. *Journal of Occupational Psychology*, 50(3), 197-204.
- Herzberg, F., Mausner, B., & Snyderman, B. B. (1959). *Motivation to work*. Transaction Publishers.
- Hofstede, G. (2006). What did GLOBE really measure? Researchers' minds versus respondents' minds. *Journal of International Business Studies*, 37(6), 882-896.
- Humborstad, S. I. W., Humborstad, B., Whitfield, R., & Perry, C. (2008). Implementation of empowerment in Chinese high power-distance organizations. *The International Journal of Human Resource Management*, 19(7), 1349-1364.
- Jensen, M. C. (2001). Value maximization, stakeholder theory, and the corporate objective function. *Journal of applied corporate finance*, 14(3), 8-21.
- Jones, T. M. (1995). Instrumental stakeholder theory: a synthesis of ethics and economics. *Academy of management review*, 20(2), 404-437.
- Joo, T. (2010). Theories and models of corporate governance. *CORPORATE GOVERNANCE: A SYNTHESIS OF THEORY, RESEARCH, AND PRACTICE*, H. Kent Baker, Ronald Anderson, eds., John Wiley & Sons.

- Khalil, E. L. (2004). What is altruism?. *Journal of Economic Psychology*, 25(1), 97-123.
- Kuppelwieser, V. G. (2012). Stewardship Behavior and Creativity. *management revue. The International Review of Management Studies*, 22(3).
- Kumar, R., Ahmed, J., Shaikh, B. T., Hafeez, R., & Hafeez, A. (2013). Job satisfaction among public health professionals working in public sector: a cross sectional study from Pakistan. *Human resources for health*, 11(1), 2.
- Maslow, A. H., Frager, R., & Fadiman, J. (1970). *Motivation and personality*(Vol. 2). New York: Harper & Row.
- Maidani, E. (1991). Comparative study of Herzberg's two-factor theory of job satisfaction among public and private. *Public Personnel Management*, 20(4), 441.
- Merkin, R. S. (2006). Power distance and facework strategies. *Journal of intercultural communication research*, 35(2), 139-160.
- Nasir, M., & Bashir, A. (2012). Examining workplace deviance in public sector organizations of Pakistan. *International Journal of Social Economics*, 39(4), 240-253.
- Nafees, A. A., & Nayani, P. (2011). Stewardship in Health Policy and its relevance to Pakistan. *Journal of the Pakistan Medical Association*, 61(8), 795-800.
- Paulus, T. M., Bichelmeyer, B., Malopinsky, L., Pereira, M., & Rastogi, P. (2005). Power distance and group dynamics of an international project team: a case study. *Teaching in Higher Education*, 10(1), 43-55.
- Parigi, B. M., & Pelizzon, L. (2008). Diversification and ownership concentration. *Journal of Banking & Finance*, 32(9), 1743-1753.
- Phillips, M. J. (2009). Corporate moral personhood and three conceptions of the corporation. *Business Ethics Quarterly*, 2(4), 435-459.
- Rowley, T. J. (1997). Moving beyond dyadic ties: A network theory of stakeholder influences. *Academy of management Review*, 22(4), 887-910.
- Ryan, R. M., & Deci, E. L. (2000). Intrinsic and extrinsic motivations: Classic definitions and new directions. *Contemporary educational psychology*, 25(1), 54-67.
- Shute, L. (1985). JM Clark on Corporate Concentration and Control. *Journal of Economic Issues*, 19(2), 409-418.
- Wasserman, N. (2006). Stewards, Agents, and the Founder Discount: Executive Compensation in New Ventures. *Academy of Management Journal*, 49(5), 960-976.
- Walker, C. (2004). A charitable view of altruism: Commentary on 'What is altruism?' by Elias Khalil. *Journal of Economic Psychology*, 25(1), 129-134.
- Zhang, Y., & Begley, T. M. (2011). Power distance and its moderating impact on empowerment and team participation. *The International Journal of Human Resource Management*, 22(17), 3601-3617.

Annexure 1

The original hypothesis by Davis et.al (1997):

H1: People who are motivated by higher order needs are more likely to become stewards in principal stewards relationships than are people who are not motivated by higher order needs.

H2: People who are motivated by intrinsic factors are more likely to become stewards in principal steward relationships than are people who are motivated by extrinsic factors.

H3: People in a low power distance culture are more likely to develop principal steward relationships than are people who are in a high power distance culture.

Annexure 2

Questionnaire:

Q1: What is your designation in the organization?

- ☐ Assistant Manager
- ☐ Deputy Manager
- ☐ Manager

Q2: Do you think that your income is commensurate your motivation level at the organization?

- ☐ Yes
- ☐ No
- ☐ Somewhat

Q3: Do you think that monetary compensation matters more to employees with family obligations and is the main source of motivation as compared to employees who are single?

- ☐ Yes
- ☐ No
- ☐ Somewhat

Q4: What is the reason for working for NADRA?

- ☐ Because you want to serve the general public
- ☐ Because it gives you certain benefits that other organizations don't
- ☐ Because you want to serve the general public and it gives you certain benefits as well, that other organizations don't

Q5: What do you think is the aim of NADRA?

- ☐ Extending excellent services to the general public for their ease.
- ☐ Focus on revenue generation for the government
- ☐ Enhancing security in the region to avoid forged identification
- ☐ To promote electronic based and technology innovative services to the general public

Kindly fill the following format according to the choices provided below:

| | | | | | |
|--|-----------------------|--------------|----------------|-----------------|--------------------------|
| | 5 | 4 | 3 | 2 | 1 |
| Extrinsic and intrinsic motivation | Strongly agree | agree | neutral | Disagree | Strongly disagree |
| You are generally motivated by increase in incentives and benefits | | | | | |
| You do not care about promotion or benefits if the environment at your workplace is good | | | | | |
| You will rather prefer your supervisor's appreciation over certain kind of benefits | | | | | |
| The impact of appreciation tends to make your affiliation stronger with the organization | | | | | |
| The impact of appreciation tends to make you work more for the organization's goals rather than personal goals | | | | | |
| You are generally made to attain a goal by placing certain incentives related to that goal | | | | | |
| You want to work extra not to please your boss but out of your own will and concern for the organization | | | | | |
| High/Low power distance | Strongly agree | agree | neutral | disagree | Strongly disagree |
| If you make a mistake, you are usually dealt with scorn by supervisors | | | | | |
| You are hesitant of making significant higher order decisions because of fear of supervisor's authority | | | | | |
| You feel helpless in making certain strategic decisions | | | | | |

| | | | | | |
|---|----------------|-------|---------|----------|-------------------|
| because your boss thinks its not your job | | | | | |
| You and your boss sit and discuss certain matters of importance before your boss makes the final decision. This makes you feel that you are contributing your ideas to the organization | | | | | |
| You share good relationship with your boss and can take any matter up to him and discuss it with ease | | | | | |
| If you share the same comfort zone while working with your boss, it enhances the chances for self-less service to the organization | | | | | |
| Altruism/Control Concentration | Strongly agree | Agree | Neutral | disagree | Strongly disagree |
| Do you believe that when you go an extra mile and come up with something useful for the organization, its more likely that you will get more autonomy in future | | | | | |
| If you deviate from the rules of the organization but do something better for the organization, it is more likely that you will be disliked for the deviation of the rules | | | | | |
| The authority vested in the upper management discourages and stifles extra selfless work from the employees at the middle and lower level. | | | | | |
| Altruism/stewardship | Strongly agree | Agree | Neutral | Disagree | Strongly disagree |
| Do you think that your self-less | | | | | |

| | | | | | |
|---|----------------|-------|---------|----------|-------------------|
| and grateful service to the organization helps to align your personal goals with the organizational goal? | | | | | |
| Do you think that extra monetary benefits will help to align your personal goals with the organizational goal? | | | | | |
| Control concentration/Stewardship | Strongly agree | Agree | Neutral | Disagree | Strongly disagree |
| Do you believe that more empowerment to middle and lower level employees will lead to increase in self-less contribution by the employees? | | | | | |
| Do you believe that when decision making authority is vested with the upper management, the feeling to work extra for the organization decreases? | | | | | |

Thank you for taking the time to complete and submit this survey. Your insight and information is very valuable to the researcher in making informed decisions about the various management issues that prevail in our systems.

The researcher also works in the capacity of assistant professorship at NUCES-Islamabad campus.

Project Management Risk – Cognitive, Cultural and Conditioning Factors

By:
Dr Tony Jewels
Al Ghurair University
Dubai

Abstract

The management of projects across national boundaries and cultures is becoming an increasingly important topic as organizations throughout the world expand their globalization efforts. Today, many project managers work in multicultural environments, often without awareness of the impact of cultural factors on the outcome of their projects. Many factors are likely to contribute to misunderstandings and misinterpretations in multicultural projects. This paper discusses how behaviours towards risk might be prejudiced by interactions between cognitive (psychological), cultural and organizational conditioning states influencing decision makers.

Using data collected over an extensive period of business project management practice and teaching in Asia, Australia, Europe and the Middle East, the paper discusses how risk taking behaviors in multicultural environments is explained to postgraduate students at one university in the United Arab Emirates in its Project Management specialization MBA program and in its International Business Masters.

Introduction

Experience has shown that risk management must be of critical concern to project managers, as unmanaged or unmitigated risks are one of the primary causes of project failure, (Royer 2000, p6). In our era of globalization, there is an ever increasing need to understand how national culture might influence success on multi-national projects, (Müller, Spang, & Ozcan, 2009).

A simple comparison of risk attitudes between various geographic regions would be effectively impossible to validate, as within each region a variety of risk attitudes, each overlapping with that of other regions has already been noted. However, a general understanding of risk attitudes is likely to provide project management practitioners with guidelines that might be applied in situations where attitudes towards risk differ between stakeholders.

There is nevertheless significant potential value in having diversity in project teams. As Leonard-Barton, (1995), suggested *“the complexity of problems in our knowledge society requires that problem solving activities be shared across disciplinary, cognitive, geographic and cultural boundaries”*, (p61).

Project Risk is described by the PMI, (2008) as an uncertain event or condition that, if it occurs, has a positive or negative effect on a project objective.

Goodwin & Strang (2012, p8) in their review of the extant risk theory literature provides a model which suggests that further research might address three levels of analysis:

- Macro-environment (world economic events and global culture).
- Task environment (business and organizational competitive contexts).
- Internal environment (individuals, events).

They also suggest that much of the older risk literature focused on financial analysis and the stock market in particular but generally dismiss cultural perceptions, (p8).

Our research concentrates on the latter level, i.e. that relating to the individual or specific event driven perspectives.

Three different types of risk management scenarios are thus discussed in this paper:

1. Situations where project risk and the management of project risk are simply not properly understood.
2. Situations where risk taking behavior may be embedded within or influenced by an organisational culture.
3. Psychological states where stakeholder risk orientations will lead to selected decisions being taken

A Lack of Understanding of Risk

Although project managers and other project stakeholders might never be reasonably expected to reach the levels of technical sophistication of the actuarial experts engaged in insurance risk, they should nevertheless be cognisant of the real purpose of and basic quantitative issues associated with risk management. In the author's own project management (PM) courses the specific event perspective is explained by using a relatively simple example that nevertheless regularly causes anguish among undergraduate and postgraduate students alike.

A torpedo has a one in three probability of sinking a ship, a one in three probability of missing the ship and a one in three probability of damaging the ship

If two damaging shots will also sink the ship, what is the probability of four torpedoes sinking the ship?

It is not a question that is expected to be answered (although the answer is 76/81) but it is used to highlight an area that is not traditionally covered in PM training courses.

Risk management is unfortunately not always approached with the rigor of other project management processes (e.g. scope or scheduling). There are unfortunately still many examples of projects being conducted where risk management is not properly performed, either through a lack of understanding or of the importance of project risk management. (Royer, 2000).

Yet, the actual process of risk management itself, regardless of the risk manifesting itself, once profoundly described by an Australian project management student as *"a strategy that points to other strategies that should be adopted"*, (Laycock, 2006), remains critical to the success of projects according to Thomsett, (1989). Using a philosophy from the works of Sun Tzu, (1988) Thomsett goes on to suggest that many projects actually spend more time, with an inference that more resources are expended, in reactive processes (getting out of trouble) than engaging in proactive processes (planning to prevent trouble), (Thomsett, 1989).

It is however not merely the importance of simply engaging in risk management practices itself, but what strategies are likely to ensue from the results of the eventual analysis that will ultimately determine how the chances of project success can be increased or the chances of failure can be decreased.

A teaching case study based on the Swire Coca-Cola Taiwan ASRS project (Jewels, 2003) highlights how an Australian principle contractor (DB) had clearly not engaged in any effective risk management strategy. This absence of risk management practices, arguably caused by a lack of understanding of the purpose of such practices, had resulted in a poorly run project, organizationally ineffective outcomes and ultimately the demise of the contracting company itself. This failure to employ even the most basic risk management strategy in this project, coupled to a one-sided contractor favored contract, contributed to what was always destined to be an ad-hoc approach to problem solving. Effectively this meant that any variation to the original contract, due either to internal or external changes in circumstances could never be properly addressed. The most appropriate development methodology which should have been used for this highly technical project which set out to provide an innovative fully robotic warehouse, i.e. iterative prototyping, would have been immediately obvious if even a preliminary risk analysis had been undertaken. Yet the inability of DB to

acknowledge the need for any risk management strategy let alone appreciate the importance of such a strategy in contributing to project success, eventually led to project failure.

As a World War 1 general once remarked ‘even the best laid plans only last as long as first contact with the enemy’. Wide band delphi estimation techniques, where experts in a particular field provide most optimistic, most pessimistic and most likely options highlight the difficulties in providing accurate estimates of activities.

There will always be variability associated with the estimates provided in the management of projects, which include:

- Lack of clear specifications of what is required
- Newness or lack of experience in this particular activity
- Complexity of the number of influencing factors or the number of dependencies
- Incomplete analysis of the processes involved in the activity
- Possible occurrence of particular events or conditions that might affect the activity

(Chapman & Ward 2003, p8)

The simple realization that variables will exist and the potential reasons behind any such variability should further emphasize the need to rigorously engage in other project management practices discussed by the PMI, (2008)

In an example of a misunderstanding of the basic quantitative issues associated with risk management, the FoxMeyer Drugs Bankruptcy case study, Scott, (1999) primarily discusses the circumstances of an ERP implementation’s contribution to FoxMeyer’s insolvency. The case does however also highlight an important risk management principle which is not addressed in the original case. This project did not simply involve the implementation of an SAP R/3 system, it also required, as in the previous Coca-Cola example the concurrent implementation of an automated warehouse system. Both types of project, i.e. an ERP system and an automated warehouse, might well have each been considered as high-risk by themselves at that time, yet for organizational success to be achieved both projects needed to be successfully delivered. Whenever more than one project needs to be delivered concomitantly in order to achieve organizational success the chances of overall failure increases dramatically. If for example both this SAP R/3 ERP implementation and the associated warehouse automation project had a not unreasonable (at that time) 50% chance of success, combining the two projects would have resulted in only a 25% chance of success or a 75% chance of failure. This can be illustrated by plotting the possible outcomes of the two projects, Table 1, where both projects need to succeed in order that overall goals are met, (Zimmerer & Yasin, 1998).

Table 1 - Overall Success with Multiple Projects

| ERP Project - 50% | Automated Warehouse – 50% | Overall Success |
|-------------------|---------------------------|-----------------|
| Success | Success | Success |
| Success | Failure | Failure |
| Failure | Success | Failure |
| Failure | Failure | Failure |

This example illustrates the need for what Mbuya, (2010) describes as ‘enterprise wide’ or ‘holistic’ risk management. He goes on to suggest that the role of project managers has evolved from generic change agents to that of holistic business managers, (p49).

Organizational Influences

In his assessment of Ulrich Beck's, (1986) work relating to the sociology of risk, Elliott (2002, p293) suggests that as "*competent reflective agents*", we become aware of our climate of risk and how it may affect our day-to-day activities, and we become specialists in carving out ways of coping and managing risk.

Managerial behavior is, according to Pope, (1996), often directed toward preventing employees from making mistakes. Organizations commonly use administrative systems (rules and roles) to reduce the probability of human error, and to reduce the variability of human behavior. Such systems typically remove an individual's ability to make decisions in a work situation. This philosophical orientation has the outcome of preventing failure and provides a psychological safety net to individuals in the organization. Specifically, organizations act to restrict the necessity for individual decisions by:

- Pre-defining multiple independent tasks;
- Pre-determining organizational decision points; and
- Pre-assigning scarce or valuable resources.

Kreiser, Marino, Dickson, & Weaver, (2010) discuss how cultural values (and particularly national cultural values) affect risk taking and pro-activeness from an entrepreneurial orientation (EO) perspective. Each of the three primary dimensions that constitute EO; innovativeness, risk taking, and pro-activeness might be of relevance to this examination of individual coping behavior.

Identification of culture appears from a summary of the literature undertaken by Jewels, (1999) to include how closely it meets two principles:

- Genuine user empowerment that produces internal as well as external commitment.
- Acceptance of 'risk-taking' as a necessary factor in planning, which does not punish failure and the move away from non-competitive or even anti-competitive cultures to true market competitive cultures.

The explicit acknowledgement of what Chapman & Ward, (2003) described as the 'positive side of uncertainty' may, in many cultural circumstances, often be at odds with situations where organizations and individuals within them operate with a philosophy of failure prevention rather than one that can actually take advantage of good fortune. Duvall, (1999) described this phenomenon as 'playing not to lose' rather than 'playing to win'. In environments where rewards have traditionally been given for the absence of failure rather than for any acknowledgement of success, the concept of risk taking is both difficult to appreciate and difficult to explain to those individuals who have developed in risk averse or even risk neutral cultures, (Fisher Jr, 1997). This type of working culture, Fisher Jr, (1997) goes on to suggest can program learned helplessness and a sense of non-responsibility into workers, where obedience takes precedence over initiative, and discipline takes priority over risk taking.

Organizations operating with such a philosophy of risk prevention may tend to embrace policies and procedures that, while reducing the chances of failure, concomitantly reduce the chances of realizing the true benefits of their project, (Jewels & Underwood, 2004). Hence, where one risk is reduced, or even eliminated, by avoiding perceived risky activities; we create an alternative risk that we will be unable to realize the full benefits of our intended outcome. In this type of scenario we consequently create an opportunity cost¹⁷.

¹⁷ *An opportunity cost is defined as the value of a forgone activity or alternative when another item or activity is chosen. Opportunity cost comes into play in any decision that involves a trade-off between two or more options (Waggoner, 2011).*

The LaPointe & Rivard, (2005) study of hospital cases, while helping explain how resistance develops confirms the contention of other investigators that there may be, at times, legitimate reasons for resistance. Hirschheim & Newman, (1988) pointed out that the term '*resistance*' has pejorative connotations which call for resistance to be eradicated or neutralized, whereas it can in fact be legitimate and something to be encouraged. Indeed, the disregarding of user involvement in an implementation or the use of what has been referred to as '*pseudo participation*' is contrary to recognized project success factors, (Standish Group, 2001). Pseudo participation is defined by Pries-Heje (2008, p62) as situations where users are asked to participate but in reality are not given the opportunity to influence the design or decision.

Additionally, according to Royer, (2000) sociological trends in our society coupled with our current philosophy of team building, emphasize a need to be positive while suppressing negative thoughts.

In research linking innovative behavior with risk propensity, Jewels, Al-Rawshdi, Abusharekh, & Shamisi, (2011) posited that organizational culture, which is affected by leadership and user involvement and empowerment practices will eventually have an effect on the risk orientations of decision makers.

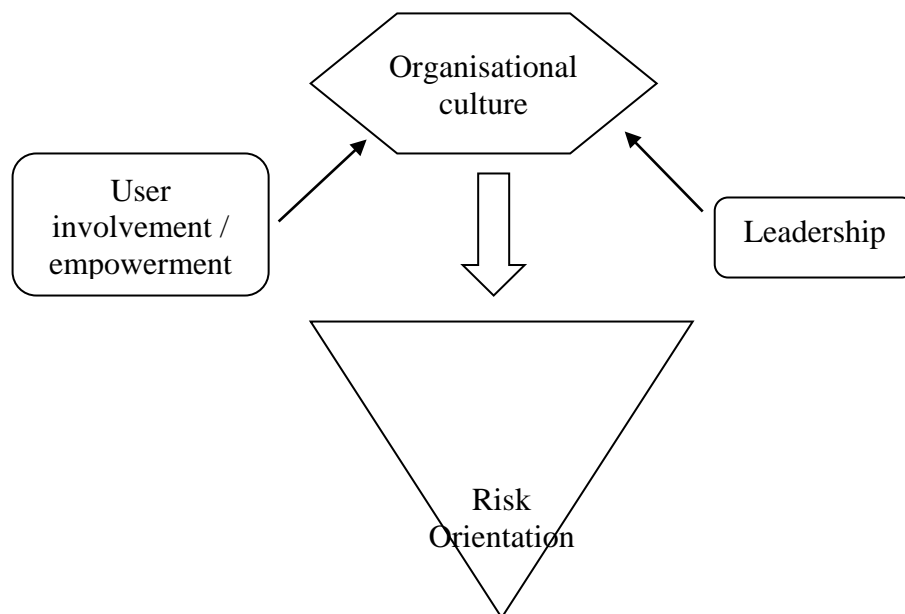


Figure 1: Relationship Model for Risk Orientation

Individual Propensity towards Risk Taking

Essentially the difference between decisions taken under risk and conditions under uncertainty is described by Kerzner, (2006) as being when you have assigned probabilities (risk) and no assigned probabilities (uncertainty).

We illustrate by using a simple table showing the possible outcomes from three strategies.

Table 2: - Choices between three strategies with likely payoffs

| | 0.25 | 0.25 | 0.5 |
|----------------|------|------|-----|
| S ₁ | 100 | 56 | 10 |
| S ₂ | 80 | 40 | 40 |
| S ₃ | 120 | 32 | -10 |

In

Table 2 with its assigned probabilities, S₂ would be the preferred choice,

$$S_1 = (100 \times 0.25) + (56 \times 0.25) + (10 \times 0.5) = 44$$

$$S_2 = (80 \times 0.25) + (40 \times 0.25) + (40 \times 0.5) = 50$$

$$S_3 = (120 \times 0.25) + (32 \times 0.25) + (-10 \times 0.5) = 33$$

There are however a number of decision rules or criteria that are commonly discussed in decision process under uncertainty, (where the probabilities of each outcome is unknown). The choice of the one eventually chosen is reflected in the risk propensity and subsequent behavior of the risk taker. As with decision making under risk, uncertainty implies that there may exist no single dominant strategy.

Hurwicz's optimism-pessimism criteria attempts to find a middle ground between the extremes posed between optimistic and pessimistic criteria. The maximum criteria appeal to the adventurous risk taker who will choose the alternative which has the highest outcome; the minimum criteria appeals to those more risk adverse individuals who will choose the highest of the minimum payoffs.

Using table 2 the maximum choice would be S₃ whereas the maximum strategy choice (also referred to as Wald) would be S₂.

Two other criteria are often discussed in the literature:

The LaPlace criteria where there is an equal chance of each possibility occurring, would leave S₁ as the preferred option in Table 2.

Alternatively, the Savage (minimax) criteria examine the regret or opportunity cost when any situation occurs. This decision relies on constructing what might be described as a 'maximum loss table' for each of the alternatives. In

Table 2 of the three possible outcomes in column 1, 100, 80 and 120 the maximum regret for the three strategies would be 20, 40 and 0, in column 2, of the three outcomes 56, 40 and 32 the maximum regret would be 0, 16 and 24 and in column 3 the three outcomes 10, 40 and -10 would give maximum regrets of 30, 40 and 50. Summing the maximum regrets for each strategy thus provides the amount of potential loss for each.

Table 3: – Savage's Maximum Regret Table (Based on Table 2)

| S ₁ | 20 | 0 | 30 | 50 |
|----------------|----|----|----|----|
| S ₂ | 40 | 16 | 0 | 56 |
| S ₃ | 0 | 24 | 50 | 74 |

The minimum opportunity loss would result in S₁ being the preferred option, and is used by cautious decision makers who want to ensure that whatever outcome occurs from each of the strategies, the loss (or opportunity cost), overall, is minimized.

Summarizing, it can thus be seen then each of the potential strategies can be justified, based on which heuristic is selected for making that decision. The heuristic chosen is likely to be a function of the decision makers risk propensity. It should be noted however that organizational conditioning may also affect which heuristic is eventually selected.

An example that the author uses in his PM courses relates directly to an individual perspective, or the propensity to take risks. It illustrates how in some circumstances the mere risk of losing something will prevent some individuals from taking any risk, regardless of the circumstances. A version of this story was originally told to the author by a guest lecturer in a 'Small Business Management and Consulting' course as part of a Business Management undergraduate program at Queensland Institute of Technology (QIT) in 1984. The name of the guest lecturer cannot, after almost 30 years, be found (although efforts have been taken to give appropriate recognition), (Unknown, 1984).

The story involves two people who have been friends since childhood and have maintained their strong relationship over many decades. One of the two has become a multi-billionaire while the other has no money at all. Every year they spend 2 weeks of their holidays together, engaging in unusual types of holiday and one year they decide to walk along the banks of the Amazon River in the depths of the Amazon rainforest.

The multi-billionaire suddenly takes a wrong step and falls into the Amazon River, his colleague sees a large anaconda snake heading in his direction, he notices some large cayennes swimming towards his now desperate friend and from the stirring of the water he realizes that a school of piranha are also heading towards him. Without thinking about his own safety he jumps in the water to save his friend and before any of the creatures can reach him he has pulled his friend safely to shore. That night over dinner the multi-billionaire, realizing that his friend has saved his life, offers him 1 million dollars as a thank you. Somewhat reluctantly his friend eventually agrees to take the money. The following night however the multi-billionaire suggests that \$1M is not a lot of money offering to toss a coin with the wager that if his friend calls correctly he will give him \$2M but if he calls incorrectly he forfeits the \$1M. What would you do?

There are some people who will take the bet and some who choose not to ... Quantitatively there is no preferred option in this first example ...

There is a 50% chance of earning \$2M and a 50% chance of earning \$0M for an overall gain of \$1M $(0.5 \times 2) + (0.5 \times 0)$ for an investment of \$1M. This example provides probably the primary indications of an individual's risk behavior patterns. It is however the situation where individuals refuse that wager and the following night the multi-billionaire offers a new wager where if his friend calls correctly he receives \$4M and forfeits the \$1M if he calls incorrectly. In this example there is a 50% chance of getting \$4M and a 50% chance of getting \$0M giving an overall gain of \$2M for an investment of \$1M. Quantitatively this is significantly different from the first wager but there will always be some people who will refuse to take the bet even when the wagers reach \$50M for winning and \$0M for losing.

The unknown guest lecturer had used this story to suggest that the management economics students that he was talking to, in their final year of undergraduate study, should have been able to have been able to work out the business benefits that such a clean 50-50 risk would allow. He suggested that seldom in the real world would we as business decision makers ever get such certain odds as in a toss of a coin, though ultimately business decisions such as this were taken not only logically (with the head) but also (pointing to his stomach) with 'guts'.

Conclusion

This paper has discussed three issues associated with decision maker's propensity to take risks. The first is associated with a lack of understanding of the nature of, or *raison d'être* of risk management in projects. The second is associated with organizational cultural biases towards risk taking that may affect decision making and the third is oriented to decision maker's propensity to take chances based on their preferred risk orientation.

For a project manager a better understanding of why they might be making decisions in a particular way is likely to lead to a better understanding of the decision making processes, and hopefully more effective choices when faced with alternatives involving risk.

References

- Beck, U. (1986). *Risikogesellschaft: Auf dem Weges einem andere Moderne*. Frankfurt: Suhrkampf.
- Chapman, C., & Ward, S. (2003). *Project Risk Management: Processes, Techniques and Insights 2nd edition*. Chippenham: John Wiley.
- Duvall, C. K. (1999). Developing Individual Freedom to Act: empowerment in the knowledge organization. *Participation and Empowerment*, 7(8), 204-212.
- Elliott, A. (2002). Beck's Sociology of Risk: A Critical Assessment. *Sociology*, 36(2), 293-315.
- Fisher Jr, J. R. (1997). A Culture of Contribution. *Executive Excellence*, 14(1), 16.
- Goodwin, Y., & Strang, K. D. (2012). Socio-Cultural and Multi-Disciplinary Perceptions of Risk. *International Journal of Risk and Contingency Management*, 1(1), 1-11.
- Hirschheim, R., & Newman, M. (1988). Information systems and user resistance: theory and practice. *The Computer Journal*, 31(5), 398-407.
- Jewels, T. (1999). *Can organizational cultures be barriers to the success of enterprise planning implementations*. Unpublished Masters Thesis, Queensland University of Technology, Brisbane.
- Jewels, T. (2003). The Dag-Brücken ASRS Case Study. *Journal of Information Systems Education: Special Issue on IS Teaching Cases*, 14(3), 247-257.
- Jewels, T., Al-Rawshdi, A., Abusharekh, R. N., & Shamisi, A. S. (2011). Organisational Culture and its Effects on Innovation within ERP Systems. In C. de Pablos Heredero (Ed.), *Open Innovation at Firms and Public Administrations: Technologies for Value Creation*. Hershey PA: IGI.
- Jewels, T., & Underwood, A. (2004). The Impact of Informal Networks on Knowledge Management Strategy (Chapter 1). In S. Montano (Ed.), *Innovations in Knowledge Management*. Hershey PA: Idea Group.
- Kerzner, H. (2006). *Project Management: A systems approach to planning, scheduling and controlling 9th edition*. Hoboken NJ: John Wiley.
- Kreiser, P. M., Marino, L. D., Dickson, P., & Weaver, K. M. (2010). Cultural Influences on Entrepreneurial Orientation: The Impact of National Culture on Risk Taking and Proactiveness in SMEs. *Entrepreneurship: Theory and Practice*, 34(5), 959-984.
- LaPointe, L., & Rivard, S. (2005). A Multilevel Model of Resistance to Information Technology Implementation. *MIS Quarterly*, 29(3), 461-491.
- Laycock, D. R., (2006), Information Technology Risk Management in tutorial discussion, ITB272, QUT, Brisbane

- Leonard-Barton, D. (1995). *Wellsprings of Knowledge: Building and Sustaining the Sources of Innovation*. Boston MA: Harvard Business School Press.
- Mbuya, J. C. (2010). *Enterprise Wide/Holistic Risk Management*. USA: Lambert Academic Publishing.
- Müller, R., Spang, K., & Ozcan, S. (2009). Cultural differences in decision making in project teams. *International Journal of Managing Projects in Business*, 2(1), 70-93.
- PMI. (2008). *A Guide to the Project Management Body of Knowledge (PMBOK Guide) - Fourth Edition*. White Plains: Project Management Institute Inc.
- Pope, S. (1996). The power of guidelines, structure and clear goals. *Journal for Quality and Participation*, 19(7), 56-60.
- Pries-Heje, L. (2008). Time, Attitude, and User Participation: How Prior Events Determine User Attitudes in ERP Implementation. *International Journal of Enterprise Information Systems*, 4(3), 48-65.
- Royer, P. S. (2000). Risk Management: The Undiscovered Dimension of Project Management. *Project Management Journal*, 31(1), 6-13.
- Scott, J. E. (1999, August 13-15). *The FoxMeyer Drugs' bankruptcy: was it a failure of ERP?* Paper presented at the 5th Americas Conference on Information Systems, Milwaukee, WI.
- Standish Group. (2001). Extreme Chaos. Retrieved 7th October 2005, from http://www.standishgroup.com/sample_research/PDFpages/extreme_chaos.pdf
- Thomsett, R. (1989). *Third Wave Project Management*. Upper Saddle River, NJ: Prentice Hall.
- Tzu, S. (1988). *The Art of War*. Massachusetts: Shambhala Publications.
- Unknown,(1984),Guest lecture on risk aversion in B.Bus.(Mgmt) program, Small Business Management & Consulting class QIT, Brisbane
- Waggoner, D. (2011). Opportunity Cost. *Reference for Business* Retrieved 1 March 2011, from <http://www.referenceforbusiness.com/management/Ob-Or/Opportunity-Cost.html>
- Zimmerer, T. W., & Yasin, M. M. (1998). A leadership profile of American project managers. *Project Management Journal*, 29(1), 31-39.



Published By:



facebook.com/Asian.Research.Society
www.asmmr.com