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CONTENTS

Editor's Introduction	i
<i>Simona VINEREAN</i>	
An Analysis of Youth Employment in Azerbaijan Success of Leadership	1
<i>Fariz AHMADOV, Mushfig JAFAROV, Matanat MAMMADOVA</i>	
Decision Making and Negotiation Processes in the Food Trade	6
<i>Alexander STELZER</i>	
The Potential Influence of Value Added Tax Law Amendments on the Existence of E-Service Providing SMMs in South Africa	13
<i>Mogamat Riyaadh BARNES, Corne Truter VAN NIEKERK, Ayesha GOOL, William-John GROENER, Tracy LEE, Zubair MOOLA, Juan-Pierre BRUWER and Yolandé SMIT</i>	
The Integrated Crisis Management Model for the Hotel Industry: Lowering Crisis Susceptibility and Strengthening Stakeholder Relationship Management	28
<i>Nicola ZECH</i>	
Importance of Strategic Management in Business	38
<i>Yakup DURMAZ, Zeynep Derya DÜŞÜN</i>	
Conditional Relationship Between Beta and Return in the US Stock Market	46
<i>Bing XIAO</i>	

A Study on the Effects of Client Company Information on the On-Site Logistics and Processes in a Supply Chain: A New Design Approach using Quality Function Deployment	56
<i>Masamitsu KIUCHI , Kazushi NAGAI, Kenichi NAKASHIMA</i>	
Mechanisms for Quality Assurance of Universities in Cameroon	63
<i>Joseph BESONG BESONG</i>	

Editor's Introduction to Volume 4, Issue 1 of Expert Journal of Business and Management

Simona VINEREAN*

Sprint Investify

The first issue of volume 4 of *Expert Journal of Business and Management* presents published articles that explore theoretical and empirical studies on various business and managements issues, such leadership, negotiation optimization, operation of SMMEs, crisis management and stakeholder relationships, beta and returns, supply chain and quality function deployment, quality assurance in universities. Further, I present a short description of each article published in *Expert Journal of Business and Management*, vol. 4, issue 1.

Ahmadov, F., Jafarov, M. and Mammadova, in their study '*An Analysis of Youth Employment in Azerbaijan Success of Leadership*' explore the challenges that young people are experiencing in finding a job, and more specifically the challenges of their integration in the labor market in Azerbaijan. This article is used by the authors as a basis of recommendation for the young generation in changing their attitudes by different leadership frameworks. Their theoretical study proposes a synergy of the leadership frameworks examined, in order to twist the situation inside or outside of an organization or community.

Alexander Stelzer's article, entitled '*Decision Making and Negotiation Processes in the Food Trade*', sheds light on the economic and psychosocial factors of success in negotiating processes between buyers and suppliers. With his study's focus on food trade, the author uses the econometric technique of structural equation model adapted on the Harvard negotiating points and transparency in communication, to showcase successful economic experiences and socio-mental satisfaction for all negotiating parties.

In their article '*The Potential Influence of Value Added Tax Law Amendments on the Existence of E-Service Providing SMMEs in South Africa*', Barnes, Van Niekerk, Gool, Groener, Lee, Moola, Bruwer and Smit focus on a current business operation issue regarding Small Medium and Micro Enterprises in South Africa. These types of companies have been the back bone of the economy, however, their existence is under threat as up to 80% of businesses fail after 3 years of operation. Adding more strains to the situation, the Authors noted that SMMEs that provided online services were subjected to increased taxation. Using this framework, the Authors used an empirical research (with quantitative data from registered South African Tax Practitioners based in the Cape Metropolis) aimed to explore the perceived consequences of the amendments made to VAT Laws. Based on this study, the Authors recommend that VAT rate is left unchanged to avoid a negative influence on the existence of South African SMMEs.

In the article entitled '*The Integrated Crisis Management Model for the Hotel Industry: Lowering Crisis Susceptibility and Strengthening Stakeholder Relationship Management*', Nicola Zech examines the

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reluctance of the hotel industry in implementing profound and structured crisis management concepts, as most responses to crises are intuitive and ad-hoc. The author proposes an integrated crisis management model for the hotel industry by including in this model theoretical know-how and practical applications as discovered from an empirical study conducted with expert interviews as well as stakeholder surveys.

Yakup Durmaz and Zeynep Derya Düşün wrote and published a research paper, entitled '*Importance of Strategic Management in Business*', which examines this new paradigm and its implementation in successful frameworks. The Authors note that organizations which implement strategic management throughout the whole process can make logical decisions, and, in this way, they can gain an advantage in a fierce competition environment. They also provide a comparison between the implementation of this paradigm in private and public organizations, and the advantages and disadvantages for each of these business environments as it also relates to the culture of the organizations.

Bing Xiao's article, '*Conditional Relationship Between Beta and Return in the US Stock Market*', is based on the hypothesis clearly stated in the title of the paper. In this empirical research, the conditional covariances and variances used to estimate beta are modeled as an ARCH process. Xiao's study showcases the impact of identifying the sign of the excess market return when testing the beta-return relationship. The proposed approach also enables the differentiation of the size effect and the effect of economic cycles.

In '*A Study on the Effects of Client Company Information on the On-Site Logistics and Processes in a Supply Chain: A New Design Approach using Quality Function Deployment*', Kiuchi, Nagai and Nakashima establish a new outlook for the B2B environment to determine solutions in the supply chain by focusing QFD methodology. Their findings exhibit new ways that allow the minimization of the negative impacts of the client orders on the on-site logistics and processes of its suppliers. The Authors' newly proposed procedure enables the assessment of the effects of the improvement plan on the suppliers' manufacturing processes, as determined by the client's orders.

Besong Besong's article, titled '*Mechanisms for Quality Assurance of Universities in Cameroon*', provides an outlook at the evolution of universities in Cameroon and the recent orientation towards deregulation, as well as its effect on quality assurance in these higher education institutions. The paper pinpoints these shortcomings by striving to explain the rationale of the mechanism for quality assurance in the face of deregulation. To ensure quality in universities, the Author proposes two main mechanisms: (a) internal regulatory mechanism, and (b) approval for new programs in the universities.

A Final Thought

On behalf of the *Expert Journal of Business and Management* Editorial Board, I would like to extend my appreciation to our Authors for publishing their valuable studies in our journal, to our Reviewers for their input and implication in our editorial process, and to our Readers and Researchers for reading, downloading and expanding the work we publish in their future articles!



An Analysis of Youth Employment in Azerbaijan Success of Leadership

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The aim of our project statement includes youth unemployment, underemployment as well as the attitude of young people to the labor market. Youth unemployment is a global problem. In Azerbaijan, it is becoming more challenging not only because of the lack of jobs, but also the lack of technical skills such as CV and cover letter writing, job interviewing and so on. This paper offers a first comprehensive study of the relationship between labor market policies and youth employment in Azerbaijan. The second aim of this paper to learn the performance of young leaders, and leadership in Azerbaijan. Article has emerged as a result of project and primary, secondary data.

Keywords: Employment, Unemployment, Youth Employment, Leadership, Young Leaders, Success of Leadership, Youth Employment in Azerbaijan

JEL Classification: E24

1. Introduction

Azerbaijan as other Post Soviet countries in the Soviet period had the same management system that provided equal education, job and other opportunities for citizens of USSR. Clark Brown (1955) tried to compare theory and practice in the Soviet Labor Market. Soviet Union had the labor market policy which included central planning, planned training and recruitment, direction of labor and direction of turnover, social pressure, advertisements, and self-direction under the influence of wage and other incentives, and local and all-union recruiting machinery. This article gave us an opportunity to see and analyze that the creation of public policy and planning in the labor market are very crucial for each new established country concerned with decreasing the unemployment rate and to avoid underemployment which is more dangerous especially in developing countries. Even more critical is the fact that many forms of leadership are required (context, team, personal, ...) to provide new vision for youth employment in Azerbaijan, and by working with multiple stakeholders as well as engaging the constituents' energy, real changes are possible and improvements in youth unemployment are possible.

If we overview the labor market of the Soviet Union, we may see that almost everyone had an opportunity to get a job after high school or graduate school. In general, the system was not so competitive in

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the labor market and the employee recruitment system differs from the current one. Currently, it is more demanding and more competitive.

Twenty years ago, when the Soviet Union collapsed the small countries became independent, including Azerbaijan. This independence brought new leadership for the common good that emphasized some leadership capabilities including leadership in context, team leadership, organizational leadership and personal leadership (Crosby and Bryson, 2005, p.XIX - introduction) that we discuss below in context of youth unemployment and youth attitude to the labor market. Azerbaijan compared with other Post Soviet countries is rich with natural resources. Now, exporting oil and gas helps the country increase GDP and invest in education, new infrastructure projects, and business development and so on. This is a good chance for the younger generation and young people should understand it and benefit from this opportunity.

After twenty years of independence, now we have twenty-year-old citizens, born in the lands of independent country of Azerbaijan in 1991. In spite of this, in our families, we still have a big influence of eldest people particularly parents living with Soviet attitudes. Nowadays, the young generation faces obstacles in choice of education and job because of the influence of their parents. The root of the problem that we have mentioned in our project statement is coming from the families. Analysis of our project statement shows that today the labor market is more demanding and more competitive. In order not to be a victim of unemployment you have to work hard, get new skills and knowledge as well as have a good network of people that will help you access the information in the labor market. It is a big leadership challenge for citizens of a new independent country to accept new approaches that they never practiced.

2. Literature Review and Research Premises

2.1. Leadership Challenge

After getting independence, the new government of Azerbaijan decided to keep a similar strategy of the Soviet Union in the fields of education as well as employment. Becoming an independent country and keeping free public education and equal employment opportunity was a big a challenge for the new government. The government lost credibility, because the quality of education has been decreased, most of the factories were closed, job opportunities became limited, and some other social problems were created. "Credibility is a very long term process that leaders want to earn the trust and confidence of their constituents" (Kouzes and Posner, 1993, p.XII introduction) and it takes long time to recover it.

2.2. Overview of Leadership Frameworks

Changing the attitudes of the young generation towards the labor market will be analyzed through four leadership frameworks: leadership in context, personal, team and organizational leadership. Theories from leading researchers in each area, such as Crosby and Bryson (2005), Drath (2001), Kouzes and Posner (1993), Bryson (2003), Parks (2005), Moxley (2000), Bolman and Deal (2008) will be applied to this issue. This analysis will help to determine where leadership has been exhibited in the past and where there are areas for improvement.

2.3. Leadership in Context

The first framework is leadership in context. Crosby and Bryson explain that leadership in context gives an understanding of the social, political, economic, and the technological environment. In a globalized world, the young people in Azerbaijan should understand and accept the requirement of globalization and think more strategically in terms of education and career development. Analyzing of project statement, we found that elements of leadership in context are more applicable in our project statement. The collapse of the Soviet Union was a big change of political environment. This change affected the economy as well as education and employment. It was the end of Soviet leadership and beginning of new leadership. Leadership happens, when people come together and use dialogue and collaborative learning that was similar context when Azerbaijan became independent (Crosby and Bryson, 2005, p.36). It is also important for a leader to believe that change is possible (Crosby and Bryson, 2005, p.38). Working in youth organization and implementing youth employment projects, frequently we organized round tables with young people to see their vision on youth employment from their own leadership perspectives. Asking our first two questions, we always want to know the potential of young people as a future leader and see how they accept changes from the future perspectives. Unfortunately, influence of parents to young generation in choice of education and employment still exist which affected their leadership potential. We always give an example to young generation comparing state with a human. If the country doesn't have a freedom of choice, unfair elections that means there is no development and there is no future perspectives. The same example might be used in the position of human.

If there is no freedom of choice in education and career, it means there is no chance to be a leader and change the world. The freedom of choice and independence are very critical elements of future development of a person as a leader.

Parks (2005) uses the metaphor of moving from the dance floor to the balcony: "There is something about the dance you will only know by actually dancing. But if you move to the balcony for a while, you can see things that you can never discover on the dance floor – the larger pattern of interactions of which you are a part. You gain perspective and can make new choices." This example gives to our project statement, new vision and perspectives to move forward. As an activist in the youth field and observing political and economic environment within leadership in context, we decided to become a leader in the field of youth employment and took this initiative first in local then in national level. Later most of the youth organizations and big companies joined to our initiative on a national level. However, the success of the coalition, created after youth employment forum helped us to engage government in face of the Ministry of Youth and Sport and the Ministry of Labor. Representation of government in our coalition subsequently engaged international community. In 2008 the European Commission provided a long term grant for our organization to create the Youth Employment Resource Center in our city that was the beginning of new initiative in local as well as national level. Establishment of such center in our city made representatives of State Employment Center upset and it was difficult for them to accept this idea since they do the same job for population. But understanding and practicing leadership as partnership changed their attitude to this project. Moxley (2000) idea of partnership, "suggest the basic of two or more people sharing power and joining forces to move toward accomplishment of a shared goal. It understands that leadership is an activity that happens in and comes from a collective – sometimes two people, sometimes more". As a result of project we became strategic partners. Later, the Ministry of Youth and Sport of the Republic of Azerbaijan joined our initiative and provided some financial and technical support for sustainability of this Center. Afterward, the International Labor Organization offered new proposal to our coalition to start implementation of new initiative with support of government and international community titled "Young Woman Entrepreneurship Development" program.

2.4. Personal Leadership

Our personal leadership initiative in 2006 helped us and our organization to bring all stakeholders together and start this campaign as a coalition. Bryson (2003) described in his research project different definitions of stakeholder which include the following version:

- "Any person, group, or organization that can place a claim on the organization's attention, resources or output, or is affected by that output" (Bryson, 1995, p.27)
- "People or small groups with the power to respond to, negotiate with, and change the strategic future of the organization" (Eden and Ackermann, 1998, p.117)

In our particular case the second definition is more relevant to our initiative. We brought all stakeholders together to change attitudes of young people as well as employers towards the labor market. Why employers? In Soviet period people in our country as well as in other Post Soviet countries didn't have an opportunity to create a business company or any type of organization. Meanwhile all employees were hired by the government. Establishment of company or organization as individual or group and hire people is quite new idea for all those countries. Most of individuals or groups created company or organization want to hire people whom they know well, mostly among friends or relatives. Besides parent's influence, this factor also negatively affected in the young people applying for a job. The survey conducted by our organization "Bridge to the Future" Youth Public Union among 230 young people in our region within International Labor Organization project included different aspects of youth unemployment, however we proposed to include the question "whom do you rely in the labor market, if you are unemployed?" and almost the same question was for people who were employed "Who helped you to find this job?" revealed interesting information. From responses it was shown that 57.8 % or 133 (65 men and 68 women) young people rely or got a job on the help of parents and friends. Only 27.8 % or 64 (38 men and 26 women) young people have relying or found work based upon their education and skills. And the rest 14.4 % or 33 persons didn't answer this question (Jafarov, 2010).

"Leaders need a supportive personal network (including family, friends, counselors, mentors, and coaches) to cheer them on, give honest feedback, and hold them accountable. Serve as role models, and furnish emotional sustenance and other resources (Crosby and Bryson, 2005, p.59). Nowadays, networking has become a very actual topic all over the world. It is very important to use networking in personal leadership. In our project statement we used our networking to achieve our goal and objectives. It was easy to get access to the youth organizations because we are working in the same field and we already had some partnership projects in the field of youth development. Bringing business companies to this forum and engaging them to create a coalition was quite a big challenge. Most of owners of big companies are very busy and not interested to come

to the public event and show up as a public activist. However, we needed these people because of future expectations of our project. If you want to achieve your expected results, you have to bring key stakeholders together. Our networking strategy was very helpful thousand our organization, to bring main stakeholders together and create a center of attention towards the society as well as government and international community.

Drath (2001) connected personal leadership with relational leadership that allows us “to understand leadership in general in a new way, one designed to help people create and discover new ways of making leadership happen.” This is what happened in our project statement. The success of our personal leadership was belief in what we do for our community and credibility that we got from our community. Our relational leadership helped us to get support and dedicate ourselves to the problem solution. “In its simplest terms, relations as the creative ground for leadership, while personal leadership pays attention to the character and skill of the leader” (Drath, 2001, p. XV).

2.5. Team Leadership

“A team begins as an informal working group and progresses to a more formal arrangement, examples being a task force, steering committee, planning team, or standing committee. They may come together for a relatively brief period of time to complete a specific task, or they may last for years” (Crosby and Bryson, 2005, p.64). In the project statement the coalition that we created lasted for years and it became more powerful increasing the number of stakeholders as well as changing the status of coalition from local to national level. The most important team leadership skill that our coalition used was a communication that coordinates members and build mutual understanding and trust, and toward all power of coalition to the problem solution (Crosby and Bryson, 2005, p.67). Communication is easier when we had representatives of few groups, in our case it was nonprofit and profit. To be successful from the beginning we were created three working groups within coalition: a) research group, b) community development group and c) project development group. Consequently, when representatives of the Ministry of Youth and Sport and the Ministry of Labor joined our coalition, we as a team were faced with some dispute within our coalition. The root of the conflict between two Ministries was ambiguous and unclear action plan of their Ministries in youth employment that created confusion in team work. In order to avoid dispute in the team work and manage the situation, the coalition members representing profit and nonprofit institutions had a great commitment to keep the situation more comfortable. Focusing coalition members’ attention on the mission, aim and objectives, team leadership helped to concentrate and fully engage government representatives into group discussions and finding solutions to the challenges as a team. These tactics worked very well and we succeeded in result of our joint team work.

Why do we need government? Can we affect the solution of problem without government? In the beginning we, representatives of profit and nonprofit institutions were thinking that solution of this problem is in our hands. Our observation working in groups that we created within the coalition has shown that the role of government is crucial in our coalition. Later, government became our main stakeholder that we engaged to the working groups. This helped us create credibility in society and succeed with initial results (Crosby and Bryson, 2005, p.66). Our initial result that we consider a success of our joint work as a coalition was in June of 2011, the President of Azerbaijan Republic signed a new decree called “Azerbaijan Youth 2011-2015” State Youth Program (2011) which includes establishment of youth employment resource centers as well as business incubation centers in different regions of Azerbaijan. Through these centers young people will get new skills and knowledge including trainings for job preparation and self-employment.

In terms of credibility which is important for team leadership as well as other types of leadership. “Credibility is foundation of leadership” (Kouzes and Posner, 1993, p.XIV). We totally agree with Kouzes and Posner point of view in terms of credibility. Credibility should be the first job of any type of leadership, to earn the trust and confidence of society.

2.6. Organizational Leadership

Crosby and Bryson (2005) explained very clearly the main task of organizational leadership which is talking about “paying attention to purpose and design, becoming adept at dealing with internal and external change, and building inclusive community inside and outside of the organization”. Understanding the rules of organizational leadership, before start up initiative of youth employment, we proposed to the board of directors of “Bridge to the Future” Youth Public Union bring this issue to the General Assembly. There was a big discussion among members of organization, such as how internally and externally this issue will be influenced to the mission of organization, since the establishment, organization didn’t have any projects or initiatives in the field of youth employment, there was also discussion that organization never had a partnership with stakeholders in this field such as employer organizations, trade unions, government institutions and so on. As

an executive director, we offered to the General Assembly of our organization to host a forum of profit and nonprofit sector that may help us to carry out initial stakeholder analysis, subsequently conduct a survey among young people to see the importance of this issue in ordinary life of youth. As Crosby and Bryson (2005) says "people listen to diverse stakeholders, they build a much richer understanding of the organization's performance, ideas for improvement, and understanding of the relationships among stakeholders." During the forum we had a chance to listen to diverse stakeholders, build the organization's performance and shared ideas to understand the relationship of this issue among all stakeholders. However, to reframe organizational leadership, we tried "to understand and use multiple perspectives, to think about the same thing in more than one way" (Bolman and Deal, 2008, p.5). Our organizational leadership succeeded hosting this forum and opening the new doors for our organization and young people for the common good. Reviewing eight stages of John Kotter (1996) a useful process of organizational change, we found similarities in our project statement such as "establishing a sense of urgency, creating a guiding coalition, developing new vision and strategy, communicating the change vision, empowering employees, generating short-term wins, consolidating gains and producing more change and anchoring new approaches in the culture (Crosby and Bryson, 2005, p.102). All these stages we have practiced in our organizational leadership.

3. Conclusion

The main idea that we got from analysis of our project statement is that all type of leadership including leadership in context, personal, team and organizational leadership contribute toward changing the situation inside or outside of an organization or community. To make these changes happen, leaders need constituents' energetic involvement as much as the constituents need leaders' boldness of vision and courage of conviction" (Kouzes and Posner, 1993, p. xxiii - xxiv - Introduction). Mutual understanding and mutual support is very important for the leadership in practice. Leadership in practice might change very often particularly if it depends on political and economic situation. Analyzing our project statement and reading different articles and books from leadership class, we understood that the first thing that we have to know about leadership is to learn to analyze the real situation and support leadership initiative if this leadership is for our common good.

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Decision Making and Negotiation Processes in the Food Trade

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This scientific study focuses on the economic and especially the psychosocial factors of success in negotiation processes between buyers (procurers) and suppliers (producers) in the food trade. In particular, it examines the economic and mental satisfaction in the decision-making and in the negotiation processes for efficient food supply. It studies primarily transparency in addition to the Harvard concept at annual meetings (or during the year) favoring a satisfactory result for both negotiators. In a structural equation model, the Harvard negotiating points are brought together with transparency in communication, in terms of successful economic experiences and socio-mental satisfaction.

Keywords: Decision Theory, Negotiation Theory, Negotiation Optimization, Satisfaction

JEL Classification: D30, D47, F12, F14, F18, F40, L11, Q00

1. Introduction

Every day new horror stories let us scare up...

The number of people on this earth is increasing, but on the other hand raw materials, especially food, are distributed unequally.

A lot of people do not get any of them, or the prices where you still can get them are growing and growing and growing...(Sarris, Conforti, and Prakash 2011)

So we all believe...

If humans do not have enough to eat or drink, they would become "uncontrollable". It cannot be that many countries are not available to global goods.

With the delivery of food and beverage people will face survival. It may not be that the levy of a few controls and is impeded from profiteering (Cotula et al. 2009).

So some people and organizations go a further step with their allowances...

A uniform and controlled release must be created; otherwise we face a growing problem. A shortage of plans for other developments. If the people do not eat or drink enough, they also do not need further plans and lose ambitions and their ideals and standards.(World Food Programme 2009)

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The UN Food and Agriculture Organization (FAO) in early June 2010 in their semi-annual "Food Outlook" recognizes that the cost of food imports are rising, particularly in the poorest countries. This now threatens a famine in Africa, because the poorest countries pay more and more for imports. More particularly, the financial burden on food imports as calculated by the UN organization in the world this year to amount to about \$ 100 billion (81.8 billion euros). (Fao 2011)

In return, however, new debts are created to import the daily needs of the people. In particular, the ten million people in the eastern Sahel in West Africa, according to the UN World Food Programme (WFP), are facing a period of starvation. Already, more than one billion people suffer from hunger and malnutrition. Therefore, on a three-day "Conference on Nutrition", FAO, with representatives from the 192 member states in November 2009 set to a five-point plan against hunger. (Fao 2011)

But there are not only reasons of force majeure, such as crop failures and weather conditions, but also political miscalculations and bad decisions, as well as illegal price fixing for ever higher prices. (McMichael 2001)

But the increase in biofuels demand raises prices for cereals and rice. More and more people can afford less and less food. A food crisis is imminent, thus expanding the common social life more and more threatened.

In countries like Egypt the meat prices have risen by 50% and there are threats of riot. And an end to price increases is not clear, as the Food and Agriculture Organisation (FAO) points out. But the fault lies not only in the interests of environmental conditions, but increasingly in the wrong policy.

Price of rice doubled!

Other countries in Africa are worse affected by the rising prices. Thus, the price of a kilogram of rice in Mauritania, West Africa, doubled in the last three months. At the same time in Zimbabwe, the price of corn increased by 59 percent and in neighbouring Mozambique by 57 percent. In the Democratic Republic of Congo, a portion of fish a year ago cost 10 dollars (8.3 Euros), today it is 25 dollars (20.8 Euros). For a 25-kilogram bag of rice, people must now pay 30 dollars - not for many financially viable. The policy is completely overwhelmed with the demand increase in the consumer society and the related allocation problems (Fao 2011).

But, what is the truth?

Famous critics, such as Bjorn Lomborg, criticize these negative attitudes and campaigns.

In addition to individual Traders there are many other winners by rising commodity prices. Therefore, many welcome this development because the higher commodity prices have also reached to a certain extent of producers. A lot of people (Indians, Chinese, and so on) can afford more than ever before. (Lomborg 2002)

There are many open questions now...

Do we lose control over our food supply chain and is there no future for food for all?

Do always get less people something to eat in the future?

Or is that only a horror scene, because with fear its easy to earn money...

True to the motto: "If people have fears, they can be controlled better."

Main Reasons for Agricultural Scarcity (Hiebl 2008) (Aalst et al. 2014):

- Micro-economic aspects
 - Climate change and rethinking the ecological issues also leads to changes
 - Storage situation for stackable products, which changes the supply situation (manipulation, storage costs, warehouse conversions and expansions...)
 - Politics - for example export tax, import bans, ...
 - NEW: Speculation
- Macro-economic aspects
 - Developing countries and their increasing demand for meat, vegetable oils,...
 - Emerging markets and their increasing demand for milk, meat,...

2. Theoretical Foundations and Actuality of the Topic - Literature Review

2.1. Problem Statement

The topics of raw materials, waste and energy will be the top economic issues of the future, or influence and affect all other subjects (human resources, culture, society,...); all combined with technology, IT and Tech Communication.

The shortage of raw materials is one of the central issues in the future perspective and this fact is

already influencing the relationship between buyer, producer and supplier.

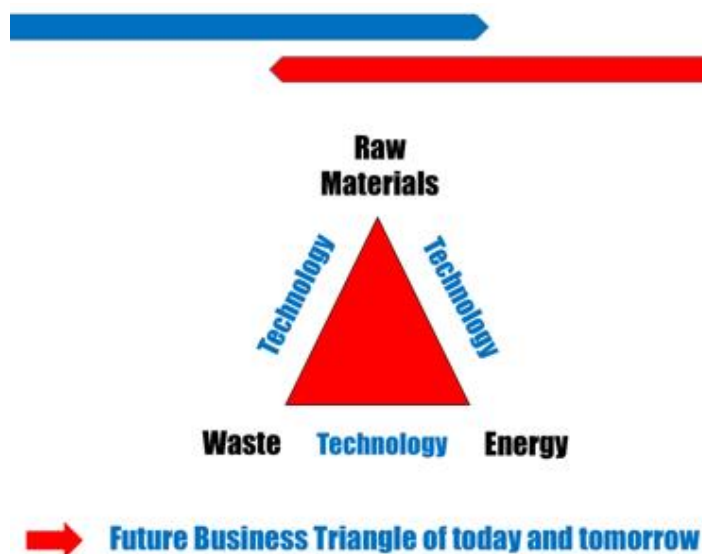


Figure 1. Future Business Triangle

2.2. Survey of the Current Negotiation Situation Between Buyers and Suppliers

This current shortage of agricultural commodities in the market now changes the actions of producers, middlemen, the wholesalers and the stationary and virtual sales. It will nevertheless continue to work according to prescribed conditions of the corporations. The current situation is a completely new one, in the fact that those of recent decades are not accustomed and trained.

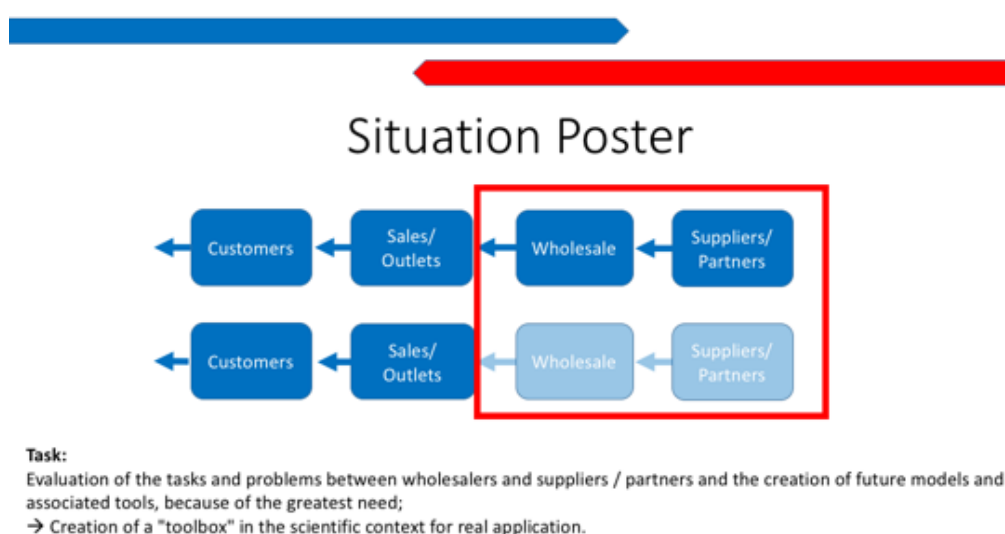


Figure 2. Situation Poster

3. Theoretical Framework and Model Development

3.1. Purpose of Study

The interaction between purchasers, suppliers and producers with respect to the procurement of raw materials, goods and products is examined specifically in terms of their economic and psychological satisfaction. Is it possible to satisfy all parties not only in an economical way, but also in their mental satisfaction.

The question:

How to run negotiations between purchasers, suppliers and producers, so that both parties are really satisfied (economically and mentally)?

The answer:

The negotiations must be transparent in the relation to prices, quantities, etc., because in the way of approaching the interests, the satisfaction will increase consequently.

A new relationship must be created, to create common solutions.

Survey of the current negotiation situation between buyers and suppliers:(Volker 2013)(Volker 2006)

- The demands of commercial enterprises towards their supply chains are that prices must fall, and the amounts have to increase in the following years.
- The reality in trade is that the production quantities are stagnating and grow only in the range of widths. The prices are rising due to direct and indirect depletion rates.
- A decades working habits comes to falter ...
- Stress among all participants in the negotiations and the annual meetings is the result ...
- The current culture of dialogue and objective needs to change - a common objective must be the result, in order to ensure the supply to the complete satisfaction of all concerned.
- Instruments or tools for a future-oriented negotiation are missing or be only in a developmental stage, and these data are mostly from historical or contemporary issues, but not future orientated.

3.2. Novelty

The Authors research question deals with the topic:

Analysis of direct and indirect factors influencing the interaction between procurement and suppliers/ partners in the foodtrade and wholesale.

It is requested on the basis of a structural equation model, such as the negotiations between purchasers and sellers in the optimal case expire have.

How to create an optimal negotiation situation and a common result.

For this, the Harvard concept is used to query the derived ideal negotiation situation. Respectively I focus my study on the aspect: The interaction between procurers and suppliers is analyzed specifically in terms of their economic and psychological satisfaction / variables. Is it possible to ask all parties not only economically satisfied, but to also provide their equal "satisfaction". In previous negotiations, there is usually a loser and sometimes a winner.

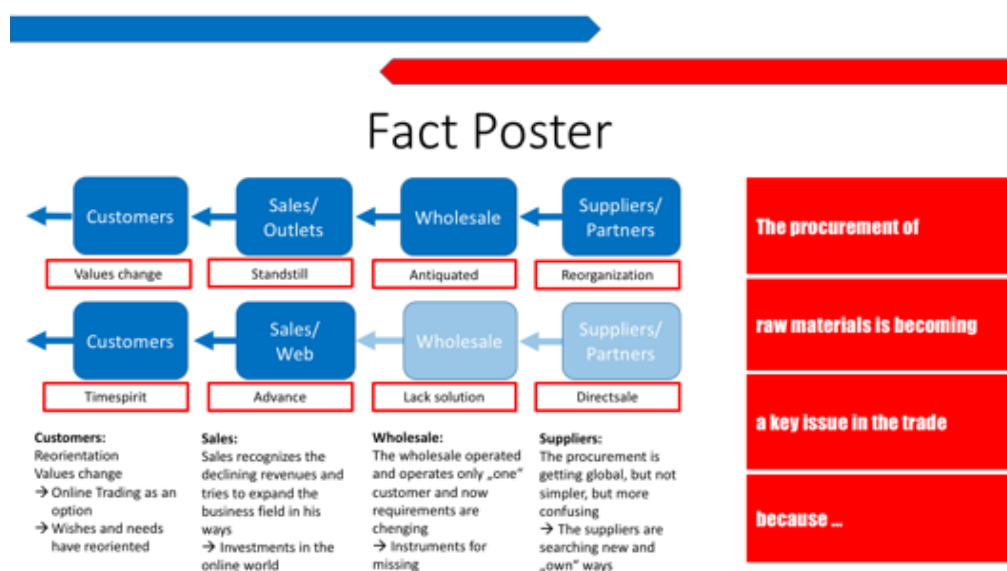


Figure 3. Fact Poster

3.3. Hypothesis and Propositions

The main aim of this paper is the creation of a model that empirically investigates the economic and especially the psychosocial factors of success in negotiation processes between buyers (procurers) and suppliers (producers) in the foodtrade and wholesale. In particular, this model examines the economic and mental satisfaction in the decision-making and in the negotiation processes for efficient food supply. It studies how transparency at annual meetings (or even in between annual negotiations) favors a satisfactory result for both negotiators.

Hypotheses:

HB1 – The structure of the negotiation process has an impact on the outcome of negotiations

HB2 – The more transparent the negotiating process, the more efficient the negotiation efficiency from the perspective of both negotiators

Propositions:

The question is therefore: How to run negotiations between procurers and suppliers so that both parties are really satisfied?

Answer: The negotiations regarding prices, quantities, etc. must be transparent, because with it the approach to the interests happens and so consequently the satisfaction increases.

4. Research Design and Model Testing

4.1. Research Design

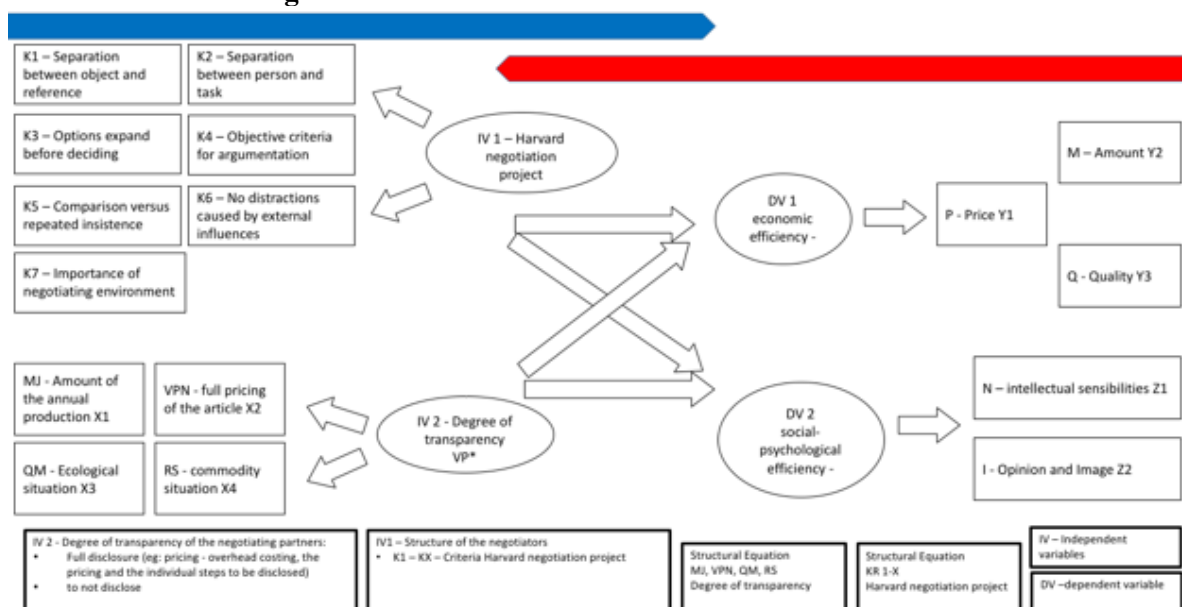


Figure 4. Research Design

4.2. Model Testing

Investigation by interviews in a field experiment - cause-effect relationship - game theory with empirical relining, for a discussion about the satisfaction degrees, depending on the transparency in the communication skills in discussions between buyer side and supplier/ partners.

Questionnaire to discuss the satisfaction precisely, depending on the transparency in the communication skills, in discussions between buyer side and supplier / partners:

- Investigation by interviews in field experiment - cause-effect relationship - game theory with empirical relining:
 - Survey of round about 40 suppliers and 40 acquirers
- Which negotiation with respect to the mutual transparency must be applied in the future to optimize the negotiation situation between "donors and takers" due to the increasingly difficult procurement?
- What form of negotiation needs to be created, in order to improve the situation and to achieve the full satisfaction degree in economic and mental respects?
- What changed the level of disclosure and transparency of all proceedings variables and an open discussion (full transparency) the design of negotiations in respect to economic satisfaction as price, quantity, quality or the mental psychic satisfaction regarding fears, nervousness, satisfaction level, the impact and image of the acquirer regarding trade outwards?

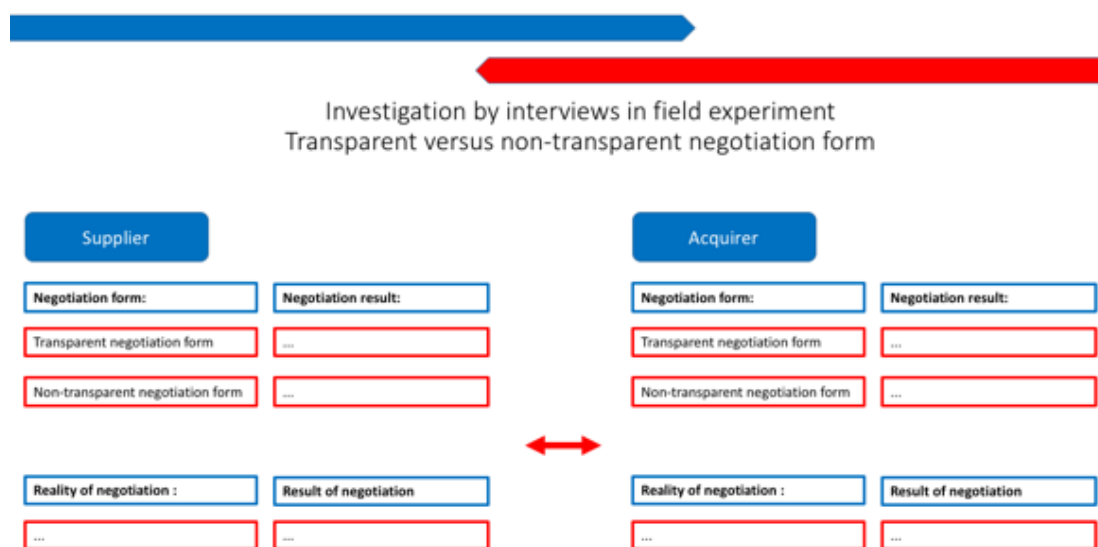


Figure 5. Investigation by interviews in field experiment

5. Research Results and Interpretation

Aim of Research

My aim is to look at the reality, draw conclusions in order all parties, to improve the cooperation.

If we could resolve the "fronts" between "procurement" and "donors" to a cooperation in the form of a transparency, it would help the entire cycle.

Research object

Examination of annual and negotiation talks in trade between procurement and suppliers.

Research subject

Examination on how will complete transparency, in the negotiations with regard to their economic and mental satisfaction, appear for all negotiating parties.

Content of scientific studies

Firstly: More in-depth research on the future structures, systems and procedures of (wholesale) trading houses. The creation of a future "toolbox" and the analysis of the direct and indirect factors influencing the interaction between procurers and distribution in the (wholesale) trading.

Secondly: Evaluation of the procurement market and sources of supply with the new approach of direct and indirect influences on the transparency and the shortage rate. Procurement as today, will not be possible for tomorrow. A shortage and an associated reduction of purchasing volumes is already entered. In what way can the absolute transparency and total satisfaction related contrast control.

6. Conclusions and Recommendations

6.1. Conclusions

The procurement market needs more knowledge and tools, in the procurement and allocation issues, for a common and transparent review and also analysis tools in regard to the future procurement situation.

The full transparency of prices, quantities, and so on, must be given, as thus also the approach to the interests happen and thus consequently increases the economic and mental satisfaction of all parties.

6.2. Findings and Results

This means an extension of the Harvard concept with the level of transparency and, consequently, in economic and mental satisfaction for all negotiating parties.

How is changing an open discussion (full transparency) the design of negotiations in respect to economic satisfaction, such as price, quantity, quality, or the mental psychic satisfaction regarding fears, nervousness, satisfaction degree, the impact and image of the acquirer?

6.3. Main conclusions

If we could resolve the "fronts" between purchasers, suppliers and producers to a cooperation in the form of a transparency, this would help the entire cycle.

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The Potential Influence of Value Added Tax Law Amendments on the Existence of E-Service Providing SMMEs in South Africa

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In South Africa, almost all existing businesses are regarded as Small Medium and Micro Enterprises (SMMEs). Through legislation, the South African government has identified SMMEs as the best enablers to help with the achievement of certain core socio-economic objectives; particularly the creation of jobs and reduction of poverty levels. According to previous research studies these business entities are not achieving the latter socio-economic objectives; mainly as a result of their weak existence rate – up to 80% of these business entities fail within their first three years of existence. The latter is believed to stem from the realisation of economic factors – a major economic factor which adversely influences South African SMMEs is that of taxation. Over the years, more South African SMMEs have started to make use of the internet to conduct their respective business, which spurred the national government to make amendments to existing Value Added Tax (VAT) Laws by levying taxation on electronic services (e-services) provided by e-service suppliers. Hence, for this research study, the perception was formulated that the amendments made to VAT Laws will have an adverse influence on the existence of e-service providing South African SMMEs in the foreseeable future. Empirical research was conducted through means of obtaining quantitative data from registered South African Tax Practitioners based in the Cape Metropolis; all of whom had to adhere to strict delineation criterion. It was found that the amendments made to VAT Laws, by national government, will have an adverse influence on the existence of e-service providing South African SMMEs in the foreseeable future.

Keywords: Taxation, Value Added Tax (VAT), Electronic services, South Africa, Tax practitioners, South African Revenue Services (SARS), Small Medium and Micro Enterprises (SMMEs)

JEL Classification: H25

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1. Introduction

In South Africa, SMMs are formally recognised by the National Small Business Act No.102 of 1996; defined as separate, distinct and legal business entities, that are owned by at least one natural person, which include cooperative enterprises and non-governmental organisations, as well as its branches or subsidiaries, if any; predominantly carrying out their trade in any sector(s) or subsector(s) of the national economy (South Africa, 1996; Berry et al., 2002; Chimucheka 2013). Due to the fact that almost 90% of all existing business entities in South Africa can be classified as SMMs (Mouloungui, 2012), it is of no surprise that the South African government has identified SMMs as the best enablers to assist it in the achievement of two core socio-economic objectives, namely: 1) the creation of job opportunities, and 2) the diminishing of poverty levels (Young, et al., 2012; Chimucheka 2013; Sibanda, 2013; Salie, et al., 2014). The socio-economic value which SMMs add to the South African economy is placed in perspective by previous research studies (Fatoki and Odeyemi, 2010; Swart, 2011; Ahiawodzi and Adade, 2013) where it was found that these business entities contribute up to 57% to the national Gross Domestic Product, while simultaneously providing job opportunities to between 61% and 80% of the total national workforce.

Unfortunately, the aforementioned statistics are overshadowed by additional research studies (Van Eeden, et al., 2003; Rootman and Kruger, 2010) which show that South African SMMs are not achieving their relevant core socio-economic objectives to a large extent as between 70% and 80% of these business entities fail within their first three years of existence. Otherwise stated, since the early-2010s, at least 88 000 South African SMMs are believed to fail on an annual basis (Duncan, 2013). Albeit the alarming failure rate of South African SMMs, the latter is believed to be “triggered” by economic factors.

In layman’s terms, economic factors are those factors which influence the economy of a country, be it positive or negative, which, in turn, will directly impact on all natural persons and all legal persons that are situated in the relevant country (Bruwer, et al., 2013). Based on previous research studies (Bruwer, 2010; Abor and Quartey, 2010) some of the identified economic factors which are directly associated with the disconcerting failure rate of South African SMMs include: 1) stagnant economic growth, 2) fluctuating exchange rates, 3) high interest rates, 4) high inflation rates, 5) government red tape, 6) crime, 7) fluctuating supply-and-demand levels, 8) unstable market conditions, 9) ineffective performance measurement, 10) lack of management skills, 11) insufficient business knowledge, 12) lack of funding, and 13) poor financial management. In addition, another major economic factor which also contributes to the failure rate of South African SMMs is that of taxation (Van Eeden, et al., 2003).

It is therefore of no surprise that several initiatives, with specific reference made to the provision of taxation relief, have been promoted by the South African government over the years; all with the intent to promote South African SMMs and streamline their respective taxation administration (Aucamp, 2011). Notwithstanding the aforesaid, the Commissioner of the South African Revenue Service (SARS) acknowledged in 2005 that “compliance” with taxation-related legislation still remains a considerable burden for most South African SMMs (Abrie and Doussy, 2006). In more recent times however, more than a decade after the previous announcement by the SARS Commissioner, it is perturbing to note that taxation-related legislation is still extremely onerous (and ambiguous) to these business entities (Coolidge, et al., 2009; Cassim, et al., 2014).

From a South African perspective, taxation is a means by which the national government finances its expenditure. The South African government obtains money, through SARS (based on the South African Revenue Service Act No. 34 of 1997), by imposing certain mandatory charges on South Africa’s natural persons and legal persons as a type of fee(s)/levy(ies) for utilising its resources and/or infrastructure(s) (Salie, et al., 2014; SARS, 2014; SARS, 2015). In fundamental nature, taxation also serves as a type of “mechanism” to encourage and/or discourage certain economic behaviour(s) by natural persons and legal persons (Steyn, 2012). For the sake of clarity, taxation is collected by the South African government through means of imposing direct taxation and indirect taxation on natural persons and/or legal persons (Haupt, 2013). The latter is briefly elaborated on below:

- **Direct taxation:** A type of taxation that is paid directly by an entity on whom it is levied. An example of a direct tax would be income tax levied on salaries and/or wages.
- **Indirect taxation:** A type of taxation that does not consider circumstances as it is levied on transactions (concerning both goods and services). Such taxation is collected by intermediaries (“middle-men”) and not paid to SARS directly. An example of an indirect tax is that of VAT.

All taxation that is collected by SARS, on behalf of the South African government, is primarily used to fund the National Revenue Fund which, in turn, is used to help with the enhancement of the national

economy and the infrastructure of South Africa (Salie, et al., 2014). Albeit the fact that taxation is mandatory in South Africa, taxation is supported by strict Taxation Laws which both natural persons and legal persons have to comply with (Abrie and Dousy, 2006; Hendricks, et al., 2015). One of these Tax Laws is the Value Added Tax Act No. 89 of 1991.

The Value Added Tax Act No.89 of 1991 serves as a type of “guideline” pertaining to Value Added Tax (VAT), in a holistic sense. As previously mentioned, VAT is a type of indirect taxation which is levied on the supply of certain goods and the rendering of certain services. In quintessence, such goods and/or services can subject to standard rated VAT (14% input VAT and 14% output VAT), zero-rated VAT (14% input VAT and 0% output VAT), or be completely exempted from VAT (no VAT).

The significance of VAT is placed in perspective by the statistics provided by National Treasury (2013); pointing out that VAT makes up approximately 26.4% of all taxation that is collected, on behalf of the national government, by SARS – translating to an estimated amount of R241.84 billion. As such, it is fair to infer that taxation received from VAT contributes substantially to the revenue of national government. Notwithstanding the aforesaid, there is a great challenge for government to collect these taxes (Dongil, 2012), especially when taking into account that the South African government’s expenditure has exceeded its income since the mid-2000s – as depicted Figure 1.

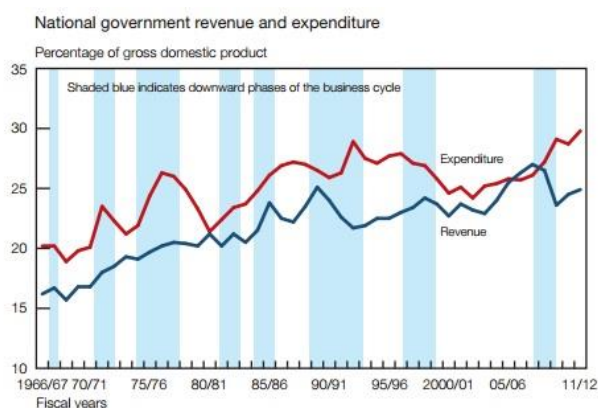


Figure 1. National government spending over the years (**Source:** National Treasury, 2013)

In order to increase the revenue of the South African government, SARS proposed that relevant Taxation Laws had to be “sharpened-up” during the course of April 2014; all with the intent to ensure a steady inflow of money to the national economy of South Africa – particularly the Value Added Tax Act No.89 of 1991 – through the Taxation Laws Amendment Act No. 31 of 2013 (SARS, 2013b). The Taxation Laws Amendment Act No. 31 of 2013 has introduced amendments to the Value Added Tax Act No. 89 of 1991 in respect of the “supply of electronic services (e-services)”. Based on the aforementioned Act, a supplier of e-services is defined as follows:

“[An entity] which supplies electronic services from a place in an export country to a recipient that is a resident of the Republic [of South Africa]; or where any payment to that person in respect of such electronic services originates from a bank registered or authorised in terms of the Banks Act No. 94 of 1990”

According to this Act: 1) suppliers of e-services have the obligation to register as VAT vendors, with SARS, if their taxable supplies exceed R50 000, 2) suppliers of e-services have to account for VAT on the supply of electronic services to any South Africans citizen(s), and 3) suppliers of e-services are liable to register as VAT vendors (with SARS) to the extent that VAT is levied on the supply of electronic services (Louw and Botha, 2014). The biggest irony is that the term “e-services” is very broadly defined in the *Taxation Laws Amendment Act, No. 31 of 2013*:

“Electronic services mean those electronic services prescribed by the Minister by regulation in terms of this [Taxation Laws Amendment] Act [No. 31 of 2013].

In a South African dispensation, many SMMEs make use of the internet to conduct their respective business; particularly in relation to the rendering and/or using of e-services via the internet (Hooper, et al.,

2010). Although only a handful of South African-based SMMs are owned by foreigners from export countries (Chandra, et al., 2001; O'Malley, 2006), the last mentioned Act's description of "e-service providers" is extremely vague which, if interpreted, can actually include all South African e-service providing SMMs.

Thus, based on the above, the perception was formulated that South African e-service providing SMMs will be adversely influenced, in an economic sense, at least, by the *Taxation Laws Amendment Act No. 31 of 2013* (It should be noted that this Act was clarified by the Electronic Services Regulations – which came into effect on 1 June 2014). In order to empirically test the aforesaid perception, the following research questions were asked:

- What e-service related items are taxable in terms of the *Value Added Tax Act No. 89 of 1991*?
- What e-service related items are taxable in terms of the *Taxation Laws Amendment Act No. 31 of 2013*?
- How will the amendments made to VAT, in terms of the *Taxation Laws Amendment Act No. 31 of 2013*, influence the overall existence of e-service rendering SMMs?

2. Literature Review

The literature review below provides insight to the first two research questions posed above; all with the intent to mitigate and/or solve the identified research problem. Relevant discussions below take place under the following headings: 1) VAT in South Africa, and 2) Possible implications for South African e-service providing SMMs.

2.1. VAT in South Africa

VAT was first introduced in South Africa in September 1991 – replacing the old General Sales Tax (GST) – through means of the *Value Added Tax Act No. 89 of 1991* (Go, et al., 2004). In this Act, VAT is categorised in terms of input VAT (charged to a registered VAT vendor, by another registered VAT vendor, on the purchasing of certain goods and/or the rendering of certain services – claimable from SARS when a revenue transaction has taken place) and output VAT (charged to a customer, by a registered VAT vendor, on the sale of certain goods and/or rendering of certain services – payable to SARS when a revenue transaction has taken place) (SARS, 2013a). By Law, based on the *Value Added Tax Act, No.89 of 1991*, although a South African business entity must register as a VAT vendor if its taxable supplies (taxable turnover) exceeds R 1 000 000 for a period of 12 months, a South African business entity can also voluntarily register as a registered VAT vendor if its taxable supplies range between R50 000 and R1 000 000 for a period of 12 months (SARS, 2013a).

One of the main reasons why VAT was introduced in South Africa was to eliminate the cascading effects of taxation on intermediate inputs to, in turn, remove the distortion affecting input choices in production; all with the intent to assist the poor (Go, et al., 2004). In quintessence, the *Value Added Tax Act No.89 of 1991* makes mention that VAT is exempted on certain supplies (e.g. educational services, residential rental and accommodation and public transport) and that output VAT is zero-rated (Zero-rated VAT is also applied on exports, illuminating paraffin, goods which are subject to the fuel levy, international transport services, farming inputs, sales of going concerns and certain government grants.) on basic foodstuff (e.g. brown bread, maize meal, samp, milk, eggs, milk powder, unprocessed vegetables, and unprocessed fruits) (Haupt, 2013). Notwithstanding the aforementioned, at present time, VAT is levied at a standard rate of 14% on most goods and services within South Africa.

The *Taxation Laws Amendment Act No. 31 of 2013* amended certain aspects in the *Value Added Tax Act No. 89 of 1991*:

- Foreign entities (natural persons and legal persons) may become liable to register as a VAT vendor in terms of Section 23 of the *Value Added Tax Act No. 89 of 1991*.
- Foreign entities may have to account for VAT in terms of Section 7(1)(a) of the *Value Added Tax Act No. 89 of 1991* on the supply of electronic services to any South African citizen.
- In terms of Section 23(1)(a) of the *Value Added Tax Act No. 89 of 1991*, any entity will become liable to register as a VAT vendor to the extent that VAT is levied on the supply of electronic services.
- In terms of Section 7 (1)(a), it clearly states transaction would be excluded from attracting VAT under Sections 7(1)(c) of the *Taxation Laws Amendment Act, No 31 of 2013*.

Notwithstanding the above, VAT makes up a large portion of the South African government's revenue. As such, it is important to keep in mind that the primary idealistic idea surrounding the *Taxation Laws*

Amendment Act No. 31 of 2013 was to substantially boost government's revenue through expanding the coverage of indirect taxation (Dongil, 2012); despite the fact that the revenue which SARS collected, in the form of VAT, increased from R191 million in 2012 to R215 million in 2013 (National Treasury, 2013).

2.2. Possible Implications for South African E-Service Providing SMMes

The internet can be viewed as a worldwide system of computers, that are all interlinked with one other, while using networking technology, on a global scale. In fundamental nature, the internet has revolutionised the world of commerce (Louw and Botha, 2014), through the discovery of online trading (e-commerce) – resulting in a significant increase of daily transactions and daily revenues alike (Naicker, 2010).

Using the above as foundation, over the years, in South Africa, many heated debates have flared-up surrounding possible taxation regimes on e-commerce as a whole (Jones and Basu, 2012). On the one hand, by enforcing (indirect) taxation on e-commerce, the national government will have the opportunity to receive more money from both natural persons and legal persons however, on the other hand, the latter may discourage e-commerce in a holistic sense – resulting in the possible failure of many business entities that strive to add socio-economic value to the South African economy (Moschella, 1999; Gutuza, 2006; Naicker, 2010; Jones and Basu, 2012).

In an international dispensation, the levying of indirect tax on e-services is not a new phenomenon. The European Union (EU) (since January 2015), Switzerland (since January 2010) and Norway (since July 2011) have enforced VAT on e-commerce transactions (Tax Executive, 2014). The reason for the latter is that, from a global perspective, most economies around the world have experienced increases in their respective Gross Domestic Products over the years (Trading Economics, 2015) which, in turn, is believed to stem from a rapid increase in e-commerce related transactions (Laguna, 2000). Although some international government officials (along with relevant industry leaders) are in agreement that e-commerce transactions should be subjected to equitable and non-discriminatory taxation practices (as not to impede e-commerce growth), private sector groups, government bodies and other international organisations are also in agreement that the taxing of e-commerce transactions should be done in accord with standard principles governing the taxation of ordinary commerce (Laguna, 2000). The Organisation for Economic Co-Operation and Development (OECD) defined the following five equitable e-commerce taxation principles, as based on the four “canons” of taxation (As proposed in Smith, A. 2003. *The wealth of nations*. New York: Bantam Classic):

- Neutrality: E-commerce should be free from additional discriminatory or non-equitable taxes.
- Efficiency: Compliance costs for both business and government should be minimised.
- Certainty: E-commerce taxation rules should be clear for taxpayers to determine their compliance obligation.
- Effectiveness and Fairness: Sufficient tax revenue should be collected and taxpayer fraud should be minimised.
- Flexibility: Taxation regimes should be able to evolve with technological advancements

In the EU, long before January 2015, the intention of policy makers was to place taxation only on electronic supplied services. In particular, from 1 July 2003, policy makers enforced the regulation (2002/38/EC) that non-EU suppliers of electronic services had to both register and account for VAT in the EU (ITR, 2015). In due course, the latter dispensation resulted to a similar regulation (2006/112/EC) to be applied to all EU business as from January 2010 (ITR, 2015). With the passing of time, as from January 2015, policy makers enforced a new regulation (EU1042/2013) whereby any supply of telecommunication, broadcasting and electronic services, to private individuals and non-business customers, will be taxed in the member state of the customer (ITR, 2015). At present time, countries such as China and Russia also tax the supply of electronic services in a similar fashion as the EU (ITR, 2015).

When focus shifted back to South Africa, it is interesting to note that the country introduced its own (first) version of taxing the supply of electronic services as early as 2013 through the passing of the *Taxation Laws Amendment Act No. 31 of 2013* (Diligen Tax Consulting, 2015). The term “e-service” is defined in the *Taxation Laws Amendment Act No. 31 of 2013* as “those electronic services prescribed by the Minister of Small Business Development” (Louw and Botha, 2014). Due to the girth of the latter definition, the assumption can be made that e-services, in South Africa, include services provided by many industry giants such as E-bay, Apple, Netflix, Amazon and Google. Notwithstanding the aforesaid, electronic services can therefore also be inclusive of educational games, games of chance, internet-based auctions, the selling of e-books, the selling of audio-visual content, the selling of still images, the selling of music and subscription services, just to mention but a few (Louw and Botha, 2014). The irony of the matter is that in the *Taxation Laws Amendment Act, No.*

31 of 2013, the definition for “electronic services” is still broad as it predominantly reads the same as the previous definition.

Building forth on the aforesaid, the *Taxation Laws Amendment Act, No. 31 of 2013* describes a supplier of e-services as “[an entity] which supplies an electronic services from a place in an export country to a recipient that is a resident of the Republic [of South Africa] ...” (SARS, 2013b). The latter definition has an extensive girth attached to it as the section “from a place in an export country” can be interpreted to include international servers through which electronic services are rendered by entities (both South African and non-South African) or even a natural person(s) who live in South Africa, who is not a resident, whom renders e-services to residents of South Africa. As such, the assumption can be made that South African SMMEs are included in the definition for “supplier of electronic services”.

All in all, the *Taxation Laws Amendment Act, No. 31 of 2013* was drawn up in accordance with OECD principles – through a proposed “rule of supply” which was introduced in relation to e-commerce – all with the intent to boost current imported e-services (Steyn, 2012) in order for the national government to earn more revenue from indirect taxation (Dongil, 2012; SARS, 2013a), regardless of the fact that the total revenue received by SARS, from indirect taxation, increased from R305 million in 2012 to R354 million in 2013 (National Treasury, 2013). For this very reason, it is not surprising that the *Taxation Laws Amendment Act No. 31 of 2013* resulted in a number of concerns to be raised by various stakeholders (Tax Executive, 2014; ITR, 2015):

- The amendments made to VAT do not differentiate between B2B and B2C supplies.
- A larger administrative burden is placed on VAT vendors (current and future) without improving the ease of compliance.
- No proxies are addressed that would be acceptable to support the decision to charge or not charge VAT.
- The content is very subjective in nature.

As such, the assumption was made that due to the nature of the *Taxation Laws Amendment Act No. 31 of 2013* (as elaborated on above) the latter *Act* is will have an adverse influence on South African e-service providing SMMEs, in a holistic sense, in the long-run.

3. Research Design, Research Methodology, Research Methods and Ethical Considerations

For this research study, a mixture of empirical research and non-empirical research were conducted (Collis and Hussey, 2009; Leedy and Ormrod, 2010). In fundamental nature, the first two identified research questions (see Section 1) were answered through means of conducting a literature review (see Section 2), while the final research question was answered through means of conducting survey research – a type of research whereby perceptions, insights and/or views of a certain sample(s) of a certain population(s) is obtained through means of asking quantitative questions with the assistance of a questionnaire-tool (Remenyi, et al., 2009). The questionnaire-tool deployed was largely quantitative in nature as it consisted mostly of closed-ended questions and Likert-scale questions. Before being disseminated to respondents, the questionnaire-tool was piloted by three academics (who held at least one postgraduate degree) and five members of the general public.

The targeted population for this research study was registered South African Tax Practitioners that were based in the Cape Metropolis – all whom had to adhere to the following strict delineation criteria:

- Had to be a registered South African Tax Practitioner.
- Had to have a minimum of two years of working experience as a South African Tax Practitioner.
- Had to have at least a NQF Level 5 qualification (or higher)(Based on the South African National Qualification Framework, a NQF Level 5 qualification is equivalent to a National Higher Certificate.).
- Had to be primarily based (for work purposes) in the Cape Metropolis.

Due to the facts that: 1) data had to be collected within a three-week period, 2) the research study was not backed by formal research funding, and 3) the size of the targeted population was unknown, a mixture of the following non-probability sampling methods were used to collect data:

- Convenience sampling: A type of non-probability sampling method that relies on the collection of data from a population who is conveniently available to participate in study – where the first available primary data source is used for the research study being conducted, without additional requirements.
- Purposive sampling: A type of non-probability sampling in which decisions concerning the respondents to be included in the sample are taken by a researcher(s); based upon a variety of (delineation) criteria.

A total of 70 questionnaires were disseminated to registered South African Tax Practitioners (which satisfy the aforementioned delineation criteria) of which only 32 responded positively – a 45.7% response rate.

In addition, the following ethical considerations were accounted for throughout this research study:

- Informed consent: All respondents were informed on what the research study entails.
- Voluntary participation: All respondents opted to voluntarily participate in the research study.
- Protection from harm: All respondents were safeguarded from physical harm.
- Anonymity and confidentiality: Respondents were assured of anonymity; that their responses provided would be treated with the highest levels of confidentiality – used for research purposes only.

4. Data Analysis and Results

4.1. General Demographics

Due to the fact that respondents had to adhere to strict delineation criteria (see Section 3), it was imperative to ask respondents certain classification questions pertaining to their demographics.

When respondents were asked whether they were registered South African Tax Practitioners, a total of 100% of respondents answered “yes” – a total of 15.63% of respondents were registered at the Institute of Accounting and Commerce, 31.25% of respondents were registered at the South African Institute of Chartered Accountants, 28.13% of respondents were registered at the South African Institute of Professional Accountants and that remaining 25% of respondents were registered at the South African Institute of Tax Practitioners.

Next, respondents were asked how many years of experience they had as registered South African Tax Practitioners. A summary of the results are shown in Table 1.

Table 1. Respondents' years of experience as registered South African Tax Practitioners

Value Label	Value	Frequency	Percent	Valid Percent	Cum Percent
Two years	2	2	6.25	6.25	6.25
Three years	3	2	6.25	6.25	12.50
Four years	4	2	6.25	6.25	18.75
Five years	5	3	9.38	9.38	28.13
Six years	6	2	6.25	6.25	34.38
Seven years	7	2	6.25	6.25	40.63
Eight years	8	1	3.13	3.13	43.75
Nine years	9	2	6.25	6.25	50.00
Ten years	10	4	12.50	12.50	62.50
Fourteen years	14	3	9.38	9.38	71.88
Fifteen years	15	3	9.38	9.38	81.25
Eighteen years	18	1	3.13	3.13	84.38
Twenty years	20	3	9.38	9.38	93.75
Thirty years	30	2	6.25	6.25	100.00
Total		32	100.0	100.0	

Source: Authors' fieldwork, 2015

Stemming from the table above, the average respondent had 10.94 years of experience as registered South African Tax Practitioner; a minimum number of two years' experience and a maximum number of 30 years' experience.

When respondents were asked what their highest qualifications were, the following results were evident:

- 3.13% of respondents had a National Higher Certificate.
- 3.13% of respondents had a Higher Diploma in Taxation.
- 9.38% of respondents had a Diploma or National Diploma in Taxation.
- 34.38% of respondents had a Bachelor's degree in Taxation (This statistic is inclusive of the number of respondents who held a BTech-degree).

- 50.00 % of respondents had an Honours degree in Taxation (This statistic is inclusive of the number of respondents who held CA(SA) designations.)

Otherwise put, a total of 3.13% of respondents had a NQF-level 5 qualification, a total of 12.51% of respondents had a NQF-level 6 qualification, a total of 34.38% of respondents had a NQF-level 7 qualification and 50% of respondents had a NQF-level 8 qualification.

In relation to geographical location, 28.13% of respondents were based in the Cape Town Business District (central Cape Town), 43.76% of respondents were based in the Northern Suburbs and 28.13% of respondents were based in the Southern Suburbs.

4.2. Awareness and Understanding of Value Added Tax Acts

It was important for the authors to understand how aware respondents were with regard to the amendment of the *Value Added Tax Act No. 89 of 1991* through the *Taxation Laws Amendment Act No. 31 of 2013*. To achieve the latter respondents were first asked to rate three statements, through means of a five point likert-scale, starting with the sentence: "In my own expert opinion, I am fully aware ...". The five point likert-scale made provision for the following ratings: 1 = "strongly disagree", 2 = "disagree", 3 = "neither agree nor disagree", 4 = "Agree", and 5 = "Strongly agree". A summary of the results are shown in Table 2.

Table 2. Awareness of respondents of legislation pertaining to VAT

Statement	Valid percentage					Mean	Std dev
	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree		
a) ... of the existence of the Value Added Tax Act No. 89 of 1991.	6.25%	-	3.13%	53.13%	37.5%	4.16	0.99
b) ... of the existence of the Taxation Laws Amendment Act No. 31 of 2013.	3.13%	6.25%	6.25%	65.63%	18.75%	3.91	0.89
c) ... those amendments were made to the provisions in the Value Added Tax Act No. 89 of 1991 by the Taxation Laws Amendment Act No.31 of 2013.	3.13%	3.13%	3.13%	78.13%	12.5%	3.94	0.76

Source: Authors' fieldwork, 2015

Stemming from the results in Table 2, one can deduce that respondents were quite aware of the existence of the *Value Added Tax Act No. 89 of 1991* (83.20% average awareness), the existence of the *Taxation Laws Amendment Act No. 31 of 2013* (78.20% average awareness) and amendments were made to the provisions in the *Value Added Tax Act No. 89 of 1991* by the *Taxation Laws Amendment Act No.31 of 2013* (78.80% average awareness).

Based on the answers provided by respondents, it was important to understand how they interpreted the *Taxation Laws Amendment Act No.31 of 2013*. Again, respondents were asked to rate statements (seven of them), through means of a five point likert-scale, starting with the sentence: "In my own expert opinion, based on the *Taxation Laws Amendment Act No. 31 of 2013* ...". The five point likert-scale made provision for the following ratings: 1 = "strongly disagree", 2 = "disagree", 3 = "neither agree nor disagree", 4 = "Agree", and 5 = "Strongly agree". A summary of the results are shown in Table 3.

The results in Table 3 provide clear evidence that the *Taxation Laws Amendment Act No.31 of 2013* is very subjective in nature. This view is supported by the fact that majority of the mean-scores, ranged close to 3 ("neither agree nor disagree"). On average, respondents' agreement pertaining to "suppliers of e-services", based on the *Taxation Laws Amendment Act No.31 of 2013*, were as follows:

- 71.88% of respondents agree that suppliers of e-services include Small Medium and Micro Enterprises (SMMEs).

- 65.63% of respondents agree that suppliers of e-services must register for VAT if an annual turnover of more than R50 000 is earned.
- 62.51% of respondents agree that suppliers of e-services are based where their headquarters are physically based.
- 59.38% of respondents agree that suppliers of e-services are based where their e-services are hosted (i.e. server).
- 53.13% of respondents agree that suppliers of e-services can voluntarily register for VAT if an annual turnover of less than R50 000 is earned.
- 37.5% of respondents agree that suppliers of e-services are based where their owner(s) are physically based.
- 21.88% of respondents agree that suppliers of e-services exclude South African based enterprises.

Table 3. Interpretation of respondents pertaining to the Taxation Laws Amendment Act No.31 of 2013

Statement	Valid percentage					Mean	Std dev
	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree		
a) ... suppliers of e-services can voluntarily register for VAT if an annual turnover of less than R50 000 is earned.	9.38%	18.75%	18.75%	40.63%	12.50%	3.23	1.20
b) ... suppliers of e-services must register for VAT if an annual turnover of more than R50 000 is earned.	3.13%	18.75%	12.50%	50%	15.63%	3.56	1.08
c) ... suppliers of e-services include Small Medium and Micro Enterprises (SMMEs).	3.13%	3.13%	21.88%	53.13%	18.75%	3.81	0.90
d) ... suppliers of e-services exclude South African based enterprises.	12.5%	25%	40.63%	18.75%	3.13%	2.75	1.02
e) ... suppliers of e-services are based where their e-services are hosted (i.e. server).	-	21.88%	18.75%	43.75%	15.63%	3.53	1.02
f) ... suppliers of e-services are based where their owner(s) are physically based.	-	34.38%	28.13%	31.25%	6.25%	3.09	0.96
g) ... suppliers of e-services are based where their headquarters are physically based.	-	21.88%	15.63%	46.88%	15.63%	3.56	1.01

Source: Authors' fieldwork, 2015

Taking all of the above into account, it is evident that although all of the aspects pertaining to “suppliers of e-services” are covered in the *Taxation Laws Amendment Act No.31 of 2013*, it is clear that this Act is extremely subjective in nature; often leaving registered South African Tax Practitioners with the task to make “educated guesses” as to how the relevant legislation should be interpreted. Regardless of the aforesaid the most important statistic pertaining to this research study is that majority of respondents were in agreement that SMMEs which render e-services could be regarded as “suppliers of e-services”.

4.3. Feasibility of Amendments to the Value Added Tax Act No. 89 of 1991

Due to the fact that most legislation is idealistic in nature, it was important to understand how respondents regarded the overall feasibility of the *Taxation Laws Amendment Act No.31 of 2013*. As such, respondents were asked to rate a total of nine statements through means of a five point likert-scale, starting with the sentence: “In my own expert opinion, based on the *Taxation Laws Amendment Act No. 31 of 2013* ...”. The five point likert-scales made provision for the following ratings: 1 = “strongly disagree”, 2 = “disagree”, 3 = “neither agree nor disagree”, 4 = “Agree”, and 5 = “Strongly agree”. A summary of the results are shown in Table 4.

From the results in Table 4 the inference can be made that respondents' viewed the overall feasibility of the *Taxation Laws Amendment Act No.31 of 2013* as bad. In quintessence, when emphasis is placed on the results in Table 4, respondents had the following stand out:

Users of e-services:

- 62.5% of respondents agreed that South African users of e-services include citizens whom have a South African Identification Document.
- 56.25% of respondents agreed that South African users of e-services include citizens from abroad that are regarded as "resident".
- 43.75% of respondents agreed that South African users of e-services include citizens from neighbouring countries with work permits.

Suppliers of e-services:

- 53.13% of respondents agreed that suppliers of e-services will become discouraged to continue their trade with South Africans.
- 43.76% of respondents agreed that suppliers of e-services that earn more than R50 000 in annual revenue will not register for VAT.
- 43.75% of respondents agreed that suppliers of e-services that earn more than R50 000 in annual revenue will register for VAT.

Table 4. Summary of respondents' view of the feasibility of the *Taxation Laws Amendment Act No.31 of 2013*

Statement	Valid percentage					Mean	Std dev
	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree		
a) ... SARS is able to monitor relevant e-services transactions across the world.	15.63%	25.00%	21.88%	31.25%	6.25%	2.88	1.21
b) ... SARS is able to keep track on the revenue of non-registered suppliers of e-services.	18.75%	31.25%	21.88%	25.00%	3.13%	2.63	1.16
c) ... SARS will be able to timely collect money due from registered suppliers of e-services.	9.38%	15.63%	25.00%	37.50%	12.50%	3.28	1.17
d) ... suppliers of e-services will become discouraged to continue their trade with South Africans.	6.25%	15.63%	25.00%	46.88%	6.25%	3.31	1.03
e) ... suppliers of e-services that earn more than R50 000 in annual revenue will register for VAT.	6.25%	21.88%	28.13%	37.50%	6.25%	3.16	1.05
f) ... suppliers of e-services that earn more than R50 000 in annual revenue will not register for VAT.	-	37.50%	18.75%	34.38%	9.38%	3.16	1.05
g) ... South African users of e-services include citizens whom have a South African Identification Document.	-	9.38%	28.13%	50.00%	12.50%	3.66	0.83
h) ... South African users of e-services include citizens from neighbouring countries with work permits.	6.25%	12.50%	37.50%	37.50%	6.25%	3.25	0.98
i) ... South African users of e-services include citizens from abroad that are regarded as "resident".	3.13%	18.75%	21.88%	43.75%	12.50%	3.44	1.05

SARS:

- 50% of respondents agreed that SARS will be able to timely collect money due from registered suppliers of e-services.
- 37.5% of respondents agreed that SARS is able to monitor relevant e-services transactions across the world.
- 28.13% of respondents agreed that SARS is able to keep track on the revenue of non-registered suppliers of e-services.

As previously highlighted, the subjectivity of the *Taxation Laws Amendment Act No.31 of 2013* appears to be quite severe (see Table 4). When focus is placed on the results in Table 4, it is clear that respondents were in two minds as to whom the “users” of e-services refer to – additional evidence of the subjectivity of the relevant legislation. Moreover it is clear that respondents do not believe that SARS can “keep track” of all e-services taking place in South Africa and that the *Taxation Laws Amendment Act No.31 of 2013* will have an adverse influence on the relevant businesses of suppliers of e-services; ultimately the economic growth of South Africa.

To justify the aforementioned view surrounding the subjectivity of the *Taxation Laws Amendment Act No.31 of 2013*, respondents were asked about its clarity. Respondents were asked to rate a total of three statements through means of a five point likert-scale, starting with the sentence: “In my own expert opinion, based on the *Taxation Laws Amendment Act No. 31 of 2013*, specifically on the amendments made to Value Added Tax in terms of suppliers of e-services ...”. The five point likert-scale made provision for the following ratings: 1 = “strongly disagree”, 2 = “disagree”, 3 = “neither agree nor disagree”, 4 = “Agree”, and 5 = “Strongly agree”. A summary of the results are shown in Table 5.

Table 5. Summary of respondents’ view regarding the clarity of the *Taxation Laws Amendment Act No.31 of 2013*

Statement	Valid percentage					Mean	Std dev
	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree		
a) ... it is unambiguous.	3.13%	12.50%	53.13%	25.00%	6.25%	3.19	0.86
b) ... it is practical.	6.25%	18.75%	34.38%	37.5%	3.13%	3.13	0.98
c) ... it is easy to implement.	18.75%	28.13%	34.38%	18.75%	-	2.53	1.02

The results clearly justify the extensive subjectivity of the *Taxation Laws Amendment Act No.31 of 2013* as 31.25% of respondents regarded it as unambiguous, 40.63% of respondents regarded it as practical, and 18.75% of respondents agreed that it was easy to implement.

4.4. Perceived Influence of Amendments to the Value Added Tax Act No. 89 of 1991 on E-Service Rendering SMMEs

Notwithstanding the aforesaid, it was important to understand respondents’ perceptions regarding the overall influence of the *Taxation Laws Amendment Act No.31 of 2013* on suppliers of e-services, particularly SMMEs.

First, respondents were asked to provide a brief description of how they viewed e-service providing SMMEs. To do so, respondents had to rate a total of seven statements through means of a five point likert-scale, starting with the sentence: “In my own expert opinion ...”. The five point likert-scale made provision for the following ratings: 1 = “strongly disagree”, 2 = “disagree”, 3 = “neither agree nor disagree”, 4 = “Agree”, and 5 = “Strongly agree”. A summary of the results are shown in Table 6.

Table 6. Summary of respondents’ perceptions of e-service providing SMMEs

Statement	Valid percentage					Mean	Std dev
	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree		
a) ... there are more than 1 000 000 e-service rendering SMMEs in operation in South Africa.	6.25%	28.13%	28.13%	37.50%	-	2.97	0.97
b) ... there are less than 1 000 000 e- service rendering SMMEs in operation in South Africa.	3.13%	12.50%	46.88%	34.38%	3.13%	3.22	0.83
c) ... most e- service rendering SMMEs operating in South Africa have a website that is hosted on a server abroad	3.13%	25.00%	53.13%	12.50%	6.25%	2.94	0.88

d)... most e- service rendering SMMEs operating in South Africa are registered for Value Added Tax.	3.13%	40.63%	34.38%	18.75%	3.13%	2.78	0.91
e) ... most e- service rendering SMMEs operating in South Africa are not registered for Value Added Tax.	3.13%	21.88%	28.13%	31.25%	15.63%	3.34	1.1

From the results in Table 6 it is evident that respondents had different views surrounding e-service providing SMMEs. The only “concrete” view of respondents were that most e-service rendering SMMEs operating in South Africa were not registered for Value Added Tax (46.88% of respondents agreed).

Lastly, respondents were asked how they believe the *Taxation Laws Amendment Act No.31 of 2013*, particularly its amendment to the *Value Added Tax Act No. 89 of 1991*, would influence the overall economic sustainability of e-service providing SMMEs. As such, respondents had to rate a total of four statements through means of a five point likert-scale, starting with the sentence: “In my own expert opinion the amendments made to the *Value Added Tax Act No. 89 of 1991* through the *Taxation Laws Amendment Act No.31 of 2013* will have a negative influence on ...”. The five point likert-scales made provision for the following ratings: 1 = “strongly disagree”, 2 = “disagree”, 3 = “neither agree nor disagree”, 4 = “Agree”, and 5 = “Strongly agree”. A summary of the results are shown in Table 7.

Table 7. Summary of respondents’ views regarding the perceived influence of the *Taxation Laws Amendment Act No.31 of 2013* on the economic sustainability of e-service providing SMMEs

Statement	Valid percentage					Mean	Std dev
	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree		
a) ... the profitability of South African e-service providing SMMEs.	-	34.38%	34.38%	31.25%	-	2.97	0.82
b) ... the solvency of South African e-service providing SMMEs.	43.75%	34.38%	18.75%	3.13%	-	2.81	0.86
c) ... the efficiency of South African e-service providing SMMEs.	-	28.13%	40.63%	28.13%	3.13%	3.06	0.84
d) ... the existence of South African e-service providing SMMEs.		34.38%	18.75%	37.5%	9.38%	3.22	1.04

Based on the results in Table 7 above it is evident that respondents are undecided whether the amendments to the amendments made to the *Value Added Tax Act No. 89 of 1991* through the *Taxation Laws Amendment Act No.31 of 2013* will have a large influence on the economic sustainability of e-service providing SMMEs. Despite the fact that respondents did not agree nor disagree that the *Taxation Laws Amendment Act No.31 of 2013* will have an adverse influence on the profitability (2.97 mean-score) and the efficiency (3.06 mean-score) on e-service providing SMMEs, 46.88% of respondents agree that it the latter will have an adverse influence on the overall existence of these business entities.

5. Recommendations

Stemming from the above, it is strongly recommended that South African e-service providing SMMEs:

- Determine whether their supply of e-services, to South African residents, that are covered by the 2014 *Electronic Services Regulations*.
- Determine whether they need to register for VAT based on the *Taxation Laws Amendment Act No. 31 of 2013*.
- Evaluate the advantages and disadvantages of registering for VAT if their registration for VAT is optional.

All of the above can be done through the assistance of a qualified Tax Practitioner.

In addition, it is strongly recommended that South African policy makers take note of the potential influence of the *Taxation Laws Amendment Act No. 31 of 2013* as highlighted by Tax Practitioners in this research study. Not only should the latter *Act* be clarified to diminish ambiguity throughout, but the *Act* should also provide clear definitions of what an “e-service” is and what an “e-service provider” is.

Lastly, although VAT makes up a large portion of the South African government’s revenue, it is strongly recommended that the VAT rate is left unchanged (at 14%) – national government should ensure that it decreases its annual expenditure in order for it to be at a level that is lower than its annual revenue.

6. Conclusion

The aim of this research study was to provide a holistic perspective on the potential influence of VAT as levied on suppliers of e-services, mainly from a SMME viewpoint.

Based on the results and discussion above, it is evident that although respondents were experienced and knowledgeable in the field of Taxation (an average of 10.94 years’ worth), they had different views regarding the interpretation of the *Taxation Laws Amendment Act No.31 of 2013*, particularly due to the subjectivity of the latter *Act*. In fundamental nature, if legislation is too vague, its relevant objectives will be more idealistic than realistic. In addition to the aforementioned, more than 78% of respondents were aware of relevant legislation pertaining to *Taxation Laws Amendment Act No. 31 of 2013* (based on relevant mean scores) - hence it is fair to assume that most respondents are clued-up with the recent change in Taxation Laws. Ironically (and conversely), a total of 63% of respondents were unsure of the core amendments pertaining to the *Value Added Tax Act No. 89 of 1991*, through the *Taxation Laws Amendment Act, No. 31 of 2013*, in relation to the governing e-service transactions. Although respondents had average practical experience of close to 11 years, most of them regarded the amendments to the *Value Added Tax Act No. 89 of 1991* differently based on their own viewpoints.

Notwithstanding the above, stemming from the findings made, it is evident that respondents perceive that the amendments made to the *Value Added Tax Act No. 89 of 1991* (through the *Taxation Laws Amendment Act No. 31 of 2013*) will have a negative on the profitability of South African SMMEs (59% of respondents agreed), a negative influence on the solvency of South African SMMEs (56% of respondents agreed), a negative influence on the efficiency of South African SMMEs (61% of respondents agreed), as well as a negative influence on the existence of South African SMMEs (64% of respondents agreed).

From the findings made above, clear tangent planes emerge that the amendments made to the *Value Added Tax Act No. 89 of 1991* through the *Taxation Laws Amendment Act No. 31 of 2013* will have a definitive negative influence on South African SMMEs; particularly their existence, in the foreseeable future.

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The Integrated Crisis Management Model for the Hotel Industry: Lowering Crisis Susceptibility and Strengthening Stakeholder Relationship Management

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This research paper focuses on crisis management processes within the hotel industry – an industry which still seems reluctant in implementing profound and structured crisis management concepts. Responses to crisis situations are mostly intuitive and ad-hoc. In times of high competition in almost all destinations, categories and conceptions no opportunity of convincing guests as well as all other stakeholders of a trustworthy management shall be missed in order to gain competitive advantage. Each corporate crisis affects several or all stakeholder groups of the organisation – to a varying extent. Stakeholders might either affect or be affected by the hotel organisation and the respective crisis management processes. Taking the manifold opportunities for co-operation of a hotel organisation and its respective stakeholder groups into consideration, an integrated crisis management model for the hotel industry is evolved based both on theoretical foundations and empirical findings from the analysis of expert interviews as well as stakeholder surveys. The model neutralizes the deficits and discrepancies revealed between general crisis management literature and status quo respectively specific prerequisites for the hotel industry.

Keywords: Crisis Management, Stakeholder Relationship Management, Hotel Industry, Hotel Organisation

JEL Classification: M100

1. Introduction

Crises are an inevitable element of corporate life. According to Mitroff et al. “it is not a question of if or whether an organisation will experience a crisis; it is only a matter of what type of crisis will occur, what form it will take, an how and when it will happen.” (Mitroff, Pearson, and Harrington, 1996, p. 5) Structured crisis management may reduce the impact, duration and cost of a crisis.

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The hotel industry being part of the vast tourism industry is “particularly prone to external shocks beyond the control of its managers” (Evans and Elphick, 2005, p. 135). Extreme and sudden decline in demand is one of the probable impacts of these external shocks. Several authors have outlined that despite possible severe negative impacts by crises and disasters, proactive planning still appears to be minimal within the hotel industry. However, with rising turbulence in the global environment, strategic thinking in hotel management becomes increasingly important. Hotel management research needs to consider advanced strategic approaches in order to successfully address challenges and opportunities. The fundamental conception of this research within the framework of a doctoral thesis is to consider a strategic approach to crisis management within the hotel industry with a focus on stakeholder relationship management. In management research, the cognition that no sustainable management without considering internal and external stakeholders and their respective needs and demands is possible, gained general acceptance. However, the hotel industry still seems reluctant in implementing profound concepts in general and considering crisis management in particular. The model evolved is based on in-depth literature review and supplemented by an extensive empirical analysis of both pre-requisites and status quo as well as of perceptions and demands. Hence the crisis management model and its elements focus on stakeholder relationship reliability and cooperation, business continuity, lower crisis impact, faster crisis resolution and an increase in customer retention. Therefore, this research and development of a structured model goes far beyond generally applied crisis management tools such as e.g. having a basic crisis management manual on file. Crisis management as interpreted in this context must not be understood as an necessary evil in overcoming crises but as a chance to reconsider operational processes, establish and enhance stakeholder relationships and if nothing else to enrich marketing activities.

The practical importance of this research is given by closing a research gap with respect to a subject inevitable for each hotel organization – the handling of corporate crises. Both, literature review and empirical analysis of the status quo revealed this gap. Based on an industry-specific crisis classification scheme developed by the author, the integrated crisis management model for the hotel industry was evolved. Applying an underlying forms set for the individualisation of the integrated crisis management model for the hotel industry, the model and its guidelines may be individualised by hotels of all sizes and conceptions. Therefore, this research offers direct practical implication to the hotel industry by lowering crisis susceptibility and crisis impact on the one hand and strengthening stakeholder relationship management on the other hand.

2. Literature Review

2.1. Crisis Management

Still, no single, universally accepted definition of (organisational resp. corporate) crisis exists. In general, a crisis represents a “turning point”. (Faulkner, 2001) In Chinese ideographs „crisis“(wei-ji) represents danger as well as opportunity. Although the term “crisis” therefore implies negative as well as positive outcomes, most certainly no manager would ever argue for the strategic creation of crises in order to advance organisational goals as an effective form of management. (Coombs, 2010) Consequently, in common business, a crisis can be defined as an “undesired, extraordinary, often unexpected and timely limited process with ambivalent development possibilities” (Glaesser, 2006, p. 14). Fink considers a crisis as not necessarily being bad but as merely being characterized by a certain degree of risk and uncertainty. (Fink, 2002)

Taking several crisis classification approaches into consideration, a crisis typology focusing the hotel industry and its specifications was evolved. Based on various authors’ frameworks for crisis typologies, hypernyms for a source-based categorization in the hotel industry have been defined as displayed in table 1 (Mitroff, 2000; Henderson, 2005; Coombs, 2004; Richardson, 1994; Mitroff et al., 1996; Luecke, 2004).

Table 1. Crisis Typology Survey

Crisis Type	Major Impact Level
economic crisis	macro
environmental crisis	macro/micro
health crisis	macro/micro
informational/reputational crisis	micro
structural crisis	macro/micro
political crisis	macro
sociocultural crisis	macro/micro
technological crisis	macro/micro

Source: author’s construction based on Mitroff; Glaesser; Henderson; Coombs; Richardson; Mitroff, Pearson, and Harrington; Luecke

Following this source-based approach, only by determining the specific crisis type, causes and impacts may be treated immediately and effectively. However, a crisis may fall into one or more categories at the same time. The introduced crisis typology will serve as an underlying scheme for the subsequent theoretical and empirical analysis. Wherever applicable, the crisis types will be further splitted into micro and macro parameters. Commonly, a crisis is characterized by the following conditions:

- time constraint,
- limited information (both in quality and quantity),
- decision load constraint. (Cosgrave, 1996)

Therefore, resources in crisis management are limited and reaction time is valuable. The first step in case of revelation of any possible crisis situation (to be) is to consider whether the source (internal or external) which brings the crisis situation to the organisation's attention is powerful and/or credible. (Mitroff et al. 1996). In a next step, proactive and reactive response modes are balanced. The earlier signals of creeping crises are detected, the bigger the chance to neutralize them before growing and getting more expensive. (Luecke, 2004).

Generally acknowledged crisis management tools are the set-up of a crisis management team, crisis management plan, crisis management trainings as well as crisis communication.

2.2. Stakeholder Relationship Management

Pfeffer and Salancik claimed as early as in 1978 that "organisations survive to the extent that they are effective. Their effectiveness derives from the management of demands, particularly the demands of interest groups upon which the organisations depend for resources and support" (Freeman, 1984, p. 42). A modern stakeholder management approach can be interpreted as obtaining "optimal benefits for all identified stakeholder groups, without giving priority to one stakeholder's interests over another. Under this philosophy, the entire purpose of the firm becomes the co-ordination of stakeholder interests" (Sautter and Leisen, 1999, p. 314). Kotler claims that companies can no longer operate as self-contained, fully capable units without dedicated partners, but they are increasingly dependent on their employees, their suppliers, their distributors and dealers, and their advertising company. (Freeman et al., 2010). While in the traditional perspective a company is seen as an economic entity, the stakeholder view sees it as a network of relationships among the firm and its stakeholders. In consequence, the stakeholder view does not attribute competitive advantage solely to best adapting to the company's environment by taking advantage of strengths and opportunities and overcoming weaknesses and threats, but to a high degree to superior linkages to stakeholders leading to trust, goodwill, reduced uncertainty, improved business dealing, and ultimately higher firm performance (Enz 2010). Whereas managers still think first about what the organisation wants and needs to generate profit, true stakeholder engagement implies understanding of what stakeholders value and view as important (McEuen, 2011). Even before questioning if stakeholders are managed right, it should be questioned if the right stakeholders are managed. In 1963, the term "stakeholder" was introduced in an internal memorandum of the Stanford Research Institute (now SRI International, Inc.) (Freeman, 1984). In 1984, R. Edward Freeman published his landmark book "Strategic Management: A Stakeholder Approach" and defined a stakeholder as follows:

"A Stakeholder in an organisation is (by definition) any group or individual who can affect or is affected by the achievement of the organisation's objectives." (Freeman, 1984, p. 46)

"Stakeholders include employees, customers, suppliers, stockholders, banks, environmentalist, government and other groups who can help or hurt the corporation". (Freeman, 1984, p. vi).

2.3. Current Approaches of Corporate Crisis Management considering the Stakeholder Relationship Management Approach

There is hardly any crisis situation imaginable which would not affect any stakeholder. On the contrary, typically multiple stakeholder groups are affected and involved - to a varying extent. On the contrary, in crisis situations, the number of stakeholders might increase or at least the stakes intensify: "During a crisis, another group that may join the functional publics is the victims. Victims may have been customers prior to the crisis; however, when customers are harmed, they become victims." (Stephens, Malone, and Bailey, 2005, p. 395) From the stakeholder perspective, a crisis can be defined as an unpredictable event which threatens their expectancies and can seriously impact an organisation's performance and generate negative outcomes. In addition, a crisis can threaten an organisations' social legitimacy (the consistency between organisational and stakeholder values) as it violates stakeholder expectations of how an organisation should operate. Whereas an effective crisis management might result in a stronger organisation, "management by crises" would take a heavy toll on stakeholders. Provoking (physical, financial or psychological) harm to stakeholders is considered the most negative outcome in this context. The stakeholder perception is essential for defining a crisis situation.

In this regard, crisis management aims to prevent or lessen the negative outcomes and thereby protect the stakeholders. The effectiveness of crisis management is frequently rated by stakeholders upon highly visible crisis responses (Coombs, 2010). Especially in times of crises it seems not sufficient to consider shareholder interests. Depending on the nature of the crisis type one or more stakeholders may be especially affected and need specific attention. The salience (i.e. the degree to which managers give priority to competing stakeholder claims') of affected stakeholders may change dramatically during a crisis. Even if impossible for all imaginable crisis situations, managers should nevertheless simulate potential alterations of individual stakeholder saliences. (Alpaslan et al., 2009) As stakeholders have (by definition) a stake in the company, this company has at least a moral commitment to the inclusion of stakeholders into the crisis management process.

Conclusively, literature review reveals that both – corporate crisis management and stakeholder management – are surely promising managerial concepts but only if conducted strategically. This implies profound preparatory work, time and workforce dedication, regular training, control and enhancement and last but not least fierce support by the organisations' leaders. E.g. corporate crises might only be overcome with as little impact as possible by considering various imaginable source-based scenarios even before the occurrence of the concrete crisis situation. The various crisis management phases and the respective crisis management tools have to be considered carefully. From the stakeholder relationship management point of view, a tailor-made stakeholder map corresponding to the organisations' specifics has to be drawn and the stakeholders' power, influence and urgency evaluated.

3. Research Premises

The hints given as well by the literature as by the fact of the hotel industry being part of the service industry on the one hand and the tourism industry on the other hand lead to the justification of adding the stakeholder relationship aspect to the model. As not all stakeholders and their respective perceptions and demands can be analysed by an empirical data analysis, the three decisive stakeholder groups (internal hotel stakeholders, hotel guests and Destination Management Organisations (DMOs)) will be analysed *ceteris paribus*. Furthermore, it became obvious that while the application of both management approaches - corporate crisis management and stakeholder relationship management – is more than justifiable due to the industry specifics the majority of organisations seem to apply them more intuitively than strategically if they apply them at all. In relation to stakeholder relationship management many of them apply the approach without naming it explicitly. One reason for this non-professional application of both approaches may be found in the fact that the typical hotel organisation is attributed to SMEs. Within SMEs limited resources such as time and workforce have to be allocated to daily operational processes instead of strategic planning. These facts may be seen as a clear indication for the need of a general model which can be applied to the individual hotel organisation without great effort and profound academic knowledge.

4. Research Methodology

In order to determine the status quo of crisis management within the hotel industry, 18 semi-structured expert interviews (within the hotel industry as well as in related industries) were conducted in Germany, Austria and Italy within the time frame June to November 2013. An expert is defined by the existence of at least one of the following criteria:

- professional education and qualification related to crisis management,
- position within the organisation,
- long-time active crisis management experience.

All expert interviews were conducted either per mail, phone or personally. An introduction of the research topic was followed by structured and open questions and finalized by enquiring personal and company key data.

Simultaneously, three essential stakeholder groups were surveyed *ceteris paribus* within the time frame October 2013 to January 2014. Internal stakeholders as well as hotel guests represent the two fundamental stakeholder groups without whom hotel business would be non-existent. Destination Management Organisations (DMOs) represent a further major stakeholder group as they are marketing partner and regional crisis coordinator on the one hand and contact point to media, government, local community, suppliers, distribution partners, etc. on the other hand. The semi-structured questionnaire used consisted of an introduction to the research topic, structured questions based on comparable questions applying a 5-point-Likert-scale as well as of multiple choice questions and an enquiry of personal and company key data. Questions 1 to 8 and 10 were identical in order to achieve comparability of the answers. Question 9 as well as

the personal and company key data were slightly adapted to the specific conditions of the stakeholder groups. The following numbers of questionnaires filled in were obtained:

- 81 hotel management students in a dual university programme in the perspective of internal stakeholders;
- 70 hotel guests;
- 84 DMOs.

All empirical data were analysed by content analysis and statistical evaluation – supported by SPSS. Wherever applicable, quantitative analysis of both quantitative and qualitative data was realized. The Shapiro-Wilk-Test of all metric-scale-questions of the survey results for all three stakeholder groups revealed that no normal distribution can be assumed. Therefore – where applicable - non-parametric tests were applied. Hereinafter, an overview of the evaluation methods applied:

- content analysis – catchwords in the answers to open questions of expert interviews and questionnaires are evaluated and summarized,
- expert interview content certification scheme in order to evaluate the status quo of applied crisis management tools based on expert interviews,
- descriptive statistics via SPSS – fundamental data analysis of the data retrieved from the individual questions within expert interviews and questionnaires,
- weighted rankings – qualitative data retrieved from expert interviews and questionnaires is quantitatively analysed,
- cross tab and correlation analysis via SPSS – investigation on the influence of stakeholder characteristics on the answers to decisive questions,
- Kruskal-Wallis-test via SPSS – a non-parametrical test to analyse the homogeneity of stakeholder groups surveyed.

5. Analysis and Results

The empirical findings reveal that majority of hotel organisations invent a structured crisis management process only after having experienced a crisis situation. Therefore, the additional value for hotels inventing the model needs to be higher than the perceived cost and effort. Furthermore, the crisis awareness and crisis preparedness as generally rated by the stakeholder groups and experts surveyed may be subject to improvement. However, the results for internal stakeholders are the worst. This might either imply inadequate crisis management processes in place or the need of an image campaign which brings the crisis management process in place to light.

Chain hotels are perceived handling crisis situations better throughout expert and all stakeholder groups. Therefore, especially privately-owned hotels need to take advantage of a structured crisis management in place and by this take advantage of standards. E.g. regular crisis management trainings are suggested throughout experts and all stakeholder groups as most effective crisis management tool. They should be conducted based on a fixed scheme and maybe even communicated to external stakeholders.

Crisis communication is rated as an essential part within a strategic crisis management process. However, communication means and messages need to be adapted to the specific demands of the respective stakeholder groups. The results reveal as well that there exists a discrepancy in the perception of experts towards preferred crisis communication means and the actually preferred means.

Trust – either defined as enhanced guest and employee satisfaction or long-term business relationship may be achieved by inventing and applying a safety certificate. This certificate has to ensure applied crisis management standards on the one hand and may be used as a marketing tool on the other hand.

All stakeholder groups are convinced that active stakeholder engagement might possibly reduce crisis impact – the conviction is especially high for the post-crisis (= learning) stage. In particular, internal stakeholders need to be actively involved.

The calculated cross tabs and correlations reveal that for all stakeholder groups, personal traits have no significant influence on the answers.

Based both on theoretical foundations (a generally accepted fundamental crisis management process in particular) as well as on the prerequisites and underlying conditions revealed by empirical analysis the integrated crisis management model for the hotel industry was evolved. Within the display of the integrated crisis management model for the hotel industry in fig. 1, the icon representing the stakeholder map symbolizes a promising opportunity of co-operation with one or several stakeholder groups.

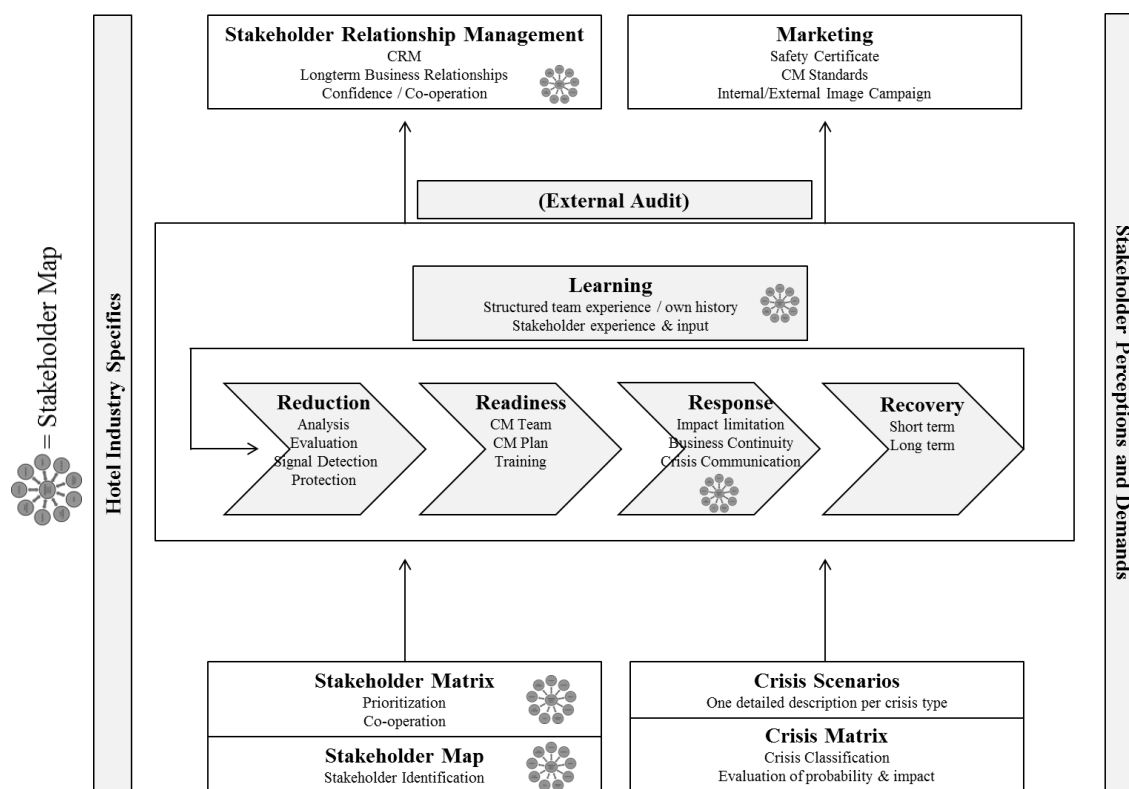


Figure 1. Integrated Crisis Management Model for the Hotel Industry
Source: author's construction based on theoretical foundations and empirical findings

Besides the smooth resolution of crises and reduction of crisis impacts, the model has two major objectives as revealed by the content analysis of the qualitative research parts:

- development of a crisis management model which serves as a tool to enhance guest and employee satisfaction,
- development of a crisis management model which serves as a tool to enhance long-term business relationships with other external stakeholders.

6. Discussion, Main Conclusions, Main Suggestions and Recommendations

6.1. Discussion

By introducing the integrated crisis management model for the hotel industry, a theoretical framework is complemented by practical applications. The model hereby neutralizes the deficits and discrepancies revealed between general crisis management literature and status quo - respectively specific prerequisites for the hotel industry. Hereinafter, a number of summarizing major recommendations on how to apply the integrated crisis management model for the hotel industry is given:

- An underlying forms set for the individualisation of the integrated crisis management model for the hotel industry summarizing the configuration of the modules "stakeholder map", "stakeholder matrix", "crisis matrix" and "crisis scenarios" also evolved by the author allows an individualization of the general model to the specific prerequisites of a hotel organisation.
- The application of the model has to be understood as a continuous process instead of the accomplishment of a once-only task.
- Crisis management efforts have to be implemented into the organisational culture of the hotel organisation.
- The department heads have to take a vanguard role in implementing the individual modules of the model.
- Crisis management has to be considered a management tool instead of a necessary evil.

6.2. Main Conclusions

- 1) Modern media coverage does not allow any preparation time with respect to crisis communication any more. Unprofessional crisis communication might even enhance the crisis impact or add a reputational crisis. Furthermore, crisis communication regarding communication means and content need to be adapted for internal and external addressees or respective stakeholder groups. Generally, personal communication is preferred by all stakeholder groups surveyed.
- 2) Chain hotels are generally perceived to handle crisis situations better. The empirical research revealed that this is true to a certain extent. Nevertheless, some chain hotels have even less crisis management tools in place than the average privately-owned hotel. On the other hand, some privately-owned hotels have by far more crisis management tools in place than the average chain hotel. This finding pleads for industry-wide standards which ensure safety and security for employees, guests and all other stakeholders no matter if collaborating with a privately-owned or a chain hotel.
- 3) Besides these general conclusions, the analysis of empirical data revealed clear support of the main hypothesis of this doctoral thesis: “Crisis management as generally applied within the hotel industry at present is insufficient”. Generally, the perceived crisis awareness and crisis preparedness are in need of improvement. If a structured crisis management process is in place, a sensitive (focus honest interest instead of pure marketing; possible division into internal and external stakeholders) image campaign might enhance the perception. The conduct of management trainings followed by the existence of a detailed crisis management/contingency plan were rated the two most effective crisis management tools. These ratings contradict generally applied ad-hoc decisions. In addition, all stakeholder groups surveyed were convinced of active stakeholder engagement helping to reduce crisis impact in all crisis stages. At the same time, no crisis type was on average considered being “not at all” or “rather not” regarding both probability and impact level – another clear indicator for the need of an advanced and structured crisis management model which may lower probability and impact more efficiently than ad-hoc decisions.
- 4) The stakeholder groups’ characteristics do not correlate with the survey answers. This statement expresses the partly tentative support of the first hypothesis-based proposition which assumes homogeneity of stakeholder perceptions and demands towards crisis management within the hotel. Personal traits seem to have no significant influence on the answers of the survey questions. A light non-homogeneity was only indicated for the variables “perceived crisis awareness” and “perceived crisis preparedness” through the application of the Kruskal-Wallis-Test.
- 5) By emphasizing crisis awareness (analysis, evaluation, signal detection, protection) the second hypothesis-based proposition “The application of the reduction phase may avoid crisis-induced impact” is tentatively supported.
- 6) Crisis management trainings are perceived by experts and all stakeholder groups surveyed as most effective crisis management tool. Trainings need to be conducted on a regular basis, training methods need to be applied according to the training subject or scenario and participants might be additionally motivated by issuing participation certificates. Together with setting up a crisis management team and a crisis management plan, the third hypothesis-based proposition “the application of the readiness phase may avoid or reduce crisis induced impact” is tentatively supported.
- 7) As the integrated crisis management model for the hotel industry is based on the premises of effective crisis communication and business continuity, the fourth hypothesis-based proposition “The application of the response phase may reduce crisis-induced impact” is also tentatively supported.
- 8) Both by ensuring business continuity and setting an officially announced final point to the crisis situation, crisis-induced impact may be overcome faster and more fluently. Therefore, the fifth hypothesis-based proposition is tentatively supported.
- 9) The crisis learning process is essential for updating and elaborating the crisis management process and therefore has to be structured. Empirical research revealed that all stakeholder groups are convinced of possible impact reduction of crises by active stakeholder engagement – especially for the post-crisis (= learning) phase. This tentatively supports the sixth

hypothesis-based proposition “The application of the learning phase may avoid or reduce further crisis-induced impact”.

- 10) The behaviour which is most associated trust in hotel organisations is two-minded: While internal stakeholders and hotel guests ranked “guest satisfaction” highest, the DMOs’ ranking “long-term business” points out to a different relationship quality. A safety certificate – which so far does not exist – is considered the most effective crisis management tool in increasing trust throughout all stakeholder groups surveyed. This possible safety certificate would also support the approach to standardize crisis management processes in order to enhance the perception of the handling of crisis situations by privately-owned hotels. By emphasizing the marketing aspect in general and the launch of a safety certificate in specific, the last hypothesis-based proposition “The application of the integrated crisis management model for the hotel industry may generate trust” is tentatively supported.
- 11) Essential for establishing a structured crisis management process are two preparatory work steps: First, identifying and prioritizing the organisation’s stakeholder groups and second, evaluating the introduced crisis types for the own organisation considering probability and impact, supplemented by the elaboration of one detailed crisis scenario per crisis type. Conclusively, the active involvement of internal stakeholders into brainstorming and making use of their broad variety of crisis experience seems a promising first step in establishing a structured crisis management process. In a second step, additional stakeholder groups may successfully be included. Their experiences in diverse fields may enrich the crisis learning phase.

6.3. Main Suggestions and Recommendations

6.3.1. Suggestions for Hotel Managers

- 1) Hotel organisations should conceptually prepare more crisis situations apart from the generally associated crisis situations “fire” and “economic crisis”.
- 2) The hotel organisation’s general management must not see the stakeholder relationship management approach to crisis management as a once only tactic but has to implement it as a paradigm shift.
- 3) The hotel organisation needs to identify all crucial stakeholders and draw a stakeholder map focusing on the tourism context. Both formal and informal agreements have to be considered. Networks and co-operations have to be established before and tightened in a crisis situation. It is too late to establish them in a crisis situation.
- 4) The crisis management team of hotel organisations should conduct a pre-crisis audit including interviews with both internal and external stakeholders in order to determine the crisis preparedness of an organisation.
- 5) The crisis management team of hotel organisations should apply the “underlying forms set for the individualisation of the integrated crisis management model for the hotel industry” as a foundation for setting up a structured crisis management process.
- 6) The crisis management team of hotel organisations needs to update the crisis management plans resp. contingency plans regularly, at least at the moment of changing contact information such as mobile numbers of department heads or doctors nearby or in the course of a post-crisis learning phase.
- 7) It seems advisable that the crisis management team of hotel organisations prepares a detailed crisis scenario for each crisis type defined for testing the crisis management plan. Best case and worst case scenarios should be implemented.
- 8) “Training” should include general training, table-top exercises, workshops and real time and live simulations including flexible elements with the aim to test the organisation, communications and the teamwork of those concerned and the ability of individual actions. Trainings within hotel organisations need to be set up and executed under the supervision of the crisis management team of hotel organisations.
- 9) The crisis management team of hotel organisations should implement crisis management audits and training into business activity plans and reiterate them on a regular basis. External audits may be even more promising due to their neutrality. These external audits may be conducted by specialized crisis management consultants in order of the crisis management team of hotel organisations.

- 10) The learning process of the a hotel organisation's own crisis history has to be extended by the learnings from the stakeholders' crisis histories and documented in the corresponding updated versions of the hotel organisation's crisis management plan.
- 11) "Safety or security management" might be a better term than "crisis management" for hotel organisations to use in external communication in order not to enhance fear and bad assumptions. (Zech, 2013)

6.3.2. Recommendations for Future Research

- 1) The set-up of scenario-based interviews in order to test model is recommended. The model can't be tested in reality as no crisis situation may be evoked artificially nor can a naturally evoked crisis situation be handled both ways applying and non-applying the model at the same time. But, by conducting scenario-based interviews a crisis situation may be simulated applying the model and afterwards be evaluated by one or several experts.
- 2) One specific limitation which seems advisable to be neutralized in a potential future research is the limitation to "hotel industry". It seems promising to widen the research to the "hospitality industry" as by doing so a multiple focus might be reached.
- 3) At this moment, the model is purely operationally focused. In a possible next step the financial aspect may be added. By doing so, the managerial relevance of applying the model might even be enhanced.
- 4) The development of a professional and standardized safety certificate focusing on crisis management processes within the hotel industry seems promising as this represents the most encouraging crisis management tool in order to increase stakeholder trust in a hotel organisation on the one hand and ensure standardized processes (e.g. enable minimising the perceived disadvantage of the handling of crisis of privately-owned hotels towards chain hotels) on the other hand.

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Importance of Strategic Management in Business

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Today, we see a busy and fast period of change in all area of our life. This process consistently changes especially the management domain and forces business managers to be ready to change at any moment. Change has become so fast all around the world and it has turned into a multidimensional concept. The period of change in which we live in an interactive and fast way in political, social, cultural and economic areas brings up different processes such as quick start, quick decision making, bringing more dynamics and flexibility structure to management. In this context, the main idea of our study is based on that businesses should manage the process of change by using strategies. Businesses which understand clearly what strategy is and design their future plans based on those strategies are going to be more successful than their competitors in the environments seen fierce competition and fast change. In our study formed around this basic thesis, first we will make a conceptual analysis related to strategies, then refer to the importance of strategic management and we will examine strategic management contributions to businesses and finally, we will mention the importance of connection between strategy and culture of an organization to be enable more success in the strategic management process.

Keywords: Strategy, Strategic Management, Strategist, Culture of Organization, Productivity

JEL Classification: M10, M19

1. Introduction

In recent years, all around the world fierce competition has emerged because of some concepts such as globalization, fast technological changes, new consisted markets and changing customer expectancies and the competition has become more and more overwhelming. So businesses are forced to think strategically and making decisions by using strategic planning more.

Indeed, while strategic management was known and used in private sectors, some transnational companies, big companies and holdings in the 1980s, today many businesses use it as a means of achieving their objectives (Aktan, 2007, p.1).

Today, the main goal of businesses is developing strategy and techniques which present the best service and production in a most productive and effective way and so it is aimed to reach goals and aims in an

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optimal and productive manner. That is possible with having a long-term mission to be able to adapt their business in the rapidly changing world. So, they need to identify necessary strategies and transfer them into practice (Güçlü, 2003, p.62).

By common consent, businesses should identify their aims and goals and the possible strategies which can achieve success in today's fierce competition environment. This process should be realized with a prudential and longtime perspective. That part includes preparation of long-termed aims, goals and priorities of strategic management operating budget, making resource allocation according to these priorities and, in the end, accountability (Mediha Yalcin, 2015). In this sense, strategic management is a prudential effort. The manner in which is perceived in the future is mentioned with vision and prudential efforts are objectified with the mission. Besides being aware of opportunities and threats which can come from the outside, businesses should be aware of their potential or their weaknesses, as well (Güner, 2004, p.42).

2. Management with Strategies

Nowadays, the aim of strategies, in terms of businesses, is identified as providing intended results for the institution in the uncertainty atmosphere because strategy provides an opportunity for the business to be opportunist according to its aim (Helvacı, 2005, p.169). Being opportunist provides an advantage for the businesses in a fierce competition environment.

On this note, the strategy is about sustained choices. Plans which carry out strategic thinking in practice, involve extent, aim, sources and period of control in the business. It shows formulation of aim, goals, and tools to be used systemically (Okur, 2007, p.74). This close link between strategy and plan causes the proliferation of strategic manners of rule in today's modern management practices.

The 'strategy' concept in management which involves foreseeing the future by planning through prudential, long-termed periods is starting to be discussed frequently in business management literature. As a result of following management practices with strategies, businesses have started a systematic preparation for the future (Akçakaya, 2003, p.235). This situation paves the way for coming into prominence of strategy concept all around the world, especially for multinational businesses.

2.1 Conceptual Analyses

The lexical meaning of strategy shows that, in the long term, an effect predicted decision which is on the aim realization ability of a business or fullest extent of decisions (NND Dictionary, 2016). The concept is military sourced. Having its foundations in military practices, strategy implies the use of armament actions that are going to reach to determined goals identified by decision makers. If it is necessary, it will direct military, political, economic and moral powers in a coherence.

Forming a strategy is the responsibility of top management of business. However, after the strategy has been formed, in every step of the prepared plan, a manager who is related that part is responsible. It is the subject that each manager according to his authority makes a range of tactic decisions about the implementation of the plan (Bozkurt and Ergun, 1998, p.226).

In the content of the strategy concept, there are long termed thinking, good perception of the environment and well identification of the target. Accordingly, when it is said strategy, it is mentioned as the aim and goals which have clear vision, prudential and planned ways and techniques. Strategy word transferred by French to Turkish does not have the exact equivalent in Turkish. This concept that has started to be used in social sciences after the 1970s means sending, directing, transmission and guiding (Güçlü, 2003, p.66). In other words, it means the determination of ways to reach quantitative goals which are stated with numbers in anticipated time (Garih, 2005, p.85).

The etymological origin of the 'strategy' word comes from Ancient Greek. It is constituted with the combination of "stratos" (army) and "ago" (administer, direct) words (Akdoğan, 2007, p.449). Some writers state that that the word is etymologically derived from Latin "stratum". In Latin "stratum" means "way, line, river bed". The lexical meaning of strategy can be identified as "building action association and regulation art to attain an aim" (Aktan, 2007, p.1).

Indeed, strategy is a military oriented concept used to mean an aim of gaining a battle or a conflict in a war. However, today we use this concept in every area of our life. It means ways and techniques which are going to be used for achieving an identified aim or goal by using human and non-human all tools (Çevik, 2001, p.310). The main research topics of strategic management are forming a strategy, determining the best strategy among other options, more strong and effective strategies implementation towards to opponent strategies in the competitive markets (Aktan, 2005, p.97).

Even in the smallest of businesses, determination of policies is created by the one who knows or guesses all the opportunities and conjuncture of a particular market. In business, primary strategies and strategist are needed to make real policies that have the characteristics of aim. Strategies, by gathering available numeral opportunities, produce strategies which are going to realize those policies. In that process, if businesses act based on top manager or under the presidency of top manager a business executive committee rather than board directors, their prospects are going to be high (Garih, 2005, p.84).

In the content of the strategy concept, there are long termed thinking, good perception of the environment and well identification of the target. Accordingly, when strategy is stated, it is also mentioned the aims and goals which have a clear vision, prudential and planned ways and techniques (Çevik, 2001, p.310).

The strategy concept can be thought as showing action by the senior executive to achieve his own or businesses' aims in a competition environment. Also, it is pointed out that today the important thing is not the strategy but the using strategy concept. It is emphasized that a business may have multiple strategies. Entities which constitute that business may have different strategies even some entities' strategies conflict with each other (Tortop and İsbirvd, 2007, p.231).

The strategy concept as well as being a current concept in the defense area, it has been used in management for a very long time. Strategy in management science shows the ways of reaching the goals of the businesses. Especially in management science, business strategies towards their competitor cause to rise first strategic planning and then a discipline called strategic management (Aktan, 2007, p.1).

A strategic approach is determining and identifying aims and goals, developing a strategic plan of action which is going to be an intermediary between business and its environment and it is going to be best and finally creating effective techniques for implementation of that plan (Çevik, 2001, p.313). In this sense, to reach the determined goals, strategy consists of primary aims, goals or purposes, important policies, and plans.

Strategy in business management is the fullest extent of clarifying the confusion that occurs among the different functions of the business, regulating determined characteristics of general aims and selective decisions about reaching to optimum in an economic environment. These selections guarantee existing and developing of the business such as a living being (Çınar, 2010, p.1).

With the purpose of meeting expectations of risk bearers, strategy can be identified as an adaptation activity to activity area, environment, and resources. It is possible to categorize strategy such as designed, offered, and expected by the manager, prudential fictionalized strategies and actualized distinguished strategies. Fictionalized strategies consist of aims, policies, and plans that can be separate as overall and narrow-scoped. Distinguished strategies, on the contrary, fictionalized strategies, base the past because fictionalized strategies do not come true always as it is fictionalized. Managers have to make changes according to conditions on construct (Yüzbaşıoğlu, 2008, p.388).

Another important strategist, namely Chandler, identifies strategy as preparing suitable operation programs by identifying long-termed aim and goals and allocating necessary sources to make real these aims. Besides that, the strategy can be thought as business aims and changes in these aims, sources which are going to be used to make real those, identifying characteristics of these sources deciding about distribution and use policies (Güçlü, 2003, p. 66). Here, it is meant that before making a decision, it is important to select the most appropriate option among multiple options for solving a problem and making the aim of the business real (Aytürk, 2007, p.2005). Businesses are going to try to select from among multiple options the most appropriate one and transfer that one to practice. In this way, this technique will make a great contribution to their overall performance.

2.2. Strategies and Strategic Management

Before further exploration, it is worth mentioning that strategy is a planning process that interacts with the competitive environment to achieve organizational aims. The plans, which are the primary component of that process, are generally formal, clear and long termed tools which affect how the business is going to act in its environment (Arslan, 2001/b, p.189).

Strategic management which is directly linked to the functionality of those plans is a management technique which enables the determination of prudential aims and goals and identifying a necessary process to achieve those proposed goals (Güçlü, 2003, p.66). Here, the most general, broad and the most extensive aims are produced with the help of vision. A future photograph of the business is described to state the necessary tools and sources for making intended aims real (Karaman, 2005, p.22).

Key facts of strategic management strategies include the plan of making actions, methods, tactics, vision and aims real on the way of actions to be taken. Strategies in businesses aim the realization of acquired, transferred and used learning in actions in optimum level (Argon and Eren, 2004, p.203).

In this context, it is suggested to managers that they should group strategic problems and management problems in different categories. Absolutely, managers should identify whether problems derive from a strategic decision or management decision in all processes. Accordingly, strategic actions should be thought as long termed investments (Matheson and Matheson, 1999, p.53). Hence, actions should be carrying out long termed strategic foresight.

Strategic management is a management technique which enables identifying prudential aims and goals in businesses, whether this businesses are private, public and nonprofit third sector, and determining the necessary processes to achieving these goals. In this context vision means prudential feasible aim and goals (Stratejik Yönetim, 2015).

In other words, vision is the intended future picture of the business. The mission is the statement of goal oriented duty and stability which is intended to be reached in future. For the business, it is the answer of "Why do we exist?" (Dinçer and Fidan, 1996, p.24). Strategic management makes the future planning of the business by using both of these concepts as well.

Fundamentally, we can say that strategic management is a management practice which represents the special work field of top managers. Considering this aspect, we are analyzing the internal and external environment, according to these analyzes identify organizational aspect with long termed perspective, for achieving stated aims we formulate necessary works and techniques. It is a technique that we evaluate the application and to what extent realization of strategies called projects, attitude, and actions (Güner, 2004, p.42).

From this aspect, strategic management guided businesses, such as a compass which shows the way to lost ships in the storm and at the rate of its' success, its' importance has increased day by day.

2.3 Increasing Importance of Strategic Management

A business that does not have strategy that cannot see the future and this business does not have a direction. Daily, routine works cannot create an appropriate and harmonious goal. The strategy is used for creating an aim with focus, accord and harmony by developing guidance plans, models, positions and perspectives for strategic action (Çevik, 2001, p.309).

Nowadays, organizational structures of businesses change are based on identified strategies. The business structure should make a flexible action which responses quickly external changes with team works and innovator sources possible. The duty environment of a business is identified as an industry in which it carries on their activities. Social environment does not affect business' activities in short time. It includes long termed, effective powers that have the general structure (Çınar, 2010, p.1).

The development of organizational structures and tendency to business which use demand-oriented production come up to after the Second World War. Newman firstly revealed the importance and the nature of strategy in 1951. These phases continue with the generalization of overall performance models identified by researchers. Today's strategy aim, theory and instruments are finalized by these studies. In the 1980s, the subject being talked about has become focusing from planning to strategic planning. In that period, to be able to get competitive advantage of aims by identifying and guessing occasions, Porter lead to the development of extensive concept and techniques (Blogcu.com, 2006).

In this direction, conducted studies enable to development of strategy instruments. Researchers discussed that there may be a gap between confessed and targeted strategy in the 1970s and 1980s. They emphasized that different strategy processes can be seen in different businesses and so developing strategy cannot be seen as an easy mechanism design. Rapid change, raising competitive environment, high uncertainty degree have created a necessity for dynamic strategy development and consistently conformance to that change (Çınar, 2010, p.3). Directly, this necessity has increased the importance of strategic management for businesses.

2.4. Strategic Management Contributions to Businesses

Generally, strategic management has the ability to use information technology in geographical, cultural and organizational boundaries. They rely on transferring data into informatics, informatics to information and information to action in their customer help abilities. They also have the ability to present informatics service and products to people by agglomerative and privately (Hamel and Prahalad; 1999, p.55).

In that process, strategic thinking ability requires looking facts, problems, environmental changes in a different level and responding them. When it is assumed that there is a relation between decision makers' alternative thinking levels and their respond styles, it can be claimed that strategic thinking requires dealing with events, problems and changes in a standard and manner (Barca, 2002(a), p.9).

Conventionally, strategists see the businesses as a black box and perceive as a structure that wants to adapt developments on their constitutions by evaluating new opportunities in the market. That classic view

necessitates realizing the market power such as strategic works and competition factors while developing a strategy model (Morr, 2005, p.147).

Strategy paves the way showing decisions that are going to be effect long term performance and policy. In this sense, strategy is under the internal and external conditions regularly vision updating. Also strategy, to achieve the high level and the most productive organizational performance, is the fullest extent of decisions and policies that their responsibilities are taken by managers (Barca and Ozcan, 2012).

Within that period, strategic management, which is going to be applied, permanently provides the arrangement of three different points which are undertaken by upper layer managers, related and shows continuity. Those are top management values, environment, and sources. Strategic management especially emphasizes the necessity of making use of and following environmental opportunities carefully and examining opportunities and threats that arise from powerful and weak points of organization (Bayraktaroğlu, 2002, pp.49-50).

2.5. The Relationship between Strategy and Business Culture

There are so many definitions of strategy. For example, it is for finding a way to win and search for new rules of the game; it is manner of action which tries to make aims of the business real in fierce competitive environment; it enlightens confusion that occurs among different functions of the business and finally, it is the fullest extent of selective decisions which determine general regulation features (Güçlü, 2003, p.66).

Strategic management means the change and change have to correspond with business culture. If the necessary support is not provided during the transfer from old to new, the power of the business culture checkmates the change. Culture is the power which connects the business. Before the change started by top management expands the business, it is filtered by cultural elements. No permeable culture blocks all changes and causes to tension in the business. And this causes energy loss and feeling some bad things.

Organizational strategies which are compatible with business culture help to develop an understanding with some principles such as developing long termed forward policies, being powerful, unite forces, providing aim and tool suitability, the realization of efficient usage of powers, being flexible and cautious. Management strategies are intended to being alert on the economically and social and administratively in a competitive environment and businesses comply with the environment by observing (Bircan, 2002, p.14).

In operations, the correlation between strategy and culture of organization are made real be the mission that is a broader concept than strategy. In a powerful mission, culture and strategy have to mesh together. Otherwise, power and effectiveness of mission may decrease (Karaman, 2005, p.43). Businesses which specify their missions and effectively support their missions with their organizational culture and strategies and they become more successful than their opponents.

In management literature, researchers about strategy generally concentrate on strategy and its content. The content of the strategy concentrates on how the businesses compete in which markets. Strategy process is about applied steps and mechanisms while the strategy is defined (Arslan, 2001(a), p.42).

In that manner, identified organization strategies provide adaptability to environment and accordingly long termed viability. Before anything else, it enables evaluating the environment and guessing the future. These strategies give a self-assessment chance to the business. They organize stability and tending to the common goal as a whole. These strategies refer to organizational actions to a specific direction and present a form for the rules and consequently they improve the quality of the management (Ayriçin. and Dinçer, 1998, p.27-30).

It is possible with self-abilities, intellectual capital and organizational culture of the businesses to be able to successful in strategic management level. While organizational culture means key values, standards, norms, beliefs and understandings shared by business members, strategic management requires differentiation, a division of labor and specialization. However, if because of their positions divergent department and people tend to a common purpose; this situation makes accord and coordination more difficult. It is possible to manage according to strategic aims with delegation within the frame of different people's superior-subordinate relationships in terms of education, culture and mentality (Ballioglu, 2012).

Nowadays, effective management of intellectual capital takes the form of imposing a related duty to people, delegate to people. This harmony is provided with managers' delegation to their assets and co-workers (Rodoplu, 2002, p.256). Businesses which can provide these characteristics have accelerated and provided optimization in their executive process.

Nowadays, all businesses consider the quality, productivity, effectiveness and performance as their basic targets for their goods and services. To be able to achieve this, they adopt new understandings and put them into practice.

3. Conclusion

As discussed in the study in a detailed way, a new management concept called strategic management has emerged throughout the world in the recent 20 years, and it has made enormous strides. According to this new paradigm, the success of the organizations originates from the strategic approach towards the management (Barca, 2002(b), p.9). Organizations which base upon the strategic management throughout the whole process can make logical decisions, and, in this way, they can gain an advantage in a fierce competition environment.

Strategic management and similar methods, which have been recently developed especially within the private sector, have begun to be applied by the enterprises in the public sector over time. Strategic management is probably the most important of all. As we dealt with in our study in detail, organizations aim to create a vision by developing long-term strategies with the strategic management concept. Therefore, deciding how to implement strategic plans best and requirements to achieve the goals is the subject of the strategic management.

By determining a strategy, organizations also determine a way in accordance with the change in the evolution era, and they also decide new goals within this way. Having examined in this regard, organizations which do not have any strategy cannot be sure of their future because their future is not preplanned and stays unclear. In such a case, it will naturally result in failure.

Organizations without a strategy cannot use their resources effectively and efficiently because they cannot make a strategic analysis that will enable an effective use of financial and human resources. Strategic management provides the organization an opportunity to make a strategic analysis because it contains adaptation, intuition, and creating change both in the organization and in the environment. Strategic management not only enables organizations to effectively compete in a competitive environment but it also helps them make sense of the future.

The aim of strategic management is to enable the adaptation of organizations to environmental conditions that gradually gain more variable features. The target of strategic management is to think organizations with the variables and to make the administrative decisions the potential environmental changes. The important thing within the strategic management is not repeating the successes in the past but coping with unexpected situations and environmental problems (Güçlü, 2003, p.82). When these are provided, organizations can gain institutional stability in obtaining future-oriented success.

The key term of the strategic management is the future. This may not be a visible and known future. Strategic management is used to look at and plan the future. Then, organizations set their way in an invisible and unknown future. The second key concept is the environment. Organizations get their resources from the environment and give them back to the environment after having the resources go through a process. The environment gives us clues about how organizations have formed themselves (Özgür, 2004, p.211). That is why environmental analyzes have such a great importance in the strategic management process.

Strategic management has five fundamental processes, which we have discussed in detail in this study. The way of the organization is determined throughout these processes, and mission, vision, management philosophy, values, senior managers, and current goals of the organization are analyzed. It is important in terms of knowing the situation of the executives. The aim here is to shape the future by achieving the goals determined for the organization.

Within subsequent internal and external analyzes, opportunities and challenges, as well as the strengths and weaknesses of the organization, are examined. Factors affecting the future of organizations are named as strategic factors, and they are determined through SWOT analysis. After this process, the choice of strategies, collaboration, work and functions are evaluated within the strategic formulation. For this aim, the senior staff makes some strategic choices about directing the goals set in the organization by analyzing strategic factors.

During the strategic management process in an organization, such cases as leadership, structure, control systems, and human resources are the main focus as well as the techniques used by managers in implementing the defined strategy. Also, some other issues are the concern of this process such as the implementation of strategies, and the leadership style which is consistent with the strategies, organizational structure, information and control systems, and human resources management (Bayraktaroğlu, 2002, p.49-50). A proper organizational structure should be designed and become functional in order for a strategy to be successful within this process because in today's world what enables you to win is not designing a perfect structure but having a better structure than of your opponents (Efil, 1999, p.295). It is the strategic management which enables organizations to get an edge on their opponents within this process.

On the other hand, this concept has come into use in the public sector very recently. Strategic thinking and planning implementations and patterns that are considered to capitalize the management of profit-oriented organizations in the private sector have started to play a role in the unique structure and service requirements of the public sector within the recent worldwide approach of public management and public services (Aşgın,

2006, p.7). However, most of the problems occur in the public sector within strategic management and planning processes since it is very really hard to be in a harmony with the core of the system.

The essential control criterion is the profit for organizations. There is not such significant or valid criterion for public enterprises because they do not seek profit. The most obvious criterion is the amount of service for them. Supervision of the service quality and cost is not seen as more important than the amount of it.

Each one of the new market opportunities in the organizations supports the new production and rapidly rearranges the operation budget and human resources according to the recent developments. There is little room for flexibility in public enterprises in terms of budget and human resources. More importantly, undertaking a new service is not usually seen as an opportunity, but a problem.

Survival of organizations depends on the continuation of the staff to work, adapting to the market competition and making the profit. Human resource policies of public organizations are independent of how much an organization produces or works. Assurance system is not suitable for making a distinction between the employees who works hard and the ones who works little, dismissing, rewarding and punishing effectively. Therefore, public organizations are not formed with the optimal scales and by evaluations according to business administration techniques. Instead, they are generally established with political decisions. In addition, politics has an important impact on the distribution of the budget, staff, and equipment. Most of the time, we do not see rational and optimal serving and organizing within public institutions.

Additionally, public enterprises are open to social and political impacts. Employees working for these enterprises care more about such issues as not getting complaints, not taking legal or financial responsibility, and preserving the place of duty and position than the requirements of service.

On the other hand, the use of inappropriate methods in the appointment of senior staff negatively affects the management although strategic management requires professionalism, training, and experience. Accordingly, there are some obstacles in public administration in terms of actualizing issues concerning implementation and the outcomes of strategic management including participation, citizen-centered administration, openness, and accountability. These obstacles are listed as follows:

The over-centralized structure of the public administration causes difficulties in planning and in the delegation to subordinates for sourcing resource use.

The presence of the bureaucratic culture, which aims at protecting its own social, income and status interests before the needs of citizens, and which sees the change and innovations as a threat for status quo, is one of the most important obstacles.

There is an obligation that decisions should be taken in favor of the survival of the nation and the state, in case of high order national policies such as security, and national and monistic state require a political, social and cultural structure, and a union of these elements.

There is no willingness to participate and to share responsibility within the citizenship culture, aiming at getting a larger share of public resources and seeing the state as a "father" as it is more meaningful to its interests (Güner, 2004, p. 52). Thus, strategic management helps the struggle against these problems.

It is very hard to successfully implement strategic management and planning in public enterprises as they are in the private sector. As it can be seen throughout our study, the benefits of strategic management and planning cannot be denied both in public and private organizations.

Consequently, all types of organizations, particularly public ones, should make a great effort to establish and implement the strategic management system, as well as training and motivating their employees in this regard. A totalitarian willpower which is set in establishing and implementing the system will enable to easily overcome the problems listed above.

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Conditional Relationship Between Beta and Return in the US Stock Market

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According to the CAPM, risk is measured by the beta, and the relation between required expected return and beta is linear. This paper examines the conditional relationship between beta and return in the US stock market. The conditional covariances and variances used to estimate beta are modeled as an ARCH process. The beta return relationship is tested upon the sign of the excess market return. The implication of the sign of the excess market return follows Morelli (2011). This study shows the importance of recognizing the sign of the excess market return when testing the beta-return relationship. The approach also allows us to distinguish the size effect and the effect of economic cycles.

Keywords: Conditional beta, Market risk premium, ARCH models, US stock market

JEL Classification: C52, G1, G10, G12

1. Introduction

The CAPM is widely viewed as one of major contributions of academic research to financial managers. But the robustness of the size effect and the absence of a relation between beta and average return are so contrary to the CAPM that the consensus is that the static CAPM is unable to explain the cross-section of average returns on stocks (see Fama and French, 1992).

This paper examines the role of beta in explaining security returns in the US stock market over the period of October 2000 to June 2014. In this paper, the author adopts the dynamic conditional beta approach proposed by Morelli (2011). We use univariate GARCH models to estimate the dynamic of the volatility of error terms, and a dynamic of the dependence structure between the innovations. The beta is estimated as the ratio of the conditional covariance between the residuals from an autoregressive model for each index return and market return, and the conditional variance of the residuals from an autoregressive model for the market return. Modeling both components of beta (the covariance and variance) as an ARCH/GARCH process allows conditional information to be incorporated into the model (see Morelli 2011).

The empirical investigation is based on the Russell 3000 index which consists of 3,000 stocks. It subdivides into large and small cap indexes. The large cap index is the Russell 1000, which consists of the top 1,000 companies, give or take a few. The small cap index is the Russell 2000, which includes all the rest of the Russell 3000. The large-cap Russell 1000 had a market-cap range of \$1.35 billion to \$540 billion, with a

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median of \$5.2 billion. The small-cap Russell 2000 had a range of \$101 million to \$2.61 billion, with a median of \$460 million. The testing period is also split into two subperiods running from October 2, 2000 to January 25, 2007 and January 25, 2007 to June 24, 2014. This allows us to calibrate the model with data during two economic cycles.

The rest of the paper is organized as follows. Section 2 details the reviews of literature. Section 3 presents the methodology and the data. Section 4 discusses our estimates of conditional beta. Section 5 concludes the paper.

2. Literature Review

The Sharpe-Lintner-Black Capital Asset Pricing Model (CAPM) is a capital asset pricing model that financial managers use most often for assessing the risk. According to the CAPM, the risk is measured by the beta, and the relation between required expected return and beta is linear. Many subsequent studies failed to find a risk-return relationship.

Banz (1981) was one of the first researchers to study the influence of market capitalisation on security returns. He demonstrated that small cap securities generated greater returns than those of large capitalisation and attributed this overperformance of small caps to the remuneration of an additional risk factor.

The size effect also poses a problem with regards to the validity of the Capital Asset Pricing Model (CAPM), validity according to which the expected yield of securities depends on the systematic risk level (the beta). According to behavioural finance researchers, size effect is proof of the irrationality of individuals. On the other hand, researchers who support the concept of rationality suggest that size effect can be attributed to risk factors other than the market. To reconcile the size effect with the CAPM, Fama and French (1992, 1993) proposed incorporating additional risk factors into it, as the beta was no longer the sole source of risk. Fama and French suggested that the higher than expected returns of value stocks and small caps offset the additional risk inherent in these securities for shareholders. In fact, value stocks and small caps are susceptible to being financially weakened in the event of an economic crisis.

The CAPM model is based upon expectation, and it is tested using realized returns with the assumption that realized returns accurately reflect, and thus can proxy for. The positive relationship between beta and the expected returns implies that the expected return on the market must always exceed the risk-free rate and the expected market risk premium is positive (see Morelli 2011). Using realized data, the realized market risk premium may be negative (see Pettengill et al. 1995). They claimed that there is a probability that the return on the market will at times be less than the risk-free rate. If this was not the case, no rational investor would ever invest in risk-free assets. Pettengill et al. (1995) infer that when the realized return on the market exceeds the risk-free rate (up markets) there exists a positive relationship between beta and returns, and when the realized market return is negative (down markets) the beta return relationship should be negative. Morelli (2011) confirmed this assumption by examining the role of beta in explaining security returns in the UK stock market.

The CAPM was derived by examining the behavior of investor in a hypothetical model-economy in which they live for one period. In the real world investors live for many periods. One of the assumptions is that the betas of the assets remain constant over time. Jagannathan and Wang (1996) suggested that the assumption is not reasonable since the relative risk of a firm's cash flow vary over the business cycle. During a recession, for example, financial leverage of firms in relatively poor shape may increase sharply relative to other firms, causing their stock betas to rise. Hence, betas and expected returns depend on the nature of the information available at any given point in time and vary over time.

3. Data and Methodology

3.1. Data

The sample consists of the Russell 1000, Russell 2000 and Russell 3000 index over the period October 2, 2000 to June 24, 2014, a total of 3,582 observations. The one-month T-bill rate is used to proxy for the free-risk rate which is converted into daily equivalent so as to have a similar frequency with the index returns. The Russell 3000 index is used to proxy for the market portfolio. The data required is the returns on the Russell index returns series. These returns are calculated using data on the daily price. The requisite data is obtained from the Factset database. The last trading price of the day is used as the daily price. To provide more robust tests, the testing period is also split into two subperiods running from October 2, 2000 to January 25, 2007 and January 25, 2007 to June 24, 2014.

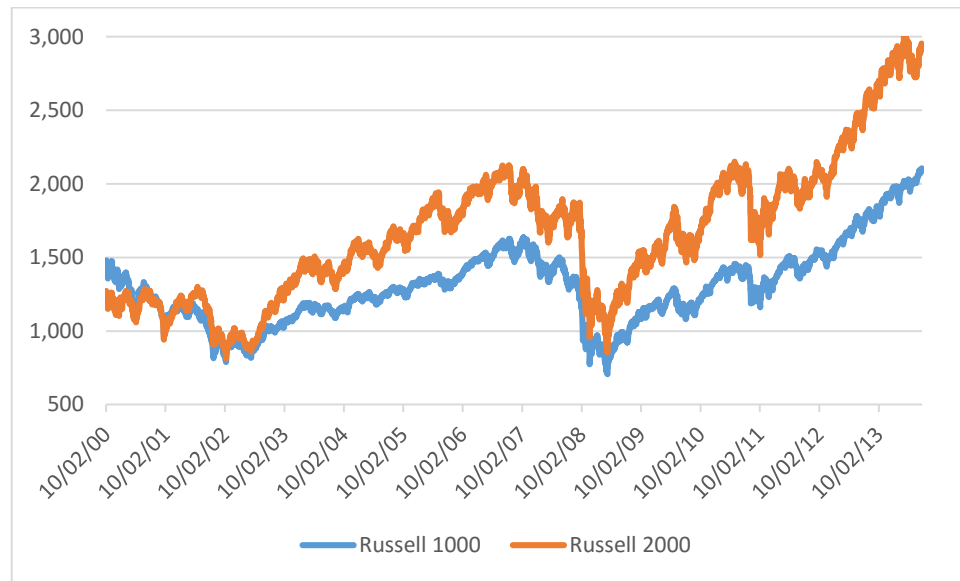


Figure 1. Russell 1000 and Russell 2000 index (Daily, 2000 – 2014)

The summary statistics for the Russell 1000, Russell 2000 and Russell 3000 index (Table A1 in the Appendix) reveals a positive skewness, and a positive kurtosis. Russell index are non-normal at the confidence interval of 99%. So, it is mandated to convert the Russell index series into the return series.

By observing the plotted autocorrelation and partial autocorrelation of the Russell 3000 index we find that the series is nonstationary (Figures A1 and A2 in the Appendix). This is confirmed when we apply both the Dickey-Fuller test and the Phillips-Perron test (Table A2, A3 in the Appendix), so in this case we cannot use the ARCH model for modelling volatility.

In general, the movements of the stock indices series are non-stationary and not appropriate for the study purpose. So, it is mandated to convert the daily price into the return series. The series of Russell index are transformed into returns by using the following equation:

$$R_t = \left(\frac{P_t}{P_{t-1}} \right) - 1 \quad (1)$$

Where,

R_t = the rate of return at time t

P_t = the price at time t

P_{t-1} = the price just prior to the time t

The summary of statistics on returns are found in Table 1. This table also shows that that Russell 3000 index has an average daily return of 0.0001833 percent and a standard deviation of 0.01264. In accordance with most financial time series, the skewness coefficient, -0.03531, has a negative sign. Therefore, these characteristics of data can be accounted for by using the ARCH family of models. And so, when modeling such a series the series must be stationary. Because of this, the Dickey-Fuller test is applied to the returns series (Table A4 in the Appendix). In the results of this test we can observe that the series is indeed stationary. The Phillips-Perron test confirms that the series is stationary (Table A5 in the Appendix).

Table 1. Summary statistics for returns

	Obs	Mean	Std. Dev.	Min	Max	Skewness	Kurtosis
Russell1000	3581	0.000178	0.0002139	0.0911	0.1167	0.004622	8.6750
Russell2000	3581	0.000356	0.0006237	-0.1185	0.09265	0.123882	4.6165
Russell3000	3581	0.000190	0.0002162	0.0928	0.1147	0.029767	8.1954

ADF test as well as PP test are used to get confirmation regarding whether the return series is stationary or not. The values of ADF test statistic, -68.545, is less than its test critical value, -3.410, at 5%, level of significance which implies that the crude oil price return series is stationary. The findings of the PP test also confirms that return series is stationary, since the values of PP test statistic is less than its test critical value.

The plotted autocorrelation and partial autocorrelation of squared returns indicate dependence, and therefore suggest time-varying volatility (Figures A3 and A4 in the Appendix). From this data we can deduce that the series are time-dependent.

3.2. Specification of the Models Used in This Study

3.2.1. ARCH(q) Model and GARCH(p, q) Model

Autoregressive conditional heteroskedasticity (ARCH) models are used when the error terms will have a characteristic size or variance (Engle 1982). The ARCH models assume the variance of the current error term to be a function of the actual sizes of the previous time period's error terms. The ARCH model is a non-linear model which does not assume the variance is constant. The error terms are split into a stochastic piece and a time dependent standard deviation:

$$\epsilon_t = \sigma_t z_t \quad (2)$$

The random variable is a white noise process, the series σ_t^2 is modelled by:

$$\sigma_t^2 = a_0 + a_1 \epsilon_{t-1}^2 + \dots + a_q \epsilon_{t-q}^2 = a_0 + \sum_{i=1}^q a_i \epsilon_{t-i}^2 \quad (3)$$

Where $a_0 > 0$ and $a_i > 0$.

The GARCH model is a generalized ARCH model, developed by Bollerslev (1986) and Taylor (1986) independently. The GARCH model is a solution to avoid problems with negative variance parameter estimates. A fixed lag structure is imposed. The GARCH (p, q) model (where p is the order of the GARCH terms σ^2 and q is the order of the ARCH terms ϵ^2).

$$\sigma_t^2 = w + a_1 \epsilon_{t-1}^2 + \dots + a_q \epsilon_{t-q}^2 + \beta_1 \sigma_{t-1}^2 + \dots + \beta_p \sigma_{t-p}^2 = w + \sum_{i=1}^q a_i \epsilon_{t-i}^2 + \sum_{i=1}^p \beta_i \sigma_{t-i}^2 \quad (4)$$

The form of GARCH (1,1) is given below:

$$\sigma_t^2 = a_0 + a_1 \epsilon_{t-1}^2 + \beta \sigma_{t-1}^2 \quad (5)$$

3.2.2. The Conditional Relationship between Risk and Return

The conditional version of the CAPM can be shown as follows:

$$E(r_{it} | \phi_{t-1}) = \beta_i | \phi_{t-1} (E(r_{Mt} | \phi_{t-1})) \quad (6)$$

Where r_{it} is the excess return for security i and r_{Mt} is the excess return on the market portfolio, $E(. | \phi_{t-1})$ is expectation conditional on the information set ϕ available at time t-1. β_i is the beta coefficient of security i, the measure of systematic risk given by the following expression (see Morelli 2011):

$$\beta_i | \phi_{t-1} = \text{cov}(r_{it}, r_{Mt} | \phi_{t-1}) / \text{var}(r_{Mt} | \phi_{t-1}) \quad (7)$$

Tests of the conditional relationship between beta and returns depend upon the information set ϕ available. Different tests can be conducted dependent upon how the information set ϕ is defined. In this article, the ϕ represents econometric information.

The return on equity i and the market can be modeled as an autoregressive process as given by :

$$r_{it} = a_0 + \sum_{j=1}^n a_j r_{it-j} + \epsilon_{it} \quad (8)$$

$$r_{Mt} = a_0 + \sum_{j=1}^n a_j r_{Mt-j} + \epsilon_{Mt} \quad (9)$$

These two equations can be decomposed into the expected and unexpected components as follows:

$$r_{it} = E(r_{it} | \phi_{t-1}) + \epsilon_{it} \quad (10)$$

$$r_{Mt} = E(r_{Mt} | \phi_{t-1}) + \epsilon_{Mt} \quad (11)$$

The disturbance terms ϵ_{it} , ϵ_{Mt} can be decomposed, and the expectation part of the equation represents the conditional covariance between r_{it} , r_{Mt} and the conditional variance of r_{Mt} respectively. So, the risk measurement beta can be expressed as follows:

$$\beta_i | \phi_{t-1} = E(r_{it}, r_{Mt} | \phi_{t-1}) / E(r_{Mt} | \phi_{t-1}) = \text{cov}(r_{it}, r_{Mt} | \phi_{t-1}) / \text{var}(r_{Mt} | \phi_{t-1}) \quad (12)$$

The expected return on an equity is dependent upon time varying risk, where the conditional information is incorporated by modeling the components of risk as ARCH and GARCH processes.

$$E(r_{it} | \phi_{t-1}) = (\beta_i | \phi_{t-1}) [E(r_{Mt} | \phi_{t-1})] \quad (13)$$

In order to proceed with the estimation of beta by equation (12), it is necessary for the expectations appearing in both the numerator and the denominator (see Morelli 2011). Each of the expectations $E(\epsilon_{it} \epsilon_{Mt})$ and $E(\epsilon_{Mt}^2)$ ($\text{var}(r_{Mt} | \phi_{t-1})$) will be a function of the econometric information available at time t-1. r_{it} , r_{Mt} can be represented by an autoregressive process. And for both components of conditional beta, $E(\epsilon_{it} \epsilon_{Mt})$ and $E(\epsilon_{Mt}^2)$, they could follow an ARCH or GARCH process, a model where the conditional variances and covariances are allowed to change over time. All the heteroskedastic models are adopted in the estimation process with the best fit model being the one selected.

Once the beta is estimated, the relationship between beta and returns, conditional on the econometric information, can be tested from a cross-sectional regression:

$$r_i = a_0 + \gamma_1 \beta_i + \varepsilon_i \quad (14)$$

Where a_0 should equal zero and γ_1 is the market risk premium. A positive γ_1 implies that the beta is a significant risk measure. We suppose the relationship between beta, returns conditional and the excess market return. We use a model with a dummy variable in the cross-sectional. The dummy variable separated the positive and negative excess market returns. The equation is shown as follows (see Pettengill et al. 1995):

$$r_i = a_0 + \theta \gamma_1^+ \beta_i + (1 - \theta) \gamma_1^- \beta_i + \varepsilon_i \quad (15)$$

Where $\theta = 1$ if $r_{Mt} > 0$ and 0 if $r_{Mt} < 0$. The positive and negative symbol of γ mean a positive and negative excess market return. The dummy variable allows us to examine the negative market risk premium. The a_0 should equal 0 and the γ should be significant. Morelli (2011) pointed that the methodology of Pettengill et al. (1995) is not a test of CAPM, but a test of the significance of beta, and they focused on the relationship between beta and realized returns and not expected returns.

4. Empirical Findings (Analysis and Results)

We find a significant autocorrelation at differing lags are detected for the Russell 1000 and Russell 3000 index, reducing in significance as the lag period increases (Appendix A1, A2). An autoregressive process is required to produce an uncorrelated sequence from the return series. The author found an ARMA(1,1) process for the two index. The residual series is strict white noise and shows no significant autocorrelation (Appendix A11, 12, 15, 16). Beta estimation requires the conditional variance and the covariance, both of which are modeled as an ARCH process.

Having estimated both the conditional variance and the conditional covariance, beta is then estimated in accordance with equation (12). Table (2) reports the results from the cross-sectional regression as given by equation (14), showing the average risk premium of Russell 1000 over the total time period, $\gamma = -0.04017$, and also for the two sub-periods, $\gamma = 0.01919$ and $\gamma = -0.2049$.

Table 2. The relationship between beta and returns

	October 2000 to June 2014	October 2000 to January 2007	January 2007 to June 2014
α (Russell 1000)	0.04024 (0.373)	-0.01915 (0.851)	0.2039 (0.166)
γ (Russell 1000)	-0.04017 (0.375)	0.01919 (0.851)	-0.2049 (0.167)
α (Russell 2000)	-0.00237 (0.621)	0.00011 (0.991)	-0.01865 (0.216)
γ (Russell 2000)	0.002671 (0.568)	0.00025 (0.981)	0.01783 (0.207)

Note: The table reports the time-series coefficients (risk premiums) over the testing periods. The p-values is shown in parentheses.

The positive risk premium implies an upward sloping risk-return relationship (see Morelli 2011). The risk premium in our study is not statistically significant, so the hypothesis which $\gamma \neq 0$ is rejected, and beta does not play a significant role in explaining security returns. Such findings are consistent with studies on the US markets by Davis (1994) and Fama and French (1992) and the study on the UK market by Morelli (2011). Morelli (2011) noted that the insignificant beta can be explained by the aggregation of data during periods when excess market return is both positive and negative.

Table 3. The relationship between beta and returns for Russell index

	October 2000 to June 2014	October 2000 to January 2007	January 2007 to June 2014
Russell 1000			
All markets γ	-0.04017 (0.375)	0.01919 (0.851)	-0.2049 (0.167)
Up markets γ^+	0.0082767 (0.000)	0.0075585 (0.000)	0.0088719 (0.000)
Down markets γ^-	-0.0085587 (0.000)	-0.0076223 (0.000)	-0.0094207 (0.000)

Russell 2000			
All markets γ	0.002671 (0.568)	0.00025 (0.981)	0.01783 (0.207)
Up markets γ^+	0.0100167 (0.000)	0.0092839 (0.000)	0.0105116 (0.000)
Down markets γ^-	-0.010144 (0.000)	-0.0088223 (0.000)	-0.0111427 (0.000)

Note: The table reports the time-series coefficients (risk premiums) in all markets and up and down markets, the *t*-statistics is shown in parentheses.

Table 3 reports the results from testing the beta-return relationship conditional on the sign of the excess market return (Eq. (15)), reporting the average risk premium in both up and down markets. The results from the cross-sectional regression show a significant positive relationship between beta and returns during up markets, and a significant negative relationship between beta and returns. The null hypothesis of no beta-return relationship is rejected. The mean value of the regression coefficient γ^+ for the Russell 1000 index is 0.0082767, and the mean value of the regression coefficient γ^+ for the Russell 2000 is 0.0100167. Such finding implies that during up markets high beta portfolios exhibit higher returns than low beta portfolios.

The mean value of the regression coefficient γ^- for the Russell 1000 index is -0.0085587, and the mean value of the regression coefficient γ^- for the Russell 2000 is -0.010144. Such findings imply that during down markets high beta portfolios earn lower returns than low beta portfolios. This results conform to the findings of Morelli (2011), which suggest that beta risk is rewarded in up markets for losses incurred in down markets. This significant beta-return relationship holds across the total time period and also across both subperiods.

5. Conclusion

This paper contributes to the existing literature regarding the role of beta in explaining security returns by incorporating ARCH models to estimate time varying betas. The empirical result show that when the sign of the excess market return is ignored beta is found to be an insignificant risk factor. During periods when the excess market return is positive, a significant positive relationship is found between beta and returns. And during periods when the excess market return is negative, a significant negative relationship is found between beta and returns. This finding confirms the hypothesis of Pettengill et al. (1995) and Morelli (2011). However, the beta is found to be an insignificant risk measurement in the absence of recognition of the sign of the excess market return. This being said, in spite of the lack of empirical support, the CAPM is still the preferred model for managerial finance courses, because the empirical support for other asset-pricing models is no better. It is important to investigate the relationship between conditional beta and the security returns in the equity markets of other countries.

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Appendices:

Appendix 1: Tables

Table A1. Summary statistics for Russell 1000 and 2000 Index

	Obs	Mean	Std. Dev.	Skewness	Kurtosis
Russell 1000	3582	1303.89	4.44	0.609	0.406
Russell 2000	3582	1326.12	4.63	0.628	0.087
Russell 3000	3582	1326.11	4.63	0.628	0.409

Table A2. Dickey-Fuller test for Russell 3000 index

Test statistic	1% critical value	5% critical value	10% critical value	p-value for Z(t)
-0.473	-3.430	-2.860	-2.570	0.8972

Table A3. Phillips-Perron test for Russell 3000 index

	Test statistic	1% critical value	5% critical value	10% critical value
Z(rho)	-0.449	-20.700	-14.100	-11.300
Z(t)	-0.190	-3.430	-2.860	-2.570

Note: MacKinnon approximate p-value for Z(t) = 0.9397

Table A4. Dickey-Fuller test for returns

	Test statistic	1% critical value	5% critical value	10% critical value	p-value for Z(t)
Russell1000	-64.963	-3.430	-2.860	-2.570	0.0000
Russell2000	-64.891	-3.430	-2.860	-2.570	0.0000
Russell3000	-64.955	-3.430	-2.860	-2.570	0.0000

Table A5. Phillips-Perron test for returns

	Russell 1000	Russell 2000	Russell 3000	1% critical value
Z(rho)	-3626.566	-3661.561	-3631.269	-20.700
Z(t)	-65.548	-65.347	-65.522	-3.430

Note: MacKinnon approximate p-value for Z(t) = 0.0000

Appendix 2: Figures

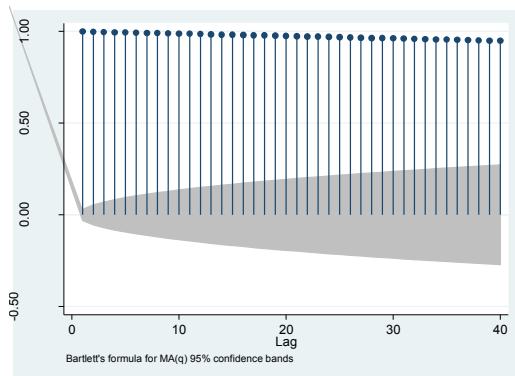


Figure A1. AC of Russell 3000 index

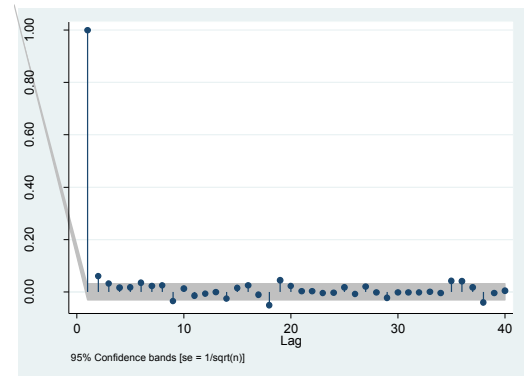


Figure A2. PAC of Russell 3000 index

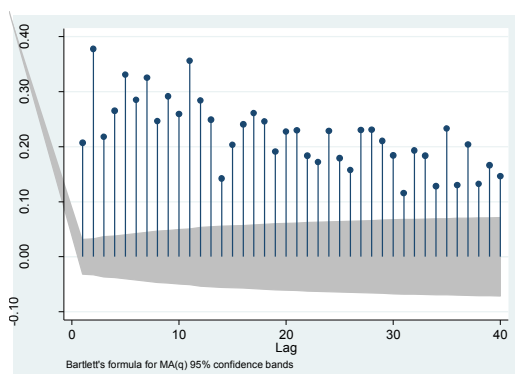


Figure A3. AC of squared returns

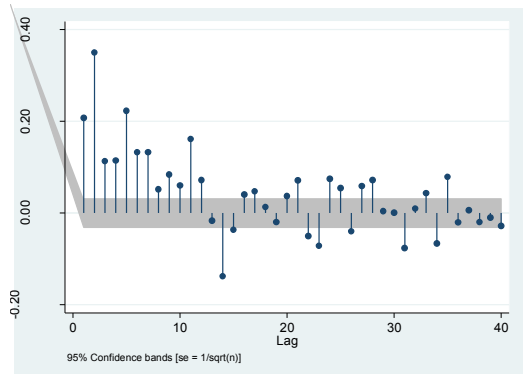


Figure A4. PAC of squared returns

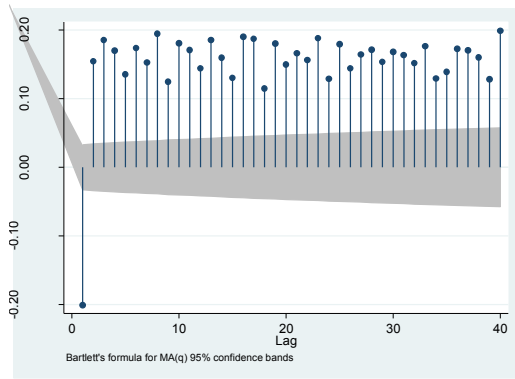


Figure A5. AC of res. Russell 1000

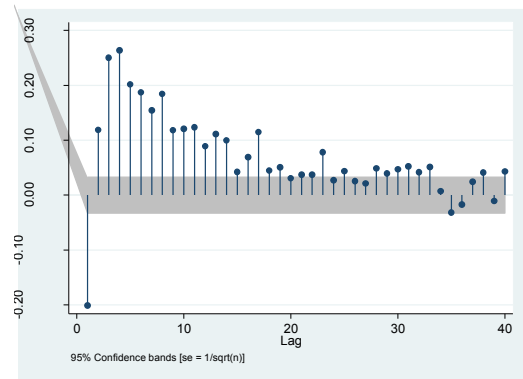


Figure A6. PAC of res. Russell 1000

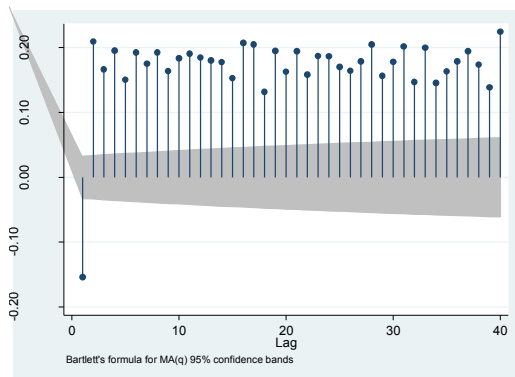


Figure A7. AC of res. Russell 2000

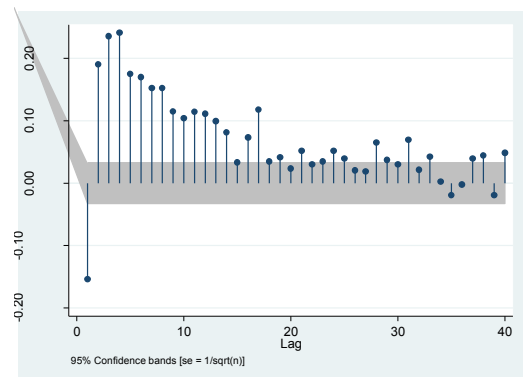


Figure A8. PAC of res. Russell 1000

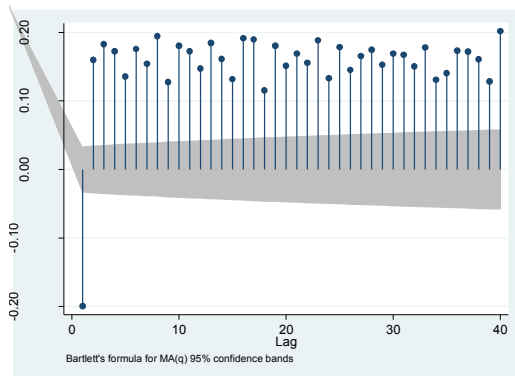


Figure A9. AC of res. Russell 3000

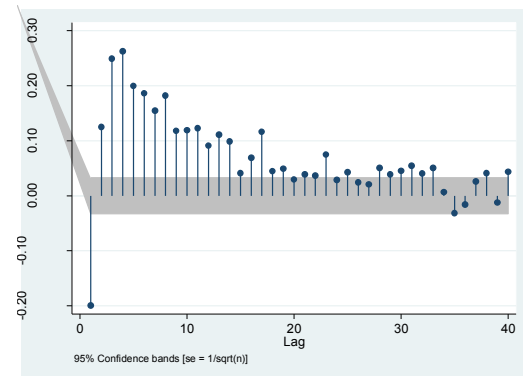


Figure A10. PAC of res. Russell 3000

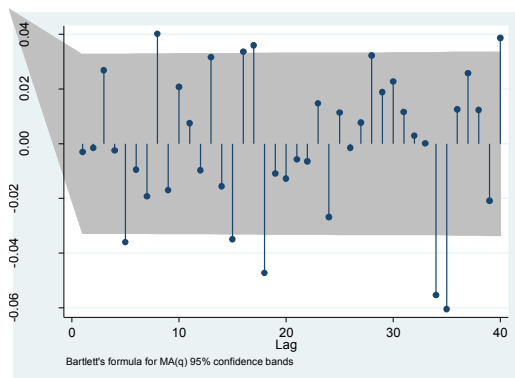


Figure A11. AC of res. mean eq. Russell 1000

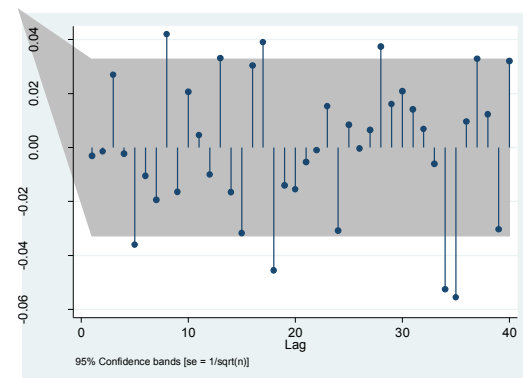


Figure A12. PAC of res. mean eq.

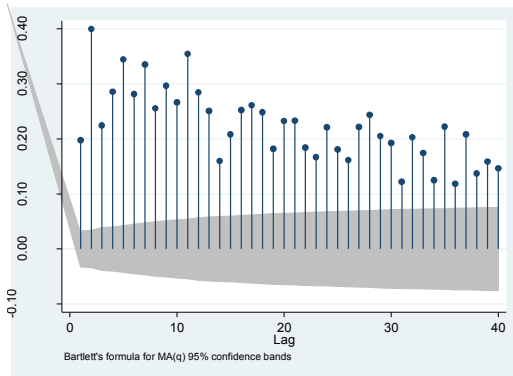


Figure A13. AC of res^2 . mean eq. Russell 1000

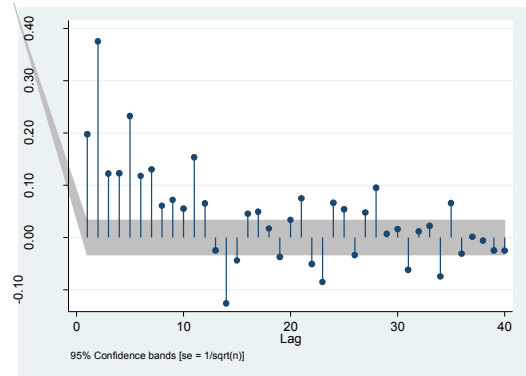


Figure A14. PAC of res^2 . mean eq.

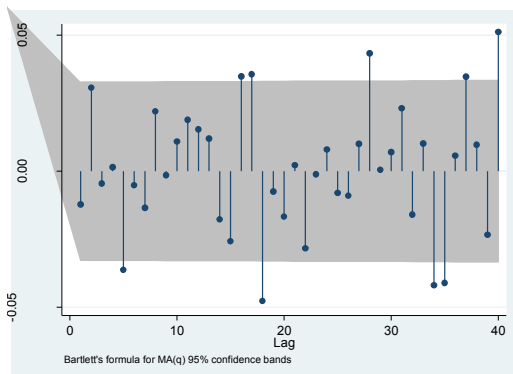


Figure A15. AC of res . mean eq. Russell 2000

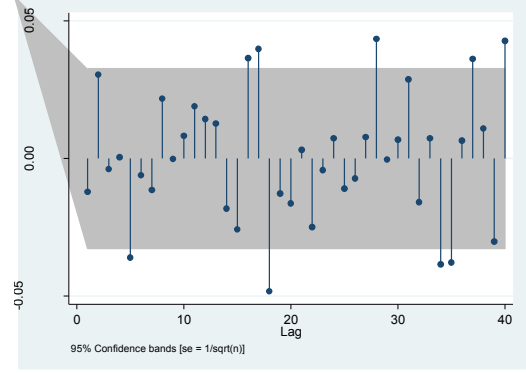


Figure A16. PAC of res . mean eq.

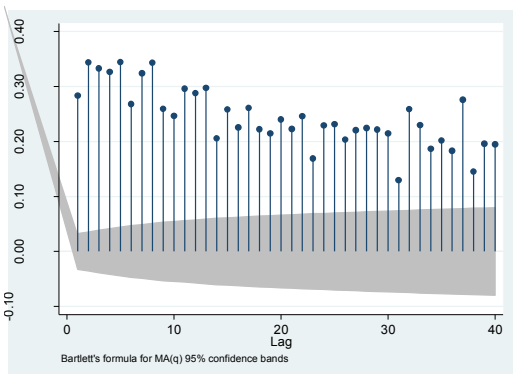


Figure A17. AC of res^2 . mean eq. Russell 2000

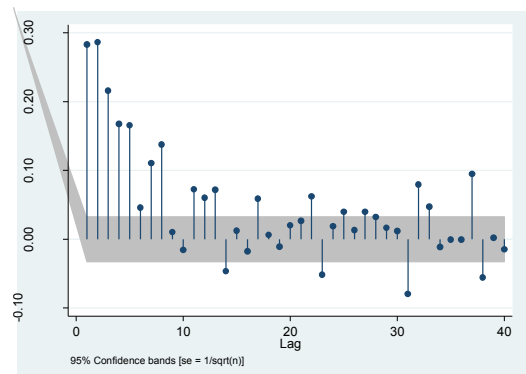


Figure A18. PAC of res^2 . mean eq.



A Study on the Effects of Client Company Information on the On-Site Logistics and Processes in a Supply Chain: A New Design Approach using Quality Function Deployment

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Recently, manufacturing companies have to construct supply chains considering the contingencies of global clients. In order to meet global demand, companies are required to quickly grasp the information which is disseminated in the supply chain. This study focuses on business to business (B to B) manufacturing model in a supply chain. Generally, manufacturing companies which supply the products to client companies engaged in B to B structures deliver the products according to the client companies' order. Manufacturing companies subsequently deliver the product depending on the order specifications that determine the delivery time, the order quantity, the order quality and so on. Therefore, the orders requisitioned by client companies might cause some impacts on the operations in the companies engaged in B to B structures in the supply chain. We suggest a new approach to solving the operation problems using Quality Function Deployment (QFD). QFD is a powerful methodology and is effective in organizing manufacturing information and setting the quality of design. A case study is given to show the implementation of the proposed methodology.

Keywords: *Quality Function Deployment, On-site logistics and processes, Business To Business manufacturing structure, Supply Chain, Operation Management*

JEL Classification: *M11*

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1. Introduction

In manufacturing companies, one of the important problems affecting production strategy is to construct an efficient supply chain (Leenders et al, 2002). In developing the supply chain, manufacturing companies have to quickly supply new product to the market. This study focuses on companies located in the middle of the supply chain. The focus is on business to business (B to B) manufacturing structures (see Fig.1). For example, we consider the parts manufacturer (supply companies) in this study. The supply company starts production based on an order list of products from the manufacturer (client companies). The contents of the order list are: type of product, order quantity, delivery time, and others. For example, considering the productivity of the supply company, the producing order is Product A → Product A → Product B → Product B. Observing this, we conclude that the supply company is developing one component at a time. However, the order list required by the client company for optimal results is Product A → Product B → Product A → Product B. Therefore, the current supply company production cycle in terms of the productivity is not ideal because is slowed down by increasing the number of setup times. Accordingly, the on-site logistics and processes of the supply company will be greatly affected by the order list of the client company.

In this study, we use Quality Function Deployment (QFD) in order to evaluate and design the manufacturing systems. Generally, the quality of design is set by QFD in the manufacturing company (Ohfuji et al, 1990, Ohfuji et al, 1997, Yoshizawa et al, 2004). The basic function of QFD is to organize manufacturing information. QFD is defined by the impact of information received from the client companies. In order to control the flow of products and on-site logistics and processes, it is necessary to control the flow of information of said processes.

The purpose of this study is to develop a new approach to suggest solutions for the problems in the supply chain using a methodology that acknowledges QFD practices. We also discuss the effects observed in the analysis of client company information at the on-site logistics and processes related to the supplying company.

We first clarified the impact on on-site logistics and the processes in order to organize the requirements of client companies by using QFD. Secondly, we proposed research techniques for on-site logistics and processes in the supply chain.

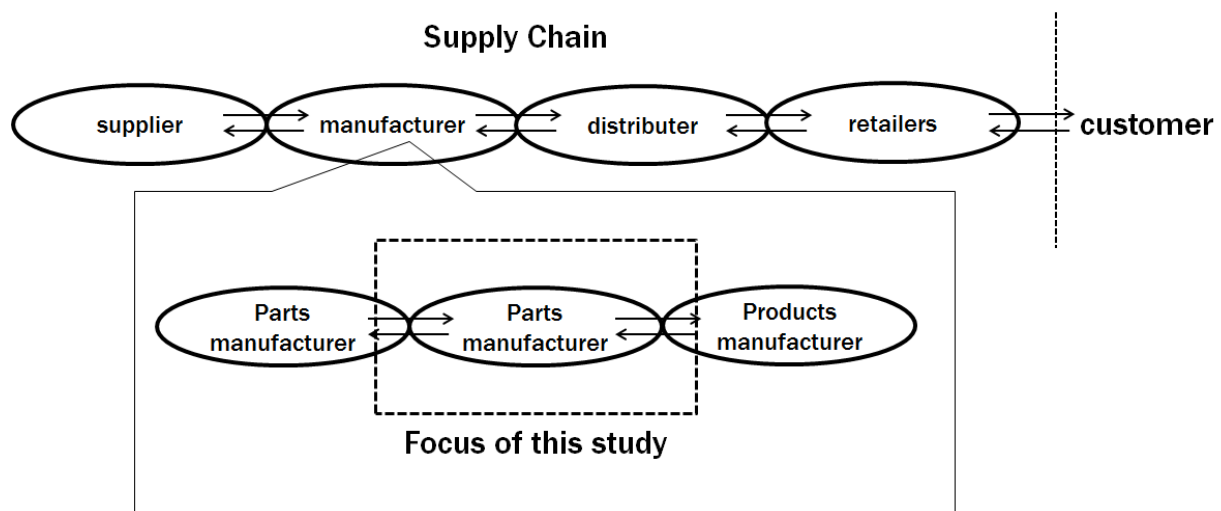


Figure 1. Focus of this study in supply chain

2. Literature Review

QFD was developed in 1960s in Japan. Another correlated method called Statistical Quality Control (SQC) which Japanese engineers first learned about from American professionals, helped to improve the quality in production stages at the time. SQC, however, was not adequate when it comes to product design stages. Therefore, in order to improve quality of design stages, scholars Shigeru Mizuno and Yoji Akao developed the concept of QFD. The first generation of researchers focused on quality assurance in production processes, for example the efficiency of the production lines were verified in order to maximize production

results (Mizuno and Akao, 1978). In the second generation of studies, a quality table in QFD was proposed (Ohfujii et al 1997). More recently, new studies have found that the subject of QFD was considerably expanded since its inception.

The QFD's concept and the characteristics of its studies are detailed as follows.

2.1. What Is Quality Function Deployment?

Fig.2 shows the flow of production stages, from development to manufacturing (Lertchanyakul, 2013, pp.158-173).

When considering of quality in manufacturing, there are two types of qualities. One is the quality of conformance. By this we mean the gap between the design of a product and its finished form. Let's imagine, for example, a pen. Let's suppose that the length of this pen is 150.0mm in the schematics. After manufactured, the pen's actual length is 150.2mm. This difference is what we call quality of conformance. The other type is quality of design, which refers to the gap between the voice of the customer (VOC) and the design schematics.

In the case of the pen, for example, the voice of the customer is "easy to hold". In order to satisfy it, the pen's length in the design schematics has to be 150.0mm. QFD is used to determine and set this quality of design.

On the other hand, in order to set the Quality of conformance, we usually utilize SQC to analyze the system.

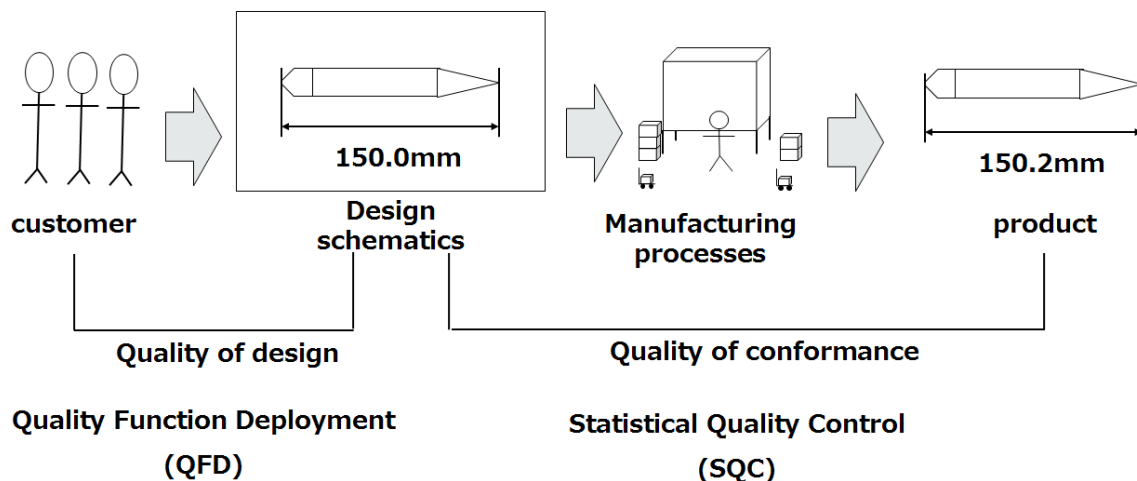


Figure 2. Considering of quality

(1) Flow of QFD

QFD organizes information. As we can see below, Fig.3 shows the quality table. In the quality table, the row represents required quality and the column stands for quality characteristic.

In the process of acquiring this information, first, VOC is collected, through interviews, questionnaires and others methods (Nagai et al, 2013, pp.61-70). Then, the required quality is set. After that, the quality characteristics are evaluated these required qualities are defined. Moreover, we consider the relationship between required quality and quality characteristics. The result will provide quality of design.

Accordingly, the required quality transforms quality of design.

(2) Expressing QFD

In QFD, there is a separation between function and quality, which is expressed through language data (Nagai, 2011, Scripps, 2013, pp.194-221). Function is commonly expressed through a "verb + noun" structure. For example "Displaying the time". Quality, on the other hand, is expressed through the addition of adverbs and adjectives, for example "accurately" and "exact" the complete expression becomes "accurately displaying the exact time".

2.2. QFD Research

The QFD studies can be described in two categories. The first type or category of QFD relates to its concept and it is applied to many situations presented in production development, production design etc. For example, Mohamadi (2012, pp.154-157), Kiuchi and Ngai (2013, pp.143-150) and Jayarama and Pathakb (2013, pp.1958-1972) proposed researches on the relationship between customer and supply chain. Other scholars such as Chen (2009, pp.1469-1484) and Kiuchi (2014, pp.105-115) also researched on operation improvement. Yeh and Huang (2010, pp.125-141, pp.56-62) and Yamashina et al (2002, pp.1031-1050) presented studies related to other methods, such as TRIZ (Theory of solving inventive problems).

The second category of QFD is related to its performance and is measured by quantification. For example, Yana et al (2013, pp.6336-6355), KHOOa and HO b (1996, pp.299-311) and Fung et al (2002, pp.585-599) are the proposed performances of QFD, which are achieved by applying fuzzy theory. The study we are proposing belongs to the first category. Accordingly, QFD tools in this study organize information that exists in on-site logistics and processes. Specifically, QFD expression and matrix tables are emphasized in this study.

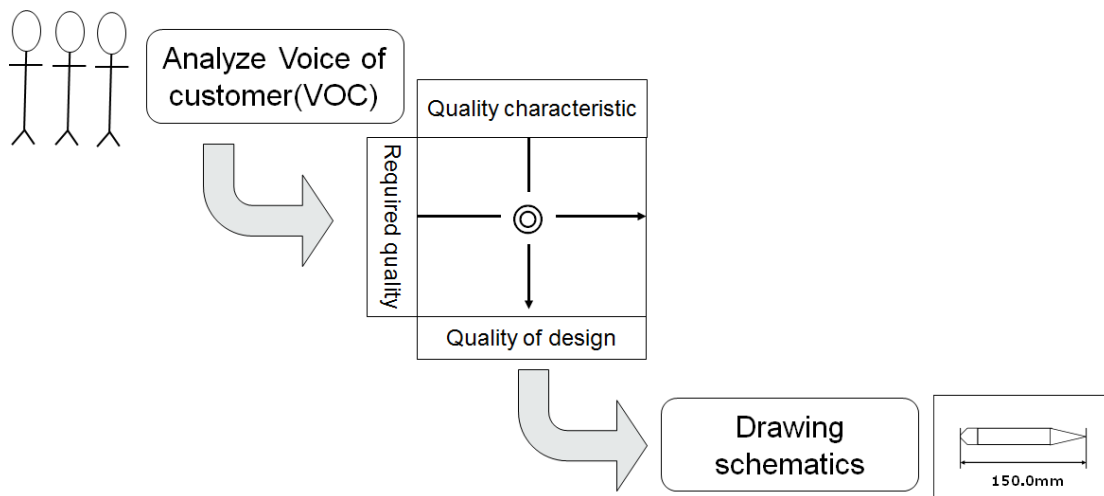


Figure 3. Flow of QFD

3. Research Premises and Research Methodology

Fig.4 shows the supply chain situation of the case model analyzed in this study. Conventional approach, says that improvement activities are carried out within on-site logistics and processes. These types of approach, however, do not consider the client company effects that might occur in the operations. The model of this study is considering the relationship between the supply company and the client company. Let us consider, then, B to B manufacturing structures.

First, the parts manufacturer receives the order list from a client company. Only then, the parts manufacturer begins the manufacturing process. After that, the requested parts are shipped to the client company.

This study uses matrix table and QFD expression as QFD tools (see Fig.5). Fig.5 shows on-site logistics and processes in a parts manufacturer factory. The numbering indicates the flow of research presented in this study. The complete process is described next.

3.1. Proposed Approach

The Flow of Research is detailed as follows:

(1) Determining a process chart:

Firstly, we determine a process chart to be used by the parts manufacturer (Kanawaty, 1992). There are three kinds of activities: transportation, assembly and sorting as illustrated in Fig.5.

(2) Information of final packaging that is expressed by QFD methodology:

Secondly, we focus on the symbol at the end of the process chart. That is because the client company's order affects the final shipment. For this reason, the information of the final shipment is determined by a QFD expression. For example, "ship the product as specified in the order".

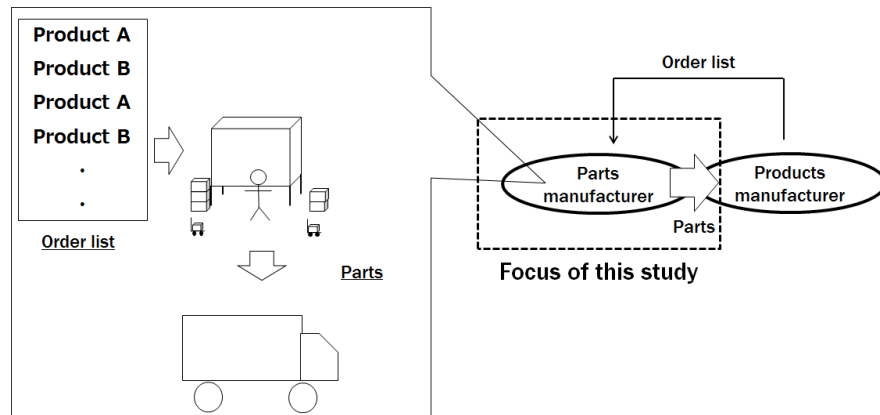


Figure 4. Situation of case model

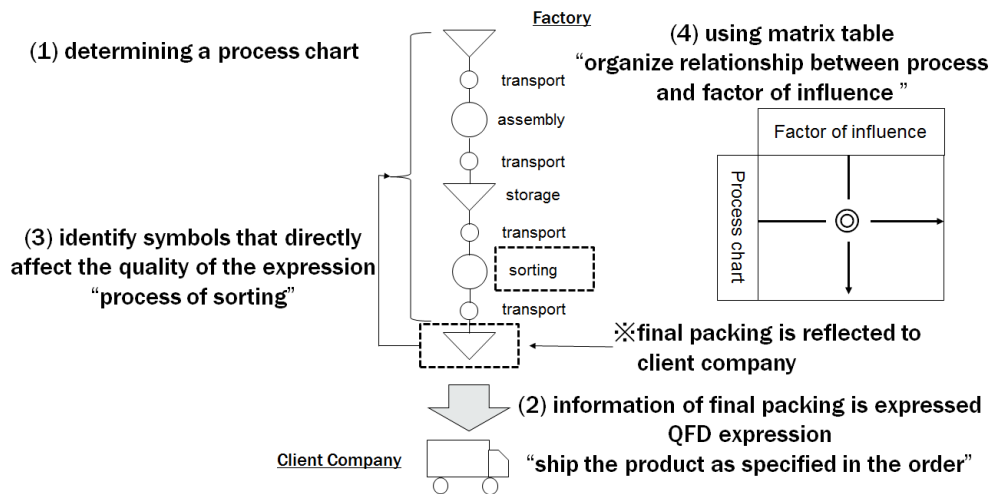


Figure 5. Flow of research

(3) Identify symbols that directly affect the quality of the expression "process of sorting":

Then, we identify the symbols that directly affect the system. These symbols are researched and defined according to the results of the questionnaires obtained during the quality of the expression stage. At every company, the sorting process is pointed out as the bottleneck factor in the process' operations.

(4) Using the QFD matrix table:

Finally, we organize the relationships between processes and factors of influence using a matrix table. There are factors of influence in several categories. For example, the requirements of the client company, the type of factory and the item to be produced. Parts manufacturer should consider the manufacturing system used for the sorting process as required by the client company (see Fig.6).

3.2. A Case Example

Furthermore, after organizing information by QFD, we can propose an improvement plan for on-site factory operations (see Fig. 7). First, the operation of sorting is improved by on site work-study. As a result, sorting time becomes shorter than the previous one. Additionally, we introduce different types of transportation to harmonize the system as the proposed second action. Then, we apply QFD methodology, as part of our improvement plan in order to make the operation targets clear, by considering the effects observed in the client company. According to our observations in this study, the improvements achieved by QFD methodology might lead up to a 20% reduction in the whole operation time.

As a result, by laying out the existing manufacturing process we can determine the steps involved in fulfilling the orders made by a client company (see Fig. 5). QFD methodology tells us the exact expression for these required orders. The proposed process chart allows us to easily identify the steps that directly influence the final shipment as required by the client. With our matrix table we can determine the exact order in which the process best suits the required shipment.

	requirements of client company	factory	Object product
transport		○	○
assembly		○	
transport		○	○
storage		○	
transport		○	○
sorting	○		
transport		○	○

manufacturing system based on the sorting process
required by the client company

Figure 6. Matrix table

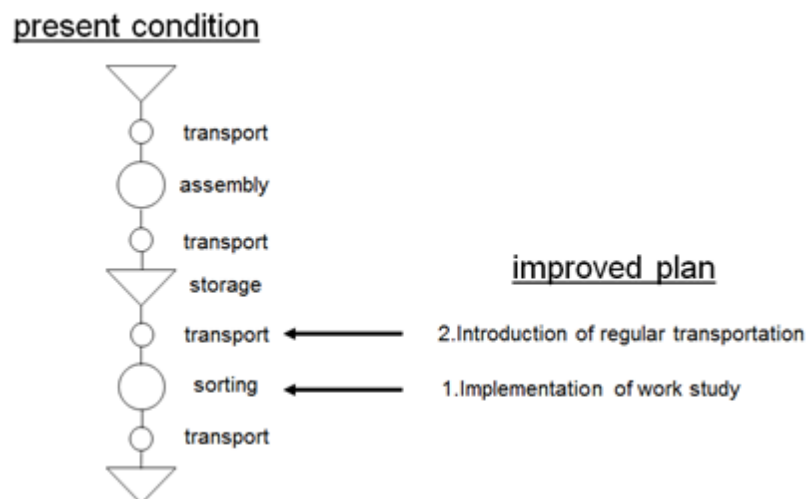


Figure 7. Considering of improved plan

4. Discussion and Conclusion

In this study, we dealt with the supply chain operation problem in the B-to-B model. We proposed the new approaches to minimizing the negative impacts of the client orders on the on-site logistics and processes of its suppliers and how to organize the requirements of the client company using QFD methodology. Moreover, we developed the procedure for evaluating the effects of our improvement plan on the suppliers' manufacturing processes, as determined by the client's orders. The application of the proposed procedure is limited within the condition of this case model, which also defines the scope of this study, and it is characterized mostly by the B-to-B manufacturing structure and the discrete manufacturing structure processes analyzed specifically in this case study. However, this case study gives us the implementation of the suggested the methodology. We can extend this basic methodology to the various types of the manufacturing models with appropriate parameters.

In a future research, we expect to improve the different types of supply chain model such as B-to-C and show the effectiveness of this procedure when applied to other cases. We can also consider not only how to apply it to quality function deployment, but also how to use the methodology proposed with other methods

as well. Finally, we will suppose a total management procedure that suggests the coordinating process between quality function deployment and general industrial engineering methods.

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Mechanisms for Quality Assurance of Universities in Cameroon

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This paper takes a perspective look at the evolution of universities in Cameroon and the recent orientation of deregulation as it affects quality assurance in these universities. The paper identifies these flaws by attempting to elucidate the meaning of the mechanism for quality assurance in the face of deregulation. The regulatory mechanisms identified by this paper include inter-alia, appropriate scrutiny of new programs, relying on impartial advice from examiners using the state law NO.98/004 of 1998 to compliment the efforts of internal school administration. And above all opening linkages between universities and relating universities education in the world of science and technology, this paper does not only enhance quality assurance but also builds on the idea of economic growth and development.

Keywords: assurance, deregulation, mechanism and quality

JEL Classification: M50, M54

1. Introduction

The idea of deregulation of education especially at the universities level in Cameroon has made issue of quality, whether it is apt or possible. Deregulation entails the private sector initiative in the ownership and management of education in Cameroon. It would be due to economic orientation that there appears to be a proliferation of universities and other allied schools, for example, the approval granted to multiple proprietors to own and manage universities. This idea is also correct and consistent with the global phenomena.

The task hitherto is how does the State Education System ensure quality assurance? What mechanisms could bring about this assurance? Is quality assurance itself possible in the midst of these complex institutions that are established? These questions, though rhetorical, could form the basis of the need of quality assurance in tertiary educational system in Cameroon.

The Cameroon population will continue to increase at a high youthful rate and the illiteracy rate still remains high. Children who have no access to primary and/or secondary education will grow up having more than their counterparts who succeed in having a minimum of high quality secondary education. This is even the very reason which makes the idea appropriate but the Republic of Cameroon's Guidelines for Education (1998) and the National Board as well as National Advisory Council on Education for Universities and Higher

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Teachers' Training Colleges should intensify their functions of supervising the standards in these schools in the categories listed above (Fagbamiye, 2004).

The establishment of the National Advisory Council in 1998 as a Cabinet Advisory Body should acquire a regulatory Status as found in the Law NO. 98/004 of April 1998. The Forum (National Advisory Council) should have organs that carry out the tasks of coordinating the orderly development of the Cameroon University system including its academic programs, physical facilities, fiscal control and maintenance of academic Standards vide Decree NO.98/004 which indicates that the State Government is responsible for the establishment of universities as it deems necessary in every part of the State and Teachers' Training Colleges, both conventional and technical, to bridge the gap of unemployment nation-wide. The country has about ten State owned universities with allied institutions which appear to have slight differences in their curricular. This may make quality assurance impossible.

The government grip on education may not be entirely healthy since it constitutes the judge and the jury. Regulations and conditions imposed on private university owners are very stringent, yet government itself cannot meet those stringent measures or conditions in public institutions run by it (Faagbamiye, 2004). It thus seems inappropriate that government should deregulate the sector and thus restrict its role to funding, regulating and monitoring to ensure that quality assurance is maintained.

In terms of examining the mechanisms for quality assurance in Cameroon universities, the following terms need further explanation:

1. *Assurance*: This denotes a concrete statement about an event that will certainly happen or occur particularly when there has been doubt. It implies guarantee or promise of fulfillment of a happening (Turnbull, 2013). Relating to this study it portrays that there are some conditions that will be fulfilled (i.e. mechanisms) to achieve quality education in Cameroon's universities.

2. *Deregulation*: This refers to passive, to free trade or to business activity which a nation enactment or law approves (Turnbull, 2013). For instance, Guidelines for Education, Law NO.98/004 of April 1998 part (2), paragraph one states that "formulation and implementation of Education shall be the responsibility of State Government, Regional, local authorities, families as well as public and private institutions" (Republic of Cameroon, 1998 p.5). Connotatively, this is relevant in this study.

3. *Mechanism*: According to Joanna Turnbull (2013), mechanism is a set of moving parts in performing a task. It implies the method or a system for achieving success. Relating to this study, it shows that there are factors or principles if followed systematically will yield a higher or excellent achievement in university education in Cameroon.

4. *Quality*: This word means standard of something if compared to other things of similar magnitude. It denotes how good or poor/bad a thing is. In other words, it shows goods of top or higher quality (Turnbull, 2013). Relatively, it is the desire of researcher to see that if the mechanisms would yield the desired aims or goals of Cameroon education.

2. The Concept of Quality

Quality refers to "fitness for purpose" (Okebukola, 2005). Quality assurance in university education for example examined the effectiveness and efficiency of the administrator, teaching, learning, and research. In universities, the quality of graduates could be measured by their skills, the graduates' prepared and ability to produce and serve the demands of labor market and the society in various human endeavors. It could also judge on how teachers are efficient, how adequate and accessible the facilities and materials needed for effective teaching and learning are, and also how prepared and ready the graduates are in meeting the challenges in their area of discipline.

The essence of this paper would be to provide information to the public and other interested parties to improve quality and standards, thus giving credibility towards implying bringing confidence in purchasers that will be making a worthwhile investment when they ended in a program. Ensuring control in respect of public money. It means making it clear regarding the purpose of programs and promoting standards and quality.

3. Mechanism for Quality Assurance in Universities

Mechanisms for quality assurance include: (a) internal regulatory mechanism, and (b) approval for new programs in the universities. It implies that all proposals for the establishment of programs that should follow strict internal guidelines because such proposals emanate from the Ministry of Education and scrutinized through National Advisory Council on Education and Senate.

In this way, all relevant inputs and queries would have been made and addressed. The Vice Chancellors/Rectors of Universities should be carrying out regular monitoring and periodic review of their programs. Such monitoring should consider how effective a program achieves its stated objectives or goals and the success of students in attaining the intended learning outcomes. This function is usually carried out by the ministry providing the program and often involves a program team appraising its own performance at the end of an academic year.

The process should take into account reports from external examiners, staff, society and student feedback, reports from any professional body that accredits the programs and feedback from former students and employers. It may result in adjustments to the curriculum or to assessment to ensure continued effectiveness (Okebukola, 2005).

4. Appointment of External Examiners

It is important for universities to appoint external examiners who should report to the chief executive of the institution. The External Examiners should be independent academic experts, drawn from sister institutions or from areas of relevant professional practice. External examiners give impartial advice on performance in relation to particular programs.

However, institutions require their external examiners in their expert judgment to report on: whether the set standards are appropriate for awards or award elements, by referring to subject benchmark statements, the framework for higher education qualifications, institutional program, specifications and other relevant matters.

The standards of student performance and the comparability of the standards with those of students following similar programs in other higher educational institutions;

The extent to which the process for assessment, examination and the determination of awards are sound and have been fairly conducted.

4.1. External Regulatory Mechanisms

Notable External Regulatory Mechanisms are the following:

1. External Examiner should not have been bought over.

2. Program Establishment in Cameroonian Universities: As universities subject their proposed programs to various levels of scrutiny these same programs prior to establishment have to be approved. Observation by the supervisory body of government has to ensure that the guidelines have been achieved. This is an added mechanism of external examiners of ensuring quality and appropriate standards in Cameroon Educational System.

3. National Advisory Council Accreditation in Cameroonian Universities: In the recent past, there has been an increasing concern on the part of government to ensure that higher education in their countries is worthy of respect. As a result, national approaches to extra institutional examination have been established, which have taken forms that reflect different national styles, beliefs, values and norms.

In the United States of America (USA), for instance, it depends on private accreditation agencies for the accreditation of its institutions, the Netherlands operates a system of peer review which is under the control of the universities themselves and in the United Kingdom (UK), an agency known as Quality Assurance Agency for Higher Education is saddled with the responsibility of assuring quality (Okebukola, 2005).

However, in Cameroon the situation is complex because the Netherlands and the United Kingdom methods are applied hence the Ministry of Higher Education does the work as an agency of the Government and since university Authorities desire efficiency, they adopt the Netherlands model. This is because Cameroon is a developing nation desiring to use these two strategies of mechanisms of accreditation of its universities.

The National Advisory Council consists of academicians and professional. This body has produced a working document known as "guidelines for Education in Cameroon". This document contains the minimum academic standard which serves as the reference document for the accreditation of programs in universities and coordinated by a department in the Ministry of Higher Education.

The National Advisory Council and the Ministry of Higher Education are Statutory organs of the Government in accordance to Law No. 98/004 of April 1998 enacted by the president on 14th April 1998 in part (5), section 40-42. These two organs are saddled with the responsibility of overseeing that the minimum academic standards for all programs taught in Cameroonian Universities are according to the guidelines. The functions of this organ include verification of all programs and accreditation of such programs have met the desired aims or goals (Aliu, 1998).

It should be noted that the document is an external regulatory mechanism of enhancing quality in Cameroon universities. It has been revised and coined as Benchmark Minimum Academic Standards (BMAS). Furthermore, accreditation by professional bodies is a feature of quality assurance.

4. School Auditing: This important quality assurance mechanism involving a visitation to be initiated by the authority of the institution. This directive initiated empowers the visitor who should be the president or his representative in case of State Universities and for private universities would be the proprietors.

The Act of the visitor states that "A visitor shall be entitled to enter a university to inquire into the academic or other affairs of the university or conduct an inspection of the university and buildings, equipment and records where the inspection is in the opinion of the visitor relevant to his or her inquiries". Visitation assists in assessing the extent to which an institution's quality assurance schemes that are in practice, operates in a manner which ensures acceptable quality and standards in teaching and learning.

However, in the past visitors posed threat of intrigue and punishments of sorts. Future visitation should be geared towards fulfilling its primary assignment of quality assurance. Auditing means searching all nooks and crannies of the universities. It is therefore an important quality assurance mechanism hence it involves the government because it is a dare needed of manpower especially at this time of science and technology for global competition.

5. Research Assessment Exercise

This exercise is in all State owned institutions in Cameroon except in private universities. It is one of external quality assurance processes. The aim is to give grants to lecturers for research. This has been significantly entrenched in Cameroon universities system but it needs increase.

For the purpose of congruency and promotion of quality assurance in university education delivery, the National Education Board, National Advisory Council, Ministry of Higher Education and the professional Bodies should hold meetings regularly. These meetings will enable both to objectively examine quality assurance issues and problems and also make some changes hence no educational program is static.

6. Recommendations and Conclusions

To ensure quality control of school system in the face of deregulation which has opened the doors of provision and management of schools to private individuals and Non-Governmental Organizations (NGOS), the inspectorate department or unit of the Ministry of Higher Education and allied Ministries of Education must arise to their responsibility of ensuring regular visits to both government and private schools to collect data about teachers, their qualifications, specialization, experience, marital and work load.

Other indicators for monitoring the quality of education in Cameroon are:

1. Administrators' preparedness in terms of qualification and experience, availability and suitability of teaching materials, the teaching environment in terms as it relates to school size and pupil/teacher ratio.
2. Another important factor in ensuring quality control is the physical environment of the schools as it concerns the school location, the availability and quality of school facilities (classrooms, sports, areas, office accommodations, toilet facilities etc.).

It should however be emphasized that collecting these data without adequate utilization would amount to wastage of resources. It is the strong belief of the writer that the data based could be used to conduct policy analysis and to inform planning and management decisions in the context of the implementation of Deregulation Policy of the Government as it borders on entrepreneurship education and quality management in Cameroon.

3. Academic staff should be reassessed to ascertain their continuous relevance in the system, those found wanting should be shown the way out.

4. There should be linkages of universities to universities relating to the curriculum contents and issues of quality assurance.

5. There should be universities linkage to world of practical since this is an age of science and technology for universal or global participation of nations hence Cameroon desires emerging a developed nation in 2035.

6. Supervision in schools should be devoid of fault finding or used as an opportunity to settle score.

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