

International Journal of Latest Trends in Finance & Economic Sciences

E-ISSN: 2047-0916

Volume 1 No. 1

March 2011



Copyright © ExcelingTech Publisher,
United Kingdom
Web: excelingtech.co.uk
ojs.excelingtech.co.uk/index.php/IJLTFES

Editorial Board

Editor in Chief

Prof. Dr. José António Filipe, Instituto Universitário de Lisboa (ISCTE-IUL), Lisboa, Portugal

Managing Editor

Prof. Dr. Sofia Lopes Portela, Instituto Universitário de Lisboa (ISCTE-IUL), Lisboa, Portugal

Editorial Board Members

- **Prof. Dr. Manuel Alberto M. Ferreira**, Instituto Universitário de Lisboa (ISCTE-IUL), Lisboa, Portugal
- **Prof. Dr. Rui Menezes**, Instituto Universitário de Lisboa (ISCTE-IUL), Lisboa, Portugal
- **Prof. Dr. Manuel Coelho**, ISEG/UTL, Socius, Lisboa, Portugal
- **Prof. Dr. Isabel Pedro**, IST/UTL, Lisboa, Portugal
- **Prof. Dr. A. Selvarasu**, Annamalai University, India
- **Prof. Dr. Desislava Ivanova Yordanova**, Sofia University St Kliment Ohridski, Bulgaria
- **Prof. Dr. António Caleiro**, University of Evora, Portugal
- **Prof. Dr. Michael Grabinski**, Neu-Ulm University, Germany
- **Prof. Dr. Jennifer Foo**, Stetson University, USA
- **Prof. Dr. Rui Junqueira Lopes**, University of Evora, Portugal

Abstracting / Indexing

International Journal of Latest Trends in Finance and Economic Sciences (IJLTFES) is abstracted / indexed in the following international bodies and databases.

- EBSCO
- Google Scholar
- DOAJ
- Scirus
- Getcited
- Scribd
- NewJour
- citeseerx

Table of Contents

1. Social Responsibility and Environmental Sustainability - The Case Study of Vale (Brazil)	1
Ivo Cunha Figueredo, José António Filipe	
2. On the Use of Discounted Cash Flow Method on the Customer Valuation	12
Sofia Portela, Rui Menezes	
3. Rights Based Management and the Reform of the Common fisheries Policy: The Debate	16
Manuel Pacheco Coelho, José António Filipe, Manuel Alberto Ferreira	
4. Marketing Strategies vis-à-vis Consumer Preference for Aquarium Business Service	23
Selvarasu A., Sankaran A.	
5. Growth Plans of Bulgarian Enterprises: An Empirical Investigation of Individual, Organizational and Environmental Influences	30
Desislava Ivanova Yordanova	
6. Consumers Perception Regarding Brand Equity of Fast Food Restaurants in District Peshawar	39
Raza Ullah, Ghaffar Ali, Jamal Shah, Qaisar Shah Safi	

Social Responsibility and Environmental Sustainability. The Case Study of Vale (Brazil)

Ivo Cunha Figueiredo¹, José António Filipe²

¹ Instituto Universitário de Lisboa (ISCTE-IUL), Lisboa, Portugal

Email: ivofigueiredo@ig.com.br

² Instituto Universitário de Lisboa (ISCTE-IUL), BRU/UNIDE, Lisboa, Portugal

Email: jose.filipe@iscte.pt

Abstract - Corporate social responsibility deals with companies' actions aiming a positive impact namely on environment, consumers, employees or communities, for example. It requires a set of duties and obligations, in relation to the society and to the communities in which the organization is operating. In Brazil, the corporate social responsibility is still a big challenge, since the actions of social responsibility have not contributed effectively to improve the living conditions of society and the transformation of existing social reality. This study emphasizes the perspective of environmental sustainability that underpins the more general concept of social responsibility. Besides, it is presented the case study of the company Vale, carrying out business in Brazil.

Keywords: Social Responsibility, Sustainable Development, Environmental Sustainability, Vale.

1. Introduction

The evolution of Vale over the years made the company a mining giant. It is the second mining company in the world at the beginning of the century. Vale had got a radical transformation in its concepts with its privatization in 1997 and has expanded throughout the country, with investments in various sectors of the economy, like manufacturing of pulp, rail and port logistics, manufacturing, aluminium, reforestation and holding the exploitation of all kinds of minerals such as gold, manganese, bauxite and kaolin.

In these circumstances, the company began operating in 14 of the 27 states, with much emphasis on the Eastern Amazon in the states of Pará and Maranhão, from the Carajás project installed in 1980 in Pará, considered the largest mining project in the planet and having the iron ore with the best quality. The impact of this project, as well as other smaller ones not necessarily of lesser importance, and the continuous social and environmental concerns, made the company to become the main economic actor in this region. Since its privatization, the dialogue between the society and the company has received much attention considering the existing ideas for economic development and for the sustainability of the region, possible to be made or allowed to be discussed in this dynamic.

Considering that Vale is set in the particular industry of mining, with significant environmental implications, the context of the problem of sustainability and responsibility is very central in any approach in discussion about this theme. The role of Vale in the society in general and in local communities have changed significantly over time.

In fact, companies are today much concerned with the image they have in the public opinion. When organizations commit with social responsibility, they intend to behave ethically and intend to make business considering communities' interests.

If an organization intends to be socially responsible, many presumptions have to be considered and ecological, social, ethical or even cultural concerns have to be taken in account. The organization has also to take into account all stages of decision-making procedure.

The example of Vale in Brazil is presented to show important strategic policies carried out by companies dealing with social responsibility.

The purpose of this study is to emphasize the perspective of environmental sustainability that shows the more general concept of social responsibility. It is intended to analyze the strengths and weaknesses of the development of measures of social responsibility in this area and to see an example of what some companies are doing now on this matter in Brazil.

2. Corporate Social Responsibility: an aim on Business

Corporate social responsibility is the continuing dedication to a responsible business, behaving in ethical premises and contributing to economic development, improving the life quality of workers, of their families and of local communities, aiming to have a positive contribution for the society as a whole.

The organization must be active and lead to the economic, technological and human development. To that extent, its performance requires full respect for human rights, investment in personal enhancement, environmental protection, combating corruption, compliance with social norms and respect for ethical values and principles of the society in which it operates.

Social responsibility requires a set of duties and obligations to be accomplished by individuals and firms in relation to the society and to the communities. Social responsibility deals with companies' actions aiming a positive impact in many areas as the environment, consumers, employees or communities, for example.

In Brazil, the basic needs of large segments of the population are still not being met. Issues related to survival, hunger, unemployment and social exclusion, among others, lead discussions about social responsibility of business to a lower level. In this sense, it is necessary an important debate on the corporate social action in Brazil.

The beginnings of discussions about corporate social responsibility in the United States and Europe dealt with problems relating to environment and consumer rights. The Brazilian reality raises other questions, much more intense and urgent to be tackled and solved. The concept of social action is that, currently, more closely reflects the performance model of the Brazilian companies that practice social responsibility, as defined by the IPEA (Instituto de Pesquisa Economica Aplicada) as those actions that are not obligatory, performed by the companies through donations or projects in areas such as social assistance and food, among others. However some interesting developments in this area are made by some companies in Brazil.

3. The Concept of Social Responsibility

The company management cannot and / or should not be guided towards the fulfilment of interests of the owners of the company, but also because of other stakeholders' interests such as the ones of employees, local communities, customers, suppliers, public authorities, competitors and society as a whole.

In practice, corporate social responsibility refers to the adoption of a model of business management in which the companies, being aware of their social commitment of co-responsibility in social and human development, hear, preserve and respect the interests of different parties, their stakeholders, incorporating different needs of the business planning and operating them through their decisions and activities.

There is no doubt that this is a significant change because, a few decades ago, one had the idea that private companies should be accountable only to their shareholders and they should produce profits.

Although much discussed, the concept is not yet finally stabilized. In any case the effort of researchers to differentiate the simple idea of charity has proved essential to its proper scope and understanding by companies and managers.

There are countless interpretations and definitions of corporate social responsibility. Possibly the best way to analyze the concept of corporate social responsibility is to identify some different views (see Melo Neto & Froes, 2001):

- The social responsibility as an attitude and ethical and responsible corporate behaviour. Concept and duty associated with the organization's commitment to assume posture transparent, accountable and ethical relationships with its stakeholders (customers, suppliers, government, community in general).
- The social responsibility as a set of values: not only incorporates ethical concepts, but a series of other concepts that gives sustainability, for example, self-esteem of employees, social development and others.
- The social responsibility as corporate strategic posture: The quest for social responsibility is seen as a social action strategy that generates positive return to business.
- The social responsibility as a relationship strategy: Focusing on quality improvement of relationships with different stakeholders, i.e., social responsibility is used as a strategy of relationship marketing, particularly with customers, suppliers and other collaborators.
- The social responsibility as institutional marketing strategy: The focus is on improving the corporate image. It is the institutional gains that justify the investment in social projects undertaken by the company.
- the social responsibility as a strategy for recovery of the shares: "The reputation of a company and the value of its shares on the market go together".
- The social responsibility as a human resources strategy: The actions are focused on employees and their families with the aim of increasing personal satisfaction and generate increased productivity.
- The social responsibility as a strategy for recovery of products / services: Beyond the mere attestation of quality products and services company, is the purpose of guaranteeing them the status of "socially correct".
- The social responsibility as a strategy of integration in the community: The company seeks to improve its relations with the community and redefining innovative ways to keep it inserted.
- The social responsibility as a strategy of social development in the community: the organization takes over the role of agent of local development, along with other community organizations and the government itself.
- The social responsibility while promoting individual and collective citizenship: By their actions, the company helps its employees to become true citizens and contributes to the promotion of citizenship in the community.

- The social responsibility as an exercise in ecological consciousness: The social responsibility is seen as leading to environmental liability company to invest in education and preserving the environment by becoming a broadcaster of values, attitudes and environmental practices.
- The social responsibility as a strategy for social inclusion: Linked to the concerns of "Social Inclusion".

All these dimensions are, in fact, a part of a comprehensive overview of the concept. Thus, it is possible to withdraw this central idea, as greatest common divisor: Corporate Social Responsibility as a voluntary integration of social and environmental concerns in the daily operations of the organizations and interaction with all stakeholders.

Social responsibility is the fulfilment of duties and obligations of individuals and companies to society in general. Corporate social responsibility is assumed as a form of ethical management and transparency that the organization has with its stakeholders to minimize negative impacts on the environment and community, has to take into account all stages of decision-making procedure and shape it in the context of the community in which it operates.

The organization must be an active agent and must lead the economic, technological and human development. To that extent, its performance requires full respect for human rights, investment in personal enhancement, environmental protection, combating corruption, compliance with social norms and respect for ethical values and principles of the society in which it is operating. Social responsibility requires the accomplishment of a set of duties and obligations, whether individuals or firms in relation to society and the communities in which the organization operates.

Social responsibility presupposes the existence of an attitude and ethical and responsible corporate behaviour, a set of values, an entrepreneurial strategic posture; a relationship strategy, a strategy of institutional marketing; strategy valuation of the shares, a human resources strategy; a strategy to develop products/services, a strategy of integration into the community, a strategy of social development in the community should work as a promoter of individual and collective citizenship, as an exercise in ecological awareness and professional training as an exercise. It is these multiple aspects that constitute an integrated support to a responsibility that organizations must take, including to ensure their long-term operation.

4. Environmental Accounting

The social accounting arises in order to contribute effectively to the prosperity of organizations and nations, transforming the accounting information system

in a broader package, whereby statements are presented not only financial and economic, but also those of social and environmental nature indispensable for the analysis, control, evaluation and decision making, in the world context of globalization and constant change (Kroetz, 1999).

Environmental accounting is the record of environmental assets. Paiva (2003) defines it as the activity of identifying data and records of environmental events, processing and generating information that assists the user serving as a parameter in his decision making.

For Ferreira (2003), the development of environmental accounting results from the need to provide information tailored to the needs of environmental management. The author states that the environmental accounting does not refer to a new accounting, but a set of information to report fairly, in economic terms, the actions of an entity that alters its assets. This set of information is no other accounts but a specialization. This is a new base and a new system of recognition and measurement of costs, including externalities.

For Bergamini Jr. (1999), environmental accounting aims the registration of the company's transactions that impact on the environment and their effects that affect or should affect the economic and financial position of the business, ensuring that costs, environmental assets and liabilities are accounted in accordance with generally accepted accounting principles or in its absence, with the generally accepted accounting practices and environmental performance and with the wide transparency that users of accounting information need.

For the Environmental Reporting Guidelines cited by Tinoco and Kraemer (2004), environmental accounting is a framework that quantitatively estimates the environmental conservation efforts in monetary terms. It is also a significant technique that may indicate the state of environmental conservation to stakeholders. This accounting is more ambitious than the traditional, since it aims to know the negative externalities and record, measure, assess and disclose all environmental events.

Yet in the view of Taylor (2004), the role of environmental accounting is to provide regular information to internal and external users about the environmental events that caused changes in the assets of the respective entity, measured in currency.

5. Environmental Event

Environmental event is any entity's interaction with the environment that generates economic consequences of present or future, in view of the regulatory standards

or social responsibility that is subject to a specific company.

Examples of environmental events have been spending on development or acquisition of technologies, machinery and antipollution equipment; search for waste reduction, employee training methods of clean production and the laws, raising revenue, as a consequence of materials recovery (recycling), among many others.

Tinoco and Kraemer (2004) list events and environmental impacts related to operational activities of various sectors that affect the assets and business continuity, quality of life, fauna, flora, rivers and seas, and that therefore shall be subject to registration, collection, measurement, evaluation and dissemination by the accounts, highlighting in particular:

- Coal Mining: causes impacts on the environment evidenced in the atmosphere, soil and surface water and groundwater.
- Steel: Degradation of water quality, which requires local water-treating, construction of landfills, air pollution, pollution emissions from power plants, especially particulate matter, release of oils and greases, organic loading, soluble manganese, ammonia, etc. involving investments to control them.
- Other activities that also deserve mention: the production of lime, cane sugar, pulp and paper production and the oil industry.

Based on these events it is possible to quantify and record, through the accounting techniques, the environmental interactions surrounding businesses and entities.

6. Advantages of Environmental Accounting

According to Tinoco and Kraemer (2004), several advantages related to the use of accounting in the environmental focus may be pointed, such as:

- Measurement and allocation environmental costs, allowing a continuum of planning applications;
- Measurement of environmental liabilities;
- Intensive use of explanatory notes and environmental performance indicators;
- Being able to accurately verify the reductions in resources such as water, energy, soil and other potential physical environment;
- Making decisions based on the costs and benefits recorded in their own environmental accounting;
- Providing information and statements about the effectiveness and economic feasibility of the environmental actions;
- Publishing the social and environmental issues, creating transparency and social interest;

- Constant corrections of environmental actions, reducing the level of aggression against nature in the manufacture of products and services essential to the population,
- Quality data analysis and interpretation by both internal and external audiences, allowing an evaluation of the quality of environmental management of the entity.

7. Environmental Preservation

The concept of sustainable development has emerged from studies of the United Nations on climate change in the early 1970s, as a response to the concern of humankind, given the environmental and social crisis that has befallen the world since the second half century. This concept, which seeks to reconcile the need for economic development of society to promote social development and respect for the environment, today is a vital topic on the agenda for discussion on a variety of organizations, and with different levels of organization society, as in discussions on the development of cities and regions, current day-to-day society. Follows a short presentation of the evolution of the concept since its inception to the present.

The year 1968, according to Camargo (2003) was the first serious sign of popular discontent with the model of industrial capitalism towards the end of its cycle, with the outbreak of student protest in the chain, started in Paris in May 1968, rising Berkeley, Berlin and Rio de Janeiro.

Breaking the walls of the economics bastion, environmentalism came to question the economic rationality in terms of its own criteria. More specifically, the new debate shows that, compared to several problems and dilemmas that industrial development poses, the solution or the way to overcome them may not require a new jolt, but the adoption of restrictive measures to increase economic production, which raises the idea of ecological rationality as the basic principle and limiting the economic rationality and self development.

The Club of Rome, an entity formed by intellectuals and businessmen, who were not environmentalists, was an initiative that grew out of discussions regarding the preservation of natural resources of the planet. He produced the first scientific studies about environmental preservation, which were presented between 1972 and 1974, and that related to four major issues that should be resolved in order to reach sustainability: control of population growth, control of industrial growth, lack of production food, and depletion of natural resources (Campbell, 2002).

Development and environment have merged on the concept of eco-development, which in the early 80's was supplanted by the concept of sustainable development

that has been adopted as the official expression in UN documents, IUCN (International Union for Conservation of Nature) and WWF (World Wild Fund for Nature).

8. Social Responsibility and Environmental Sustainability in Brazil

Note that the concept of social responsibility can be understood at two levels:

- The internal level, it relates to workers and, more generally, with all actors and stakeholders (who are affected by business and, in turn, may influence the results);
- And the external level which considers the consequences of the actions of an organization on its external environment, including, among other things, its business partners and the environment.

In Brazil, although with regional differences in the way of realization of social action for communities, donating resources is the most used by many companies from all regions, and in South and Southeast, this donation is directed to organizations running social projects.

In the northeastern region of Brazil, the large majority of donations of funds are held by companies for direct assistance to needy individuals and communities. However, from the real meaning of corporate social responsibility, donating resources is not the essence, but the severity of problems in Brazil and the large proportion of the population lives below the poverty line make the social performance a big problem.

Besides, nowadays there are already many actions being planned by companies in order to incorporate activities of environmental sustainability and contribute through programs to the well fare of populations and resources preservation.

9. Vale and Environmental Sustainability

9.1 Environmental Issues in Brazil

The evolution of society especially after the re-democratization of Brazil and the 1988 Constitution, which guaranteed political participation through questioning of autonomous social organizations, NGOs and other institutions, and international pressure of all kinds on the expansion of economic projects in the region showed a new way to analyze the environmental and social impact.

With the new ecological and social concerns, the state itself has changed its approach to geopolitics to the area and began to seek a return to society of the projects to be implemented and also the approach to sustainability, long-term perspective, the degree of exploration and

employability. The companies that own or want to develop projects in the region began to show a series of socio-environmental in their statements, in addition to campaigning for clarification of their participation in the region. The main tool for informing the government and investors on these issues is the company's economic accounting and after the social and environmental accounting that can come as a part of the accompanying financial statements that have already been published by the company.

9.2 The Company: a bit of History

Vale (originally state-owned enterprise, privatized in 1997), called Companhia Vale do Rio Doce, was founded by decree on June 1, 1942, with operations concentrated in Minas Gerais, with the purpose of mining iron, during the government of President Getúlio Vargas, then a dictatorship began with the Revolution of 1930.

The connotation of the nationalist government Vargas was incorporated in the vision of the company that originally served only the domestic demand particularly CSN (Companhia Siderurgica Nacional). However, in the 60s the company takes an entrepreneurial leap and is now exporting iron ore to Japan. This change take the company to the next level to insert performance as an exporter of long range.

The evolution of Vale over the years turned it into a mining giant, the second mining company in the world at the beginning of the century, when the company had undergone a radical transformation in its concepts with its privatization in 1997. Vale expanded throughout the country, with investments in various areas of economy, such as pulp manufacturing, logistics, rail and port, aluminium fabrication, reforestation energy than the holding of all kinds of minerals such as gold, manganese, bauxite and kaolin.

In these circumstances, the company began operating in 14 of the 27 states, with much emphasis on the Eastern Amazon in the states of Para and Maranhão, from the Carajás project installed in Pará, the largest mining project in the planet and having the iron ore with the best quality. The impact of this project, as well as other smaller but no less important and constant social and environmental concerns, the company became the main economic actor in the region. Since its privatization, the dialogue between the society and the company has been focused on the economic developments and sustainability, which are possible to be reached or just discussed in this process.

9.3 The Company in the XXI Century

The company Vale is the second largest diversified mining company in the world in market value. World leader in the production and export of iron ore and

pellets, and an important producer of nickel, copper concentrate, bauxite, alumina, potash, kaolin, manganese, ferroalloys and coal, the company has offices and operations in over 30 countries on five continents. Vale was the first Brazilian company to achieve the rating of investment grade and the first Brazilian company to trade its shares on Euronext (Paris).

The company has gained an enormous strength with the ore extraction in the Amazon, more specifically in the Carajas region, located in the southeastern state of Para Company, in its first year, produced 40 tons of iron ore, equivalent amount that is loaded per hour today. Vale has diverse activities within the mining sector.

The company operates in the segments below:

- **Ferrous:** iron ore and pellets, manganese and ferroalloys.
- **Non-ferrous:** kaolin, potash, copper and nickel.
- **Logistics:** Railroads, port terminals, coastal shipping and logistics solutions.
- **Aluminum:** Bauxite, alumina and aluminum.
- **Energy:** Eight hydroelectric dams, seven of which are already in operation.
- **Coal:** The Chart 1 shows the diversity of work, identifying what each product represents in the composition of gross revenue.

CVRD holds maximum production of nickel, bauxite, alumina, copper, thermal coal, cobalt, platinum group metals and precious metals. The company guarantees sales *maxima* of iron ore, nickel, copper, alumina, cobalt, precious metals, platinum group metals and thermal coal.

Privatized in May 6, 1997, the company had a net worth in 1997 of U.S. \$ 350 million, with a market value around \$ 10.5 billion by offering 11 thousand direct jobs. In less than a decade after massive investment, the company increased nearly 10 times its gross revenue, according to data presented in chart 2.

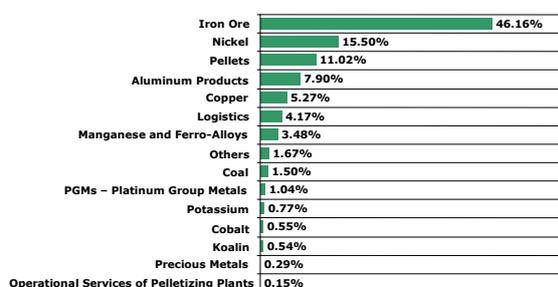


Chart 1. Composition of gross revenue (Source: Vale)

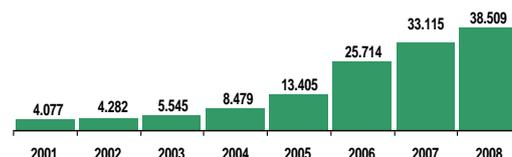


Chart 2. Gross Revenue in Millions (Source: Vale)

The privatization of Vale, whose sale is even nowadays questioned, brought to the company an enormous investment sum. On August 11, 2006, CVRD made a public offer of \$ 18 billion for Inco, Canada, which owned the largest reserves of nickel in the world. This business became an historic deal. It was the biggest investment made abroad by a Brazilian company. Vale has become one of the largest nickel producers in the world, with a production of 234,900 tons in 2006.

The transaction increased the market value of Vale and in December 2007 the company was valued in U.S. \$ 151,711 billion, with a number of employees of 152,724 in 2007.

In 2008, the company was considered the mining company that most invests in its production processes, as shown in the chart 3:

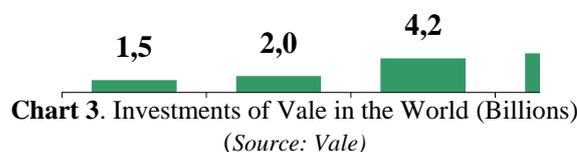


Chart 3. Investments of Vale in the World (Billions) (Source: Vale)

According to the data, Vale has invested more after its privatization in 1997 (and has increased its profitability).

9.4 Vale and the Environment

According to the company report, the essence of its work is the search for a balance between socio-economic development of territories and maintaining the quality of natural resources, biodiversity and life.

To do so, Vale has made continuous investments in the management of environmental impacts of operations and research of new technologies that improve the environmental control systems. The guidelines that guide its actions are explained in the policy of sustainable development of Vale, a document that guides the process from decision making to the actions performed on the day to day operations.

Vale considers the respect for the environment a key component of its sustainability strategy, seeking to

balance environmental protection and economic development. To come to this end, the company has an Environmental Policy, in which commitments to environmental aspects are clearly explained.

The company's main points of its environmental policy are as follows:

- Maintain an environmental management system, aiming to ensure that activities comply with applicable laws and standards set by the company, in the absence of specific legislation, Vale will implement the best measures of environmental protection and minimizing risk.
- Educate and train employees to act in an environmentally responsible, ensuring the implementation of environmental policy.
- Develop research and incorporate new technology for continuous improvement activities, aimed at reducing environmental impacts and consumption of energy and matter.
- Maintain on-going dialogue with its employees and the community, aiming at improving environmental actions.
- Strive to their subsidiaries and affiliated companies to adopt practices consistent with this environmental policy.
- Request their products and services suppliers with proven environmental quality.

Vale policies, standards and environmental procedures are defined by the Department of Environment and Sustainable Development, which coordinates the Management System for Environmental Quality (SGQA) of the company, setting guidelines and targets, monitoring the development of environmental performance and providing tools for managing the environmental aspects related to the activities, products and services of Vale.

The Environmental Policy with the subsidiaries is still in process of discussion and alignment. In the context of the Management System of Environmental Quality are developed measures for monitoring, conservation, environmental protection and recovery which ensure the maintenance and recovery of ecosystems in which Vale operates.

The environmental management system is based on the guidelines ISO 14001 (International Organization for Standardization). Periodically, the operations are subject to external audits.

In recent years, important achievements were obtained in the rational use of water and energy, waste disposal and the awareness of people to environmental quality. Follows the environmental performance of the last three years. Vale is in fact aware that there are opportunities for improvement and is committed to the continuous improvement in building an environmentally friendly business model.

According to the report of the company, Vale has a great concern for environmental issues, and as a consequence there are significant investments in the environment. Its commitment is not limited to the environmental control systems that are required. The environmental aspect is an important component of the evaluation of new projects and decision-making investment for expansion of the company. Expenditures are monitored monthly and reported quarterly to the public opinion, and it counts with periodic financial audits.

The relationship with the various stakeholders is present in Vale environmental management. In each area where Vale acts, the company tries to be an agent of change, listening from outside and proposing alternatives and looks for integrating other social actors in the effort of finding solutions to environmental issues.

In 2008, Vale volume of resources invested in the environmental area was U.S. \$ 678 million, almost 50% higher than that achieved in 2007. Most of the resources were allocated to three lines of expenditure:

- acquisition and implementation of environmental control equipment, aiming to improve performance in existing operations;
- maintaining environmental and geotechnical safety of dams and waste dumps;
- Reforestation and rehabilitation of degraded areas, which form the program Florestar Vale.

9.5 Environment Quality

The management system of environmental quality determines the development of effective monitoring, conservation, environmental protection and rehabilitation, aiming to ensure the maintenance and recovery of ecosystems in which Vale operates. The system is based on the guidelines of ISO 14001 (International Organization for Standardization) to which additional aspects were added making up the standard of environmental quality in Vale. Aiming to assess the management and guarantee the evolution of performance, multiple transactions are submitted periodically to internal and external audits.

Policies, standards and environmental procedures of a general nature are defined corporately, and management is under responsibility of operations and business areas.

9.6 Social Aspects

The quest to build a positive social, economic and environmental legacy in regions where Vale operates is one of the principles that underlie the Sustainable Development Policy of Vale.

Activities, especially mining, are limited to the lifetime of the mineral deposit and therefore the presence in a particular place, in general, is finite.

Along the mineral cycle, there is a challenge to Vale: to make that actions are catalyst for regional economic development based on regional competences, which can ensure the perpetuity of social welfare in equilibrium with the environment. In that search, Vale performs management actions that enhance the positive effects of the presence of Vale, reducing the social risks of operations and at the same time, contributing to strengthening the foundations for local development in the long run.

Vale invests in integration, in cooperation with public and social agents, to encourage:

- The hiring of local employees and suppliers;
- Education for human development, for work and income generation;
- Planning the use of taxes generated by the operations of the company;
- The diversification of local economies;
- The strengthening of institutions;
- Environmental conservation and cultural heritage.

Thus, Vale tries to build social transparent networks, based on dialogue and permanent respect for the culture of each community. At the same time, tries to invest in management tools to foster the development of the territories. The intention is to build, considering society as a whole, the foundation for continuous improvement of quality of life.

9.7 Management of Local Development

Vale has several programs and tools, in different areas and regions of operation, to manage social and environmental impacts arising from the activities.

In the analysis of the feasibility of implementing projects, the methodology Front-End Loading (FEL) is adopted covering social, health, safety and environment, and economic and operational risks.

Furthermore, based on environmental, social and economic assessments, performed in the EIA/RIMA (Environmental Impact Assessment and Impact Report for the Environment), potential impacts of the presence of Vale are considered in the regions already in the phase of licensing and deployment projects.

These tools, together with the socioeconomic diagnoses made by Vale Foundation, conduct the Management Programs of Environmental and Socioeconomic Impacts, intending to find the mechanisms to avoid or minimize negative impacts and to maximize the positive impacts on the performance of Vale. These programs are implemented according to the needs of each project and consider the particularities of each region. Through these tools, it identifies the main impacts associated with the presence of mining. Among them stands out:

- Direct economic impacts
 - **Positive:** Generation of Employment, Vocational Training, Increased taxes, Hiring of local products and services, investments in infrastructure.
 - **Negative:** Environmental impacts such as dust and noise, interference with land use, risks of accidents.
- Indirect economic impacts
 - **Positive:** increase the wages, benefit income making, Leverage of other economic sectors, suppliers attraction, development of local suppliers, attraction of investments from various spheres of public and private sectors.
 - **Negative:** Pressure on infrastructure and public services, due to population increases; speculation in remote areas, due to the low housing supply and high demand; generation of economic leakage effects, due to the hiring of suppliers and employees of other regions, due to the lack of local businesses and experts.

9.8 Programs and Management Impact Practices

In order to leverage and maximize the positive outcomes of Vale in the territories, Vale works with structured programs considering the various relationships that Vale has set.

9.8.1 Qualification

Vale seeks to maximize the hiring of residents of the localities where it operates, especially in developing countries and remote areas.

Vale invests in professional training programs related to mining activities and other activities of the local economy. Through these programs, Vale aims to contribute to employment and income generation and diversification of the economy of the communities where it operates.

9.8.2. Relationship with Communities

At all stages of the company's ventures, from the start to the closing of operations, Vale counts with an Institutional relations and communications team. There are programs for establishing relationships with the communities that are based on a permanent and participatory dialogue between the community and Vale. Programs include visits to mining communities, meetings with leaders and participatory forums. In addition, it is intended to establish a direct and transparent dialogue with not only the community but also with the local government in order to build a harmonious relationship.

9.8.3. Relations with Traditional Communities

Vale gives special attention to the traditional communities in the localities where it operates. The basic guideline of the Interaction Program with Indigenous Communities is to ensure that the benefits generated by the project are enjoyed by the indigenous

communities, respecting their cultural traditions in order to avoid, minimize or offset any adverse effects that the activity may stimulate.

9.8.4 Culture appreciation

It is understood that anyone can contribute and participate in programs of recovery, revitalization and protection of cultural property. Projects are supported and agreements settled to the restoration of cultural and archaeological heritage of places where it operates. An example is the project of rescuing the language of the Kanak communities.

Besides these programs, implanted directly in the units, Vale Foundation works for the development of communities where Vale is present, helping to empower people and respecting local cultural identities through social programs structured.

9.9 Investment in Infrastructure

Over the past three years, the amount applied was approximately \$ 169 million. There is a fall in the investment in infrastructures in 2008 due to the completion of current projects.

In the following years, southeastern Pará may have significant investments to remedy deficiencies in existing social infrastructure and prepare the region for a projected economic growth of 18% per year. To deal with these investments, the municipalities have counted with an ability of own investment which may have generated gross savings of \$504 million between 2006 and 2010.

This is one of the main conclusions of the Integrated Socioeconomics Diagnostic of Southeastern Pará, a study made between 2006 and 2007, by Vale and Vale Foundation, under the auspices of *Diagonal Urbana*, a Brazilian consultant, specialized in integrated social management that counts with the participation of communities.

Although a significant structural deficit, the Southeast of Pará has great opportunities for sustainable development. After all, it is one of the richest regions of the world in natural resources and one of the major mineral provinces in the world. Since it has begun operations in the region, in the 80s, Vale has been supporting the development of the municipalities that are in its area of influence, while helping to preserve an area of 8 thousand km² of native forest in *Mosaico de Carajás*.

Investments in infrastructure, urban sanitation, education and culture have contributed significantly to the development of the region. Even the company's growth over this period brought more opportunities for skills and employment for residents, more business for

local suppliers and increase tax collection by government agencies, contributing to the local socioeconomic development.

Vale has currently 15 projects in the area and intended to make new investments, trying to reach the total value of U.S. \$13 billion (from 2003 to 2010). To increase its presence and be more effective and socially responsible, Vale and its Foundation have decided that, first, it was necessary to know the region, understanding the present moment and projecting the future in the region.

Diagnostics marks only the beginning of the *Plano de Gestão Integrada em Socioeconomia do Sudeste do Pará* (an Integrated Management Plan for Socioeconomics of Southeast of Pará), which also includes the steps of preparing and implementing the Action Plan. The Plan, which is already being prepared in 2007, determines what should be done in the investments area and how each party should participate. The action already implemented is a stage of implementation of improvements, including efforts to seek financing. "This is a powerful tool that allows Vale to contribute to the sustainable development in regions where it operates", according Vale Foundation. The Plan includes six municipalities (*Parauapebas, Canaã dos Carajás, Curionópolis, Marabá, Ourilândia do Norte and Tucumã*), and influences the *Eldorado dos Carajás*.

9.10 Health and Safety Activities and Policies

In 2007, Vale has continued to carry out the strategy for health and safety through various activities, among which are:

- Policy Review Health and Safety - the new text of the policy specifies the commitments and the basics of managing Health and Safety, which embody the value of respect for life.
- Elaboration of Requirements for Systemic Health and Safety - the standard defines what must be done to ensure the proper development of the organizational processes of Vale. These requirements stem from the Health and Safety Policy and its Principles. They are the ones that underlie the procedures, tools and performance indicators of health and safety management.
- Elaboration of Requirements for Critical Activities (RACs) - The requirements established for the execution of critical operational activities, with the purpose of preserving people's lives, ensuring the integrity and protect health in all areas of the company, so as in its subsidiaries and affiliates. The 10 activities of greater risk appetite for Vale are working at height, motor vehicles, mobile equipment, blocking and signalling, cargo handling, confined space, machine protection, slope stabilization, and detonated explosives and chemicals.

- Implementation of Information System Health and Safety - in order to improve the management and flow of information from Health and Safety, begins the deployment of a single information system for Vale in Brazil. The tool will support management decisions, according to the results of business areas.
- Membership in the Global Business Coalition on HIV / AIDS, Tuberculosis and Malaria - GBC (Global Business Coalition against HIV / AIDS, Tuberculosis and Malaria) - joins the group of more than 200 member companies of the GBC, an organization aimed at mobilizing resources for initiatives for combating and prevention of HIV / AIDS, tuberculosis and malaria.
- Event "Construction" - in June and July 2007, approximately 2.5 thousand leaders in Vale gathered in 19 cities of Brazil, to build together the foundations of a culture of prevention in health and safety.

The new Health and Security Policy of Vale, released in March 2008, establishes the following commitments:

- To control all risks associated with activities, processes, facilities, products and services.
- To act proactively in managing risks to health and safety of persons and facilities.
- Meet the legal requirements of health and safety and to take voluntarily.
- To continuously improve the performance in health and safety through the improvement of activities, processes, products and services, focusing on the use of innovative solutions and developing people competences.
- To encourage the development of performance in health and safety service providers.
- To maintain communication channels with the communities where operate and other stakeholders, so as to remain always alert to the influence of its operations in the health and well-being of people.

Since 2006, the performance goal of workplace safety (accidents with remote and internal corporate standards) is tied to variable pay of employees. In 2007, the process changed so that in contemplating the health data. The set of actions already implemented and the beginning of the process of cultural transformation have already shown some results.

Between 2005 and 2007, various measures to improve management of health and safety are implemented, for example, setting targets covering issues of health and safety for all departments and the intensification of awareness campaigns.

Starting in 2007, a process of improvement of registration procedures and data collection on health and safety began. The standards of classification of accidents were implanted according to the rules Occupational Safety & Health Administration (OSHA), the Agency for Safety and Health at Work in the United States, and

several initiatives for training and for employees awareness were held in order to standardize the recording of information.

With the implementation of this process, in 2007 some improvements were got.

Regarding the rate of accidents with lost time, a significant reduction was got over the period 2005 to 2007. This means that the accidents of greater severity were reduced. The perspective is that in the coming years, accident rates may continue to reduce, both because of the improvements implemented as because of the stability in the form of gathering and recording data. In this sense, the participation of Vale began in a working group of ICMM (SCHEBenchmarking) in order to align indicators of health and safety and occupational hygiene.

With regard to risk prevention and health guarantee, Vale maintains a rigorous system for identifying health risks in all its units. The goal is to use this information to the creation of specific programs that can be deployed, promoting an attitude of prevention by employees, relatives and the communities in which Vale operates. By the end of 2007, risks for the following diseases were identified:

- Occupational: musculoskeletal diseases, back pain, risk of hearing loss and pneumoconiosis.
- Endemic: intestinal parasites and diseases carried by animals, dengue, malaria, *chagas* diseases, yellow fever, hepatitis A and B, HIV / AIDS, leishmaniasis, and worms. Among the programs maintained by the company are: campaign to prevent sexually transmitted diseases - STD / AIDS, World Day to Combat AIDS, workshops on alcohol and smoking, and prevention campaigns against cancer and diabetes; support group for diabetics, hypertensives and people with cardiovascular risks; program of gym work, education program affective-sexual (Vale Youth - developed by Vale Foundation), aimed at young people from nearby communities in order to guide the sexual life and preventing the occurrence of sexually transmitted diseases; campaigns of vaccination against influenza, and inspections to prevent and treat dengue and yellow fever. Besides these initiatives, Vale offers health plans to its employees and third parties as described in the job session and People Development.

Such efforts have earned public recognition. The Healthy Living Program, of Albras, won in 2005, the Social Value Award (jury of experts and jury) in the category "Quality of Working Environment" and, in 2007, Lennart Levi Award in the category "Poster Enterprises", VII Congress of Stress of ISMA (International Stress Management Association). Vale invested U.S. \$ 25.2 million by the mid 2009.

According to the testimony of some local politicians, royalties would be a form of compensation to alleviate the problems acquired with the implementation of Vale projects in EPC. The royalties would also help to solve problems such as sanitation, health, etc., that are considered by municipalities as socially critical areas, which solutions would not be viable only with the transfers from state and from Union resources.

10. Concluding Notes

It is too early to gauge the results of this strategy. The impact of the conduct of social responsibility, especially in this aspect of environmental sustainability can only be realized in a longer period. In any case, and a perspective that brings us closer to an ex-ante, it is possible to draw attention to the conclusive following notes.

Companies with management strategy which believe in ethical and solidarity with their colleagues and with the Community share these processes as an important "capital".

Social responsibility is certainly not just philanthropy, but can/should also include this activity. Increasingly, social responsibility, in general, and promoting environmental sustainability, in particular, carries out an operation more effective if integrated into the global perspective of business and relationship with their environs.

The establishment of the whole strategy around climate change and policies considering the communities welfare allows to avoid dispersion and to avoid to stray image of a policy or meaningless policy without clear objectives. It reinforces the brand image with a seal of pertinence and internal coherence that enables more effective performance.

11. Acknowledgement

The second author is member of UNIDE-IUL Research Centre which support he thanks very much.

References

- [1] Melo Neto, F., Froes, C., *Gestão da Responsabilidade Social Corporativa: O Caso Brasileiro*, Qualitymark, Rio de Janeiro, 2001
- [2] Kroetz, C. E. S., Auditoria do balanço social. *Revista Brasileira de Contabilidade*, n. 116, Mar/Abr, 1999
- [3] Paiva, P. R., *Contabilidade ambiental*. São Paulo: Atlas, 2003
- [4] Ferreira, A. C. S., *Contabilidade ambiental*. São Paulo: Atlas, 2003
- [5] Bergamini Júnior, S., Contabilidade e riscos ambientais. *Revista do BNDES*, Rio de Janeiro, v. 6, n. 11, Jun., 1999.
- [6] Tinoco, J. E. P., Kraemer, M. E. P., *Contabilidade e gestão ambiental*. São Paulo: Atlas, 2004
- [7] Camargo, A. Governança para o século 21. In: Trigueiro, A. *Meio ambiente no século 21: 21 especialistas falam da questão ambiental nas suas áreas de conhecimento*. Rio de Janeiro: Sextante, p. 307-322. 2003.
- [8] Campbell C. J., Petroleum and people; *Population and Environment* 24/3 November. 2002.
- [9] Vale S.A - Relatório de Sustentabilidade 2007.

On the Use of Discounted Cash Flow Method on the Customer Valuation

Sofia Portela¹, Rui Menezes²

¹ Instituto Universitário de Lisboa (ISCTE-IUL), BRU/UNIDE, Lisboa, Portugal
Email: slportela@iscte.pt

² Instituto Universitário de Lisboa (ISCTE-IUL), BRU/UNIDE, Lisboa, Portugal
Email: rui.menezes@iscte.pt

Abstract - The Discounted Cash Flow Method has been widely argued as the best method to asset valuation. This article is about the valuation of customers. The use of historic customer profitability and the Discounted Cash Flow Method to customer valuation are discussed. Moreover, the components of customer lifetime value is presented and described.

1. Introduction

The 80s decade is characterized by the customer revolution, in which the main idea is the focus on customers rather than on products (Boyce, 2000). For a long time, the dominant philosophy was that “customer is always right” and thus managers focused in satisfying the customer needs and improving the customer satisfaction. This period is designed as “traditional marketing strategy” by Gupta and Lehmann (2005). According to these authors, a new paradigm has emerged, which they denominate “customer-base strategy”. Whereas in the first paradigm the main concern is the value that a firm provides to a customer, the second paradigm emphasises the two sides of customer value, that is, the firm should invest to provide value to the customer and, in counterpart, the customer should provide returns to the firm and its shareholders (Bolton and Tarasi, 2006). As such, this is an evolution from the “customer is king” to the “customer is cash” (Boyce, 2000).

Nowadays researchers argue that customers should be viewed as assets of firms (*e.g.*, Blattberg *et al.*, 2001; Dhar and Glazer, 2003; Gupta and Lehmann, 2003, 2005). Moreover, some researchers argue that customers are intangible assets of firms (*e.g.*, Dhar and Glazer, 2003; Gupta and Lehmann, 2003) because customers are not owned by the firms. In fact, firms only have a relationship with them, and even this relationship might be not exclusive (Dhar and Glazer, 2003).

Considering customers as assets, some authors point out that it is crucial to calculate their financial value to the firm (*e.g.*, Boyce, 2000; Gupta and Lehmann, 2003; Jain and Singh, 2002; Malthouse and Blattberg, 2004). The idea of valuing customers arose some decades ago. Even though the customer valuation

has been subject to a great development (Bell *et al.*, 2002), it has not been widely applied, due to the necessity of enormous amount of data and sophisticated models (Gupta and Lehmann, 2003). Furthermore, being intangible assets, customers are difficult to evaluate with precision (Gupta and Lehmann, 2003).

2. The Customer Value

Customer valuation has been mainly based on the principles of contemporary finance of assets’ valuation, more precisely the discounted cash flow method (DCF) method. The DCF method was proposed by Rappaport in 1986 and became popular in corporate valuation.

The customer value is usually called customer lifetime value (CLV). Other denominations have been used, such as customer profitability (Jain and Singh, 2002), economic worth of a customer (Berger and Nasr, 1998) and expected customer future value (Pfeifer and Farris, 2004).

Many customer value definitions and calculation formula were proposed in the literature. Nevertheless, the majority of proposals is based on one of the following formulas:

$$CLV = \sum_{t=1}^T \frac{revenues_t - costs_t}{(1+i)^t}$$

and

$$CLV = \sum_{t=1}^T \frac{cash\ flow_t}{(1+i)^t}$$

Nowadays, customer lifetime value is the most popular customer measure because it is forward-looking, includes all the elements of customer profitability and it is an essential element of the customer-centric paradigm (Kumar and Shah, 2004). In fact, customer lifetime value has become a buzzword in the last decade (Nasr-Bechwati and Eshghi, 2005).

Customer lifetime value is a more powerful measure than historic customer profitability analysis, because customer lifetime value looks at the future potential of the customer, whereas current and past

profitability is not forward-looking (Boyce, 2000; Jain and Singh, 2002). Customer profitability is the difference between revenues and costs associated with the customer during a specific period of time (Boyce, 2000) and this measure is calculated on a single period basis, usually the last economic year (Ryals, 2006). In this way, unlike customer lifetime value, customer profitability is not a good basis for developing marketing strategies (Ryals, 2002).

The process of customer lifetime value calculation should take into consideration the cash flow patterns (Nasr-Bechwati and Eshghi, 2005), the relationship birth, purchase activity, and the defection (Reinartz and Kumar, 2000). Therefore, the exact customer lifetime value calculation is contingent on several factors and firms should identify the model that best fit their situation (Kumar *et al.*, 2006).

Customer lifetime value has been widely studied and, as a result, a huge number of models are available in the literature. The sophistication of the models varies a lot, since simple models to more complex ones, which aim to incorporate the complexities of the real business situations. Several researchers have intended to evaluate the customers, estimating their lifetime value, but the majority of them only proposed formulas to evaluate the customer value (*e.g.*, Berger and Nasr, 1998; Gurau and Ranchhold, 2002; Pfeifer and Farris, 2004). Most of researchers neither present methods to forecast the customer lifetime value components nor indicate the necessary data.

3. The Components of Customer Value

As presented above, the mathematic formulation of CLV is based on the discounted cash flow method, which was imported from the finance theory. From an analysis of the CLV formulas proposed in the literature, it can be concluded that the most common components are: (i) cash flow, (ii) retention rate, and (iii) discount rate. An analysis of each of these components is presented below.

Some researchers argue that customer lifetime value is based on the difference between customer revenues and customer costs (*e.g.*, Calciu and Salerno, 2002; Gurau and Ranchhod, 2002; Mulhern, 1999), while other propose the contribution margin¹ (*e.g.*, Berger and Nasr, 1998; Malthouse and Blattberg, 2004; Reinartz and Kumar, 2000). Nevertheless, according to the financial theory, the value of any asset is the present value of its cash flows (cash inflows minus cash outflows) over time. Few researchers have accurately applied the cash flow concept on customer lifetime value.

The concept of cash flow is quite different from those of revenues and costs, and it is very important to

¹ According to the accounting theory, the contribution margin is the difference between revenues and variable costs.

have in mind their differences. Revenues are economic resources earned during a time period; they occur when the product or service is provided. In some cases, the product or service is provided but the firm has yet to receive cash; so, cash inflow occurs later than revenues. On the other hand, costs are economic resources used up in a time period and they occur at the moment of resources' consumption. In many cases, costs are paid in a time period different from their consumption, *i.e.*, the time period of costs is different from that of cash outflow.

The allocation of specific cash flows to the customer relationship is a very difficult task (Gupta *et al.*, 2006; Pfeifer *et al.*, 2005; Ryals, 2006), because the product-based accounting prevails on a great number of firms and the cost allocation to customers is sometimes subjective. Boyce (2000), Gupta and Lehmann (2005), and Stahl *et al.* (2003) emphasise that a customer-based accounting is fundamental to an appropriate customer-oriented management. Ryals (2002) mentions that current technology can help the record of the customer-specific costs. Wiesel *et al.* (2008) propose a customer equity reporting approach, which consists of a "customer equity statement" and a "customer equity flow statement". They developed a specific model for an e-business firm.

The following Table presents the components of cash flow as stated by corporate finance.

Table 1 – Components of cash flow

A. Cash Inflow
Operating cash flow
Residual value of working capital
Residual value of Capital Expenditures (CAPEX)
B. Cash Outflow
Net change in working capital
CAPEX
C. Cash Flow [A-B]

Operating cash flow is the difference between operating inflows and operating cash outflows. It can also be computed as shown on Table 2.

Table 2 – Components of operating cash flow

EBITDA ²
- Depreciation and Amortization
= EBIT ³
- Taxes
= EBIAT ⁴
+ Depreciation and Amortization

² EBITDA – Earnings before interests, taxes, depreciation and amortization

³ EBIT – Earnings before interests and taxes

⁴ EBIAT – Earnings before interests after taxes

= Operating Cash Flow

Nevertheless, past research has given emphasis only on customer revenues and costs and the others components of cash flows have been neglected.

Some researchers argue that one of the most important components of customer value is the retention probability of the customer at each period, which should influence the customer cash flows. The retention probability is the probability of the customer continues to do business with the firm. This probability has been widely designated in the literature by retention rate, which complement is the defection rate or customer attrition.

The discount rate is the rate used to transform expected future cash flows into a present value. The discount rate has to reflect the riskiness of the cash flows (Damodaran, 2002). It means that the evaluation of any asset (including customers) has to comprise both its return and risk. If customer risk is ignored, when a firm compares their customers based on their value, only returns are taken into account, and, consequently, firms are likely to take incorrect decisions, which may result on a huge customer portfolio risk.

4. The Most Common Assumptions in The Customer Lifetime Value Computation

It is usual to find customer lifetime value estimates based on assumptions that are misadjusted to the business reality as well as to the financial theory of assets evaluation. Some of these assumptions are: constant margin over time and across customers, constant retention rate across customers and over time, constant acquisition cost per customer, and constant number of customers over time.

5. Customer Lifetime Value Applications

Customer lifetime value models can be applied in several types of decision making, from operational and strategic marketing decisions to strategic decisions of the firm. Some of the most cited customer lifetime value applications in the literature are:

- Customer segmentation;
- Ranking the customers;
- Identification and distinction of the more profitable customers from the less profitable ones;
- Customer selection in acquisition and retention process;
- Marketing resource allocation across customers;
- Marketing resource allocation between customer acquisition and customer retention;
- Different decisions about customer acquisition and customer retention;
- Determination of the type and degree of relationship the firm wants to develop with its customers;

- Targeting and managing unprofitable customers;
- Design of marketing programs;
- Guidance for marketing investments and consequently, to maximise the return on marketing investments;
- Choosing the medias for communicating with customers and the frequency of communication;
- Analysis of the effects of different actions of the firm;
- Customer base valuation;
- Management of the existing customer base;
- Development of marketing strategies to maximise shareholder value;
- Firm valuation;
- Customer strategic planning;
- Decisions about mergers and acquisitions.

6. Conclusions

Even though the majority of proposed formulas for customer lifetime value computation is deterministic and, in our opinion, characterized by a more simplistic point of view than the generality of firm/customer relationship situations, the customer lifetime value concept has been applied in some different situations. Furthermore, customer lifetime value modulation has been widely criticised in the literature, mainly due to the incapacity of encompass all the variables that affect customer behaviour. As such, we argue that the development of stochastic models to compute the customer lifetime value is an imperative, and the unobserved heterogeneity need to be tested.

7. References

- [1] Bell, D., J. Deighton, W.J. Reinartz, R.T. Rust, and G. Swartz, 2002, Seven Barriers to Customer Equity Management, *Journal of Service Research*, 5 (1), 77-85.
- [2] Berger, P.D., and N.I. Nasr, 1998, Customer lifetime value: marketing models and applications, *Journal of Interactive Marketing*, 12 (1), 17-30.
- [3] Blattberg, R.C., G. Getz, and J.S. Thomas, 2001. *Customer Equity – Building and Managing Relationships as Valuable Assets* (Harvard Business School Press, Boston, Massachusetts).
- [4] Bolton, R.N., and C.O. Tarasi, 2006, Managing Customer Relationships, *Review of Marketing Research*, 3, 3-38.
- [5] Boyce, G., 2000, Valuing Customers and Loyalty: The Rhetoric of Customer Focus Versus the Reality of Alienation and Exclusion of (Devalued) Customers, *Critical Perspectives on Accounting*, 11 (6), 649-689.
- [6] Calciu, M., and F.Salerno, 2002, Customer Value Modelling: Synthesis and Extension Proposals, *Journal of Targeting, Measurement and Analysis for Marketing*, 11 (2), 124-147.

- [7] Damodaran, A., 2002. *Investment Valuation – Tools and Techniques for Determining the Value of Any Asset*, 2nd Edition (John Wiley & Sons, Inc., New York).
- [8] Dhar, R., and R. Glazer, 2003, Hedging Customers, *Harvard Business Review*, 81 (5), 86-92.
- [9] Gupta, S., and D.R. Lehmann, 2003, Customers as Assets, *Journal of Interactive Marketing*, 17 (1), 9-24.
- [10] Gupta, S., and D.R. Lehmann, 2005. *Managing Customers as Investments: The Strategic Value of Customers in the Long Run* (Wharton School Publishing, New Jersey).
- [11] Gupta, S., D. Hanssens, B. Hardie, W. Kahn, V. Kumar, N. Lin, N. Ravishanker, and S. Sriram, 2006, Modeling Customer Lifetime Value, *Journal of Service Research*, 9 (2), 139-155.
- [12] Gurau, C., and A. Ranchhold, 2002, How to Calculate the Value of a Customer – Measuring Customer Satisfaction: A Platform for Calculating, Predicting and Increasing Customer Profitability, *Journal of Targeting, Measurement and Analysis for Marketing*, 10 (3), 203-219.
- [13] Jain, D., and S.S. Singh, 2002, Customer Lifetime Value Research in Marketing: A Review and Future Directions, *Journal of Interactive Marketing*, 16 (2), 34-46.
- [14] Kumar, V., and D. Shah, 2004, Building and Sustaining Profitable Customer Loyalty for the 21st Century, *Journal of Retailing*, 80 (4), 317-330.
- [15] Kumar, V., K.N. Lemon, and A. Parasuraman, 2006, Managing Customers for Value: An Overview and Research Agenda, *Journal of Service Research*, 9 (2), 87-94.
- [16] Malthouse, E.C., and R.C. Blattberg, 2004, Can We Predict Customer Lifetime Value?, *Journal of Interactive Marketing*, 19 (1), 2-16.
- [17] Mulhern, F.J., 1999, Customer profitability Analysis: Measurement, Concentration, and Research Directions, *Journal of Interactive Marketing*, 13 (1), 25-40.
- [18] Nasr-Bechwati, N., and A. Eshghi, 2005, Customer Lifetime Value Analysis: Challenges and Words of Caution, *The Marketing Management Journal*, 15 (2), 87-97.
- [19] Pfeifer, P.E., and P.W. Farris, 2004, The Elasticity of Customer Value to Retention: The Duration of a Customer Relationship, *Journal of Interactive Marketing*, 18 (2), 20-31.
- [20] Pfeifer, P.E., M.E. Haskins, and R.M. Conroy, 2005, Customer Lifetime Value, Customer Profitability, and the Treatment of Acquisition Spending, *Journal of Managerial Issues*, 17 (1), 11-25.
- [21] Reinartz, W., and V. Kumar, 2000, On the Profitability of Long-Life Customers in a Noncontractual Setting: An Empirical Investigation and Implications for Marketing, *Journal of Marketing*, 64 (4), 17-35.
- [22] Ryals, L., 2002, Are Your Customers Worth More than Money?, *Journal of Retailing and Consumer Services*, 9 (5), 241-251.
- [23] Ryals, L., 2006, Profitable Relationships With Key Customers: How Suppliers Manage Pricing and Customer Risk, *Journal of Strategic Marketing*, 14 (2), 101-113.
- [24] Stahl, H.K., K. Matzler, and H.H. Hinterhuber, 2003, Linking Customer Lifetime Value with Shareholder Value, *Industrial Marketing Management*, 32 (4), 267-279.
- [25] Wiesel, T., B. Skiera, and J. Villanueva, 2008, Customer Equity: An Integral Part of Financial Reporting, *Journal of Marketing*, 72 (2), 1-14.

Rights Based Management and the Reform of the Common Fisheries Policy: The Debate

Manuel Pacheco Coelho¹, José António Filipe², Manuel Alberto Ferreira³

¹ ISEG/UTL, SOCIUS/ISEG, Lisboa, Portugal
Email: coelho@iseg.utl.pt

² Instituto Universitário de Lisboa (ISCTE-IUL), BRU/UNIDE, Lisboa, Portugal
Email: jose.filipe@iscte.pt

³ Instituto Universitário de Lisboa (ISCTE-IUL), BRU/UNIDE, Lisboa, Portugal
Email: manuel.ferreira@iscte.pt

Abstract: Besides some interesting results, the Common Fisheries Policy has not delivered a sustainable use of fish resources. Recently, the Pew Environment Group released a study that finds that E. U. fisheries have failed to reduce fleet capacity thus exerting fishing pressure on stocks at two/three time sustainable levels. Overcapacity and overcapitalisation of the sector was identified as the principal failure of the CFP. This conclusion may be well important in the CFP reform (2012) and put again the discussion about the tools that can be used to get sustainable management and better cohesion. The idea of creating markets for fishing rights as a means of internalising the externalities derived from the common property nature of fisheries have received considerable attention from the founding fathers of Law and Economics and Fisheries Economics such as Coase, Scott and Christy. Rights Based Management schemes have already been experimented in some specific fisheries and localizations. These experiences have a lot of teaching results about good practices of sustainable fisheries management and also about the limitations/risks of these tools. These conclusions are fundamental to explore the feasibility of these tools. The purpose of our study is to enter this debate and investigate the feasibility of introducing these new management regimes in the CFP.

Keywords: Fisheries, Rights Based Management, Individual Transferable Quotas, Common Fisheries Policy

1. Introduction

Recently, the Pew Environment Group released a study that finds that E. U. fisheries have failed to reduce fleet capacity thus exerting fishing pressure on stocks at two/three time sustainable levels. Overcapacity and overcapitalisation of the sector was identified as the principal failure of the Common Fisheries Policy (CFP).

This conclusion may be well important in the CFP reform (2012) and put again the discussion about the tools that can be used to get sustainable management and better cohesion. In a drafted “Green Paper” on the Reform, the European Commission is launching a wide,

no-hold-barred consultation to the national administrations, stakeholders, researchers and other interested people. The objectives are to discuss the problems of this CFP and to explore the alternatives of change and the ways forward the new reform of fisheries policy.

The principle of “Relative Stability” shapes the Common Fisheries Policy. Nowadays, the conservation and management regime of EU fisheries is based upon TACs and quotas. But, in recent years, much attention has focused on ITQs (Individual Transferable Quotas) and other Rights Based Management regimes as an approach that will encourage more efficient use in fisheries by the allocation of private property rights. One important issue in the debate of CFP reform is, precisely, the introduction of ITQs and other similar RBM schemes.

Our paper is a contribution to this debate. The paper investigates the feasibility of introducing these new management regimes in the CFP. Our fundamental issues are - if, and how, can we deal with the problems of conflicting objectives in the fisheries policy and what will be the impacts of such a policy in terms of European cohesion.

2. E.U. Fisheries: The Current Situation

Since the early 80s, when “Blue Europe” was settled, almost three decades have passed and the Common Fisheries Policy is confronted with major challenges. Some elements of the CFP were reviewed in 2002, and now, the Commission decided to seize the opportunity of passing another decade to undertake a new reform of this Policy.

Two fundamental causes explain the current state of European fisheries: *internal systemic weakness* of the management and conservation regime and *external challenges*.

CFP has not delivered sustainable exploitation of the resources. Conservation policy fails. Many stocks are outside safe biological limits. If current trends

subsist, many stocks will collapse. They've been exploited too heavily, particularly the demersal stocks. At the same time, fishing capacity went on growing. Illegal fishing and the lack of effective enforcement are also notable elements of this picture.

This situation isn't specific to the Community. In fact, worldwide concern about over-fishing and overcapacity in the fisheries sector is well documented. The economic fragility of the sector, reflected in poor profitability and declining employment, is the result of a special conjunction of over-investment, rising costs and diminishing resource stocks.

At the political level, the difficulties, associated with the design and implementation of a regulatory system, are substantial:

- Social constraints,
- Diversity of socio-economic structural conditions of the fisheries sector in the member states,
- Lack of involvement of the stakeholders in the management policy.

External challenges are, also, present in the explanation of this situation. The enlargement of European Union and the globalisation of the economy, the emergence of new players in world fisheries (especially coastal developing countries) and the increased focus on the environment are, perhaps, the most visible.

In the international scene, the CFP is confronted with a "creeping jurisdiction" process - the slowly slide to the coastal countries' jurisdiction of many resources which were usually "common-property". After the relative calm that succeeds the approval of the Law of the Sea (1982), conflicts and tension increased, in the 90s.

This picture is not entirely negative. CFP had positive results. It has managed the resources and contained conflicts at sea, provided some degree of stocks stability and avoided the total collapse of stocks in areas with higher pressure and assured the availability of supplies to the Europeans. However, according to the Commission, these results have been achieved at a high price in terms of the long-term viability of the sector and with inefficiencies in the allocation of resources that, perhaps, could have been more profitable if they were addicted to other sectors in the global European economy.

The critical problem is that the fleet profitability is jeopardised by the under-utilisation of investments. The excess capacity and a more-or-less constant value of landings to be shared between a large number of actors, reduces the capacity of each vessel to earn an adequate income. In this context, the subsidy policy, artificially reducing the costs and risks of investment, in an already over-capitalised industry, promoted over-supply of capital.

Recently, the Pew Environment Group commissioned a study (see the Report of Poseidon Aquatic Management Ltd, 2010) assessing the economic, environmental and social impacts of the Financial Instrument for Fisheries Guidance, from 2000 to 2006. The study finds that E. U. fisheries have failed to reduce fleet capacity thus exerting fishing pressure on stocks at two or three time sustainable levels. The members evaluated in this study accounted for more than 90% of the European fisheries subsidies (that amounted to 3,2 billion Euros). The key objective of the structural policy, that was to bring the fishing capacity of the European fleet into the line with the available biological resources, was not attended. Overcapacity and overcapitalization of the sector was identified as the principal failure of the CFP. The study also highlights that member-states failed to take environmental and social concerns into consideration when allocating public funding. This conclusion may be well important in the CFP reform and put again the discussion about the tools that can be used to get sustainable management and better cohesion.

3. A "Comprehensive Fisheries Policy

The Management and Conservation Regime of fisheries in the European Union is, to a high degree, the result of an historic process with multiple compromises among national devices and political interests. But, to look at the CFP as a simple, empirical result, of a day-to-day experience, is an error. Understanding the current difficulties is not possible without paying attention to the philosophy of intervention underlined in the options of 1983, when "Blue Europe" was settled.

The analysis of some basic documents and initial proposals of the Commission, in the 70s, allows identifying the philosophy and theoretical purposes that, implicitly or explicitly, were subjacent to the definition of the common fisheries management regime.

Since the beginning, two basic alternatives for the formulation of the European fisheries policy were to be considered. At one extreme, a liberal policy that should only establish competition rules in a common market; at the other, a policy of effective intervention, administered at a superior level, which could manage the resources in a perspective of equilibrium between the dynamic, biological conditions of fish growth and the economic conditions of resource use.

The Commission choice on the second was very clear: the necessity of a "comprehensive" fisheries policy was obvious. This choice rested upon the presupposition that free access (central to the Treaty of Rome) would lead to the overexploitation of the resources. This conviction was explicitly made: "The straightforward implementation of the principle of equal access is bound to result in the rapid exhaustion of resources; the consequences of such a situation would be unacceptable" (SEC (1975) 4503 final, p. 9).

Of course, that was a real problem for the Commission. Having the responsibility to assure the principles of the Treaty, it was out of discussion the opposition to the “equal access” principle. But, the fear of the “fishing race” and “overfishing” problems justified an intervention policy that could regulate the activity in the sector and obviate the perverse effects of open access.

For such a policy to be feasible, it needed a central authority. That involved a supranational management of resources because, allowing free arbitration of the sector development by national states, could lead to discriminatory action and poor enforcement and control.

In this context, we can also understand the purpose of the designed Common Structural Policy. This policy could help the poorest (and most dependent on fisheries) coastal areas in Europe by funding the modernization of the obsolete fleets of some member states. The so-called “fisheries fund” (Financial Instrument for Fisheries Guidance) was, in this sense, one of the fundamental elements of a real policy of structural reform but also of inclusion and cohesion in Europe, in what concerned the fisheries.

Settled the philosophy of intervention, the discussion then turned to the management tools. The choice was on command and control instruments (direct, non-economic regulation instruments). The control of catches and selectivity in fisheries, with the establishment of TACs and quotas, and technical measures of conservation (closed seasons, closed areas, minimum dimensions of fish caught and so on) were the preferred forms of regulation.

The motives of this option were based on several reasons that included an implicit evaluation of the advantages of this kind of controls vis-à-vis other regulation alternatives, namely, those usually designed as indirect-economic tools, like taxes or ITQs, whose principal objective is efficiency in resource use.

At least, five fundamental reasons made the justification of that choice.

First, the Commission recognised that a common policy had costs and generated a lot of administrative problems. The advantages of direct controls were clear. The design and control of these tools were simpler. The necessary biological information existed. The Community could count on the experience of organisations like CIEM, NEAFC or NAFO. On the other hand, the implementation of the regulation was a task that the Commission could not develop without the collaboration of the national administration services. The diversity of those, in terms of structure and efficiency, implied the existence of a simple and clear regulation, of unquestionable scientific hardness, as a pre-condition for an effective implementation. Of course, a policy based on economic tools should bring problems almost insurmountable: exigency in

information, high transaction costs in the preparation and negotiation of regulation, doubtful capacity of execution of the administrative staffs in several member states.

Second, the political constraint. Despite its complexity, this issue can be put in a simple manner. Taxes and other economic tools, which are very exigent in political negotiations, were simply abandoned. For example, difficulties in tax harmonization in EU are well known. Taxation is a sensible question, seen as a domain of national sovereignty. All concessions in this field are problematic. Direct controls are less exigent and facilitate the compromises.

Third, the problem of control and enforcement. The Commission has always given this question a central role in the Common Policy. Reasons are obvious. The Commission put the problem in ethics terms: “It’s the only way to assure that the sacrifices of some member states in the recovery of the stocks are not in vain because of the irresponsible action of others”. Once again, direct controls had advantages. Enforcement was easier with simple regulation that agents could understand, less costly in administrative terms, and, if there existed effective means of inspection, evasion was minimized.

Fourth, the Commission’s preoccupation with uncertainty in stock evolution and environmental and economic changes, made the need for flexible tools. The possible necessity of urgent actuation in situations of environmental crisis, gave the direct-control tools a strong advantage, because they were easier to manage and modify.

Finally, the Commission emphasised the objective of minimising the social costs of the fisheries policy. In an original proposal of September 76, the Commission explicitly expressed the preoccupation with social inclusion in the fisheries sector and with the European cohesion. In the opinion of the commissioners, the management regime should assure “an equitable distribution of the limited resources between the member-states”, and “maintain, as far as it is possible, the level of employment and income in the coastal zones and in the areas mostly dependent on fisheries”.

The European Parliament made pressure in this way, too, stating that the biological basis on which conservation and management regime should rest upon, could not be more than a starting point and, at least in the short run, the guarantees of employment and social inclusion were irreplaceable objectives. It is true that direct controls could not avoid the sacrifices of fishermen, unemployment and social tension. However, the reaction to other management economic tools that result in the abandonment of the less efficient producers, could be worst.

Facing these constraints, the answer was very clear: A system of TACs (total authorized capture) and quotas was a simpler solution for the problems of equitable distribution of fishing opportunities, depending only on the quotas distribution formula between member-states. This formula of definition and allocation of use rights in European fisheries is now dependent upon several factors, like the dependency on fisheries of some coastal areas, level of employment and redistribution of quotas by means of minimising the effects of Extended Fisheries Jurisdiction on distant water fisheries. This is the so-called Principle of Relative Stability that shapes the Common Fisheries Policy. It can be seen as a means of establishing a balance between the promotion of economic efficiency, in the long run, and the necessary social-economic equilibrium in the coastal areas, in the short run.

4. The Reform of the CFP

Besides the “balanced” fundamentals of CFP, this economic and juridical construction did not obviate the results we highlighted in the first part of this paper. As we said, the choice of direct control tools, in the regime that was designed in 1983, means that those instruments were, implicitly, better evaluated. But there were costs. Direct controls do not eliminate “common property” externalities. These tools can help the recovery of stocks but they do not exclude competition and inter-temporal rationality is not imposed to the agents. So, inefficiency is maintained and overcapacity and overexploitation persists.

What is interesting to analyse, now, is the following: Recognising the difficult situation of the fisheries sector and the management problem, the EU went on a great effort of reforming. Last Reform of 2002 pretended to mark a new beginning for the CFP. The main changes implicated:

- A long term approach in fisheries management,
- A simpler policy of fleet capacity, putting on the Member states the responsibility of reduction of the fishing effort and of adapting it to the existing resources,
- A better application and enforcement of common rules,
- Stakeholders' involvement.

But some problems subsisted. In our opinion, in the core, they had to do with the persistence of conflicts between objectives. One of the most relevant is the problem of the contradiction between decreasing fishing effort and the need of maintenance of jobs and of some socio-economic balance in the coastal areas. The maintenance of decent standards of living for fishermen would demand increases or, at least, the same level of captures. Such seems to be contradictory with the urgent need of stock recovery.

4.1 Quota Hopping and “The Pure Question of Democracy”

The so called “Quota Hopping” problem is a very good example of our doubts and preoccupations.

In the centre of the problematic we find (again) the Relative Stability principle. The fixed formula of quotas distribution between member-states reflects the fact that European fishermen representation is still linked to national and local communities. But this territorial logic is in perfect contradiction with the development conditions of a free market (as supported in the Treaty). In fact, free movement of capital and the “Free Establishment” principle rest under a different logic.

“Quota-hopping”, usually understood as the flagging of fishing vessels in order to fish against the catch quotas of another country, is a by-product of CFP. By purchasing vessels and quotas in different countries, some fisheries enterprises act like perfect multinational firms capturing fishing stocks that were supposed to belong to national fishing communities.

UK situation gives a “good” example. Although not restricted to this member state, it is the case of UK fleet that has attracted the most foreign investment, especially from Spain and Netherlands, and gave the phenomenon visibility for discussion. Something like 25% of British quotas were held, in the end of the nineties, by foreign-owned quota-hopping vessels.

This situation represents an important critic of the stakeholders to the CFP rules. They attacked the way the quota system is being circumvented by the so-called “flag” ships, which are vessels owned in one country but registered in another to allow access to its waters.

“Quota-hopping” analysis may give important lessons for CFP reform. The first lesson has a special interest for several Social Sciences, from Sociology to Politics, from Economics to History. In fact, this is a good field to investigate the dichotomy between a national oriented policy and the process of de-territorialisation arising from single market construction. We can observe how quota hopping emerges under the incompatibilities between the trans-nationalization process promoted through the “Europeanization” of EU policies and the territorial logic claimed by the national governments.

In this context, an important issue is revealed that, perhaps, surmounts the CFP, itself. That's the pure question of democracy: how can economic powers, in the process of market development, pass over the political decisions made by the democratic, elected institutions? And, in a certain sense, surmount the objective of cohesion that was implicit in the supranational management? In such a policy, both government and non-governmental agents no longer have the monopoly over the political agenda. CFP is

defined through permanent interactions and negotiations. The non-territorial logic of EU governance challenges the social order inherited from European welfare states. These transnational actors, using EU rules, move permanently in the search of more favorable conditions and profits. This mobility of capital encourages more competition in the European fisheries sector, and, at the same time, raises more social uncertainty in the Member states.

So, economic and social actors in the EU are no longer subject to one political authority that is able to guard the values of justice and equity. It seems that there are some actors who are playing “the rules of the game”, but, at the same time, surmounting the power of elected governments. The dynamics towards transnationalisation encourages a diffusion of power and blurs the exercise of political democratic elected administration.

4.2 Rights Based Management: The Debate

Quota-hopping analysis highlights another important subject for the future of Common Fisheries Policy: the issue of Rights Based Management.

All fisheries management systems in the world have introduced some form of use/access rights to face the problems derived from the “common property” nature of fisheries. The idea of creating markets for fishing rights as a means of internalizing the externalities derived from the common property nature of fisheries have received considerable attention by the founding fathers of Law and Economics and Fisheries Economics such as Coase, Scott and Christy. The solution is to create a market of individual transferable quotas (ITQs) and confide in the self-regulation of such a system to conduct the fisheries to the economic efficiency and to promote inter-temporal sustainable use of resources.

There are several possibilities of doing this. In general, we first need to determine the TAC that guarantees the sustainable use of the fish stock and then we can divide this total amount in several unit quotas that are distributed between the fishing enterprises. A market for quotas can also be created. The objective is that, after some time, the property rights will be driven to the most efficient agents, those that can allocate the resources in a perspective of optimal sustainable use along the time. Because they are the “real owners” they will internalize the effects of externalities.

Rights Based Management schemes have already been experimented in some specific fisheries and localizations. These experiences have a lot of teaching results about good practices of sustainable fisheries management and also about the limitations/ risks of these tools. These conclusions are fundamental to explore the feasibility of these tools as instruments of conservation in the CFP.

This kind of economic methods has a special advantage in the sense that they introduce mechanisms that should conduct the fisheries to the efficiency, eliminating the less efficient producers and changing, effectively, the agents’ behavior.

ITQs are usually considered the best regulation choice on efficiency grounds. Granting the fisherman an individual quota may reduce the incentives to race for fish. We can expect:

- Benefits at the capacity level and fishing effort rationalization,
- Reduced fleet size and optimal vessel configuration,
- Flexible and extended fishing seasons,
- Higher catch-per-unit of effort.

This may, also, enhance the quality of landings and improve markets and safety operations by avoiding the landings glut, by reducing storage costs and so on.

But there are also a lot of problems. Professor Copes, in the mid 80s, when the first experiences with ITQs were evaluated, referred the problems of property concentration and, of course, the consequent problem of unemployment.

After a period of change of quotas in the market, the problem of monopolization of the sector is well documented in several fishing-cases analysis. The number of owners tends to decline in time and there may be widening income disparities.

The unemployment is a huge difficulty of this method. The abandonment of the less efficient producers creates a lot of difficulties in some coastal areas where the mostly dependent on fisheries populations live. Given the poor capacity of inter-professional mobility of many fishermen, the introduction of these methods accelerates the social crisis in those depressed maritime worlds and put in danger some important cultures and ways of living.

We can also introduce other important issues. One relates with the mechanism design of this kind of methods. For example: How can we make the initial division and distribution of quotas? A “Grandfathering” system? Auctions? Should the initial distribution take account of “historic catches” from the companies? And what about those companies that, in a certain moment, did not enter a certain fisheries, but has now a real interest in the business? For those who were in the initial distribution, the quotas seem like a “windfall gain”.

Owners of initial quota will sell at a price representing the full present value of the stream of rents generated, that is, the ones wishing to enter will have to pay, in advance, the full value of resource rents – it’s what we call a “transitional gains trap”.

According to Ronald Coase, this is not a problem, because what is important is the final result. Something like the “Invisible Hand” will drive the system to the

best equilibrium solution. But, in the short time? What are the social and political reactions to these uncomfortable situations?

Also, the problems of monitoring. Usually, economists highlight these methods because they introduce some kind of self-regulation. In fact, the sense of ownership should give the property-rights users, the real perception that the results of their actions will affect the net economic benefits that results from resource utilization. So, they should manage the resources in a sustainable way. But, the reality shows that, without a government control policy, a lot of problems subsist, including data fouling and quota busting, discarding, more intensive utilization of best fishing grounds, etc.

And, of course, the problem of rents distribution - the issue of *equity* vs. efficiency always marking the debate in Economics. The economic theory proves the equivalence, in terms of efficiency, between the pigouvian tax and a scheme of ITQs, but the distribution gains between agents is still different. In the first case (pigouvian tax), the rents are optimized by the regulation Agency and, in the second (ITQs), rents and welfare gains are distributed between the private agents.

Besides the theoretical discussion on efficiency grounds, still persists the practical, fundamental question. Rights based management can improve the efficiency in fisheries management. But, who will ultimately receive the gains of sustainable use of resources. How will the rents be distributed? Who are the winners, who are the losers? "The winner takes it all?"

5. Concluding Remarks

What can we conclude about the possible generalization of these Rights Based Management schemes in the CFP? The principle of Relative Stability, which guides the allocation of fishing possibilities to the EU members, is, as we saw, an exemption from the internal market that is embedded in the CFP. However, the quota hopping is a signal that the agents circumvented this principle of territorial definition of rights. Perhaps, by setting up a transparent system for transfers of fishing rights, member states could more easily regulate and monitor such trade in use rights.

Since quota-hopping can be taken as the evidence of a desire to trade fish quotas at the EU level, we might think that a lot of inefficiencies are resulting from the actual regime of management and expect that in a new free regime of trade a clearly reduction in transaction costs would result. Of course, that would result in more economic efficiency. But, the issue of introducing a more liberal property rights trade system will have to confront the distributional effects of such a Coasian proposal.

References

- [1] Poseidon Aquatic Resource Management, Ltd & Pew Environment Group (2010), *Fifg 2000-2006 Shadow Evaluation*, Uk, Hampshire.
- [2] Clark, C. (1985), *Bioeconomic Modelling and Fisheries Management*, John Wiley & Sons.
- [3] COELHO, M. (2002), "Blue Europe" Revisited: The Reform of the Common Fisheries Policy", *Proceedings do 5º Encontro Internacional de Economia Europeia*, CEDIN/ISEG, FCT, Lisboa.
- [4] Coelho, M. (1999), *A Tragédia dos Comuns Revisitada, A Pesca do Bacalhau na Terra Nova, Consequências do Regime das 200 Milhas*, Tese de Doutoramento, ISEG/UTL, Lisboa.
- [5] Coelho, M. (1989), *Gestão e Conservação dos Recursos da Pesca*, ISEG/UTL, Lisboa.
- [6] Coelho, M., Filipe, J. & Ferreira, M. (2009), "The Quota Hopping Case: Common Fisheries Policy between Market and Law", *Proceedings of 9th ESA Conference*, RS06 Maritime Sociology, Lisboa.
- [7] Coelho, M., Filipe, J. & Ferreira, M. (2007), "Relative Stability and Free Establishment: The Common Fisheries Policy between two logics", *Proceedings of the Annual Conference on Advances in Management - ICAM 2007*, Niagara, Canada.
- [8] Coelho, M. , Filipe, J. & Ferreira, M. (2007), "Common Fisheries Policy and Quota Hopping: Some Lessons from the Anglo-Spanish Case", *Actas do Seminário Luso-Espanhol de Economia Empresarial*, Universidade da Beira Interior, Covilhã.
- [9] Coelho, M. E Lopes, R. (1999), "The Common Fisheries Policy and the Feasibility of ITQ's", in Hatcher and Robinson (Ed.), *The Definition and Allocation of Use Rights in European Fisheries*, CEMARE/University of Portsmouth.
- [10] Conrad, J. (1999), *Resource Economics*, Cambridge University Press.
- [11] Comissão Das Comunidades Europeias (2009), *Livro Verde. Reforma da Política Comum de Pescas*, COM (2009)163 final , Bruxelas
- [12] Drexl, J. (1993), "Was Sir Francis Drake a Dutchman? - British Supremacy of Parliament after Factortame", *American Journal of Comparative Law*, Vol. 41, N°4 pp.551-571.
- [13] European Commission (2009), *Reform of the Common Fisheries Policy, Green Paper*, Luxembourg, Office for Official Publications of the European Community.
- [14] European Commission (2009); "Common Fisheries Policy, Laying the foundations for the future", *Fisheries and Aquaculture in Europe*, N°44.

- [15] European Commission (2009), *Reflections on further reform of the Common Fisheries Document*, Commission Working Document.
- [16] European Commission, (2001), *Green Paper on the Future of the Common Fisheries Policy*, Brussels.
- [17] Filipe, J., Ferreira, M. & Coelho, M., (2008); "The Drama of the Commons. An application of Cournot-Nash Model to the Sardine in Portuguese waters. The effects of collusion"; *Journal of Agricultural, Food and Environmental Sciences*; Volume 2, Issue 1.
- [18] Filipe, J. , Coelho, M. E Ferreira, M. (2007), *O Drama dos Recursos Comuns*, Sílabo Ed, Lisboa.
- [19] Hatcher, A., Frere, J., Pascoe, S. & Robinson, K. (2002), "Quota-Hopping and the foreign ownership of UK fishing vessels", *Marine Policy*, Vol. 22, pp.1-11.
- [20] Holden, M. & Garrod, D (1994); *The Common Fisheries Policy*, Fishing News Books, Buckland Foundation, Oxford.
- [21] Inamoto, M. (2003); "EC Common Fisheries Policy in the Light of "Quota Hopping" cases ", *The Report of Tokyo University Of Fisheries*, Nº 39, pp-7-24.
- [22] Lequesne, C. (2000), "Quota Hopping: The Common Fisheries Policy Between States and Markets", *Journal of Common Market Studies*, Vol. 38, Nº5, pp. 779-793.
- [23] Morin, M. (2000); "The fisheries resources in the European Union. The distribution of TACs: principle of relative stability and quota-hopping", *Marine Policy*, Vol. 24, pp.265-273.
- [24] Mrag, Ifm, Cefas, Azti Tecnalia & Poiem (2007); *An Analysis of existing Rights Based Management Instruments in Member States and on setting up best practices in the EU*, Parts I & II, European Commission, FISH/2007/03.
- [25] Munro, G & Scott, A. (1985), "The Economics of Fisheries Management" , *Handbook of Natural Resource and Energy Economics*, Vol. II, North Holland, pp.623-676.
- [26] Nordmann, C. (2002), "The Reform of The Common Fisheries Policy" , *Proceedings of the XIVth Annual Conference of the European Association of Fisheries Economists*, EAFE/ Faculdade de Economia da Universidade do Algarve.
- [27] Tietenberg, T. (2007); *Environmental and Natural Resource Economics*, Addison Wesley Longman, Inc.
- [28] Torreiro, M., Alvarez, A. & Lafuente, M. (2001), "Internacionalización de la propiedad en el contexto de la Política Pesquera Común: el caso Quota Hopping desde la perspectiva Española" , *II Congreso de Economía de Galicia*, Santiago de Compostela.
- [29] Wise, M. (1984), *the Common Fisheries Policy of the European Community*, Methwen & Co, London.

Marketing Strategies vis-à-vis Consumer Preference for Aquarium Business Service

Selvarasu A.¹, Sankaran A.²

¹ *Department of Business Administration, Annamalai University*
Email: aselvarasu@gmail.com

² *Department of Business Administration, Annamalai University*
Email: aselvarasu@gmail.com

Abstract - Aquarium business service in India recorded a value of US\$ 1.3 million in the export trade in the year 2006 according to Food and Agriculture Organization. Internationally, Singapore ranks first with US\$ 49.5 million, and Zech Republic, Japan and Malaysia stood almost equally 7% in aquarium fish trade. Robert fanner (2001) reported that the concept of running a service company in contrast with retail business is not new to many industries. The service sectors provide employment for favourable economic growth. In this direction, in order to develop market for aquarium business service, there is need to studying consumer preference and existing marketing strategies, adopted by aquarists. The objectives of the study are to identify consumer preference for ornamental fish with profile of aquarium keeping customers and to study the existing marketing strategies adopted by ornamental fish aquarium business service providers. Selvarasu A. and Sankaran A. (2010) have developed a marketing scale to measure consumer preference for aquarium hobby. In addition, an interview schedule have been planned to review the existing marketing strategies as on year 2010.

Keywords: *marketing strategy, aquarium, consumer preference, aquarium business service, ornamental fish*

1. Market Situation of Aquarium Business Service

Ornamental fish keeping is a popular hobby in developed countries and is gaining popularity in many developing countries. The growing interest in aquarium fishes has resulted in steady increase in aquarium fish trade, globally. According to Food and Agriculture Organization (FAO) (2006), export earnings from ornamental fish trade is US \$ 251 million and more than 60% of the production comes from households of developing countries. The wholesale value of the global ornamental fish trade is estimated to be US \$ 14 Billion. More than 2500 species of ornamental fishes are traded and some 30-35 species of fresh water dominate the market. The trade with an annual growth rate of 8 percent offers a lot of scope for development. India's share in global ornamental fish trade is negligible and at present the ornamental fish export from India is dominated by the wild caught species. The top exporting country is Singapore, followed by Hong Kong,

Malaysia, Thailand, Philippines, Sri Lanka, Taiwan, Indonesia and India. The largest importer of ornamental fish is USA. Europe and Japan, China and South Africa are the emerging markets of ornamental fish trade.

Ornamental fishes market in the world for public aquaria is less than 1% at present and over 99% of the market for ornamental fish is still confined to hobbyist. The brilliant, flamboyant colour and exotic appearance of the fish appeal to one and all children and aged alike. As the day passed, ornamental fish keeping become an interesting activity for many, in the process, generating income for the unemployed youth and farmers. The concept of entrepreneurship development, through ornamental fish farming is gaining popularity day-by-day. Many numbers of people are entering into this business of culturing, breeding and farming. In India, out of total export of ornamental fish, 95% is based on wild collection. Majority of the indigenous ornamental fish trade is from the North Eastern states and Southern states in India. The capture of ornamental fish is based on development of the fish culture. Fish species grown for their importance, can be successfully bred in India. The ornamental fish trade depends upon supply and demand, which is possible only by mass breeding.

Ornamental fish market linkage exists between buyers and sellers as well as domestic and international market. In order to strengthen Indian position in international ornamental fish trade, MPEDA has implemented several strategies to adopt in terms of technology, infrastructure in order of to develop export demand based production for major importers in EU, USA and Japan. The distribution and marketing channel for the ornamental fish and plants in India is developing. The exporter (or) wholesaler plays on important role in promoting breeders and consumers. Wholesaler usually sells the fishes to local retailers and in turn, retailers directly sales to local customers, hobbyists etc.

1.1 Consumer Preference for Aquarium Business Service

Consumer means an individual who purchase goods and services to satisfy his personal or household needs and wants. According to a statement made by mahatma Gandhi, "A consumer is the most important on us. We are dependent on him. He is not an outsider to our business. He is part of it. We are not doing him a favour by serving him. He is doing us a favour by giving us an opportunity to do so". So, consumer is life blood of

business and a consumer who is satisfied gives a word of mouth advertisement for goods and services. The consumer is buying goods, keeping in mind the performance of product and expected features such as quality, value, performance, and special features. Every one is a consumer of different products. If there is no consumer, there is no business. Therefore, consumer satisfaction is very important to every business person. Every one of us in the community group is a consumer in some respect of living standards. Business services can exist only with the interaction of consumers. It is the responsibility of business firms to keep consumer satisfied at all times. According to Philip Kotler, consumer satisfaction is defined as “personal feeling of pleasure resulting from comparing products and perceived performance in relation to expectations”.

1.2 Marketing Strategy for Aquarium Business Service

The term “strategy” comes from the Greek word “Strategic” and it means “generalship”. The strategy focuses on long-term company objectives and planning, marketing programs, visions as well as goals. Marketing strategies generally include price reduction for market share growth, product differentiation, and market segmentation, as well as numerous specific strategies for specific areas of marketing. Strategy can be formulated by individuals, groups and organizations. The strategic thinking focuses on competitive advantage, consumer needs and wants, creativity, and flexibility. It is grouped as (i) customer oriented marketing strategy, (ii) competitor oriented marketing strategy. Customer oriented marketing strategy help to establish long term relationship between customers and business where as Competitor oriented marketing strategy focuses on outdoing competitors by product, prices, place, and promotion. The specific marketing strategy is planned for the following situations as pioneer strategy, follower strategy, fortress strategy, flankers strategy, market expansion strategy, withdrawal strategy, frontal attack strategy, leapfrog attack strategy, encirclement strategy, guerrilla attack strategy, divestment strategy, global strategy, national strategy, exporting strategy, pricing strategy, channels strategy, and promotion strategy.

2. Review of Literature

There are four various articles referred and the essence of market situation for ornamental fish aquarium business is presented. The concepts that are revisited in this section are as follows; (1) macro-diagnostic and marketing; (2) aquarium business service company; (3) fish farming and marketing; (4) fish keeping for hobby; (5) fish health consultancy services.

2.1 Market Situation for Aquarium Business Service

Mark Whittington (2000) stated that the ornamental fish trade in Mozambique comprised information of macro – diagnostic gathering data about the status and management of the ornamental fish trade worldwide.

Also, a project appraisal, which included a preliminary field study of the biological and socio economic impacts of previous ornamental fish collection activities in inhambane province. Robert Fenner (2001) reported that the concept of running a service company in contrast with a retail business is not new to many industries. The service sectors provide employment for more economic growth. The critical elements of this retail business were stated as finance, personnel, location, set up and stock. Sudhi K.S. (2002) stated that marine products export development authority supported financial aid for the analysis of ornamental fishes in Kerala as market development in India and abroad. Ornamental fish farming and aquarium keeping were reported as a major business in the state. The marketing of aquarium systems is also emerging in the state as a booming business, which mainly targets posh hotels, corporate offices and other business establishments.

Liffy Thomas (2010) reported that fish keeping as a hobby prevalent for decades but the kind of interest and time many individuals have started giving it is on the rise. It is reported that hobbyist felt as fish is a good pet as they are silent, easy to maintain and a delight to watch. The climatic condition is stated as other reason for ornamental fish industry as an important market. The entry of exotic varieties from other countries and increased interest in vaastu fish added to the existing demand that has resulted in people going any extent for care and keep of aquarium. Rajaraman V. is reported to be one the fish health consultants in Chennai, Tamil Nadu, a state of India, who treats around 20 numbers of patients a day, especially during October and January. Owner of varieties such as flower horn and arowana is major customers. The aqua clinic for 10 days treatment charges vary between US \$ 14.40 and US \$ 33.30. The customers receive around 20 numbers of queries a week asking about maintaining a fish tank and other issues from consultant.

2.2 Market Availability of Ornamental Fish Varieties

There are two various articles referred and the essence of market availability for ornamental fish aquarium business service is presented. The concepts that are revisited in this section are as follows; (1) export trade; (2) availability of ornamental fish. Martin Thoene (1999) presented a collection of Indian fishes covering 10 orders, 53 families, 119 genera and 250 species that are considered as suitable for aquarium keeping. Insights into the geography, vegetation type regions, political zones, population distribution etc. have also been emphasized by researcher. It is that the aquarium trade in India depends on natural live food availability. According to the researcher, many foreign fish species are farmed purely for the aquarium export trade market availability of ornamental fish varieties. Rajeev Raghavan et al. (2007) reported that seventy one fish species belong to 27 numbers of families and 50 numbers of general categories were collected from various sampling sites along the Chalakydy River in

Kerala, South India. Indiscriminate collection of ornamental fish species for export, exploitation of endangered food fishes by forest dwelling communities and local fishes folk, pollution, loss of riparian cover, damming and exotic species diversity of Chalakudy River was also reported.

2.3 Market Risk analysis of ornamental fish aquarium business

There is only one articles referred and the essence of market risk analysis of ornamental fish aquarium business service. The concepts that are revisited in this sections are as follows; (1) potential economic cost value and environmental effects. Paul Lajicek et al. (2009) reported that a known risk analysis process to access risk associated with marine ornamental pathway of market coverage on expert panel of 18 importer, wholesaler, retailer, producer, researcher, and extension agency representatives implemented. The participants produced the reviews; marine ornamental trade description assessed the ecological risks to Florida waters, determined the escape risk at each link and mode in the pathway and suggested risk instigations action. They were very certain about the potential economic costs high based upon literature and general knowledge. Potential and real environmental effects were suggested for the direct customer solves link and the consumer mode.

2.4 Business opportunities for ornamental fish production in India

There are four various articles referred and the essence of business opportunities for ornamental fish aquarium business service is presented. The concepts that are revisited in this section are as follows; (1) self employments; (2) aquarium maintenance service; (3) creation of advertising; (4) agribusiness opportunities.

Robert Fenner (2001) stated that for the pet business primary objectives are desire in self employment as well as doing small business which is the backbone of the economy. The successful keeping and reproducing aquatic life well being, a good hobbyist should easily translate into being good retailers. Actually, the knowledge, skills, methods, and attitudes of being a good pet keeper are vital to successful retailing the business. Duane Clark (2002) reported that two common ideas of pet business in ornamental fisher are-either breeding fish or starting an aquarium maintenance service. Breeding fish can certainly help pay for your hobby but running an aquarium maintenance service actually generate profit. However, before a person run off to start his own service, he must consider a few things such as motivation, research, necessities, finding clients, customer service, pricing, advice etc. Jay Shaw (2002) reported that aquarium business service is creation of advertising. Almost all of business clients, contact aquarists because of a tank, hobbyist saw else where, that the work done by him. Most people associate a spotless tank with a healthy

environment, and maintenance package. These rules of business protect business flow and investment on client base. To decrease health risks on client's fish, have them resist from adding fish without aquarists consent. Also, perform the maintenance tasks at off peak business hours. This protects the client customers from potential accidents.

Mandal Subhasis, et al. (2006) researcher reported that ornamental fish is providing marketing opportunities. Several agribusiness opportunities be provided for the collection and selling of native ornamental fish as well as rearing of exotic ornamental fish species suitable to the region. It has been stated that the agribusiness opportunities be realized at every stage, namely, production, marketing and conservation of ornamental fishes. The ornamental fish production in the region has been observed to be financially as well as economically viable and investment friendly. The ornamental fish production increases the employment opportunities.

2.5 Ornamental Fish Aquarium Management Service

There are three various articles referred and the essence of aquarium management service is presented. The concepts that are revisited in this section are as follows; (1) maintain water quality parameters; (2) aquarium management requirements; (3) keeping feeding time, disease prevention. Jason Shaw (2001) reported that aquarium fish disease is directly related to stress, and the best way of fighting disease is prevention. Knowing in detail the species of fish, clients are keeping and its requirements is very important. Without this information, aquarists are doomed from the beginning. There are specific water quality parameters that are very different for each species, pH, temperature, water hardness, salinity and many other trace elements. The most exciting parts of keeping fish is feeding time. Hopefully, this has given a little more insight on disease prevention, remedies and purchasing of new fish.

Kevin Thurston (2002) stated that early days of the hobby, there were various methods for shops to obtain their fish, but the late 60's, the local wholesaler had gotten a foothold and was on the rise. The local wholesaler dealt with fish farms and overseas suppliers in the '70s, a new type of company began to emerge called transship per. These companies would deal with foreign suppliers. In the '80s, the transshippers for much better at developing water change and repacking techniques. These trends have continued through the '90s to the present, these are a few local wholesalers let, but they have been managed to stay in business through exclusive contracts with chains such as Wal-Mart, paucity, and pet ranch. Adrian Lawler (2007) reported that aquarium management requires knowing enough about many subjects in order to do all aspects of an aquarium operation, plus practicing constant diligence, observation and work. As they are dealing with living

organisms held under unnatural conditions some failures are expected.

2.6 Marketing Strategies for Ornamental Fish Aquarium Business Service

There is only one article referred and the essence of marketing strategies for ornamental fish aquarium business service is presented. The concepts that are revisited in this section are as follows; (1) business concepts; (2) strategic planning and business plans.

Andrew Palfreman (1999) stated that the business concepts relevant to managing small and medium sized enterprises. It has been designed to equip readers with the managerial tools to set up and run their own business. The topics discussed are, strategic planning and the business plan, game theory, how to set up a fish business, aspects of marketing, exporting fish and fish products, privatization, the common fisheries policy, setting up a fish action, management and financial analysis of projects, policies for development of the private sector and fully worked case studies.

3. Research Methodology

3.1 Statement of Problem

In the event of economic growth all over the world, stress has become evident among all people. In order to get relieved from stress, every one has cultivated the habit of hobby as part and parcel of their way of life. There are different growing businesses related to hobby in maintaining aquarium in the institutional offices and also at the household. The supply of ornamental fish is providing way for eco- friendly breeding and rearing activities. In line with aquarium business service to support the hobby, promotion is done through various schemes at the initiatives of governments and non government agencies. It is understood that the hobby of mainly aquarium has been in practices in developed countries very well. However, this has been adopted in developing countries in the initial stage. In this context, it is imperative to see a problem in setting up business support as well as develop the market with suitable marketing strategies. It is true that there are problems reported in the maintenance of health of fish as well as reacting customers with modern equipments.

3.2 Need for the Study

The present study intends to specify marketing strategies for ornamental fish aquarium business service in an introductory phase. Also it tries to identify the marketing strategy vis-à-vis consumer preference. The previous research work has focused on breeding, rearing and maintenance of aquarium business service. But in this work successful ornamental fish aquarium business people support and provide in existing marketing strategy. In this process, aquarium shop owners and users are coming up with new and innovative ideas to improve the sales volume on aquarium business service. It is aimed at specifying strategies to increase sales that

satisfy the aquarium users based on consumer preference.

3.3 Objectives of the Study

The following five objectives have been proposed for the purpose of studying customers' preference for aquarium keeping.

- a) To identify the consumer preference for ornamental fish and profile of customer
- b) To find out the varieties of fishes and ornamental fish aquarium business service (ABS).
- c) To verify the sources of supply for setting up of ornamental fish aquarium
- d) To study the existing consumer preference vis-a-vis marketing strategies adopted by ornamental fish aquarium business service providers.

To design strategies for promoting ornamental fish aquarium business service.

3.3 Data Collection

The data collection is based on two unique methodology prescribed for the study. The primary data have been collected through survey among aquarium keeping customers. The sales data have been extracted from aquarium seller's records on the basis of weekly sales for a period from January to August 2010. Selvarasu A. and Sankaran A. (2010) have developed a marketing scale to study the consumer preference and marketing strategies demanded for aquarium business. In order to collect data, filed survey was conducted from May to August 2010.

3.4 Sampling

The quota sampling methods have been adopted to select sample respondents. The sample size is 150 individual respondents of aquarium keeping customers. The study area is Cuddalore district and sample unit are houses, business enterprises (including aquarium shops), and institutions. In the pilot study using 30 users of aquarium in the form different state houses (household person & hobbyist), business enterprises and institutions in the proportion of 0.95 (0.17 & 0.78); 0.04; and 0.01; respectively. The study period spread from September 2009 to August 2010.

4. Results

The compilation of data and its results are presented in Table 1 for better understanding.

4.1 Profile of Aquarium Users

In the study, the share of hobbyists are more than 78%, household customers are about 17% and other two categories of business enterprise, and institution respondents are under 5% as presented in the appendix [refer Table 1 and Fig.1]. The share of customers with Graduation (Under Graduate) are more than 44%, Secondary level are about 37% and Post-Graduation

level are 15% and others are under 10%. The share of customers below 20 years and 20-30 years of age group are more than 40% and 30-40 years of age are 12% and other categories of respondents are under 10%. The share of male customers is more than 69% and female are 31%. The share of customers with an annual income of US\$1100-US\$2200 are more than 35%, below US\$1100 are 13.3%, and other three categories, US\$2200-US\$3300, US\$3300-US\$4400, and above US\$4400 are under 16.7%. A sizable portion of around 34% of customers does not disclose their income. The share of customers below 5 year of experience in aquarium keeping are more than 67% and above 5 years of experience are 33%.

4.2 Customer' Knowledge about Aquarium Keeping

The share of respondents who have not attended training programme on aquarium keeping is more than 87% and those who have attended are only 13%. The shares of respondents who have professional knowledge are 39% and more than 61% of them have no professional expertise in aquarium. The share of community type of aquarium are more than 65% and 29% of respondents are familiars with single species aquarium. The shares of customers keeping pets like ornamental fish are more than 87% and other three categories of pets like dog, rabbit and birds are under 13%. The share of customers who are using modern aquarium equipments is more than 65% and another category of non-users of modern aquarium equipment are more than 35%. The shares of respondents who are aware about marine fish aquarium are more than 51% and others those who are unaware are more than 49%. The shares of aquarium users who are aware about synthetic salt are more than 17% and who are unaware of it is more than 83%.

5. Suggestions

The suggestions are given for marketing strategy in various sections as prescription based on the aquarium keeping customers' preference for promoting Aquarium Business Service (ABS).

Based on the outcome of field level study of Aquarium marketers, the power of existing aquarium shop owners is found to be doing ornamental fish aquarium business service as their main business process with two significant aspects such as professional knowledge and back-end support for fish hatchery and farming. In addition, shop owners have established business linkage with two important sellers market and one major buyers market. The shop owner in the district level have the support of getting new arrivals in the aquarium models through Chennai which is the traders market and the buyer's market is considered to be Bangalore, India.

The target market for aquarium business service is household persons, hobbyists, business enterprises and institution. The demand for fish variety's range from 5 to 25 and for aquarium models from three to five. It is also proved that the aquarium users are in the proportion of 1:2 ratio as female and male. In the age group of below 20 years and 20-30 years equally. It is interesting to note that almost all of them are in the category of Graduation level and they are in the category of youth population. The preference for aquarium is reported in the following section.

- (i). It is suggested to marketers in order to cater to the need for aquarium among household persons by keeping features of aquarium.
- (ii). For hobbyists' need for aquarium has to be met with offering quality of Aquarium business Service.
- (iii). Business enterprises' need for aquarium has to be offered based on value-for-money while offering aquarium business service.
- (iv). Institutions' need for aquarium has to be offered keeping three aspects like quality, value-for-money and features equally of aquarium business service.
- (v). Aquarium Business Service need to be offered by way of penetrating into the customers interest in hobby as they show little interest in attending training. The hobby is developed by acquiring experience in a phased manner.
- (vi). Male and female customers have to be focused with difference in quality, value-for-money, features and value depending on their requirements.
- (vii). Quality of aquarium has to be kept in mind depending on the customers' preference for usage of modern equipments.
- (viii). Value-for-Money is the key to serve customers who have professional knowledge in aquarium keeping.
- (ix). Features of aquarium have to be looked in to when serving customer whose knowledge in using synthetic salt for marine ornamental fish aquarium.
- (x). It is suggested that when value of aquarium become need of customers, features have to be added in direct proportion as these two dimensions are positively related. In addition, quality and value-for-money have also been verified as a bundle of offer.

It is desirable to focus on male customers than female customers and Value dimension has to be given importance while making marketing offers for Aquarium Business Service. In addition, Quality and Mavenism have to be promoted on par with Value-for Money.

6. Conclusions

Aquarium business service is an emerging field of business in India. The target market for aquarium business service is household persons, hobbyists, business enterprises and institution. The demand for fish variety's range from 5 to 25 and for aquarium models from three to five. The target group is expected to have an annual income of US\$1100 to US\$2200 and in the age group of 20 years of age to 30 years of age with graduation level of educational qualification. It is considered to be the most preferred hobby. All five dimensions of aquarium like Value, Quality, Features, Mavenism and Value-for-Money, have its significant importance depending on the category of customers. The future of promotion of aquarium business service depends on the Value proposition and Feature of Aquarium as a whole.

References

- [1] Andrew Palfreman (1999). "Strategy – marketing – development" fish business management.
- [2] Cialdini et al. (1995). *Preference for consistency (PFC) scale*. Multi-item measured for marketing William O. Bearden et.al. (1999).
- [3] Craig A. Watson et al. (2002). *Production of ornamental fish aquarium report*.
- [4] David A. Aaker et al "Marketing Research" 6th edition John Wily & sons, Inc. New York.
- [5] Adrian Lawler (2007). "Aquarium management" www.aquarticles.com
- [6] Duane Clark (2002). "Aquarium maintance service... who should start one" aquarium fish magazine.
- [7] Beri G.C. "Marketing research" 4th edition Tata McGraw till education private limited, New Delhi.
- [8] Jason Shaw (2001). "Fish health" the fishy times, Campbell River aquarium society, B.C. Canada.
- [9] Jay Show (2002). "Setting up an aquarium maintance business part:11 marketing and services".
- [10] Kevin Thurston (2002). "The commercial aquarium fish supply chain", www.aquarticles.com
- [11] Lichtenstein et al. (1993) *Price perception scale. Hand Book of Marketing Scales: Multi-item measured for marketing* William O. Bearden et.al. (1999).
- [12] Lichtenstein et al. (1990). *Value consciousness and coupon proneness scale*. Multi-item measured for marketing William O. Bearden et.al. (1999).
- [13] Liffy Thomas (2010) "Demand on the rise for ornamental fish". The Hindu Newspaper, Jan. 21(P2).
- [14] Mandal subhasis et al. (2006) "Agribusiness opportunities of ornamental fisheries in north-eastern region of India.
- [15] Marie – Annick et al., (2006). "Potential threat of the international aquarium fish trade to silver arowana *osteoglossum bicirrhosum* in the Peruvian amazon".
- [16] Mark Whittington (2002). "An investigation of the ornamental fish trade in Mozambique" coastal management unit, MICOA, Maputo Feb. 2000.
- [17] Martin Theore (1999) "Ornamental Aquarium Fish in India". Wednesday 1, September.
- [18] Paul Lajicek et al. (2009) "A Florida marine ornamental pathway risk analysis" Reviews in Fisheries Science, Vol. 17, Issue 2, page 156-169.
- [19] Philip Kotlor et al. (2005) "Marketing management" Practice Hall of India P(Ltd) New Delhi – 11001. Page. 541. (12th Edison).
- [20] Robert Fenner (2001) "Aquarium Service Business" www.wetwebmedia.com
- [21] Robert Fenner (2001). "The per business – is it for you?" www.wetwebmedia.com.
- [22] Shabis Ahmad Das (2010) "Ornamental fish culture: Creating A Niche in the economy" Copy right (C) 1991-2010 Ascot International – Discussion.
- [23] Sudhi K.S. (2002) "All about ornamental fishes" The Hindu Online edition of India's National News papers, Thursday, Mar. 14.
- [24] Viswanathan. (1993). *Preference for numerical information (PNI) scale*. Multi-item measured for marketing William O. Bearden et.al. (1999).

Table-1: PROFILE OF AQUARIUM USERS

S.NO	DEMOGRAPHIC VARIABLES	CLASSES	FREQUENCY	PERCENTAGE
1	Category of respondents	Household customer	26	17.3
		Hobbyist	117	78.0
		Business enterprise	6	4.0
		Institution	1	0.7
		Total	150	100.0
2	Qualification	Below Hr. Sec. level	56	37.3
		Undergraduate level	66	44.0
		Postgraduate level	23	15.3
		Others	5	3.3
		Total	150	100.0
3	Age in years	Below 20	60	40.0
		20-30	60	40.0
		30-40	19	12.7
		40-50	7	4.7
		above 50	4	2.7
		Total	150	100.0
4	Gender	Male	104	69.3
		Female	46	30.7
		Total	150	100.0
5	Average annual income	Not response	52	34.7
		<US\$1100	20	13.3
		US\$1100-US\$2200	53	35.3
		US\$2200-US\$3300	16	10.7
		US\$3300-US\$4400	3	2.0
		>US\$4400	6	4.0
		Total	150	100.0
6	Experience in aquarium	<5 years	100	66.7
		>5 years	50	33.3
		Total	150	100.0
7	Training program	Attended	19	12.7
		Not attended	131	87.3
		Total	150	100.0
8	Professional knowledge	Professional	58	38.7
		Non-professional	92	61.3
		Total	150	100.0
9	Familiar aquarium	Single species aquarium	44	29.3
		Community type aquarium	97	64.7
		None	9	6.0
		Total	150	100.0
10	Pets	Dog	9	6.0
		Rabbit	7	4.7
		Ornamental fish	130	86.7
		Birds	4	2.7
		Total	150	100.0
11	Modern aquarium equipments	Users	98	65.3
		Non-users	52	34.7
		Total	150	100.0
12	Marine ornamental fish	Aware	76	50.7
		Unaware	74	49.3
		Total	150	100.0
13	Synthetic salt	Aware	26	17.3
		Unaware	124	82.7
		Total	150	100.0

Growth Plans of Bulgarian Enterprises: An Empirical Investigation of Individual, Organizational and Environmental Influences

Desislava Ivanova Yordanova

Faculty of Economics and Business Administration,

Sofia University "St Kliment Ohridski"

Email: d_yordanova@abv.bg

Abstract - Extensive research on firm growth has been done in Western market-based economies (Peng and Heath, 1996). However, the research findings in Western economies may not be applicable to transition economies due to differences in the institutional environments (Peng and Heath, 1996). The research objective of this study is to identify individual, organizational and environmental influences on the presence of growth plans in a sample of Bulgarian enterprises. Our findings reveal that several individual and organizational factors are associated with the presence of growth plans. The paper provides a discussion of implications for practitioners and suggestions for future research.

Keywords: *growth plans, Bulgaria, determinants.*

1. Introduction

During the last 20 years, Bulgaria and other countries in Central and Eastern Europe (CEE) experience profound reforms aimed at the democratisation of society and the liberalization of economy that resulted in the formation of private business sector and entrepreneurial class. Entrepreneurship and private business is considered as an important factor for the transition from centrally-planned to market economy (McMillan and Woodruff, 2002; Smallbone et al., 2001). The World Bank classifies the Bulgarian economy as an upper middle income economy, which has improved gradually the conditions for doing business during the last five years (World Bank, 2006, 2007, 2008, 2009, 2010). The Bulgarian economy has experienced strong growth since a major economic downturn in 1996 and attracted significant amounts of foreign direct investment. Despite the steady economic growth in the recent past, Bulgaria still remains one of the least developed countries in the European Union.

The factors, which underline the growth of business firms have attracted significant research interest (Davidsson et al., 2002). Extensive research on firm growth has been done in Western market-based economies (Peng and Heath, 1996). However,

the research findings in Western economies may not be applicable to transition economies due to differences in the institutional environments (Peng and Heath, 1996). Peng and Heath (1996) stress that the improved understanding of firm growth in transition economies has both theoretical contribution to the theory of firm growth and practical implications for improving effectiveness. It will also help to formulate policy measures for supporting firm growth in transition economies, which will eventually lead to higher economic growth.

The research objective of this study is to identify individual, organizational and environmental influences on the presence of growth plans in a sample of Bulgarian enterprises. In entrepreneurship research, growth intentions and plans are used as an indicator of entrepreneurial behaviour and performance (Rosa et al., 1996; Kozan et al., 2006). The use of growth intentions as a measure of entrepreneurial performance is justified because intentions are a good predictor of behaviour (Ajzen, 1991). In a transition context growth intentions and expansion plans, in particular, are found to be a good proxy measure of growth (Pistrucci, 2003). As most entrepreneurial research has focused on past behaviour (Kozan et al., 2006) and determinants of firm growth are identified retrospectively, the investigation of growth intentions and plans may contribute to understanding firm growth by providing a different perspective on the growth phenomenon.

This paper is organized as follows. Section 2 presents the background and the hypotheses to be tested in this study. Section 3 describes research methodology of the study. Section 4 contains the empirical analysis and results. The last section presents discussion of the research findings and conclusions.

2. Background of the study and hypotheses

2.1. Individual Influences on Growth Plans

Drawing upon upper echelons theory (Hambrick and Mason, 1984) we argue that CEO's age, gender, education level, previous management experience, and the organizational tenure affect the probability of the organization having growth plans. The upper

echelons theory is based on the assumption of bounded rationality (Hambrick, 2007:334). Since top executives do not dispose with perfect information to take rational decisions, their biases and dispositions are crucial for understanding the functioning and performance of organizations (Hambrick, 2007:334). Organizational outcomes can be partially predicted from demographic characteristics of executives (Hambrick and Mason, 1984:197). The theory is focused on both CEOs and other individual leaders and top management teams (Hambrick, 2007:334). Strategic choices of executives are a function of their perceptions of the situation combined with their values (Hambrick and Mason, 1984:195). Observable characteristics of executives can be used as valid indicators of their cognitive base, values and behaviours (Hambrick and Mason, 1984:196; Hambrick, 2007). Such observable characteristics include age, tenure in the organization, education, functional background, socioeconomic background, and stock ownership of top executives (Hambrick and Mason, 1984:196-201).

Davidsson (1991) argues that CEO's age and tenure are negatively related to growth aspirations. Davidsson (1991) suggests that older individuals tend to have lower objective need for additional income and are more likely to have reached their initial aspirations. Organizational tenure of top management team was found to be negatively associated with strategic change (Wiersema and Bantel, 1992:112). The chief executive officer's tenure may influence the firm's responsiveness to its environment (Miller, 1991:35). Williams and Lee (2009:1380) argue that organizations with top management teams with longer tenure are more likely to exhibit conservative entrepreneurial orientation.

H1: Enterprises managed by older CEOs are less likely to have growth plans than other enterprises.

H2: Enterprises managed by CEOs with longer tenure are less likely to exhibit growth plans than other enterprises.

Several empirical studies comparing male and female entrepreneurs demonstrate that women have lower growth intentions than men (Orser and Hogarth-Scott, 2002; Orser et al., 1998; Rosa et al., 1996). Female owner-managers are more likely to establish maximum business sizes and these sizes are smaller than those set by their male counterparts (Cliff, 1998). Gender differences may be not universal across all cultures and settings (Kolvereid, 1992). Although the majority of female entrepreneurs in CEE are growth-oriented (Wells et al., 2003; Welter et al., 2005; Isakova et al., 2006), they are less growth-oriented than male entrepreneurs (Isakova et al., 2006). Therefore, we suggest that:

H3: Enterprises managed by female CEOs are less likely to have growth plans than other enterprises.

Kolvereid (1992) suggests that highly educated and experienced owner-managers will exhibit high aspirations in general and will be able to perceive more easily growth opportunities and cope with problems associated with growth. Empirical research demonstrates a link between human capital of the owner-manager and both growth motivation (Davidsson, 1991) and actual firm growth (Storey, 1994).

H4: Enterprises managed by CEOs with a university degree are more likely to exhibit growth plans than other enterprises.

H5: Enterprises managed by CEOs with previous management experience are more likely to exhibit growth plans than other enterprises.

2.2. Organizational Influences on Growth Plans

Drawing upon the Resource Based View of the firm (RBV) (Wernerfelt, 1984; Barney, 1991), we argue that learning orientation, entrepreneurial orientation, access to financial resources, and the presence of foreign owners influence the probability of reporting growth plans. The RBV emphasizes the strategic role of organization's resources and capabilities for organizations and their strategy. Central to the resource-based view of the firm are the assumptions of heterogeneity and immobility of resources (Barney, 1991). Resources may differ across firms in an industry or a group and some firm may be unable to purchase or create strategic resources held by a competing firm (Barney, 1991). The theory advocates that rare, valuable, inimitable, and non-substitutable resources may be sources of sustained competitive advantage (Barney, 1991).

Davidsson (1991) posits that growth motivation is enhanced and firm growth is pursued if owner-managers feel that they are able to bring about the desired growth. Actual firm growth depends on availability of financial resources for growth (Covin and Slevin, 1997; Storey, 1994; Cooper et al., 1994). Becchetti and Trovato (2002) conclude that growth potential of small firms is limited by the availability of external finance. Carpenter and Petersen (2002) find that firms that are able to obtain external finance achieve growth rates far above what can be supported by internal finance. They conclude that the use of external finance may relax the internal finance constraint.

H6: Good access to financial resources increases the likelihood of having growth plans.

Learning orientation is a critical resource, which top managers may use in order to achieve growth in the organization. Learning orientation is conceptualized as "the value that a firm places not only on adroitly responding to changes in the environment but on constantly challenging the assumptions that frame the organization's relationship with the environment" (Baker and Sinkula,

1999:412). Slater and Narver (1995:66) argue that learning orientation should lead to greater new product success and superior growth.

H7: Higher learning orientation of the enterprise increases the likelihood of having growth plans.

Entrepreneurial orientation may be necessary for achieving growth in organizations. There is a link between growth strategy and corporate entrepreneurship (Zahra, 1991:264). The realization of an internal-growth strategy requires extensive innovation and venturing in all functional areas within the organization, while the realization of external-growth strategy requires expansion of the scope of business and markets (Zahra, 1991:264). Empirical evidence confirms the positive association between growth strategy on and early introduction of new products (Zahra, 1993) and corporate entrepreneurship (Zahra, 1991).

H8: Higher entrepreneurial orientation of the enterprise increases the likelihood of having growth plans.

Companies in transition economies may lack managerial and entrepreneurial skills. Foreign investors in Central and Eastern Europe may transfer products and marketing skills, technology and management skills, and know how to local companies, which may improve their product lines and market penetration (Uhlenbruck & De Castro, 2000) and thus may increase both their growth aspirations and actual growth rates. Foreign ownership in companies operating in Central and Eastern Europe may be associated with high learning, high efficiency governance, and high corporate restructuring effectiveness (Filatotchev et al., 2003).

H9: The presence of foreign owner(s) increases the likelihood of having growth plans.

2.3. Environmental Influences on Growth Plans

In this sub-section we suggest that environmental dynamism and industry sector may affect the presence of growth plans. The Population Ecology Theory posits that environmental characteristics largely determine the survival of organizations through selecting the fittest organizational forms (Hannan and Freeman, 1977, 1984). Organizations face both internal and external constraints on their capacity for adaptation (Hannan and Freeman, 1977, 1984). The presence of considerable structural inertia in organizations makes adaptation less likely than environmental selection (Hannan and Freeman, 1977, 1984). Structural inertia derives from various internal and external factors. Selection favours organizational forms with high inertia because they exhibit high reliability, accountability, and reproducibility (Hannan and Freeman, 1984).

Industry and industry attributes affect firm growth (Audretsch, 1995; Saemundsson and

Dahlstrand, 2005; McPherson, 1996; Davidsson et al., 2002; Weinzimmer, 2000; Almus and Nerlinger, 1999). Industry characteristics may be relevant indicators for opportunity for growth, which in turn affects growth motivation (Davidsson, 1991). As some industries provide more opportunities for firms to achieve growth, entrepreneurs may enter industries, where they are more likely to achieve their aspirations regarding growth (Kolvereid, 1992). Empirical research demonstrates that entrepreneurs' growth intentions are significantly related to industry choice (Kolvereid, 1992).

H10: The industry, in which the enterprise operates, affects the likelihood of growth plans.

Environmental dynamism refers to instability and continuous change in the firm environment (Wiklund et al., 2009). In dynamic environments, social, political, economic and technological changes provide windows of opportunity for firm growth (Wiklund et al., 2009). Firms may respond to changes in the demand created by social, political, economic and technological changes in the environment by supplying the demanded products and services (Wiklund and Shepherd, 2003).

H11: The level of environmental dynamism affects the likelihood of growth plans.

3. Research methodology

3.1. Sample

This study uses a sample of 120 companies operating in Bulgaria. Data was acquired through a survey conducted at the end of 2008 among 350 enterprises randomly selected from a database of more than 73000 Bulgarian enterprises extracted from the voluntary unified trade register of the Bulgarian chamber of commerce and industry and other sources. The response rate is approximately 34.3%. Some of the companies who refused to participate in the study have been contacted by e-mail or phone. They have reported that the main reasons were lack of time or reluctance to reveal business information. Respondents are the chief executive officers (CEOs) of the companies. The survey uses a structured questionnaire containing questions about the characteristics of the organization, the characteristics of the chief executive officer, and the environment.

More than 60% of the sample companies operate predominantly in the service sector, while about 20% of the sample companies are manufacturing businesses. Small and medium-sized enterprises (SMEs) represent 77.5% of the sample firms (26.7% – micro-enterprises; 31.7% - small enterprises; 19.2% - medium-sized enterprises). The rest of the sample firms have more than 249 employees. Half of the sample firms are registered after 1997 and only 7.5% operate for more than 20 years. The great majority of

the sample firms (93.3%) are private enterprises, while the rest of the sample firms are either state-owned enterprises or enterprises with mixed ownership. About 34% of the sample companies report having foreign legal entities or individuals among owners. More than 57% of CEOs have ownership in the company they manage. Less than 26% of the CEOs are women.

3.2. Variables

Table 1 presents description of the variables used in the study. The dependent variable in this study is GROWTH. It indicates whether the company aims to expand its business activities (value 1) or not (value 0).

Several individual characteristics of CEOs are hypothesized to influence the presence of growth plans in the sample firms. CEO_age indicates the age of the CEO in a number of years. The variable GENDER shows whether the CEO is a woman (value 1) or a man (value 0). CEO_edu indicates the level of education acquired by the CEO of the company (1 = university degree, 0 = other). CEO_exp reveals if the CEO has previous management experience (value 1) or not (value 0). CEO_tenure is measured with the length of CEO's tenure in the organization in a number of years.

Table 1: Description of the variable used in the study.

Variable	Definition
GROWTH	1 = the company aims to expand its business activities; 0 = other
CEO_age	the age of the CEO in a number of years
GENDER	1 = woman 0 = man
CEO_edu	1 = university degree, 0 = other
CEO_tenure	CEO's tenure in the organization in a number of years
CEO_exp	1 = the CEO has previous management experience 0 = otherwise
FIRM_AGE	the age of the company in a number of years
SIZE	1 = more than 249 employees (large company); 0 = less than 250 employees (micro, small or medium-sized enterprise)
EO	9-item, 7-point Likert scale (Covin and Slevin, 1989)
RESOURCES	1 = the company has good access to financial resources; 0 = otherwise
LO	11-item, 7-point Likert scale (Sinkula et al., 1997)

FOREIGN	1 = the presence of foreign owners; 0 = other
MANUFACTURING	1 = the company operates mainly in manufacturing sector, 0 = otherwise
SERVICES	1 = the company operates mainly in service sector, 0 = otherwise
DYNAMISM	4-item, 7-point Likert scale (Miller, 1987)

The organizational characteristics that are expected to influence the presence of growth plans include learning orientation (LO), entrepreneurial orientation (EO), access to financial resources (RESOURCES), and the presence of foreign owners (FOREIGN). EO is measured with 9-item, 7-point Likert scale proposed by Covin and Slevin (1989), which contains items adapted from Khandwalla (1976/1977) and Miller and Friesen (1982). The items are of the forced choice type, with pairs of opposite statements. The scale reveals the extent to which the firms innovate, take risk and behave proactively. Wiklund (1998) identified several studies using this instrument, which provide evidence of its validity and reliability. In this study the EO scale reports acceptable reliability (Cronbach alpha's value is 0.857). The variable LO reveals the level of learning orientation of the company. It is measured through a 11-item, 7-point Likert scale developed by Sinkula et al. (1997). The scale is retested by Baker and Sinkula (1999) who provide further evidence for its validity and reliability. The Cronbach's alpha of the learning orientation scale is 0.836. The variable FOREIGN indicates the presence of foreign owners (value 1) or otherwise (value 0). The variable RESOURCES reveals whether the company has good access to financial resources (value 1) or not (value 0).

The environmental characteristics included in this study are environmental dynamism and industry sector. MANUFACTURING is a binary variable (1 = the company operates mainly in manufacturing sector, 0 = otherwise). SERVICES is a binary variable (1 = the company operates mainly in service sector, 0 = otherwise). Environmental dynamism (DYNAMISM) is measured with the 4-item, 7-point Likert scale proposed by Miller (1987). The items are of the forced choice type, with pairs of opposite statements. The value of the Cronbach's alpha of the scale is 0.635.

Businesses with different age and size may differ in their growth aspirations (Davidsson, 1991; Kolvereid, 1992). Therefore these variables are included in the analysis as control variables. In this paper we adopt the European Commission's employment criterion for an SME. The variable SIZE is a binary variable (1 = more than 49 employees

(large or medium-sized enterprise), 0 = less than 50 employees (micro- or small enterprise). The variable FIRM_AGE indicates the age of the company in a number of years.

3.3. Data Analysis

Data are analyzed using multivariate statistics. As defined above, GROWTH, the dependent variable is dichotomous. It expresses the likelihood that the company has growth plans. A logistic regression model was therefore employed to deal explicitly with that type of dependent variable (Greene, 1999). Logistic regression is a more robust method since according to Greene (1999), Hair et al. (1998), and Maddala (1983):

1. the dependent variable needs not to be normally distributed;
2. logistic regression does not assume a linear relationship between the dependent and the independent variables;
3. the dependent variable needs not to be homoscedastic for each level of the independent variable(s);
4. normally distributed error terms are not assumed;
5. independent variables can be categorical;
6. it does not require independent variables to be interval or unbounded.

The application of non-parametric techniques is adequate when the independent variables are predominantly categorical. The use of the maximum likelihood approach is recommended when sample selection bias is possible (Nawata, 1994).

Binary logistic regression provides a framework that indicates if and how well independent variables can adequately predict the presence of growth plans (Greene, 1999). The estimated binary logistic models take the following form:

Prob (the presence of growth plans) = $1 / (1 + e^{-Z})$,

where $Z = f(X_i, C)$, i.e. a linear combination of independent variables (X_i) and a constant (C).

The research hypotheses will be supported if regression analysis provides an acceptable accuracy of classification of cases and of goodness of fit measures. In addition, the impact of explanatory variables should be statistically significant at least at the 10 percent level (two-tailed test) with the predicted sign. Wald statistics will be used to estimate the significance of the independent variables. Data analyses are performed with the statistical package SPSS version 15.0.

4. Empirical results

In this section we present the empirical results of hypotheses test in our sample of 120 Bulgarian enterprises. A logistic regression model has been

estimated to identify which independent variables predict the presence of growth plans. The Variance Inflation Factor (VIF) is calculated in order to check for the presence of multicollinearity problems. The values of the Variance Inflation Factor (VIF) for all regressors included in Table 2 do not exceed 2.2, which excludes multicollinearity. The overall predictive ability of the regression model in Table 2 to classify correctly companies by the presence of growth plans is more than 81%, which is much higher than the random chance (50%).

Table 2: Regression results (GROWTH = dependent variable).

Variable	Coefficient	S.E.	Wald
Constant	-5.013**	2.362	4.504
CEO_age	-0.055*	0.032	3.067
GENDER	0.711	0.604	1.384
CEO_edu	-1.523	1.463	1.083
CEO_tenure	0.109*	0.062	3.080
CEO_exp	1.235**	0.576	4.598
FIRM_AGE	-0.013	0.016	0.586
SIZE	-0.350	0.591	0.352
EO	0.111***	0.034	10.977
RESOURCES	0.036	0.588	0.004
LO	0.081**	0.035	5.301
FOREIGN	1.228*	0.671	3.352
MANUFACT- URING	-0.753	0.883	0.727
SERVICES	-0.830	0.810	1.048
DYNAMISM	-0.006	0.069	0.008

MODEL FIT

Nagelkerke R-square	0.491
-2Log likelihood	101.466
Chi-square	52.464
Overall % correct predictions	81.7%
Number of cases	120

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Several individual characteristics have a statistically significant effect on the dependent variable GROWTH. The coefficients of the variables CEO_tenure and CEO_exp are statistically significant and positive ($p < 0.1$), while the coefficient of the variable CEO_age is statistically significant and negative ($p < 0.1$). Companies with younger CEOs are more likely to exhibit growth plans. Hypothesis H1 cannot be rejected. Contrary to our expectations, longer tenure of the CEO increases the probability of reporting growth plans. Hypothesis

H2 is rejected. CEOs with previous management experience are more likely to operate enterprises with growth plans. Hypothesis H5 cannot be rejected. The coefficients of the variables GENDER and CEO_edu are not statistically significant. There are no significant differences in the likelihood of having growth plans between companies managed by female and male CEOs. There are also no significant differences in the likelihood of having growth plans between the companies managed by CEOs with a university degree and the rest of the studied companies.

Three organizational characteristics seem to impact significantly the probability of reporting growth plans. The coefficients of the variables EO, LO and FOREIGN are statistically significant and positive, while the coefficient of the variable RESOURCES is not significant. Companies with higher learning orientation and higher entrepreneurial orientation are more likely to have growth plans. The presence of foreign owner(s) increases the probability of reporting growth plans. Hypotheses H7, H8, H9 cannot be rejected. There are no significant differences in the likelihood of having growth plans between the companies with good access to financial resources and the rest of the studied companies. Hypothesis H6 is rejected.

Contrary to what was suggested, environmental characteristics included in this study have no statistically significant influence on the probability of reporting growth plans. The coefficients of the variables DYNAMISM, SERVICES, and MANUFACTURING are not statistically significant. There are no significant differences in the likelihood of having growth plans between the companies operating in service or manufacturing sector and the rest of the studied companies. The level of environmental dynamism is not associated with differences in the likelihood of having growth plans in the studied companies. Hypotheses H10 and H11 can be rejected.

5. Conclusions

The shift from centrally planned economy to market economy in the countries in Central and Eastern Europe has led to the emergence of a large number of privately owned enterprises, which play important role for countries' economic development. In order these enterprises to remain competitive in both local and international markets it is of the utmost importance to gain understanding what factors encourage the development of growth plans and the achievement of high growth rates. Our research is among the incipient investigations that attempt to identify individual, organizational, and environmental factors that affect of the presence of growth plans in a sample from Central and Eastern Europe. Our hypotheses are guided by previous

theoretical and empirical research on firm growth. The results reported in this study advance our knowledge about growth aspirations within organization operating in a transition context.

This study reinforces previous findings (Davidsson, 1991; Kolvereid, 1992) that individual characteristics of the owner-manager affect growth aspirations. The findings about the effects of CEO's age and previous experience on the likelihood of having growth plans are consistent with predictions. Our study finds no effect of CEO's education and gender on the probability of having growth plans. Contrary to our expectations, longer tenure of the CEO increases the probability of reporting growth plans. These contradictory findings could be explained institutional and cultural differences between Western and transition economies as well as among transition economies, which may have differential impact on CEO's behaviour and decisions related to pursuit of growth.

Concerning organizational factors, our results point to the importance of learning orientation, entrepreneurial orientation and the presence of foreign owner(s) for adopting growth plans. We find that learning orientation is interrelated with growth aspirations, which is in accordance with the argument of Slater and Narver (1995) that learning orientation should eventually lead to superior growth. The finding that firms with higher entrepreneurial orientation are more likely to develop growth plans than the rest of the firms is consistent with previous research (Zahra, 1991). The presence of foreign owner(s) is related to greater likelihood of having growth plans, which may be explained with the transfer of important management know-how and resources to local firms (Uhlenbruck & De Castro, 2000; Filatotchev et al., 2003). Contrary to our predictions, however, the good access to resources does not increase the probability of establishing growth plans, which may be associated with specific barriers, costs and difficulties related to the use of external financing in transition economies.

Contrary to what was suggested, environmental characteristics included in this study have no statistically significant influence on the probability of reporting growth plans, which contradicts previous empirical findings about the effect of environmental variables on growth intentions (Kolvereid, 1992).

Before discussing the implications of our findings, some limitations of our study should be noted. First, our sample is not representative and the findings should be interpreted with caution. Thus, our results may not be generalized to the population of Bulgarian enterprises. Second, data was collected through a self-reported survey and thus may be subject to cognitive biases and errors. Third, a number of other individual, organizational, and environmental factors, which are not included in this

study, may be related to the presence of growth plans. Forth, our findings may be influenced by specific features of the Bulgarian cultural and institutional environment and therefore may not be applicable to other transition or mature economies. Finally, due to the cross-sectional design of the research we cannot deduce causal relationships. The multiple measurements of independent and outcome variables in the study over time will allow examining the bidirectional relationships between the variables studied.

In order to enhance the understanding of growth aspirations in companies operating in a transition context, future research needs to examine the following aspects. First, future research should examine the effects of other factors posited by theoretical and empirical literature as affecting growth aspirations, which are not included in this study. Second, the proposed hypotheses should be verified in a representative sample of Bulgarian enterprises. Third, future research should also examine to what extent the findings of this study can be generalized to firms in other transitional countries. And finally, a longitudinal analysis should complement the findings in this research in order to confirm causal relationships.

Our findings have several important implications for practitioners. Loan institutions, risk capitalists, and business angles trying to identify growth oriented businesses in a transition context should pay more attention on organizational variables and CEOs' individual characteristics. Managers, who want to enhance the EO of their companies, should be aware of the interrelation between growth aspiration and learning orientation and entrepreneurial orientation. The development of higher learning orientation or higher entrepreneurial orientations may lead to the development of growth plans. It should be noted that the presence of foreign owner(s) may bring important resources and eventually lead to higher growth aspirations.

References

- [1] Ajzen, I., (1991). "Theory of planned behaviour", *Organizational Behaviour and Human Decision Processes*, Vol. 50 No. 2, pp. 179 – 211.
- [2] Almus, M., and Nerlinger, E. (1999). "Growth of new technology-based firms: Which factors matter?" *Small Business Economics*, Vol. 13 No. 2, pp. 141–154.
- [3] Audretsch, D., (1995). "Innovation, growth and survival", *International Journal of Industrial Organization*, Vol. 13, pp. 441–457.
- [4] Baker, W. and Sinkula, J. (1999). "The synergistic effect of market orientation and learning orientation on organizational performance", *Journal of the Academy of Marketing Science*, Vol. 27, pp. 411–427.
- [5] Barney, J. (1991). "Firm resources and sustained competitive advantage", *Journal of Management*, Vol. 17, pp. 99-120.
- [6] Becchetti, L. and Trovato, G. (2002). "The determinants of growth of small and medium sized firms. The role of the availability of external finance", *Small Business Economics*, Vol. 19, pp. 291-306.
- [7] Carpenter, R. E. and Petersen, B.C. (2002). "Is the growth of small firms constrained by internal finance?" *The Review of Economics and Statistics*, Vol. 84 No. 2, pp. 298-309.
- [8] Cliff, J. (1998). "Does one size fit all? Exploring the relationship between attitudes towards growth, gender and business size", *Journal of Business Venturing*, Vol. 13 No. 6, pp. 523-542.
- [9] Cooper, A. C., Gimeno-Gascon, F. J. and Woo, C. Y. (1994). 'Initial human and financial capital as predictors of new venture performance'. *Journal of Business Venturing*, Vol. 9 No. 5, pp. 371–95.
- [10] Covin, J. and Slevin, D. (1989). "Strategic management of small firms in hostile and benign environments", *Strategic Management Journal*, Vol. 10, pp. 75-87.
- [11] Covin, J. G. and Slevin, D. P. (1997). High growth transitions: theoretical perspectives and suggested directions. In Sexton, D. and Smilor, R. (Eds), *Entrepreneurship 2000*. Chicago, IL: Upstart Publishing Company
- [12] Davidsson, P. (1991). "Continued entrepreneurship: ability, need and opportunity as determinants of small firm growth", *Journal of Business Venturing*, Vol. 6, pp. 405-429.
- [13] Davidsson, P., Kirchhoff, B., Hatemi-J, A. and Gustavsson, H. (2002). "Empirical analysis of business growth factors using Swedish data", *Journal of Small Business Management*, Vol. 40 No. 4, pp. 332–349.
- [14] Filatotchev, I., Wright, M., Uhlenbruck, K., Tihanyid, L., and Hoskisson, R. (2003). "Governance, organizational capabilities, and restructuring in transition economies", *Journal of World Business*, Vol. 38, pp. 331–347.
- [15] Greene, W. (1997). *Econometric Analysis*. New Jersey: Prentice Hall.
- [16] Hair F. J., Anderson E. R., Tathan L. R., and Black C. (1998). "Multivariate Data Analysis". Fifth Edition. New Jersey: Prentice Hall.
- [17] Hambrick, D. (2007). "Upper echelons theory: an update", *Academy of Management Review*, Vol. 32, pp. 334–343.

- [18] Hambrick, D. and Mason, P., (1984), "Upper Echelons: the organization as a reflection of its top managers", *Academy of Management Review*, Vol. 9, pp. 193–206.
- [19] Hannan, M. and Freeman, J., 1984, 'Structural inertia and organizational change', *American Sociological Review*, 49, 2, pp. 149-164.
- [20] Hannan, M.T. and Freeman, J. (1977). "The population ecology of organisations", *American Journal of Sociology*, Vol. 82 No. 5, pp. 929-964.
- [21] Isakova, N., Krasovska, O., Kavunenko, L., and Lugovy, A. (2006), "Entrepreneurship in the Ukraine: A Male Female Comparison". In Welter, F., Smallbone, D., and N. Isakova (eds.), *Enterprising Women in Transition Economies* (pp. 17-43). Aldershot: Ashgate.
- [22] Khandwalla, P. (1976/1977). "Some top management styles, their context and performance", *Organization and Administrative Sciences*, Vol. 7, pp. 21-51.
- [23] Kolvereid, L. (1992). "Growth aspirations among Norwegian entrepreneurs", *Journal of Business Venturing*, Vol. 7 No. 3, pp. 209–222.
- [24] Kozan, M., Oksoy, D., and Ozsoy, O. (2006). "Growth plans of small businesses in Turkey: Individual and environmental influences", *Journal of Small Business Management*, Vol. 44 No. 1, pp. 114–129.
- [25] Maddala, G. (1983). *Limited Dependent and Qualitative Variables in Econometrics*. New York: Cambridge University Press.
- [26] McMillan, J. and Woodruff, C. (2002). "The central role of entrepreneurs in transition economies", *Journal of Economic Perspectives*, Vol. 16, pp. 153-170.
- [27] McPherson, M. (1996). "Growth of micro and small enterprises in southern Africa", *Journal of Development Economics*, Vol. 48, pp. 253-277.
- [28] Miller, D. (1987). "The structural and environmental correlates of business strategy", *Strategic Management Journal*, Vol. 8, pp. 55–76.
- [29] Miller, D. (1991), "Stale in the saddle: CEO tenure and the match between organization and environment", *Management Science*, Vol. 37, pp. 34-52.
- [30] Miller, D. and Friesen, P. (1982). "Innovation in conservative and entrepreneurial firms: two models of strategic management", *Strategic Management Journal*, Vol. 3, pp. 1-25.
- [31] Nawata K. (1994). "Estimation of sample selection bias models by the maximum likelihood estimator and Heckman's two-step estimator". *Economics Letters*, Vol. 45 No. 1, pp. 33-40.
- [32] Orser, B., and Hogarth-Scott, S., (2002). "Opting for growth: gender dimensions of choosing enterprise development", *Canadian Journal of Administration Sciences* Vol. 19, pp. 284–300.
- [33] Orser, B., Hogarth-Scott, S., and Wright, P. (1998). "On the growth of small enterprises: the role of intentions, gender and experience". *Frontier of Entrepreneurship Research* (pp. 366–380). Wellesley, MA: Babson College.
- [34] Peng, M.W, and Heath, P. (1996). "The growth of the firm in planned economies in transition: institutions, organizations, and strategic choice", *Academy of Management Review*, Vol. 21 No. 2, pp. 492–528.
- [35] Pistrui, D. (2003). Growth intentions and expansion plans of new entrepreneurs in transitioning economies: An investigation into family dynamics, entrepreneurship and enterprise development, Doctoral dissertation, Universitat Autònoma de Barcelona.
- [36] Rosa, P., Carter, S., and Hamilton, D. (1996). "Gender as a determinant of small business performance: insights from a British study", *Small Business Economics*, Vol. 8 No. 4, pp. 463-478.
- [37] Saemundsson, R., and Dahlstrand, E. (2005). "How business opportunities constrain young technology-based firms from growing into medium-sized firms", *Small Business Economics*, Vol. 24, pp. 113–129.
- [38] Sinkula J., Baker W., Noordewier T. (1997). "A framework for market-based organizational learning: linking values, knowledge and behaviour", *Journal of the Academy of Marketing Science*, Vol. 25, pp. 305-318.
- [39] Slater S., and Narver, J. (1995). "Market orientation and the learning organization", *Journal of Marketing*, Vol. 59, pp. 63-74.
- [40] Smallbone, D., Welter, F., Isakova, N., Slonimski, A. (2001). "The contribution of small and medium enterprises to economic development in Ukraine and Belarus: some policy perspectives", *MOCT-MOST*, Vol. 11, pp. 253-273.
- [41] Storey, D. J. (1994). *Understanding the Small Business Sector*. London: Routledge.
- [42] Uhlenbruck, N. and De Castro, J. (2000), "Foreign acquisitions in Central and Eastern Europe: outcomes of privatization in transitional

- economies”, *Academy of Management Journal*, Vol. 43, pp. 381–402.
- [43] Weinzimmer, L. (2000). “A replication and extension of organizational growth Determinants”, *Journal of Business Research*, Vol. 48, pp. 35–41.
- [44] Wells, B., Pfantz, T., and Bryne, J. (2003). “Russian women business owners: evidence of entrepreneurship in a transition economy”, *Journal of Developmental Entrepreneurship*, Vol. 8 No.1, pp. 59-71.
- [45] Welter, F., Smallbone, D., Isakova, N., and Aculai, E. (2005). “The role of gender for entrepreneurship in a transition context”, Paper presented at RENT XIX Conference, Naples, Italy, November.
- [46] Wernerfelt B. (1984), “A resource-based view of the firm”, *Strategic Management Journal*, Vol. 5, pp.171-180.
- [47] Wiersema, M. and Bantel, K., (1992), “Top management team demography and corporate strategic change”, *Academy of Management Journal*, Vol. 35, pp. 91-121.
- [48] Wiklund, J. (1998). “Entrepreneurial orientation as predictor of performance and entrepreneurial behavior in small firms - longitudinal evidence”, In P.D. Reynolds, W.D. Bygrave, N.M. Carter, S. Menigart, C.M. Mason, and P.P. McDougall (eds.): *Frontiers of entrepreneurship research*. Wellesley, MA: Babson College.
- [49] Wiklund, J. and Shepherd, D. A. (2003). “Aspiring for, and achieving growth: The moderating role of resources and opportunities”, *Journal of Management Studies*, Vol. 40, pp. 1919–1942.
- [50] Wiklund, J., Patzelt, H., Shepherd, D. (2009). “Building an integrative model of small business growth”, *Small Business Economics*, Vol. 32, pp.351-374.
- [51] Williams, C. and Lee, S., (2009), “Resource allocations, knowledge network characteristics and entrepreneurial orientation of multinational corporations”, *Research Policy*, Vol. 38, pp. 1376-1387.
- [52] World Bank (2006). “Doing Business in 2006: Creating Jobs“. Available at <http://www.doingbusiness.org>.
- [53] World Bank (2006). “Doing Business in 2007: How to reform“. Available at <http://www.doingbusiness.org>.
- [54] World Bank (2007). “Doing Business in 2008“. Available at <http://www.doingbusiness.org>.
- [55] World Bank (2008). “Doing Business in 2009“. Available at <http://www.doingbusiness.org>.
- [56] World Bank (2009). “Doing Business in 2010: Overview“. Available at <http://www.doingbusiness.org>.
- [57] World Bank (2009). “Enterprise Bulgaria Country Profile 2009”, Working Paper.
- [58] Zahra, S. (1991). “Predictors and financial outcomes of corporate entrepreneurship: an exploratory study”, *Journal of Business Venturing*, Vol. 6, pp. 259-285.
- [59] Zahra, S. (1993), “New product innovation in established companies: associations with industry and strategy variables”, *Entrepreneurship: Theory and Practice*, Vol. 18, pp.47-6

Consumers Perception Regarding Brand Equity of Fast Food Restaurants in District Peshawar

Raza Ullah, Ghaffar Ali, Jamal Shah and Qaisar Shah Safi

Agriculture University, KPK, Pakistan, 25000

Email: raza.khalil@hotmail.com

Abstract - The study was carried out in district Peshawar to assess the consumer's perception regarding brand equity of fast food restaurants in district Peshawar. Likert scale rating was used to categories the consumer's perception in five categories. Z test was used to figure out the proportional difference among the determinants of brand equity of the fast food restaurants in the highest category. The results of the study indicate that there is significant difference between the proportions of KFC and other restaurants regarding the awareness of the consumers in the highest category indicating that consumers are more aware about the brands of KFC compare to Chief Burger and Pizza Hut. For proportional difference among consumer's perception regarding usage of brands there is significant difference between the proportions of KFC and Chief Burger and Chief Burger and Pizza Hut. There is also significant difference between the proportions of KFC and Pizza Hut, Chief Burger and Pizza Hut regarding the judgment of fast food brands. There is no significant difference among the proportions of the there restaurants regarding performance and image.

1. Introduction

The concept of fast food restaurants emerged in the early 1980s in Pakistan. Consumer preference for the fast food and non-fast food items in Pakistan has been growing. The fast food restaurant industry is one of the fastest growing industries in many developing countries and especially the foreign brands such as the MC-Donald, KFC, Chief Burger, Subway etc and now capturing the market in Pakistan at increasing rate (Raza and Jalees, 2005). Consumer buying behavior varies from product to product. For product such as restaurants the consumer buying behavior is generally of seeking variety. In this type of behavior the consumer switch the brand for the sake of variety.

Brand Equity is a set of assets (and liabilities) linked to a brand's name and symbol that adds to (or subtracts from) the value provided by a product or service to a firm and/or that firm's customers (Keller,

2004). The major brand asset categories are:

Brand awareness is the basic tool that depicts the acceptability of the brand and builds the perception of the firm within the target market. Awareness is the basic and foremost parameter in any brand related research.

Brand usage is the action parameter for any brand. It determines the level of consumer satisfaction while consuming the brand and it shapes the overall consumer behavior towards a brand. It leads to the development of consumer loyalty and ensures further penetration in the market.

Brand judgment focuses on customers' personal opinions and evaluations with regard to the brand. It measures how customers put together the different performance and imagery indicators of the brand to form different kinds of opinions.

Brand performance relates to the ways in which the product or service attempts to meet customers' functional needs. It refers to the intrinsic properties of the brand in terms of inherent product or service traits.

Brand imagery deals with the extrinsic properties of the product or service including the ways in which the brand attempts to meet customers' psychological and social needs. Brand imagery is how people think about a brand abstractly, rather than what they think the brand actually does.

In this research an attempt has been made to ascertain the brand equity. If a customer is satisfied from a fast food restaurant for the first time then he remains loyal for ever. The question arises that why customer prefer fast food and how brand loyalty and brand image develop. This research is conducted for the better understanding of examining the attributes of the fast food restaurants and the brand awareness judgment, performance, imaginary of the customer towards the fast food operating in Pakistan.

2. Literature Review

The literature on brand equity shows two major focuses viz. financial aspects and consumer behavior effects specific to a particular brand. For marketers,

the consumer effects are the appropriate focus and include a number of cognitive effects (Keller, 2004). Keller (1993) Conceptualized brand equity using an associative memory model focusing on brand knowledge and involving two components, brand awareness and brand image, described as a set of brand associations. Ries et al, (1981) argued that Brand Equity gives value to customers; this value is achieved by helping customers in processing information about the marketplace and gain confidence in their purchase decisions. Kapferer (2001) suggested that Brand equity gives value to the firm by increasing the effectiveness of marketing programs. Earls (2003) described Brand equity as the value a brand name adds to a product. Generally, it results from all the activities needed to market the brand. Rangaswamy et al (1993) used conjoint analysis to explore how brand names interact with physical product features to affect the extendibility of brand names to new product categories. Swait et al (1993) proposed a related approach for measuring brand equity which designs choice experience that account for brand name, product attributes, brand image and difference in consumer socio – demographic characteristics and brand usage.

3. Methodology

The study was conducted in district Peshawar to investigate consumer perception towards fast food restaurants. Three restaurants viz KFC, Chief Burger and Pizza Hut were purposively selected to get a blend of both local and international presence in the market. A sample of 100 respondents were non-randomly selected and interviewed for this purpose the data was collected during 2009 by closed ended questionnaire based on Likert Scale Rating. Schirner et al. (2005) reported that the actual number of choices on Likert scale may depend on the tastes of the individual researchers. In practice, researchers often do assign a number of arbitrary choices according to the personal taste or using past evidences. In the present study, five different choices i.e. 1= strongly disagree; 2= disagree; 3= undecided; 4= agree and 5= strongly agree were used to collect the primary data on brand equity in the three selected fast food restaurants in district Peshawar.

The collected data was punched into SPSS to figure out frequencies in the highest category (strongly agree) for the three restaurants. To test the significant difference between the proportions of any two restaurants regarding the perception of respondents in the highest category (strongly agree), Z-test was applied, which is defined as:

$$Z = \frac{\hat{p}_i - \hat{p}_j}{\sqrt{\frac{\hat{p}_i \hat{q}_i}{n_1} + \frac{\hat{p}_j \hat{q}_j}{n_2}}}, \text{ which under the null hypothesis follow a standard normal distribution.}$$

Where

\hat{p}_i and \hat{p}_j ($i \neq j$) are the proportions of respondents in the category “strongly agree” of i^{th} and j^{th} restaurants respectively. The proportions are derived by dividing the number of respondents in the category “strongly agree” by total number of respondents.

$$\hat{q}_i = 1 - \hat{p}_i$$

$$\hat{q}_j = 1 - \hat{p}_j$$

n_1 and n_2 are the sample sizes for i^{th} and j^{th} restaurants respectively.

4. Results and Discussions

There are five components of brand equity viz awareness, usage, judgment, performance and imagery. All these components affect and determine the brand equity. The difference of the proportions regarding the perception of consumers, in terms of all of the above mentioned five components, in the highest category (strongly agree) are presented in tables 1 to 5.

Table 1 - Difference of Proportions of Fast Food Restaurants Regarding Awareness

Pairs	Prop. Difference	Z-test	p-value
KFC vs Chief Burger	0.12	2.03*	0.0211
KFC vs Pizza Hut	0.10	1.66*	0.0484
Chief Burger vs Pizza Hut	-0.02	-0.36 ^{NS}	0.3542

Source: Survey Data; * and ** indicates significant at 5% and 1% levels of probability respectively; NS shows non significant

Table 1 presents the difference among the proportions of restaurants regarding the awareness of respondents in the highest category (strongly agree).

As evident by Z-value, there is statistically significant difference between the proportions of KFC and Chief Burger and KFC and Pizza Hut. There is non significant difference between the proportions of Chief Burger and Pizza Hut. It indicates that the consumers' perception in terms of awareness was more for KFC compared to other fast food restaurants.

Table 2 - Difference of Proportions of Fast Food Restaurants Regarding Usage

Pairs	Prop. Difference	Z-test	p-value
KFC vs Chief Burger	0.16	2.83**	0.0023
KFC vs Pizza Hut	0.06	0.96 ^{NS}	0.1685
Chief Burger vs Pizza Hut	-0.10	-1.85*	0.0321

Source: Survey Data; * and ** indicates significant at 5% and 1% levels of probability respectively; NS shows non significant

Table 2 presents the difference among the proportions of restaurants regarding the usage of fast food brands by the respondents in the highest category (strongly agree). Z-value shows that there is statistically significant difference between the proportions of KFC and Chief Burger. There is also significant difference between the proportions of Chief Burger and Pizza Hut. The difference in the proportions of KFC and Pizza Hut is statistically non significant.

Table 3 - Difference of Proportions of Fast Food Restaurants Regarding Judgment

Pairs	Prop. Difference	Z-test	p-value
KFC vs Chief Burger	-0.03	-0.47 ^{NS}	0.3192
KFC vs Pizza Hut	0.12	2.10*	0.0179
Chief Burger vs Pizza Hut	0.15	2.58**	0.0049

Source: Survey Data; * and ** indicates significant at 5% and 1% levels of probability respectively; NS shows non significant

Table 3 shows the difference among the proportions of restaurants regarding the judgment of fast food brands by the respondents in the highest category (strongly agree). Z-value indicates that there is statistically significant difference between the proportions of KFC and Pizza Hut, Chief Burger and Pizza Hut. While there is non significant difference between the proportions of KFC and Chief Burger.

Table 4 - Difference of Proportions of Fast Food Restaurants Regarding Performance

Pairs	Prop. Difference	Z-test	p-value
KFC vs Chief Burger	-0.06	-1.06 ^{NS}	0.1446
KFC vs Pizza Hut	0.01	0.19 ^{NS}	0.4247
Chief Burger vs Pizza Hut	0.07	1.25 ^{NS}	0.1056

Source: Survey Data; NS shows that the proportion difference is non significant at 5% level of probability.

Table 4 shows the difference among the proportions of restaurants regarding the perception of respondents in the highest category (strongly agree). Z-value indicates that there is no statistical difference between the proportions of the three restaurants.

Table 5 - Difference of Proportions of Fast Food Restaurants Regarding Imagery

Pairs	Prop. Difference	Z-test	p-value
KFC vs Chief Burger	0.01	0.19 ^{NS}	0.4247
KFC vs Pizza Hut	0.04	0.79 ^{NS}	0.2148
Chief Burger vs Pizza Hut	0.03	0.60 ^{NS}	0.2743

Source: Survey Data; ** indicates significant at 1% levels of probability; NS shows non significant

Table 5 shows the difference among the proportions of restaurants regarding the image of the fast food brands in the highest category (strongly agree). It is clear from the Z-value that there is non significant difference between the proportions of KFC and Chief Burger, KFC and Pizza Hut and Chief Burger and Pizza Hut.

6. Conclusion

The results of the study reveal that the consumer's perception in terms of awareness and usage was more for KFC compared to other fast food restaurants, while consumer's perception in terms of judgment was greatest for Chief Burger. Consumers reported that the performance and image of the three fast food restaurants were the same.

References

- [1] Earls, M. 2003. *Welcome to the Creative Age*, 2nd ed. Weley Publishers, London.
- [2] Kapferer, J. N. 2001. *Re-inventing the brand: can Top Brands Survive the New Market Realities?* Kagan Pages, Germany
- [3] Keller, K. L. 2004. *Contemporary Branding. Harvard business Review*. 38th ed.
- [4] Keller, K. L. 1993. *Conceptualizing, measuring and managing customer-based brand equity*. *Journal of marketing*, 57(1):1-22.
- [5] Rangaswamy, A., B. Burke and J. A. Oliva. 1993. *Brand Equity and the existendibility of brand names*. *International journal of Research Marketing*, 10(1): 61-75.
- [6] Raza. S. M. and T. Jalees. 2005. *Brand Equity of fast food restaurants in Karachi*. *Market Forces*, 1(2).
- [7] Ries, A and J. Trout. 1981. *Positioning: the Battle for your main*. McGraw Hill, Inc. New York.
- [8] Schirmer J, Mauksc L, Lang F, Marvel MK, Zoppi K, Epstein RM, et al. 2005.
- [9] *Assessing communication competence: A review of current tools*. *Fam Med* 37(3):184–192.
- [10] Swait, J., T. Erdem., J. Louviere and C. Dubelaour. 2000. *the equalization price: a measure of consumer-perceived brand equity*. *International journal of Research Marketing*, 10(1): 23-45.

International Journal of Latest Trends in Finance & Economic Sciences

Call for Papers

The journal welcomes high quality original research papers, survey papers, review papers, tutorial, technical notes as well as discussion papers.

- International Economics
- Monetary and Fiscal Policy Decision-Making
- Financial Economics
- Financial Analysis
- Financial Risk Analysis
- Corporate Finance
- Forecasting Financial Markets
- International Finance
- Pricing and Risk of Financial Instruments
- Public Finance Decision-Making
- Economic Development
- International Banking and Portfolio Management
- International Political Economy
- Financial Market Regulation
- Transition Economies
- Exchange Rate Modelling
- Economic Policy
- Portfolio and Asset Management
- Advances in Financial Econometrics and Statistics