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**Faculty of Business Administration
Rangsit University
Thailand**



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RANGSIT UNIVERSITY



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2015
(ICIBE-2015)**

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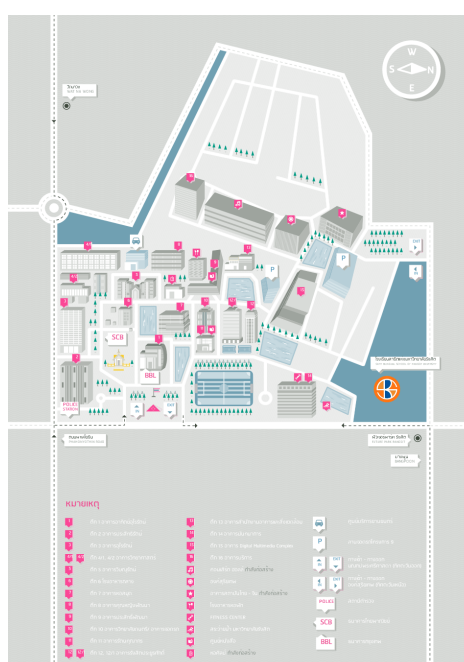
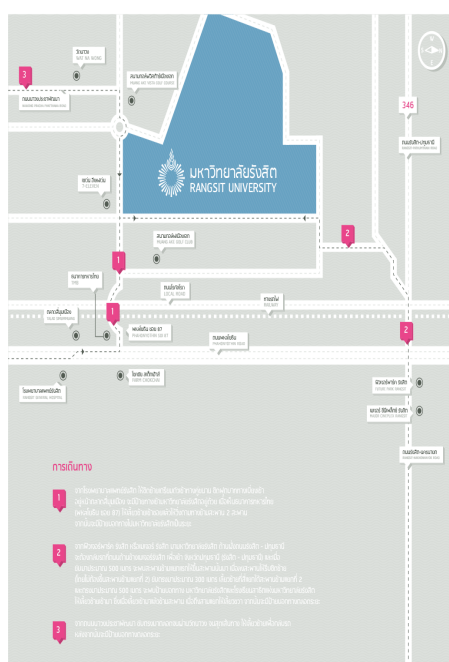
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Time Table:

8.00 a.m. – 9.00 a.m.	Conference registration
9.00 a.m. – 9.10 a.m.	MC: Introduction of the Conference Opening Speech: Assistant Professor Santi Kiranand, D.B.A. Dean, Faculty of Business Administration
9.45 a.m. – 10.15 a.m.	Research Papers Presentation Room 1: Innovative Business and Entrepreneurship Session Chair: Noppadol Suwannasap, D.B.A. Room 2: Related Fields Session Chair: Kittiphun Khongsawatkiat, Ph.D.
10.15 a.m. – 10.30 a.m.	Coffee Break
10.30 a.m. – 12.00 p.m.	Research Papers Presentation Room 1: Innovative Business and Entrepreneurship Session Chair: Noppadol Suwannasap, D.B.A. Room 2: Related Fields Session Chair: Kittiphun Khongsawatkiat, Ph.D.
12.00 p.m. – 1.00 p.m.	Lunch Break

Presentations: For your presentations at the ICIBE-2015 meeting please note that all rooms are not equipped with computers.

Conference Presentations:

Computer will not be available in all rooms for conference presentations, please bring your own computer notebook/laptop for the presentation.

Discussants' Responsibility: To better serve the needs of authors presenting papers at the ICIBE-2015 meeting, discussants are kindly required to hand out to the authors and the session chair one page handwritten comments with their constructive comments.

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E-PROCEEDINGS

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**MIDDLE-CLASS TEENAGERS' ATTITUDE AND PURCHASE DECISION TOWARDS
BRANDED FASHION: STUDY ON INDONESIAN CONSUMERS**

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Abstract

As emerging country, Indonesia becomes an attractive market for international fashion brands, specifically those targeted to middle-class consumers. There are few studies focus on middle-class teenagers' purchasing behavior. This study aims to examine the influencing factors of teenagers' attitude and purchase decision towards branded fashion. Convenience sampling was used to select the respondents. Data were collected from 300 respondents with 83 percent response rate. Structural equation modelling using partial least square (PLS-SEM) was utilized to test the hypotheses. The findings show self-identity, direct experience, and brand consciousness have significant influence on attitude towards fashion which finally affects purchase decision. Parents influence on attitude towards fashion is moderated by brand consciousness, while the effect of attitude towards fashion on purchase decision is moderated by parenting style.

Keywords: fashion, teenager, socialization agent, purchasing behaviour

Introduction

According to World Bank and International Monetary Fund, Asia has higher GDP growth than Europe, Australia, and Northern America. One of Asia emerging economies is Indonesia which economic growth rate was the third highest in the world in 2009 (Indonesia Central Bank, 2011). When most countries affected by global economic downturn, Indonesia was able to maintain positive economic growth. Moreover, Indonesia has GDP growth rate of 5.1% in 2014, drop from 5.8% in 2013 (World Bank, 2014). Due to its economic progression, Indonesia is included in E7 group that consists of seven major emerging economies in 2050 together with China, India, Brazil, Mexico, Russia and South Korea.

Positive economic growth leads to a significant increase in the number of middle-class consumers that reaches more than 70 million people in 2012 (Samboh, 2012; Rastogi et al., 2013; Wiraspati, 2013). If the emerging middle-class is taken into account, almost half of Indonesian population is categorized as middle-class consumers. These consumers are well-educated, have professional career, better

income, hedonic lifestyle, sophisticated appearance, status-seekers, and consumptive. They tend to demonstrate their status through the products they use in public such as gadget, automobile, housing, entertainment, and fashion.

As fashion is used as status symbol, the growing number of middle-class consumers affects sales of fashion items. This phenomenon attracts many international fashion brands and retailers to expand their business in Indonesia and target Indonesian middle-class consumers as their prospective market. Report from Euromonitor (2014) shows sales revenues of designer apparel and footwear are increasing.

Middle-class consumers can be classified based on their age group: children, teenagers, adults, and the elderly. This study focuses on teenagers between 15 and 19 years old which represent 8 percent of Indonesian population (Indonesia Statistics, 2015). These consumers spent IDR 200 trillion in 2011 (Adiwaluyo, 2011). Today's teenagers are technology savvy, financially dependent on parents, keep abreast of the latest trend, have little tendency to save their allowance, and more relying on friends than parents. However, it is not easy to serve these consumers as they are very dynamic and tend to be disloyal.

Prior studies on teenagers' purchasing behavior did not specifically target a particular segment. Teenagers from middle-class family may have different purchasing behavior from their upper-class or lower-class counterparts. Therefore, this study focuses on middle-class teenagers to grasp deeper understanding on their consumer behavior.

This study aims to examine the effect of social influencers, self-identity, and direct experience on middle-class teenagers' attitude towards fashion, which at the end influence their purchase decision. It extends previous studies by including self-identity and direct experience into research framework based on the propositions offered by Hendriana et al. (2012).

Literature Review

An understanding on consumer behavior may help marketers in determining the most appropriate marketing strategies to satisfy their targeted consumers better than competitors do. Consumer behavior is defined as the behavior that consumer display in searching for, purchasing, using, evaluating and disposing the product that expected will satisfy their needs (Schiffman & Kanuk, 2010). An individual must acquire necessary skills and knowledge to make rational purchase decision. These skills and knowledge are learnt through socialization process that occurs throughout one's life.

In earliest stage of life, children gain consumer skills from their parents either through observation or co-shopping activities (Moschis & Churchill, 1978; Hsu & Chang, 2008). When they grow up, they obtain these skills not only from their parents, but also from other socialization agents such as friends, media, celebrity

endorsers, and education institutions (Danielsson, 2009; Dotson & Hyatt, 2005; Mascharenhas & Higby, 1993; Rodriguez, 2008).

Socialization agents may influence consumer attitude towards products and brands. An individual may become accustomed to certain brands because their parents used to buy and compel them to use these brands during childhood. He may know particular brands because people in their peer group wear in those brands. Media exposure and celebrity endorsers also play important role by providing some information related to products and brands. Four hypotheses are tested based on relationship between socialization agents and consumer attitude:

H1: parents give positive influence on attitude towards fashion.

H2: peer groups give positive influence on attitude towards fashion.

H3: mass media gives positive influence on attitude towards fashion.

H4: celebrity endorsers give positive influence on attitude towards fashion.

Social interaction and media exposure cause an individual to be more brand conscious, measured by his level of awareness on a particular brand is different from other brands. A brand conscious consumer perceives buying well-known and more expensive brands will give him more satisfaction and higher warranty on product quality (Shim, 1996; Sproles and Kendall, 1986).

Not only giving functional value, brand may also present self-image and group identity of a consumer. The study by Phau and Leng (2008) show status-seeking orientation relates to consumer attitude towards fashion. Ahmed et al. (2012) argue that social pressure is one of the major reason that leads an individual to buy branded products. The impact of social pressure is stronger specifically for publicly-consumed products like fashion. As the result, many teenagers prefer to have favourable attitude towards brands that can display their identity (Escalas & Bettman, 2005) and social status (Mandel et al., 2006). The ability of brand to satisfy these needs will finally influence individual emotional attachment and loyalty to the brand (Hwang & Kandampully, 2012). Based on this argument, we test the following hypotheses:

H5: brand consciousness has positive effect on attitude towards fashion.

H5a: brand consciousness may strengthen the impact of parents on attitude towards fashion.

H5b: brand consciousness may strengthen the impact of peer groups on attitude towards fashion.

Although their attitude towards products are influenced by socialization agents, teenagers also want to expose themselves as unique persons. Teenagers are in transition period from childhood to adulthood. At this period, they encounter physical growth and concern with what others think about themselves. This stage is

very important for teenagers as they usually experience identity crisis. The crisis involves conflict between individual psychological needs and social needs.

Erikson (1968, cited in Waterman, 1982) argues that adolescence is the most important identity formation where a teenager starts to learn his future roles as an adult. They begin to do some experiments with different lifestyles and form their own identity. In the same time, they also need to fit to the society, specifically their peer group which may lead to role confusion.

An individual identity is determined by his personal history and developed through his interaction with others in a social context. During their adolescence, they try to build their identity to portray themselves to others by drawing from their relations with family, by locating themselves in a peer group, and even by showing their preference to fashion (Khallouli & Gharbi, 2013). Teenagers tend to use fashion as a tool to express themselves and identify themselves among others. Therefore, the following hypothesis is examined:

H6: self-identity has positive effect on attitude towards fashion.

The period of adolescence is depicted by teenagers' tendency to conduct experiment without considering the possible consequences (Blackwell et al., 2012). Teenagers are more likely to have high curiosity on something and more receptive on new things. In terms of fashion, this tendency is shown through their willingness to try new brands, retailers, and style. They learn many aspects related to fashion from their shopping experience. Ayman and Kaya (2014) find that the decision to buy branded apparels is driven by consumers' past experience, satisfaction, and perception on the brands. Thus, it is expected shopping experience may influence their attitude towards fashion which shown through this hypothesis:

H7: direct experience has positive influence on attitude towards fashion.

In conclusion, adolescent attitude towards fashion is formed by consumer skills and knowledge gathered from various socialization agents as well as from self-identity and direct experience. Consumers who have positive attitude toward a certain brand most likely purchase their preferred products (Blackwell et al., 2012).

The purchase decision made by teenagers is not only determined by their attitude, but may also be influenced by parenting style. Three parenting styles: authoritarian, authoritative, and permissive, are different in the way parents communicate and teach their children. The authoritarian is usually chosen by lower-class families in which parents emphasize children's obedience on very strict family rules. Most decisions are made by parents with very low input from children. In contrast, parents who implement permissive style give up most control to their children and there are no clear boundaries for their children behavior. Authoritative style is between authoritarian and permissive styles, in which parents set clear standards and requires the children to obey family rules but not overly punitive.

Among these style, authoritative style delivers the best outcome on children cognitive and emotional development (Dornbusch et al., 2007). The study by Mangleburg et al. (1999) show that authoritarianism parenting is negatively related to children's influence on family and child-related purchase decision. Moreover, Darian (1998) and Kim et al. (2009) believe that interaction between parents and children and types of communication in the family may influence adolescents' decision making styles and family purchase style. Based on these arguments, the last hypotheses are:

H7: attitude toward fashion has positive influence on purchase decision.

H8: parenting style influence purchase decision.

H8a: parenting style moderates the effect on attitude towards fashion on purchase decision.

Research Methodology

Quantitative approach was used to answer the research problems. In total, there were ten constructs which measured by 44 items adopted from previous studies and focus group discussions. These items were measured on 5-point Likert scales ranging from strongly disagree (1) to strongly agree (5).

Socialization agents consist of the individuals, groups, and institutions involved in socialization process in which a person learns and integrates the values, norms, and consumption-related knowledge that affect his perception, attitude, and behavior (Blackwell et al., 2012; Schiffman & Kanuk, 2010). These agents were divided into four constructs: parents, peers, media, and celebrity endorsers. Each construct was assessed by five items.

The measurement items of parental influence on attitude were taken from Dotson & Hyatt (2005) and Mascharenhas & Higby (1993). The items of peer influence were adopted from Chan & Zhang (2007), Dotson & Hyatt (2005), and Mascharenhas & Higby (1993). The items to measure media influence were adapted from Chan & Zhang (2007), Dotson & Hyatt (2005), Gutman & Mills (1982), Mascharenhas & Higby (1993), and scale development. Meanwhile, Bush et al., (2004), Chan & Zhang (2007), Gutman & Mills (1982), Mascharenhas & Higby (1993), and scale development became the references in measuring celebrity endorsers influence on attitude.

Brand consciousness is defined as an individual awareness or preference of a particular brand as a distinct product from the others (Huang, 2010). Two items were adopted from Dotson and Hyatt (2005) to measure this construct.

Self-identity, commonly known as self-concept, is distinguish characteristics of an individual that are used for identification with significant others (Weinreich, 2003).

There were five measurement items of self-identity taken from Gutman & Mills (1982) and Mascharenhas & Higby (1993).

The opportunities of an individual to take active role in the environment that may affect his understanding of a certain object is called direct experience (Ewell, 1997). This construct was measured by five items adopted from Gutman & Mills (1982) and Mascharenhas & Higby (1993).

Socialization agents, brand consciousness, self-identity, and direct experience are predicted to have positive influence on attitude towards fashion. Attitude towards the fashion shows an individual evaluation of the product which is fashion. It presents one's feeling about this object. At the end, this attitude may affect his behavior such as buying the product (Blackwell et al., 2012). Five items were used to measure each construct: attitude and purchase decision. The measurement items of attitude towards fashion were adopted from Gutman & Mills (1982) and Dotson & Hyatt (2005), while those measuring purchasing behavior were taken from Chan & Zhang (2007), Dotson & Hyatt (2005), Gutman & Mills (1982), and Mascharenhas & Higby (1993).

Parenting style is treated as independent variable that may directly influence individual's purchase decision and moderating variable that may affect the relationship between attitude and purchase decision. It is a strategy used by parents in raising their children (Spera, 2005). Two items adopted from Dotson and Hyatt (2005) were used to measure parenting style.

This study focused on teenagers purchasing behavior because they represent 10 percent of Indonesian population (Indonesia Statistics, 2011). In specific, middle-class purchasing behaviour was studied. This study was conducted in Jakarta as the capital of Indonesia that had the highest GDRP. Data were collected from the freshmen of the University of Pelita Harapan and Prasetya Mulya Business School, two higher education institutions that targeted the middle-class families.

Samples were selected using convenience sampling. Closed-ended questionnaires were distributed to 300 middle-class students that resulted in 83 percent usable response rate. Thirty six items were reliable and valid for both convergent and discriminant for this study (Table 1 & Table 2). Data were analyzed using Partial Least Square – Structural Equation Modeling (PLS – SEM).

Table 1: Results of Content Validity and Reliability Tests

Variable	Item	Factor loading	AVE	Composite reliability	Deleted item
Parents (PAR)	PAR1	0.5919	0.5979	0.7396	PAR3 PAR4 PAR5
	PAR2	0.9195			
Peers (PER)	PER1	0.7606	0.5225	0.8132	PER5
	PER2	0.6974			
	PER3	0.7798			
	PER4	0.6458			
Media (MED)	MED1	0.7752	0.6834	0.9150	
	MED2	0.7845			
	MED3	0.8563			
	MED4	0.8640			
	MED5	0.8490			
Celebrity endorsers (CEL)	CEL1	0.8485	0.6523	0.9034	
	CEL2	0.8518			
	CEL3	0.7424			
	CEL4	0.8257			
	CEL5	0.7635			
Brand consciousness (BRC)	BRC1	0.9315	0.8689	0.9299	
	BRC2	0.9328			
Self-identity (SID)	SID2	0.6781	0.6100	0.8613	SID1
	SID3	0.8689			
	SID4	0.7979			
	SID5	0.7671			
Direct experience (DEX)	DEX1	0.6406	0.5005	0.8314	
	DEX2	0.6786			
	DEX3	0.7993			
	DEX4	0.5831			
	DEX5	0.8079			
Attitude towards fashion (ATF)	ATF1	0.7080	0.5298	0.8487	
	ATF2	0.7561			
	ATF3	0.8078			
	ATF4	0.6891			
	ATF5	0.6699			
Parenting style (PAS)	PAS1	0.9613	0.5946	0.7288	
	PAS2	0.5149			
Purchase decision (PDC)	PDC1	0.8117	0.5852	0.7376	PDC2 PDC3 PDC5
	PDC4	0.7152			

Table 2: Results of Discriminant Analysis

	ATF	BRC	CEL	DEX	MED	PAR	PDC	PER	SID
ATF	0.7279								
BRC	0.4516	0.9321							
CEL	0.4290	0.4266	0.8077						
DEX	0.6701	0.3644	0.3598	0.7075					
MED	0.4757	0.3888	0.5441	0.4895	0.8267				
PAR	0.1436	0.0924	0.1485	0.1746	0.1635	0.7732			
PDC	0.3686	0.0609	0.0859	0.4762	0.2411	0.0203	0.7650		
PER	0.3732	0.2589	0.4367	0.3235	0.3920	0.0710	0.0968	0.7228	
SID	0.5248	0.1683	0.2571	0.5463	0.2881	0.1181	0.3898	0.1858	0.7810

Results

As shown in Table 3, around 53 percent of the respondents were male and the remaining were female. All respondents were between 17 and 18 years old. The majority of respondents had monthly allowances more than 1 million Indonesian Rupiah. Most respondents shopped fashion products 1 and 2 times per month.

Table 3: Characteristics of Respondents

Characteristics	Amount	Percentage
Gender:		
Male	133	53.4
Female	116	46.6
Monthly allowances:		
Less than IDR 1 million	19	7.6
IDR 1.0 – 1.9 million	87	34.9
IDR 2.0 – 2.9 million	68	27.3
IDR 3 million and above	75	30.1
Frequency of shopping for fashion per month:		
1x	93	37.3
2x	83	33.3
3x	39	15.7
More than 3x	34	13.7

Seven hypotheses were supported with T-Statistics more than 1.65. Brand consciousness, self-identity, and direct experience had significant effect on attitude towards fashion, while parents, peers, media, and celebrity endorsers were insignificant. It was also found that attitude towards fashion and parenting style had significant effect on purchase decision. Moreover, brand consciousness moderated the effect of parents on attitude towards fashion and parenting style also moderated the effect of attitude towards fashion on purchase decision. The detail of hypotheses testing results can be seen on Table 4.

Table 4: Results of Hypotheses Testing

Hypothesis	Original Sample	Sample Mean	Standard Deviation	T Statistics	Remark
PAR → ATF	0.2404	0.2080	0.1629	1.4759	Not supported
PER → ATF	0.1808	0.2082	0.1708	1.0582	Not supported
MED → ATF	0.0619	0.0588	0.0568	1.0915	Not supported
CEL → ATF	0.0785	0.0751	0.0621	1.2636	Not supported
BRC → ATF	0.6606	0.6383	0.2529	2.6117	Supported
PAR * BRC → ATF	-0.4668	-0.4060	0.2609	1.7889	Supported
PER * BRC → ATF	-0.1497	-0.1912	0.2962	0.5054	Not supported
SID → ATF	0.2277	0.2240	0.0575	3.9625	Supported
DEX → ATF	0.3958	0.3975	0.0597	6.6275	Supported
ATF → PDC	0.7877	0.7385	0.2185	3.6047	Supported
PAS → PDC	0.8454	0.8083	0.2081	4.0627	Supported
ATF * PAS → PDC	-0.7469	-0.6737	0.322	2.3197	Supported

Discussion

Socialization agents, brand consciousness, self-identity, and direct experience explain the variance of teenagers' attitude towards branded fashion by more than 50 percent. Among these variables, the influence of socialization agents on attitude is insignificant, except for parents after being moderated by brand consciousness.

This study involves teenagers age 17 and 18 years old who are at the latest stage of adolescence. They gain prior awareness on particular things such as fashion from various sources including socialization agents and shopping experience. Although they perceive socialization agents give small influence on their attitude regarding fashion, but it is more likely they originally acquire knowledge from these informants. Parents, peers, media, and celebrity endorsers provide some information about fashion such as fashion style, brands, and important attributes to evaluate clothing which deepen teenagers understanding on fashion. They keep this knowledge in long-term memory and intuitively use it in assessing the products without recognizing the agents introducing these aspects to them.

The knowledge available on their memory is not only gathered from socialization also, but it also obtain from prior shopping experience. Our samples shop fashion items at least once a month, so they are able to evaluate brands based on their own experience. They also learn many aspects of clothing when they try the products, visit shops or malls, or simply observe the behavior of other consumers. These activities allow them to acquire necessary consumer skills and influence their attitude towards product offerings, brands, retailers, etc.

As teenagers have better cognitive skills than their younger counterparts, they adjust the information from socialization agents with their experience. It is tendency among rational consumers to depend more on the facts gathered from their own experience rather than the information given by socialization agents which causes the influence of socialization agents is insignificant, while direct experience gives positive effect on attitude. These findings partially support the study conducted by Yalkin and Rosenbaum-Elliott (2014).

When teenagers were young, parents introduce some aspects of fashion including brands to them. It is found that teenagers who are familiar with certain brands since childhood tend to purchase similar brands when they grow up. They are accustomed to wearing those brands and already know the product quality, therefore, these brands are easily recognizable to them. Parents may also have fanaticism on particular brands and transfer their knowledge on these brands to children which influence their awareness and attitude on those brands.

Many middle-class teenagers believe that they have made right purchase decision by buying well-known and expensive brands. Their decision to purchase branded fashion is driven by their perception on particular brands, satisfaction, and prior shopping experience. They associate product price with quality and social status. They believe the producers of expensive and well-known brands deliver better

offerings and superior quality than the infamous ones. They also comprehend expensive and well-known brands can represent their self-concept and status, so they have positive attitude towards these brands which in line with the findings of Mandel et al. (2006).

Adolescence is a period of self-identity construction for teenagers. As symbolic object, fashion is used as medium of expression to show individual personalities to others. They pay attention to their appearance and prefer fashion brands which are able to present their uniqueness and identity. Similar to the findings of Khallouli and Gharbi (2013), this study also found positive relationship between self-identity and attitude towards fashion. Teenagers are more likely to have positive attitude towards product offerings, brands, and stores that match to the identity they wanted to present to others.

Attitude and parenting style simultaneously affect purchase decision which is consistent to Blackwell et al. (2012) who stated attitude has positive correlation on purchase intention. However, both variables only yield moderate influence on purchase decision because teenagers are in experiential stage. They may have positive attitude on several brands and stores, but it does not always reflected in their purchasing behavior. As the consequence, they are often perceived as non-loyal consumers compare to the adults.

Our respondents have favorable attitude to the latest fashion style and various brands, thus, they show it through their purchase decision. They tend to buy fashion items that suitable with their self-concept and most decision is made individually, especially those raised by authoritative parents. Parents implementing authoritative parenting style used to establish rules and guidelines to follow by their children. Under this parenting style, parents tend to encourage children to be independent, express their opinions, and discuss options. Therefore, when they grow up, they are able to make logical decisions.

Conclusion and Direction for Future Study

In the process of identity building, teenagers tend to express their uniqueness and self-concept through the products they consumed, including fashion. Branded fashion is known not only to present the personality of the users but also carry symbolic meanings. Teenager attitude towards fashion is influenced by self-identity, direct experience, and brand consciousness. Parents influence on attitude towards fashion is also significant if moderated by brand consciousness. Positive attitude on fashion finally affects their purchase decision which also influences by parenting style.

It is suggested to involve teenagers from other age groups and different cities to generate better understanding on the purchasing behavior of middle-class teenagers. Comparative study such as between teenagers and tweens or middle-class and upper-class teenagers may also be done to enrich the comprehension of consumer behavior.

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Influence Marketing of Hybrid Passenger Car in Thailand

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ABSTRACT

The main purpose of this study is focused on hybrid passenger car and its integration into Thai society. In addition, the second purpose is to investigate the factors that influence the increase of hybrid car in hybrid car market. This study also describes the hybrid car market in Thailand while compares with the US market and Chinese market and looks into the reasons for why hybrid car sales are now more interested for customers in Thailand and gives some advice on the sales of hybrid car. The study also provides the attitude of customers and the actual sale volume status of hybrid cars in Thailand. After the data was deeply analyzed, the findings indicated that there are many important factors effected to customers purchasing hybrid cars. One important issue is that hybrid car provided the convenience and comfort to customers while it consumes less fuel oil than other non-hybrid cars. Furthermore, there is several information of sale volume status on hybrid vehicle marketing in Thailand and there are also some reasons why the sale volume of hybrid cars is continuously high in Thai marketing although the price of hybrid passenger cars is pretty high. This study also contributes the information about consumers' behavior and customers' attitude of hybrid car marketing.

With all information taken into account and deeply analysis, we can conclude that hybrid passenger car in Thailand marketing have several drawbacks that offset their fuel efficiency. Their higher price both turns customers away and makes the vehicles a less attractive economic investment. Overall, hybrid technology has a lot of potential in the distant future, but as for today they it is not a significant improvement over today's internal combustion engine.

INTRODUCTION

Many governments and many countries are interested in promoting hybrid passenger car and hybrid electric vehicle is the new alternative way because of the concerns about the energy, oil dependence, air pollution and global warming. Hybrid energy can still achieve greater fuel efficiency not only that first past launching time but also the future time because of its innovations and its capacities.

A hybrid vehicle is a vehicle that uses two different power energy sources, which are diesel/petrol and battery. In that past recent years, hybrid vehicle is considered one of the most innovative products in automotive industry which first launched Toyota Prius - the first hybrid car in the world. It was introduced worldwide in the year 2000.

With the car industry's faster growth, the problem of environmental pollution and global energy crisis has gradually emerged. Hybrid passenger cars can obviously reduce these problems and take place of current cars. Therefore, the way to improve the influence of hybrid cars is becoming more important.

The environment problem is one of the most important problems in the world and everyone should have awareness of environmental protection. Thailand is one of the industrious countries that release the Carbon dioxide gas more than 30% into the air. This can cause air pollution and lead to one of the greatest sources of global warming crisis. Therefore, how to reduce air pollution is becoming much more important.

Global energy and fuel oil shortage is another important problem for every country. At the current mining rate and with proven reserves, the world reserves of oil are at the level of 1.24 trillion barrels. The last drop of oil in the world will be mined 41 years later. (BP, 2008) 80% of the total output of gasoline and 40% of diesel output are consumed by cars.

Cars consume a large amount of oil resources, resulting in the global energy shortage. So, saving fuel oil is unavoidable for everyone. Many researchers revealed that 70% of world urban air pollution emissions is caused by car exhaust.

Finally, we always hope that new hybrid vehicle technology can lengthen the time of ending of the energy our world.

Historical of Passengers

Vehicles passing complicatedly on the roads are so many different kind, brand and capacity. Some vehicle use fuel oil to drive engines such as general cars or pick up. Some use battery to drive their engines.

The current state of fuel economy and emission produced by a typical automobile is largely a reflection of low efficiency of conventional combustion engines: only about 15% of the energy from the fuel consumed by these engines gets used for propulsion and the rest of the energy is lost to engine and driveline inefficiencies and idling. Hybrid vehicles combine power from both a gasoline engine and an electric motor that runs of the electricity from a rechargeable battery. The battery harnesses some of the energy that would be wasted in operations in a typical automobile (such as energy from braking) and then provides power whenever the gasoline engine proves to be inefficient and hence is turned off.

Toyota introduced the first hybrid car, Toyota Prius, in Japan in 1997. In 2000, Toyota and Honda introduced their hybrid vehicles, Toyota Prius and Honda Insight, into the U.S. market. With rising gasoline prices, hybrid vehicles have enjoyed an increasing popularity in recent years. In 2004, as the first U.S. manufacturer into the hybrid market, Ford introduced its first hybrid model. In 2007, GM and Nissan entered the competition by introducing their own hybrid models.

Because of the improved fuel economy and reduced emissions, the hybrid technology is considered as a promising technology by the National Energy Policy Report (2001), which concludes that the demand for hybrid vehicles must be increased in order to achieve economies of scale so as to bring the cost of hybrid vehicles down. The group recommended in the report that an efficiency-based income tax incentive be available for purchase of new hybrid vehicles. These tax incentives can help to offset the higher cost of hybrid vehicles compared to their non-hybrid counterparts. Following the recommendation, the government has provided a “clean fuel” tax deduction of up to \$2,000 for new hybrid vehicles placed in service during 2001 to 2005. The Energy Policy Act of 2005 replaced the income tax deduction with an income tax credit of up to \$3,400 for vehicles purchased after December 31, 2005. The tax credit for each model varies and is based on the improvement in fuel economy provided by that model relative to the non-hybrid counterpart. The credit begins to phase out over five subsequent calendar quarters

for vehicles once the manufacturer sells a total of 60,000 eligible hybrid vehicles starting from January 1, 2006. In addition, some state and local governments provide benefits to hybrid buyers such as state income tax deduction/credit, sale tax exemption, High-Occupancy-Vehicle (HOV) lane privileges and free parking.

Problem: Shortage of fuel oil

Oil or petroleum is used primarily for transportation fuel. It is one kinds of energy which is needed to move car along the roads and move other engines in daily life.

Our entire society and prosperity hangs on a single thread that our further day could be unable to support us any longer. However, oil consuming must also increase, since practically all growth requires increasing oil production. Oil has special quality, which is mainly a liquid. This means even in the longer term, it makes itself extremely difficult to replace oil with another form of energy that could be used instead of oil. (Gunnar Lindgren, 2013)

It is simply a matter of time before there is a severe shortage of oil in the world. The reason for this is, first and foremost, that is no new prolific oil being made any longer. 90 % of the oil that is being pumped up today comes from major oil fields that are at least 20 years old. Back in the 1990s, some 3,000 million barrels of new oil were being discovered each year, at the time when the annual rate of consumption was far below this figure. During the late 2010s, a mere 2300 million barrels were being discovered each year, in other words, new oil production was just dropped off dramatically.

There are some more examples of the end of the oil era. The example is that the number of employees who work in the oil prospecting business has decreased drastically in recent years from almost 50,000 employees in the 1980s to fewer than 25,000 today. No new refineries are being built nowadays and lots of oil companies are merging with other companies to gain access to those fields that are still top producing.

It is particularly important to note that in spirit of all this, it will still be possible to extract oil for many more decades. However, this will be in ever decreasing quantities. Many people have misunderstood the situation and believe that the current rate of oil extraction can continue for several decades to come.

Many scientists revealed that within the next 10 years, most of population living in this world will face this serious crisis- shortage of fuel oil. Once it becomes a hard fact, we can expect to see oil price soaring. Since, consumers have to purchase oil to

drive cars at extremely high prices. Fuel oil's price is such a great deal that affect consequently all other energy prices. The rise of fuel price will not solve any of the problems, but it rather expected to intensify them and we can anticipate a great deal of tension within and between our nations.

Power compensation

A hybrid vehicle is a vehicle that uses two different power energy sources, which are diesel/petrol and battery. In recent years, hybrid vehicle is considered one of the most innovative products in automotive industry. Toyota Prius is the first hybrid car in the world, which was introduced worldwide in the year 2000. Many owners of hybrid vehicles claimed that their car uses less of fuel oil when comparing with their old car they had.

While other non-hybrid vehicles consume fuel oil as usual, hybrid vehicle is the new alternative way for cars that consume less fuel oil up to 60-70%. In addition, the sales of hybrid vehicles are expected to increase in the next few years and the total sales in Thailand is much considered quite low compared to non-hybrid vehicles in the automotive market.

Many customers around the world especially who get absorbed in hybrid technology and hybrid passenger cars still expect that these new innovation and fully capacities cars can be one of the other way to save energy as well as the amount of fuel oil of the world.

Hybrid in Thai Marketing

Thailand is a big center of car industry in Southeast of Asia. Many renowned car brands such as Toyota, Honda, Isuzu, Mazda, Nissan as well as Chevrolet settled their own car industry and their other supporting engine or their auto parts. The federation of Thai industries revealed that in the year 2014 there are about 2.45 million cars got fully done and got ready to be sold all over the world.

Since, the hybrid technology was first presented to the world; there are a lot of development and innovation. What People really know about those new hybrid technology capacities is that it can decline the environmental problems and can consume

less fuel oil than other non-hybrid passenger cars. All those hybrid technology's improvements can lead the hybrid technology to be at the top of passenger car marketing.

In Thailand, hybrid technology was also warm accepted by passenger car industries. Toyota was first company that led the first hybrid passenger car as Toyota Prius in 2000. Until now, there are more than 3 million Toyota Prius sold worldwide. In addition, Toyota Prius was sold in Thailand more than 10 years with more than 40,000 cars. From the record of Toyota Thailand Sale Office in 2014 showed that Toyota Prius had sold 940 cars and Toyota Camry had sold 833 cars. In contrast, in 2014 Honda Accord had skipped up to the first hybrid passenger cars as shown in table 1 below. However, Toyota Prius is still in the second rank of the table.

Table 1: Top 3 Hybrid Passenger cars sold in Thailand in 2014

Rank	Brand	Sale Units
1	Honda Accord	1,399
2	Toyota Prius	940
3	Honda Civic	851

However, the hybrid passenger cars are still renowned for everyone; the sale volume is a bit unexpected. . The sales of hybrid passenger cars are expected to increase rapidly in the next few years but the total sales in Thailand is still considered quite low compared to other non-hybrid cars in automotive market.

Besides, hybrid cars are configured to provide better fuel efficient and more saving energy. (The Star, 2014). Many people in Thailand cannot afford the high price of hybrid cars; for example, Toyota Prius costs up to 1.3 million baht while Honda Accord costs about 1.1-1.2 baht. (Total Car Market, 2014). This is the main why hybrid passenger car marketing in Thailand still has low sale rate compared to other countries like the U.S., Japan or China.

Consumer Trends in Thai Marketing

The majority of people tend to pay more attention on using comfortable and a bit luxurious car. Moreover, the structure of the family mostly consists of two or three people including a couple with their children. The purpose of purchasing a new car is to

drive together with their family. Parents can drive from home to their office or accompany their children between home and school. These are the reason why they want to buy a car combined with convenience and comfort. From these reason, if they want to buy a new car, they should deeply decide the purpose of purchasing that car. The important reason is that they always think of service of a car. This is also very important. After they purchase a car, they have to waste a lot of time for maintaining it. If the companies they bought the car have a good after-sales service, the owners of the car may feel convenient and reassuring. According from many researches, they showed that the main manufacturers of hybrid car such as Toyota and Honda have a good responsibility. Toyota Prius also provides 5-year or 100,000 kilometers free inspection and warranty.

Accordingly, the other reason is that when a vehicle attains high mileage, typically problems with the cars condition arise or the cars might begin to have mechanical problems. Before problems arise, most of owners tend to sell their car and then purchase a new one. (Giggs, 2009)

People in Thailand have a variety of reasons for purchasing a new car. Some people think of necessity, vanity or some may think for fun. Purchasing a car is a big investment and requires the consideration of many different variables. Price, safety, performance of car, and reliability are the main issues that people always searching for a new car. With the growing and further more interest in solving global warming situation, many of people who tend to purchase a new car have much considered that the hybrid technology is a new technology that can entice their desire on being a part of solving this global warming crisis.

Current Situations of Hybrid Marketing in Thailand

Passenger car marketing is such great market for overall Thai industry. For the earliest 10 years, there are about 400,000 passenger cars up to 600,000 passenger cars sold all over Thailand. In each year, car marketing provides a great distribution of all markets in Thailand. According to the yearly journal of the Transport Statistics Sub-Division, Planning Division, it showed that there are totally 592,580 passenger cars sold last year (2014). From the table2 below, it shows that Toyota cars were sold 203,197 cars in overall Thailand. Along with Honda cars, they were sold 104,833 units. We can see that car marketing in Thailand is much promoting continuously.

Table2 – Top 5 sold passenger car in Thailand in 2014

Rank	Brand	Number of car sold in 2014 (unit)
1	Toyota	203,197
2	Honda	104,833
3	Isuzu	57,552
4	Nissan	53,152
5	Mitsubishi	48,402

Source : Transport Statistics Sub-Division, Planning Division, Sited on March 2015

Since the year 2000, hybrid car technology was first presented not only to the world but also to Thailand. Hybrid technology has much promoted in almost every country because of its unique features. There are high capacities, eco innovations and especially care for environmental impacts. Back to that time, the new launching time of hybrid technology; Toyota Prius started selling in Thailand. There are many people kept in touch with the launching of hybrid passenger cars. Some people owned one of hybrid car. From the record of Toyota Thailand Sale Office, The sale volume was not much high because of many reasons. One of these reason is that the price of all hybrid passenger cars are quite high than other non-hybrid cars such as turbo-system-car or eco-system-car.

In addition, the sale volume of hybrid car when comparing with other non-hybrid car does not grow up enough. In 2014, there are more than 150,000 passengers car sold in Thailand but only 4,023 hybrid passenger car sold in Thailand. (Manoo, 2015) The ratio shows as 40:1.

There are some reasons that hybrid car does not grow up enough in Thai marketing. One of customer of Toyota car told that the reason why he did not choose hybrid car is that the price of those hybrid cars (e.g. Toyota Prius or Toyota Camry) is too high for him. The other reason of him is that he could not afford the price of car's maintenance each year.

INFORMATION ANALYSIS AND DISCUSSION

Consumer Behavior in Hybrid Marketing

Hybrid technology has much promoted in almost every country because of its features (e.g. about their capacity, environmental impact etc.) The principle of the hybrid technique is very simple. When the normal car is nearly dropped off, a normal gasoline engine is still working and the fuel is also continued consumed, and pollution is increasingly emitted, hybrid electric engine are dormant, there is no energy consumption and the effect is fuel-efficiency. In such a big traffic jam, the effect of fuel-efficient of hybrid car is significant. When the hybrid car travels at low speeds, there are no emissions, no noise, thereby solving the pollution problem. (McCraw J, 2004).

As mentioned before, these features of hybrid technology makes hybrid car marketing going straightforward.

The hybrid car market in the United States

As we all know, the United States not only has the most abundant types of hybrid cars but also the biggest sales market of hybrid car in the world. In the United States market, there are Toyota Prius, Toyota Camry, Nissan Altima, Chevrolet Tahoe, Lexus 400/600h, Mercedes-Benz E300 and other types of hybrid car which used full-hybrid system. Furthermore, there is the Honda Civic Hybrid which uses the Integrated Motor Assist (IMA) hybrid system.

The three best selling hybrid cars of the hybrid car market in the United States are the Toyota Prius, the Ford Fusion hybrid and the Toyota Camry hybrid. The proportion of Toyota Prius has reached up to 55% in United States market by over 247,500 cars were sold. Ford Fusion 13% by over 45,000 cars were sold and Toyota Camry hybrids occupy 10% by over 39,000 cars were sold. The biggest winner in the United States hybrid car market is Toyota. Up to now, there are more than 2,167,000 Toyota hybrid cars sold in the United States. The total hybrid cars which are used Toyota hybrid technology included has occupied 85.88 %. The car which used Honda Integrated Motor Assist (IMA) technology makes up 10% of the hybrid car market in the United States and the General Motors dual-mode full hybrid system and the BAS hybrid system occupy 4.14%. (Eric Schaal, 2014)

The total sales of Toyota hybrid cars in the United States in 2014 exceeded 300,000. The three best Toyota selling cars in the United States are Toyota Prius, Toyota Camry and Toyota Avalon accordingly.

Many people believe that the prosperous market for hybrid cars in the United States can be attributed to the tax incentive from the government. But the tax cut for the hybrid cars in the United States is actually a way of limitation and flexibility. The standard of the discount depends on the fuel-efficiency and the actual sales. According to the standard fuel consumption (MPG) in 2002 and the improvement of MPG rate to determine the amount of tax cut. The time of the project of the tax policy is from 1 January, 2006 to 31 December, 2010. If the hybrid car manufacturer cumulative sales are more than 60,000, the car of this manufacturer will not enjoy any tax deductions, after a total of 30,000 sales can enjoy 50% tax credit, the accumulated sales of more than 40,000 will only 25% enjoy tax deductions. (Yu Linglin, 2007) This means that the larger number of hybrid car sales the lesser tax benefits.

Due to great sales, the Toyota hybrid car already cannot enjoy any tax discount, which means that neither to purchase the Toyota Prius nor The Lexus RX400h receives government tax rebate.

The present market of hybrid car in China

According to a monthly report issued by the U.S. Department of Energy, China is the third largest car market in the world, and is predicted to overtake Japan by 2010. By 2030, China could have more cars than the United States has at the present time. (Kurten Bach, 2009)

The Chinese automotive market is growing in the astounding rate, and the consumers range is so wide that covers consumers with different backgrounds. People are concerned more about the price; low cost market is in dominated position in Chinese auto market. But the high-end part is active also. As a country with 1.3 billion people, the future market of hybrid car will be bright.

But now the hybrid car market is gloomy in china. The sales of Toyota Prius as the first hybrid car coming into china in 2006 is quite unsatisfied. National Passenger Cars Association shows that Prius sales only 899 eventually in 2008. The cumulative sales of Prius are less than 3500 in three years. Chinese-made Prius in January 2006

officially listed, Toyota Motor becomes the first enterprise to launch the hybrid car. Prius was sold 2,152 in that year, but the sales of Prius in 2007 were only 2152. Moreover, Prius were sold only 9 in September. In order to enhance the sales, FAW Toyota abated the price of 24,000 in March, 2008. However, it failed to reach the target of annual 1000 sales.

The present market of hybrid car in Thailand

Thailand is also the great market of all kind of passenger cars- both hybrid and non-hybrid car. Thai population has around 65 million people but the majority of us interest in low cost market. However, hybrid car market is not new for us; the majority of Thai new car owner always get used to the non-hybrid car.

The sales of non-hybrid passenger car in 2014 exceeded 500,000 units while the sales of all hybrid cars exceeded only 3,500 units. Since the first hybrid car – Toyota Prius coming into Thailand in between 2007-2008, there are more than 50,000 cars sold in Thai market. Many car manufactures (e.g. Toyota and Honda) claimed that the sale rate is quite unsatisfied.

Indeed, Toyota Sale Record Office claimed that the total sales of Toyota hybrid cars in Thailand in 2014 exceeded 800 units. The three best hybrid car selling cars in Thailand are Honda Accord (1,399 units), Toyota Prius (940 units), and Honda Civic (851 units) accordingly.

Sale Volume Status

There are 5 mainly popular types of hybrid passenger car in Thailand. Toyota Prius, Toyota Camry, Honda Accord, Honda Civic and Honda Jazz Hybrid (Manoo, 2014). From The table 3 below, it indicates about the approximate price of hybrid passenger car in overall Thailand automotive market in 2014.

Table 3 : The approximate price of hybrid passenger car (Manoo,2014)

Brand	Approximate price (Baht)
Toyota Prius	1,193,000-1,369,000
Toyota Camry	1,649,000-1,869,000
Honda Accord	1,659,000-1,899,000
Honda Civic	1,035,000-1,095,000
Honda Jazz Hybrid	768,000

Due to the high price of each hybrid passenger car, the sale volume is still not much enough as car manufacturers expected. In 2014 Toyota hybrid car were sold only 1,733 cars while Honda hybrid cars were sold only 2,250 cars.

When we take a look at total cars sale all over Thailand, it can indicated that the ratio of total hybrid sale units per total car sale units of Toyota Company is about 1:115. (Manoo,2014)

Moreover, when we consider about Honda Company; we can see that the ratio of total hybrid sale units per total car sale units is about 1:47. (Manoo,2014)

Table 4 : Comparing chart of total non-hybrid passenger car and hybrid passenger car registered in Thailand (2014)

Brand	Total car sale (unit)	Total hybrid car sale (unit)
Toyota	203,197	1,773*
Honda	104,833	2,250**

Remarks * Toyota Prius and Toyota Camry ** Honda Accord and Honda Civic

Customer Attitude to Hybrid Car.

Almost of customers all around the world were welcomed the new policy of hybrid cars, but when considering about the possibility of the customers to purchase hybrid car, many customers also have an indecisive attitude.

According to firm researchers, they revealed that many customers have so many attitude of hybrid car. For instance, one customer said that the price is still higher than his

psychological expectation e.g. BMW Series5 Hybrid costs up to 6 million baht; Toyota Prius costs about 1.2-1.4 million baht while Honda Jazz Hybrid costs about 1.1 million baht. Other customers claimed that the domestic new energy cars were not tested by the market so that the customers still hesitate about the quality of domestic cars. Hybrid cars especially imported one seems to grab more intention of customers. Some of customers claimed that a new trend of hybrid convinced the customers by its characteristics of new car which can decrease the global warming crisis.

In addition, the researchers from Vrije Universiteit Brussel leading by Kenneth Lebeau studied about battery electric vehicles (BEVs) VS hybrid electric vehicles (HEVs). The information showed that BEVs have the limitation driving range. They also perceive the limitation of the running distance. Some of participants who had done the survey suggest that hybrid electric vehicles should be promoted instead of battery electric vehicles. This supporting reason is that hybrid cars have less distance limitation than battery electric vehicles.

In conclusion, the hybrid car can be trusted by a majority of customers and the hybrid car's market will be more prosperity. Although the price of hybrid car is high and the efficient power is sort of low, but with the expansion of hybrid car, these problems can be solved as soon as possible.

Critical Analysis

Thai hybrid car market trends are related according to four factors as follows:

1. Corporate Image and Reputation of automobile industry: The higher brand image of automobile industry that make a customer more reliability to purchase hybrid car than the others.

2. Fuel efficiency: According to driving behavior of Thai consumer usually need acceleration and speed that is not suitable for hybrid car to have fuel efficiency. As the reason, the fuel consumption was not satisfied to those consumers.

3. After sales service: Especially during warranty period of hybrid car, the automobile companies take a long time of hybrid car services regarding shortage of spare parts. Hence, the after sales service to hybrid car are dissatisfied to consumers.

4. Used Hybrid Car Prices Fall: After 3 to 4 years olds of hybrid car, trade-in prices are lower than the others because of battery of hybrid car was nearly expired. That

is very high cost to replace it. As the reasons, mostly customer denied to purchase the used hybrid cars. Then, least number of the customers are impacted to the price of used hybrid cars.

Thai hybrid car market trend depend on Consumer psychology. As the reasons, two recommendations to the automobile company (1) The automobile company have to research to find out the real consumer attitude in hybrid car, such as the reason of how and why they purchased hybrid car. (2) To improve the after sales service of hybrid cars which are dissatisfied to consumer. Because of after sales service of hybrid car is the most concerned to the customer, especially the cost of service after warranty expired.

CONCLUSION

In conclusion about hybrid vehicles, it found that hybrid vehicles, especially hybrid passenger cars have their own innovation and capacities to decrease the emission of carbon dioxide into the atmosphere and they also care for environmental impacts. Although hybrid cars typically better gas mileage, they are initially much more expensive than conventional vehicles. If the increased initial cost of a hybrid is too much, the investment will be very hard to happen.

Compared to non-hybrid vehicles, the additional investment of a hybrid car was somewhat deciding factor against purchasing a hybrid vehicle. Others in non-hybrid focus group were unable to find hybrid vehicles that fit the requirements that were accommodate their lifestyles. Those who purchased hybrid vehicles were often concern and care about solving the environmental crisis.

In Thai hybrid passenger cars market, there also repeatedly growth in industry distribution and investment because of several issues of customers who were really unsure purchasing such a high price hybrid passenger cars and those who worried about car's maintenances in the future time.

Through information of worldwide customers' attitude analyzed, we can consider that there are three important reasons to make customer in an obstacle to hybrid technology. High price is the most important reason, next is the public lack of awareness of environmental protection and no efficient politics.

Lastly, it can be concluded that widespread implementation of hybrid technology is not practicable at this time. The production of equally efficient hybrid vehicles is not great enough to compete with non-hybrids, both economically and numerically.

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Current Issues in Asian Business Management: Economy of Laos

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Abstract

This assignment discusses about the economy of Lao People's Democratic Republic and how it is part of the global economy. Discussion of the study starts from basic information about Laos and the history of the country. The next part of the text is findings from the international business and international cooperation in Laos. In the end is information about the defects of the Lao economy and the future goals for economic growth. The topic was chosen, because Laos is not well known for Europeans, even though it is an interesting country. Especially the things about Lao economy that are not publicly spoken draw attention to this topic. The findings indicated that Laos is still affected the past history and the surrounding countries.

Introduction

Lao People's Democratic Republic, also known as Laos, is a country in Southeast Asia. The capital city is Vientiane and currency is Kip (LAK). The country's current population is 6.8 million, which is seemingly lower than in other Asian countries. Laos has three official languages, which are Lao, French and English. The surface area of Laos is 236,800 square kilometers and its terrain is full of mountain ranges. Laos is landlocked by its surrounding countries, which are Vietnam, Cambodia, China, Thailand and Myanmar. (Countryreports 2014, GoCurrency 2015 & Dr. Khongsawatkiat 2015.)

The religion in Laos is Theravada Buddhism, which emphasizes giving up from desire. The Lao culture has also been influenced by communism. The impact of religion and

communism has made the values of Lao culture non-entrepreneurial and slowed down the economic growth in Laos. (Dana 1995.)

History of Laos

The Lao Kingdom, also known as La Xang, was founded in 1353. From the late 19th century Laos was part of the French Indochina. For France, Laos was only a buffer to protect economically important Vietnam. Laos became independent in 1949 and the constitution of the nation was monarchy. The USA sent aid to Laos Kingdom before and during the Vietnam War, between years 1968 and 1973 Laos got 0.5 billion US dollars as aid only from the United States. In 1975 after the USA withdrawal from Vietnam, the communist Lao People's Revolutionary Party took control of the country. The King had to flee and Laos was renamed as Lao People's Democratic Republic. As well as in other communist countries the agriculture was collectivized and the enterprises were nationalized. From 1975 to 1986, the closed Lao economy was struggling. (Dana 1995.)

In 1986, under the New Economic Mechanisms reform, Laos started to transfer from central-planned economy to market-oriented. The reform included two political goals: the Open Market Policy and the Introduction of Market Economic Principles. Those changes have had positive effect on the economic growth of Laos. The growth spread from big cities to rural regions by improving the infrastructure and information networks. After 1986 Laos has become more and more open market area for foreign investors. The reform contributed possibilities for the international cooperation and foreign direct investments (FDIs). (Phimphanthavong 2012.)

Export, Import and GDP of Laos

Though Laos has opened its economy for foreign trade, it is still quite closed economy and its business is mostly done with neighboring countries. Trade of Laos is almost continuously deficient. Laos exports wood, clothing, coffee, electricity, metals, corn and rubber. And the biggest exporting partners are Thailand, China and Vietnam. From 2004

to 2013 averaged exports in Laos was 319.83 million US dollars. (Trading Economies 2015.)

Laos imports oil, machinery and equipment, vehicles, iron and steel, telecommunication equipment, beverages and cement. The main import partner is Thailand with 66 percent. Also China and Vietnam import to Laos. Between 2004 and 2013 the import average was 390.54 million US dollars. (Trading Economies 2015.)

The gross domestic product of Laos was 11.14 billion US dollars in 2013. In the same year the GDP per capita was 751.03 US dollars. The annual growth rate of GDP between years 1989 and 2013 has an average of 7.07 percent. (Trading Economies 2015.)

The International Cooperation

International ties have been strengthened by joining many regional and international organizations. Today Laos is member of the Mekong River Commission (MRC), the Association of South East Asian Nations (ASEAN) and the Lao Association of Travel Agency (LATA). MRC is an agreement between Cambodia, Laos, Thailand and Vietnam to promote sustainable management and development in the area. ASEAN is political and economic organization of ten Southeast Asian countries. Whereas, LATA has been established by private sector of Laos to promote the tourism industry in the country. In addition, Laos has also been member of World Trade Organization (WTO) since February 2013. (ASEAN 2015, LATA 2015, MRC 2015, Phimphanthavong 2012 & WTO 2015.)

The international cooperation and FDIs have important role on regional and economic development of Laos. Investments have improved job creation, capital inflow and wealth. Along with FDIs, Laos has also accepted assistance from many governments and organizations such as the International Development Association (IDA), World Bank, Asian Development Bank (ADB), United Nations Development Program (UNDP) and Japan International Cooperation Agency (JICA). (Phimphanthavong 2012.)

Foreign Investors

China's influence in Laos has been growing steadily since the two countries signed an agreement to establish the joint Commission on Economic, Trade and Technical Cooperation in 1997. China is also one of the major investors in Laos with numerous projects worth of 876 million US dollars. Along with China, Thailand and Vietnam can also be counted to the top three investors. Their interest in Laos lies mainly in the potential of hydropower. Nam Theun 2 is the largest foreign investment project that has been carried out in Laos as well as it is the one of the world's largest private sector hydropower project. Thailand finds also interesting hotels and tourism in Laos, and the trade in raw materials and consumer goods. Mining, agriculture, timber and pharmaceuticals have also attracted several investors. Relations with Western countries are basically in the form of bilateral aid and assistance through the World Bank and the Asian Development Bank. (Lintner 2008.)

LAOS AND WTO

Lao People's Democratic Republic has become a member of WTO (World Trade Organization) in February 2013. This communistic country has gone through a strong economic growth during the past few years. One of the biggest goals of Laos is to become independent economically, and get rid of single-market barriers. By achieving this situation, Laos becomes more attractive investment alternative to countries like China. (Barta 2012)

Laos has an opportunity to create 10-nation economic community with other surrounding countries by 2015. This economic community would be able to build an effective trading system with streamlined customs procedures, better transport links and free flows of labor. Due to low population, poor road and rail links, and some of the lowest income levels in Asia, Laos is rarely consider as a serious applicant for manufacturing or other investments. (Barta 2012)

Joining to WTO doesn't mean huge change in Lao economy and the received investments immediately. When China and Vietnam accompanied to WTO in years 2001 and 2007, countries regained their investments respectively. Those countries had notable export industries before joining, and their giant labor forces made them far more attractive for multinational investors. (Barta 2012)

In the long run, Laos's membership in the WTO should provide acceptance for the country so it would make it easier for global firms and manufacturers to do business there. Due to risen wages and cost, China has become too expensive for foreign manufactures and now they are looking for alternative countries, just like Laos. WTO also helps to make it easier for Southeast Asian leaders to make investors view the region as one giant market, with the capability to connect supply chains across its 10 countries, all of which will now be subject to WTO mechanisms for the first time. WTO membership could help Laos to develop its small, but growing, clothing sector, which has become a major source of jobs in other lesser-developed countries such as Cambodia and Bangladesh. (Barta 2012.)

Tourism in Laos

Laos is well known for its casinos. In the borders of Laos, Thailand and Myanmar, there is an area called the Golden Triangle. In the Lao part of the Golden Triangle, there is a free trade zone, which casinos are mainly visited by Chinese tourists. The Government of Laos wants to have investments and tourism also in the rural mountain areas. An investment company from Hong Kong saw market potential in the Golden Triangle. Now the area is owned by the investment company (80 %) and the Government of Laos (20 %). One third of the free trade zone is also tax free. (Autio 2015.)

The British Environment Investigation Agency (EIA) made a research about the free trade zone. The research was made secretly and it showed that the reason behind the free trade zone is to fulfill the desires of the rich Chinese tourists. The restaurants in the area

are offering meat from endangered animals, for example tigers. Even though Laos has forbidden to kill wild animals, like tigers and elephants, it is possible in the free trade zone, because it is owned by the Government and it is seen as a legal approval from the Government. Also laws like this is not regulated in the Golden Triangle. (Autio 2015.)

Corruption

According to Transparency International's "Corruption Perceptions Index", Laos was ranked 158 out of 180 countries for public-sector corruption in 2009. Even Laos has well-structured political system, the country suffers from this seemingly high corruption rate. Laos is placed in the ranking right behind countries such as Cote d'Ivoire, Papua New Guinea, Yemen and Cambodia but before Tajikistan, Angola and Congo Brazzaville in the year 2009. Last year (2014) Laos was ranked at place 145 of 175 investigated nations. (Mongay 2011 & Transparency International 2015.)

The property is divided unequally among the Laotian. Seventy per cent of the population live with less than 2 US dollars per day. The richest people in the country all belong to the Party elite or are relatives to them. Corruption remains a major obstacle for more equal economic growth. (Lintner 2008.)

The future

The Lao government has set a goal to increase the economic development so that Laos won't be one of the least developed countries in 2020. To reach that goal, government has named five development priorities: hydroelectric power, mining, construction material, agriculture and ecotourism. (Lintner 2008.)

Laos should also try to find a solution to the lack of skilled labor. The country has only one national university which was opened only 19 years ago. The education system should be improved unless they want to keep employing more foreigners to fill the gaps.

Laos' rapid economic progress and social transformation requires some changes also in the political system. (Lintner 2008.)

Conclusion

Laos became independent in 1949 after being part of the French colonial empire for 60 years. In 1975, after the Vietnam War, Laos turned into a communist country. The next decade Laos kept its economy very nationalized until the New Economic Mechanisms reform was started in 1986. The culture has been influenced by religion and communism, and the history has affected the economic growth of the country.

Lately Laos has improved its international relations by joining many regional and international organizations. The cooperation with Asian countries has increased along ASEAN and the relations with the Western countries have been strengthened by joining WTO in 2013.

The international cooperation and FDIs have improved the regional and economic development of Laos. The three major investors are China, Thailand and Vietnam whom interest in Laos lies mainly in the potential of hydropower. Also the most of the international trade is done with the same neighboring countries. In addition tourism, mining and agriculture have got the attention of the foreign investors. Laos has not only accepted foreign investments but also assistance from several governments and organizations. Despite the efforts, economy of Laos has been continuously deficient.

During the past few years, Laos has improved its economy, and it tries to become more independent in foreign markets. Because of the WTO membership Laos would possibly gain more multinational investments and manufacturing. Due to low population, poor transportation links and one of the Asian weakest economy level, Laos is rarely chosen applicant for manufacturing or other investment projects. However, Laos's membership should make it easier for foreign firms and manufacturers to do business there. WTO also

helps Southeast Asian countries to become one giant market area where is the capability to connect supply chains across its 10 countries.

One of the biggest livelihood in Laos is casinos. In the Lao part of the Golden Triangle, there is a free trade zone, which is popular among rich Chinese tourists. The free trade zone is owned by a Chinese investment company and the Government of Laos. The British research showed that the purpose of the area is to fulfill desires of the tourists. There are served endangered animal meat in the restaurants, and it is legal, because the ownership of the Lao Government is a sign of an approval.

Laos has been ranked one of the most corrupted countries in the world. According to Transparency International's Index in the year 2009, Laos was ranked 158 out of 180 countries for public-sector corruption. In the 2014 Laos ranks 145th country in the world out of 175 investigated nations. The least corrupted countries were positions from 1 to 4 which are Denmark, New Zealand, Finland and Sweden.

Discussion & Recommendations

It was hard to find updated data of the chosen topic. The amount of found information was little, and most of the articles were done in the past ten years. The public data shows that Lao People's Democratic Republic is still closed economy. Even customs do not publish export and import statistics.

Laos is suffering from corruption. Politics and the economy seem incoherent. Some actions are against the law, but it is generally accepted in the society. A better education system would decrease corruption. China and Vietnam have still a big influence on Laos, mainly because they are also communist countries with a similar history with Laos.

The atmosphere in Laos towards business activities and the location might challenge the future economic growth. Starting business activities in Laos is slow and demands local cultural knowledge. The location of Laos makes it difficult to export goods, because

there is no access to sea. Laos should invest in tourism, but in a way that would also attract Western people to visit the country.

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ASEAN Economic Community (AEC)

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ABSTRACT

The aim of this study was to examine and discuss the current situation of the ASEAN Economic Community as well as to point out the key challenges and opportunities of the association's operations. The study discusses the general view of the operations of the association and the variety of matters concerning the advantages and disadvantages of the AEC.

The theoretical study of the work focused on the related literature and articles found from the internet. The discussion sections focuses on the challenges and opportunities of the future of the ASEAN Economic Community. The theoretical information searched from the internet were all peer reviewed and that way trustful references were used when conducting this study.

Based on the study it can be stated that there are a huge variety of challenges and opportunities for the ASEAN Economic Community. The results of the discussion could be concluded into couple of key factors. The most positive thing of the association is the free movement of goods and services between the member countries. The agreement makes the business so much easier when accessing to another country.

Some disadvantages can also be found that the association has to face. According to the study it is hard to find and attract the right skills and talents having leaders to the member countries. The association makes large scale decisions so the leading is very important issue. Also the political issues can be a barrier for collaboration between the member

countries as well as the fact that each country of the agreement has very different rules and regulations made by their government. To mention couple of more issues concerning the disadvantages would be corruption and the high risks when investing to a foreign country.

Recommendations for the association to the future are the facts that even though they have very different laws and obligations they should try to find the common ground concerning the rules and regulations to be able to be successful in collaboration. Simply the association should put the main focus to the goals that they have invented and really start putting more effort on achieving those goals.

Introduction

The ASEAN Economic Community (AEC) was chosen as topic for this research due to the fact that it includes several essential issues concerning the ASEAN business situation. This study discusses the main general issues of ASEAN Economic Community such as the key challenges and opportunities that are appearing from the operations of the community. The introduction part gives knowledge of the history of the association

Purpose of the association

Simply the goal of AEC is economic growth, social progress and sociocultural evolution for its member countries. The community is developing regional economic integration and they have four key characteristics that they emphasize in their operations: a single market and production base, highly competitive economic region, a region of equitable economic development and a region that is fully integrated into the global economy. (asean.org 2015)

In short, the actions of the ASEAN Economic Community act towards a region where the movement of goods, services, investments, skilled labor and the flow of capital are all free. Other purposes of the association are promoting collaboration and mutual assistance

between the member countries, promoting Southeast Asian studies and collaborating for better utilization of agriculture and industry to raise the living standards of the people in the member countries. (Asean.org 2015)

AEC consists of all together ten countries. The association was founded in 1967 by five of the current member countries Indonesia, Malaysia, Philippines, Singapore and Thailand. The other five member countries of the association are Brunei, Cambodia, Laos, Myanmar and Vietnam. The association tries to maintain peace and stability among its member countries. The member countries includes over 600 million people together. (wikipedia 2015)

History

Some of the member countries had agreements with each other before the association was started and then in 1967 the foreign ministers of the five founding countries signed the Bangkok Declaration. Motivation for signing the agreement was common fear of communism and the economic growth in the future of the area's countries. (Wikipedia 2015)

Brunei became the sixth country of the association in 1984 and Vietnam the seventh after over ten years in year 1995. The other three member countries was meant to join the association in 1997 but only Laos and Myanmar were able to fill the requirements. Cambodia was not able to join the association with Laos and Myanmar due to the internal political problems. Finally in 1997 Cambodia was accepted to the community as soon as they were able to stabilize their government. (Wikipedia 2015)

Research Finding

This section deals with ten research articles about AEC. In this section we introduce findings, discuss about AEC and make recommendations.

AEC's current situation

AEC picture the following key characteristics: a single market and production base, a highly competitive economic region, a region of equitable economic development and a region fully integrated into the global economy. (Globalresearch, 2014)

The 2015 ASEAN Business Outlook Survey issued by the US Chamber of Commerce reveals prevalent anxiety that big part of the ASEAN Economic Community (AEC) isn't going to be ready by the 2015 deadline. Most respondents were a bit cynical about the AEC's inauguration even happening by 2020 because this isn't the first time the AEC has faced a potential delay. (The Jakarta Post, 2014) So if they've problem with inauguration by 2020 how can they do that five years earlier? Especially when members of AEC are quite slow make decisions.

The AEC development has been criticized for being too slow and some observers have said that the issues that have been delayed were those of importance and could make or break the success of the integration. Some specialists also commented about the lack of leadership on this issue. The role of ASEAN chairmanship is a rotating position and a series of officials from the poorer, less developed ASEAN countries will be the chair of ASEAN for the next few years. And by that they mean that leadership will be inexperienced and possibly be less interested in pushing ahead quickly with integration on all fronts. (Business-in-Asia, 2012)

It is hard to find great leaders from ASEAN where people are less educated than for example in Europe. AEC is also in quite bad shape right now so who has the skills to help AEC to be better by 2020? They must hear different opportunities and learn from others for example from European Union, how they've handled all that. Because leadership is the most important thing when doing big decisions, especially in ASEAN where people are used to listen the leader, AEC have to find a great leader who have

good characteristics. Leader should be from ASEAN but he/she could come also from another country so leader can bring some good ideas from their own country to the AEC.

On paper, no one doubts the potential of a single market with a combined gross domestic product of 2,5 trillion US dollars and intra-regional trade of 1 trillion US dollars. Still reaching the full potential of the AEC could take many years because of the slow movements. AEC's goal is to become a single product base where goods can be manufactured anywhere and distributed efficiently to anywhere within the region. ASEAN needs to work towards the goal of freer movement of labor and capital. But in reality, integration and the free flow of resources will only be gradual. (Bangkokpost, 2015)

All countries in ASEAN have so different rules and laws with goods manufacturing and them transportation so it is hard to find common ground with these. They should change the laws to same direction so this whole AEC thing could happen faster. It would be easier to all countries in ASEAN if goods could move from one country to another easily and fast. In European Union also people can travel easily from one country to another in EU without any visas or anything. There are many benefits for all parties. Goods and people move easily between different countries and business thrives.

Benefits of AEC

Major benefits of AEC are free flow of goods, services, investment, capital and skilled labor. In 2010 duties were eliminated on 99,2% of tariff lines for the ASEAN 6 member states. ASEAN is committed to building an investment environment to attract businesses. It created the ASEAN Comprehensive Investment Agreement (ACIA), which includes commitments towards the liberalization and protection of cross-border investments operations, together with best practices for the treatment of foreign investors and investments. (Asean Up, 2014).

So in AEC you can export your goods or services to another country, invest to another country, get capital from more people and get skilled labor from another country. So, all parties will benefit from this because your country also gets new customers.

Small- and medium-sized enterprises are the key to success of the AEC. In ASEAN countries, they account for more than 90 percent of all enterprises and employ 50 to 99 percent of the workforce. The findings show an increased dependency among the six countries with the annual export growth of intra-trade of each member ranging from 16 to 35 percent. These countries trade a variety of commodities and commercial items, for example raw materials, construction equipment, and machinery. (Asiafoundation, 2014)

In ASEAN countries most of the enterprises are small- or mediums-sized family businesses. One member of the family starts the business and then it passes from generation to generation many decades. So these are the keys to AEC's success. ASEAN is a big business area for other countries too. So AEC should invest in export and import. In Asia there is cheap labor so here manufactures much of clothes, toys, electronics, cell phones and many other products. If AEC works well there would be no problem on manufacturing and transporting the commodities.

Asians travels more in the region if they travel at all and there are more travelers from other countries that have begun to reach out to Asia as new visitors. Health care should also internationalize and modernize. This is definitely a big challenge as it is more complicated than just the popularity of Singapore and Thailand's "medical tourism" that patients travel from one country to another seeking better care at lower cost. It offers potentials for the free-flow of health services in the region. (Business-in-Asia, 2012)

Asian people don't usually have time and money to travel outside their own country. They have family businesses so you can't just leave and let someone else do the job. And if your shop is closed like for a week, you don't get money. So AEC should invest in tourism and in export. They should also take care of that the health care system would

come as good as it can be every country in ASEAN. It is very important that every country have the same rules and practices in hospitals and health centers so people know what they get when they go there even if they're in another country than home country. It should feel like you're in your home country even if you're in some other ASEAN country and the views are different. Asia is very popular travel destination right now and tourism is the largest source of income, so AEC have to take care that Asia remains as interesting place to travel.

Problems of AEC

Doing business in the region can be extremely difficult. In assessment of operational risk, which takes into account political, policy and business risks, Indonesia, Vietnam and the Philippines are rated as having a relative risk score of over 50 (on a 100 point scale). And Thailand is not far behind. A key problem for foreign firms is the varying welcome they receive across the region: Indonesia recently increased the restrictions on foreign investors in retail and banking, while in Vietnam—despite a generally welcoming government—foreign firms have been the target of violent protests. (The Economist, 2015) It is hard to do business in region where are both high risk countries and low risk countries. For example in European Union we don't have as much differences between member countries that in AEC. AEC must focus on decreasing the risk of the countries. That would create better base to investors and investments. New investors also in foreign countries could make AEC more successful.

Some critics noticed that many of the specified deadlines of AEC implementation have been missed and some major initiatives have not taken off the ground. For example, only 50 percent of the ASEAN Master Plan on Connectivity has been realized due to a combination of financing shortfalls, poor governance, corruption, and the inability of national governments to manage international and interdepartmental coordination. The ASEAN Secretariat itself lacks the financial and the intellectual resources to act in that

capacity. ASEAN Secretariat's total budget is way too small and Secretariat is also very understaffed. As of 2012, the ASEAN Secretariat employed about 300 people, while European Commission employed roughly 34 000. Delays in delivering AEC reflect one of the most daunting challenges facing ASEAN: the AMSs' inability or unwillingness to see themselves as a true single market. (The Diplomat, 2014) As mentioned, AEC has failed to achieve goals that it has been ranged. Another major problem is ASEAN Secretariat itself. AEC must raise its budget significantly and it must also hire lot more staff. That is how AEC can create better working Secretariat. Region can't work with way too small budget and way too small staff. Changes can take lot of money, but it probably also pays for itself and bring even more money. AEC must also take risks to be successful.

Also the slow progress and the obstacles encountered in implementing the AEC is an inevitable result of the generalized awareness deficit of ASEAN and AEC across the region – citizens in Southeast Asia know very little about ASEAN. An ASEAN Secretariat survey in 2013 found that three out of four ASEAN citizens lack even a basic understanding of ASEAN. (The Diplomat, 2014)

Citizens lack of knowledge about AEC is major stumbling block. They don't know how region works and how they benefit from it. Citizens can benefit more about the region if they know it better and it could also be beneficial to region. Schools must put ASEAN Economic Community in their curriculums and arrange for example mandatory course with handle region. Then the next generation knows more about region.

What is next?

Rather than playing a blame game as to why the deadline will be missed, it will be useful to do three things during Malaysia's chairmanship of ASEAN in 2015: First, ASEAN members should undertake a quick and dirty but honest stocktaking exercise of achievements under the AEC project and a short report should be published by the

ASEAN Secretariat. Second, ASEAN members should focus on a few important next steps for the AEC project and get them done in a reasonable time frame. Third, ASEAN members should give serious consideration to increasing the capacity of the ASEAN Secretariat. (Asian Pathways, 2014) AEC should not focus on blame game but focus on achieving new goals. They should take a look of these three steps and implement those one by one. They should make reasonable goals instead of too tight schedule. Then AEC can avoid massive letdowns. We have already discuss about increasing the capacity of the ASEAN Secretariat and it's importance highlighted also in this chapter.

In this vein, reducing restrictions on trade in services and monitoring NTMs are priorities number ones. Financing and implementing a few key infrastructure projects to reduce development gaps between richer and poorer ASEAN economies is important under the third pillar. Third, ASEAN members should give serious consideration to increasing the capacity of the ASEAN Secretariat. (Asian Pathways, 2014)

In ASEAN countries there's a big gap between rich and poor people. You're either very poor or very rich and a few are only in the middle-class. That should change because it's not equal. You should earn good money if you work hard. In ASEAN there were only 300 Secretariat when in European Commission employed 34 000 people so ASEAN must have more decision makers. That is maybe one reason why they don't get anything done in ASEAN.

It would be a mistake to take lightly the importance of the AEC. ASEAN member states have and will continue to make headway, with important and far-reaching implications for business. The ASEAN region has immense potential that remains untapped, and the AEC outlines a long list of important goals for ASEAN's members to strive towards. The role of business here cannot be understated; the private sector is a tremendous source of global expertise, experience, and resources that be harnessed to help make the AEC a reality. (Vriens & Partners, 2015) ASEAN member countries must take AEC more serious. If at least member countries don't believe in AEC how anybody can? Countries

must believe AEC's success and do everything to make success happen. As we have mentioned before also with education we can get people to know and believe more in region. AEC member countries must also do more cooperation to make AEC a reality.

Conclusions

In previous section we deal with AEC's current situation, benefits of AEC, problems of AEC and future of AEC. In that section we can notice that AEC has a lot of potential, but it hasn't been able to exploit its full potential. AEC is quite far from its 2015 targets. Most respondents are also cynical about the AEC's inauguration even happening by 2020. Many people have criticized that AEC is too slow and it prevents AEC becoming more successful.

AEC has still brought many benefits for its member countries. Main benefits have been free flow of goods, free flow of services, free flow of investment, free flow of capital and free flow of skilled labor. ASEAN is also committed to build an investment environment to attract business. AEC must work hard with that so union's member countries attract even more foreign investors. AEC has also focus on small- and medium-sized enterprises that are said to be the key to success.

In first chapter we reveal that AEC is too slow and many things prevent AEC to be successful. Some of the AEC countries are calculated as risk countries (For example Indonesia, Vietnam and the Philippines) and investors can treat them with caution. Another major problem is also the ASEAN Secretariat itself. It lacks the financial and the intellectual resources to act in that capacity. Also total budget is way too small and Secretariat is also very understaffed. ASEAN Secretariats should copy some things to European Commission and fix the biggest stumbling blocks.

In future AEC must focus the target and do its utmost to achieve it. So we can notice previous chapters AEC has yet a lot to do and it hasn't been able to use its whole potential. ASEAN Economic Community still has key of success when it learns how to use it.

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Doing Business in Malaysia

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ABSTRACT

Getting to know Asian countries and knowing their differences is crucial when starting business in there. Cultures can vary very much depending on which country business is made in. Customs and how the business should be done changes also with the cultural area.

In this work we have focused on Malaysia, which is one of the richest countries in Asia. Malaysia has its own culture and customs in doing business which we have researched in this assignment. Malaysia is also a major player in the energy industry and the energy company Petronas is the most successful company in Malaysia in terms of profitability.

In this work we have also researched that why Malaysia is a good country to start a business. It has its pros and cons like every other country. We also talk about the economic view in Malaysia and talk about some of the main industries that has made Malaysia the country that it is today.

GENERAL INFORMATION ABOUT MALAYSIA

Population: 29,9 million (2013)

Currency: ringgit 1 USD = 3,28 MYR (2010, estimation)

Gross domestic product in 2010, 232,2 mrd. USD

GDP per capita (USD) in 2013: 10,616

Economic Growth (GDP, annual variation in %) 4,7 in 2013

Unemployment Data: 3 percent in 2013

The corporate income tax: 20-25%

Highest personal income tax: 28%

Inflation: 1,8% in 2010 (estimation)

Malaysia essentially observes tropical weather, although temperatures are never too extreme. Humidity is not uncommon, which is an obvious characteristic considering its proximity to water.

On the west coast, the monsoon season is between September and December, whereas, on the east coast, rainfall usually occurs between October and February.

Altogether, Malaysia observes inviting weather, with warm days and cool evenings.

MANUFACTURING INDUSTRY

Industry and construction's part of BKT is 42 %

The share of industrial goods in Malaysia's export is 80%

The most important industries are electricity and electronical equipment, foods, rubber products, industrial chemicals, forest industry, mining industry, oil refining, motor vehicles and construction. The part of manufacturing industry in export is about two thirds (2/3). The part of manufacturing industry in Industrial Production Index is 70 %. Most of the production for domestic market are chemical products, foods and rubber products.

WHY START A BUSINESS IN MALAYSIA

Malaysia is a place of close ties and historical links. Bilateralism has been the byword of the country. Malaysia shares a familiar educational, commercial and legal framework, and the widespread use of English has made for a mellifluous business environment. And by 2020, Malaysia aims to be a fully developed nation, which means continued opportunities for UK investors in the region.

Contemporary Malaysia represents a steaming heterogeneous stew of Malayan, Chinese and Indian tradition and culture. Its pluralism and multiculturalism is rooted in ancestry and social historicism, so acquiring a fundamental cultural knowledge is usually critical to success.

Currently, Malaysia provides the globe with its Multimedia Super Corridor (MSC) which unites a legislative structure and a contemporary telecommunications infrastructure in an ecologically amicable environment to bring the best arena for the progression of multimedia industries. Malaysia's logical and dextrous management approach has allowed its market to raise its competitive game and sharpen its buoyancy when faced with obstacles. Steps have been made to aid the economy's diversification and to ensure constant progression.

New methods of progression continue to be encouraged and nurtured, for example, biotechnology, information and communications technology, halal products and Islamic finance. Malaysia is indeed advancing as a knowledge-based economy, driven by capital, originality and creativity. Higher interest rates have been consequential of the global environmental struggle. However, Malaysia maintains confidence when in faced with these imperatives, and has preserved a healthy growth rate. Indeed, they boast further diverse economic structure and robust domestic essentials.

The country relishes a healthy excess of the foreign trade, low unemployment, strong international reserves and high national savings.

ECONOMIC OVERVIEW

The Malaysian economy accelerated somewhat in the final quarter of last year. Increased private consumption and outstanding performance in fixed investment made up for a weak external sector in Q4. Exports suffered from subdued demand from China in the last quarter of the year, growing at the weakest pace since Q2 2013. The Malaysian economy, however, was highly resilient in the face of the sharp deceleration in exports that occurred during the second half of the year. GDP recorded a solid 6.0% growth in the full year 2014, which was greatly exceeded the 4.7% expansion tallied in 2013.

The average income of workers is currently two-and-a-half times that of fifteen years ago. Malaysia's remarkable economic achievement has lowered poverty to levels unprecedented in the region. Unemployment and inflation also are low, especially when juxtaposed with the developing nations. Some structural characteristics are flawed, but, when contextualized, Malaysia's performance is worthy of praise. Its economic advancement offers good prospects for reliable trade and investment.

The transition started over thirty years ago when its government launched a campaign of industrialization. Back in the 1950s, Malaysia was dependent on tin, rubber and palm oil for its foreign exchange income. While palm oil capital is still apparent (Malaysia is the largest exporter of palm oil in the world) Malaysia systematically altered its manufacturing habits, and consequently electronics and electrical goods now dominate its exports. A remarkable influx of foreign direct investment has encouraged the advancement of the country's manufacturing industry.

Malaysia is the fourth most open economy in the world, calculated by trade as a share of GDP. The comparatively diminutive size of its economy means exports have played a vital role in sustaining expeditious economic development.

EXPORT PRODUCTS

The main industries in Malaysia are:

- Rubber and oil palm processing and manufacturing
- Light manufacturing
- Electronics
- Tin-mining and smelting
- Logging
- Timber processing
- Logging
- Petroleum production and refining
- Agriculture

Its primary import commodities are:

- Electronics
- Machinery
- Petroleum products
- Plastics
- Vehicles

- Iron and steel products
- Chemicals

And its main export commodities are:

- Electronic equipment
- Petroleum and liquefied natural gas
- Wood and wood products
- Palm oil
- Rubber
- Textiles
- Chemicals

Labour and workforce

Labour in Malaysia is comparatively young. Its workers and graduates are considered diligent, erudite and malleable. Generally, workers will have experienced eleven years of academia, up to a secondary school stratum.

However, there is a shortage of workers in the manufacturing sector. To combat this, the government has taken steps to increase the number of engineers, technicians and other qualified professions that have recently graduated from national and overseas colleges, universities and training facilities.

There is no national minimum wage in Malaysia. However, certain industries have imposed their own, such as plantation workers who earn a base minimum of RM 350 with a possibility of RM 700 (productivity incentives and bonuses).

MOST IMPORTANT TRADING PARTNERS

Malaysia's foreign trade is geographically more divided and wide-ranging than in many other developing countries. Traditional developing economy's model where raw materials are taken to developed western countries and industrial products are brought back from there doesn't describe the Malaysian way. Asian countries are the key trading partners but none of them have a dominant part in the trading. Singapore is the most important partner mostly because of its geographical position.

The most important export countries in 2009 were:

Singapore (21,8 %), China (13,4 %), Japan (11,9 %), USA (10,2 %), and Thailand (6,8 %).

The most important import countries were the same: Singapore (15,6 %), USA (13,0 %), China (10,7 %), Japan (9,5 %), and Thailand (5,1%)

Malaysia's export's direction has changed after China joined the WTO (World Trade Organization) in 2001. China has become even more important trading partner. Also the internal trading in Asia is growing really fast.

BUSINESS CULTURE AND ETIQUETTE

Fatalism - Malaysian culture, in general, is based around the religious doctrine of fatalism. Fatalism is the belief that success, failure, opportunity and misfortune are based on the will of God. When contextualised in the world of business, this can have significant effects that, as a Westerner, you may not be familiar with. Instead of encountering the Western business philosophies on empiricism and rationalism, the Malaysians tend to make decisions based on subjectivity and emotion. Consequently, things like negotiations may take longer than expected or you are used to.

High Context Culture - A high context culture implies that, as a Westerner, you must not take things at face value, and frame them within the context of Malaysian culture. For instance, the choice of words is less important, and tone or body language could imply just as much, or more.

Because business is personal and based on trust, developing healthy relationships rather than exchanging facts and information is the main aim of dialogue and communication. Direct answers, specifically of a negative nature, are sometimes usurped for those that will preserve harmony and good intent.

STRENGTHS AND WEAKNESSES OF MALAYSIA

Pros

- Developed infrastructure
- Good services
- Companies from abroad are welcomed
- Tax alleviations
- English is the main language in business
- Business-positive atmosphere

Cons

- The slow change of structure in the corporate sector
- You still need a local partner, especially in the government projects
- Inefficient and bureaucratic government
- Still some corruption

- Crime
- Occasional instability in domestic policy
- Many fields lack skilled workforce

ENERGY

Malaysia is almost self-contained in energy production

Energy consumption is approximately 1800 kilograms of oil per capita

Oil is the main source of energy

Malaysia has got verified oil resources 3 billion barrels left. Reserve are decreasing because they were at the highest in 1996 when there were 4,6 billion barrels. The most important fields are located at the ocean close to the peninsula of Malaijin.

Malaysia's national oil company Petroleam Nasional Berhad is dominating the oil sector's operations. Petronas is the last government own company and it's the biggest individual source of income for them. Petronas has exclusive right to all searching and production projects in Malaysia and all the foreign companies has to do cooperation with the company.

PETRONAS

PETRONAS, short for Petroliam Nasional Berhad, is a Malaysian oil and gas company that was founded on 17 August 1974. Wholly owned by the Government of Malaysia, the corporation is vested with the entire oil and gas resources in Malaysia and is entrusted with the responsibility of developing and adding value to these resources. PETRONAS is ranked among Fortune Global 500's largest corporations in the world. Fortune ranks PETRONAS as the 75th largest company in the world in 2013. It also ranks PETRONAS as the 12th most profitable company in the world and the most profitable in Asia.

Since its incorporation, PETRONAS has grown to be an integrated international oil and gas company with business interests in 35 countries. As of the end of March 2005, the PETRONAS Group comprised 103 wholly owned subsidiaries, 19 partly owned outfits and 57 associated companies. Together, these companies make the PETRONAS Group, which is involved in various oil and gas based activities.

The group is engaged in a wide spectrum of petroleum activities, including upstream exploration and production of oil and gas to downstream oil refining; marketing and distribution of petroleum products; trading; gas processing and liquefaction; gas transmission pipeline network operations; marketing of liquefied natural gas; petrochemical manufacturing and marketing; shipping; automotive engineering; and property investment.

PETRONAS provides a substantial source of income for the Malaysian government, with 45% of the government's budget dependent on PETRONAS' dividend, moreover in 2011 government actual balance has 5 percent deficit of Gross Domestic Product.

The company is headquartered at the Petronas Towers which was officially opened on Malaysia's 42nd National Day, 31 August 1998 – in the corporation's 24th Anniversary year.

On 26 February 2015, Petronas cut its 2015 capital expenditures budget after reporting a \$2 billion fourth quarter loss, the company's first loss since it began reporting quarterly results five years ago.

CONCLUSION

Malaysia is a relatively open state-oriented and newly industrialized market economy. Malaysia has had one of the best economic records in Asia, with GDP growing an average 6,5 per cent annually from 1957 to 2005. Malaysia's economy in 2014-2015 was one of the most competitive in Asia, ranking 6th in Asia and 20th in the world, higher than countries like Australia, France and South Korea. The economy of Malaysia (GDP PPP) in 2014 was \$746.821 billion, the third largest in ASEAN behind more populous Indonesia and Thailand and the 28th largest in the world. In general, Malaysia is a rather safe place to start business in, boasting steady growth each year, which promises relatively risk-free investments in the stock market.

Malaysia has encouraged foreign companies to invest in Malaysia, and many have done so, believing the country has the capability to pay loans or investments back. This is partially thanks to Petronas, which has financed the country on its own for many years now, funding as much as 45% of the government budget annually. Despite the fact that the government and the corporate sector tend to be somewhat instable at times, and corruption and crime is still a small problem, business in Malaysia is done in an international fashion, English being the main business language, and companies all around the world are warmly welcomed in Malaysia.

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Indonesian business

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ABSTRACT

In this study our group was analyzing the economic situation and growth of Indonesia. First in this study there will be introduced Indonesia as a country. After that it will continue with the background of Indonesia's business and following with the Indonesia's business culture and behaviors.

The next topic will be the export and import in Indonesia. After that one, will follow a chapter about the risks and opportunities of investing to the country of Indonesia.

We found out the following. Indonesia has a lot of investment opportunities. The government should consider more foreign investments, especially investments in infrastructure. If the country increases its infrastructure, it also could get more easily investments from foreign countries. Also emerging opportunities should be considered, this would make the future economic survival more sustainable. Indonesia is highly corrupted country. More of the study results are in the conclusion, discussion and recommendation.

INTRODUCTION

This assignment opens the economic situation of Indonesia. The report goes through Indonesia's current economic situation, risks and opportunities when doing business in Indonesia and export and import in Indonesia.

We choose Indonesia's economic situation as our topic because we found it interesting and very different topic compared to the previous researches we have made together as a

group. Indonesia's economic situation was interesting also because it is growing a year after year but still there are many risks on the way.

INDONESIA

Indonesia, officially the Republic of Indonesia lays in [Southeast Asia](#). Indonesia is an [archipelago](#) comprising over [17 000 islands](#). Estimated total of population is over 252 million people. The nation's capital city is [Jakarta](#). Indonesia is a republic country and the president is Joko Widodo. Indonesia has 34 provinces and each province has its own legislature and governor. Muslim is the most popular religion in Indonesia. Indonesia's monetary unit is rupiah.

Indonesia is a founding member of [ASEAN](#) and a member of the [G-20 major economies](#). Indonesia has the largest economy in South East AsiaThe [Indonesian economy](#) is the world's [17th](#) largest by nominal GDP. Within the next decade it is expected to make it into the world top ten.

Indonesia has generous natural resources, including crude oil, natural gas, tin, copper, and gold. The government plays a significant role by owning more than 164 enterprises. The government administers the prices of many basic products, such as rice, electricity and fuel.



BUSINESS BACKGROUND IN INDONESIA

Indonesia has been for many years inextricably linked to political influence and patronage. The progress has been virtually impossible to make on any major project without the right level of influence with senior people in the relevant government ministry. Due the last Asian currency crisis the government has been forced to address some of the cronyism inherent in all business dealings which has made a good deal of progress in this area.

Because of the bribery and corruption aside, the Indonesian approach to business shares many similarities with customs and practices found in neighboring Malaysia. Hardly surprising that in both countries contain is a Muslim, ethnic Malay majority and a small but commercially disproportionately influential Chinese minority.

Indonesia is a fast growing economy. It represents a significant business opportunity in such areas as electrical goods, automotive, retail and infrastructure. To make business with the Indonesians, you need to know and understand the business culture well.

INDONESIAN BUSINESS CULTURE

In Indonesian business culture there are many different habits than in Western countries. In Indonesia people are usually Muslims or Hindus which means that women and men cannot touch in public. Women do not shake hands with men unless a man extends his hand. Indonesian men do not offer a handshake to a Indonesian woman.

If you get a business card, read it carefully. Never write on it or keep other person's or your own business card in a back pocket. Present a business card to each person when meeting him or her. Offer your card with the printing positioned so the recipient can read it. Hold the card with your right hand, with your left hand support your right wrist. Your card will be received with both hands. You must have a business card written in English and in Indonesian language. Indonesian version should be printed to the reserve side.

In Indonesia the rank and the status are very important. The title for Muslims who have made a pilgrimage to Mecca is Haji (man) and Haijah (woman). Always use a person's title and the full name. If the person does not have a title, they are called Mr., Madam, Mrs. or Miss. Normally people are called by their first names for example Miss Susan or Mr. Johan. Last names are not so used.

"Selamat" means peace and it is a traditional greeting in Indonesia. When Indonesian says "Yes, but.." it usually means no even if they would say yes. "No" is hard to say for the Indonesian people. Never show your anger or joy in public by getting your voice high. Also showing anger by body language or tone of voice is inappropriate. When writing and printing do not use the red ink of doing that.

When making business in Indonesia, make sure that you will not be late even if the other business colleagues usually are. Do not make any comment about the meeting starting late. Don't stand with your back to older people or a high ranking official. Always rise up from your chair when the host or a hostess enters the room. If there is some food to served, eat all of them. Leaving food on your plate is impolite. Talking while eating dinner is considered also impolite, you can speak before and after dinner. Use only your right hand for eating, touching someone or handling money or papers.

Never show the soles of your feet or shoes or touch anything with your foot. Never touch a person's head even if it would be a child's head. Don't eat anything when walking on

public. Also yawning in public is inappropriate, if you must do it, please cover your mouth. Always take off your hat and sunglasses indoors.

Indonesians so as Thais give usually business gifts. Gifts will not be opened when given. Different religions have rules for example for food and alcohol. Make sure that the gift is not offensive. Chinese may refuse the gift politely three times before accepting it. The giver has to tell a person how happy he or she is to his or her acceptance. Do not give any gifts where it is shown a dog, which are considered unclean in Indonesia.

When Indonesians do business they appreciate the trust relationship between the businessmen. Building a good fiduciary relationship will take some time but it is definitely worth the waiting.

INDONESIAN EXPORT AND IMPORT

The location of the Indonesian archipelago has traditionally been an important facilitator of international trade. In 2008, Indonesia and Japan signed the Economic Partnership Agreement (EPA), which is the first bilateral free trade deal of Indonesia

Exports in Indonesia decreased to 12,29 Million USD in February of 2015 from 13,35 Million USD in January of 2015. Indonesia's main export markets are Japan, China, The United States, India and Singapore. Major exports include oil and gas, electrical appliances, plywood, rubber and textiles.

Imports in Indonesia decreased to 11,55 Million USD in February of 2015 from 12,61 Million USD in January of 2015. Main import partners are China, Japan, Thailand, Singapore and the United States. Indonesia's key imports include machinery and equipment, chemicals, fuels, and foodstuffs.

RISKS AND OPPORTUNITIES OF INVESTING IN INDONESIA

Investing in Indonesia can be highly lucrative business. Investing fields can be Indonesia's stock market, real estate or commodities. However investing always encompasses risks. Indonesia is not a developed country so this entails more risks. The country contains a number of country specific dynamics and characteristics that can frustrate investment and harm the investment climate. In this chapter we explore risks and opportunities of investing in Indonesia.

Indonesia has several key opportunities for investments and the country is called "Asia's next big opportunity". Indonesia provides high rate economic growth for foreign investors. The key sectors are infrastructure, food & agriculture, energy and industry. These are widely open for investors. Indonesia's important market opportunities are in mining, agribusiness equipment and services. Emerging opportunities are in palm oil biofuel processing and refining.

Indonesia has a strong domestic demand. The growing middle class, wealthy young people who are willing to spend, supports it. Strong consumer market makes Indonesia a land of opportunities. Indonesia is a fast growing and emerging economy. It has economically attractive factors for boasting foreign investments and increasing business potential. However there is a need for the right policy and other measures for sustainable growth. Economic survival in the long- run is important.

Indonesia has a challenging business environment for example U.S. firms often find it difficult and time consuming to enter the market. There is also a lot of corruption both local and foreign business. Indonesia has to compete with companies from Singapore, China, Japan, Malaysia and other regional players. Also the Rupiah has depreciated by approximately 20 % against the U.S. dollar since 2008 so exporting from U.S. is more expensive.

When starting investing in any country information-collection and solid preparations are the keys for good investing. There are many potential risks when investing another country. Here are few examples of potential risks when investing in Indonesia.

Corruption: Indonesia is quite corrupted country. Annual Corruption Perception is a list from countries and their level of political corruption. Indonesia have never impressed in this list. However Indonesia has shown improvement in corruption since 2004. This table is corruption perceptions index and it shows Indonesia's improvement in corruption. But still if we compare Indonesia's level of corruption to Finland, its very high. Finland's level of corruption in this same index was 8.9 year 2014.

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
2.2	2.4	2.3	2.6	2.8	2.8	3.0	3.2	3.2	3.4

Infrastructure: Indonesia has lack of sufficient quality and quantity of infrastructure. This has been a barrier to economic and social development to reach its full potential. The government should do huge investments in the country's infrastructure. The biggest problem here is the lack of financial resources. Indonesia needs more private sector participation, both foreign and domestic. The country has established the Indonesia infrastructure guarantee fund, which provides more assurance for private investors.

Natural disasters: Earthquakes, tsunamis, volcano eruptions and floods come occasionally to Indonesia. Indonesia is located on the Pacific Ring of Fire; most of its geographical space consists of water. Because of the country's weak infrastructure it's more vulnerable to natural disasters.

CONCLUSION

As mentioned earlier, Indonesia is a growing economy which future seems brighter every year. Country's economy is stable because the GDP has grown by an average more than 5% per year over the past decade. More or less 50 % Indonesian exports are raw materials. The country has benefited the needs of these products all over the world.

Moreover, Indonesia has also benefited from foreign direct investments to the country during the last years. Japan and Indonesia has made a agreement called Economic Partnership Agreement (EPA). Japan is the biggest foreign investor to Indonesia.

During this study our group has learned a lot of Indonesia, its economic situation so as the whole economic situation in Asia. We have learned about the economic data of Indonesia so as the communication and business behaviour. We have studied about financial risk and opportunities. The group of our explored the Indonesia's export and import. We also got to know about the backgrounds of Indonesian business.

RECOMMENDATION AND DISCUSSION

Indonesia has a lot of business opportunities. The country is not a developed country but with right policy in business it could get more sustainable economic. With good investments to country's infrastructure the economy growth could get better and foreign investor would invest their easier.

When doing business in Indonesia the business behaviour should be considered. Religion has a strong impact to the country so it should be respected when doing business with Indonesians. Indonesians also respect trust-relationship with the other part that they are doing business with.

Indonesia has a lot of investment opportunities. The government should consider more foreign investments, especially investments in infrastructure. If the country increases its infrastructure, it also could get more easily investments from foreign countries. Also

emerging opportunities should be considered, this would make the future economic survival more sustainable. Indonesia is highly corrupted country. The government should invest to ejection of corruption.

As Indonesia has made an agreement with Japan about free trade, they could consider making similar agreements with other trade partner countries. It could ease the trade as the tariffs wouldn't be so strict.

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International Business and Growth: A Case Study of Cambodia

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ABSTRACT

International business opportunities in Cambodia are in fields like tourism and agriculture. The best way to operate in is to deal with local operator. There is a challenge when doing business in Cambodia, like corruption and poor infrastructure and pirate products in the market.

Trade has increased in Cambodia and one of the biggest business partner countries is USA. Many Asian countries have invested to Cambodia and helped to raise the country's economic. Reasons to invest for Cambodia are for example low wages, liberal government policy on business, access to larger markets. Cambodia is very open economic market and has a great way to access to USA and Europe.

Cambodia attracts foreign investors and companies with tax holidays and cheap workforce. The potential in many parts of Cambodia is huge. And the steady growth has made it interest country to invest and know about.

Cambodia is one of the poorest countries in Asia. It is dependent on foreign aid. The most important industries are agriculture, tourism and textiles and recently also natural gas and oil reserves. The good access to raw materials, plentiful labor and low wages attract investors to the country. Cambodia has had a brutal history with many wars and the country has suffered financial crisis. However the economy has had progress in recent years.

INTRODUCTION

We were interested about Cambodia, reasons behind its growth and business in this Southeast Asia country. It will be easier to understand the situation, if you first get to know the background and Cambodian's history. History is some

Financial situation in Southeast Asia is also little unknown to us in generally, so we needed to start somewhere. We also study international business, so everything close to that, will be useful to us in future. Finland's relationship with Cambodia is mainly development cooperation's (Embassy of Finland, 2015), but in the future their might be also business related relationship.

Cambodia's economy has growth steadily from its independent to this day. There isn't any one big reason to that, but many smaller. We will go through its economy and finance and international business.

BACKGROUND

Cambodia is a small country in Southeast Asia. Most of Cambodians are Buddhist, like its neighbor countries. Cambodia has estimated over 15 million people. Its political system has been stable in recent years. (Guimbert, 2010.)

It becomes independent in 1953-1954 with weak state and economy. The state had little attempt to mobilize domestic capital for development and collect taxes. The economic were free-market, quasi-, or ezratz capitalist. (Ear, 1995.)

Cambodia is still one of the poorest countries in Asia and it has challenges especially by the lack of educated workforce. The foundation of economy is in agriculture, but the watering systems are primitive and the land use is weak. In 2009 half of the country's budget was formed by foreign aids. China is the most important aid giver to Cambodia. (Globalis 2009.)

ECONOMY

Cambodia's economy has grown past 20 years. The four main sectors are garments, tourism, construction and agriculture. Agriculture is still a crucial part of economy in Cambodia. Biggest growth has been with crops and particularly rice. Over eighty percent of farmers grow it. Other crops are cashew nuts, maize, rubber, tobacco and jathpha. (Guimbert, 2010)

The fastest growing sector is industry. Construction and garments and footwear manufacturing are the reason behind fast growth. These products from manufacturers are also Cambodia's leading export sector. All the other manufacturing products are too underdeveloped to export as high amounts than garments and footwear. (Guimbert, 2010)

Service sector has a steady share of Cambodia's economy. Transport, hotels and restaurants are largely driven by tourism. In Cambodia, its exceptional cultural heritage and natural endowment has kept tourism one of the productive services. Also non-tourism related services have grown during past 20 years for example education and health and household services. (Guimbert, 2010)

In recent years, Cambodia has also grown despite its lackluster governance. Only few individual holds political power and the rest is divide the spoils. Many businessmen in Cambodia have been established connections with government. Between business and politics, the relationship is tight in Cambodia. Many Members of Parliament and ministers have financial interests. Because separation between private and public is not clear, it's hard to reveal conflict of interest exists. (Ear, 2009)

Government in Cambodia has provided an environment that is not unfriendly to the private sector. First year when project comes profitable has les taxes. Because of that the informal costs of doing business and the cost imposed by indirect failures of governance, for example poor health services and infrastructure. (Ear, 2009)

Cambodia gets only limited share of the value. It is usually only involved at the Cut, Make and Trim phase. Almost all inputs are imported. More than 95% of garment factories are not owned by Cambodians. And foreign owners usually take all the profits back home country. (Ear, 2009)

The economy of Cambodia follows an open market system, which means that investment, production and distribution decisions are based on supply and demand. Also the prices of services and goods are determined by free price system. The economy of Cambodia has had fast economic progress. The GDP was \$13 billion in 2012. However the capita per income is still low when compared with most neighboring countries. (Wikipedia, 2015.)

Two largest industries are tourism and textiles (Maierbrugger, 2013). In rural areas agriculture is the main source of income. The service sector is mostly concentrated on catering and trading activities. Cambodia has recently reported that a natural gas and oil reserves have been found off-shore. (Wikipedia, 2015.)

At the moment, Cambodia focuses on getting friendly borders with its neighbouring countries and also on getting itself integrated into regional and global trading systems (ASEAN AND WTO). Some of the challenges of Cambodia are the need for a better education system and also the lack of a skilled workforce. Especially the countryside is very poor and the infrastructure is not good. Cambodia attracts investors because of its labor, low wages, good access to Asian raw materials and good tax treatment. (Wikipedia, 2015.)

The biggest threat to advancing economic freedom in Cambodia is the corruption. The government should make more effort to make the institutions behave by the rule of law. The judiciary should be improved and the property rights reinforced. These things, as also the government interference in the economy and a poor business environment are still making it difficult for Cambodia to get dynamic investment flows that some of their regional neighbours already enjoy. (Heritage, 2015.)

HISTORY AND GEOGRAPHY

Cambodia is located besides dynamic neighbors such as Thailand and Vietnam. This makes it easy to Cambodia to access into international markets. And Cambodia is located as a coastal country. Cambodia managed to end long conflict and change from a command-and-control economy to a market-oriented economy. In late 1990s, Cambodia's political stability has been a foundation of sustained growth. (Guimbert, 2010)

Cambodia seized this historical moment through opportunistic trade and investment policies. Because its garment sector was growing very rapidly, US agreed to extend quotas in exchange for strict enforcement of labor standards. Also it helped that they had favorable investment regime. It meant equal treatment for investors, tax holiday for a large range of qualified investments projects. (Guimbert, 2010)

There international commitments were useful in creating confidence among investors, after joining ASEAN and WTO. Around 1990 Cambodia managed to liberalize its economy and it began to publish record of legal reforms. Economic growth is really fragile and very dependent on the global environment. For example foreign savings has a big influence. (Guimbert, 2010)

FINANCE

Since 2005 Cambodian financial sector has growth, although it is under-developed. Firms doesn't usually have loan, only less than one in five has. Only 5 percent of the loan portfolio is for agriculture. Without acces to formal credits, many farmers rely on informal sources of financing with very high interest rates. This is also views as a major reason for lack of working capital and outdated technology. (Guimbert, 2010)

International financial institutions and the Cambodian government both forecasted in 2012 that Cambodia's GDP growth would be around 6-7 per

cent. It has been an important role to economic development, that it has allowed people to access to finance. (Makara, 2012)

The global financial crisis has also had its impact in Cambodia. It is heavily dependent in the economy of other countries. All the main sectors have taken little setbacks. For example tourism has gotten little down, because people doesn't want to use money to travel for pleasure in this kind of situation. The agriculture sector is expected to grow significantly decline in the rest of the economy. (Jalilian, Sophaö, Teyes, Chan, 2009.)

INTERNATIONAL BUSINESS

Potential investment opportunities in Cambodia are in agribusiness and food processing, tourism infrastructure and resorts, education, architecture and engineering services, household goods, fast food and beverage franchises and medical supplies and equipment. Working with a local partner, such as an agent or distributor, is the most effective way to reach Cambodian consumers. A local partner can facilitate and expedite market entry through market knowledge and established networks. In Cambodia, personal relationships can be the key to successful business transactions.

Significant challenges to doing business in Cambodia is commonly by the private sector include weak rule of law, poor infrastructure, high energy costs, corruption, and under-developed human resources. Lack of respect for basic human rights, including media freedoms, freedom of expression, and freedom of assembly, continues to be a concern and has factored prominently in disputes over land rights.

Limited enforcement of intellectual property rights, including the sale of pirated products, also remains a major concern. (Export. 2014)

Since Cambodia became the first least developed country (LDC) to join the World Trade Organization (WTO) in 2004, trade has steadily increased. The United States is one of Cambodia's largest trading partners. Approximately 33 % of Cambodia's total exports are destined for the United States. Primarily

garment and footwear products. In 2014, Cambodian exports to the United States were valued at US\$2.84 billion. For the same year, U.S. exports to Cambodia were \$328 million. Cambodia's rapidly expanding tourism industry is due to spectacular cultural attraction of Angkor Wat. With the number of foreign arrivals approximately 4.5 million in 2014, an increase of 12.5 % compared to 2013, tourism has increased since 1998 when Cambodia received a modest 187,000 tourists. It is estimated that international tourists will reach 7 million by 2020.

Foreign investment in Cambodia, which has increased significantly since 2004, has been due to Asian investors from countries such as China, Japan, South Korea, Malaysia, Thailand, and Vietnam. Approved foreign investment proposals by the Council for the Development of Cambodia totaled around US\$264 million (184 projects) in 2014. The Cambodian government currently offers a generous package of incentives to foreign investors and imposes few restrictions on imports from abroad.

Cambodia joined the International Organization for Standardization (ISO) in 1995 and is also a member of the ASEAN Consultative Committee on Standards and Quality (ACCSQ). It has also signed numerous trade agreements, including the U.S.-Cambodia Trade and Investment Framework Agreement (TIFA) in 2006, which facilitates and promotes greater trade and investment between the two countries. (Embassy of the United States. 2015)

Reasons to invest for Cambodia are for example low wages, liberal government policy on business, access to larger markets and a country that offers extensive opportunities in tourism. Cambodia has a good access to the profitable European and North American markets because of its status as one of the least developed countries.

Cambodia has one of the most open economies in what is a generally very open economic region. According to the Heritage Foundation's Index of Economic Freedom which is compiled annually Cambodia ranked 35th among 170 countries in 2003 in terms of economic freedom. This puts it on a par with Japan and well ahead of several of its neighbors (Malaysia, 72nd; Indonesia,

99th; Viet Nam, 135th; and Lao People's Democratic Republic, 153rd). It's not to say that Cambodia is not without problems (mentioned earlier) similar to many poor less developed countries but at least with respect to doing business the country does offer a progressive welcome to investors.

Tourism is the area in which Cambodia rightly most wants to attract foreign investment. This goal is little different than its neighbors like Thailand, Vietnam and most recently even Laos. The country is anticipated to exceed the 1-million tourists mark in the next years and the potential here may be huge. Although much of the development to date has concentrated on servicing visitors at the Angkor complex of temples near Siem Riep, Phnom Penh and the beaches of the South also offer opportunities. Eco-tourism and cultural based tourism still offer almost unlimited potential as do investment in hotels, golf courses and other amenities.

Investment in agriculture offers opportunities, especially in organic farming, agro-processing and several other sectors. Fertile land, water and access to a willing and cheap workforce all offer opportunities for further development, if the foreign partner brings in the necessary know-how, knowledge and access to markets, etc. Although foreign investors cannot own land, they can acquire long-term use of it through 99-year leases, and can also get partial ownership by joint venturing with a local partner who owns 51% of the equity. (Business in Asia. 2005)

Corruption

Corruption, including bribery, raises the costs and risks of doing business in Cambodia. Corruption has a corrosive impact on both market opportunities for companies and the broader business climate. It also deters international investment, stifles economic growth and development, distorts prices, and undermines the rule of law. It is important for companies, irrespective of their size, to assess the business climate in the relevant market in which they will be operating or investing, and to have an effective compliance program or measures to prevent and detect corruption, including foreign bribery. Firms operating or investing in foreign markets should take the time to become

familiar with the relevant anticorruption laws of both the foreign country and the own country in order to properly comply with them, and when appropriate, they should seek the advice of legal counsel. (Export. 2015)

Business tips

It is very important to determine at the outset in any business dealings the hierarchy and seniority of whom you are dealing with, and those responsible for decision-making. Correspondence and communications should be addressed to the senior decision-makers. You have to remember that decisions often take a considerable length of time as they are relayed up and down the chain of hierarchy due to the lack of delegation within companies or government ministries.

While English is becoming more widely spoken, foreigners should try to ascertain whether their partner is fluent in English and, if not, utilize an interpreter to ensure a smooth meeting and follow-up.

Cambodian businessmen can be addressed with 'Mr' and their first name, or for women, 'Madam'. Many senior managers of Cambodian companies or high level officials also have the title 'Your Excellency'. The titles are important to Cambodians. (Australia unlimited. 2015)

CONCLUSION

There is not a lot information about the international business in Cambodia. There is a great opportunity next to successful neighbor countries. The country is still underdeveloped and helped. Situation is getting better all the time. There are slower and faster periods, but the growth is steady. Export and import are both growing all the time.

Tourism is a good sector to invest, because it is also growing. Tourist has already find the beauty of these lands, and Cambodia will get more tourist. Now most of the tourist are in Thailand and then making weekend trip to Cambodia. Despite the domestic uncertainty and instability in nearby areas, Cambodia has held its growth.

Cambodia's government and politics should be more interested in its poor people. Cambodians important priority should be in health and education. There are corruption and other dusk trade. There are many challenges ahead, for examples effective management of land and natural resources. It also should expand and sustain growth in manufacturing.

Cambodia struggles with the challenges of corruption, poor infrastructure especially in countryside's, lack of skilled workforce and dysfunctional education system. These things are obstacles for getting dynamic investment flows. However Cambodia is focusing on getting itself into regional and global trading organizations and establishing friendly relationships with the neighboring countries.

Lack of respect to human rights, weak rule of law, bad infrastructure and corruption are problems. Media should have more freedom. If some of these problems get fixed Cambodia might get new opportunities in international business. After joining in WTO in 2004, Cambodia's trading business has increased. Also other trading agreements have helped international business. Tourism industry has increased more because of the interest of Angor Wat temple, and foreign arrivals are increasing every year. And it's expected to rise continuously.

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The effects of service marketing mix (7Ps) on customer satisfaction and customer loyalty of medical aesthetic clinics.

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Abstract:

This research aimed to investigate the factors impact on customer satisfaction and customer loyalty toward medical aesthetic clinics in Bangkok. This research was designed based on quantitative study. The data were collected from 400 participants who have experienced in using aesthetic clinic. Moreover, the data were collected from 15 aesthetic clinic in Bangkok. The data were tested using descriptive and inferential statistical analysis tools (regression and chi square). The results showed that three factors, including Promotion, People, and Physical Evidence, had a significant positive influence on Customer Satisfaction. However, four factors, including Product, Price, Place, and Process, did not. The results also showed that the relationship between Customer Satisfaction and Customer Loyalty was a relatively weak, but statistically significant, relationship between these two factors. Finally, chi square tests showed that there was no difference between genders in their use of the clinic.

Keywords: Marketing mix, service marketing, customer satisfaction and customer loyalty

Introduction

The business environment of medical aesthetic clinics is highly competitive. During the last decade, the number of medical aesthetic clinics is growing while the number of customer is limited. They are now zealously competing on price, quality, quantity, value and brand image. In addition, in this competitive environment medical service business is more intense due to high fixed cost, growing personnel expense, limited insurance benefit (e.g. Dermatologist treatment cannot be reimbursed from Social Security) and frequent medical malpractice claim. In order to solve the problems mentioned above, medical aesthetic clinics industry has to realize what differentiates one provider from another and make efforts in upgrading the medical service quality, more importantly, what customer-oriented value is. By doing so, they can create their niches and competitive edges.

Nowadays, Thai consumers care more about their appearance with the attitude that it is the first thing that will impact or collision with other people. People are trying to find ways to develop their visually appealing. Medical

aesthetic clinics seem to be the answer for those people since they have technology of therapy that gives good results to improve image under short-term rehabilitation.

Most of providers come with a price cuts strategy, promotion and advertising to over its competitor. This strategy give benefits for consumers while the profit of provider decreases, it make provider start to reduce cost such as quality of medicine, equipment and unskilled staff. Follow by reduce cost, its make customer not satisfy and hard to archive consumer with them. Some service providers try to differentiate themselves by focusing on niche market instead of price cuts by specializes in particular type of treatment, but still hard to archive customer. Many of studies suggest service marketing mix is a significant positive relationship between customer satisfaction and customer loyalty (Cronin, Brady & Hult, 2000).

Therefore, this study will reveal about exploring service marketing mix (7Ps) on customer satisfaction and customer loyalty of medical aesthetic clinics. This research aims to explain the influence factors on customer satisfaction and customer loyalty of Medical aesthetic clinics by focusing on:

1. To explore how the service marketing mix (7Ps) has an effect on customer satisfaction of medical aesthetic clinics.
2. To explore how the customer satisfaction has an effect on customer loyalty of medical aesthetic clinics.

Literature Review

The marketing mix is one of the core concept marketing theory. In recent year, the popular version of this concept McCarthy's (1964) 4Ps (Product, price, place and promotion) has increasing come with many result that different marketing mix have been put forward for different contexts. While number of modification to 4Ps frame work have been proposed (example Kotler, 1986; Mindak and Fine, 1981) the most concerted comment has come from the service marketing area. Boom and Bitner's (1981) extension of the 4Ps framework to include process, physical, evidence and participant has gained widespread acceptance in the service marketing literature.

More recently McCarthy and Perreault (1987) have defined the marketing mix as the controllable variables that an organization can co-ordinate to satisfy its target market, This definition (with minor changes) is widely accepted as can be seen from Kotler and Armstrong's definition of the marketing mix:

As the set of controllable marketing variables that the firm blends to produce the response it wants in the target market (1989, p. 45)

However, the most popular and most enduring marketing mix framework has been that of McCarthy who reduced Borden's 12 elements to the now popular 4Ps, namely: product, price, promotion and place (McCarthy, 1964, p.38). Each of these categories consists of a mix of elements in itself and hence one can speak of the "product mix", "the promotion mix", and so forth. For instance, Kotler and Armstrong (1989) list advertising, personal selling, sales promotion and publicity under the heading of promotion. The 4Ps formulation is so popular, in fact, that some authors of introductory

textbooks define the marketing mix synonymously with the 4Ps (see for example Pride and Ferrell, 1989).

While McCarthy's 4Ps framework is popular, there is by no means a consensus of opinion as to what elements constitute the marketing mix, in fact the 4Ps framework has been subjected to much criticism. Kent (1986), example, argues that the 4Ps framework is too simplistic and misleading, various other authors have found the 4ps framework wanting and have suggested their own changes. For instance, Nickels and Jolson (1976) suggested the addition of packaging the fifth P in the marketing mix, Mindak and Fine (1981) Suggested the inclusion of public relations as the fifth P, Kotler suggests the addition of Power as well as public relations in the context in the context of "mega marketing" (1986). Payne, and Ballantyne (1991) suggest the addition of people, processes, and customer service for relationship marketing. Judd (1987) suggests the addition of people as a method of differentiation in industrial marketing

The firm's personnel and other customers. In services (especially, "high contact" service such as restaurants and airlines) because of the simultaneity of production and consumption, the firm's personnel occupy a key position in influencing customer perceptions of product quality In fact, They are part of the product and hence framework product quality is inseparable the quality of the service provider (Berry,1984). It is important, therefore, to pay particular attention to the quality of employees and to monitor their performance. This is especially important in service because employees tent to be variable in their performance, which can lead to variable quality

In fact, Booms and Bitner (1981) themselves argue that product decisions should involve the three new elements in their proposed mix. Nevertheless, Bitner, while accepting that physical evidence, participants and process could be incur be incorporation into traditional 4Ps framework, argues that separating them out draws attention to factors to factors that are of "expressed importance" to service-firm managers (Bitner, 1990, p. 70).

Furthermore, Booms and Bitner argue that these new elements are essential to "the definition and promotion of services in the consumers' eyes bot prior to and during the service experience" (Booms and Bitner, 1981, p. 48) Furthermore, these elements can be controlled by the firm and used to influence buyer behavior and hence should be included in the expended marketing mix:

The potential power of these elements results from the large degree of direct contact between the customer, the highly visible nature of the service assembly process and the simultaneity of production and consumption (Booms and Bitner, 1981, p. 48)

Product: From Panoramas to Precision by Anne et al. (2007). Wilson argues that a panoramic or holistic, approach to new service development and a high level of precision at the micro level will combine to provide a more successful service design and new service development process. The article, Developing New Services for Hospitals by Michael (1987) proposes that hospitals should facilitate market driven services. The article is product line

management appropriate for your health care activity? By Naidu et al. (1993) examines the result of the study on product-line management (PLM) as management tool on health care industry. The article, Product line management in hospitals; an exploratory study of managing change by Burger et al.(1991) presents an abstract of product line management in hospitals. According to this article product line management is a system in which one manager is responsible for all aspects of marketing and delivery of one particular product or service bundle.

Price: An article, Case mix specialization in the market for hospital services by Dean and Christopher (1985) says that hospitals may be able to reduce their costs by limiting the breadth of services they provide. The article is there a link between hospital profit and quality (Zallocco, 1993) discussed the relationship between quality and profitability. The author studied the relationship between quality and profit levels on one hand and price, occupancy levels, and costs per patient on the other hand. The conclusions were: First, low quality hospitals have much lower levels of profitability than high quality hospitals; second, low profit and quality does not result in lower demand; third, poor quality hospitals are understaffed and have inadequate investment in capital assets.

Place: Wilbur and James(1982)'s study, Identifying market Segments within a health care delivery system applied two stage methodology for identifying healthcare market segments. Marie Odile (2010)'s study, Modeling the impact of internet atmospherics on surfer behavior examines the role of Internet atmospherics cues on the behavior of surfers and their impact on variables such as site attitudes, site involvement, exploratory behavior, pre purchase and purchase intentions. Sreenivas et al. (2013) argue Hospitals should be easily accessible to the patients and be adequately protected from pollution. Every hospital should try to make services available and accessible to its target consumers. While distributing health care accessibility with physicians, hospital administrators, donors, government, insurance companies, employers is needed. Thus hospitals have to take three major distribution decisions. They include physical access (channels, location, and facilities), time access and promotional access.

Promotion: The activities in hospitals Building a strong services brand: lessons from Mayo Clinic (Leonard and Kent, 2008) explains the branding services model by showing how one organization has created, extended, and protected a powerful brand through an unwavering commitment to the well-being of its customers. Brand equity in hospital marketing by (Kyung et al., 2008) identifies five factors that influence the creation of brand equity through successful customer relationships. In an article, Assessing advertising Content in a Hospital Advertising Campaign (Menon et al., 2006) have designed a measure advertising content based on the cognitive and affective elements of informational (that is information processing) and transformational (experiential) content. Tudor and Kanth (1994), in their work, Hospital advertising: The influence of perceptual and demographic factors on consumer dispositions discuss the perceptions of consumers towards hospital advertising. Erdem and Harrison (2006), in their article, the role of the Internet in physician patient relationships explains the importance of Internet in building physician patient relationship in their marketing activities of health

care units. Wan-I Lee et al. (2013), in their work, the exploration of consumer's behavior in choosing hospital by the application of neural network explain the application of neural network to classify consumers' behavior in choosing hospitals.

People: The people in a hospital consist of doctors, nurses, paramedical staff, supporting staff and front office executives. Firm manage personnel, by developing and enhancing a systematic service culture. Human resource department with eminent people in the concerned field. This department attends different functions like man power planning, training, and motivation, evaluating, and rewarding for building competent personnel. The people in firm are classified as high contact people and low contact people. High contact service people include doctors and nursing staff who are engaged in providing the services to the patients round the clock. The administrators, supportive service people come under low contact. Firm should try to attract and retain doctors with knowledge and skills by motivation there satisfactory. That will represent hospitals have good or not on HR Practices of the hospital (Sreenivas et al. 2013)

Physical evidence: Sreenivas et al. (2013), in their article, the role of physical evidence essentially wraps the service and conveys an external image what is inside to consumers. The physical evidence includes admission office, signs, patient care room, medical equipment, recovery room, building exterior, employee uniforms, reports and stationery, billing statements, website etc. Physical evidence of hospital can be witnessed through entrance, lobby area, parking area, waiting area, public toilet facilities, signage system, gift, book and florist's shops, coffee shop-cum-snack bar, interior decoration, lighting and ventilation, uninterrupted power supply, drinking water facilities, sewerage, telephone and communication facilities, transportation facilities, security and display of awards and certificates won by doctors and hospital etc.

Process: 7Ps in corporate hospitals –Administrators' perspective: lessons from Apollo and CARE hospital (Sreenivas et al. 2013) explain process is an essential ingredient in the production and delivery of service. Since the inseparable nature of services does not allow any differences in the production and delivery of a service, process becomes an all-inclusive 'P' for service marketers. Apollo hospital has simplified the procedure for admission for treatment. It has taken all measures to extend medical treatment in single premises, which has created easy accessibility to all patients to avail the services of various specialized doctors. Apollo has instituted several registration centers at different places in the state. The patients, who want to take appointment may consult these centers and can get appointments for the consultation. The process followed at CARE is simple, patient friendly and time saving. The out patients who want to take treatment in CARE have to take prior permission or appointment from registration department in consultation with the doctor concerned. To avoid congestion and to save the time of patients/visitors, CARE has made arrangements to get appointment through e-mail, phone.

The article, Concepts in service marketing for healthcare professionals (Christopher et al., 2001) showed that patients are becoming increasingly

involved in making healthcare choices as their burden of healthcare costs continues to escalate. The article, Consumer Empowerment Behavior and Hospital Choice (Weng, 2013), investigates the behavior and a patient's choice of hospitals. The article, Enhancing Competitive Advantage of Hospitals through Linguistics Evaluation on Customer Perceived Value (Feng & Chuan, 2013) precisely exploits the value attributes perceived by customers. The article, Hospital choice factor: A case study in Turkey (Sreenivas et al., 2013) examines the factors affecting hospital choice decisions of 869 patients in three public and one private hospital polyclinics in Turkey and attempts to determine their important levels. This study highlights the importance of accessibility of hospital services to consumers in hospital, physical appearance, and technological capabilities in informing choices. These findings are useful for managers to understand how patients make choices related to health care facilities and to develop marketing strategies that may more effectively market their facilities. The paper that explained the importance of process in success of hospital include structuring the marketing function in complex professional service organizations (Laing and McKee, 2000); it examines the organizational solutions adopted by self-governing hospitals in managing the marketing function. The core theme that emerges from the research is the imperative for such professional service organizations to facilitate the development of flexible project focused marketing teams, effectively mirroring the notion of the buying center, capable of integrating core technical professionals directly into marketing process.

H1: Product is positive related to customer satisfaction

H2: Price is positive related to customer satisfaction

H3: Place is positive related to customer satisfaction

H4: Promotion is positive related to customer satisfaction

H5: People is positive related to customer satisfaction

H6: Physical evidence is positive related to customer satisfaction

H7: Process is positive related to customer satisfaction

The study on patient satisfaction can be used for all business and career. Nowadays, many scholars and research apply satisfaction concept to medical aesthetic services; therefore, the term, customer satisfaction is created. Donabedian, (1996) found patient satisfaction is an important indicator for medical service industry. For hospitals, patient satisfaction is an effect indicator to evaluate medical service quality. For patients, patient satisfaction is an indicator to choose medical service provider (Hansagi et al., 1992). Furthermore, patient satisfaction can help hospitals, changing the medical process for satisfying more patients (Abramowitz & Kyle, 1988).

According to previous literatures, we can realize that service quality perception and medical care's value are important factors to influence patient satisfaction. Medical service providers need to understand patients and try to satisfy them. To achieve this goal, customer satisfaction can be used as a tool

to evaluate medical service quality. Scholars also thought that, medical service quality can be told from patient satisfaction (Mahon et al., 1996). They reiterated on how important patient satisfaction is for medical service quality.

Instruments for measuring the customer satisfaction is one of the important roles in this research. Customer satisfaction determination included total satisfaction of service performance as well as the consumer views and national conditions (Chang & Yuan, 2002). David & Dominiek (2008) studied the retirement community resident satisfaction, and finally, they concluded that satisfaction contained five different domains, including the built environment, the financial environment, the service delivery environment, the social environment, and the spiritual environment. Combining the above literatures, this research adopted four aspects to determine customer satisfaction, namely; the Personnel service standard, Medical devices equipment, Location and atmosphere, and Whole experience feeling (David & Dominiek, 2008).

For all business strategies, maintaining customer loyalty is properly the most important factors (Reichheld, 1996). Customer loyalty is the customer continuous purchasing behaviors of the merchandise or services of a certain company (Griffin, 1996). Reichheld (1996) thought if a customer was satisfied with companies' commodities or services they would want to offer positive word-of-mouth promoting that company. Regarding evaluation of customer loyalty, Parasuraman et al. (1994) thought that items, which should be included, were behaviors, intent to repurchase, people's recommendations through positive word-of-mouth.

Customer loyalty is a multidimensional concept with a wider meaning than the concept of customer retention or cooperation, which only refers to the behavioral aspect of loyalty. It emerges dynamically as the optimal stage of evolution of the relationship between a customer and a supplier or a brand. The multidimensionality of the concept seems to be demonstrated in studies such as Dick and Basu (1994) or Zeithaml, Berry and Parasuraman (1996).

Griffin (1996) sorted customer loyalty to four main categories: intent to repurchase, purchase frequency, recommendation product wish, and times of participation product activity. These dimensions thus seem to be indicators of the existence of a feeling of loyalty of one party to the other.

On the basis of these considerations, within the scope of relationship marketing, loyalty can be defined as the future behavior commitment to purchase a product or service (Bennett, Härtel and McColl-Kennedy, 2005), or "a deeply held commitment to rebuy or indorsement a preferred product or service consistently in the future, despite situational influences and marketing efforts having the potential to cause switching behavior" (Oliver, 1997, p. 392). From this perspective, loyalty can be measured directly, through purchase behavior, by observation of a higher frequency of purchase or the concatenation of a set of purchases of a product or service as against others where this does not occur; and indirectly, by measuring the attitude or intention to repurchase (Yi and Jeon, 2003).

Customer loyalty is one of the most important customer metrics in marketing due to the profit impact of maintaining a loyalty customer base

(Oliver,1999). Customer loyalty leads to firm profitability because customer loyalty positively influences firm product-marketplace performance (Anderson and Mittal 2000) and financial performance (Gupta and Zeithaml 2006) and creates shareholder wealth (Anderson 2004). The literature explains this positive loyalty-firm profitability link for several reasons. First of all, according to Pfeifer (2005), Loyalty reduces customer acquisition cost, which in turn, reduces firm cost or expenses.

Second, customer loyalty can indicate customer retention, the most important customer metric for firm profitability because loyalty measures customer intention to repurchase a product or service. In traditional marketing academics and practitioners have underline the consequences of market-base assets on success within the product marketplace, as illustrated in product sales and market shares that the significance of the effect of market-base asset on financial performance has appeared in the past decade as top management has begun seeing the final objective of marketing as contributing to the favorable status of shareholder return (Day and Fahey 1988). Top management has begun to realize that not only tangible assets, such as plant and equipment, raw material and finish products but also intangible market-base assets such as brands, customer channel and partner relationship. Moreover, Internet firm (e.g. Amazon, eBay, Google and Facebook) are commonly present in contemporary digital economy and these firms generally do not hold tangible assets as opposed to traditional firms. There are also quite a few subscription-drive firms (e.g. Verizon Wireless and Cable companies) in contemporary digital economy to make relationship with customer for their survival (Kim and Bae 2010).

The relationships among customer satisfaction and customer loyalty can be divided into two groups. The first, service management literature, proposes that customer satisfaction influences customer loyalty, which in turn affects profitability. Proponents of this theory include researchers such as Anderson and Fornell (1994); and Zeithaml et al.(1990). These researchers discuss the links between satisfaction, loyalty, and profitability. Statistically-driven examination of these links has been initiated by Nelson et al.(1992), who demonstrated the relationship of customer satisfaction to profitability among hospitals, and Rust and Zahorik (1993), who examine the relationship of customer satisfaction to customer retention in retail banking. The Bank Administration Institute has also explored these ideas, in particular Roth and van der Velde (1991).

The service management literature argues that customer satisfaction is the result of a customer's perception of the value received in a transaction or relationship. Where value equals perceived service quality relative to price and customer acquisition costs (see Blanchard and Galloway, 1994) relative to the value expected from transactions or relationships with competing vendors (Zeithaml et al., 1990). Loyalty behaviors, including relationship continuance, increased scale or scope of relationship, and recommendation (word of mouth advertising) result from customers' beliefs that the quantity of value received from one supplier is greater than that available from other suppliers. Loyalty, in one or more of the forms noted above, creates increased profit through enhanced revenues, reduced costs to acquire customers, lower customer-price

sensitivity, and decreased costs to serve customers familiar with a firm's service delivery system (Reicheld and Sasser, 1990).

The second relevant literature is found in the marketing domain. It discusses the impact of customer satisfaction on customer loyalty. Yi's "Critical review of customer satisfaction" (1990) concludes, "Many studies found that customer satisfaction influences purchase intentions as well as post-purchase attitude" (p. 104). The marketing literature suggests that customer loyalty can be defined in two distinct ways (Jacoby and Kyner, 1973). The first defines loyalty as an attitude. Different feelings create an individual's overall attachment to a product, service, or organization (see Fornell, 1992). These feelings define the individual's (purely cognitive) degree of loyalty. The second definition of loyalty is behavioral. Examples of loyalty behavior include continuing to purchase services from the same supplier, increasing the scale and or scope of a relationship, or the act of recommendation (Yi, 1990). The behavioral view of loyalty is similar to loyalty as defined in the service management literature. This study examines behavioral, rather than attitudinal, loyalty (such as intent to repurchase). This approach is intended, first, to include behavioral loyalty in the conceptualization of customer loyalty that has been linked to customer satisfaction, and second, to make the demonstrated satisfaction/loyalty relationship immediately accessible to managers interested in customer behaviours linked to firm performance. Both the service management and the marketing literatures suggest that there is a strong theoretical underpinning for an empirical exploration of the linkages among customer satisfaction, customer loyalty, and profitability. The relatively small quantity of empirical research performed on these relationships to date (Storbacka et al., 1994) is probably the result of the paucity of organizations' measuring "soft" issues, such as customer satisfaction and customer loyalty, in meaningful ways.

H8: Customer satisfaction is positive related to customer loyalty

Research Methodology

This research was designed based on quantitative study. Questionnaire survey was used as research instrument for collecting data in this research. The data were collected from 400 participants who have experienced in using aesthetic clinic. Moreover, the data were collected from 15 aesthetic clinic in Bangkok, which were Wuttisak, Nitipon, Pan Clinic, Ratchathewi, Romrawin, Paweerata, Patama, Absolute Beauty, Thonglor, Khong Kwang, S-Mart, Pewdee, The Premium, Tanaporn, and Neo laser. The questionnaires were personally distributed and administered by the researcher to the respondents. The questionnaire consists of three sections. The first section lists the medical aesthetic clinics which are circled by respondents. The second section provides specific statements for each dimension. The items for measuring Customer satisfaction, Customer loyalty and service marketing mix 7Ps. The scale was developed to measure the impact of customer satisfaction on customer loyalty using five point liker scale with responses ranging from 1 to

5, where 1 = Strongly Disagree, 2 = Disagree, 3 = Indifferent, 4 = agree and 5 = strongly agree. The demographic information is the final section of the questionnaire. The data were tested using descriptive and inferential statistical analysis tools. The descriptive tools used in this research were frequency, percentage, mean and standard deviation, while the inferential tools used in this research were regression and chi square.

Results

Demographic data was collected from respondents in several categories, including gender, age, education, status, occupation, and income. The majority of respondents (73.5%) were female, and the largest group was aged 26 to 35 (44.3%). Only 27% were over age 35. Education level was split between secondary and tertiary education. 51.8% had a Bachelor degree or higher, while 48.2% had education of High School/GED or below. The largest group of participants was single (58.5%), though a relatively large group was married (37.3%). Participants were most likely to be employees (28%), private business owners (27.3%), or students (22.5%). Most had relatively low incomes, with 69.8% having income below 20,000 baht/month. In summary, participants were in general young (35 or under), female, single, and employed but relatively low paid. She might have a relatively high or relatively low level of education.

Moreover, the outcome showed that, for the service marketing mix variables, on average Promotion (M = 3.62), Price (M = 3.94), Process (M = 4.12) and Product (M = 4.13) are classified as “Agree”, indicating that the participants on average view these variables as moderately important or agree to a moderate extent. Three variables, including Place (M = 4.20), People (M = 4.21), and Physical Evidence (M = 4.23), are classified as “Strongly agree”, indicating these are somewhat more important. However, this should be interpreted carefully, since in actuality the means are not much higher than the other four variables. Except for Promotion, this set of variables is relatively close in terms of means. The final two variables were relatively close as well, both falling into the “Agree” category. These included Customer Service (M = 4.10) and Customer Loyalty (M = 3.73). This indicates that customers are relatively satisfied with their aesthetic center experience, though customer loyalty is somewhat lower. This is a normal situation since not all customer satisfaction translates into loyalty.

The second stage of analysis was the hypothesis testing. There were eight hypotheses proposed for the research, which were based on the literature. Hypotheses 1 through 7 proposed that the seven factors of the service marketing mix (Product, Price, Place, Promotion, People, Physical Evidence, and Process) were positively related to the formation of Customer Satisfaction. The eighth hypothesis proposed that Customer Satisfaction was positively related to Customer Loyalty. The first seven hypotheses were tested together using multiple regression, while the eighth hypothesis was tested using single

regression. Table 1 summarizes the outcomes of the hypotheses, which are discussed below.

Table 1: Summary of hypothesis outcomes

Hypothesis	P-Value	Results
H1: Product is positive related to customer satisfaction	.199	Rejected
H2: Price is positive related to customer satisfaction	.486	Rejected
H3: Place is positive related to customer satisfaction	.149	Rejected
H4: Promotion is positive related to customer satisfaction	.024	Accepted
H5: People is positive related to customer satisfaction	.000	Accepted
H6: Physical evidence is positive related to customer satisfaction	.000	Accepted
H7: Process is positive related to customer satisfaction	.899	Rejected
H8: Customer satisfaction is positive related to customer loyalty	.000	Accepted

The equation of H1 to H7 is presented below;

$$\begin{aligned}
 Y_{Customer\ Satisfaction} &= 0.162 + 0.070_{X1(Product)} + 0.026_{X2(Price)} \\
 &+ 0.065_{X3(Place)} + 0.057_{X4(Promotion)} \\
 &+ 0.203_{X5(Physical\ Evidence)} + 0.518_{X6(People)} \\
 &+ 0.007_{X7(Process)}
 \end{aligned}$$

The final hypothesis proposed that Customer Satisfaction was related to Customer Loyalty. This hypothesis was tested using single regression analysis. The r-squared (adj. r-squared = 0.2120) is a moderate relationship, showing that 21.2% of the variance in Customer Loyalty can be predicted from variance in Customer Satisfaction. This is a relatively weak result for a regression (Bryman & Bell, 2011). However, the result of the ANOVA test does indicate it is a significant relationship ($F = 108.329$, $p = 0.000$). The regression equation for this relationship is:

$$Y_{Customer\ Loyalty} = 1.542 + 0.533_{X1(Customer\ Satisfaction)}$$

Based on this test result, Hypothesis 8 is accepted. Customer Satisfaction does have a positive, significant relationship to Customer Loyalty. However, given this is a relatively weak relationship it is likely that there are other factors involved in the formation of Customer Loyalty that were not tested.

The final stage of analysis was using chi square tests to identify relationships between demographic groups (gender, age, and income) and behavior toward the aesthetic clinics (frequency of use, type of service used, and amount of money spent per visit). Differences in gender groups were tested for two items, including frequency of clinic service use throughout the year and average amount of money spent on services each time. The chi-square test outcome for frequency of clinic service use did not support a significant difference in these two factors ($\chi^2 = 4.201$, $df = 3$, $p = 0.241$). The outcome for the average amount of money spent on services each visit also did not show a significant difference ($\chi^2 = 5.479$, $df = 4$, $p = 0.242$). These results suggest that there is no significant difference in distribution of frequency of clinic use or the amount of money spent between visitors of different genders.

There were three chi square tests performed to identify differences by age. These included frequency of service use, services most frequently used from the clinic, and the amount of money spent per visit at the clinic. The chi-square test for frequency of service use did show a significant difference ($\chi^2 = 47.035$, $df = 9$, $p = 0.000$). The cross-tabulation shows that participants age 25 and younger were more likely to visit infrequently (1 to 5 times a year) than either the average or the other two groups. Similarly, the 36 and over group was more likely to visit frequently (six times a year or more) than other groups. It can be concluded that age does make a difference in how frequently users visit the clinic.

Finally, the chi-square test for cost of treatment each time also showed significant variance by age ($\chi^2 = 40.765$, $df = 12$, $p = 0.000$). In general, younger respondents spent less. 68.7% of those age 24 and under spent below 5,000 baht, compared to only 36.1% of those age 36 and over. Only 6.9% of those age under 25 spent over 10,000 baht per visit, compared to 16.4% of those age 26-35 and 13.9% of those age 36+.

The chi-square for differences in service type by income level also showed a significant difference ($\chi^2 = 68.853$, $df = 20$, $p = 0.000$). The cross-tabulation showed there were differences, but again no clear pattern, except that acne care was more popular in lower income participants than higher income ones. This could be because lower income participants are also younger and, as shown above, more likely to have acne treatments.

Finally, the chi square for differences in cost of services by income level also showed a significant difference ($\chi^2 = 77.458$, $df = 16$, $p = 0.000$). The cross-tabulation shows that overwhelmingly, those with income below 15,000 baht/month chose cheaper services (5,000 baht or less), while those earning more than 15,000 did spend slightly more.

Discussion

Hypotheses 1 through 7 showed that only three components of the services marketing mix (Promotion, Physical Evidence, and People) were significant in customer satisfaction, while four (Product, Place, Price, and Process) were not. The significant factors included two out of the three extension factors proposed by Booms and Bitner (1981), as well as one of the original factors (Promotion). Berry (1984) proposed that the people aspect of the service is actually inseparable from the product aspect, since people provide the service and people perceive the personal aspect of service provision as one of the most important aspects.

Previous studies have supported the importance of promotion for services marketing of healthcare (Kyung, et al., 2008; Leonard and Kent, 2008; Menon, et al., 2006; etc.) As a result, it was not surprising that there was an impact of promotion on customer satisfaction. However, there was not as much evidence for the people aspect of service provision in a medical setting (Sreenivas et al. 2013). Even though people are clearly very important in customer service provision, the previous research has not made it clear whether this is an important factor. However, Leonard and Kent (2008) have suggested that the stronger the reputation for customer care, the stronger the brand of the hospital, based on their study of the famous American hospital the Mayo Clinic. Physical evidence of a medical setting is also seen as very important, since it portrays the image of the hospital to the customer (Sreenivas et al. 2013).

One of the reasons that only a few of the factors could be found to be significant is that the 7Ps marketing mix is actually intended as a pragmatic framework to develop marketing strategies, and consumers may not be aware of or respond to all of its elements (Booms & Bitner, 1981). This is consistent with the 4Ps, which is also more about marketing strategy than about consumer views (Kotler, 1976). People were probably important because of the intrinsic role that people have in providing a service, since they are inseparable from the service itself (Berry, 1984). Physical evidence is likely important because of the health context of the location (Sreenivas, et al., 2013). Finally, Promotion is probably important because of the relatively high cost of the service compared to incomes.

The literature suggested that customer satisfaction was a significant component in customer loyalty (Anderson and Fornell, 1994; Parasuraman, et al., 1994; Reicheld and Sasser, 1990; Storbacka et al., 1995; Zeithaml et al., 1990). For example, Parasuraman, et al.'s (1994) model of customer satisfaction states that customer satisfaction is one of the components in developing customer loyalty. Because of the strength of the literature on customer satisfaction and customer loyalty, the result of this study was surprising. Although the hypothesis was accepted, it was relatively weak and did not show a very large main relationship between customer satisfaction and customer loyalty. Potentially, this is because of the failure of the model to capture elements of customer satisfaction, which could make it harder to

reflect customer loyalty. However, it is also possible that there are other factors involved in this relationship. For example, it is possible that the services of an aesthetic clinic are related more to frequency of need than other factors of customer loyalty (Kotler, 1976). This could mean that customers are motivated by outside factors, instead of internal factors, to pursue treatment at the center. This could result in a lowered customer loyalty, even if the customer was satisfied with their experience. There are a number of other aspects that are associated with customer loyalty other than customer satisfaction (Fraizer, et al., 1989). For example, the personal nature of the service could mean that positive responses to individual service providers could be as important as overall satisfaction with the service offered. Patient satisfaction does influence the choice of provider (Hansagi et al., 1992). However, it is also likely that total satisfaction would result in elimination of a skin condition, removing the need to visit again. This shows that more research is needed in what customer loyalty means in the context of medical treatments.

Conclusion

The purpose of this study was to study the impact of the services marketing mix (7Ps) on customer satisfaction and customer loyalty in the Thai medical aesthetic services clinic. These clinics are increasingly important for Thai people, who are spending more money on appearance and correction of aesthetic and dermatological problems. However, the business approach could be negatively affecting the company. Many clinics begin with a cost leadership strategy, which requires them to cut their prices below the price of their competitors. This forces them to reduce their service costs, including choices like poorly trained or untrained personnel, poor equipment, or poor physical environments for the service. Unfortunately, these factors are likely to negatively affect the company in the long term, because customer satisfaction is affected by these dimensions of the service marketing mix. If the company is not delivering a good customer service mix, then it will have trouble gaining customer satisfaction and customer loyalty. This means it could also have trouble in its long-term financial performance.

There were eight hypotheses proposed. The first seven were about the relationship between the services marketing mix (7Ps) and customer satisfaction. Analysis showed that three factors, including Promotion, People, and Physical Evidence, had a significant positive influence on Customer Satisfaction. However, four factors, including Product, Price, Place, and Process, did not. The final hypothesis was about the relationship between Customer Satisfaction and Customer Loyalty. There was a relatively weak, but statistically significant, relationship between these two factors. Finally, chi square tests showed that there was no difference between genders in their use of the clinic. However, different age groups and income groups did show different patterns in terms of frequency of visits, services used at the clinic, and the average amount spent at the clinic at each visit. While some of these

differences are obvious (for example, younger visitors being more likely to receive acne treatment), some are less obvious. This is one of the main novel contributions of this study, along with the importance of service marketing mix factors in customer satisfaction in the aesthetic clinic.

Recommendations

One recommendation is that the aesthetic clinic should conduct its own research into what kinds of services its customers are looking for. This study has shown that customer groups have different preferences in terms of visit frequency, the services they seek out, and the amount they are willing to spend per visit. A clinic could use its knowledge of its customers to improve services and customer satisfaction; for example, reducing prices or offering promotions on acne treatments to bring younger customers into the clinic more frequently. This could help improve customer satisfaction while supporting the clinic's financial performance.

Limitations and Further Research

There are also some recommendations for further research. The literature review did not reveal much research specifically in aesthetic or dermatological clinics. Because many of these services are optional, perhaps they are considered to be frivolous or not worth considering as a medical or consumer service. However, they are a growing market, not just in Thailand but also in other areas around the globe. This means it is worth considering how aesthetic clinic visitors make their decisions and how they form customer loyalty to a particular clinic. This study has provided some exploratory information about the relationship of demographics and use of the clinic, but this was only preliminary information from a relatively small and geographically limited sample. By extending this research and examining the use of aesthetic services and clinics on a wider scale, it would be possible to understand how much of an impact these services make on their client bases. Further study would also help develop a model for understanding the marketing of medical services, which is currently not very strong in the literature. These studies could be conducted as exploratory studies, and then further developed through large scale surveys. This would provide the most reliable results and theoretical model for medical services.

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PEER EFFECTS ON A FIRM'S FINANCING DECISIONS IN INDONESIA

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Abstract

We investigate peer firms' characteristic effects on the financing decisions of a firm using 115 Indonesian firms from 1999 to 2010. The instrument variable is estimated to handle endogenous problem between firms because of simultaneous mimic of others capital structure in the same industry. Panel two-stage-least-square (2SLS) and diagnostic tests are conducted to ensure the validity of the model. It is proven that, throughout the whole process, there are peer firms' effects. Peer firm leverage and peer firm market to book ratio has positive influence on the leverage level of the firm. On the other hand, peer firm profitability has positive effects on leverage ratio. These results reveal that firms in Indonesia have a tendency to mimic peer firms financial policy to set their leverage level.

I. Introduction

A primary goal of capital structure research is to explain the heterogeneity in observed capital structures (Graham et. al., 2001). Even if traditional theories such as trade-off theory, pecking order theory explain a significant portion of the observed variation in capital structure (Malmendier, 2011), Myers (2001) mentions that the static tradeoff model may be a weak guide to average behavior, while the pecking order also leaves many financing decisions unexplained (Graham et. al., 2001). Then, it can be said that firms with similar fundamentals may have more various capital structures than traditional theories have explained.

Graham et al (2001) mentioned that roughly 60% of leverage variation of both book and market leverage is cross sectional. To explain this cross-section differences capital structures, a lot of relatively new different aspects of financial policy are investigated. For example Lemmon et al., (2008) find the importance of pre-IPO leverage. On the other hand, Mishra and McConaughy (1999), and Malmendier (2011) show manager's personal preference as an important factors of financing policy.

Graham et al., (2001) have partially addressed the peer firm's effects by comparing the theory and practice of corporate finance in modern days. They mention that there is an actual industry pattern in the firms' reported debt ratios and it works only on that specific field instead of the whole capital structure decisions. However, the collected evidence shows that most of the executives claimed that 'capital structure decisions are not affected by the financing policy of other firms in their industries,' (Graham et al., 2001). Aside from the results of the survey, Leary et al (2014) clarify that industry

average leverage ratios should be acknowledged as one of the determinants of capital structure of a firm.

In this research, we investigate peer firms' effects on a firm's capital structure. However, as Leary et al.,(2014) mention peer firms' effects are basically associated with other peer firms—firms that share similar characteristics and are in the same industry with one another. However, identifying peer effects may be empirically challenging since it may trigger the problem of endogeneity (Leary et al, 2014). It occurs in a scenario where one firm's financial policy is affected by its peers, while it also affects the policies of the peers—bidirectional relationship. In order to handle endogenous issue, we use an instrument variable as Leary et al.,(2014) do.

Section II addresses data and the empirical model of the research and deals with the solutions to endogeneity issues encountered in creating the empirical model. Section III presents the empirical results. Section IV summarize the findings.

II. Data and Empirical Model

2.1 Data

We collect the data from IDX(Indonesian Stock Exchange) database and it is composed of the monthly stock prices of registered public firms, risk free rate that is represented by the BI rate and IDX (Indonesian Stock Exchange) monthly index starting from 1996 to 2010. We collect various variables such as book leverage, return shocks, size, market-to-book ratio, profitability and tangibility of the listed firms from financial report.

Table 1.1 Sample Distribution Based On Industry

Two Digit Industry based on JASICA	Num. of Firms	Percent of Firms
Plantation	2	1.74
Mining*	6	5.22
Cement	2	1.74
Ceramics, Glass and Porcelain	2	1.74
Metal and Allied Products	4	3.48
Chemicals	7	6.09
Plastics and Packaging	4	3.48
Animal Feed	2	1.74
Pulp and Paper	3	2.61
Automotive and Components	8	6.96
Textile and Garments	9	7.83
Cable	6	5.22
Food and Beverages	8	6.96
Tabacco Manufactures	3	2.61
Pharmaceuticals	5	4.35
Cosmetics and Households	3	2.61
Houseware	2	1.74
Property and Real Estates	13	11.30
Telecommunication	2	1.74
Transportation	6	5.22
Wholesale (Durable and Non-durables)	10	8.70
Restorant, Hotel and Tourism	6	5.22
Computer and Services	2	1.74
Total	115	100.00

* Mining industry is one digit industry based on JASICA. We don't divide mining with two digit industry classification because of the small number of the firm in mining industry

After remove firms that belong to financial industry and utility industry, firms that go public after 1999, and missing data, we get 115 firms from 1999 to 2010. The main reason of such exclusion is because the capital structures of utility firms tend to be different as those firms are controlled by the government, thus having a different way of making financial decisions as well as the firms in banking industry whose capital structure is more specialized. The firms are classified in accordance with the Jakarta Stock Industrial Classification (JASICA) and are divided into 8 one digit industries and 25 two digit industries. The table 1.1 shows how the firms are categorized subsectors.

2.2. Empirical Model

We use the same empirical model with Leary et al., (2014) as follows;

$$Levit = \alpha + \beta PRLevit + \sum \gamma_j X_{jit4j} + \sum \gamma_j Z_{jit4j} + \sum \pi_j I_{i8j} + \sum \rho_j Y_{t11j} + \varepsilon_{it} \quad (2.1)$$

where,

<i>Lev</i> :	firm's leverage measured by total debt to total equity.
<i>PRLev</i> :	average peer firms' leverage, excluding firm i.
$\sum \gamma_j Z_{jit4}$:	peer firms' specific characteristics
$\sum \gamma_j X_{jit4}$:	firm-specific characteristics
$\sum \pi_j I_{i8}$:	industry fixed effects
$\sum \rho_j Y_{t11}$:	year fixed effects
ε :	error term

2.3 Operationalization of Variables

Size. The size of the firm is measured by the natural logarithm of the firm's sales. As for the peer averages section, the size of the firm is measured by the average peer firms' natural logarithm of sales, excluding the firm under the firm specific section.

Market to book. It is measured by Tobin's Q ratio in which the total market value of the firm is divided by its total asset value. Low Tobin's Q (between 0 and 1) signifies that the replacement cost of a firm's asset is greater than its stock value. On the contrary, a high Tobin's Q (greater than 1) demonstrates the overvaluation of the stock.

Profitability. The profitability of the company is obtained by dividing the earnings before interest, tax, depreciation and amortization (EBITDA) with the total assets of the firm. It aims to identify the amount of EBITDA profit generated on the firm's total assets.

Tangibility. The measurement of tangibility involves both the net property, plant and equipment (PPE) and the total assets of the firm where the net PPE is divided by the firm's total assets.

2.4 Estimation of Instrument Variable

The regressor *InLevit* creates an inevitable endogenous issue in the empirical model. Instinctively, if firm i's financing decision is influenced by firm j, then firm i's capital structure is a function of firm j's and the other way around. This simultaneous association causes the endogenous problem. Since *InLevit* is an endogenous regressor, instrument variable can be used to solve this particular issue.

Leary et al., (2014) suggest the idiosyncratic variation in stock returns, especially equity return shock of the firm, as instrument variable to control simultaneous association.

$$r_{ijt} = \alpha_{ijt} + \mu_{ij}(r_{Mt} - r_{ft}) + \mu_{ijt} IND(r_{Mt} - r_{ft}) + \epsilon_{ijt} \quad (3.2)$$

where

r_{it} : the total return of firm i in industry j on month t;
 $r_{Mt} - r_{ft}$: the excess market return over month t;
 $r_{Mt} - r_{ft}$: the excess return of an equal-weighted industry portfolio excluding firm i.

The excess market return is measured using IDX monthly return subtracted by BI rate while the excess return of an equal-weighted industry portfolio is calculated by subtracting the returns of peer firms in the same industry with the risk-free rate.

Obtaining the return shock starts from regressing the equity shock model for at least the past 24 months period to get the parameters. Then we input the parameters into the equation of the current year to get the expected return of that specific year. The idiosyncratic return is obtained from the difference between the actual return and the expected return. For example, in order to calculate the return shock in 1998, the researcher has to regress both 1996 and 1997 data to get the parameters. We input the parameters into the 1998 equation to get the expected return in 1998 then subtracting it with the actual return in 1998. The last step involves averaging the monthly return shocks to become an annual data. The regression of the 24 months data uses Ordinary Least Square (OLS) method. The return shocks are then lagged one year with respect to the time frame consistency of the model.

The regression process is divided into two stages due to the presence of endogeneity issue. On the first stage of the regression analysis, there are only two variables used which are the peer firm average outcome acting as the dependent variable and return shock as the independent variable (Leary et al, 2014).

Regressing these two variables allows the researcher to obtain the new peer firm average outcome that has been instrumented and is no longer endogenous. The early regression stage is conducted per sub-industry/ subsector. Then, we run the panel regression with the total firms.

3. Empirical Results

3.1 Descriptive Statistics

From the table 3.1, the variable Profitability, Tangibility, Tangibility Industry and Equity Shock have all been winsorized in 5%. It can be seen that all variables are generally stable and do not have extreme fluctuations. The mean of each variable does not show big difference between industry and individual firms. However standard deviation of the peer firm tends to small then that of individual firms.

Both size and market-to-book have significantly huge gaps between the maximum and minimum values. This gap in *Sales* decreases after it has been averaged into *Size Industry* variable. For the variable *Size*, the gap is created due to the fact some companies are way larger than the others. The gap in market-to book ratio decreases after it has been averaged into market-to-book on an industry basis. The gap is generally caused by some firms having higher Tobin's Q than the others. The minimum values of profitability of the company and the industry appear to be negative, which signifies that earnings may be in negative forms. The market-to-book ratio is measured in Tobin's Q ratio in which the value of higher than 1 indicates an overvaluation of the stock, while the value of Q ratio between 0 and 1 signifies an undervaluation of the stock.

3.2 Peer Firms Effects on Leverage

The 1st regression on table 3.2 shows that among individual firm effects, market-to-book ratio and profitability of the firms, have an effect to the leverage level of the firm.

Table 3.1 Descriptive Statistics

Variable	Mean	Standard Deviation	Minimum	Maximum
Firm Leverage	0.6056	0.4046	0.0226	5.3509
Peer Firm Leverage	0.6028	0.2270	0.0932	2.3292
Size	13.4355	1.7208	4.3944	18.4058
Size Industry	13.4140	1.2629	9.3441	18.0303
Market-to-Book	1.2223	0.9550	0.1221	11.7686
Market-to-Book Industry	1.2208	0.6430	0.3958	6.7602
Profitability	0.0493	0.1857	-1.6962	2.0604
Profitability Industry	0.0493	0.1091	-0.4348	0.4118
Tangibility	0.3790	0.2710	0.0013	5.7834
Tangibility Industry	0.3782	0.1775	0.0387	1.2583
New Equity Shock	0.0017	0.3634	-0.1132	0.1372

After controlling individual firm effects in 2nd regression on the table 3.2 peer firm factors market to book ratio and profitability has effects. After adding peer firm's leverage ratio in 3rd regression on the table 3.2 there is no big changes effects of the individual and other peer firm effects on the leverage level.

Profitability of the peer firms and of the company itself, on the other hand, do influence the leverage of a company, but with different direction. Leverage of the firm has negative impact to the leverage level. However, profitability of the firm has positive effects on the leverage level of individual firm. Individual firm's profitability shows pecking order theory work in Indonesia (Myers 1988; Byoun, 2008). Titman and Wessels (1988) believe that firms prefer to raise capitals in three ways— first from retained earnings, second from debt and lastly, from equity issuance. Since earnings become the first source of raising capital, it does make a lot of sense for profitability to influence how a firm constructs its capital structure. However according to Frank et al. (2009), profitability of the firm can have positive or negative effects on the leverage level. Market leverage is influenced positively by profitability of the firm, but book leverage is negatively effected by profitability.

What is interesting here is the contradictive effect of profitability from individual firm leverage and peer firm's leverage. This result is different with Leary et al (2014) that show consistent negative effects on the leverage. This contradictive result perhaps happens because of different level of interpretation of the profitability. If a individual firm's profitability become better, that firm just follow pecking order of the funding. However, if the industry's profitability becomes better, it is more it is much easier for a firm to raise outside fund because they belong to profitable industry.

Market-to-book on table 3.2 is shown to have significant influence on a company's leverage. This result is able to capture the market timing phenomenon in Indonesia, that firms have a tendency to choose any financing decisions that are more valued by the market at a certain period of time. Market-to-book ratio, which is measured by Tobin's Q ratio, also represents investment opportunities. Myers (1977) believes that firms that finance themselves with risky debts will more likely skip valuable investment opportunities and reduce the present market

values of the firms, indicating a negative relationship between the two components. The result illustrated on

Table 3.2 Peer Firms Effects on Leverage of the Firm3

	(1) Firm Leverage	(2) Firm Leverage	(3) Firm Leverage
Firm Specific Factors			
Size	0.044 (0.042)	0.039 (0.044)	0.014 (0.042)
Market to Book	0.082*** (0.031)	0.098*** (0.033)	0.093*** (0.031)
Profitability	-0.600*** (0.102)	-0.613*** (0.102)	-0.590*** (0.100)
Tangibility	-0.081 (0.128)	0.041 (0.140)	-0.020 (0.131)
Peer Firm Effects			
Industry Size		0.046 (0.067)	0.060 (0.068)
Market to Book Industry		-0.224** (0.090)	-0.185** (0.089)
Profitability Industry		0.751*** (0.280)	0.863*** (0.271)
Tangibility Industry		-0.085 (0.355)	-0.198 (0.361)
Peer Firm Leverage			0.717* (0.383)
constant	52.239*** (18.470)	77.430*** (26.358)	87.210*** (26.801)
Industry	Yes	Yes	Yes
Year	Yes	Yes	Yes
Wald Chi2	64.51	81.59	90.88
Prob >Chi2	0.0000	0.0000	0.0000

Standard errors in parentheses

* p<0.10, ** p<0.05, *** p<0.01

table 3.2 has successfully supported the demonstrations made by Leary et al (2014) and Myers (1977), Frank et al., (2009) that market-to-book ratio or investment opportunity, does influence the determination of a company's leverage.

However, size, is measured by the natural logarithm of sales of the company and of its peers does not affect to the firm leverage. This result clearly contradicts what Leary et al (2014) has obtained and what Titman and Wessels (1988) has stated. The research conducted by Leary et al

(2014) shows that both the size of a company and its peers affect the leverage of the company itself. Additionally, Titman and Wessels (1988) claim that since larger firms are less prone to bankruptcy and more diversified, they dare to be highly levered. On the other hand, since having much more to lose, small firms choose neither equity financing nor long-term debt financing due to the high costs associated with such alternatives. Thus, small firms prefer to issue short-term debt instead. According to the result displayed on table 4.8, there is no indication of significance between the size of the firm and its own financial policy. This unique phenomenon, perhaps, is caused by the tendency of companies to look at their

peers or competitors to increase their competence instead of looking at their own intrinsic factors. Leary et al (2014) state that when one firm's own signal is noisy and analysis becomes too costly and time-consuming, firms tend to look at other firms that are perceived as greater experts.

Tangibility also seems to have no contribution in influencing the leverage of firm. This result explicitly contradicts what Titman and Wessels (1988) have claimed. They state that some firms have a tendency to avoid issuing securities due to the costs associated with the problem of asymmetric information regarding the issuance. In order to avoid such costs, firms choose to issue debt that is secured by certain assets or properties. Hence, firms that have large amount of assets that can be collateralized tend to issue more debt. The results obtained by Leary et al (2014) shows that tangibility does significantly affect the leverage of a company. On the contrary, the result of this research shows that tangibility, which is measured by net property, plant and equipment divided by the total assets, has no impact on the firm's debt-to-equity ratio. Such phenomenon may take place in a situation where the firm that has large amount of fixed assets has a tendency to maintain its loan power, meaning that if the company owns all the assets without having them collateralized and one day the firm is required to issue debt, the loan interest would be lower.

Industry effects on the leverage of the firm are similar to what Leary et al (2014) has claimed, that peer firms influence the financing decisions of a company. Titman and Wessels (1988) also confirm that industrial classification plays a significant role in determining one's capital structure. However, in details, some things may be different. The differences lie within how the each variable significantly contributes in determining one's leverage.

It suggests that firms in Indonesia have a tendency to look at the leverage of others when it comes to determining its own. All these results have proven that the existence of peer effects in Indonesia cannot be denied. There may be several driving factors on why firms tend to mimic one another in determining their own financial policies. Interactions between financial structures, competition, free riding in acquiring information, firm-specific noisy signals and economic situations may have affected the mimicking behavior of companies on the same industry (Leary et al, 2014).

VI. Conclusion

As all regressions and diagnostic tests have been performed, it appears that this research is able to successfully reject the null hypothesis, where peer firms' financial policies do not affect an individual firm's leverage. From the result, it is proven that in Indonesia, firms have a tendency to look at one another in setting up their financial policies. Although one variable is considered not significant in influencing the capital structure, the model, as a whole, is shown to have peer effects in it. Interactions in financial structures and economic situations make it impossible for firms to be in isolation when it comes to determining their financial policies. In order to survive and increase their competence, they prefer to look at their closest neighbors first. Therefore, it is concluded that the corporate financial policies of the peer firms do affect an individual firm's financing decision in Indonesia.

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THE EFFECTS OF BRAND CREDIBILITY, BRAND COMMITMENT, LOYALTY INTENTION TO BRAND EQUITY

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Abstract

This study aims to determine whether brand credibility gives effects to brand commitment and loyalty intention, as well as its impact on brand equity. The respondents were the students of Universitas Pelita Harapan (UPH), the number of respondents were 100 people, selected through judgmental sampling method. The instrument for data collection made used of a questionnaire. Furthermore, the tools used in the data analysis was PLS-SEM. The results have shown that: (1) loyalty intention has a positive effect on brand equity; (2) commitment has a positive effect on brand loyalty intentions; (3) brand commitment does not have a positive effect on brand equity; (4) brand credibility has a positive effect on brand commitment; and (5) brand credibility has a positive effect on brand equity.

Keywords: brand credibility, brand commitment, loyalty intention, brand equity.

INTRODUCTION

Every human being needs to live a life. Drinking is a primary requirement to maintain viability (Nature, 2007). According to Solomon (2013) drinking is one of the basic needs that must be met. The growth of food and beverage industry in Indonesia has increased since 2002 (Palupi in Sembada SWA Magazine, 2009). Today carbonated beverages or the so-called soft drinks are considered as one of the drinks commonly favored by the customers. Carbonated beverages have a market size of the three highest in the amount of 10 billion dollars compared to other beverage industries (Palupi in Sembada SWA Magazine, 2009). Coca-Cola, Fanta, Sprite and Maid Pulp are included in PT Coca Cola Amatil, which is the soft drink market leader in Indonesia with a market share of 40% (Cash, 2011). Coca-Cola Zero is a product line extent of Coca-Cola. Coca-Cola has a strong brand which is evident from the

site Inter-brand (2013) stating that Coca-Cola is the top three Best Global Brands 2013.

In general, as a strong brand that is owned by the parent brand, Coca-Cola will have a positive impact in providing added values to the product line extension because Coca-Cola Zero brand equity is owned by Coca-Cola (Keller, 2003). However when an exploratory research in Universitas Pelita Harapan (UPH) students were conducted, It shows that Coca-Cola Zero belongs to the least preferred sodas than other sodas, such as Coca-Cola, Sprite, Pepsi, and Big Cola. Moreover, according to the data from the Coca-Cola Company (2013), it is shown that the Coca-Cola Zero contains no sugar and calories that have brand associations that is healthier than Coca-Cola. Ideally, Coca-Cola Zero is more desirable to be consumed due to having a healthier brand association in comparison with Coca-Cola. However, the results of the earlier survey distributed to the 50 respondents, indicated that Coca-Cola is more desirable than Coca-Cola Zero. Thus, it can be assumed that there is a problem with Coca-Cola Zero.

To overcome the existing problem, a model study of Mathew et al. (2012) was used to investigate that credibility of the brand influences on brand commitment, loyalty and brand equity intention; commitment to have an influence on brand loyalty; loyalty intention to have an influence on brand equity. In a previous study conducted by Mathew et al., 2012, the research model proved that the credibility of the brand had a direct influence on brand equity and had an indirect effect through commitment and brand loyalty intention. This study is a replication of the study conducted by Matthew et al. (2012). Previous research used the object of observation in the consumer goods industry, but in the category of body care products, namely deodorant. This study also uses the object of observation in the consumer goods industry, but is limited in the beverage product categories, namely soft drinks. The research model is considered suitable due to the use of the research object in the same industry that is the consumer goods industry. Therefore, this research uses the object of observation, namely Coca-Cola Zero

This study aims to test the research model used earlier, if there is influence between the variables of the object of observation with different product categories. The research model is expected to help solve the existing problem of Coca-Cola Zero.

Marketing

Marketing has been involved in someone's day-to-day activities (Kerin et al., 2009). According to Kotler and Armstrong (2012). It is defined as the process of the company to create values for customers and build strong relationships with the customers in order to achieve the values from customers in return. Marketing is one important part of the company. Thus, a good marketing strategy becomes important. According Kartajaya (2007), marketing strategy is achieved by using the marketing mix, which includes product strategy, pricing strategy, a strategy, and the strategy of promotion.

However, marketing is not only limited to the marketing mix. Marketing requires precise positioning that will generate differentiation for competitors (Kartajaya, 2007). Proper positioning can generate competitive advantages for these products. Marketing mix and positioning do not necessarily result in the right thing if it is not based on the needs and desires of consumers (Kotler &

Keller, 2009). As a result, it described that wants and needs reflect one of the main concepts in marketing.

Brand Credibility

A company must be able to compete with its competitors. According to Kusmintarti et al. (2010) the company can compete if it has strong brand credibility so that it can compete with its competitors. Credibility of the brand is defined as *“the believability of product position information contained in a brand, which entails consistently delivering what is promised”* (Erdem & Swait, 1998 in Mathew et al., 2012, p. 75). Credibility of the brand is considered to be an important factor in influencing a brand (Chaudhuri & Holbrook, 2001). Thus, Alam et al. (2012) stated that the credibility of the brand can be directed to minimize the risks that will happen to consumers so that consumers can already trust the specifications of the products offered. Credibility of the brand make a brand becomes reliable and trustworthy because of their consistent good.

Credibility has two dimensions. Kusmintarti et al., (2010) stated the two main dimensions of reliability (trustworthiness) and skills (expertise). The dimension of trustworthiness is the willingness and brand awareness to be able to fulfill the promises in the value and quality consistently (Ballester & Munnuera, 2005). Trustworthiness can also be directed in the trust word-of-mouth from a standard enterprise and the promotion of a brand so that it plays a role in the decision-making process that facilitates the use of a product (Alam et al., 2012). Consequently, trustworthiness can lead to the credibility of the brand.

Mathew et al. (2012) defines the dimension of expertise as a trusted ability to deliver what is promised. Expertise is also the capacity to convey the brand's commitment (Erdem & Swait, 1998). Expertise can also be interpreted as one's perception of their knowledge, ability or experience to provide accurate information (Hovland et al., 1953). This illustrates that a brand's expertise in making the brand has good credibility.

Brand Commitment

Commitment is considered as a key component in maintaining long-term relationships (Garbarino & Johnson, 1999). Brand commitment is defined as *“the pledging or binding of an individual to behavioural acts”* (Kiesler, 1971 in Mathew et al., 2012, p. 75). If someone has trust to the brand, then they will usually be committed to the brand and will cease to look for other alternatives (Sahin et al., 2012). Therefore, the two parties will use the mutual commitment to continue to show confidence in the direction of the exchange relationship (Wang, 2009).

Brand Commitment is the desire to maintain a relationship (Moorman et al., 1992). According to Sahin et al. (2012), the relationship in question is the relationship with the customer which includes beliefs, attitudes, behavior toward the brand and customer relationship with the brand. Customer commitment to a brand can be determined from the satisfaction that is formed from the functional relationship and reliability of these products (Sahin et al., 2012). However, the satisfaction formed is also due to the perception of the customers in the establishment of trust.

Many things are used to determine the level of commitment to a brand. One way is to combine the personal relationships that occur between the customer and the brand with the functional relationship of the products offered by the brand, while the power formed from a combination of both these relationships will determine the nature of the commitments that will be formed (Raju et al., 2009). Morgan and Hunt (1994) define brand commitment as a committed relationship of trust between each other transaction partners with the aim of maintaining an ongoing relationship and willing to maintain a direct relationship with our best effort. The relationships formed are built on a foundation of shared commitment so that the relationships formed are interlinked.

Loyalty Intention

Loyalty intention is important. Loyalty intention is defined as *"customer's behavioral commitment to repatronize a certain service provider or a firm"* (La & Choi, 2012. p. 113). By asking the customers about their intention to visit again in the future is a matter of measuring the intensity of a visit back (Jones & Sasser, 1995). Then, Jones and Sasser (1995) also stated that the company that measures the level of visitor satisfaction so it is relatively easy to connect intentions and satisfaction for the purpose of analysis. According to Rangkuti (2004), measuring the level of satisfaction is an important tool for detecting the level of customer loyalty.

Loyalty has two dimensions. Mathew et al. (2012) show the two-dimensional loyalty which includes loyalty based on behavior (behavioral loyalty) and loyalty based on attitudes (attitudinal loyalty). According to Liang and Wang (2004), behavioral loyalty is a strong relationship between attitudes formed by the customers in the intensity of repeat purchases. Another thing with the attitudinal loyalty is a long-term commitment of the customers to a company (Lam et al., 2004). This means that attitudinal loyalty is not measured only by repeat purchases initiated by the customers.

Intention is directed to the person's behavior towards a brand (Raies & Perret, 2011). According to Zeithaml et al. (1996), intention is the result of a process that emphasizes the satisfaction of the intention to understand customer behavior in making the decision to stay with or move away from the company. This behavior can be seen from several measurements, such as intention to repurchase (repurchase intention), word-of-mouth, loyalty, behavior, complaints, and sensitivity to price (Zeithaml et al., 1996). The intention of loyalty will lead to loyalty to a brand.

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Brand Equity

Brand equity is one element in the brand. Brand equity is defined as *"a set of brand assets and liabilities linked to a brand, its name and symbol that add to*

or subtract from the value provided by a product or a service to a firm and/or to that firm's customers" (Aaker, 1991 in Mathew et al., 2012, p.74). According to Simamora (2002), the consumer brand equity can increase or decrease the value of the product. The value of brand equity can provide a negative or positive effect to a product. According to Hartini (2012), it is said to be positive brand equity when the consumers react positively to certain products. If a particular brand has negative brand equity, the consumers react less favorably on brand marketing activities in the same situation (Hartini, 2012). However, for the company, brand equity benefits cash flow and higher market share (Peter & Olson, 1999 in Simamora, 2002). Good and strong brand equity can be profitable for the company and the consumers.

Brand equity is divided into five categories. Aaker (1996) classifies these categories into brand loyalty (brand loyalty), brand awareness (brand awareness), image quality (perceived quality), the association of the brand (brand association), other brand assets (other proprietary brand assets). In Rangkuti (2004), the role of brand awareness in the overall brand equity depends on the extent to which the level of consciousness achieved by a brand. If the brand is most remembered or realized; then, the brand has good brand equity. Aaker (1996 in Rangkuti, 2004) stated that the impression of quality is the customer's impression of the overall quality associated with the expected purpose. Brand association is one of the elements of brand equity. Brand associations are all matters relating to the memory of the brand (Aaker, 1996 in Rangkuti, 2004). Association will be stronger if based on the amount of experience and appearance to communicate (Rangkuti, 2004). The more experience you have, the more associations are formed. Oliver (1999) said that brand loyalty is a commitment deeply-held by the consumer to re-purchase and subscribe to the same products or services in the future, even though the situation and sacrifices marketing potential to spur consumers to switch brands. Brand loyalty is the core of brand equity which becomes a central notion in marketing (Rangkuti, 2004). So, brand loyalty occurs if the purchase is repeated.

Relationship of Loyalty Intention and Brand Equity

Loyalty intention affects the level of consumer loyalty. Johnson et al. (2001 in Tuu & Olsen, 2013) stated that the intention of loyalty is one of the attributes in measuring loyalty. Loyalty is the most powerful dimension in the form of brand equity (Atilgan et al., 2005 in Chahal & Bala, 2010). With the loyalty, which is one of the dimensions that make up the brand equity; then, it can increase the profitability of a company (Aaker, 1992 in Khan, 2009). The research results conducted by Ballester and Munuera (2005); Aaker (1991 Atilgan et al., 2005); Thiripurasundari and Natarajan (2011); Karbalaei et al. (2013) indicated that brand loyalty effects on brand equity. Based on that idea, the first proposed hypothesis is as follows:

H1: Loyalty Intention has a positive effect on brand equity.

Relationship of Brand Commitment and Loyalty Intention

If someone already has a commitment to a brand; then, this will make the person change their behavior from disloyalty to loyalty to the brand (Jacoby & Kyner, 1973 in Luarn & Lin, 2003). Assael (1987 in Morgan & Hunt, 1994) said that loyalty is a commitment to a brand so that it illustrates that the

influence commitment to loyalty. Other studies also said that there is a connection between influence of a commitment and loyalty intentions (Johnson et al., 2006; Beatty et al., 1988 in Luarn & Pin, 2003; Luarn & Pin, 2003; Zulganef, 2006; Hosseini & Nahad, 2012). Based on these ideas, the second hypothesis is proposed as follows:

H2: Brand Commitment has a positive effect on loyalty intention.

Relationship of Brand Commitment and Equity Brand

Winters (1991) stated that one measure of brand equity is to use a market approach which measures the willingness of the customers who are willing to buy a product from a brand. To measure brand equity parameters that can be used as a measuring tool is a brand commitment. From it, it can be revealed that the brand commitment has an influence on brand equity. A person has committed the highest level of brand loyalty (Rangkuti, 2004). Then, loyalty is one element in brand equity (Rangkuti, 2004). Thus, it shows the influence of commitment to the brand equity. The third hypothesis is as follows:

H3: Brand commitment has a positive effect on brand equity.

Relationship of Brand Credibility and Brand Commitment

Credibility of the brand is one of the attributes considered by the company. Credibility is the most important reason for someone to buy a product from a brand and may create a long-term relationship with these brands (Ghorban & Tahernejad, 2012; Sobel, 1985; Sweeney & Swait 2008 in Ghorban, 2012). Reliability is included in one of the dimensions in the credibility of the brand. When a consumer believes that a brand can be reliable, it will trigger the consumers to commit to the brand. This is shown in Zayerkabeh et al. (2012); Ghorban (2012); Taleghani and Hasaanpour (2013) in that the credibility of the brand has a direct influence on the commitment to be loyal to a brand. Based on these ideas, the fourth hypothesis is proposed as follows:

H4: Credibility brand has a positive effect on brand commitment.

Relationship of Brand Equity and Brand Credibility

Many studies have attempted to measure brand equity (Rao, 2012). One of the studies did examine the relationship of brand credibility and brand equity. If a brand does not deliver what is promised, this will destroy the brand equity (Swait & Erdem, 2007; Erdem & Swait, 2004). Credibility of the brand has an important role in brand equity. The credibility of a good brand will enhance the positive value of the brand equity (Koo et al., 2012). In addition, the research results carried out by Rao (2012) also proved that the influence of the brand credibility on the brand equity. Based on that idea, the proposed fifth hypothesis is as follows:

H5: Credibility brand has a positive effect on brand equity.

Based on the hypotheses of the research, a conceptual model is depicted in Figure 1.

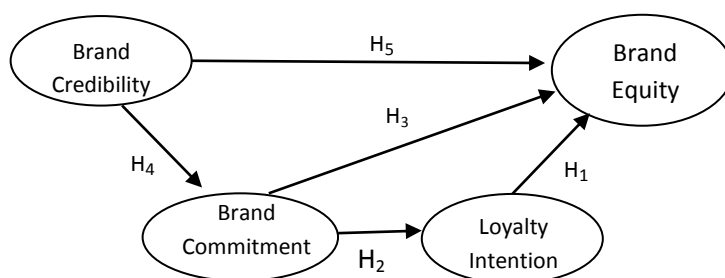


Figure 1 Research Model.

Source: Matthew *et al.* (2012).

RESEARCH METHOD

This study used the object of observation, which is the Coca-Cola Zero soft drink. The research design was a descriptive study to test the hypotheses (Hair *et al.*, 2009). This study used a sampling technique with non-probability due to the type of judgmental sampling which required the respondents who have desired researcher's criteria (Malhotra, 2010). This study used a questionnaire personally distributed to 100 respondents of the UPH students. The response rate of the distribution of questionnaires to 100 respondents was 100% when the questionnaires were returned back to the researcher.

This study was measured using a five-point Likert scale with a mark of 1 to 5 from "strongly disagree" to "strongly agree." In our model, there are four variables and 24 indicators, each of which has six indicator variables. The indicator variables were adapted from the brand credibility of Mathew *et al.* (2012) and Alam *et al.* (2012). The indicator variables were adapted from the brand commitment of Mathew *et al.* (2012), Beatty *et al.* (1988) and Fullerton (2005). Then, the indicators of loyalty and brand equity intention were adapted from Mathew *et al.* (2012) and Johnson *et al.* (2006). The analytical method used was Partial Least Squares (PLS). PLS is represented by the statistical program Smart PLS 2.0 M3 by looking at the model evaluation measurement models (outer model) and the structural model (inner model).

FINDINGS AND DISCUSSIONS

Preliminary Study

Preliminary study was the first step before the actual study. It aims to ensure that all items were understood by the respondents through the measurement of reliability and validity (Sekaran & Bougie, 2013). The preliminary study deployed 50 questionnaires to the students of UPH that tested the validity and reliability using the statistical program SPSS (Statistical Product and Solution Services). The reliability and validity of the test results in the preliminary study showed no significant indicator discarded. All were valid and reliable indicators.

This study consisted of the respondents' profiles by sex, age, years of generation and consumption intensity. The results of the respondents' profiles can be seen more clearly in Table 1.

Table 1. Respondents' Profiles.

Profile		Percentage (%)
Gender	Male	59
	Female	41
Age	18 years old	16
	19 years old	15
	20 years old	35
	21 years old	27
	22 years old	7
Batch	2014	17
	2013	9
	2012	41
	2011	31
	2010	0
	2009	2
Consumption Intensity in The Last 3 Months	Never	8
	Once	53
	Twice	20
	Three times	10
	More than three times	9

Source: Data Analysis

Measurement Model (*Outer Model*)

The validity and reliability of the measurement were established in the measurement model (Latan & Ghazali, 2012). This study used the convergent and discriminant validity. For the reliability testing, the Composite Reliability was utilized.

The convergent validity test program (SmartPLS 2.0 M3) can be seen from the factor loading for each indicator (Latan & Ghazali, 2012). In this study, a factor loading of 0.7 was used because according to the rule of thumb, the value of factor loading should be more than 0.7 to be a confirmatory study (Latan & Ghazali 2012). However, in the validity of the test, there were some indicators that were not valid, among others: KRM3, KOM3, NL4, NL5, EM4 and EM6 so they were abolished. The results of convergent validity and reliability can be seen in Table 2.

Table 2. Factor Loadings.

Constructs and Items		Factor Loadings
Brand Credibility (KRM) (AVE=0,623; CR=0,892)		
KRM1	<i>Coca-Cola Zero</i> delivers what is promised.	0,787
KRM2	<i>Coca-Cola Zero</i> claims to be believed.	0,837
KRM4	<i>Coca-Cola Zero</i> claims to have a name that I can trust.	0,718
KRM5	<i>Coca-Cola Zero</i> has the ability to deliver what is promised.	0,858
KRM6	<i>Coca-Cola Zero</i> is a competent brand.	0,739
Brand Commitment(KOM) (AVE=0,725; CR=0,929)		
KOM1	I am bound to the <i>Coca-Cola Zero</i> that I consume.	0,797
KOM2	I am bound to the <i>Coca-Cola Zero</i> because I know that <i>Coca-Cola Zero</i> is the best.	0,857
KOM4	If <i>Coca-Cola Zero</i> is not available in the store, I'll look for <i>Coca-Cola Zero</i> in other stores.	0,853
KOM5	I feel myself to have high loyalty to <i>Coca-Cola Zero</i> .	0,887
KOM6	It would be difficult for me to switch from <i>Coca-Cola Zero</i> today.	0,860
Loyalty Intention(NL) (AVE=0,727; CR=0,883)		
NL1	Generally I always buy <i>Coca-Cola Zero</i> .	0,832
NL2	Once I consume <i>Coca-Cola Zero</i> , I will not switch to another brand.	0,909
NL6	If I get another brand for free, I will still choose <i>Coca-Cola Zero</i> .	0,794
Brand Equity(EM) (AVE=0,729; CR=0,915)		
EM1	If other beverages have the same privileges, I still prefer <i>Coca-Cola Zero</i> .	0,817
EM2	<i>Coca-Cola Zero</i> is definitely my choice.	0,856
EM3	If other brands have the same price as <i>Coca-Cola Zero</i> , I still prefer <i>Coca-Cola Zero</i> .	0,896
EM5	If there is a good brand of the same quality with <i>Coca-Cola Zero</i> , I still prefer to buy <i>Coca-Cola Zero</i> .	0,843

Note: AVE= Average Variance of Extracted; CR= Composite Reliability

Source: Data Analysis

This study tested the discriminant validity by comparing the square root of the Average Variance Extracted (AVE) for each construct with the correlation between the constructs in the model (Latan & Ghazali, 2012). Good discriminant validity was shown on the square root of the AVE for each construct larger than the correlation between the constructs in the model (Fornel & Larcker, 1981 in Latan and Ghazali, 2012). The AVE recommended value should be greater than 0.50 so that means that 50% or more of the variance of the indicators can be explained (Latan & Ghazali, 2012). After performing the discriminant validity of the test; then, the indicator of NL3 should be abolished because the loyalty intention variable is smaller than the correlation value and also the value of the factor loading value NL3 is the smallest compared NL1, NL2 and NL6.

In this study, the reliability test used the Composite Reliability (>0.7). Latan and Ghazali (2012) stated that the use of Composite Reliability will give a higher value than using Cronbach Alpha, so using Composite Reliability is

more advisable to use. Then, the results of the discriminant validity of the test can be seen in Table 3.

Table 3. Discriminant Validity.

Constructs	KRM	KOM	NL	EM
KRM	0,789			
KOM	0,522	0,851		
NL	0,401	0,805	0,847	
EM	0,504	0,635	0,714	0,854

Note: KRM=brand credibility; KOM=brand commitment; NL=loyalty intention; EM=brand equity.

Source: Data Analysis.

Structural Model (Inner Model)

The multicollinearity measurement must be done first before measuring the structural model. Some multicollinearity problems will arise when the value of the "variant inflation factor" or VIF is more than 10 (Hair et al., 2004). Table 5 shows that the VIF value for each construct is below 10, which means that there is no multicollinearity problem.

Table 4 Multicollenerity Test.

Model	<i>Collinearity Statistics</i>	
	<i>Tolerance</i>	VIF
KRM	0,752	1,330
KOM	0,327	3,059
NL	0,373	2,679

Note : Dependent Variable=EM

Source: Data Analysis

In assessing the structural model with PLS, it begins to see the R-Squares and Q^2 predictive value relevance. Hair et al (2014, p.183) stated that " *Q^2 values larger than 0 suggest that the model has predictive relevance for a certain endogeneous. In contrast of 0 and below indicate a lack of predictive relevance.*" According Latan and Ghazali (2013) the value of Q^2 obtained using blindfolding technique. In Table 5 shows the results of the R-Squares and value Q^2 values.

Table 5 R-Squares and Q^2 Values

Variabel	<i>R-Square</i>	<i>Q^2 Value</i>
Brand Credibility(KRM)	-	-
Brand Commitment(KOM)	0,273	-
Loyalty Intention (NL)	0,648	-
Brand Equity (EM)	0,567	0,393

Source: Data Analysis

Next is to assess the structural model to test the hypothesis using analysis program of Smart PLS 2.0 M3 with t test that will produce the p-value. In calculating the value of the p-value, according to Hair et al. (2014), a program of analysis is Microsoft Excel where a formula function of TDIs and insert x with the value of t-statistic of any influence between variables exist, then enter the degree of freedom of 99 ($n - 1$) and using test one side (one-tailed). In the hypothesis testing using the p-value limit measure to state a hypothesis supported or not. The p-value limit measure to make a hypothesis supported is to be less than 0.05 (Hair et al., 2014). In Table 6, the results of the hypothesis testing can be seen clearly.

Table 6. Hypothesis Testing.

Path	Hypothesis	Standardized Coefficient	p-value	Result
NL → EM	H1: Loyalty Intention has a positive effect on brand equity.	0,590	3.701E-07	Supported
KOM → NL	H2: Brand commitment has a positive effect on loyalty intention.	0,805	4.610E-41	Supported
KOM → EM	H3: Brand Commitment has a positive effect on brand equity.	0,028	4.136E-01	Not supported
KRM → KOM	H4: Brand credibility has a positive effect on brand commitment.	0,522	7.565E-10	Supported
KRM → EM	H5: Brand Credibility has a positive effect on brand equity.	0,252	4.372E-03	Supported

Source: Data Analysis.

Hypothesis 1 states that the loyalty intention has a positive effect on brand equity. The results hypothesis 1 of this study are consistent with the results of the research conducted by Mathew et al. (2012); Ballester & Munnuera (2005); Aaker, 1991 (in Atilgan et al., 2005); Thiripurasundari and Natarajan (2011); Karbalaei et al. (2013). Furthermore, it can be seen in the profiles of respondents in Table 1, particularly the profiles of the respondents by sex. The table shows that the majority of the respondents in this study were men who have a percentage of 51%. According to Melnyk et al. (2009 in Frank et al. 2014), it is found that men are more loyal to a product than women. Then, loyalty is the most powerful dimension in the form of brand equity (Atilgan et al. In Chalal & Bala, 2014). Therefore, the first hypothesis in this study supported. Then, Johnson et al. (2001 in Tuu & Olsen, 2013) stated that the intention of loyalty is one of the attributes in measuring loyalty. Loyalty is one of the dimensions that make up the brand equity which can increase the profitability of a company (Aaker, 1992 in Khan, 2009). Thus, the results support hypothesis 1.

Hypothesis 2 states that brand commitment has a positive effect on loyalty intention. The results of hypothesis 2 of this study are consistent with the results of the research conducted by Mathew et al., 2012; Johnson et al., 2006; Beatty et al., 1988 in Luarn & Pin, 2003; Luarn and Pin, 2003; Zulganef, 2006; Hosseini & Nahad, 2012). Furthermore, it can be seen in the profiles of respondents in Table 2, particularly the profiles of the respondents by age. Table 1 showed that the age range is between 18 and 22 years. According to AARP (2010), the age range of 18-22 years can be expressed as a person who has grown so that one can determine what is cool for them. Thus, people within the age range between 18 and 22 years are assumed to be able to decide to commit to a brand. Assael (1987 in Morgan & Hunt, 1994) says that loyalty is a commitment to a brand. With the commitment to a brand; then, it can make a person to have the intention of loyalty to a brand (Jacoby & Kyner, 1973 in Luarn & Pin, 2003). Therefore, the second hypothesis in this study is supported.

Hypothesis 3 does not support that brand commitment has a positive effect on brand equity. The results of hypothesis 3 of this study are consistent with the hypothesis of the results of the research conducted by Mathew et al. (2012). Furthermore, it can be seen in the profiles of the respondents in Table 1. The profiles of the respondents are based on the intensity of consumption of soft drinks Coca-Cola Zero in the past three months. The table shows a sign that in the last three months, the majority of the 100 respondents consume Coca-Cola Zero one time with a percentage of 53%. This indicates that the respondents did not have a commitment with the Coca-Cola Zero soft drink. According to Winter (1991), measuring brand equity is to measure the customer's desires which are willing to buy a product from a brand. Therefore, one must have a commitment in advance so that a brand has a good brand equity. However, the results of the intensity profiles of respondents are based on the consumption suggest that the majority of the respondents do not have a commitment. Thus, the third hypothesis in this study is not supported.

Hypothesis 4 states that brand credibility has a positive effect on brand commitment. The results of hypothesis 4 of this study are consistent with the hypothesis of the results of the research conducted by Mathew et al. (2012); Zayerkabehe et al. (2012); Ghorban (2012); Taleghani and Hasaanpour (2013). Furthermore, the Coca-Cola Company is the seventh level in a company that has an excellent reputation in the Forbes website (2014). Having a good reputation will increase the credibility of the brand owned by the company (Belch & Belch 2012, 25). This shows that the Coca-Cola brand has already had a good brand credibility. Credibility of the brand becomes the most important reason for someone to buy a product from a brand and creates a long term relationship that acknowledges the trademark (Ghorban & Tahernejad, 2012; Sobel, 1985; Sweeney & Swait 2008 in Ghorban, 2012). Similarly, according Ghani (2012), it is the foundation of commitment in a relationship. Thus the fourth hypothesis in this study is supported.

Hypothesis 5 states that brand credibility has a positive effect on brand equity. Results of hypothesis testing showed consistent with previous studies (Mathew et al., 2012; Koo et al., 2012; Rao, 2012). Then, Table 1 shows a comparison of male respondents and women where the ratio is almost the same. The ratio of the number of men and women, respectively 51% and 49%. Therefore, the data is assumed to represent the level of credibility that is

owned by Coca-Cola Zero.) Swait and Erdem (2007) said that the credibility of a desire to continue to deliver what has been promised by the brand. However, if the brand does not deliver what is promised, this will destroy the brand equity (Swait & Erdem, 2007; Erdem & Swait, 2004). Therefore, the fifth hypothesis in this study is supported.

CONCLUSIONS

Based on the results of the hypothesis testing, the research conclusions can be drawn as follows:

1. Loyalty Intention has a positive effect on brand equity.
2. Brand Commitment has a positive effect on loyalty intention.
3. Brand Commitment does not have a positive effect on brand equity.
4. Brand Credibility has a positive effect on brand commitment.
5. Brand Credibility has a positive effect on brand equity.

LIMITATIONS AND RECOMMENDATIONS FOR THE NEXT RESEARCH

The first limitation is based on the number of samples. This study only used 100 respondents. This was due to the limited time in preparing this study. In addition, using a sample size of 100 respondents may not necessarily represent the distribution of the population. Thus, further research is expected to use a number of samples of more than 100 so that the resulting data can be generalized.

The second limitation is based on the research subjects used who were freshmen and sophomores students at UPH. However, customers who consume Coca-Cola Zero are not only the students of UPH. Therefore, the respondents who were used in this study cannot represent the entire customers who consume Coca-Cola Zero. Thus, further research is expected to choose a different research subject of this study. The subjects of the research that can be used are, among others, students from other universities, high school students, doctors, the public audience, and so on. By using the research subjects, the expected results of the research will be generalized.

The third limitation is based on the geographical location. This research was conducted in Indonesia, specifically in Tangerang. However, there are many differences between the circumstances in other countries than in Indonesia. Each state has some cultural and social norms which are different. Thus, it is expected to conduct research outside Indonesia. Research with different contexts can be done in Europe, America, Africa, and so on.

The fourth limitation is based on the time horizon used. This study used a cross-sectional design. According to Lee et al., (2007) cross-sectional design only shows a picture of a reality which has limitations for explaining a process. However, the researchers do not have enough time to allow the research to be conducted longitudinally. Thus, further research is expected to be conducted in a longitudinal study in order to be able to see the process in an existing phenomenon (Lee et al., 2007). By conducting a longitudinal study, it can give the results for long periods of time.

The fifth limitation is based on the analysis tool used, which is the Partial Least Squares (PLS). According Latan and Ghazali (2012), PLS-SEM

cannot be tested and falsified (must go through a bootstrap procedure or Jackknife) and it is not able to test the feasibility of the model (goodness of fit). Thus, further studies are expected to use the CB-SEM analysis tools with the software, such as AMOS, EQS, LISREL, Mplus and so on (Latan & Ghazali 2012) because it can be tested and classified and can test the feasibility of the model (Latan & Ghazali 2012) .

The sixth limitation is based on the design of the sampling. The sampling technique used in this study was judgmental sampling. By using this sampling design, not all members of the population can have an equal opportunity to be selected as a sample. This may lead to the inability of the generalization of this study to be made. Thus, further research is expected to use a probability sampling design so that the results can be generalized to the population.

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Organizational Commitment of Employees in the Private Service Sector in Bangkok, Thailand

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Abstract

The objectives of this research are to study and compare organizational commitment of employees in the private service sectors in Bangkok. Independent variables are respondents' demographic data and company profile. They are gender, age, years of service, position, highest education level, marital status, income, type of business, number of employees, size of business, company registration and firm's nationality.

A sample size of 400 was collected using purposive sampling method from private financial institutions, hospitals, higher education institutions, hotels and retail business. Questionnaires was used as a research instrument in collecting data. Statistics used for data processing were percentage, mean, standard deviation, t-test, and one way ANOVA.

Research findings are as follows:

1. Level of organization commitment of employees in the private service sector is high.
2. Education level and firm's nationality variables are not significantly different, at the confidence levels of 90, 95, and 99% or at the alpha levels of .10, .05, or .01.
3. Gender, age, years of service, position held, marital status, type of service business, monthly income, number of employees, size of business, and firm's registration are significantly different, at the alpha level of .10, .05, or .01.

The finding of this research could be useful to management of private service sector in Bangkok to efficiently and efficiently develop the strategic human resources planning and to create competitive advantages over their competitors which would lead to organizational success.

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1. Introduction

One of the most crucial elements necessary for effective business management is human resources management. As it is its main responsibility to move an organization forward to achieve its goals by attracting qualified, conscientious, and highly competent candidates to work for the organization. Then, a variety of professional development programs should be conducted to develop employees in order to retain them. Employees' attitude should become more positive if their voices are heard as a result organizational objectives could be effectively fulfilled. In addition, with opportunities for career advancement and fair salary increase, they will work hard to meet the company's objectives and their professional goals.

Organizational commitment is definitely a key indicator used to measure degree of loyalty and levels of efficiency employees perform. A preliminary survey was conducted using a small group of sample in Bangkok area with an intention to find out the level of organizational commitment of employees. The result of the survey was that there was rather low organizational commitment. It showed in high personnel turnover, frequent leave of absence, lateness and lower productivity which affected organizational efficiency and effectiveness.

According to the research finding of Pornpimol Wasuwatsornsakul (2006: abstract), age, years of service, type of business, degree of involvement and participation, flexibility, coworkers' attitude, expectation from the organization, and dependability of the employees are the most important variables.

This concern prompted the researcher to work on a research project entitled "Organizational Commitment of Employees in the Private Service Sector in Bangkok, Thailand". The reason the private service sector was chosen due to the increasing demand of personnel in the private service sector and it has become a big challenge to maintain corporate organizational commitment. Also the fact and the belief of the organization that customers are always right could put some employees under pressure and become unmotivated, lack of organizational commitment and lead to high personnel turnover. According to the preliminary research conducted we also found that different types of service business could have either positive or negative correlation with organizational commitment as observed in the preliminary study. In addition, there are other independent variables the researcher finds very important included in the study such as gender, age, years of service, position, education level, marital status,

size of business, number of employees, type of service business, and type of license/registration and firm's nationality.

The finding from this research is expected to be beneficial to both managers and owners of private service industries operating in Bangkok area to be aware of the current level of organizational commitment and to understand how to increase employees' organizational commitment. As for the employees themselves, they can improve their work skills, work efficiency, productivity and attitude toward the organization.

2. Purpose of the Study

2.1 To study organizational commitment of employees in the private service sector in Bangkok, Thailand.

2.2 To compare the level of organizational commitment among employees from different private service industries in Bangkok namely hospitals, hotels, universities, banking & financial institutions and retail business.

3. Scope of the Study

3.1 Population and Sample

3.1.1 Population: Employees of private service business entities who work for private service business namely banking & financial institutions, hospitals, higher education institutions, hotels, and retail business.

3.1.2 Sample: Since the population of employees who work in service businesses was quite large, therefore, a sample size of 400 with a degree of confidence of 95% was used.

3.2 Variables

3.2.1 Independent Variables: Respondents' personal profile

1. gender 2. age group 3. years of service 4. position held 5. education level 6. marital status 7. monthly income 8. types of service business: financial & banking institutions, hospitals, hotels, education institutions and retail business 9. firm's number of employees 10. size of business 11. type of registration: company limited, public company, partnership and others 12. firm's nationality.

3.2.2 Dependent variable: Organizational Commitment

4. Definition

4.1 Organization is an official group of people, for example a business, a political party, a charity, or a club.

4.2 Commitment is something which really takes up some of your time because of an agreement you have made or because of some of responsibilities that you have.

4.3 Organizational Commitment is defined as a state in which an employee identifies with a particular organization and its goals and wishes to maintain membership in the organization. There are three separate dimensions to organizational commitment.

- Affective commitment---an emotional attachment to the organization and a belief in its values. For example, a Petco employee may be affectively committed to the company because of its involvement with animals.

- Continuance commitment---the perceived economic value of remaining with an organization compared to leaving it. An employee may be committed to an employer because she is paid well and feels it would hurt her family to quit.

- Normative commitment-an obligation to remain with the organization for moral or ethical reasons. For example, an employee who is spearheading a new initiative may remain with an employer because he feels it would "leave the employer in a lurch" if he left.

5. Outcome Expected

5.1. The research finding can be used to improve benefit in order to increase organizational commitment in private industry sectors.

5.2. The research finding can be used part of strategic human research planning as strong employees' organizational commitment is considered a firm's competitive advantage.

6. Hypothesis

1. Employees with different gender will be significantly different in the level of organizational commitment.

2. Employees with different age will be significantly different in the level of organizational commitment.

3. Employees with different years of service will be significantly different in the level of organizational commitment.

4. Employees with different position will be significantly different in the level of organizational commitment.

5. Employees with different levels of education will be significantly different in the level of organizational commitment.

6. Employees with different marital status will be significantly different in the level of organizational commitment.

7. Employees with different monthly income will be significantly different in the level of organizational commitment.

8. Employees with different service industries will be significantly different in the level of organizational commitment.

9. Employees working for firms with different number of employees will be significantly different in the level of organizational commitment.

10. Employees working for different business size firms will be significantly different in the level of organizational commitment.

11. Employees with different type of registration will be significantly different in the level of organizational commitment.

12. Employees with different firm's nationality will be significantly different in the level of organizational commitment.

7. Research Methods

7.1 Questionnaires Development

Research instrument on "Organizational Commitment of Employees in the Private Service Sector in Bangkok" was developed by using the following steps:

7.1.1 Review and study literature related to the area under study.

7.1.2 Prepare definition of specific key words under study.

7.1.3 Construct and design a research questionnaire based on the definition and the purpose of study. The research instrument was divided into 3 parts:

Part I: Personal profile of respondents and firms they work for

Part II: Levels of Organizational Commitment

Likert's five-point rating scale was employed to measure levels of organizational commitment. The five levels are as follows: Level 5: Strongly agree, Level 4: Agree, Level 3: Neutral, Level 2: Disagree, and Level 1: Strongly Disagree

Part III: Recommendation to increase organizational commitment

7.1.4 Consult an expert in the field of management for content validity and tried out the revised version with a group of thirty people who was not part of the sample. The reliability of the questionnaire was later tested using Cronbach's alpha-Coefficient. The score was 0.87 was quite satisfactory. Then, the questionnaire was again reviewed and approved by the expert before administration. The finalized version was 3 parts as follows: 1. Respondents and company's profile is 12 items; 2. Organizational commitment content accounts for 16 items; and 3. propose recommendations to increase organizational commitment.

7.2 Data Collection

The collection of data was divided into 3 steps.

Step 1 The Simple Random Sampling was used to determine specific areas in Bangkok for data collection.

Step 2 The Quota Sampling was used to determine the number of copies of questionnaires to be distributed for each of the eight randomly selected areas.

Step 3 The Convenience Sampling was used to distributed 60 copies of questionnaires for each of the eight areas randomly selected. Four hundred questionnaires were distributed and collected. The rate of returned was 100%. The SPSS Statistical Package for

Social Science) for windows Version 11:5 was used to process and analyze the data.

7.3 Statistical Analysis

Basic statistics was used to analyze personal profile of respondents and companies they work for and summarize the properties of an entire distribution especially frequency and percentage. Mean and standard deviation are used to analyze the organizational commitment of respondents.

7.3.1 Statistics for Hypothesis Testing

7.3.2 Independent Sample t-test was used to test difference of average score of two groups.

8. Summary and Discussion of Findings

1. The level of organizational commitment of respondents with different gender being male or female was significantly different at the alpha level of .10. The males have demonstrated higher organizational commitment than the females.

It can be explained that nowadays, the private industry sector bases the priority of the recruitment criteria on competence/skills and attitudes of the candidates. It means to say that in the future, gender would not be important variable on this topic.

2. It was found that respondents with different age groups were significantly different at the alpha level of .01. The employees with the age of sixty and higher have demonstrated the highest organizational commitment.(See Hypothesis 2 : Table1,2 and 3)

Hypothesis 2: Employees with different Age Groups will be significantly different in Organizational Commitment

Table 1: Mean and Standard Deviation of Organizational Commitment of Employees with Different Age Groups

Age Groups	n	\bar{x}	S.D.
21-29 years	155	57.85	8.73
30-39 years	146	57.93	9.60
40-49 years	76	62.61	10.11
50-59 years	20	62.60	8.20
60 years and higher	3	70.00	2.00

Table 2: Comparison of Organizational commitment of employees with different Age group

Sources of variance	SS	Df	MS	F	Sig.
Between Group	1983.074	4	495.768	5.745	.000***
Within Groups	34087.636	395	86.298		
Sum	36.70.710	399			

*** significant at 99% level

Table 3: Comparison of Each Pair of Age Groups for Organizational Commitment

Age Group	\bar{x}	21-29years 57.85	30-39 years 57.93	50-59 years 62.60	40-49 years 62.61	60 years and older 70.00
21-29 years	57.85	-	0.07	4.74	4.76*	12.14
30-39 years	57.93		-	4.66	4.68*	12.06
50-59 years	62.60			-	0.01	7.40
40-49 years	62.61				-	7.38
60 years up	70.00					-

It can be explained that these employees have accumulated a lot of experiences and developed the feeling of attachment, satisfaction, and loyalty toward the organization. In addition, they have been with the organization for quite some time. They have accumulated substantial benefits. It's a better decision that they remain with the organization. In addition, their employment opportunities could be limited.

3. It shows that respondents who have different years of service were significantly different at the alpha level of .01. The employees who have worked for the company between 16-20 years had the highest organizational commitment. (See Hypothesis 3 : Table 4,5 and 6)

Hypothesis 3: Employees with different years of service will be significantly different in the level of Organizational commitment

Table 4 : Mean, Standard Deviation of Organizational Commitment of Employees with Different Years of Service

Years of service	N	\bar{x}	S.D.
Less than 1 year	76	56.69	8.51
1-2 years	22	62.09	9.01
3-5 years	138	58.08	9.24
6-9 years	46	58.06	10.39
10-15 years	59	60.01	10.31
16-20 years	51	64.17	8.34
Since the opening/ more than 21 years	8	58.75	8.46

Table 5: Comparisons Of Organizational Commitment Based on Employees with Different Years of Service

Variance	SS	Df	MS	F	Sig.
Between Group	2191.197	6	365.199	4.236	.000***
Within Groups	33879.513	393	86.207		
Sum	36070.710	399			

*** significant at 99% level

Table 6: Comparison of each pair of different years of service group for organizational commitment

	Less than 1 year	6-9 years	3-5 years	Since opening more than 21 years	10-15 years	1-2 years	16-20 years
	56.69	58.06	58.08	58.75	60.01	62.09	64.17
Years of Service	\bar{x}						
Less than 1 year	56.69	-	13.6	1.38	2.05	3.31	5.39
6-9 years	58.06	-	0.02	0.68	1.95	4.02	6.11
3-5 years	58.08		-	0.66	1.93	4.00	6.08*
Since opening/ more than 21 years	58.75			-	1.26	3.34	5.42
10-15 years	60.01				-	2.07	4.15
1-2 years	62.09					-	2.08
16-20 years	64.17						-

It can be explained that these employees have invested a lot of time and effort for this organization. They must have been competent employees and have been treated fairly by the company. In addition, in the past, they may have received excellent pay increase along with several promotions. The employees stayed with any organization this long would have difficulty deciding to leave the company. They would not want to lose those substantial benefits that they were entitled to when they retire which was much different from employees who just joined the company for one year.

4.The level of organizational commitment of respondents who held different positions were significantly different at the alpha level of .01. The employees with front line/section managers scored the highest.

It can be explained that the employees who held different positions feel important and honored as they were entrusted with some important responsibilities. They are more involved with the management of the organization than those who don't have the position.

5. It shows that respondents with different education levels were not significantly different .It can be explained that despite the different levels of education, everyone seemed to be satisfied with their job and more importantly they had the same goal to demonstrate high organizational commitment to reach organizational effectiveness. They clearly communicate that organizational commitment does not depend on the levels of education.

6.It was found that respondents with different marital status were significantly different at the alpha level of .05. The employees who have been divorced or widowed demonstrated the highest organizational commitment. (See Hypothesis 6 : Table 7 and 8)

Hypothesis 6: Employees with Different Marital Status Shows Different Level of Organizational Commitment

Table 7: Mean and Standard Deviation of Organizational Commitment of Employees with Different Marital Status

Marital Status	n	\bar{x}	S.D.
Single	247	58.25	9.29
Married	136	60.11	9.61
Divorce/Widowed	17	63.52	10.32

Table 8: Comparison of Organizational Commitment of Employees with Different Marital Status

Sources of variance	SS	Df	MS	F	Sig.
Between Group	648.940	2	324.470	3.637	.027*
Within Group	35421.770	397	89.224		
Sum	36070.710	399			

*** significant at 99% level

It can be explained that employees who were divorced or widowed need more job security. While those who were single tend to change jobs more often than those who are divorced/widowed. Therefore, they have higher organizational commitment.

7.The level of organizational commitment of respondents who have different monthly income groups were found significantly different at the alpha level of .01. The employees who have a monthly income between 40,001-50,000baht demonstrated the highest organizational commitment. (See Hypothesis 7: Table 9 and 10)

Hypothesis 7: Employees with Different Monthly Income were Significantly Different in Level of Organizational Commitment

Table 9: Mean, Standard Deviation of Organizational Commitment of Employees with Different Monthly Income

Monthly Income	n	\bar{x}	S.D.
Less than 10,000 Baht	58	58.12	8.32
10,001-20,000 Baht	160	59.66	9.34
20,001-30,000 Baht	58	56.67	10.32
30,001-40,000 Baht	52	59.28	10.60
40,001-50,000 Baht	16	65.87	9.46
50,001-60,000 Baht	15	56.20	4.16
60,001Baht Up	41	60.02	9.34

Table 10: Comparison of Organizational Commitment of Employees with Different Monthly Income

Sources of variance	SS	Df	MS	F	Sig.
Between Group	2029.881	6	338.313	3.554	.002***
Within Group	37409.697	393	95.190		
Sum	39439.578	399			

*** significant at 99% level

It can be explained that they were satisfied with the monthly income received. They had good attitude toward the organization and demonstrated high organization commitment for this reason.

8. It shows that respondents who worked for different service industries were significantly different at the alpha level of 01. The employees who have worked for the financial and banking institutions show the highest organizational commitment. (See Hypothesis 8: Table 11,12, and 13).

It can be explained that the employees were fully satisfied with their organization. They are proud to work for this organization. They are motivated by the pay, promotion, benefit, work environment, and room for advancement both intrinsic and extrinsic factors

Hypothesis 8: Employees working in different service industries will be significantly different in the Organizational Commitment

Table 11: Mean, and Standard Deviation of Organizational Compensation of Employees working in different service industries

Type of Service Industry	n	\bar{x}	S.D.
Financial Institutions	42	64.80	8.71
Hospital	106	58.81	7.93
Retail Business	79	56.84	8.39
Educational Institution	94	58.79	11.27
Hotel	79	59.13	9.63

Table 12: Comparison of Organizational Commitment of employees working in different service industries

Sources of variance	SS	Df	MS	F	Sig.
Between Group	178.202	4	446.801	5.148	.000***
Within Group	34283.508	395	86.794		
Sum	36070.710	399			

*** significant at 99% level

Table 13: Comparison of Each Pair of different service industries for Organizational Commitment

Type of Business	\bar{x}	Retail Business	Educational Institution	Hospital	Hotel	Financial Institutions
Retail Business	56.84	-	1.94	1.96	2.29	7.96**
Educational Institution	58.79		-	0.01	0.34	6.01**
Hospital	58.81			-	0.32	5.99**
Hotel	59.13				-	5.67**
Financial Institutions	64.80					-

9. The level of organization commitment of respondents who have worked for firms with different number of employees were significantly different at the alpha level of 01. The employees who have worked for firms with 11-50 people show the highest organizational commitment. (See Hypothesis 9 : Table 14 and 15)

Hypothesis 9: Employees working in different number of employees firms will be significantly different levels of Organizational Commitment

Table 14: Mean and Standard Deviation of Organizational Commitment of employees working with firms with different number of employees

Number of Employees	n	\bar{x}	S.D.
Below 10 People	17	57.00	10.13
11-50 People	64	61.46	10.43
51-100 People	16	55.62	7.32
101-150 People	18	53.50	8.86
151-200 People	20	55.75	10.85
Over 200 People	265	59.52	9.07

Table 15: Comparison of Organizational Commitment of employees working for different number of employees' firms

Sources of variance	SS	Df	MS	F	Sig.
Between Group	1464.735	5	292.947	3.335	.006***
Within Group	34605.975	394	87.832		
Sum	36070.710	399			

*** significant at 99% level

It can be explained that the number of employees working for the organization is not a critical factor to increase high level of organization commitment. Rather the work environment and good relationship among worker, job security and acceptable pay and benefit tend to be more important.

10. It was found that respondents working for different size of business were significantly different at the alpha level of .05. The employees who have worked for small size firms show the highest organizational commitment.

It can be explained that a small sized firm gives people feeling of more in control of their day-to-day operation and enhance organizational effectiveness and efficiency good relationship among workers.

11. The level of organizational commitment of employees working for different types of licenses/registration was significantly different at the alpha level of .01. The employees working for the partnership business license demonstrated the highest organizational commitment.

This can be explained that a simple form of registration was preferred by employees who enjoyed sense of belonging or ownership and participative management. How the organization is managed seems to matter more than the type or form of registration.

12. It was found that there was no statistical significant difference in the organizational commitment of employees working for firms with different nationalities.

It can be explained that the rather important factors would be their colleagues and working atmosphere in the organization. Their concern was communication and cultural difference of some workers.

9. Recommendations

Following the research project entitled "Organizational Commitment of Employees in the Private Service Sector in Bangkok, Thailand", some employees have expressed their opinions and addressed some of their concerns as follow:

9.1 In order to increase organizational commitment, activities and some benefits should be organized and provided:

Nursery or Child Care should be provided with a minimal service fee to assist staff who have babies and very young children. This kind of benefit will attract new candidates and increase work efficiency and give employees a piece of mind

Activities to enhance harmonious working relationship among employees for instance: organize an annual trip for families of employees to get together; or a Sports' Day where management and employees can join to improve relationship that could increase organizational commitment and lead to organizational effectiveness.

Pay and benefits should be competitive. Fairness and transparency should be equally applied to all being impartial and double standard should be avoided as it would not at all motivate those who really work hard for the organization.

Management should inform employees the truth.

Communication on different policies must be clear and consistent

Recognition and appreciation for employees' good work must be consistently shown in different forms

9.2 Concepts of Human Resources Management should be implemented:

360 degree evaluation to be used for annual promotion

Career path should be part of career planning and clear promotion criteria

Job description should be in place.

Internal coordination should be systematic

Positive and harmonious atmosphere should be created

10. Recommendation for future research projects

Next research project should focus on Organizational Commitment with different of occupations employees ,how to increase effective organizational commitment especially effective and successful programs or models for improving organizational effectiveness.

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BURMESE LABOR: SURVIVAL FOR THAI INDUSTRIES

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ABSTRACT.

The purpose of this paper is to highlight the current status of Burmese¹ migrant workforce in Thailand and how the Thai government handles them towards managing migration, providing social services, and granting rights to the Burmese migrant through its legislation and policies. Today Burmese migrant workers are the major success factor for several Thai industries which gain competitiveness in terms of cost effectiveness for export. Thailand benefits enormously from the Burmese migrant who fills unskilled labor shortages. With right policies and serious implementation, Burmese migrant workforce can live well and work well, and the country can enjoy the growing GDP from export business.

Keywords: Burmese migrant worker

1. INTRODUCTION

In Bangkok, trucks fully loaded with Burmese migrant workers powdered with “Thanaka” are commonly seen, heading to construction sites in the early morning. If construction sites are not in the central Bangkok, worker camps are usually built nearby the construction sites. Rows of shed with galvanized roof sheets are Burmese migrant workers’ home. The author’s two frequently visited restaurants employ Burmese as their waiters. A Burmese waiter has worked there over 5 years and has been promoted to supervisor level. Last year a Burmese driver delivered goods to the author and shared that all workers at the factory are Burmese. More than half of supermarket workers at a big shopping mall in central Bangkok are Burmese. An old friend’s a plastic factory in Samut Sakhon has more than 100 Burmese migrant workers. Today Burmese workers are found as the major workforce across the country.

Before 2010, the author never considered Myanmar as a destination for travelling and was not aware of such a large number of Burmese migrant workers in

Thailand. After several visits to Myanmar and getting information from a number of local people, the author has better understanding about Myanmar and its people. The author perceives Burmese migrant workers as hard-working (long working hours), patient, smart, and friendly. The author hopes to get more attention from relevant government officers and Thais as the host to Burmese migrant workers (to accept and understand why they are here and in terms of cultural mix), to share information about Burmese migrant workers and hopes that serious implementation of legislation and policies will occur to truly support them in the near future.

2. BURMESE POPULATION IN THAILAND

Myanmar is newly opened to the world. The country has long history with Thailand as a neighbor country. With long linked borderline from the north to the south on the west of Thailand, approximately 2,401 kilometers (Noppadol, 2008), attaching to the Chiang Rai, Chiang Mai, Mae Hong Son, Kanchanaburi, Phetchaburi, Prachuap Khiri Khan, Chumphon, and Ranong provinces, a large number of Myanmar workforce easily migrates to Thailand along the border, both documented and undocumented. The actual figure of Burmese migrant in Thailand is unknown. In 2012, the Chief of Ranong Province Chamber of Commerce unofficially indicated that 10 Million of Burmese workforce was residing in Thailand. (Naewna, 2012) As of March 2015, the figure 1,204,127 is recorded as the number of registered foreign migrant workers (Myanmar, Laos and Cambodian) (Office of Foreign Workers Administration, 2015). Yang (2007) estimated that six million illegal immigrants resided in Thailand.

Radheya (2014) stated that “An estimated two million Burmese are working inside Thailand, some documented and others there illegally, escaping decades of war back home. Apart from the lack of job opportunities in their own country, many are escaping extreme poverty. Most are in construction, working up to ten hours a day, seven days a week.” Burmese migrant workers became the major labor for almost every industry in Thailand: fishery, construction, manufacturing, restaurants, and many more including household. For some industries i.e. fishery and construction, Thai workers are hardly found because these occupations are considered dangerous, dirty, and degrading.

Table 1 – Number of Remaining Foreigner with Valid Work Permit
Classified by Section as of December 2014

Area	Total	Section 9				Section 12	Section 13
		Lifelong	General	Nationality Prove	Imported by MOU	BOI Investment Promotion	Minority
Thailand	1,339,834	983	100,943	971,461	206,168	37,287	22,992
Bangkok	120,636	10	53,355	34,330	6,663	24,235	2,043
Provincial Part	1,219,198	973	47,588	937,131	199,505	13,052	20,949
Urban Agglomeration of Bangkok	366,684	-	9,529	302,821	51,146	1,305	1,883
Central	328,047	182	13,608	225,468	74,134	9,924	4,731
North	177,158	25	6,586	131,659	24,374	930	13,584
Northeast	23,093	171	3,303	9,952	8,904	444	319
South	324,216	595	14,562	267,231	40,947	449	432

Note: Excluding the foreigner with expiry work permit

Source: Office of Foreign Workers Administration, Department of Employment, Ministry of Labor (2014)

There are 6 categories of the work permit i.e. (1) work permit under Section 9 - Lifelong, (2) work permit under Section 9 - General), (3) work permit under Section 12 - Investment promotion), (4) Have proved nationality and received a work permit, (5) Imported by MOU and receive a work permit (Myanmar, Laos and Cambodia), and (6) A work permit under Section 13 - Minority. Burmese migrant workers are in either “Nationality Prove”, “Imported by MOU” or “Minority” category.

From Table 1, urban agglomeration of Bangkok area has the highest number of remaining foreigners with valid work permit, 366,047 or 27.37%. The central has the second highest number, 328,047 or 24.48%. The south has the third highest number, 324,216 or 24.20%. The north has the fifth highest number, 177,158 or 13.22%. Bangkok area has the second lowest number, 120,636 or 9%. The northeast has the lowest number, 23,093 or 1.72%.

There are 22,992 migrant workers under Section 9 - Minority. Job positions of minority are (1) unskilled laborer (18,720 or 81.42%), (2) vegetable and fruit gardening (1,747 or 7.6%), and (3) laundry (290 or 1.26%) and others (2,235 or 9.7%). Industry or Business types are (1) construction (4,884), (2) employee in household (1,626), and fruit gardening (1,507) (Ministry of Labor, 2014).

Table 2 – Foreigner with Work Permit under Sections 9: Nationality Prove and Imported by MOU as of Dec 2014

Section 9	Area	Employee	Total	Burmes	Laos	Cambodi
		r		e		a
Nationality Prove	Thailand	174,807	971,461	831,235	33,05	107,172
	Bangkok	7,817	34,330	30,854	4	2,716
	Provincial	166,990	937,131	800,381	760	104,456
	Part	44,277	302,821	247,412	32,29	38,432
	Urban				4	
	Agglomeration	36,208	225,468	157,303	16,97	58,903
	of Bangkok	32,499	131,659	130,601	7	502
	Central	3,539	9,952	7,834		1,230
	North	50,467	267,231	257,231	9,262	5,389
	Northeast				556	
	South				888	
					4,611	
Imported by MOU	Thailand	15,432	206,168	97,984	20,78	87,398
	Bangkok	1,288	6,663	3,479	6	2,225
	Provincial	14,144	199,505	94,505	959	85,173
	Part	3,616	51,146	24,431	19,82	20,413
	Urban				7	
	Agglomeration	2,551	74,134	17,295	6,302	50,534
	of Bangkok	4,340	24,374	23,997		214
	Central	617	8,904	3,127	6,305	3,673
	North	2970	40,947	25,655	163	10,339
	Northeast				2,104	
	South				4,953	
Nationality Prove and Imported by MOU	Thailand	190,239	1,177,62	929,219	53,84	194,570
	Bangkok	9,105	9	34,333	0	4,941
	Provincial	181,134	40,993	894,886	1.719	191,629
	Part	47,893	1,136,63	271,843	52.12	58,845
	Urban		6		1	
	Agglomeration	39,050	353,967	174,598	23.27	109,437
	of Bangkok	36,839		154,598	9	716
	Central	4,156	299,602	10,961		4,903
	North	53,437	156,033	282,886	15.56	15,728
	Northeast		18,856		7	
	South		308,178		719	
					2.992	
					9.564	

Source: The author's calculation
Office of Foreign Workers Administration, Department of Employment, Ministry of Labor (2014)

From Table 2, the majority of Burmese migrant workers are under Section 9 – Nationality Prove, 831,235 or 89.46%. At year end of 2014, the number of Burmese migrant workers are 929,219 or 78.91%, including both nationality prove (831,325) and imported by MOU (97,984) categories. The south area has the highest number of Burmese migrant workers, 282,886 or 24.02%. Urban agglomeration of Bangkok area has the second highest number of Burmese migrant workers, 271,843 or 23.08%. The

central area has the third highest number, 174,598 or 14.83%. The north area has the fourth highest number, 154,598 or 13%. Bangkok area has the second lowest number, 34,333 or 2.92%. The northeast area has the lowest number, 10,961 or 0.93%. The number of employers is 190,239 including that of nationality prove, 174,807 or 91.89% and imported by MOU, 15,432 or 8.11%.

Table 3 - Number of Foreigner with Work Permit during 2007-2014

B.E.	A.D.	Foreigner with Work Permit			Illegal Worker		
		Number at year end	Increase (+) /Decrease (-)	Increase (+) /Decrease (-) in %	Number at year end	Increase (+) /Decrease (-)	Increase (+) /Decrease (-) in %
2557	2014	1,339,834	+155,999	+13.18	22,992*	-	-
2556	2013	1,183,835	+49,984	+4.41	28,009	-165,311	-85.51
2555	2012	1,133,851	-816,799	-41.87	193,320	-1,079,095	-84.81
2554	2011	1,950,650	+615,495	+46.10	1,272,415	+316,820	+33.15
2553	2010	1,335,155	-209,747	+13.58	955,595	-378,562	-28.37
2552	2009	1,544,902	+754,238	+95.39	1,334,157	+771,846	+137.26
2551	2008	790,664	-15,100	-1.87	562,311	-34,302	-5.75
2550	2007	805,764	-20,635	-2.50	596,613	-116,992	+16.39

* There is no longer so called illegal worker in 2014. The new status "minority group under Section 13" is replaced.

Illegal worker implies 3 nationalities i.e. Burmese, Laos, and Cambodian.

Source: The author's calculation

Office of Foreign Workers Administration, Department of Employment, Ministry of Labor (2007-2013)

The shortage of skilled and unskilled workers in Thailand has been an issue over 10 years. From Table 3, the numbers of both skilled and unskilled workers have been increasing over the period 2007-2014, except in 2009 and 2011. In 2009, the cabinet resolution was extending the registration period for illegal migrant workers 3 times on May 26, 2009, July 28, 2009, and November 3, 2009. And the registration period had been extended again in 2011 with cabinet resolution on April 26, 2011. The extension of registration period resulted in extraordinary high number of foreign migrant workers, 1,248,064 in 2011 and 1,314,382 in 2009

On the other hand, the official number of foreign worker might be far different from the reality regarding to the unregistered worker. There was a big step between the figures of foreigner with work permit between years 2008 and 2009. The Thai government had attempted to sort out illegal worker issue. The percentage of illegal

workers decreased 84.81% and 85.51% in 2012 and 2013 respectively. In year 2014, the status of illegal worker has been changed to minority group under Section 13.

Table 4 - Number of Foreign migrant worker following Cabinet Resolution
(3 nationalities - Burmese, Laos, and Cambodia)

B.E	A.D.	Total	Nationality			Business/ Employer	Job Position	
			Burmese	Laos	Cambodia		Unskilled worker	Worker in Household
2555	2012	167,881	63,768	64,409	39,704	51,367	155,122	12,759
2554	2011	1,248,064	905,573	106,970	235,521	261,804	1,163,002	85,062
2553	2010	932,255	812,984	62,792	56,479	206,695	844,329	87,926
2552	2009	1,314,382	1,078,767	110,854	124,761	311,654	1,184,592	129,790
2551	2008	501,570	476,676	12,800	12,094	154,304	447,637	53,933
2550	2007	546,272	498,091	22,085	26,096	158,268	484,723	61,549
2549	2006	668,576	568,878	51,336	48,362	185,876	583,580	84,996
2548	2005	705,293	539,416	90,073	75,804	205,562	600,987	104,306
2547	2004	849,552	633,692	105,259	110,601	205,738	723,183	126,369

Note: During 2013-2014, there is no longer information under the category “Cabinet resolution (3 nationalities: Burmese, Laos, and Cambodia)”. Minority under Section 13 are in place, with different population groups.

Source: Office of Foreign Workers Administration, Department of Employment, Ministry of Labor (2009-2012)

Foreigner migrant worker following Cabinet Resolution (3 nationalities: Burmese, Laos and Cambodia) can work only as unskilled worker or household worker. From Table 4, Burmese workforce is calculated as 37.98%, 72.56%, 87.21%, 82%, 95%, 91%, 85%, 76.5% and 74.6% of foreign migrant workers (3 nationalities) in 2012, 2011, 2010, 2009, 2008, 2007, 2006, 2005, and 2004 respectively. In 2012, the number of Burmese migrant works is relocated to other categories. So this may imply that more Burmese migrant workers are registered or in registration process.

3. BURMESE’S WORK, INCOME AND LIVING

3.1 Burmese’s Work

“The greatest factor that is pulling Burmese migrants to enter Thailand is the economic disparity between Myanmar and Thailand” (Yang, 2007).

The occupation, that the Thai refuses to work, creates the job opportunity to foreign migrant worker. The foreigners under Section 9 – Imported by MOU and under Section 9 – Nationality Prove can work as only unskilled workers and household workers. There are 24 business categories that need unskilled workers i.e. (1) fishery, (2)

fishery-related manufacturing, (3) agriculture and livestock, (4) construction, (5) agriculture-related manufacturing, (6) livestock-related manufacturing, (7) recycling, (8) mine and quarry, (9) metal manufacturing, (10) food and beverage, (11) soil, glass, ceramic manufacturing, (12) construction material, (13) stone/marble/diamond process, (14) textile, (15) plastic, (16) paper, (17) electronics, (18) transportation by land and water, warehouse, (19) wholesale, retail, and stall, (20) garage, (21) gas station/distributor, (22) education institution and foundation, (23) other service provider, and (24) household worker. In 2000, the industries with considerable labor shortages were agriculture, fisheries, livestock, rice mills, construction, mining, cargo shipping, and warehouse and grain storage.

Most of Thai business owners prefer unregistered foreign migrant workers because of the lower pay i.e. 180 Baht per day for female worker, and 200-250 Baht per day for male worker whereas registered migrant workers are paid 300 Baht per day (Thairath online, 2014). The recruitment process for illegal migrant worker is more convenient. Minimum Thai wage is 133 Baht (US\$3.25) per day. But in reality, Burmese migrants in varying Thai provinces received less than 50 Baht (US\$1.25) per day. In border towns like Mae Sot, Burmese migrants have reportedly worked for 20 Baht (US \$0.50) a day (Yang, 2007).

3.2 Growing Myanmar Communities in Thailand

Lives of Burmese migrant workers today are similar to the Thais from suburban area in the old days that came to find luck in Bangkok with the same reasons: better living conditions and higher income. They travelled to Bangkok with hope to get a job and earn money for their families. Some were lucky and some were not. Once their lives were settled they will ask their families and friends to come to Bangkok and live together. There are both good and bad employers and government officers treating the same things to both Thais in the old days and Burmese today.

There are big communities of Burmese migrant workers e.g. Samut Sakhon, Ranong. In order to communicate with them effectively and support them properly, Thai business owner and related parties who have to deal to them may need to learn the Burmese language. Today a number of Burmese migrant workers become business owners and run their business e.g. retail stores in Burmese communities, and Burmese

restaurants in various areas. Some work as taxi drivers. In the long run, Thais may be in trouble of competing finding a job with the Burmese.

3.2.1 Education

“All individuals shall have equal rights and opportunities to receive basic education provided by the State for the duration of at least 12 years. Such education, provided on a nationwide basis, shall be of quality and free of charge.” This is National Education Act B.E. 2542 (1999). All children in Thailand, regardless of nationality, ethnicity, or registration status, are guaranteed a basic education under the Act.

Only 4 schools in Samut Sakhon province, a seaport city recently known as “Little Burma”, allow foreign workers’ children to come to class with Thai students (Online Manager, 2014). Fortunately the feedback from the school teacher is that Burmese students are diligent, responsible and has good discipline whereas Thai students always come late to school and copy homework from their Burmese fellows. Definitely the Burmese students get much better GPAs than the Thais.

In case of migrant children, the Thai government fails to fulfill its obligations to provide all children within the Kingdom of Thailand quality, free basic education as established in the National Education Act. Another bad news is that immigration officers and governmental agencies believe that it is illegal for schools to provide education to migrant children (Yang, 2007).

3.2.2 Language

Burmese workers whose hometowns are in major cities such as Yangon and Mandalay can speak fluent English and Mandarin (Naewna, 2012). Thai people are hiring foreigner to work in household and take care their children. Many prefer to hire Burmese with English competency, so that they can teach and talk to their children. Thousands of Burmese migrant workers can speak Thai, but few Thais learn to speak Burmese. The author speculates that Burmese language school will be in high demand soon.

3.2.3 Healthcare

Burmese migrant workers, who are registered with the Ministry of Interior, may receive health services ranging from treatment, disease control, health promotion and rehabilitation. Very few foreign migrant workers understand the registration system and

do not realize that they have access to medical services in Thai public healthcare facilities (Yang, 2007).

Starting from April 1, 2015, Minister of Public Health announced that all foreign migrant workers and their families will have health insurance. For those who do not have social security, they need to have health check (500 Baht) and pay for 1-year health insurance (2,200 Baht). For the children aged under 7 years, free health check is provided and insurance fee is 365 Baht for one year (Ministry of Public Health, 2015).

Table 5 - Number of foreign migrant workers and Health Insurance Status

Insurance Type / Status	Unit	Percent
Social Security	80,308	29.70
Health insurance provided by Ministry of Public Health	98,302	36.36
No health insurance	91,767	33.94
Total	270,377	100

Source: Ministry of Public Health (2014)

From Table 5, there are 2 types of health insurance i.e. social security and health insurance provided by Ministry of Public Health. The foreign migrant worker, who does not have health insurance, will not have access to primary health care especially good health promotion, controlling and preventing disease within community of foreign migrant worker.

In 2012, the sanitarian volunteer school to support foreign migrant workers is opened in Samut Prakan province. The school will recruit and train the new sanitarian volunteer and train the current sanitarian volunteer. There are 455 active sanitarian volunteers in the area.

4. SUPPORT AND HELP

“...With growing demands by employers to allow employment of foreign workers, the Thai government developed a *registration program* through Cabinet Decisions to monitor and permit migrant employment. It These efforts are a step in the right direction to make migration mutually beneficial for all parties; they have often sidelined migrants’ needs and well-being....”

“...The registration process is a step toward managing migration for the benefit of both Thailand and Burmese migrants. The registration process allows the government to meet employers’ demand for unskilled labor and enables Thailand to keep its export priced competitively on the global market....”

“...The biggest problem is that the 3,800 Thai Baht registration fee is extremely high for Burmese migrants who typically make anywhere from 50 to 280 Thai Baht per day, depending on the province and sector of work...” (Yang, 2007) The registration fee is now reduced to 3,160 Baht. The registration process is less complicated with the One Stop Service model but the languages in application forms are in Thai, and English, no Burmese.

The Thai government by Gen. Prayut Chan-o-cha attempts to get both unregistered and registered migrant workforce to report and put them into the systematic registration process and set up one stop service which provide temporary work permit. (Office of Foreign Workers Administration, 2015)

For the human trafficking issue, the latest announcement (May 5, 2015) from Gen. Prayut Chan-o-cha is that in any area that involves human trafficking, local government officers (village head, head of a group of villages, and district-chief officer), who have any involvement or support human trafficking, will be transferred out of the area with investigation, and severe punishment. Local government officers, policeman, and soldier must inspect the area thoroughly (Manager Online, 2015). Somehow the actual problem lies with the government officer e.g. immigration, police, and so on who make revenues from the Burmese migrant worker. The author hopes that the current government can solve the mafia problems soon.

5. CONCLUSION

The consensus among business leaders is that migrants are an asset to Thailand; they contribute stability and reliable productivity particularly in export industries, to the Thai economy.

Large investment in different industries has been put in Myanmar. As a result, a large number of workforces are needed. Will Burmese migrant worker choose to stay in Thailand as the second class, or go back home and stay happily with their family? The

author only hopes for the best for them. If Thai employers treat Burmese migrant workers well and fairly, the author believes that they will stay and work in Thailand.

Thai economy heavily relies on Burmese migrant workers. Once public utility, political stability, and no more fighting in Myanmar but only peace, and the growing economy are all there in Myanmar, the author believes that every Burmese migrant worker will go back to the mother land. How can Thai industries survive?

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Spillover Effect Analysis of China's Monetary Policy to Thailand Stock Markets

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Abstract:

With the opening of the Thailand stock market, in addition to the United States and Japan investors, Thailand stock exchange also actively attract other international investors, including to Chinese investors actively recommend the Thailand stock market. And in 2010 years, the China - ASEAN free trade area built, between China and ASEAN countries in various areas of the increasingly close relationship. 2013 years China has become Thailand's largest trading partner. In this context, China's monetary policy changes will have an impact on the capital market in Thailand, leading to the fluctuation of the Thailand stock market. This paper through studies the transmission mechanism of monetary policy and the conduction effect to analysis of China's Monetary Policy to Thailand Stock Markets.

Keyword: Monetary Policy, Thailand Stock Markets, Spillover Effect

1. Introduction

The relationship between monetary policy and stock market has always concerned by the many scholars, different scholars used different methods to study the relationship between monetary policy and stock market. BEN S. BERNANKE and KENNETH N. KUTTNER (2005) through analyzes the impact of changes in monetary policy on equity prices find that a hypothetical unanticipated 25-basis-point cut in the Federal funds rate target is associated with about a 1% increase in broad stock indexes and the effects of unanticipated monetary policy actions on expected excess returns account for the largest part of the response of stock prices. Zhou Hui (2010) based on the GARCH-BEKK model analyzes the volatilities correlations among share

market to find that between money supply and stock index has a strong GARCH co-movement effect and has an obvious spillover effect. Its mean the money supply is an important factor affecting the stock market. But whether Chinese scholars or foreign scholar, the majority scholar only in developed countries such as America, Japan's monetary policy as the research object. With the rapid development of economic globalization and the continuous expansion of China's opening up, economic status of China has improved. In 2010 years, the China - ASEAN free trade area built, the volume of trade between China and ASEAN countries are growing and continue to strengthen economic cooperation. Thailand is the one of ASEAN major economies with China's trade development is becoming more frequent. In 2013 years, Thailand and China's bilateral trade volume is reached 64.44 billion, the first time China has become Thailand's largest trading partner. In 2014 years, People's Bank of China and Bank of Thailand signed a 70 billion Yuan bilateral currency swap agreements. This represents the internationalization of the RMB in the ASEAN region continues to advance, under this background, China's monetary policy is likely to affect the prices of Thailand stock market as well as economic development in other countries and regions through the import and export trade, international capital flows and so on. So, based on the review of tools of monetary policy, we examined the different influence among policy tools on the Thailand stock market.

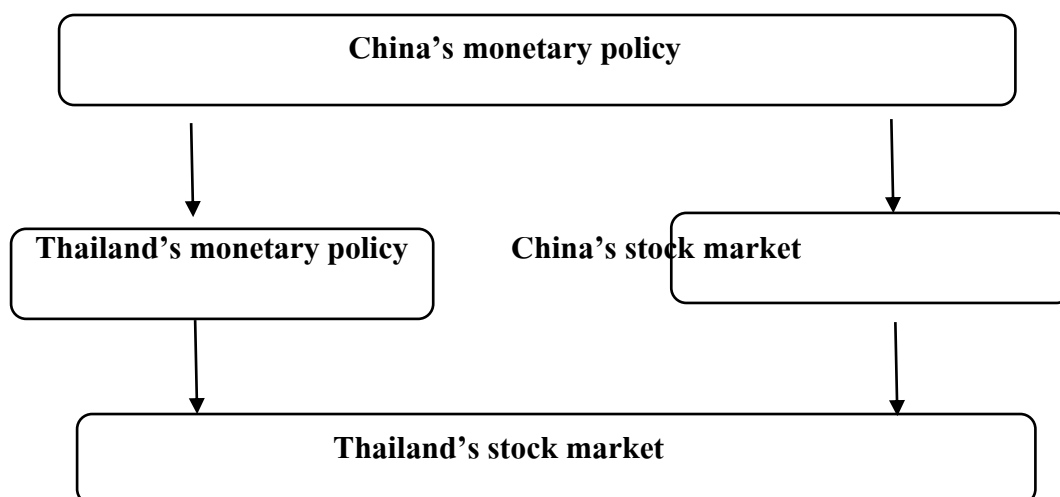
2. Research Objective

1. To understand the role of monetary policy in China, operating tools and effects;
2. To study the impact of China's monetary policy to Thailand monetary policy;
3. To understand China's monetary policy impact on China's stock market;
4. To study Co-movement of China's stock market and the Thailand stock

market;

5. To study China's monetary policy on Thailand stock markets affect channel and influence degree.

3. Conceptual Framework



4. Literature Review

Lastrapes (1998) in Britain, America, Canada and other group of seven and Holland eight European countries as an example, using VAR model to studied in the short term, the deposit reserve rate's impact on the stock market, the results, in addition to Britain and France, adjust the deposit reserve ratio and the stock price was a positive change.

Rahman and Mustafa (1997) through the analysis between the interest rate and stock market prices, there exists a long-term cointegration relationship. Rigobon and Sack (2003) in case of America to analysis of the relationship between interest rate and stock market, they find that there was a significant negative correlation between short-term interest rates and stock volatility. Bernanke and Kuttner (2005) using the New model for

empirical test, they find that the impact of interest rates on the stock market is different because of the different market participants expected. Bohl, Mayes and Siklos (2011) analysis of the European central bank interest rate policy changes impact on the stock market, they find that have a significant negative correlation between interest rate shocks and unexpected stock market returns.

Liu Zhiyang (2002), using linear regression analysis of the relationship between money supply and stock price. Conclusion there is a positive relationship between money supply and stock index. Chen Xiaoli (2003) think in the short term, the impact of stock price by the quantity of money supply is larger and the money supply and stock prices have a long-term equilibrium relationship. Zheng ming and Ni Yajuan (2011) through the study found that in many influence factors, the broad money supply (M2) and stock market gains the highest correlation.

Bala and Premaratne (2004) in Singapore and Hongkong, Japan, and the UK America stock market volatility spillover study find Singapore stock market have high co-movement between the Hongkong, Japan, Britain and American stock market. Worthing and Higgs (2004) find that have a positive mean between the nine Asian stock market and the volatility spillover effect.

5. Conclusion

This paper tries to get the conclusion from the research: 1. To what extent of China's monetary policy can affect the China's stock market; 2. To what extent of China's monetary policy can affect the Thailand's monetary policy and what is the main transmission mechanism; 3. Whether the co-movement between the China stock market and Thailand stock market. Thereby to analyze the spillover effects of China's monetary policy

to Thailand stock market.

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Social Entrepreneurship in Thailand

Nakamol Chansom, Ph.D.¹

Abstract

This paper consisted of six parts which are (1) introduction; (2) why “social” entrepreneur; (3) the meaning of social enterprise; (4) source of social enterprise; (5) characteristics of social enterprise and (6) example of social enterprise in Thailand. Introduction explains the overview about social entrepreneurship and reasons for being social entrepreneurs is on the second part. The third part describes several meaning about social entrepreneurship and source of social entrepreneurship is on the fourth part. Several characteristics of social enterprise state in the fifth part. The most important part is on the last one which illustrates several social enterprises in Thailand.

1. Introduction

For seeking the origin of various problems that beset our world right now, ranging from domestic violence to the war between the races, environmental, drug issues, etc., the “Capitalist Economy” undeniably becomes the number one accused in almost all cases. However, if a question is asked: “Or, is it necessary to apply the communist system whereby the state entirely owns the means of production?” It is believed that almost everybody would shake one’s head as well. Thus, “business operations with social responsibility” become a solution that many agencies in the private sector have started to follow as practice guidelines. This approach has eventually given rise to social activities, which are usually contained in the business plan.

All of you are believed to have ever seen, heard or taken part in social activities under the plan “Corporate Social Responsibility” (CSR) hosted by various companies, which include donating books, clothes, reforestation, offering scholarships and so on. But the main objective of these projects is to enhance a good image of the organizations. The goal of business operations continues to be the focus on “money”, i.e. earnings only. At the same time, each problem in society also includes various, complex dimensions with different levels of severity. Some problems need to be solved urgently rather than waiting to rely on the government sector, assistance by NGO or CSR projects of the private sector which help occasionally (Stevenson, 1983). For this reason, the concept of “Social Enterprise” and “Social Entrepreneur” has come into existence.

Recently, the concept of “social enterprise” and “social entrepreneurship” has received widespread attention and recognition from both public and private sectors in many countries. The reason is because apart from the total figures as “amount of money”, the social entrepreneurs have also a profit as “quality of life of people in society”. Thus, it may not be a wrong thing to call “Double Bottom Line”.

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2. Why “social” entrepreneur?

Like the business entrepreneur, the social entrepreneur changes the society by seeking opportunities invisible to others and developing the system along with creation of new ways to solve problems for social changes in a better way. While the business entrepreneurs create new industries, the social entrepreneurs invent new methods of solving the community problems (Shane, 2000). This is characteristic of broad changes.

Just as entrepreneurs change the face of business, social entrepreneurs act as the change agents for society, seizing opportunities others miss to improve systems, invent new approaches, and create solutions to change society for the better. While a business entrepreneur might create entirely new industries, a social entrepreneur develops innovative solutions to social problems and then implements them on a large scale.

3. The Meaning of Social Enterprise

Social enterprise differs from corporate social responsibility (CSR) in that social enterprise has the social or environmental goals mainly. CSR, meanwhile, is often social activities or projects of a typically profit-seeking enterprise.

Dees (2001) defined that

“Social entrepreneurship is the attempt to draw upon business techniques to find solutions to social problems. This concept may be applied to a variety of organizations with different sizes, aims, and beliefs.”

Thompson and Lee (2002) illustrated that

“People with the quality and behaviors we associate with the business entrepreneur but who operate in the community and are more concerned with caring and helping than making money.”

Light (2006) explained that

“A social entrepreneur is an individual, group, network, organization, or alliance of organization that seeks sustainable, large-scale change through pattern-breaking ideas in what or how governments, non-profits, and businesses do to address significant social problems.”

Nichols (2007) characterized that

“Social Entrepreneurship entails innovations designed to explicitly improve societal well being, housed within entrepreneurial organizations which initiate, guide or contribute to change in society.”

Bornstein (2010) described that

“Social entrepreneurs identify resources where people only see problems. They view the villagers as the solution, not the passive beneficiary. They begin with the assumption of competence and unleash resources in the communities they're serving.”

Social enterprise is an agency that operates by deploying the market mechanism-type strategy for social or environmental goals. The operations of social enterprise focus on social, environmental and financial targets simultaneously or called Triple Bottom Line. The financial goals such as revenue generation are intended to increase the benefits of society or environment rather than the interests of the company or shareholders like general businesses.

4. Source of Social Enterprise

Social enterprise stems from the idea, that is to say when the society advances with expanded size and more complexity, then the social and environmental problems ensue with intensifying complexity, diversity and severity too. Eventually, it is hard for the government agencies to cope with all issues (Peredo, 2006). The private agencies, meanwhile, often operate for their own interests and the direct stakeholders such as shareholders only.

In the early 20th century, the agency called Non-Governmental Organization– NGO was born in consequence. This agency has been certified by law and operates to solve various problems in society, ranging from global to local levels.

However, the operations of NGO must usually rely on the external funding sources in different ways such as donations, request for grant aid, thereby encountering the problems of continuity in operations, restrictions on expanding the scope and work and corporate sustainability (Simpson, 2007). Such limitations are the origin of social enterprise operating for social or environmental goals with the business plan that can generate income so as to sustain the operations and expand work to its full potential.

5. Characteristics of Social Enterprise

Social entrepreneurship overcomes the gap between the business and the public sectors, as it is connected to the “non-profit” or the “third” sector, as well as to the concept of the “social economy”, with emphasis on objectives to serve communities and society rather than generating a company’s profit.

Bornstein (2010) defined six characteristics of social entrepreneurship which are

“(1) willingness to self correct; (2) willingness to share credit; (3) willingness to break free to established structure; (4) willingness to cross disciplinary boundaries; (5) willingness to work quietly and (6) strong ethical impetus.”

Skill Foundation explained ten characteristics of successful social entrepreneurs as followed:-

“(1) Try to shrug off the constraints of ideology or discipline; (2) Identify and apply practical solutions to social problems, combining innovation, resourcefulness, and opportunity; (3) Innovate by finding a new product, a new service, or a new approach to a social problem; (4) Focus—first and foremost—on social value creation and, in that spirit, are willing to share their innovations and insights for others to replicate; (5) Jump in before ensuring they are fully resourced; (6) Have an unwavering belief in everyone’s innate capacity, often regardless of education, to contribute meaningfully to economic and social development (7) Show a dogged determination that pushes them to take risks that others wouldn’t dare (8) Balance their passion for change with a zeal to measure and monitor their impact (9) Have a great deal to teach change makers in other sectors and (10) Display a healthy impatience.”

The characteristics of social enterprise are

1. Work for social or environmental benefits with its own methods of seeking incomes to nurture sustainable operations. The sources of incomes can be in the forms of selling products and /or services, funding by giving returns to investors, request for donations or financial support as grant aid like the non- governmental organization.
2. Focus on using innovations to solve the problems, namely creation of new ways to solve the problems as the goal of operations efficiently, effectively, sustainably with ability to further the results.
3. Operations through extensive cooperation to deploy the unique capabilities of various agencies in the network to jointly solve the complex problems.

6. Examples of Social Enterprise in Thailand

- PAVENA Foundation Offers Hope for Women and Children. It was founded by Mrs. Pavena Hongsakul, Bangkok Member of Parliament and it is a non-profit organization that was established to help children and women who are in need of help. The objectives are (1) to help children and women who have been abused by providing a suitable physical and mental rehabilitation program for victims; (2) to help children and women who are poor, unfortunate OR homeless, to be able to live normal lives; (3) to help to promote and develop new income opportunities for victims through skills training and (4) to promote Thai cultural activities throughout the world. (www.pavenafoundation.or.th)
- The Mirror Foundation is a grassroots Thai non-governmental organization, founded more than twenty years ago. The organization is split into two distinct groups which are (1) The Mirror Foundation, Chiang Rai and (2) he Mirror Foundation, Bangkok. Whilst there is regular contact between the teams, and a certain amount of work which overlaps, the vast majority of the projects are mutually exclusive.

Bangkok focuses on urban problems, whilst Chiang Rai concentrates on issues related to the lack of citizenship among ethnic minorities. (www.themirrorfoundation.org)

- Wongpanit provides services to manage waste materials, including sorting out and recycling through the environmentally friendly processes and help in training, planning and monitoring results. Besides, it trains, provides knowledge, vocational training to the staff in the organizations and the communities concerning waste separation and revenue creation from waste. (www.wongpanit.com)
- Mercy International is children's homes in Petchabun, Khon Kaen and Phrae. It is agricultural projects to give local people new skills and provide for the needs of the children, English school and assisting poor local schools with English language skills. (www.mercy-international.com)
- The Father Ray Foundation takes care of 850 orphaned, abused and disadvantaged children and students with disabilities. It provides a home, an education, nutritious meals, medical assistance and the opportunity for our children and students to reach their full potential and become independent and decent members of society. All services are provided free of charge to those in our care and done by the generosity of our supporters and sponsors (www.fr-ray.org)
- 'Where There Is No Doctor' in the hill-tribes is a volunteer run, non-profit medical social organization in Thailand helping the poor, underprivileged and marginalized hill-tribe communities of Northern Thailand. Working and volunteering primarily in two sub-districts of Chiang Rai, the organization moves from village to village giving free medical treatment, building toilets and clean water supply, and do many other social activities. Through our continued efforts, the communities we serve are able to live a healthier and better quality of life. (www.wtinad.org)
- Chumphon Cabana Resort and Diving Center organizes the environmentally friendly activities in the sea with the beach policy such as a ban on motorized water sports of all types, a prohibition on throwing trash in the beach area. Also, the activities include rice-growing, cultivation of chemical-free vegetables, wastewater treatment, poultry farming, composting as well as production of liquid soap, shampoo, car wash, etc. for use in the hotel. Furthermore, it promotes the concept of sufficiency economy, organic farming and integrated agriculture within the resort. (www.chumphoncabanaresort.com)
- Chaopraya Abhaibhubejhr Hospital, Prachinburi Province is a state hospital that researches and studies the herbs. Its goal is to make the herbs acceptable to the society at large, which can be eventually used as a substitute for drugs from abroad. (www.abhaiherb.com)
- Siam Baan Din Co.,Ltd. specializes in designing and building the earth houses that are environmentally friendly. It conducts activities under Wongsanit Ashram, Sathirakoses-Nagapradipa Foundation. (www.homedecor-thai.com/siam_bandin)
- Thoth Media Co., Ltd creates publicity media on the Internet with focus on creation of social impact through new media. It produces

Dual Core, which is the information technology news program on the Internet. (www.thothmedia.com)

- Cocoboard Co., Ltd. runs a business of plywood from agricultural wastes and processing so as to increase incomes of farmers and create jobs for the communities. (www.kokoboard.com)
- Payai Creation Co., Ltd. is a TV program producer such as Knowledge is Light Lamp Program, Tung SaengTawan Program, etc. (www.payai.com)
- Thai Craft Fair Trade Co., Ltd. was founded in 1992 to trade in handicrafts by producers in each community across the country. The emphases are placed on selling at fair prices to the buyers and purchasing at the wages appropriate for producers so that the communities can be self-reliant effectively. (www.thaicraft.org)

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[http:// www.payai.com](http://www.payai.com)
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The Swedish auto parts company Mekonomen is taking their logistic performance into the future by the help of drone delivery.

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ABSTRACT

The last century have companies turn their eyes to new delivery method to gain a competitive advantage and be more efficient. Customers today demand that the company can deliver some kind of value-added service to gain just them as a customer. Mekonomen is a swedish vehicle part delivery company that now locking in to start delivering some of their product by unmanned aerial vehicle. Other bigger company such as Amazon and DHL is already using or is developing a system for this. The findings in this report concludes that by using drones as a complement to conventional ways of delivering both time and money can be saved and customer service can be improved.

INTRODUCTION

Competitive advantage is a statement widely spread in the logistic sector (and many other). It is an advantage a companies has over its competitors that are allowing them to generate bigger sales or bigger margins than its competitors. (www.investopedia.com, 2015) Logistic can be described as the study of effective delivery and distribution. Further on distribution is described as the general process of delivering goods. Delivery is the process of transporting goods forms a source location to a predefined destination. (www.wikipedia.org, 2015)

On this chase after competitive advantage many companies are offered their product with value-added delivery service. This can be same day service, delivering to your car service or delivering to your door service, to mention some. This is mostly because the delivery business has been similar shaped for the last couple of years (except for some more advanced track & trace system).

Now though there are several of companies testing out new delivery methods by electric unmanned aerial vehicle (UAV) in the air. This UAV is often known as Drones and this open up a whole bunch of new opportunity when it comes to delivery.

Mekonomen is a Swedish company that offers both automotive spare-parts and repair shops. They are the leading chain in the Nordic region with about 400 stores and 2,300 repair shops affiliated to Mekonomen. Affiliation means the Mekonomen only has a cooperation agreement with the repair shop and does not own the actual repair shop. However, they are currently looking to take their end customer-delivery to the next level by using UAV for transporting the goods.

This report are therefore going to focus on how Mekonomen can improve their logistic performance by using drones. The report is also going to cover in some of the other companies that tried this technology to further be able to see the pros and cons of this delivery method.

MATERIAL AND METHODS

When conducting this case the work was divided into different stages, more exactly four different stages which are: thesis definition, data collection through literature studies ,theory and lastly result and conclusion. This was done this way because it easier to focus one aspect of the project at the time and to organise the project.

To provide this paper with an accurate and qualified theoretical background a literature study has been conducted. The main focus of the literature study was to get a theoretical background about how drone delivery would work, how Mekonomen is currently using drones, how are they planning to use drones in the future and to what extent is drone deliver used across the world. Due to technical issues an interview with the case company never took place. In order to make the study more general the authors has include articles regarding the case company but also articles concerning other companies that are experimenting with drones as a complement to more traditional ways of delivering package like for example cars, trucks and minivans. To make sure that the data has been collected and analyzed in a scientifically correct way this has been done according to the manual from Kungliga Tekniska Högskolan in Sweden. (Haraldsson, 2011) This study includes both articles from regular newspapers and published articles based on sciences. Most of the literature was found using Google as a database. Search words in this study includes: "drones and logistics", "delivery drones", "Mekonomen Drones", "DHL and drones", "quadcopter delivering".

The reason that the data collection only consist of a literature study is that we could not find a good time of an interview partly because we are in Thailand and Mekonomen is a Swedish company. Partly because of technical problems that already has been mentioned.

THEORY

The development of UAV or more known as Drone, have accelerated dramatically the last two decades due to some more advanced and available technology even for the commercial market. Before this the development was primarily lead by military and surveillance forces. In the wide spread of different type of drones it is the four rotor helicopter known as quadcopter that has been most popular for the commercial use. This is due to its usability and stability in the wind people have strapped on cameras, advertises and whole other range of applications that could be remotely controlled by radio wave sensors and GPS.

Drones, for a faster and smarter logistic way of delivering goods has been an idea that many companies now consider. Companies like Amazon, Dominos pizza and Google has already done testings and the delivery company DHL is already using this type of delivery in Europe. They have done regular flights to the North Sea island of Juist.

The vision for Mekonomen is "We are the car owner's first choice and strive for a simpler CarLife". The company was founded in at city called Norrtälje in 1973 by two entrepreneur's called Ingemar Fraim and Leif Möller. In the beginning they only sold exhaust system since that was the part that wore out fastest but later on they expanded by offering brakes, wheel bearings, front ends and other spare parts. Mekonomen has since 29th of May, 2000 been listed on the Nasdaq OMX Nordic Exchange in Stockholm and in late December, 2013, Mekonomen had 35,901,487 shares with Axel Johnson AB owning 26,5% of the shares and the ten largest shareholders represent 51,7% of the votes. (www.mekonomen.com, 2015)

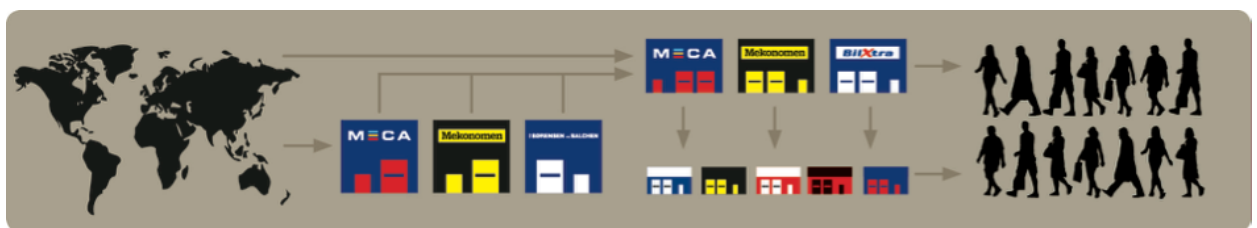


Figure.1 Mekonomen Business flow

Above is a picture of the business flow with centralized warehouse that distributes parts to repair shops, stores and in the end to the end customer. One major competitive strategy is fast deliveries. With their system, Mekonomen is able to deliver goods to all stores and repair shops in the Nordic region overnight. The central warehouse is located in Strängnäs, 80 kilometers west of Stockholm. The warehouse dispatches 300-400 pallets and same number of parcels every day to stores and repair shops. Additionally there is a regional warehouse in Luleå, northern Sweden, who delivers goods in the north. The strength is that they can order fast from their central warehouse in Strängnäs unlike other competitors who might have to order from manufacturer. Mekonomen is in a partnership with PostNord logistics

which has a InNight service meaning that orders have to be delivered to stores and repair shops no later than 7.00 a.m. the next day. (www.postnordlogistics.com, 2015)

It started back in late 2013 when one of the employ in the Värmdö store took his private drone to work one day. When one of the Mekonomen's regularly customers called and needed a filter the employe took his drone, put in the gps coordinate and strapped the filter to it. The drone the flow to the customer in just some minutes and landed in customers parking lot.

Now doe Mekonomen have taken this ide and tested it as a project for little over a year. Marcus Larson vice CEO of Mekonomen Group says that this new delivery method offers quicker delivery, less environmental impact and cost savings. He then continues saying that the drone will not replace the delivery trucks but bring better quality time for the seller with the customer. The transport method is specifically efficient in areas where there are big differences between road and air transportation time. (Nyhetsbyrån Direkt, 2015)

Other companies

Amazon has been testing their prototypes in Canada since they have not yet gotten an approval in the US. (The Guardian, 2015) They claim to be on their 8th and 9th generation of prototypes. By using UAVs, Amazon hope to be able to deliver goods in less than 30 minutes. Some of the prototypes are said to be able to travel more than 80km/h and carry around 2.2kg of packages. (Seattle Bulletin, 2014)

In August 2014, Google revealed that they have been testing UAVs prototypes for delivery in Australia for two years. The project is known as Project Wing and aims to delivery not only small but larger items as well. Tests have been successfully done by delivering packages to farms in Queensland, Australia, from neighboring places. The long-term goal was said to be develop drones that could help deliver aid to isolated areas after disasters such as earthquakes, floods or extreme weather events. (Jack Stewart, 2014)

DHL launched its research project already in December 2013 and right now the plan is to only deliver emergency medications and other urgent goods. Even though the flight to the island of Juist will be completely automated during its whole phase of the flight, a mobile ground control group will be monitoring the flight for safety reasons. The parcel copter will land on a special platform design just for the UAV and from there, a DHL human courier will take over and deliver the goods to the recipient. DHL also developed an extremely light weighted as well as weather- and waterproof container for optimizing the security of the goods. (www.dhl.com, 2015)



Figure.2 DHL Delivery drone

RESULT & CONCLUSION

Result

Based on the findings in the conducted literature study a drone delivery system would not only improve the logistic performance of Mekonomen but also provide Mekonomen with a competitive advantage over its competitors. A drone deliver system would also provide Mekonomen with lower cost and save time, especially when delivering in some of Sweden's more urban areas. From the literature study it was also observed that the use of drone delivering system in a commercial way lays a few years into the future when more stable drones have been developed and safer ways of delivering has been obtained. Using drones would provide Mekonomen an efficient and fast way of delivering small packages around 2 kg without any extra cost.

Conclusion

Drone deliver faces many problem but can also be an economic and environmental benefit if these problems are dealt with. One of the problems concerns the maximum of weight of package and how to safely deliver packages. This problems are more technical and will eventually be solved

due to technical advancement in the field of drones. The competitive advantage of delivering by drones will probably only be short time due to the fact that most of Mekonomen's competitors will be using this system if it is successfully developed. An advantage of this will be that the cost of drones and the company providing this service will probably go down due to market contra prize. Delivering by drones will also provide Mekonomen a way of shorten their delivery time if they can automate this process. One thing to consider is that a drone at the time only can deliver one package at the time this means that instead of todays milktrucks the delivering would go from point a to b and after that the drone need to go back to the warehouse and get loaded.

As mentioned by the CEO of Mekonomen the best way of using drones will be as a complement to today's way of delivering ways. Using drones as a complement saves time when focusing on small and low cost package. It also allows Mekonomen to focus on bigger and more expensive products with their conventional ways of delivering. This might improve the customer services and customer satisfaction when delivering can be more focused on different customer groups. One that purchases cheaper/smaller products and one that purchases bigger and more expensive products.

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Mapping of Express Transportations at HUSQVARNA GROUP

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ABSTRACT

The purpose of this research paper assignment is to map an international company's express transports and explore possible trends in the express transport behavior patterns. The research paper assignment will form the basis for further work in the field to reduce total logistics costs in an international company. To achieve the purpose of this research paper the authors divided the purpose into three research questions.

1. What trends can be found in the company's express transport history?
2. Why does express transports occur?
3. How can international companies reduce express transport?

Literature studies together with a data collection at Husqvarna were performed in order to answer the questions above. The data collection contained a interview and a survey.

The result shows clearly that the express transports is used for transporting goods to near by destinations in western Europe as all top 20 countries except China and USA is located in western Europe. It also show that there is a seasonal variation in number of shipments and shipment weight. The survey showed that the express transport usually is used in cases when you transport goods with special requirements and in the other questions the answers was various.

Keywords Transportation logistics, express transportation, transportation patterns, third party logistics, air transport

1.INTRODUCTION

During the studies at Jönköping University the authors have created a perception that transport logistics of international companies is critical and costly. Hafredal (2015) states that one of the main reasons that makes transport logistics critical and costly is additional transports between plants, warehouses and customers. These additional transports usually

include express transports that are used to make up for lost time or when time is a critical factor (Hafredal, 2015). The purpose of this research paper assignment is:

To map express transports for an international company and explore possible trends in the express transport behavior patterns

The research paper assignment will form the basis for further work in the field to reduce total logistics costs in an international company. To achieve the purpose of this research paper the authors will divide the purpose into three research questions. The first step to achieve the purpose will be to review an international company's express transport history and search for patterns. Therefore the first research question will be:

1. What trends can be found in the company's express transport history?

When the first question is answered an delimitation will be made to narrow the research down to the most frequent destinations of express transports and then deepening the review of the express transport data to answer the second research question, which is:

2. Why does express transports occur?

Finally, to achieve the purpose the authors need to study whether express transport can be reduced. Thus, the final research question is:

3. How can international companies reduce express transports?

To answer the research questions and achieve the purpose the authors will conduct a case study at the Swedish company Husqvarna. Husqvarna is a big company with plants, warehouses and retailers all over the world. Husqvarna is world leaders in their industry with an operating income of approximately 1.6 billion and their biggest markets are North America and Europe. To lower the logistics expenses Husqvarna uses 3PLproviders for their distributions (Hafredal, 2015). When a company is sufficiently geographically dispersed, difficulties in communication and information transfer

increases to a level where complications are unavoidable (Schomaker and Zaheer, 2014). Many researchers have already studied Express transport from the perspective of operational research and also acquired many achievements, but this research focus more about why express transport are used (Yang *et al.* , 2009). When the authors contacted Husqvarna, they got the information that Husqvarna does not keep track on why express transports are being used. Hence the need for a study was confirmed. To limit the research, only express transports made by airplane will be considered.

2.LITERATURE REVIEW

Express Transportation

Express transportation simplifies and speeds the process of transporting goods. The reason for this is because the express transports often provides door to door solutions. Express transportation is however usually more expensive than regular transportation. Express transportation should only be used for goods with either a high value in comparison to its density, news goods or for goods needed urgently (Lumsden, 2006).

Flight transportation

Flight transportation is the fastest way to move goods over longer distances today. It is however also the most expensive transportation alternative and in almost every case charged per weight unit. The most frequent character in products using flight transportation is products under high time pressure. Because there can be many different reasons for a product to be under time pressure, the reasons should be divided up into four different categories in order to separate the valid reasons from the invalid reasons to use flight transportation (Lumsden, 2006).

1. **Perishable goods:** Perishable goods lose value quickly and is therefore in need of fast transportation before it loses its value. Examples of perishable goods are fresh products such as fruit, vegetables, flowers etc (Lumsden, 2006).

2. **Goods containing valuable news:** Several types of goods need to be transported in the fastest possible in order not to lose its value. Such goods may be news material of various kinds as newspapers, magazines and movie, fashion goods or new technology products (Lumsden, 2006).

3. Goods with special requirements for fast delivery: In a corporate global manufacturing chain, manufacturing units often become dependent to each other. Due to the distance it may become appropriate to use flight transportation. For example, An organization dependent on a global manufacturing chain run out of an essential component needed for the assembly to continue. In this case it may take too long to receive the component unless flight transportation is used (Lumsden, 2006).

4. Highvalue goods: A viation time competitive advantage becomes particularly prominent for goods with high value per unit weight. Air freight offers reduced interest costs of capital invested during transportation compared to a slower mode of transportation. The reason for this is mainly due to the shorter time of transportation that creates a lower warehousing cost during transportation. This makes air transportation more profitable compared to other transportation options (Lumsden,2006).

Forecasts and demand patterns

To forecast future demand, information of historical demand is required. Historical data is normally accessed through an ERP system. The historical demand is presented in time series, i.e. a collection of historical data shows the historical volume of demand period by period. In other words, historical data in a time series is historical data in chronological order with a constant periodicity. It is important to have a clear pattern in the periodicity of historical data in order to discern the differences of historical data (Jonsson & Mattsson,2011).

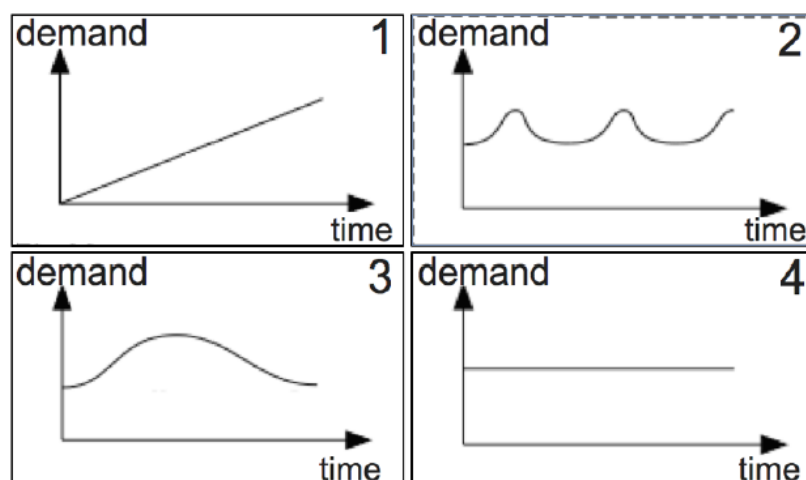


Figure 1, the graphs show how different types of variational in demand over time might look like (Copied from Olhager , 2000).

1. **Trend:** A gradual increase or decrease in demand.
2. **Season:** A pattern of demand that often recur annually. Seasons, holidays and weather can create such recurrent patterns.
3. **Cycle:** A pattern that recurs after a number of years, often linked to the business cycle.
4. **Level:** The level is the basic average demand over time. This component is most evident in the absence of purchasing or seasonal trend.

Third Part Logistics

Third Party Logistics consists of a long-term relationship between two parties who consider each other as partners. The objective of the relationship should be to develop into a strategic alliance with winwin for both parties (Andersson, 1997). There are many examples of this e.g. when a third player is used in an otherwise ongoing collaboration between the two parties. Another common, easily understood example is when a broker acts as a third party between buyers and sellers of residential units (Lumsden, 2006).

3.METHODOLOGY

Data Collection

This research is a qualitative research. Data were collected from a interview and a survey. The interviews was conducted with the Husqvarna transport director. The primary task as a transport director at Husqvarna is to control logistics around the world, prepare contracts and to serve as a problem solver in logistics in different countries.

During the interview different segments and parts of business documents was explained. The authors analyzed the history to get a better understanding and knowledge of how the business documents would be processed. During analyzing, the authors used email and telephone to contact the transport director at Husqvarna to get questions answered instantly. After the interview a survey was conducted at Husqvarna's logistics organization. The authors conducted the survey in order to get an insight and knowledge about the perception of the express transportation among the employees at Husqvarna.

Literature

In order to create a greater understanding of transportation logistics and planning of transportation logistics, different theory books within the subject has been studied.

Data Analysis

The first thing that was done when analyzing data was to create a compilation of the collected documents and to remove the irrelevant data. The information received was in form of excel files, where all data regarding the express delivery with DHL ordered by Husqvarna was listed. The compilation became difficult because the files came on a monthly basis. New tables, graphs and maps based on the compilation was created to get a clearer insight and result. Based on the compiled data the authors discussed the various issues and come up with a result.

4.RESULTS

The results of this research are derived from historic data analysis, interviews with the transport director at Husqvarna and from a survey answered by three employees ordering transports daily. The results are divided into two parts: (1) mapping transportation patterns , and (2) result form survey.

Mapping transportation patterns

The mapping represents the 20 countries to where most express transports are send to from Husqvarna, Sweden. In 2013 there were 65 different destinations used by express transportation's. Out of the 65 different countries the top 20 most popular countries had a total share of 96%. It is clear that the express transports is used for transporting goods to near by destinations in western Europe as all top 20 countries except China and USA is located in western Europe. The five largest countries represents a total of 52% out of the 20 largest countries. With the exception of Spain it also turns out that all these top five countries are located in northern Europe, geographically close to Husqvarna, Sweden.

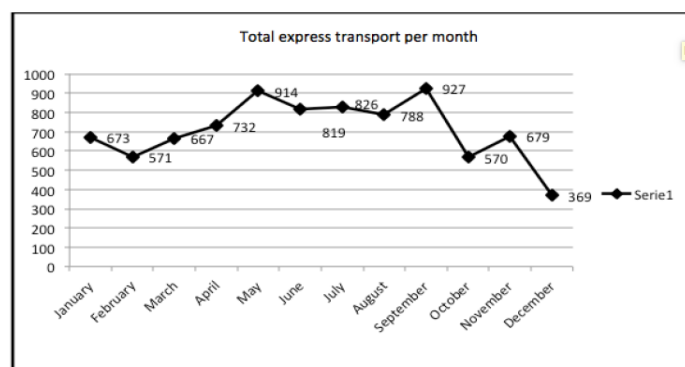


Figure 2, Total number of transport per month

The line chart in Figure 2 shows the variation in number of shipments per month for the top 20 countries. There are two peaks in May and September which could indicate a seasonal pattern, however, there are also two smaller peaks in January and November which could suggesting a random pattern. The top 20 countries representing 96% of the total express transportation's account for 98% of the total shipment weight, which is 2% higher than the share of the total number of shipments made. It should also be highlighted that the top five countries which accounted for 52% of the total express transportation's presented earlier are not the same five countries that accounts for the 52% manifested weight.

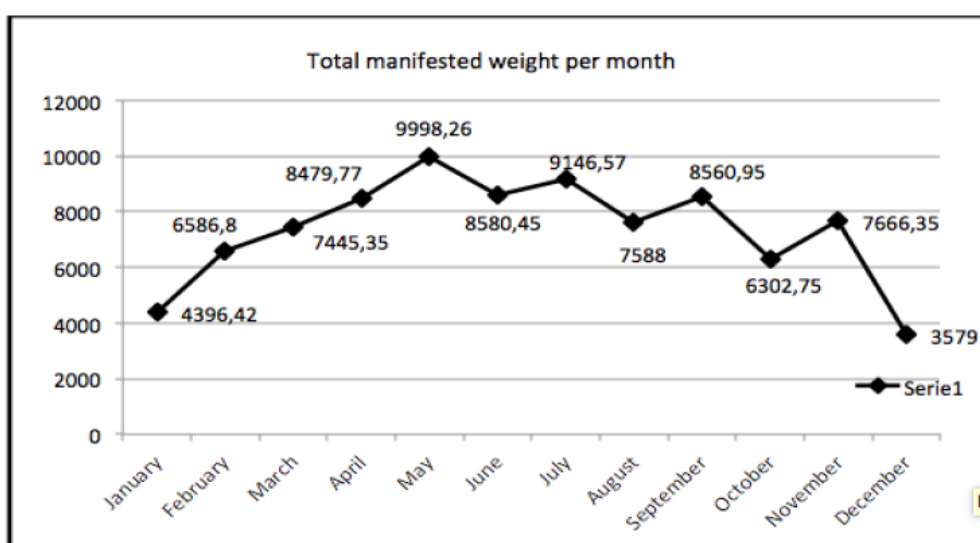


Figure 3, Total manifested weight per month

Figure 12 illustrate the variation of the total weight per month for the top 20 countries. It can be observed that there is weight variation in express transports which seems to go up and down every month. In many ways this graph is similar to figure 10 as both graphs has a peak in early summer, which can be linked to seasonal variation (see Figure 2).

4.2 Result from survey

The survey shows the internal awareness and the meaning of express transportation. Husqvarna has not any solid data on what type of products they are sending with express transportation and the orders with express transportation is not always based on the same grounds. Therefore, a survey was conducted with questions that gave a overview of the types of cargo that was sent by express transportation. The survey was issued to those

who work in the logistic organization on Husqvarna. When the responses was compiled it showed various answers on the questions. In the first question, which was to briefly explain the meaning of express transportation so was everyone in a agreement that the express transportation is a method where the focus is on short lead times, but the high costs was not mentioned. The response also showed that express transportation usually is used in cases when you transport goods with special requirements. However, there were different opinions what type of value that was sent by express transportation. One example is how often highvalue goods is sent.

5. DISCUSSION AND CONCLUSION

5.1 Result Discussion

The purpose of the research paper assignment was to map express transportation's at the Swedish company Husqvarna and explore possible trends in the express transport behavior patterns. The result in the research paper do fulfill the purpose with the boundaries of the countries with the most express delivery, which has resulted in that we only identified approximately on third of the total number of countries.

5.2 Conclusion

The first research question was: What trends can be found in the company's express transport history? To locate a clear trend in the express transport behavior, there are two subcriteria that need to be taken in consideration, frequency and volume. When taken these subcriteria under consideration the authors found out that the local minimum and maximum points for both manifested weight (which represent volume) and total amount are located in the same months. With one exception for January and a little deviation in July. Otherwise it is similar patterns in figure 2 and 3. The conclusion of this and the second research question (Why does express transports occur?) is that the peak is in May and September which can be explained by summer in winter season i Europe. The mapping of express transport patterns showed that it is a interesting area to develop for the logistics organization at Husqvarna. To reduce the present express transportation Husqvarna needs to gain a greater awareness among those who book express transport. To improve this, the authors recommends the following measures:

- Prepare for seasonal peaks
- Clear rules on when and when not use the express transports

- Education

Anyone who has permission to send express transportation service must know the meaning of them and the consequences in economic terms. This could be addressed by training the staff specifically in express transportation. Moreover, setting standards for the various priorities to be pursued by express transportation and form a checklist as guideline, where they must meet a certain number of criteria to send the goods by express transportation.

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How can a Swedish Company improve their Logistics Performance?

Case study on ICA, a Swedish grocery store.

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Abstract

The purpose of this report is to investigate how the purchasing planning process is managed in a grocery store. The study will address possible methods to make the process more effective.

The report suggests a number of alternative material handling systems that could be used, which would offer both advantages and disadvantages. It also investigates how major purchasing and stock keeping would affect the store where aspects such as tied up capital and transport costs are discussed. This report does not provide any definitive answers, but focuses more on giving examples of alternative methods that could lead to improvements.

1. Introduction

This study investigates how purchasing planning is controlled in a major supermarket. The study will also address possible changes that could be made. The idea is to give the reader a greater understanding and knowledge about the purchasing planning process as well as the challenges that may exist within purchasing planning in the grocery industry.

1.1 Background and problem description

There are a lot of difficulties within purchasing. For example, the volume to be ordered, what inventory levels the company should have and how much capital they want to tie up. What is the best solution from an economical point of view?

We have chosen to focus this study on a large grocery store where they have several more aspects to consider, such as short expiration date, a broad target group as well as seasonal variations.

This report highlights these problems and investigates the various solutions available to the grocery store. We have been in contact with the store manager for one of the largest ICA stores in Sweden. Further in the report, the ICA store will be called "the Store". It was with the managers help we were able to obtain information on how they work and think regarding their purchasing logistics.

1.2 Purpose and research questions

The purpose of this study is to investigate, and thereby acquire more information about how the purchasing process is managed in the Store. The study will also investigate the possible challenges that could affect the company's purchasing logistics. We will also look at whether any changes could lead to improvements. The following questions will be answered:

1. What does the purchase planning look like today?
2. Which alternative methods could be used in the planning process?
3. How would larger purchases and thereby increased stockkeeping affect the Store?

1.3 Company background

The ICA Group is one of the leading retail companies in Scandinavia, with around 2,400 stores spread across the region. They have a long history in the industry and has since 2013 been owned by the Norwegian company Hakon Invest. By that time, Hakon Invest changed the name to the ICA group (ICA Sverige AB, 2014).

In Sweden today there are around 1,200 ICA stores and we have been in contact with one of the largest. They have a turnover of approximately 67,000,000 USD (Alla bolag, 2015). Each store has its own retailer, which means that one store works as a completely separate company. This gives the retailer a lot of freedom to adapt the store just as they want. However, they have ICA Sweden as support and most of the purchases the stores make are from ICA Sweden. Furthermore, they have a large marketing department that the stores can take advantage of.

In order to use the ICA brand and take advantage of their marketing department, the retailer need to pay a subscription to the ICA Group.

An important question for the ICA Group is the environment and their environmental impact. For example, ICA Group are currently replacing all the old lighting with more energy-efficient solutions. However, the major environmental impact is the actual operation of the stores. To reduce this impact, they strive to move to renewable energy. For example, they have installed solar panels as an alternative energy supply source in some stores (ICA Sverige AB, 2014). The Store also works actively to reduce spill of food in order to take advantage of the available resources. Presently, the Store is one of those with the lowest cassations in Sweden and discard around half a percent of the purchased food items.

The Store is continuously working to get more organic products in the assortment. By offering more organic products, the customers are more likely to choose among these kinds of products. In order for the market to grow further, and for the Store to be able to reduce the prices for these products, more people need to choose the organic products.

2 Method and implementation

2.1 Interview

We chose to interview the store manager of the Store in a telephone interview. The telephone interview that was made was chosen to be of qualitative character. According to Yin (2011) this gives the respondent a larger freedom to formulate the answers the way he or she would like to. During the interview one of the authors asked the questions while another helped out with follow up questions. The other authors took notes during the interview.

2.2 Literature studies

We mainly worked with course literature and other literature related to purchasing planning. We have also used the Internet and the search engine DIVA.

3. Theoretical Background

3.1 Economic Order Quantity

In order to decide the batch size of an order, a method called Economical Order Quantity (EOQ) can be used. EOQ is a method to calculate the batch size that has the lowest inventory- and order costs (see figure 1). EOQ can be seen as a fixed quantity, which means that it does not change between orders (Johansson, 2013).

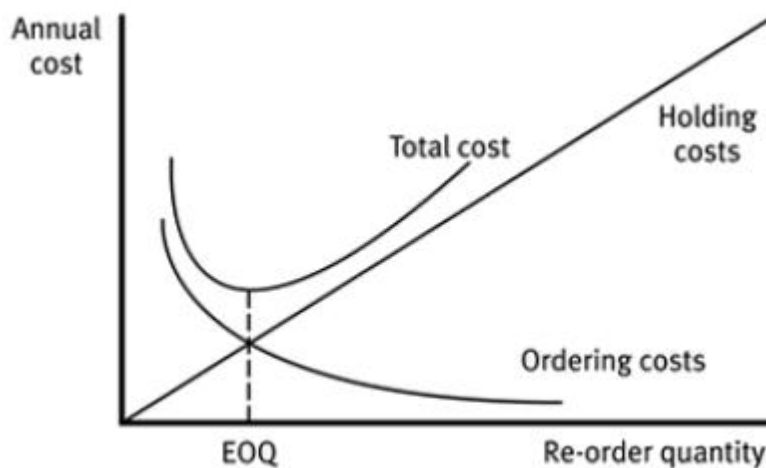


Figure 1 - Economic Order Quantity (Kaplan Financial Limited, 2012)

3.2 Order Point System

Order Point System (OPS) is a method that is used to decide when a purchase order needs to be placed. OPS is based on a comparison between the quantity in the warehouse and a previously determined quantity that is called the order point (see figure 3).

There are two main types of OPS, one system where the comparison is performed continuously and one where the comparison is performed at a fixed time rate. Continuous comparison means that the comparison is performed each time an item is collected from the warehouse. Comparison at given intervals means that the relation between warehouse stock and order point is performed at a fixed time rate, i.e. once a week (Johansson, 2013).

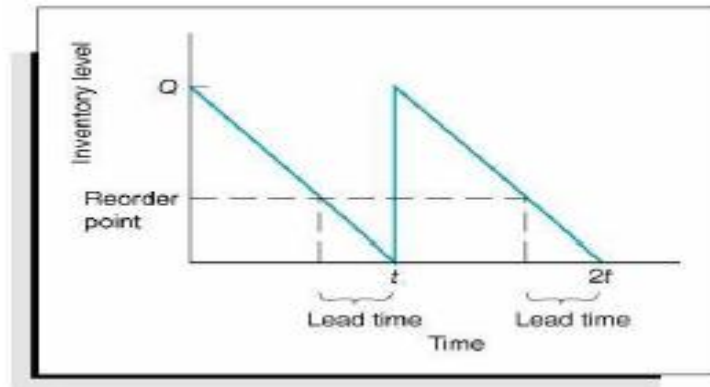


Figure 2 – OPS (Taylor, 2007)

3.3 Fixed Period Order System

Fixed Period Order System (FPOS) is, similar to OPS, a method to decide when to place a purchase order. The two methods are different to each other since FPOS is using a time factor instead of the volume factor that OPS is based upon. When the order quantity is set in a FPOS, the batch size is based upon an ideal stock and not on how many items there are on the shelves in the store or in the warehouse (Jonsson & Mattson, 2011).

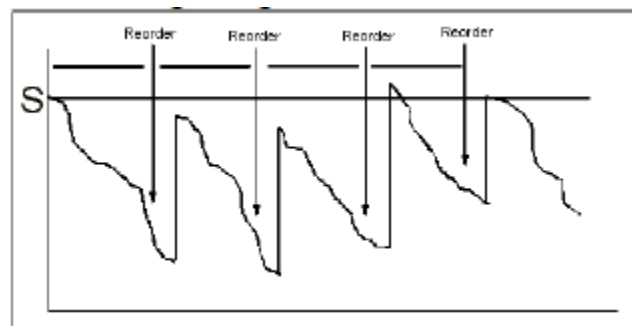


Figure 3 – FPOS (Media Frontier, n.d.)

4. Results

4.1 Purchase planning at the moment

ICA Sweden is currently consisting of 1200 stores, which all are franchise businesses. This means that the stores are based upon a central organization that handles purchases and marketing, but each retailer has their own responsibility to make decisions for their store. The central organization provides recommendations to the stores according to

which assortment they should be able to present to the customers and mostly these recommendations are followed.

In the store we are focusing on, around 75-80% of the orders are placed to the central organization ICA Sweden. The remaining purchases are made from suppliers chosen by the store itself. It can be i.e. local meat producers to be able to present locally produced meat in the store.

4.2 Purchase managers

The Store has four sales managers that are responsible for different product- and assortment areas. The sales managers select personnel from different sections of the Store that are responsible to handle purchases. In total, the Store has 27 persons responsible for purchasing to the different sections. The purchase process mostly implies approving pre-arranged orders.

To their help, the purchasers has an ordering system that calculates purchase volumes based on a large amount of factors. I.e. these can be statistics from prior years. The store manager estimates that 75-80% of the purchase orders are based on these statistics, while the rest are based on personal estimates of each purchaser.

4.3 Selecting new products

Each store performs their own selection of new products for their assortment, but there are also recommendations from the central organization on which products the store should provide. A new product is supposed to complement the existing assortment, i.e. the new product can either be organic or provide a volume, taste or a price that has not been provided previously. The store can also choose to purchase products that are similar to existing products in the assortment to market these products simultaneously. Using this technique makes the customers to choose between the similar products, not if the customer needs the product at all.

Sometimes the store is "forced" to purchase a certain brand due to customer demands. A "forced" product does not really offer something new to the customers, but can be sold solely because it has a certain brand.

The Store is offered new products in several different ways. I.e. by recommendations from ICA Sweden or by vendors that contact the store directly. The Store also conducts

market researches when a need for assortment complementation is required. The store manager considers options for the customers the most important aspect.

4.4 Seasonal variations

In different seasons, for example around Christmas, the purchasing operations are conducted a bit different than usual. The stores receive recommendations from ICA Sweden and also a national marketing strategy is used. However, a large amount of the purchases are based on local traditions that customers nearby the store finds important and the store has to be able to provide these items in order to create customer satisfaction. The purchase quantities for seasonal variations are also based on statistics from prior years and possible price adjustments that affects the sales.

4.5 Warehousing

The Store has its own warehouse, which they currently think is too small. However, they don't have the possibility to increase the warehouse space presently. The problem the Store has today is that the inventory turnover is too high. On average, an item is sold only three days after arriving to the warehouse, which means small margins in case of unforeseen events. An advantage of the fast inventory turnover is however that the Store can minimize the cassation of items since the risk of inventory obsolescence is minimized.

4.6 The influence of major purchases and increased stockkeeping.

Today, there is a warehouse where foods with long durability (for example pasta and tinned food) are kept together with a supply of products that are not included in the range of eatables, for example electronics and clothes.

The stock is small and only the most popular products that are expected to be sold in the near future are stored. This means that the inventory turnover rate is high. As we described in the chapter of purchase planning, the items are sold only three days after arriving to the warehouse. This provides an inventory turnover rate of nearly 122 times a year.

The store manager believes that the inventory turnover rate is too high since there is no margin for unexpected demands such as temporary peaks in the demand. This does not

apply to food products, mainly to hygiene products, electronics and books. The reason for this is that the manufacturing companies are marketing their products externally, and increase the interest of customers. Food products have greater certainty regarding unexpected variations in the demand. The Store markets their own offers and campaigns, allowing for an expected increase in demand can be controlled with a higher fluctuation stock.

Dairy products and other products that has a short expiration date lacks of fluctuation stock. These products are purchased on a daily basis and are stocked only in the store where they are sold.

4.7 Purchase Quantity

In the current situation the Store makes all their orders by themselves. The products are purchased to 75-80% from ICA Sweden and the remaining 20-25% is purchased from local vendors. A majority of the order volumes (75-80%) is based on historical statistics and the remainder is estimated. The Store will therefore not take any consideration to economic aspects that larger volumes involve.

5 Alternative methods for procurement planning

5.1 Order Point System

A material control system that can be applied in a supermarket is the order point system. The Store currently uses a variant of the order point system with fixed intervals. The computer system allows a control of the inventory levels in the store and the stock and then sends a signal when it is time to place a new order.

The system has an uncertainty factor. It can be difficult to have a fluctuation stock of certain goods, especially perishables, which means that the store in worst case can stand with empty shelves. In addition, a temporary increase in demand between the timing of the control mean that certain products run out. The last problem is folded over now by having more frequent checkpoints.

Another possibility is the use of continuous comparison, which means that the stock levels are checked against the order point as soon as a product is sold.

5.2 Fixed Period Order System

A variant to this ordering system could be a fixed period order system. Through various data an order-up-to level is obtained, that order quantities are based on.

The Store can use the fixed period order system for products with a stable demand and for products with long durability, since these orders are placed less frequently.

The order quantity of this system is only based by forecasts of demand for specific products. Products that are seasonally variable or has discount prices should therefore not be ordered using this system.

The advantage of using a fixed period order system is that each order cost can be reduced since the products can be delivered together instead of being shipped at different times.

This means lower total cost of transportation. However, the Store is risking a lack of products if the demand would increase more than expected during the lead time.

6. Discussion

The goal of this report has been to obtain knowledge and evaluate how purchase planning is made within the grocery business and also which challenges the purchasers' faces. Further on we have investigated if changes in the process of purchasing could lead to improvements. In the report the following questions has been answered:

1. What does the purchase planning look like today?
2. Which alternative methods could be used in the planning process?
3. How would larger purchases and following larger stockholding affect the Store?

The grocery store we have interviewed during this investigation makes purchases on daily basis and when calculation of order quantity is made there are a number of parameters that are followed. These can for example be seasonal variations, date or how the current stock levels are. When we interviewed the Store, we held an interview with the store manager. Thanks to a number of courses we have taken throughout our program we had good knowledge of the terms and expressions that was used by the store manager to explain their purchase planning.

6.1 The purchase planning as of today

The Store uses 27 purchasers that all have responsibility over different sections. We believe that this vouch for purchasers with good knowledge of what the respective section needs. One alternative would have been to have one or a few purchasers to cover the whole store that would have meant that they would be further from the products and because of that most likely would not have had the same level of knowledge. Another alternative would have been to have a central purchase organization at ICA Sweden that would have held the responsibility of purchasing to the stores. This would probably have created the advantage that the purchasers would have been more specialized within purchasing, but for the Store it would most likely mean a more general assortment and less opportunity for local deviations.

The result also points out the opportunities the Store have when taking in a new product in the assortment. This should have the effect that the Store keeps the product line wide and up to date which is a strong competitive advantage.

Further, the report handles seasonal variations and in that case the purchases are based on what ICA Sweden is marketing, but also local traditions. That makes it easier to respond to the customers' demands. In total we believe that the purchase organization used today is well functioning to be able to, in a initiated and an engaged way, make sure that the Store is providing the products that the customers' demand.

6.2 Alternative methods of purchase planning

We have, as described above, investigated a number of purchasing methods that would be theoretically possible to implement. These are economic order quantity, fixed period order system and order point system. Our belief is that all three systems could be customized to be used in grocery stores. One way could be a kind of hybrid system that combines two or more of these systems to fit a certain store.

The Store is, as of today, using a type of order point system with given intervals. The computer system, as described in chapter 4.4.2, often gives a good indication of what the Store will need to order. Since the Store does not have safety stock at some products there is a factor of uncertainty that they try to avoid by have controls with short time in between.

In the results part of the report we found that an alternative could be to have continuous comparison of the stock level against the order-point. By implementing continuous comparison, a larger safety against running empty of products is created. Though it can be hard to implement in a store where the purchasers also has other work tasks, which is the case in most stores. It would be hard for the employees to handle other work tasks if they constantly had to place orders.

The Store would also be able to implement a kind of fixed period order system, which would only be applicable on products with stable demand and long expiration date though. If the product fulfills these requirements the store can choose to use fixed period order system. As mentioned earlier in the results part there is both advantages and disadvantages with this. Our opinion is however that the disadvantages in this case overweight's the advantages since the Store already has too few stock locations and the fixed period order system most likely would lead to stock keeping of some of the deliveries.

There is also a permanent risk of increased demand. During the lead time, a peak of demand can happen, but also the opposite, that the demand decreases and the store has too much products in stock.

6.3 Effect of larger order quantities and increased stock keeping

In the Store, a wide range of so called dry goods are kept in stock. Dry goods do not need to be stored in refrigerators and has long expirations dates. Though they do not keep large quantities in stock, as of today the goods has a cycle time of three days. If the Store would increase their warehouse, and through that keep larger quantities of the goods in stock, there will be an increased risk that the products will not be sold before the expiration date is passed and then has to be disposed. That would not only have the effect of unnecessary disposal, it would also mean lost capital of purchased goods.

Having the high cycle time that the Store has today means one disadvantage though. If the demand of some products increases as a result of trends or other factors that creates

momentary peaks, the Store fast runs out of stock and income can be lost if there is a demand of products that is not available to sell.

6.4 Conclusions and recommendations

Today the orders to the Store are handled by four sales managers, which choose 27 co-workers that are in charge of different sections of the store. We have written about alternative order systems that could be implemented in the Store. A new order system could reduce stock, increase productivity and decrease the cost of stock keeping.

Further on we believe that the investigations result makes that a recommendation to the Store would be to increase the order quantity on goods with long lead-time and expiration dates to lower the purchasing cost through lower ordering cost and cost of transportation.

We believe that the investigation could be developed further by focusing more at the economic aspects. To be able to do that more information regarding costs, lead-times, stock levels et cetera would be needed. With the help of these numbers we would be able to create an order system adapted to the certain store included in our investigation.

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