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THE IRISH JOURNAL OF
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IRISH BUSINESS AND ADMINISTRATIVE RESEARCH

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To Know and to Do: Academics' and Practitioners' Approaches to Management Research

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TERESA BRANNICK*
DAVID COGHLAN**

ABSTRACT

In the context of the ongoing debate between academic research and practitioner action, this article, from a supply side perspective, explores the different expressions of these debates – the relevance debate and the epistemological debate. It points to several ways forward – collaboration between academics and practitioners and forms of research which integrate action and knowledge creation. Both these ways are supported by an integrated form of research and action built around three audiences: first, second and third person.

INTRODUCTION

In the context of business school rankings, the *Financial Times* provide a ranking which is based on publications in journals that, by and large, are not only not read by managers but also limit academics to particular forms of research. That publication in these journals contributes to a ranking of MBA programmes, which are aimed at educating managers, poses questions in both academic and practitioner circles. These questions are part of the long-standing debate as to what constitutes 'real' research and worthwhile knowledge,

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and why information generated by consultants and academics tend to be underutilised in organisations (Brannick, 2000). There are two extensive bodies of knowledge dealing with this broad topic: one focusing on the 'doing' or the user perspective, the other on the nature of 'knowing' or the supply side (Menon and Varadarajan, 1992). The doing or user perspective focuses on organisational factors that either inhibit or facilitate knowledge utilisation. The supply side which is the focus of this paper looks at the characteristics of the study or the research process itself. There is limited overlap between the two strands of literature. Pfeffer and Sutton (2004), reflecting on the knowing/doing gap from a user perspective, outline eight factors, two of which (1 – knowing comes from doing and teaching others how and 2 – actions count more than elegant plans and concepts) acknowledge the importance of not separating research from action.

Underpinning the supply side debates is a perceived relevance gap between academics and practitioners, which appears to be growing larger (Starkey and Madan, 2001), and in our view this debate is becoming more confused. Sometimes the focus is epistemological and ontological (MacLean et al., 2002). At other times, it is the nature of worthwhile knowledge, tacit or formal (Weick, 2003), and on other occasions again, the debate focuses on two distinct but linked professional communities: managers and academics. But the precise nature of the gap or the relevance question is unclear. In order to clarify and specify our contribution, we rely on Reason and Marshall's (1987: 112-3) conclusion that all good research communicates with three audiences:

> All good research is *for me, for us,* and *for them*: it speaks to three audiences.... It is *for them* to the extent that it produces some kind of generalizable ideas and outcomes…It is *for us* to the extent that it responds to concerns *for our* praxis, is relevant and timely…[for] those who are struggling with problems in their field of action. It is *for me* to the extent that the process and outcomes respond directly to the individual researcher's being-in-the-world.

The construct of the three audiences has been developed to express three persons of inquiry and practice – first, second and third per-

son (Torbert, 1998; Reason and Torbert, 2001; Reason and Brad-bury, 2001). Taking this three audience approach our focus is mainly on the 'for them' component. In reality the 'for them' component will be of less interest to practitioners and be of direct relevance to the academic community. Hence, this article explores 1) the differences or different emphases, if any, between academic- and practitioner-generated formal knowledge or theory and 2) its consequence for action. It will also pose the question as to whether the criteria used to evaluate articles for *Financial Times*-listed journals need to be revised in light of a three audience approach. The *Financial Times*-listed journal, *Administrative Science Quarterly,* is concerned solely with theory, with no reference to action. 'The authors, reviewers, readers and editors who shape what is published in *Administrative Science Quarterly* insist, perhaps above all else, that articles contain strong organisational theory' (Sutton and Staw, 1995: 371). Interestingly Sutton and Staw's article devotes less than a half a page to detailing what is 'strong theory' and their answer is the standard simple response that it should answer the 'why' question. They go on to argue that the only criterion necessary is that the theory be 'particularly interesting', whatever that means! (Sutton and Staw, 1995: 379).

THE BASIS FOR THE PERENNIAL GAP BETWEEN ACADEMICS AND PRACTITIONERS

For many years now, there has been a question of relevance regarding standard research into the organisational sciences (e.g. Susman and Evered, 1978; Thomas and Tymon, 1982; Bettis, 1991; Schein, 1993; Lowendahl and Revang, 1998; Anderson and Herr, 1999; Rynes et al., 1999; Hatchuel, 2001; Ford et al. 2003). The observed gap and lack of harmony between theory and practice has also been a recurring theme in such business disciplines as marketing and the marketing literature suggests that there is a need to bridge that gap (American Marketing Association, 1988; O'Driscoll and Murray, 1998). According to Hunt (1994: 17) 'if we wish even to keep up with marketing practice – let alone lead it – we need to rethink our theories and empirical studies of marketing practice'. The practical relevance of much IT-based research has been seriously challenged also. Senn (1998: 23–4) argued that 'a great deal of the academic research conducted in information systems is not valued by IT

practitioners' and that such research 'is not relevant, readable, or reachable'. There is a perception that researchers and educators are increasingly distancing themselves from managerial practice and, not unlike other social science fields, are becoming a closed, self-contained system (Razzaque, 1998).

It appears that the business world is generally ignoring the research and consequent knowledge produced by business schools or academia, since it feels it is irrelevant to its purposes (Huff, 2000; Beer, 2001; Lundberg, 2001; Pfeffer and Sutton, 2004). There is a contrary position which contends that the relevance argument is misguided. It is a failure to understand the complexities of knowledge production, its relationship to practice and the importance of 'independence', which is the unique contribution that universities make to society, that underpins this relevance gap (Grey, 2001). Grey argues that when we talk about relevance we ask the further question of relevance to whom and of what. By applying the three audience framework we can simplify the relevance argument, as the 'to whom and of what' is distinctly different for the different audiences. What is worthwhile for one audience is of less interest to the other audiences.

From this literature we identify three reasons for this de-coupling. The first is that there is an inherent incommensurability between science and practice, in other words the academia and management practices differ, since they represent two different, specialised and self-referential forms of discourse with divergent foci and interest. In common with most of the human sciences, the study of management has not succeeded in developing a common observational language (Whitley, 1984). Intellectual judgements remain tacit and highly dependant on everyday language and cultural conventions. In addition, the characteristics of managerial tasks and skills render a general management science improbable. Detailed knowledge of how individual organisations work is of less interest to the theorist than general conclusions about managerial practices which have implications for theoretical considerations (Whitley, 1984). This is the dominant academic language which differs from that used by practitioners. Christensen and Raynor (2003: 72) argue that if academic theory is going to be useful to hard-nosed executives, it must be researched and 'written in ways that make it possible for readers to diagnose their situation themselves'. Lundberg (2001) concludes that it is not surprising that

managers who apply scientific knowledge or theory seldom get what they desire and turn less and less to academic scholars for assistance. Likewise academics who work on organisation- or manager-specific problems find their work devalued by their academic colleagues. Lundberg's concluding argument is that the nature of theorising itself is part responsible for the relevance gap.

Weick (2003) advances the debate by introducing two concepts, drawn from Kierkegaard: 'life understood backwards' (theory) vs 'life lived forwards' (practice). This conceptual duality reinforces the difference in perspective and focus between the theorist and practitioner. As Weick says (2003: 454):

> Life is understood backward when detached theorists deploy analysis, abstraction, and simplification after the fact in order to impose order and patterns on previous activities that were lived forward by involved practitioners. The living forward itself, however, is an altogether different form of activity. When practitioners live forward they tend to mix together false starts, routines, automatic thinking, unanticipated consequences, recoveries, trade-offs, improvisation, and trial and error. Their living is both less orderly and of a different order than it appears in hindsight.

Weick argues that theory and practice can be partly reconciled if living forward is differentiated according to Heidegger's distinction of ready-to-hand living from unready-to-hand living. His central point is that better theorising occurs by closely examining those moments where backward and forward meet, namely unready-to-hand moments. These are moments when practitioners are interrupted, often in the form of failures, and theorists have an opportunity to get a richer glimpse of what is going on in the practitioner's project. Theories are built around what people notice when they are interrupted and how they cope with interruptions are not just commentaries on how people react to irritants and hassles. Rather, those theories point to fundamental properties of ongoing, involved, practical activity. When everyday projects suffer a breakdown of action, theorists and practitioners alike share a common vantage point from which they can glimpse thwarted potentialities embedded in networks of projects.

The second reason is epistemological, where there are those who attribute a sense of misplaced faith in the canons of modernist traditional research, where it has been assumed that if a research project is methodologically sound it will contribute to scientific knowledge and ultimately to practice (Brown, 1995). In the context of research in the field of organisation science, Susman and Evered (1978: 582) noted that 'the findings in our scholarly management journals are only remotely related to the real world of practicing managers'. In their view, it appears that this dilemma is rooted in positivist research approaches that dominate the field. Such approaches 'are deficient in their capacity to generate knowledge for use by members of organisations' (Susman and Evered, 1978: 585). Supporting this contention, Schein (1993: 703) reflected that 'we have largely adopted a traditional research paradigm that has not worked very well, a paradigm that has produced very reliable results about very unimportant things'. In a similar vein, it has been argued that most research in the strategy domain is 'irrelevant' since it is 'increasingly and prematurely stuck in a normal science straightjacket' (Bettis, 1991: 315).

The third reason is that the research focus or content is the problem (Menon and Varadarajan, 1992). Researchers should ensure that knowledge produced is relevant and transferred to practitioners in ways that enhance their capacity to use it. Thomas and Tymon (1982) put the responsibility for the lack of practitioner relevance firmly on the shoulders of the academic community and they identified five key needs of practitioners with respect to organisational science knowledge. The five are: descriptive relevance, goal relevance, operational validity, non-obviousness and timeliness.

THE NATURE OF MANAGEMENT RESEARCH AND THEORY

All business, marketing and management research is intrinsically linked to the whole process of knowing. The positivist tradition incorporating quantitative techniques rather than the hermeneutic or action research approaches is the dominant methodology used for knowledge generation for both communities of researchers. A basic argument underlying this article is that both communities of knowledge producers, academics and practitioners, employ the different research traditions with equal skill, rigor and appropri-

ateness. This basic premise is in disagreement with the Carson et al. (2001) position. They identified three groups of marketing researchers, academic, business/consultants and practitioners, which are distinguishable along two methodological criteria a) rigor and validity and b) qualitative or quantitative methods. The academic and consultant researchers are very similar and tend to rely on rigor and validity and use quantitative techniques. For Carson et al., practitioner research is very different and relies on intuition and qualitative techniques.

An argument about good versus poor research is a very different matter and not the focus of this article. In this article, formal management knowledge is confined to research-based knowledge carried out to the highest standards by either academics or practitioners. Generally speaking, good research is purposeful, its goals are clearly defined and significant, the methodological procedures defensible, evidence is systematically analysed, statistical techniques are correctly followed and the 'objectivity' of the researcher clearly evident. The focus of this article is properly conducted research, which gives rise to worthwhile, credible knowledge, and its relationship to action.

According to James March (Huff, 2000) there are reasons why researchers should focus on basic research and foundational knowledge. The comparative advantage of fundamental knowledge over experiential knowledge decreases as one comes to concrete, specific situations. In a situation in which a manager has experience, an academic will not be very helpful and the managers are likely to know best. However, the comparative advantage shifts as one moves to more novel situations. It shifts to academic knowledge, to general knowledge, to fundamental knowledge. Fundamental knowledge becomes more useful to managers (in combination with context-specific, experimental knowledge) in changing worlds, in new ventures and when faced with the unexpected. Researchers who pursue immediate relevance are likely to produce knowledge that is both redundant with what managers already know and useful only over a limited time and under limited conditions. In addition it makes little or no contribution to the development of ideas about business management and organisations. These short-run research questions of minuscule importance contribute little to intellectual life and

therefore, in the long run, little to business life. Even if this were not true, our more important obligation as scholars is to the pursuit of knowledge.

Most empirical research is in the domain of propositional knowledge. The outcome of research is stated as a set of propositions which claim to be statements of facts or truths about the world. These theoretical constructs and empirical statements provide a framing of the world, a context of meaning. Framing propositions empirically and theoretically makes an important contribution to human understanding. However they are not synonymous with the experiential knowledge of the world. Experiential knowledge involves knowing the world through sustained contact of a direct face-to-face nature. Each of the two windows on reality offers a limited perspective. This article focuses solely on formal or prepositional knowledge. However tacit or experiential knowledge is a key element in specific methodology such as action research.

In Whitley's (1984) view, the type of management knowledge produced by different constituents vary according to five criteria, which in our view consolidate around the criterion purpose or the action dimension. He identifies theory and theoretical related issues, such as specificity to individual organisations or the logic of general inference, as the key issue where academics differ from practitioners.

Table 1.1: Types of Management Knowledge

	Practitioners	Consultants	Popular Writings	Academics
Audience	Colleagues	Clients	Managerial Public	Researchers
Purpose	Corporate Success	Best Practice	Best Practice	Theoretical
Specificity to Individual Orgs	High	Medium	Low	Low
Reliance on Current Practices	High	High	High	Low
Public Availability	Low	Low	High	High

Source: Whitley (1984)

According to Bacharach (1989), there are two primary criteria upon which any theory may be evaluated: a) falsification and b) utility. The use of criteria to evaluate theory may also help to demystify some false dichotomies. The first false dichotomy is between qualitative and quantitative data collection modes. No matter how data are generated or collected, researchers are obliged to present them in a way that allows other scholars to use or disprove the data. The second is between theory construction and theory testing. If theory is not testable, no matter how profound or aesthetically pleasing it may be, it is not theory. The third false dichotomy is between theoreticians, consultants and practitioners. The role of consultant and practitioner researchers is to diminish the complexity of their or their client's empirical world, and explain and predict events. The goal of theory is to diminish the complexity of the empirical world on the basis of understandings, explanations and predictions. Thus in Bacharach's view, practitioners and theoreticians need a clear understanding of the rules of theory construction. This is the view also advocated by Christensen and Raynor (2003). Gummesson (2000) builds bridges between the two by seeing both groups as 'knowledge workers', whereby each has a different emphasis in relation to theory and practice; one pecks at theory and contributes to practice and the other pecks at practice and contributes to theory.

APPROACHES TO THEORY DEVELOPMENT

Academics engage in a dialogue of ideas (theory) and evidence (data) when they construct representations or theories of organisational and management activities. Organisation and management theory is a contestable and contested network of concepts and theories which are engaged in a struggle to impose certain meanings rather than others on shared understanding of organisational life in late modernity (Reed, 1996). Organisational researchers differ in their responses to the following three theory/data-related questions:

- What is the nature and role of theory in research?
- What is the ultimate goal or aim of organisational studies?
- What is the nature of representation in observational field studies?

(Putnam et al., 1993)

These differing responses constitute different epistemologies and the resultant debate relates to the representational assumptions upon which the knowledge claims made by different scholars/theorists can be evaluated and legitimated. Researchers' epistemological perspective ultimately determines what they consider as a valid, legitimate contribution to theory development or generation. Theory is implicitly embedded in all research approaches. Pure description is laden with implicit power relationships and all research operates from a theoretical slant.

Researchers' epistemological perspective determines what they consider as a valid, legitimate contribution to theory irrespective of whether we call it development, confirmation, validation, creation, building or generation (Peter and Olsen, 1993). The dominant approach or paradigm in management and organisational studies has been positivism and its successor realism (explanation, hypothetico-deductive, multi-method eclecticism). These approaches are defined primarily by their view that an external reality exists and that an independent value free researcher can examine this reality. The hermeneutic tradition, the other main approach (sometimes referred to as phenomenology, constructivism, interpretivism or the postmodern interpretivism relativist approach) argues that there is no objective or single knowable external reality and that the researcher is an integral part of the research process, not separate from it. This distinction is based on the subject-object dichotomy. This ontological 'subjective vs. objective' dimension concerns the assumptions social theories make about the nature of the social world. Positivism and its successors are concerned with generalisation and universal knowledge while the hermeneutic is more interested in particular knowledge sometimes referred to as inductive theory. In both traditions, action is separate from research or knowing.

PRACTITIONERS' VERSUS ACADEMICS' APPROACH TO THEORY DEVELOPMENT

While the academic research orientation may be characterised as concept-driven design, the practitioner research orientation, on the other hand, may be viewed as system-driven observation. In the former approach, researchers first select elements and relations from a conceptual domain, determine the methodology(ies)

to construct a design and finally implement that design on some system of their choice. In the latter method, practitioners select the elements and relations to be studied from some existing system, choose the methodology(ies) to develop observations; and finally move to the conceptual domain to interpret that set of observations. In both approaches knowledge is pursued using similar steps in a different sequence – what the academic researchers do first, practitioners prefer to do last (Brinberg and Hirschman, 1986).

More often than not, practitioners end up conducting relationship studies which attempt to determine the relationship between dependant and independent variables, rather than linking the results to an established research programme or a body of theory. However, their conceptual domain may be influenced by some preconceived notion or theory, or by some previous experiences which in turn influence their explanation. Thus, managers actually create a contextual reality, rather than discovering the true reality whatever that may be. Their view(s) of the system in question and selection of pertinent elements and relations depicting the system could significantly differ from those of another practitioner.

Practitioners are affected by a need to act while academics are not. This creates some motivational problems. In a given research orientation, practitioners spend resources in developing, articulating and finally solving a problem. The set of concepts selected to explain a phenomenon is often least attended to because the focus is basically on the problem and because no one set of concepts is likely to explain the problem in its true dimensions. But in an academic research orientation, generally the greatest amount of resources are spent in developing a detailed articulation of concepts and the phenomenon is least attended to because it is selected simply to illustrate relations among concepts (Brinberg and Hirschman, 1986).

WAYS FORWARD: FIRST, SECOND AND THIRD PERSON INQUIRY/PRACTICE: TOWARD INTEGRATION

Are there ways forward? In our view the way ahead is an integrated evaluation framework. An integrative approach to research incorporates three audiences, first, second and third person

(Torbert, 1998; Reason and Torbert, 2001; Reason and Bradbury, 2001). Traditionally, research has focused on third person – researchers doing research on third persons and writing a report for other third persons, typically other academic researchers. Practitioner research typically focuses on a second person audience, i.e. the members of the system who have experienced the action and who, hopefully, have seen its benefits. Gibbons et al. (1994: vii) outline a new form of knowledge production (Mode 2) which, although originally an outgrowth from its traditional counterpart (Mode 1), is becoming increasingly distinctive.

> Our view is that while Mode 2 may not be replacing Mode 1, Mode 2 is different from Mode 1 – in nearly every respect…it is not being institutionalised primarily within university structures…(it) involves the close interaction of many actors throughout the process of knowledge production…(it) makes use of a wider range of criteria in judging quality control. Overall, the process of knowledge production is becoming more reflexive and affects at the deepest levels what shall count as 'good science'.

In line with Gibbons et al., who identified a wider range of research evaluation criteria as a key element of Mode 2 type knowledge, we see the integration of the three audience framework as the key to understanding the relevance/gap debate. Integration will take place at the research process level and two ways are emerging, 1) academic and practitioner collaboration and 2) critical-realism and action research.

Academic and Practitioner Collaboration
As it is very difficult for academics to practice management and practitioners to conduct and publish research, the most common forum where academics' and practitioners' concerns are combined is when they work together (Rynes et al., 1999). Typically this is a forum where the academic acts as an external researcher working in collaboration with a manager who is an insider to the setting (Bartunek and Louis, 1996; Amabile et al., 2001). Many of the classical studies of organisations were the outcome of such collaboration between an external academic and an internal practitioner (e.g. Roethlisberger and Dickson, 1939; Coch and French, 1948).

Collaborative research, as the term suggests, is an emerging action research approach to conducting inquiry in organisations, with the aim of 'generating new insights that can simultaneously serve both action and the creation of new theoretical development' (Adler et al., 2004: 359). Collaborative research, at the most basic level, attempts to refine the relationship between academic researchers and organisational actors from research 'on' or 'for' to research 'with'. In doing so, it attempts to integrate knowledge creation with problem solving and 'inquiry from the inside' with 'inquiry from the outside'.

- A partnership among a variety of individuals forming a 'community of inquiry' within communities of practice.
- An emergent inquiry process that differs from the notion of scientific research as a closed linear and planned activity.

Adler et al. (2004) provide a theoretical basis for collaborative research and present nine case studies in which external individual researchers worked in partnership with insider managers on issues of joint concern and knowledge generation.

Rynes et al. (2001) argue that the extent to which an organisation's self-design activities, in other words the action-oriented (behavioural) and cognitive processes that members use to redesign and reorganise their organisations, are informed by the results of research will determine how useful an organisation's members will consider the research to be. The strong relationship between self-design activities informed by the research and perceived usefulness is striking, especially given the lack of support for any relationships between self-design informed by research and joint interpretive forums. Taken at face value, it would seem that researchers must do more than work collaboratively with organisation members to understand research findings. Perhaps they must become part of an organisation's self-design activities if they wish to promote usefulness. Such participation would constitute adoption of a more traditional action research model, in which researchers are also change consultants and are involved in internal organisational processes. Rynes et al. concluded that joint interpretive forums only related to self-design activities being informed by research when the forums resulted in perspective taking that took practitioners' views into account. Extrapolating from this, they conclude that research may

be usefully incorporated into self-design activities without extensive involvement of the researcher as interventionist, if enough perspective-taking occurs in the joint interpretive forums that organisation members can introduce the knowledge generated in the study into their self-design activities.

Thomas and Tymon (1982) advocate a more hands-off approach, whereby practitioners would be involved in the feedback and review process within organisational science. A similar position is put forward by Razzaque (1998: 13) when he suggests that academics and practitioners should be involved in marketing seminars, forums and colloquiums. These avenues may serve as common grounds for the academics and practitioners to interact, exchange ideas and learn from each other by seeking clarification of issues, concepts and methodologies pertaining to the study and practice of marketing. Similarly academic supervisors of practitioner researchers also perform this role in reverse (Coghlan and Brannick, 2005). The growing development of practitioner-oriented doctoral programmes provides a setting in which academics and practitioners work together, each contributing a particular perspective to the research process.

Pragmatic-Critical Realism and Action Research

The second possible way forward to the academic-practitioner divide is the approach to research itself, particularly through a research process that has action built into it. According to Elias (1994), action research is a methodology that allows the flow and interplay of theory and action to take place. Reason and Torbert (2001: 6) argue that following the linguistic turn of postmodern interpretism of the past thirty years, which views reality as a human construction based on language, it is time for an 'action turn' which aims at 'timely, voluntary, mutual, validity-testing, transformative action in all moments of living'.

Pragmatic-critical realism differs from positivism and postmodernism in that it articulates a clear position on action. A premise underlying pragmatism is that all human behaviour and all human knowledge takes place within and simultaneously reconstructs culturally derived meanings. Pragmatic-critical realism demands a reflexive political praxis. In other words, knowledge claims do not

relate to some quest for foundational knowledge, as is the case for positivists and postmodernists, but instead looks to practical and political consequences. Johnson and Duberley (2000) argue that a pragmatic-critical realist perspective raises many questions regarding management knowledge or theory:

- Who were or are the carrier groups of management knowledge?
- How did or do those carrier groups gain and maintain a position that enables them to authoritatively present to practitioner significant others their particular interpretation of, and solutions to, their problems?
- What were or are those problems and what were or are the motivations of those practitioner significant others?
- What were or are the outcomes of those social processes?
- How might (is) management knowledge develop(ing) as it both caters for and constructs the concerns of practitioner significant others?

Action research focuses on research *in* action rather than research *about* action. The term, action research, is a generic one and is used to refer to a broad range of activities and methods. At its core, action research is a research approach which focuses on simultaneous action and research in a participative manner. Within this approach are multiple paradigms or methodologies, each of which has its own distinctive emphasis (Greenwood and Levin, 1998). Some action research methodologies have developed from sociology and focus on how communities as socio-political systems enact change. These approaches tend to focus on structural emancipatory issues, relating to, for example, education, social exclusion and power and control (Whyte, 1991; Fals-Borda and Rahman 1991; Lynch, 1999). Other action research methodologies have their origins in applied behavioural science and have developed in the organisational context (Coch and French, 1948; Foster, 1972; Schein, 1987; French and Bell, 1999). McLean et al. (2002) argue that research approaches such as action research, clinical method, grounded theory and co-operative inquiry may make a legitimate claim to producing knowledge 'in Mode 2'.

A significant feature of all action research is that the purpose of research is not simply or even primarily to contribute to the

fund of knowledge in a field, or even to develop emancipatory theory, but rather to forge a more direct link between intellectual knowledge/theory and action so that each inquiry contributes directly to the flourishing of human persons and their communities (Reason and Bradbury, 2001). It is participative, in that the members of the system which is being studied participate actively in the process. It aims at both taking action and creating knowledge or theory about that action (Greenwood and Levin, 1998; Coghlan and Brannick, 2005; Reason and Bradbury, 2001). It involves an extended epistemology, by integrating four forms of knowing: experiential, presentational, propositional and practical (Reason and Torbert, 2001). Since its intended outcomes are both action and theory, it does not recognise the distinction between academic and practitioner knowledge. According to principles of action research the traditional split between research and action is, in many respects, a false distinction and it is typically based on extreme views of what academic researchers are and what practitioners are.

In a more complete vision of research, as presented by action research and other transformational inquiry approaches, authentic third person research integrates first and second person voices. First person research is typically characterised as the forms of inquiry and practice that one does on one's own and so addresses the ability of the individual to foster an inquiring approach to his or her own life, to act out of awareness and purpose. First person research can take researchers 'upstream', where they inquire into their basic assumptions, desires, intentions and philosophy of life. It can also take them 'downstream' where they inquire into their behaviour, ways of relating and their action in the world. Second person inquiry/practice addresses their ability to inquire with others into issues of mutual concern, through face-to-face dialogue and conversation. Third person inquiry/practice aims at creating communities of inquiry and involving people beyond the direct second person action. Third person is impersonal and is actualised through dissemination by reporting, publishing and extrapolating from the concrete to the general. As Reason and Torbert (2001) point out there are plenty of implicit examples of first, second and third person inquiry, but what is required now is explicit integrating of all three persons

of inquiry with action and inquiry. Jacobs (2003) conducted action research in an organisation where the second person outcomes were a renewal of communication structures, participation in strategy formation and a redefinition of some of the key results areas of the organisation. At the same time, in third person terms, he contributed a theory of responsiveness in organisations to the academic community. A case could be made that neither the practitioners in that organisation nor the academic community are particularly interested in the outcomes for the other.

CONCLUSIONS

Over thirty years ago this debate about relevance in the social sciences concluded that research can answer specific questions but it cannot tell practitioners or policy makers what to do, because that decision calls for consideration of a wide variety of ill-defined factors such as professional judgement and practice, the politics of the field in question and the broader societal concerns (Rand, 1971). This article adheres to this principle that managerial or practitioner tacit knowledge is distinct from the formal theory which is the focus of this paper. We look at the relevance debate from the standpoint of the construction of formal knowledge or theory.

We have explored the different expressions of these debates – the relevance debate and the epistemological debate. We have shown how academics' and practitioners' self-definitions contribute to their use of knowledge. We have pointed to several ways forward – collaboration between academics and practitioners and forms of research which integrate action and knowledge creation. In our view, both these ways are supported by an integrated form of research and action which highlights the importance of the three audiences. We also surmise that an all-encompassing view of research, which comprises individual inquiry and learning, collaborative inquiry and the generation of theory for a broader audience, is one which can underpin collaboration between academics and practitioners, as well as action research. Christensen and Raynor (2003: 74) also 'hope that a deeper understanding of what makes theory useful will enable editors to choose which pieces of research they will publish – and managers to choose which articles they will read and believe – on the basis of something other than authors' cre-

dentials or past successes'. The research process engaged in is key to the integration of the three audiences. As Lundberg (2001: 21–2) argues, a way forward should be based on two organisational science correctives or changes that need to be implemented:

- The phenomena of interest to both practitioner and academic are complex and continuously changing. The implication of this fact is to legitimate multiple explanation by multiple voices and by doing so encourage more variety in methods and perspectives.
- Theoreticians to drop their heavy tools and the debates they engender. 'Paradigm warriors, ontological debaters, methodological purists, school of thought defenders, and the like, all pretenders of the one and only best way, need to find dwindling audiences.'

Whatever ways forward are adopted in different settings, we think that the sorts of dogmatic positions, as engendered by the *Financial Times* lists, for example, need to be modified. The criteria used to evaluate articles for inclusion in *Financial Times* journals need to be revisited to take account of a three audience framework which accepts the rightful position of formal theory but not at the expense of the other two audiences.

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Reflections on How to be a Theoretical Researcher in Business and Management Studies

D A N   R E M E N Y I *
A R T H U R   M O N E Y * *

The owl was the wisest of animals. A centipede with 99 sore feet came to him seeking advice. 'Walk for two weeks one inch above the ground; the air under your feet and the lack of pressure will cure you,' said the owl. 'How am I to do that?' asked the centipede. 'I have solved your conceptual problem, do not bother me with the trivia concerning implementation,' replied the owl.

<div align="right">(Shubik, 1999: 615)</div>

ABSTRACT

This is a reflective or theoretical paper, which examines some of the ideas that underpin the practice of non-empirical or theoretical research. The paper explores different ways in which the word theory is used, defines theoretical research and describes the limits of theoretical understanding. It then discusses discourse and reflection, and proceeds to describe how empirical and theoretical research strategies differ. The paper offers a suggestion as to how to undertake theoretical research and points out how such research may be evaluated.

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INTRODUCTION

This paper discusses an approach to conducting research that relies on a non-empirical paradigm, which we will refer to as theoretical research[1]. All academic research[2] requires strong theoretical underpinning of some form. This is especially relevant to doctoral research, on which this paper focuses. For this reason we have used the term non-empirical or theoretical to describe research which predominately relies on an examination of the literature, reflection and discourse with knowledgeable members of the appropriate academic community. The authors, who have jointly some 50 years experience in supervising and examining at doctoral level, propose a practical approach to this form of research and suggest how it is possible to ensure rigorous results from such endeavours. Before addressing how to conduct theoretical research the paper clarifies the role of theory in academic studies and indicates its limitations.

The creation, development and application of theory is the backbone of academic activities. Without theory academic activity would not exist in the form that we know it. Theory informs not only academe but also the application of ideas in each field of study. It is therefore of paramount importance to understand the nature of academic theory and its purpose or role[3].

THEORY UNDERPINS ACADEMIC THINKING

Academics attempt to work in general conceptual structures that offer a wide understanding of the concepts in the discipline. For this reason academic thinking involves rooting knowledge in theoretical frameworks. Without a theoretical framework, knowledge can only be quite specific and although such knowledge can be useful in a particular set of circumstances it may have restricted application.

Theory is therefore an integral part of any academic study and even in introductory university courses the teaching of theory will play an important role. In such courses theory will often be expressed as laws, principles or theorems. An introduction to Economics may address the Law of Diminishing Marginal Returns or the Law of Demand and Supply. In Physics it may be Archimedes'

Principle, in Chemistry it may be Arrhenius' Theory and in Mathematics it may be the Binomial Theorem[4].

Little time or attention is normally given to defining the meaning of the concept of a theory or describing its nature, or even looking at what sort of limitations it may have. The term 'theory' is so deeply rooted in everyday language that it is assumed that its meaning is clear. But, like many other assumptions in academe, this is not always the case, as the notion of theory is neither obvious nor simple. When dictionaries are consulted it is revealed that there are a number of different meanings associated with the word theory and this certainly can be confusing.

DIFFERENT MEANINGS OF THE WORD 'THEORY'

Of the various different meanings of the word 'theory', listed here are a few that demonstrate the wide range of situations in which the word is used:

- A theory is a speculation – my theory is that the first horse to lead the pack in the race will very seldom finish first.
- A theory is a belief – my theory is that if you spare the rod you will spoil the child.
- A theory is a guess – my theory is that he will come later this afternoon.
- A theory is abstract reasoning – my theory demonstrates how value is associated with the perception of utility.
- A theory is a series of inter-related concepts – the concept of a black hole brings together a number of different astronomical issues and relationships.
- A theory is an explanation – Newton's Third Law of Action and Reaction explains why motor vehicles are wrecked when they collide at speed.
- A theory is an aid to comprehension – Einstein's Theory of Relativity allows us to better understand how time and space are interconnected.
- A theory is a component of a body of knowledge – Modern Architectural Theory rejects the linear structures fashionable in the 1960s.

Theory is an example of one of those words of which one has to be very careful if its meaning is to be understood.

It is the last five usages, listed above, of the word theory that are primarily used by academics. In our view a definition of theory is that:

A theory is systematically organised knowledge applicable in a relatively wide variety of circumstances, using a system of assumptions, accepted principles and rules of procedure devised to analyse, predict or otherwise explain the nature or behaviour of a specified set of phenomena. But it is also often simply the best explanation which is available at that time.

It is sometimes argued that theory needs to deliver some degree of utility or practical application. In this respect a theory is often looked to as a means of being able to predict and thereby giving the user of the theory some degree of control (Alvesson and Sköldberg, 2001). Predictability is not a *sine qua non* and there is much useful theory which expands understanding by explaining but which is not capable of, or simply does not lend itself to, prediction. The Darwinian Theory of Evolution is a clear example of this (Darwin, 1986).

Theory may be developed by the process of induction or deduction. Whether induction or deduction is the chosen stratagem is really a function of the type of research question. In general, deduction would be used when there is an established theory to explore further and induction is used when a new theory is being developed (Remenyi et al., 1998). Deduction may be described as moving from a general concept to a specific situation, while induction involves moving from a specific situation to a more general principle (Whetten, 1989). This is well discussed by Alvesson and Sköldberg (2001).

THE LIMITS OF THEORETICAL UNDERSTANDING

It is not necessary for a theory to be a complete explanation of a phenomenon. In fact many theories are only partial explanations. The full complexity of the situation may not be apparent when the theory is being developed. Even when a theory appears to be comprehensive it

may not be able to encompass all the issues in its immediate domain. This point has been made by several philosophers of science, including Feyerabend (1993: 39) who said:

> We may start by pointing out that no single theory ever agrees with all the known facts in its domain. And the trouble is not created by rumours, or by the results of sloppy procedure. It is by experiment and measurement of the highest precision and reliability.

Feynman (1995: 2), describing the lack of comprehensiveness of our understanding or knowledge, points out:

> Each piece, or part, of the whole of nature is always merely an approximation to the complete truth, or the complete truth so far as we know it. In fact, everything we know is only some kind of approximation, because we know that we do not know all the laws as yet. Therefore, things must be learned only to be unlearned again or, more likely, to be corrected.

In effect, at any given moment our theoretical understanding of any subject is always contingent on our current level of thinking or our current cognitive capacity. Our current level of thinking is nearly always in a state of transformation or development. It is often a struggle to articulate our current best understanding and any given state of knowledge needs to be thought of as an interim position. New ideas and new developments can arrive at any time and these can profoundly change our view of the world or even the universe[5].

Checkland (1986: xii) provided an elegant statement of the lack of finality in respect of our understanding of the world when he pointed out:

> Obviously the work is not finished, and can never be finished. There are no absolute positions to be reached in the attempt by men to understand the world in which they find themselves: new experience may in the future refute present conjectures. So the work itself must be regarded as an on-going system of a particular kind:

a learning system which will continue to develop ideas, to test them out in practice, and to learn from the experience gained.

Thus in the majority of cases theory provides useful but limited explanations and understandings of the world. It is important to realise that by their very nature theories and theoretical assumptions and explanations are likely to change continually. Nothing is ever fully settled for any length of time (Feyerabend, 1993).

RESEARCH PARADIGMS

There are a number of different research frameworks that every researcher needs to be aware of and from which a specific strategy should be chosen. Two of the more important approaches are empirical or theoretical research. As mentioned previously empirical research, which is by far the most common, draws on experience or primary evidence in order to understand a phenomenon. Here the research question is studied by means of direct observation, accounts of phenomena recalled by informants or experiment. Empiricism may be described as an approach to research which postulates that all knowledge comes from, and must be tested by, sense experience (Locke, 1974). Empirical research requires the evidence collected to be analysed and then synthesised, which leads to adding something of value to the body of knowledge[6]. There are many ways of conducting empirical research and so it may be positivistic or it may be interpretivistic, to mention two major approaches.

Enthusiastic support for Empiricism leads in its extreme form to the conclusion that, not only has all knowledge to start with the observation of experience, but also that Empiricism cannot take the researcher beyond actual experience. In short this means that it is not possible to know anything other than that which comes directly or indirectly from observation.

This position is sometimes referred to as a form of scepticism, according to which, claims about subatomic particles or physical forces are just as doubtful as claims about supernatural entities. Those who hold this position would argue that science then, has to be seen as the discovery of relationships between the phenomena of observable experience. This is a very limiting point of view.

However it should be noted that, from an academic point of view, empirical research needs to be conducted within a theoretical framework and needs to have as its objective the addition of something of value to the body of theoretical knowledge.

NON-EMPIRICAL[7] OR THEORETICAL RESEARCH

In contrast to empirical research, there is theoretical research, which is often cited as an important methodological strategy in business and management studies. The following is our understanding of theoretical research.

Theoretical research involves drawing on established ideas and concepts from published and non-published sources,[8] especially the literature, and through a process of reflection and discourse[9] develops, extends or in some other way qualifies the previous work to create new explanations, insights and theories, which provides better or fuller explanations of the issues and the relationships being studied.

Through theoretical research, it is possible to make a considerable contribution to the body of knowledge without having to collect or analyse primary data or evidence. For theoretical research data may of course be used by reference to already-published sources, which will thus be, by definition, secondary data.

In the business and management studies world, theoretical research is not always well received. In fact some academic researchers would argue that the process described above as theoretical research should not be regarded as 'proper' academic research. The basis of such a claim is that this type of theoretical research does not have a test component. This implies that theories cannot be postulated without any 'proof' or confirmation. For this type of researcher, 'proof' needs to be empirical and without the activity of 'proving' theory, it does not have academic status. In some cases this is referred to as theorising and is not seen as rigorous academic research. However this type of thinking is a misunderstanding of the nature of research. All research processes require conceptualisation. It is the starting point without which research and especially academic research cannot take place.

The cerebral nature of research is well demonstrated by reference to Ashall (1996: 12) who pointed out that:

> Once, when asked by someone if they could see his laboratory, Einstein took a fountain pen from his pocket and said, 'There it is!' On another occasion he commented that his most important piece of scientific equipment was his wastepaper basket where he threw much of his paper work containing mathematical computations.

Clearly Einstein was talking about theoretical research. Equipment or large volumes of data are not a prerequisite for theoretical research. Theory is created in the mind and this is perfectly respectable academic research. In a sense theoretical research is the modern equivalent of Rationalism. Thus rationalism is a philosophical view. It regards reason as the primary source of understanding. Believing that reality has an inherently logical structure, rationalists assert that a class of knowledge exists that the intellect can understand (Honderich 1995).

There were various schools of Rationalism including the Continental School begun by Descartes and the British School of Empiricism, which is said to have begun with the work of Locke[10]. Rationalism or theoretical research has long been the rival of Empiricism. In contrast to Empiricism, Rationalism holds reason to be a faculty that can access truths beyond the reach of sense perception, both in certainty and generality. The roots of Rationalism can be traced much further back in history than René Descartes. In his *Republic,* Plato points out that empirical evidence is problematic and he uses the notion of ideal forms to point out some of the difficulties with Empiricism[11]. In turn Galileo, although he was primarily an empiricist, takes this point further and moved science distinctly beyond the observational[12]. Thus even in the seventeenth century it was already becoming established that observations alone will not supply an entirely satisfactory explanation of the physical world. This is not to say that science in most instances did not and still does not rely heavily on observations (Feynman, 1995).

Another aspect of theoretical research important to consider is that the material with which the theorist works need not be especially

original. It is of course correct that doctoral research is required to demonstrate originality. A paper will not be accepted by a peer-reviewed journal unless it has something new to say. However there are degrees of originality and although theoretical research can produce quite novel results, i.e. new insights into aspects of the field of study, this is not the only criterion for success. One of the primary roles of theoretical research is to re-work already established ideas in order to improve insights into the subject matter. Such improvements would constitute adding something of value to the body of knowledge. This is what Proust[13] was referring to when he said, 'The real voyage of discovery consists not in seeking new landscapes, but in having new eyes.'[14] This comment is not much different to the message of Eliot (1942, cited in E. Knowles, 1999: 294):

And the end of all our exploring
Will be to arrive where we started
And know the place for the first time…

UNDERTAKING THEORETICAL RESEARCH

The next step is considering how theoretical research is undertaken and what steps may be made to ensure that this type of research successfully produces sound useable theories.

An eight-step approach is proposed:

1. Research question formulation;
2. Literature review;
3. Explain why a theoretical approach is being taken;
4. Concept identification and reflection;
5. Theoretical conjecture formulation;
6. Discourse with peers and other knowledgeable individuals;
7. Theoretical conjecture refinement and acceptance;
8. Discussion on the impact and implications of the theory.

Research Question Formulation

The starting point of all research is to establish an unambiguous research question. Without a clear research question, any research effort will simply wallow without direction (Winston and Fields,

2003). It is a question of *If you do not know where you want to go then any route will take you there*[15]! It is surprising just how many doctoral research projects suffer from either not having a research question or having such a poorly articulated research question that it is of little value to the research process.

The research question may be triggered by an empirical observation, although this need not always be the case, as a remark or comment in the literature is often just as good a place to start. Wolpert (1993: 6) cites Aristotle as saying: 'For everyone starts by being perplexed by some fact or other…'

Research questions are seldom established after a single attempt. They often evolve as the researcher explores the field of study through understanding the literature and engaging in discourse with knowledgeable informants. During this process it is valuable to articulate who will benefit from the successful conclusion of the research. These individuals will be the stakeholders of the research and they may be called upon later to comment on the research.

Literature Review

One of the key characteristics of theoretical research is the emphasis on established ideas and concepts. Thus the researcher needs to be well read in all aspects of the literature surrounding the research question. Reviewing the literature continues throughout any doctoral degree but it is especially intensive when a theoretical degree is being undertaken.

A metaphor which some researchers find useful when thinking about the literature review aspect of theoretical research is to see this research process like developing a jigsaw puzzle. This jigsaw puzzle does not come in a box with a clear picture of the required result[16]. With this jigsaw puzzle there is only a very rough idea of what the final picture will look like. Also the number of the pieces required to complete the jigsaw puzzle is unknown. Using this idea the literature review is equivalent to finding the pieces of the jigsaw puzzle. Of course the researcher will find it very hard to tell when all the pieces have been found and at any one time the researcher is likely to have many redundant jigsaw pieces that

cannot be ignored. Thus the researcher is truly dealing with a non-trivial puzzle.

Explain Why a Theoretical Approach is Being Taken

As a theoretical approach is relatively unusual, it is important for the researcher to indicate why he or she has taken this approach to their research. The most common reason is to consolidate, extend or clarify previous works, either of the researcher or of others. In business and management studies researchers may wish to draw together different ideas from different research activities to produce a more comprehensive understanding of a situation.

Concept Identification and Reflection

Once a material amount of the literature has been read, the researcher can then begin to seriously reflect on what is known about the research question and to begin to develop new ways of looking at the issues involved and new ideas to describe the relationships between these concepts. Using the jigsaw puzzle metaphor this is like beginning to fit the pieces together to form a picture. This is one of the more creative aspects of the theoretical research process and there is no cookbook recipe for this work. The researcher may obtain some help by discussing ideas, concepts and definitions with peers, colleagues and his or her supervisor(s). Reflection plays an important role. According to Alvesson and Sköldberg (2001: 6): 'Reflection can be defined as the interpretation of interpretation and the launching of critical self-interpretation of one's own interpretation.' They go on to point out the importance of reflexive interpretation and suggest that: 'Four aspects appear to be of central importance: creativity in the sense of ability to see various aspects; theoretical sophistication; theoretical breadth and variation; and the ability to reflect at the meta-theoretical level' (p. 250).

Theoretical Conjecture Formulation

The process of concept creation, reflection and theory identification will lead to the formulation of a new theoretical conjecture. Again this is a highly subjective and creative process and as DiMaggio

(1995: 393) pointed out, 'the formulation of theory is a function of our values'. This is strongly supported by Gould (1988: 21) when he said: 'Science is not an objective, truth-directed machine, but a quintessentially human activity, affected by passions, hopes, and cultural biases. Cultural traditions of thought strongly influence scientific theories.'

Imagination and creativity play an important role in how the theoretical conjecture is formed as they offer access to different possibilities. One of the key tasks of the researcher is to map evidence onto potential explanations – and potential explanations are created by imagination. Thus the more possible explanations the researcher can think of, the better. However, one must remember that imagination and creative thinking need to be tempered, as the theoretical conjecture has to be convincing and the academic community, which needs to be convinced, will be a highly critical if not actually sceptical group of individuals. Any new explanation needs to be supported by a well-argued case. Old explanations may also be eliminated by appropriate argument.

The researcher may make a theoretical conjecture at any time. The theoretical conjecture is nothing more than a researcher's suggestion as to how the ideas and relationships in the field of study actually work. Theoretical conjectures can be used again and again as stalking horses, i.e. targets to be shot down by the researcher him or herself or in debate with colleagues. This process is actually one of concept refinement and the debate engendered is an example of the dialectic in practice[17].

But finally the researcher makes his or her contribution by developing a new theory or by producing a better or fuller theory or explanation of the issues and the relationships being studied. This theoretical conjecture is the outcome of this phase of the research and will now be formally presented for scrutiny by the community and the stakeholders that the researcher has previously identified. Using the jigsaw metaphor the pieces that fit have now been put together to form a picture and the question is now how 'good' or useful a picture is it[18]?

Discourse with Peers and other Knowledgeable Individuals

The new theoretical conjecture needs to be exposed to and scrutinised by other enquiring minds that are knowledgeable in this field

of study. The completed theoretical conjecture will often be presented at seminars held in the Department, the Faculty or the University at large. Where applicable the researcher should also present his or her ideas to professional bodies by means of holding seminars. The researcher for a senior research degree needs to have at least one paper[19] describing his or her research accepted at a suitable academic conference. It is also useful if the researcher can have some part of the research finding published in a quality peer-reviewed journal.

The more exposure the researcher's ideas are given the more likely different and perhaps contrary views are to emerge. It is most important for the researcher to listen carefully to these other views and to ensure that they are accommodated in the theoretical conjecture. This is again the process of the dialectic, which is essential for sound research. Collins (1994) comments on the importance of this process when he says:

> It is important to note that there is always a judgement to be made; that scientific discoveries are not made at a single point in time and at single places and with single demonstrations. They are made through a process of argument and disagreement. They are made with the scientific community coming slowly toward a consensus.

Sutton and Staw (1995: 373) make a similar point: 'Build strong theory over time'. Research cannot be rushed. It takes time and hard work for a researcher to derive sound results. The stories of instant flashes of research genius such as those told about Archimedes and Newton are most unlikely to be anything other than fantasies. Thus the final output of a piece of theoretical research needs to be allowed to mature in the mind of the researcher and perhaps even in the collective mind of the academic community.

On a cautionary note it is worth pointing out that research, both theoretical and empirical, will not always lead to a suitable or acceptable conclusion. Some problems are quite intractable. There are aspects of our environment that offer great challenges and sometimes it is difficult to produce a suitable theoretical explanation. Sacks (1991: 188) made this point strongly when he wrote: 'You are also going to have to bow your head, and be

humble, and acknowledge that there are many things, which pass the understanding.'

With this comment Sacks was reflecting on the fact that he, even as a leading international authority in the field of psychology, was unable to understand his own personal reaction to a major leg injury he had sustained as a result of being savaged by a bull.

There are indeed limits to science and our resulting knowledge (Medewar, 1986). From the point of view of a doctoral degree it is not necessarily a disaster if the research degree candidate does not produce a new viable theory. A doctoral degree could still be obtained without a fully developed new theory in the originally envisaged form provided the degree candidate could clearly demonstrate the fact that the process through which he or she had been did actually result in something else having been added to the body of theoretical knowledge. A research degree candidate in such a position would need to make a case that the research, despite its failure to deliver a new theoretical explanation, still made a contribution. Making such a case need not be that difficult.

Theoretical Conjecture Refinement and Acceptance
The process of discourse described above will almost certainly produce suggested amendments to the new theoretical conjecture and the researcher needs to accommodate these. Using the jigsaw metaphor some of the pieces may not have fitted as well as originally thought and need to be discarded. Other new pieces may need to be found. This phase of the research could be short, requiring only minor amendments, or it could be extensive, needing a considerable amount of rethinking and re-evaluation of the theory.

Discussion on the Impact and Implications of the Theory
Theoretical research would not be complete without a detailed discussion on the impact of the theory on both practice and on other related theories. This discussion is a major part of the research. It has been argued that the face validity of the research is reflected in the degree to which this discussion produces a convincing argument. The discussion needs to address the locus of the new theory and its impact on

current thinking. Of course, in a theoretical dissertation or paper, this section will inevitably be speculative, but it could be the basis for future research in the field of study concerned.

THE EVALUATION OF RESEARCH

The evaluation of research in general is difficult. In the academic world, it is probably more challenging than in the commercial world because it is not always easy to see the immediate short-term benefits of the research findings. Of course this problem is more prevalent in some fields of study than in others. In business and management studies, research problems and questions are often directly related to actual business situations and, as such, business and management studies research is often referred to as applied research. When the findings of this research lead to a new insight, which, it is believed, will help solve a problem, this facilitates the evaluation of the research. However in the academic environment finding a solution to a problem is not enough. In addition, the research needs to demonstrate a high level of scholarship.

In this context we define scholarship as follows:

The main characteristics of scholarship are that the research needs to demonstrate that the researcher has a thorough knowledge of the literature; he or she needs to clearly show that there has been a considerable amount of reflection concerning the established knowledge of the subject; and that there is a convincing argument (or rhetoric), expressed plainly and clearly in accessible language, based on a rigorous methodological process pointing to the findings. The final attribute of scholarship is that the research needs to be presented with regard for the highest standards of integrity. This means that the researcher needs to be completely honest in his or her presentation of the results.

EVALUATING THEORETICAL RESEARCH

There is not much difference between the evaluation of empirical and theoretical research. However, because of the fact that theoretical

research does not rely on data or evidence collection, but on analysis and synthesis, it is sometimes often said to be more difficult. With empirical research, there are better-established steps to review and techniques to assess. Theoretical research relies heavily on reflection, creativity and imagination. Although these attributes are still required for empirical research they are often required to a greater extent in theoretical research. Either research strategy can be evaluated by the following tests to see if a piece of work qualifies as doctoral level research.

- Is there a clearly articulated research question, which seeks to establish a new theoretical understanding, refute an old theory or develop an extension to an old theory?
- Is the work framed within the body of current theoretical knowledge?
- Has the research been conducted with appropriate reflective procedures supported by adequate discourse?
- Has the contribution to the body of theoretical knowledge been expressed clearly using a convincing and reflective rhetoric?
- Has it been demonstrated that the new theoretical knowledge has some potential practical validity and utility?

SUMMARY AND CONCLUSION

Theory underpins academe and, although there are many theories, laws, principles, theorems and models, the idea of theory is seldom directly discussed or explained. Because the word is so frequently used in everyday conversation, it is often incorrectly assumed that these concepts are well understood by faculty, researchers and examiners. There is actually a material amount of confusion about this vocabulary, especially when it is used in the context of higher academic degrees.

A theoretical research strategy is a powerful approach to adding something of value to the body of knowledge. It is an approach to research which, if used correctly, can deliver material benefits to the field of study and to the researcher. It is unfortunately not employed extensively. As mentioned above, there are researchers, especially those who are new to the field, who believe that if there is not a set of primary data collected, then there isn't proper academic research

going on. This is at best a naïve view and this paper intends to put the record straight.

At the end of the day academic research has to demonstrate that it has resulted in something of value having been added to the body of theoretical knowledge. This needs to be done through a carefully constructed and convincing argument or rhetoric, which displays all the characteristics of scholarship discussed above. If this is done, the findings of the research will be acknowledged by the academic community as being valuable and an appropriate degree will be awarded. It needs always to be kept in mind that any evaluation of a research degree or, for that matter, a research paper needs to start and end with the view that academic research should not only be scholarly, but should also add something of value to the body of theoretical knowledge.

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1   Perhaps the single most important difference between theoretical research and empirical research is the fact that the theoretical researcher does not directly collect primary data or evidence. The theoretical researcher does not conduct experiments or collect data through questionnaires. The nearest a theoretical researcher may come to this is to employ the idea of thought experiments as pioneered by Einstein, which involves the application of imagination and creative thinking to a hypothetical situation (Gribbin, 2002).

2   The range of academic research usually includes work conducted for a masters or doctoral degree, research conducted for the purposes of publishing in a peer-reviewed journal or work produced during a post-doctoral appointment. Of course research conducted by a university in terms of a commercial contract would not usually be regarded as academic research. The principles discussed in this paper apply mostly to doctoral research. However they are also relevant to other academic research endeavours.

3   Views of what theory is and how it works can be quite negative. It is frequently announced in a pejorative way that something might work in theory but not in practice. On the other hand Kurt Lewin contradicted this when he said, 'Nothing is as practical as a good theory', http://www.phrases.org.uk/bulletin_board/10/messages/ 290. html, viewed on 7 February 2006. John Maynard Keynes (1936) made a similar point. Garret FitzGerald, the former Taoiseach of Ireland, is said to have exclaimed

at a suggestion made to him that 'This may well work in practice but does it work in theory?'

4   Distinguish between different types of theory. It is said that there is Normative theory – what to do; Descriptive theory – how things are; Analytic theory – why things are the way things are, how things work; and Critical theory – how things should be. In addition in the field of business and management research there is the question of Mode 1 and Mode 2 research/theory (Hair et al., 2005).

5   Burke (1985) provides many clear and convincing examples of this phenomenon over a period of hundreds of years.

6   What qualifies as evidence is a question which is dealt by numerous authors. An interesting insight to the various problems related to this complex issue may be found on http://www.alternativescience.com/evidence-for-darwinism.htm.

7   It is sometimes said that there is a halfway house between theoretical and empirical research. Research based on Delphi studies or scenario discussions have been described as non-empirical research without being classified as theoretical research. This view relies on the opinions of the informants not being regarded as direct observations (Clarke, 2001).

8   In certain subjects it might be appropriate to include in the scope of sources traditional knowledge such as folklore, which may not yet have been reduced to writing.

9   The term discourse in this context implies conversation with numerous knowledgeable informants constituting a dialectic type exchange.

10 Modern empiricism is regarded as having begun with John Locke (1632–1704) with his clear attack on metaphysics in his essay 'Concerning Human Understanding', published in 1690.

11 For further information see http://www.wsu.edu/~dee/ GREECE/PLATO.HTM, viewed on 7 February 2006.

12 Galileo's Empiricism – and beyond. http://www.ldolphin.org/ geocentricity/Haigh.pdf, viewed on 7 February 2006.

13 http://www.brainyquote.com/quotes/authors/m/marcelprou129874.html viewed 1 February 2006.

14 The danger here is that selective perception, influenced by prejudice, may introduce bias.

15 One of the best expressions of this is to be found in Lewis Carroll's Alice's Adventures in Wonderland: 'Would you tell me please, which way I ought

to go from here?' 'That depends a good deal where you want to get to,' said the Cat. 'I don't much care where…,' said Alice. 'Then it doesn't matter which way you go,' said the Cat. 'So long as I get somewhere,' Alice added as an explanation. 'Oh you're sure to do that,' said the Cat, 'If you only walk long enough.'

16 In academic research there is usually no unique answer or required result. We are always working within our cognitive capacity, which is limited.

17 The dialectic, originally attributed by Plato to Socrates in his *Republic*, who called it the 'midwife of knowledge', was also used in ancient times by Aristotle. However in recent, if not quite modern, times, the dialectic was further developed by Hegel and eventually adopted by Karl Marx and others. In modern research methodology argument or disagreement usually replaces the term dialectic.

18 At doctoral level the creation of new theory is regarded by some academics to be too ambitious and a modification or development of an established theory is seen as being adequate.

19 Many universities would not regard one paper as sufficient at doctoral level.

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The Role of Foreign Exchange Risk Management in Malaysia

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A H M A D   S H U K R I   Y A Z I D *
M O H D   S H A L A D D I N   M U D A * *

ABSTRACT

During the financial crisis period of September 1997 to August 1998, many Malaysian multinationals suffered badly as a result of currency fluctuations. Thus foreign exchange risk management has become an important theme in the emerging markets such as those in Malaysia. This paper examines the extent of foreign exchange risk management among Malaysian multinationals and investigates the purpose of managing those risks, the types of risks managed and the extent of management control and documentation of the foreign exchange risk management. This is complimented by a mail survey, which was sent to corporate treasurers or finance directors of 90 Malaysian multinationals listed under the Bursa Malaysia Main Board (previously known as Kuala Lumpur Stock Exchange). The study indicates that multinationals are involved in foreign exchange risk management primarily because they sought to minimise operational overall cash flows, which are affected by currency volatility. Another finding is that the majority of multinationals centralised their risk management activities and at the same time imposed greater control by frequent reporting on derivative activities. It is likely that huge financial losses related to derivative trading in the past led to top management being extra cautious.

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Interesting findings also emerged from the examination of the role of foreign exchange risk management. It appears that economic events related to Malaysian financial markets did influence the involvement in foreign exchange risk management.

INTRODUCTION

Background

In the early 1980s, an increasing number of multinationals from developing countries in Asia, such as Taiwan, Singapore, Malaysia, Indonesia and Thailand, became involved in international businesses. These multinationals are sometimes referred to as the 'new multinationals' (Lall, 1983). Today some of them are among the world's top 500 companies (Timbrell and Tweedie, 1998). Some Malaysian multinationals, for example Sime Darby, Telekom, Berjaya and Petronas, are among Asia's top 100 companies (ELC International, 1997). The New Economic Policy (NEP), introduced in 1970, focused specifically on helping Malay entrepreneurs. Later on the privatisation and corporatisation policy of the 1980s led to the formation of a growing number of 'big' Malaysian companies, with Malays or government acting as the major shareholders. Many of these companies became involved in international business by setting up subsidiaries overseas or by participating in joint ventures with other companies abroad. For instance, Petronas was incorporated in 1974 and started to venture overseas through a wholly-owned subsidiary in 1990. The Petronas group of companies consists of forty-seven wholly-owned subsidiaries, twenty partly owned subsidiaries and twenty-seven other companies with total assets of more than RM68 billion (*Petronas Annual Report,* 1995). Recently, Petronas was ranked second highest in terms of return on revenues by the *Fortune* Global 500 Companies of 1998 (*Fortune*, 1998). Renong, another Malaysian multinational, started in 1982 as a public-listed company. Today the group consists of thirteen public-listed companies and over one hundred established operations currently active in New Zealand, the Philippines, Vietnam, South Africa and Indonesia. These companies are just a few examples of multinationals that, as predicted by Caves (1996), have proven their ability to penetrate the overseas market, especially in other developing countries.

Prior to 1997, the management of foreign exchange risk was not given much attention by Malaysian multinationals, who were quite

complacent and passive in managing foreign exchange risk (*New Straits Times,* 30 May 1998). However, government initiatives leading to the launch of the Kuala Lumpur Commodity Exchange, the Kuala Lumpur Options and Financial Futures Exchange and the Malaysian Monetary Exchange marked the beginning of the derivative market in Malaysia. With the Asian financial crisis, the subject of foreign exchange risk management started to play a bigger role in the Malaysian corporate scene. At the same time, a substantial body of literature (e.g. Dhanani, 2000; Baril and Benke, 1996; Smithson et al., 1995; and Smith and Stulz, 1985) suggested that foreign exchange management can increase a firm's value and thus decrease the chances of financial distress. Particularly during the Asian crisis, many Malaysian observers argued that multinationals would have suffered less if they were actively engaged in foreign exchange management (*New Straits Times,* 30 May 1998; *Business Times,* 29 July 1998).

The crisis started in Thailand and then spread over to South Korea, Indonesia and Malaysia. It resulted in the weakening of the currencies of this region. This caused many multinationals to suffer foreign currency liquidity problems as they were required to make increased payments for overseas loans. According to a 1998 International Monetary Fund (IMF) Report, among other things, the poor assessment and management of financial risk resulted in heavy losses to these multinationals.

Motivation of Study

To date, most of the literature on foreign exchange risk management has focused on developed countries (Benson and Oliver, 2004; Makar and Huffman, 1997; Malindretos and Tsanacas, 1995; Batten et al., 1993; Belk and Glaum, 1990). For example, the recent literature on foreign exchange risk management has focused on two issues in developed countries: a) the factors that cause firms to become involved in risk management (e.g. Benson and Oliver, 2004; Hardwick and Adams, 1998; Berkman and Bradbury, 1996; Nance et al., 1993; Batten et al., 1993; Collier et al., 1990); and b) the way risk management is conducted (e.g. Bodnar et al., 1998; Joseph and Hewins, 1997; Malindretos and Tsanacas, 1995; Belk and Glaum, 1990). Very little attention has

been directed to this subject in developing countries, including Malaysia. Studies of the management of foreign exchange risk by multinationals from developing countries, meanwhile, have also been scarce. The current paper aims to fill this research gap by analysing the management of risks in Malaysian multinationals, with a special focus on exchange rate risks.

This paper contributes to the understanding of the Malaysian foreign exchange risk management practices in three time periods, namely, before the Asian crisis, during the crisis and after the crisis. Particularly, to what extent the involvement is and what conclusions can be drawn with regard to those three events? Based on this overarching goal, the objectives of this paper can be described as follows:

- To critically examine the extent of foreign exchange risk management involvement among Malaysian multinationals;
- To demonstrate the specific issues of risk management processes such as centralisation and the frequent reporting of risk management activities.

These general objectives were augmented by specific research questions, which include:

- What was the extent of involvement in foreign exchange risk management among the Malaysian multinationals in the three time periods under study?
- What conclusions can be drawn with regard to the interaction of economic events and risk management activities?

The structure of this paper is as follows. In the following section, the literature reviews on the foreign exchange risk management is described in detail. The third section describes the methodology used for this study. The empirical result of the study is then presented in section four, whilst conclusions are drawn in section five.

LITERATURE REVIEW

The term foreign exchange risk management is commonly used among multinationals. Nonetheless, there is no uniformly accepted definition of exchange rate risk management. Several authors (e.g. Cook, 1993; Baldoni, 1998; Rahardjo and Dowling, 1998; Chiu and

Foerster, 1997; Ankrom, 1974) have provided definitions of foreign exchange risk management. Among the first authors who defined foreign exchange or currency risk was Ankrom (1974). He classified foreign exchange exposures into translation, transaction and economic exposures. Translation exposure is the accountant's record of profit and loss in translating balance sheet accounts into the home currency. Transaction exposure is the foreign exchange exposure associated with sales or transactions that have already been made. A multinational is exposed to transaction exposure if it sells products where payment is going to be made at some future date. Lastly, economic exposure is the combination of translation and transaction exposures. Ankrom (1974) argued that economic exposure is a comprehensive measure for the company's foreign exchange exposures. However, economic exposure is usually very complex as it involves not only known cash flows but also unknown future cash flows (Glaum, 1990; Belk and Glaum, 1990).

Authors such as Belk and Glaum (1990) investigated seventeen major UK industrial companies during the year 1988. A total of thirteen out of sixteen companies (81 per cent) considered managing translation exposure as important. Eleven of them (68.8 per cent) were prepared to manage the exposure actively. The management of transaction exposure was the centrepiece of their foreign exchange risk management. In fact, fourteen out of seventeen (82 per cent) companies managed these exposures. The degree of hedging transaction exposure varied among these companies. Six of the companies stated that they managed these exposures totally, while others stated that they did so only partially. The study also found some evidence that there was a correlation between multinationals' size and their propensity to take risks in foreign exchange markets. It seemed that larger multinationals were more likely to be involved in foreign exchange risk management. Due to the complexity of economic exposures and the diversity of the companies investigated, however, the results were very heterogeneous.

When examining the way multinationals managed foreign exchange risk, Belk and Glaum (1990) found that the majority of them (94 per cent) centralised these activities to some degree at the parent company level. Thus, nine of these multinationals (53 per cent) stated that they had a high degree of centralisation of these activities. Dealing with risk-averse versus risk-taking behaviour, Belk and

Glaum (1990) found that the majority of UK multinationals were totally risk averse. There were a few companies who aimed to gain on their foreign exchange risk management and hedged partially. This was in line with the findings of Collier et al. (1990) who had suggested that some UK multinationals were risk averse in managing transaction exposures with the objective of avoiding significant losses. Others took risk-neutral approaches. This implied that they would only hedge if the cost of hedging was less than the expected benefit from such an activity.

Very little is known about the practices of foreign exchange risk management in Malaysian multinationals. As a consequence, this study relied largely on professional journals and speculation. Professional journal articles, in particular, suggest that the development of foreign exchange risk management in Malaysia is still in its infancy. The first initiative made by the government was to launch the Kuala Lumpur Commodity Exchange (KLCE) in 1980. KLCE was established for the purpose of trading commodity futures. KLCE traded crude palm oil futures, rubber futures, cocoa futures and crude palm kernel futures. Currently, the only active contract is the crude palm oil future. Then the Kuala Lumpur Options and Financial Futures Exchange (Kloffe) was established in 1995. Kloffe was formed for the purpose of offering equity-based derivatives contracts. Kloffe offered the Kuala Lumpur Stock Exchange composite index futures and options denominated in Malaysian dollars. In early 1996, the Malaysian Monetary Exchange (MME), which is a wholly-owned subsidiary of the KLCE was established for the purpose of trading financial futures. MME offered the world the first Malaysian dollar interest rate futures.

According to Kynge (*Financial Times,* 9 May 1997), in addition to these formal exchange markets, there is evidence of an over-the-counter market, where interest rate swaps are offered by local banks to their corporate clients. Moreover, by offering three-month Kuala Lumpur interbank offer rate (Klibor) contracts on the MME, banks are also quoting forward rate arrangements (FRAs) for their corporate clients.

It appears that prior to 1997 there were very few multinationals involved in hedging activities in order to avoid or minimise financial risks. According to Mohd Azwar Mahmud, General Manager of

the Malaysian Monetary Exchange Bhd., local multinationals were very passive and reactive in managing their risks, including financial risks. Today there is a consensus that in light of the current volatile market, such techniques may, arguably, no longer be adequate, and that financial risk management capabilities may need to be enhanced. For instance, in the Corporate Treasurers' Colloquium in Kuala Lumpur, Mohd Azwar suggested that 'the rules of the game have changed and it is now about exposure to financial risk by choice and not by chance' (*New Straits Times,* 30 May 1998: 11). This view implies that multinationals should proactively manage their financial risks. They should identify their exposure and protect themselves through hedging activities. They may have to totally or partially hedge, depending on their resources and capabilities to self assume risks.

During the financial crisis, many of these multinationals have been deeply affected by foreign exchange and interest rate losses. For example, Tenaga National Bhd. (TNB), the national power utility, suffered foreign exchange losses of M$1.29 billion in 1997 (*Financial Times,* 8 November 1997). These losses increased to M$2.47 billion for the first six months after the crisis began. The Malaysian Airline System (MAS) suffered from similar losses of between M$300 million and M$400 million for the first six months of 1998 due to its foreign debt of about M$3.16 billion (*Financial Express,* 28 November 1998). Most of this debt (90 per cent) was in US dollars. TELEKOM also suffered from translation losses worth M$158 million in 1997 (*Agence France Presse,* 4 March 1999). Finally, Yeo Hiap Seng Bhd. suffered foreign exchange losses worth M$4.4 million for the financial year ending December 31, 1997 (*Bernama,* 5 March 1998). This evidence suggests that these multinationals could have benefited from more fully hedging their foreign exchange and interest rate exposure.

According to an MME official, the impact of the crisis could have been greatly minimised if they had been proactive in hedging their financial risks (*The Star,* 4 June 1998). A similar view was suggested by Rafidah Aziz, the International Trade and Industry Minister in a forum organised by the Federation of Malaysian Manufacturers. In light of the current situation, she suggested that there was a need for financial institutions to assist their corporate

clients on sound financial management, including new ways of managing foreign exchange and interest rate risks (*New Straits Times,* 3 July 1998). Following this, MME has identified ten financial institutions, which have shown interest in developing derivatives expertise.

METHODOLOGY

Many of the studies on foreign exchange risk management employed questionnaire survey (e.g. Bodnar et al., 1998; Joseph and Hewins, 1997; Malindretos and Tsanacas, 1995). Saunders et al. (1997) claimed that there are three main advantages of questionnaires. Firstly, they are highly economical since a large amount of data can be collected from a big population. Secondly, they can be standardised, which makes comparisons easy. Finally, they are easy for most people to understand.

For the purpose of this study only multinationals listed under the Bursa Malaysia (previously known as Kuala Lumpur Stock Exchange) were selected. These multinationals were chosen for two main reasons. Firstly, these companies are involved in international transactions and they have subsidiaries overseas or have joint ventures with overseas companies. Secondly, some of their financial information is made available to the public. Therefore they are likely to be exposed to the currency risk. A total of ninety multinationals were identified out of a population of 113. In order to increase response rate, corporate treasurers or finance directors of these multinationals were identified by names. The questionnaires were then sent direct to the named corporate treasurers or finance directors in June 2000. A reminder was sent after three weeks in the case of multinationals who had not responded. Out of the ninety multinationals, fifty-four responded to this survey. This is equivalent to a 61 per cent response rate.

A comparison is made in three different time periods, namely before, during and after the financial crisis (that is, after September 1998). The questionnaire was divided into two key areas. The aim of the first section was to determine the objectives for multinationals' involvement in the foreign exchange risk management. The second section addressed specific issues on risk management processes such as centralisation and the frequent reporting of risk

management activities. Some of the questions asked in the question-naire, such as on the foreign exchange risk management objectives, relied on a five-point Likert scale. The reason for adopting this scale was to give some degree of flexibility of choice to respondents to reflect the intensity of the feeling of their views.

The high response rate is probably due to the participant interest in the study. The subject is very timely following heavy losses suffered by these multinationals during the crisis period. This is supported by Vaus (1993) who argued that a combination of factors such as the nature of topic and sample, the length of questionnaire and other factors like the timing of the survey influenced the response rate.

The majority (80 per cent) of those who did not respond did so due to work pressure, especially preparing year-end reports (Table 3.1). A

Table 3.1: Reasons for Non-Response

Reasons	Percentage (%)	
Busy / work pressure	80	(28)*
Did not want to participate	14.3	(5)
Company policy	5.7	(2)

* Number in parentheses represents the number of companies who responded.

total of 14.3 per cent did not want to participate in the survey while another 5.7 per cent did not respond due to company policy.

RESULTS AND DISCUSSIONS

Foreign Exchange Risk Management Objectives
The first foreign exchange risk management objectives related to minimising losses on operational cash flows due to foreign exchange volatility. Obviously all firms would like to achieve this objective in order to avoid financial difficulty and to allow further expansion. Over all three periods, this objective is ranked top by the respondents of this survey as presented in Table 3.2. However, multinationals attributed the most importance to this

objective during the crisis, lesser importance after the crisis and the least importance before the crisis. This is consistent with the findings of Joseph and Hewins (1997), who noted that minimising losses in cash flows is the prime goal of most multinational companies.

Minimising a firm's cash flow fluctuation due to foreign exchange volatility has also been cited as a goal of exchange rate risk management. Stable, continuous net cash flow can reduce borrowing costs if multinationals need external funds for future investments. Again, in the crisis period, firms are more concerned about cash flow fluctuations, probably due to unstable financial markets. Over all three periods, the objective is ranked second (Table 3.2). Again, this result is consistent with Joseph and Hewins' (1997) study, which also ranks this goal as important, but less so than that of avoiding operational cash flow losses.

The third foreign exchange risk management objective relates to minimising shareholders' losses. This is analogous with the managers' goal of increasing shareholders' wealth. The increased importance of this objective is probably due to an increasing concern with the behaviour of shareholders since the crisis period. Over all three periods, the objective is ranked third out of six (Table 3.2).

Minimising losses on consolidated balance sheets could be associated with managing translation exposure. According to Belk and Glaum (1990), managing translation exposure has become increasingly popular among UK multinationals. This objective is ranked fourth for the three time periods. Thus, multinationals attributed lesser importance to this objective as compared to other objectives. This could have been due to the fact that translation exposure does not involve direct cash flows. Rather, it arises during the conversion of the subsidiary's balance sheet into the parent company's consolidated balance sheet.

The next objective is related to minimising business uncertainty. Since risk management is believed to reduce cash flow uncertainty, firms often become involved in risk management in order to help them achieve future corporate planning objectives. This objective is given the least attention by the multinationals surveyed. The objective is ranked second to last before and after the crisis, and at the bottom during the crisis.

The last objective is to minimise foreign exchange risk to a level at which management felt comfortable. It is typical for managers to seek to mitigate risk and to avoid unexpected losses. The objective is ranked at the bottom before and after the crisis, and second to last during the crisis (Table 3.2). Thus, these results imply that multinationals did not consider this objective to be particularly important. In fact, one corporate treasurer commented that his company did not even think of this as an objective. This implies that some multinationals may manage currency risk for reasons other than to make the

Table 3.2: Mean and Ranking of Foreign Exchange Risk Management Objectives

	Before	During	Current
Minimising losses on operational cash flow	3.59 (1)	4.62 (1)	4.09 (1)
Minimising firm's cash flow fluctuation	3.29 (2)	4.41 (2)	3.88 (2)
Minimising losses on shareholders' wealth	3.26 (3)	3.91 (3)	3.82 (3)
Minimising losses on consolidated balance sheet	3.24 (4)	3.56 (4)	3.50 (4)
Minimising uncertainty and facilitate decision making	3.21 (5)	3.50 (6)	3.41 (5)
Minimising foreign exchange risk to level management feel	2.91 (6)	3.53 (5)	3.29 (6)

Note 1: The results are based on five-point progressive Likert scale (1 is the least important; 5 is the most important).
Note 2: Number in parentheses represents the rank.

management feel comfortable with risk. This finding contradicts the study of Joseph and Hewins (1997), which ranked this objective among the top four motives for hedging.

Types of Exposure Managed

The analyses indicate that Malaysian multinationals focused on managing short-term transaction exposure rather than other exposures (Table 3.3). This may be attributable to the fact that transaction exposure directly influences multinationals' cash flows. This is consistent with the arguments made by Madura (2000) that the multinationals considered translation exposure as less significant because it affected reported profits and balance sheet values and it did not involve cash gains or losses. As for economic exposure, the multinationals made even less effort to man-

Table 3.3: Types of Currency Exposure Managed by the Multinationals Friedman Test

Before Crisis	Mean Rank	Chi-square 33.916
Short-term transaction	3.22	
Long-term transaction	2.35	
Translation	2.37	Sig. .000
Economic	2.06	
During Crisis	Mean Rank	Chi-square 48.565
Short-term transaction	3.49	
Long-term transaction	2.40	
Translation	2.37	Sig. .000
Economic	1.75	
Current Period	Mean Rank	Chi-square 38.229
Short-term transaction	3.24	
Long-term transaction	2.51	
Translation	2.41	Sig. .000
Economic	1.84	

Note 1: The results of the Friedman test indicate that there are significant differences in the types of currency exposure managed ($p<0.01$)

age this. Economic exposure includes direct economic exposure (future receipts and payment in foreign currency) and indirect economic exposure (long-term risks arising from adverse eco-

nomic developments in the country). Both types involve future unknown cash flows, which are very difficult to measure.

Centralisation / Decentralisation

Table 3.4 indicates that 91.2 per cent of the multinationals had decided to centralise their foreign exchange risk management. This is consistent with a survey conducted by Greenwich Treasury Advisors, which found that many of the world's largest corporations have centralised the management of foreign exchange risk with their Parent Treasury (Wallace, 1998). There are several good rea-

Table 3.4: Centralised/Decentralised Foreign Exchange Risk Management (in percentage)

Centralised	91.2
Decentralised	8.8

sons for such a choice. As argued by Buckley (1996), some possible reasons for centralisation are as follows: a) to ensure a consistent policy through the firm; b) to allow the parent firm to match several currencies' exposures; c) to be more cost effective by getting a better rate from bankers; and d) to ensure a group of experts are normally available at the parent firm to manage risk.

As presented in Table 3.4, some multinationals prefer decentralisation of currency risk management. As argued by Dolde (1993), there is a trade-off between the centralising and decentralising of foreign exchange risk management. If a multinational decides to centralise its foreign exchange risk management, it may preserve economies of scale. Conversely, a multinational may decide to decentralise to provide incentives for local managers to manage their currency exposures. Furthermore, it is extremely complicated to identify all the company's exposures, especially for a large conglomerate. If there are no close ties between the parent and subsidiary/ies, it is hard to identify all currencies' exposures. In such a case, over time more autonomy can be given to the subsidiary/ies in order to make decisions and

it may be more efficient for each subsidiary to deal with its own currency exposures.

Policy and Control
The management of foreign exchange risk by the multinationals studied here is still at the 'infant stage'. On the whole, it appears that most firms have kept the management of foreign exchange risk informal. Most of them do not have a proper document policy to be

Table 3.5: Documentation of Foreign Exchange Risk Management (in percentage)

No	79.4
Yes	20.6

shared by all subordinates and at all levels in the multinational. Only about 21 per cent of the multinationals stated that they had a well-documented policy (Table 3.5) and the majority of these are large multinationals. This result contrasts with the Wharton survey of 1998 (Bodnar et al.), in which about 79 per cent of US companies reported that they had a document policy for foreign exchange risk management.

In the case of Malaysia, more work may have to be done in order to emphasise the importance of such documents to the management of foreign exchange risk. However, with the experience of the recent financial crisis, it may not be too difficult to convince boards of directors and chief executive officers of the importance of risk management and the need to document effectively clear policies.

Another aspect of risk management relates to control mechanisms. Multinationals who use financial instruments to manage foreign exchange risk need to have some control on derivatives trading. As argued by Smith and Bahrman (1997), the key to success of an effective foreign risk management programme is the company's ability to monitor, report, and categorise duties in its daily operation. In other words, the users of financial instruments need to have proper controls and guidelines. Therefore, corporate treasurers who are involved in derivative dealings must be monitored to avoid the mismanagement of such transactions. They must make regular

Table 3.6: Frequency of Reporting (in percentage)

	Before Crisis	During Crisis	After the crisis
Monthly	9.7	48.4	51.6
Quarterly	12.9	6.5	3.2
Annually	32.3	22.6	22.6
As requested	38.7	12.9	12.9

reports to the board of directors on the companies' position in finan-cial instruments. In relation to these points, a question is asked in the survey regarding the reporting frequency required by multinationals. Before the crisis, a large number of corporate treasurers (38.7 per cent) made reports on currency derivative activities when requested by the board of directors with 32.3 per cent reporting annually, 12.9 per cent quarterly and only 9.7 per cent monthly (Table 3.6).

However, during the crisis this scenario changed, with reports being made more frequently. About 48 per cent of respondents made monthly reports and only 22.6 per cent made annual reports to the board of directors. This was probably due to the greater vogue of financial risk management at that time and the need to manage and control derivative transactions because of the unpredictability and volatility of the currency exchange rate. Similarly, after the cri-sis period, about 52 per cent make monthly reports on the deriva-tives trading to the board of directors and only 23 per cent of them report annually.

CONCLUSION

This study indicates that multinationals are involved in foreign exchange risk management primarily because they sought to min-imise operational overall cash flows which are affected by currency volatility. In other words, the multinationals showed a strong pref-erence for stable net cash flow (Oldfield and Santomero, 1997). Overall analysis of objectives fall in line with Joseph and Hewins' (1997) study of UK multinationals which found that multinationals attempted to minimize operational and overall cash flows and these two goals are the top two motives for corporate hedging.

Another finding is that the majority of multinationals centralised their risk management activities and at the same time imposed greater control by frequent reporting on derivative activities. It is likely that huge financial losses related to derivative trading in the past led to top management being extra cautious. Interesting findings also emerged from the examination of the role of foreign exchange risk management. It appears that economic events related to Malaysian financial markets did influence the involvement in foreign exchange risk management. For instance in September 1998 the government imposed a new exchange rate policy by pegging the Malaysian Ringgit (MYR) to the United States Dollar (USD). As a result, the number of multinationals who attributed the greatest priority to foreign exchange risk declined slightly, but is still considerably higher than before the crisis.

The perceptual changes that arose from the crisis are also reflected in the foreign exchange risk management practices. For example, before the crisis short-term transaction exposure was less managed. However, during and after the crisis, short-term transaction exposure was increasingly managed by these multinationals.

With the foreign exchange markets being still volatile, it may be advisable that multinationals become proactive in managing currency risk. With the new challenges brought by globalisation Malaysian multinationals may have to change their methods and approaches to foreign exchange risk management. Thus, it may be advisable that multinationals incorporate foreign exchange risk management fully into their corporate strategic planning. Hence, this study suggests increasing the role of foreign exchange risk management in the Malaysia corporate scene.

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A Tour into the Factors Affecting the Choice of Vendors in the Middle East

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ABSTRACT

Since choosing IT vendors is an integral component of the firm's IT deployment strategy, the final choice of an IT vendor should be the result of careful and in-depth analysis of the various variables involved in the deployment.

For the purposes of this study, the factors affecting the choice of IT vendors were classified into two categories: overall vendor factors and specific vendor factors. The overall factors include the reliability of the vendor, the speed by which the vendor implements the chosen IT solutions and the level of technology the vendor is providing. The vendor specific factors were further divided into two sets: structured criteria for selecting vendors and convenience criteria. The structured criteria included speed of the application, costs, localisation and support services. The convenience criteria included vendor reputation, promotions, recommendations and easiness of the solution provided.

The findings of this study reveal that more emphasis is being placed on structured vendor criteria (i.e. measurable) than on unstructured ones (i.e. convenience). This finding suggests that IT implementation initiatives are being carried out more professionally with the aim of ensuring higher overall IT deployment fit.

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LIMITATIONS

Respondents were asked to rate the overall vendor factors on a three-point scale (Alserhan and Brannick, 2002). Respondents rated factors regarding the decision of choosing IT vendors as Important, Not Important or Not Sure. For the specific factors though, only two alternatives were given to respondents: either Important or Not Important. Tables 4.1 and 4.2 show these factors as presented to the respondents in the questionnaire.

Table 4.1: Vendor Specific Factors

Please mark with [x] the answer that best indicates the importance of each of the following vendor selection criteria.		
Criterion	**Important**	**Not Important**
Speed of application	[ ]	[ ]
Technical support services	[ ]	[ ]
Cost	[ ]	[ ]
Localised packages	[ ]	[ ]
Vendor reputation	[ ]	[ ]
Easiness of application provided	[ ]	[ ]
Special promotions	[ ]	[ ]
Special recommendation	[ ]	[ ]

Table 4.2: Vendor Overall Factors

Please mark with [x] the answer that best describes the importance of each of the following factors to selecting IT vendors.			
Factor	**Important**	**Not Sure**	**Not Important**
Supplier reliability	[ ]	[ ]	[ ]
Level of technology provided	[ ]	[ ]	[ ]
Speed of implementation	[ ]	[ ]	[ ]

The results for the specific factors, in terms of abstract percentages, were significantly higher than those for the overall factors. This is primarily due to the fact that in the overall factors respondents had more options to choose from. A respondent who was not sure about an answer tended to choose the neutral option (*Not Sure*)

instead of being forced to choose *Important* or *Not Important.* Spreading responses over a wider range of options had a moderating effect on the overall results.

In the specific factors respondents had only two alternatives to choose from: *Important* and *Not Important.* A respondent who was not sure about a response might have felt obliged to choose *Important* since it was the safer option, thereby increasing the value of the perceived importance of the specific variables.

Therefore, the researcher anticipates that limiting the number of options open to respondents to choose from in relation to the specific vendor factors has led to increasing the perceived importance of these factors in terms of abstract percentages.

FACTORS AFFECTING THE CHOICE OF IT VENDORS

For the purposes of this study, the factors affecting the choice of IT vendors were classified into two categories: overall vendor factors and specific vendor factors.

The overall factors include the reliability of the vendor, the speed by which the vendor implements the chosen IT solutions, i.e. speed of installation of both hardware and software, and the level of technology the vendor is providing, i.e. is the provided solution standard, customised, new, widely used or close to the end of its life-cycle (Ben, 2005).

The specific factors were further divided into two sets: structured criteria for selecting vendors and convenience criteria. The structured criteria included speed of application, costs, localisation and support services. The convenience criteria included vendor reputation, promotions, recommendations and versatility of the solution provided.

To be able to understand the importance of these factors to the IT acquisition decision, a survey was carried out in the manufacturing and export sector in Jordan. A total of 500 structured and pre-tested (Alserhan and Brannick, 2002) questionnaires were sent to the CIO (chief information officer) or those who carry out the information function in the firm. The final usable response rate was 54 per cent.

Overall Factors

Respondents were asked to rate the overall vendor factors on a three-point scale (Alserhan and Brannick, 2002). Respondents rated factors

regarding the decision of choosing IT vendors as *Important, Not Important* or *Not Sure.* As shown in Table 4.3, the results show that supplier reliability ranked lowest while speed of implementation ranked highest. The following is a discussion of these results.

Table 4.3: Deployment Related Obstacles

Overall Vendor Factors		Average % Importance
Supplier related	Supplier reliability	59.4
	Speed of implementation	76.1
	Technology provided	69.4

Vendor Reliability
Since vendor reliability is as much perceived as actual, it is difficult to single out a set of variables that could accurately measure its different dimensions. Concentrating on one or few of these dimensions creates only a partial understanding of the importance of this concept. Perception is affected by many variables such as other people's opinions, promotional campaigns, personal encounters or even by trivial, unaccounted-for variables, such as a nice gesture from a supplier or a supplier's representative. It is very hard to guard against those because they are not tangible and are not under the direct control of the decision makers, who might not even recognise their impact.

The other set of variables impacting on the perception of reliability are the actual variables that can be statistically measured. Those include, among others:

- Ability to deliver according to agreed terms;
- Smoothness of the correspondence lines;
- Response time to both urgent and normal queries;
- Honesty and transparency in the information they provide;
- After-sales services and relationship;
- The provision of off-the-list support.

Reliability was valued highly by the Jordanian decision makers, although it ranked lowest in terms of absolute percentage (59.4 per cent). This could be attributed to the fact that in many developing

countries, including Jordan, many start-up IT vendors have suddenly sprung up and their promotional campaigns promise the ultimate in customer service and support operations. However, when put to the test, many of them prove incapable of fulfilling their promises to their customers. This situation has eventually had a noticeable impact on the way organisations evaluate potential IT vendors and choose among them (Alserhan and Brannick, 2002).

The Technology Provided
IT solutions have short-term lifecycles. Organisations are finding out that most of their solutions become relatively outdated less than a year after implementing them and that all major IT implementation initiatives that extend over a two year period will need to be updated during the actual deployment in order to keep up with the advances made in technologies.

Vendors who do not keep up with IT advances will find it difficult to convince potential customers of the feasibility of the solutions they offer and the ability of those solutions to handle efficiently the organisation's obstacles. However, the information needs in many manufacturing organisations in Jordan are within the abilities of the local IT vendors who are capable of supplying the required applications and providing the necessary support at a reasonable cost. The needs of the few organisations that might undertake complex implementation initiatives could be met through coalitions between local vendors or between local vendors and external parties with the expertise and knowledge necessary to support such initiatives (Alserhan and Brannick, 2002).

Implementation
To be able to make a better use of the acquired applications, it is of significant importance that those applications are installed and utilised shortly after the acquisition decision is made. Delayed implementation will lead to prolonging the obstacles the acquired solutions were supposed to handle and shorter validity time because of the short lifecycle of IT solutions. Historically, this issue was not a persistent problem faced by Jordanian organisations. The Jordanian organisations had an almost virtual monopoly over the sectors in which they operated. However, conditions have started to change dramatically since the

late 1980s when those markets grew increasingly competitive and Jordanian organisations found it impossible to keep operating at the same slow rhythm. A faster pace was required in almost all facets of their operations, including their IT structure; failure to implement an IT initiative in due time could have unfortunate consequences. Also, the information needs of the markets they deal with have changed and become more demanding, in terms of quality and the variety of the information they require. Manufacturers had to swiftly update their information structure because implementation delays were not in their favour (Alserhan and Brannick, 2002).

Specific Factors
The criteria that the Jordanian organisations employ when informating some or all of their operations are diverse, and there is no rule of thumb that sums them all up. However, for the purposes of this study and as shown in Table 4.4, the most widely recognised variables related to IT vendors were divided into two major categories: structured and convenience criteria (Alserhan and Brannick, 2002).

The following is an analysis of the reported responses regarding these two categories and their sub-variables.

Table 4.4: Criteria for Selecting IT Vendors

Specific Vendor Factors		Average % Importance
Structured criteria	Speed of application	94.1
	Costs	88.1
	Localised packages	80.0
	Technical support services	69.3
Convenience criteria	Vendor reputation	89.3
	Special promotions	84.8
	Special recommendation	84.1
	Easiness of application provided	60.7

Structured Criteria

1. **Speed of Application.** The variable that rated highest was the operating speed of the application provided. More than 94 per cent of respondents acknowledged that speed is an important criterion when deciding on an IT vendor. Fast applications are substantial time savers and thus contribute greatly to the over-all efficiency of the organisation. They also lead to less frustration when executing commands and waiting for output. Slow applications are a complete turn-off for enthusiasm and can be instant frustration-generating mechanisms. Under uncomfortable information working conditions, performance could suffer and substantial productivity losses could be incurred (Brynjolfsson and Hitt, 1995). Those losses manifest themselves not only in the quantity produced but also in the quality of these products. Hence, speedy solutions that reduce processing time and cut down on idle periods could prove to be main additions to the organisation's information structure (Davidow and Malone, 1992).

2. **Technical Support Services.** The importance of the technical support services that accompany the products is well recognised by the Jordanian decision makers. Those services, which come either as a package with their cost included in the initial sale price, or as a service-per-request, include one or more of the following: pre-sale consultation, installation, training and after-sales services.

   After-sales services can be optional and provided as part of the original deal, although at a premium cost. Such deals usually cover a fixed number of years, months, days or even a fixed number of visits per period. They may be renewed at a competitive discount.

   Organisations usually have to make a careful decision on which option to take. If the system or the nature of operations requires regular servicing, it might be wiser to go for contractual after-sales services: services that vendors are obliged to provide at no extra cost. However, if regular maintenance is not essential and its cost is not daunting, an organisation might be better off with a cost-per-request approach – pay only when they ask a specialist to service the system.

However, cost is not the only variable to be considered when deciding on the technical support services. There are other variables that are of at least equal importance. Those include:

- Availability of services. Many vendors advertise that they offer pre- and after-sales services to their customers. However, whether those services are readily available or not is another matter. Under such conditions, the readiness of the service team is an important factor to consider. If various arrangements and appointments need to be made, and if it takes the service team a long time to respond, the productivity losses will mount every time a breakdown occurs or a check-up is performed. Support services should at least deliver as much as the initial contract states. Any extras will lead to more satisfaction, but any less will lead to an even greater dissatisfaction (Brynjolfsson and Hitt, 1995).
- Quality of services. The quality of services delivered is a decisive factor in determining customer satisfaction with any given vendor. Support teams that get it right from the first visit will spare the organisation many productivity losses in both the number of units rolled out of the production line and the quality of those units (Ching et al., 1996).

In many cases, support teams will always need to come back, and the need for their presence seems to be the norm. Such a situation is attributed to one or more of the following points:

- Inherently defective systems. In this case, the support teams cannot be blamed. The buying decision was made entirely by the firm and therefore the firm should take responsibility for its consequences. These consequences include factors such as low compatibility and scalability, poor integration with the existing systems, and high replacement or upgrading costs.
- Complicated organisational operations. To function effectively in such conditions, organisations will need full utilisation of the system, which in turn leads to a rapid decline of the system's capabilities. In such cases, the organisation could try to streamline and improve its operations, upgrade its current information system, or introduce a new one that could handle the organisation's operational complexities. The organisation could also decide not to make any changes to the existing situation, as it might be the only

feasible situation for it at the present time. In this case, support systems are not to be held responsible for productivity losses. The organisation already knows that those will be incurred anyway.

- Support teams either lacking skills or equipment (Murnane et al., 1999) or deliberately not doing the job right. The case of teams intentionally not performing the required services up to the agreed standard is more common in situations where organisations use a cost-per-request approach than in situations where services are provided on contractual bases. Since support teams will be charging maintenance cost every time they visit or provide consultation, there does not seem to be a point, other than the moral obligation of course, to permanently fix what they have come to fix; it is of greater financial benefit to them to keep the money tap flowing. This attitude results in massive losses in many organisations, especially those that lack the necessary skills to enable them to carry out basic servicing activities. On the other hand, when the support services are part of the contract and no cost is charged for visits, the issue of deliberation almost ceases to exist because it is not rewarded (Murnane et al., 1999).

However, when services are pre-contracted, the ability of the support services to honour their obligations on time becomes an issue that sometimes offsets the benefits achieved by signing a contract for after-sales services. In many cases, those teams seem to be always busy, their schedule is always full and they are always in a hurry. Those situations might lead to longer idle production times and sometimes even affect the quality of the maintenance performed (Ching et al., 1996).

3. **Provision of Localised Package.** Most software development firms have localisation specialists working for them. Those specialists make the necessary changes and adjustments to the developed software to make it suitable for use in the various regions and environments it will be marketed into. Although much software is developed in German, French and Japanese, the original language of most software is English. IT vendors in Jordan are either local vendors with local expertise and cadre, or foreign vendors. The IT solutions they provide, including software, are also either locally developed or imported. Locally developed solutions:

- Tend to be in Arabic;
- Are designed to suit the needs of the local customers;
- Need few localisation activities aside from those that cater for the needs of special customers.

On the other hand, solutions that are developed elsewhere might need more localisation in order to fit the general requirements of the client organisation. Localisation should not be confined to software only; some might be useful for hardware as well. Systems' capabilities might need to be tuned up or down, the functions performed by those systems could be altered and the durability of those systems could vary according to organisations' needs and/or abilities.

IT vendors who have the ability to provide more localised IT solutions have a substantial leverage over others who do not. Any vendor could provide standard, off-the-shelf solutions and, as a result, the competitiveness of the vendors who depend on such solutions will be at risk due to the large number of vendors who provide them. Also, the manoeuvrability of the vendors who deal mainly with standard solutions will be restricted, because vendors who could provide clients with their specific IT needs are more likely to close more IT vending deals than others who do not.

4. **Costs.** Because most vendors provide, more or less, similar IT solutions that vary only slightly, the issue of cost differences among them gains substantial weight (Emiliani et al., 2005). When organisations decide to informatise some of their operations, they basically know what IT functions are required and, for that reason, whether a vendor provides a solution that is developed by Apple, IBM, Microsoft or a new IT start up is of no major concern to most firms, as long as it includes the required functions. Hence, costs will increasingly become crucial decision variables and they will affect which IT vendor or vendors are chosen (Moyi, 2003). Vendors who can provide solutions at significantly competitive prices will have an apparent leverage over those who do not (Alserhan and Brannick, 2002).

However, it should be noted that some solutions are more popular than others: Microsoft's operating system, Windows, is more commonly used than its Apple counterpart, OSX. Therefore the cost difference between the two must offset the reputation dif-

ference if the vendor trading with Apple solutions is to gain the competitive edge required to market the solution, assuming, of course, that everything else remains constant.

Convenience Criteria

1. **Reputation of Vendor.** Because the people who make the decisions within organisations are exactly that, i.e. people, their decision-making process is not independent of external unstructured influences. Many decisions that are taken do not seem to follow specific processes or procedures, and many of them cannot be easily justified. The reputation of vendors is one such influence that clearly affects the choice among vendors. Approximately 89 per cent of the respondents reported that reputation is an important factor that they take into consideration when choosing among vendors. Although this variable is less structured and making a decision solely based on it seems to lack objectivity and rigor, it is a factor to account for. Organisations that usually make their decisions based on the reputation of vendors will save themselves time and hassle by screening vendors and looking for the most suitable one for them. The rule of thumb in such cases is that 'if Microsoft's Windows is used more than Apple's OSX, then Windows is better than OSX and it should be the obvious choice'. Although this deduction could be true or false, it is still a rule and it could be a real time and resource saver in the short run. Instead of diverting some of the organisation's resources towards locating, screening and evaluating vendors, it would be easier to contact the vendors who are well known and already established.

   This decision-making approach, despite its short-term advantage, could lead to major long-term disadvantages such as:

   • The solutions acquired will be standard, off-the-shelf applications and, as a result, might not fit exactly with the organisation's needs.

   • Such solutions could have added functions that the organisation does not need and thus, cost more to acquire and cost more in terms of their infrastructure requirements.

   • The solutions might be multiple-purpose solutions that could perform a wide range of activities, many of which will not be utilised by the firm in the foreseeable future. Such solutions

usually cost huge sums of money, while at the same time their potential might never be fully utilised.

In light of the above, the reputation of the vendor as a decision-making variable appears to be used more frequently than previously thought in decisions about vendors (Bennett, 2005). Although this approach has some advantages, it also has major drawbacks and, consequently, it should be used with caution and in association with other variables. The reputation is an indicator among others and should be seen as such. Assigning more weight to it might not be the wisest decision that an organisation could take.

2. **Special Promotions.** Promotional campaigns could lead to major short-term advantages for vendors. A carefully designed and well-targeted campaign could motivate potential clients to analyse their information needs and look for means to meet them. For campaigns to be effective, they should not be one-off efforts but should be continuous, structured, and accompany customers in their decision-making processes. They should be present at every stage in that process and be ready to provide deals, extra stimulus, guidance or consultation. The details transmitted in such campaigns should be designed to lead the potential customers towards making a decision that is commensurate with the vendors' interests.

The ability of vendors to offer special conditions to potential clients, whether those conditions are extended payment periods, superior services or additions to the overall solution, should be made known and emphasised in any promotional campaign the vendor undertakes. Offering packages of competitive products, services and costs will greatly enhance a vendor's market position and significantly assist him/her in realising a favourable stand against other competitors. Vendors who are able to sense the market's information needs, know customers' abilities and who are able to use the above positively will be in a more competitive position than those who tend to be reactive and wait to be approached by potential customers (Bensaou and Earl, 1998). Proactive vendors who can stimulate a need, or at least pinpoint it to a customer, are more likely to capitalise on the opportunity that might arise from the possible need recognition or creation at the customer's end. Vendors should not wait for customers to

realise that they have a need or that their performance could be enhanced. Rather, they will be more prepared and in a much better position to offer the solutions that can satisfy that need if they have helped to create it in the first place.

3. **User Friendly-Solutions.** Although this variable is rated low, it is still perceived as an important decision variable, with 60 per cent of all respondents reporting that it is a variable to be considered when deciding among competing IT vendors and the solutions they offer. A complicated solution means that more training will be required if potential users are to reach the level where they feel comfortable with it (Gary, 2000; D'Orville, 1996). Complicated solutions could easily lead to user frustration and reduce users' confidence in their ability to master the application.

Solutions that are user-friendly tend to break the perceived technological barriers that prevent many users from fully reaping the benefits of the information systems that their organisations use. Easy to use applications should be preferred over those that are not, provided, of course, that their performance is up to the required standard. Vendors who are in a position to offer such solutions to potential customers could have a substantial leverage over other vendors who do not (Alserhan and Brannick, 2002).

4. **Recommendations from Reference Groups.** Such recommendations are usually very effective in the decision-making process. Family members and friends are usually trusted and their opinions tend to be impartial, provided out of sincerity and for the sake of advice alone to the best of their knowledge, with no commercial purposes behind them (Moyi, 2003). The kinds of recommendations they provide are not reward-based and recommenders usually do not expect more than a 'thank you' in return. They might also take the initiative themselves and search for more alternatives or suggest options that were not considered in the first place.

Recommendations that come from trusted parties are very powerful, especially in situations where the overall picture is still not clear enough for the decision-maker to make an acceptably informed decision. Since such recommendations are strong and those offering them do so in a sincere and relatively 'forceful' manner due to their special relationship, management might be

unconsciously driven towards making 'uninformed' decisions that are not perfectly in line with the organisation's overall direction.

It is helpful to ask for advice from those who are trusted to give impartial advice, but in the end, the decision that should be taken is one that is informed, logical and supports the attainment of the organisation's strategic objectives. Opinions and consultations should be sought from all those who can offer them, but it should be management that have the final say.

CONCLUSION

Choosing IT vendors is an integral component of a firm's IT deployment strategy. Therefore, the final choice of an IT vendor should be the result of careful and in-depth analysis of the various variables involved in the deployment. A helpful tool in this regard would be the use of a checklist matching the needs of the firm with the total package a vendor is offering. This tool could be used either as an initial method for short-listing candidate vendors or, if fully developed, as a comprehensive decision-making criterion. Such a list, though, is time sensitive and needs to evolve along the firm and the solutions available in the marketplace.

Finally, the findings of this study reveal that more emphasis is being placed on the structured vendor criteria (i.e. measurable) than on unstructured ones (i.e. convenience). This finding means that IT implementation initiatives are being carried out more professionally and that they are systematically evaluated to ensure higher overall deployment success.

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The Internationalisation of Indigenous Irish Software Technology Companies: An Exploratory Study

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ABSTRACT

In the context of Ireland's increasing levels of outward foreign direct investment (FDI), the strategic importance of the indigenous software technology sector and increasing levels of globalisation, this paper describes an exploratory study of the internationalisation of the indigenous Irish software technology sector. Recent research has challenged the stage theories of internationalisation and suggests that small firms in knowledge-intensive industries are internationalising more rapidly and from inception. A different view of the role of knowledge is provided in this emerging pattern of internationalisation – knowledge as a driver of internationalisation rather than a barrier to be overcome in an incremental process. The paper concludes by comparing and contrasting the findings across research on the high-technology sector in other countries.

BACKGROUND

Ireland's changing levels of FDI
Ireland has been very successful in attracting foreign direct investment (FDI). In 1998 Ireland's level of inward investment as

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a percentage of Gross Domestic Product (GDP) was 32.7 per cent in comparison of a European Union (EU) average of 17.3 per cent. However, this situation is changing and in 2001 Ireland's inflow of FDI fell by 60 per cent (Forfás, International Trade and Development Report, 2003). As the level of inward FDI into Ireland has fallen since 2000, the nature of FDI has also changed (International Trade and Investment Report, 2003). While Ireland's outward FDI level as a percentage of GDP is well below the EU average, 22.5 per cent (EU average was 39.6 per cent in 2003), it has increased significantly in the past fifteen years (UNCTAD, *World Investment Report,* 2004). According to national data sources, outward FDI increased 30 per cent as Irish businesses increased the pace of their internationalisation (Forfás, 2002). However, published data on direct investment flows between Ireland and the rest of the world does not provide a comprehensive breakdown by sector of origin or country of destination (Forfás, *Statement on Outward Direct Investment,* 2001).

Dunning (1996) in his 'Investment Development Path' (IDP) examines the relationship between the development of an economy in stages, and inward and outward FDI. At stage three of the IDP, the original advantage of low cost is being eroded and is being replaced with technological advantages, managerial and marketing know-how. There is a slowdown of inward FDI at this stage and outward FDI starts to develop. The strategic outlook for companies in the economy at this stage is increasingly global. Görg (2000) classifies Ireland as approaching stage three of Dunning's IDP. Similarly to Görg's analysis, Porter et al. (2002) describe Ireland in the *Global Competitiveness Report* (2002), as being on the cusp of innovation driven growth.

The importance of the indigenous software technology sector
In 1992, it was identified in the Culliton report that while attracting FDI has been a successful policy in the past, in future Ireland must focus on developing its indigenous sector. Ireland's indigenous technology sector was identified at that stage as having significant potential to contribute to the growth of Ireland's economy. Ireland's dependence on inward FDI has been associated with the use of imported rather than locally generated technologies – this has left a

large deficit in Ireland's technology 'balance of payment' (Green, 2000: 3). This gap is now being addressed by the growth of Ireland's indigenous software industry.

Using the measure of Gross Expenditure on R&D as a percentage of Gross National Product, Ireland is below the EU average of 1.9 per cent, at 1.4 per cent (OECD, 2001 cited in Forfás, 2004). It lags behind the leading knowledge-driven economies of Sweden (4.27 per cent) and Finland (3.49 per cent). While Ireland's public R&D expenditure lags behind the European average, its business R&D expenditure is in a better position and has more than doubled over the past decade as indigenous technology companies allocate over 20 per cent of value of sales to R&D. Over the past ten years, seven indigenous Irish software companies have listed on major international stock exchanges. Indigenous Irish software companies had a combined turnover of over €1.4 billion (HotOrigin, 2002) and are described by National Software Directorate (NSD) as export-oriented, with 70 per cent of their products going to international markets. Enterprise Ireland's Overseas Incubator Facilities state that over 220 Irish high-technology companies are currently active in the US and have set up US headquarters and local offices (National Software Directorate, 2004). However, in a study completed by PricewaterhouseCoopers (1999) of Ireland's high-technology internationally traded services sector, it was highlighted that establishing a global position for their products and services is a key challenge facing Irish software companies. Research by HotOrigin (2002) on the indigenous Irish software sector also found that entering international markets is one of the biggest challenges faced by these companies and describes the need for companies to 'internationalise fast and smart' (2002: 39).

Global integration
Globalisation is defined as the process by which the world's economy is transformed from a set of national and regional markets into a set of markets that operate without regard to national boundaries (Fraser and Oppenheim, 1997). A 1997 McKinsey report highlighted that there is nothing new about globalisation – it has been happening for decades. However, the pace has suddenly changed from a gradual one to a much faster pace. It is estimated that the size of the

global arena will have increased twelve-fold by 2027 and that more global integration will occur in the next 30 years than has done in the previous 10,000 years (Bryan and Fraser, 1999). According to *Foreign Policy*'s Globalisation index (Kearney, 2002), small trading nations tend to show higher levels of integration with other countries than their larger neighbours. In 2000, Ireland was described in the report as 'one of the largest beneficiaries of the global boom in high tech and information technologies' (Kearney, 2002: 44). Investment in technology-related assets is seen as one of the key drivers of internationalisation (Kogut and Chang, 1991; Kogut and Zander, 2003). In the context of:

- the changing nature of Ireland's FDI levels and the lack of sector-specific data in relation to this;
- the strategic importance of the software technology sector to Ireland's economic development and its high international growth levels in recent years;
- the overall increased level of global integration, particularly in small trading nations, an initial exploratory study was carried out on the indigenous Irish software technology sector. The overall objective of the study is to develop some insight into the factors influencing the internationalisation of indigenous Irish software technology companies.

MODELS OF INTERNATIONALISATION

Internationalisation is defined as 'the increasing involvement in international operations' (Welch and Luostarinen, 1988). At the firm level, two somewhat similar models have emerged in Europe and the US. Andersen (1993) has termed these as the Uppsala Internationalization Model (U-Models) (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977) and the Innovation-Related Models (I-Models) (Bilkey and Tesar, 1977; Cavusgil, 1980). Both models view internationalisation as a gradual incremental process.

U – Models

Based on a case study of four Swedish firms, Johanson and Wiedersheim-Paul (1975) found that firms internationalise according to a chain of establishment. They distinguish four stages: from no regu-

lar export activities, to export via agents, to establishment of an overseas subsidiary, to finally an overseas manufacturing plant.

Based on their study, they conclude that these firms enter new markets with successively greater psychic distance in a series of stages. The concept of 'psychic distance' has been defined as factors preventing the flow of information between firm and market, including such factors as language, culture, political systems, level of education and level of industrial development (Johanson and Vahlne, 1977). The basic assumptions of the Johanson and Vahlne model (1977) are that lack of knowledge about foreign markets is an important obstacle to the development of international operations and that the necessary knowledge can be acquired mainly through operations abroad. It is based on a study of large Swedish manufacturing firms in 1977. They present internationalisation as a result of a series of incremental decisions. These incremental decisions are affected by market commitment and market knowledge. The model is a dynamic model in which there are state and change aspects of internationalisation variables. The state aspects are market commitment – resources committed to foreign markets. The change aspects are the decisions to commit resources and the performance of activities. They highlight the type of knowledge as experiential knowledge, being 'the critical kind of knowledge' (Johanson and Vahlne, 1977: 29) in the international context and a driving force behind the process. It views experiential knowledge as not only a method of reducing risk but as a vehicle for acquiring information and for generating opportunities abroad. The Johanson and Vahlne model implies that market commitment will be made in small incremental steps as firms gain experiential knowledge. The model is presented as a dynamic approach as market knowledge and commitment change. They also note that firm size, technology, product line and home country affect the characterisation of internationalisation in different ways.

I - Models

The innovation-related models of Bilkey and Tesar (1977), Cavusgil (1980), Czinkota (1982) and Reid (1981) are similar in assuming internationalisation as an incremental process although varying in the number of stages. Internationalisation is presented

in these models as an innovation of the firm, a learning approach. The innovation related models highlight that there are differences between the internationalisation process in large and small firms. For example, Cavusgil (1982) puts forward a three stage process of internationalisation from an initial 'experimental stage' where exporting is marginal and intermittent, to an 'active involvement stage' to a 'committed involvement' stage where the firm has a long-term commitment to international markets. Reid (1981) notes that the export behaviour in small firms is likely to be influenced by the individual decision-maker whereas in the large firm it is likely to be more structurally determined. Andersen (1993) highlights that while the U-Model is assumed to be valid for firms of any size, the I-Models may be applicable to small firms only. Andersen (1993) describes both U- and I-models as behaviourally oriented and that the gradual pattern of internationalisation is attributed to the lack of experiential knowledge and the uncertainty relating to the decision to internationalise.

Other studies have supported this incremental process; Luostarinen (1980) and Larimo (1985) have produced similar evidence for Finland and Buckley (1982) in the UK. Coviello and McAuley (1999) identified eight different studies supporting an incremental internationalisation process for small firms.

CHALLENGES TO MODELS OF INTERNATIONALISATION

Despite the support for the above models, since the 1980s the stage theory of internationalisation has been challenged. These challenges have been specifically in relation to the process and pace of internationalisation, knowledge as a barrier to internationalisation, the role of the founder and network relationships.

Knowledge as barrier to internationalisation

Andersen (1993) challenges the assumption of experiential knowledge of the U-Models, highlighting that when market conditions are stable and homogenous, relevant market knowledge can be gained in ways other than experience. Similarly, Young (1987) notes that specifically in relation to high-technology firms, as firms learn from the experience of others that some of the barriers to internationalisation should be reduced. Erkko et al. (2000) note that knowledge

about international markets and operations and the efficiency by which the knowledge is learned, is an important determinant of international growth for entrepreneurial firms. Research by Eriksson et al. (1997) confirms that there is a cost associated with experiential knowledge in the internationalisation of the firm. However, their findings indicate that accumulated internationalisation experience is not related to specific country markets (as assumed in U-Models) but is *firm-specific* knowledge related to all markets.

Christensen and Jacobsen (1996) in their study of newly established international firms in Denmark, conclude that firms have different routes to internationalisation based on 'knowledge acquired prior to the initiated new business'. This is closely related to the role of the founding entrepreneur(s). They also note that market knowledge and the international skills and experience of the founder may also have been obtained before the birth of the firm.

The role of the founder
The education level of the high-technology entrepreneur is thought to overcome some of the psychological barriers (Young, 1987) perhaps reducing the effect of psychic distance assumed in the U-Models. According to Reuber and Fischer (1997), firms with an internationally experienced management team can skip the first two stages of Cavusgil's internationalisation model. Jones (1999) highlights that there is a body of work to suggest that the orientation and experience of the entrepreneurs influence the speed and nature of internationalisation – in addition to the nature of the product and the industry itself.

Changing pace and process of internationalisation
Hedlund and Kverneland (1985: 56) highlight that the 'establishment and growth strategies on foreign markets are changing towards more direct and rapid entry modes than those implied by theories of gradual and slow internationalisation process'.

THE 'BORN GLOBAL' PHENOMENON
Oviatt and McDougall (1994) highlight that organisations which are international from inception, termed International New Ventures (INV) are an increasingly important phenomenon. Research has

focused specifically on the change from a gradual internationalisation process to a more rapid one: 'Born Global' firms (Rennie, 1993; McDougall et al., 1994; Knight and Cavusgil, 1996; Madsen and Servais, 1997; Erkko et al. 2000; Moen and Servais, 2002; Chetty and Campbell Hunt, 2003; Knight and Cavusgil, 2004).

This accelerated pace of internationalisation is associated most with 'high technology, knowledge-based and service intensive firms' (Coviello and Munro, 1997: 362). Knight and Cavusgil (1996: 11) define 'born globals' as 'small technology oriented companies that operate in international markets from the earliest days of establishment'. They characterise a 'born global' firm as small (less than 500 employees), with an annual turnover typically under $100 million, possessing leading edge technology and developing products for niche international markets.

Firms engaging in international activities 'from inception or soon thereafter' (Oviatt and McDougall, 1994: 49) very clearly challenge the stage models of internationalisation. In their study of 24 case studies, McDougall et al. (1994) conclude that existing theories from international business failed to explain the 'born global' phenomenon. In addition to the inability of stage theory of internationalisation to explain the 'born global' phenomenon, Oviatt and McDougall (1994) also dismiss the idea that large size of the organisation is a requirement for internationalisation. They fail to explain it because of the assumptions of the existing models of a gradual process of internationalisation over time developing the organisation to a certain scale and also because they largely ignore the founding individual influences or the individual's network of alliances. None of the cases in the research of McDougall et al. (1994) followed the incremental process of internationalisation. The 24 cases of their study are present in at least ten countries, indicating that it is not a local phenomenon and many of the firms have formed in recent years indicating as they describe, 'a relatively new phenomenon'. They also note that although the companies are primarily high-tech businesses, they believe this phenomenon is present in a variety of industries.

Rennie's (1993) comparative study of Australian 'high value-added manufacturers' traditional firms and 'born global' firms concurs with this. He defined traditional firms as those having been

well established in the home market before exporting and found that the average age of these companies when first exporting was 27 years whereas the 'born global' companies starting exporting on average of two years after formation. He also notes that 'born global' firms are not only in technology sectors but describes that they were found 'in all industries' (p. 49). Research completed in the Nordic countries by Linkmark (1995) also demonstrates the existence of 'born globals'. From Canada, Preece, Miles and Baetz (1999) also report a tendency towards an increasing number of 'instant internationals'. In a longitudinal study of over 900 firms in Denmark, Christensen and Jacobsen (1996) report that there is a rising number of firms exporting within the first year of existence.

Jolly et al. (1992) have a somewhat different view on this: they conclude that high-technology start-ups must choose business areas with homogenous customers and minimal adaptation because they do not have sufficient scale in operations worldwide. They believe that the high fixed cost of these companies and the need to have broad market access reduces the importance of psychic distance as a market selection criterion. Bell (1995) in his study of small computer firms found limited evidence of psychic distance but rather that the internationalisation process was strongly influenced by domestic and foreign client followership. He also found that the process was strongly influenced by the targeting of niche markets and industry specific considerations.

Cantwell's (1999) technology accumulation approach claims that the growth of international production has been associated with sustained technological competitiveness between Multinational Enterprises (MNEs) in manufacturing. He highlights two points in relation to this: firstly, internationalisation has supported technological diversification as firms' technological development varies between locations, therefore firms expand internationally to gain access to new but complementary areas of technological development; secondly, there is a growing number of connections between technologies that were formerly unrelated, thereby attracting companies to certain centres of innovation. Research by Bell (1995) and Lindqvist (1997) examining high technology industries has found that the pace and pattern of internationalisation is influenced by customers (Lindqvist) and suppliers and customers (Bell).

Madsen and Servais (1997) note that while there is general agreement about the fast and immediate pattern of 'born globals', there are disparate opinions about other characteristics of the situation. They believe the rise of 'born globals' may be attributed to at least three important factors:

- New market conditions – specialisation and the number of niche markets;
- Technological developments in the areas of production, transportation and communication;
- More elaborate capabilities of people, including the founder.

Oviatt and McDougall (1994) concur, in that existing theories are less applicable in a number of situations where technology, specific industry environments and firm capabilities have changed.

There are a number of knowledge related issues emerging from the literature to date. This is somewhat consistent with Grant's (1996) knowledge-based view of the firm as an institution for the 'creation, transfer and integration of knowledge' (Almeida et al., 2002: 149). In comparison with traditional definitions of the multinational enterprise, Oviatt and McDougall (1994) highlight that INVs (or 'Born Global' firms) are not concerned with assets-owned (foreign direct investment) but with value-added. The nature of these assets are intangible, knowledge-based assets and some research to date suggests that this is also an influence on the internationalisation of the firm. Kotha et al. (2001) describe how Internet firms experience less the 'liability of foreignness'. Kotha's research also found that the intangible assets of Internet firms in the US were important predictors of the propensity to internationalise. He notes that the greater the value of the intangible asset in the domestic market, the more likely the firm was to deploy these in foreign markets. (Intangible assets being defined by Steward (2001) as human capital, structural capital and customer capital.) Autio et al. (2000) also note that as knowledge is inherently mobile, it can be combined with fixed assets in foreign markets at relatively low costs. They conclude that knowledge-intensive firms are less constrained by distance and national boundaries, thus can exploit international opportunities more flexibly than firms dependent on fixed assets alone.

The following diagram summarises some of the knowledge related issues underpinning the U- and I-models and what emerges from some of the research in this area as the inter-related factors fuelling the current internationalisation process. While the earlier models (U-Models and I-Models) have viewed knowledge as a barrier to internationalisation, in that acquiring market knowledge or the firm developing knowledge as an innovative process, influences the internationalisation process in an incremental way, the 'born global' phenomenon is being driven by knowledge, in that it is largely present in knowledge-based industries and competitive R&D levels are driving a faster and earlier internationalisation process. In addition, research to date has found a positive correlation between the accumulated international knowledge in the firm and the level of internationalisation.

The three drivers identified by Madsen and Servais (1997) above – market conditions, technological developments and capabilities – are enabled by knowledge at institutional, individual and organisational level.

Figure 5.1: Impact of Knowledge on Internationalisation (Brennan and Garvey, 2004)

METHOD
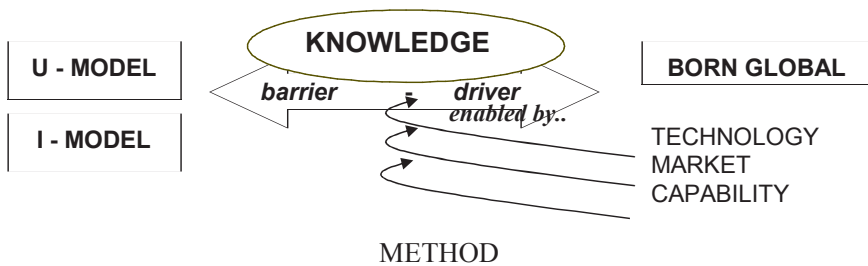
The study was done on the population of Irish-owned software companies listed by Enterprise Ireland and The National Software Directorate, 2003. An electronic survey was distributed by e-mail to the main contacts of the initial 350 companies. Due to either incorrect contacts or because the company had ceased trading, 71 mail surveys were returned, which left a study of 279. Surveys not returned in the initial timeframe were followed up again with a second e-mailing of the survey. The overall response rate was 10 per cent, although this is a low response rate, it is a typical response rate for electronic surveys. However, given the

exploratory nature of the study it still allowed us to develop some insight into the internationalisation of the sector.

The survey sought information on three inter-related factors – institutional, organisational and industry factors influencing the internationalisation of firms. The firms were from the industry sectors as shown on *Figure 5.2: Sector Profile.*

Classifications of companies as small or medium sized varies from country to country. We are using the framework provided by the European Commission (1996) which provides a common definition across markets using criteria of number of employees and revenue or balance sheet total. Using the combined headcount and revenue criteria above, 48 per cent of companies were micro-enterprises and 41 per cent of companies were small enterprises, with the remaining 11 per cent being medium sized enterprises.

Figure 5.2: Sector Profile
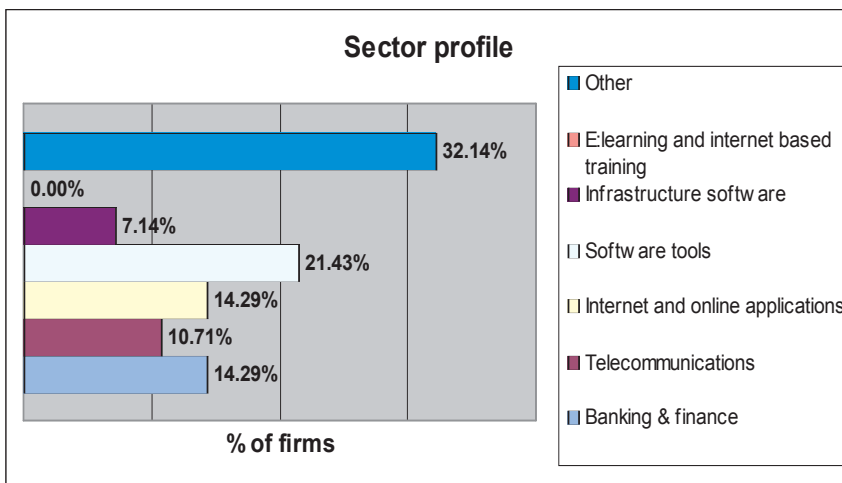
FINDINGS

The findings of this exploratory study of the indigenous Irish software sector are discussed below in relation to similar, although not directly comparable, studies of the software technology sectors in Finland, New Zealand, UK and Canada. While the studies may not be directly comparable, it is possible to develop some additional insight into the drivers of the internationalisation process of firms (Madsen and Servais, 1997).

The internationalisation process

Born global or incremental?
Reuber and Fischer (1997) note in their study of Canadian soft-
ware companies that what is of interest here is not how long a
firm has been selling into international markets but rather for
how long the firm delayed before selling in foreign markets. The
survey of Irish firms poses the questions as to what year the
company was formed and what year it first engaged in interna-
tional activities. The average time it took for companies to
engage in international activities after their business formation
was 3.66 years. However, there were two companies in the study
24 and 17 years in existence. These took 15 and 10 years respec-
tively to engage in international activities. If these are excluded
the average time is 2.56 years that it took companies to engage
in international activities. 14 per cent of the respondents could
be classified as 'born globals', having engaged in international
activities from inception. 29 per cent of respondents engaged in
international activities within two years or less after formation.
The average age of these 'born global' companies was 3.5 years.
There is an indication from this that younger firms (new ven-
tures are defined by Brush (1995) as six years or younger) are
internationalising early on in their existence. This is consistent
with the finding of Jones's (1999) study of small high-technol-
ogy firms in the UK that 'in general, younger firms progress
more rapidly from one event to the next' (p. 18) in relation to
cross-border activities. Also, in Reuber and Fischer's (1997)
study of Canadian software companies, 14 per cent of companies
had international sales from their first year of operation. They
also noted that 'older firms delayed longer in obtaining foreign
sales' and highlight that this might reflect the increased globali-
sation of the software industry in recent years. This is consistent
with the findings above of the Irish companies.

Type of international activity
The type of international activity that firms engaged in was pri-
marily product export (58 per cent), but also involved in provi-
sion of software related services (21 per cent) and setting up of

sales offices (10 per cent). There was also an indication that this was a serial rather than parallel process as 79 per cent of respondents said that they did not engage in international activities in more than one market at a time. Coviello and Munro's (1997) study of New Zealand software companies found that these small firms make simultaneous use of multiple and different modes of market entry mechanisms which they describe as part of the firm's larger international network. It is not possible to conclude from the exploratory nature of this study that there was an evidence of this in the Irish sector. However, Irish firms may well have used their international network in the provision of software-related services noted above.

Gankema et al. (2000) completed an in-depth study of European manufacturing Small and Medium Sized Enterprises (SMEs) using five-year data. They concluded that there is a growing degree of internationalisation of SMEs over time but that there is huge variation in the pattern. In the majority of cases, a gradual stage process was evident but they describe leapfrogging of stages and gaps in the process before a committed internationalisation stage.

The level of internationalisation

A simple measure of *international revenue: overall revenue* ratio was used to assess the current level of internationalisation. 41 per cent of respondents had international revenues of over 50 per cent. 22 per cent of respondents had no revenue at all from international markets. Of those companies not currently engaged in international activities, 80 per cent of these companies plan to get involved in international activities in the future. This confirms further the growing importance of internationalisation to the indigenous industry sector at this point in time.

If we compare this with Reuber and Fischer's (1997) survey of 132 Canadian software SMEs, 10 per cent of firms had no foreign sales, 20 per cent of companies had 90 per cent of their revenue from international trade. The profile of both sectors is somewhat similar in relation to the level of internationalisation.

There is much debate about the appropriate way to measure internationalisation. Sullivan (1994) argues that multiple item measures

Table 5.1: Level of Internationalisation

Percentage (%) of Revenue from International Markets	Percentage (%) of Respondents
None	22
1–5	15
6–10	4
11–20	7
21–30	4
31–40	0
41–50	7
>50	41

should be used rather than just foreign sales as a percentage of the total. He constructed a five-item measure that reflects performance aspects, structural aspects and attitudinal aspects of internationalisation. Reuber and Fisher adapted two of those measures – performance (foreign sales as percentage of total) and structural (percentage of employees that spend over 50 per cent of time overseas) and geographic scope of sales. More in-depth case research would enable the use of multi-dimensional measurement and gain a more comprehensive understanding of the level of internationalisation.

The importance of psychic distance
The first country in which these companies engaged in international activities is indicated as follows:

Table 5.2: Importance of Psychic Distance

First Country in which the Firm Engaged in International Activities	Percentage (%) of Respondents
United Kingdom	68.4
United States	21.1

Given the similarities of language, culture, political systems, level of education and level of industrial development, this would suggest that these companies focused internationally on markets within a

close psychic distance. This is consistent with the findings of Bell's (1995) research of computer software firms in Finland, Ireland and Norway. He found that 50-70 per cent of firms entered 'close' markets in the initial stages of export development and specifically that Irish firms tended to target the UK first. Research by Coviello and Munro (1997) into the international growth patterns of Canadian small firms in the software industry found three stages of international activity over a specific timeframe. In the initial stage (year 0-1), firms had largely a domestic focus but clear intentions to internationalise. The second stage (year1-3), the firms became actively involved in psychically close markets. The third stage (year 3 onwards) indicated committed involvement across multiple markets including psychically distant markets.

In our study, when asked to rank the countries viewed as the most strategically important market for the future, the respondents ranked the countries as follows:

Table 5.3: Strategically Important Markets for the Future

Country	No. 1 (%)	No. 2 (%)	No. 3 (%)
United Kingdom	58	21	
United States	21	14	2
China			18

This may indicate a similar pattern as outlined by Coviello and Munro (1997) above, in that Irish firms may be moving towards psychically distant markets from stage three (year 3 onwards). It is related to the findings on the process of internationalisation, in that there is an indication that the process, while still a gradual one, is happening in a 'compressed timeframe' (Coviello and Munro, 1997).

A study of the internationalisation strategies of 'technology based new-firms' by Erkko et al. (2002) in Finland, concluded that there is much diversity of 'born global' strategies. Their study included software and hardware technology companies of less than three years old. They found that the pattern of internationalisation reflected a gradual one (internationalisation starting in year 2) but early in the existence of the firm. They also noted that the first markets were new

countries but within the same geographical region and entry to more distant country cultures started to happen between years 3 and 4.

The role of knowledge

Firm internationalisation knowledge

37 per cent of companies indicated that 0-10 per cent of their employees had international experience prior to joining the company. 26 per cent of companies indicated that over 50 per cent of their employees had international experience prior to joining. Looking further at this in relation to their level of internationalisation, of this 26 per cent, 71 per cent of these companies had also greater than 50 per cent of their revenue from international markets. While it is not possible from the exploratory nature of this study to say that a higher level of international experience within the company is positively related to a high level of internationalisation, it does concur with the findings of some other studies in this way. Reuber and Fischer (1997) completed a study of Canadian SME software companies to understand the influence of the management team's international experience on internationalisation behaviours. They found that internationally experienced management teams have a greater propensity to develop foreign partnerships and delay less in obtaining foreign sales and that these behaviours are associated with a higher degree of internationalisation. Erkko et al. (2002) in their Finnish study also found that the contacts and experiences of the management team had a positive effect on the 'development of the distance of internationalisation' (p. 6).

Knowledge intensity

Our survey of the Irish sector also sought to understand the level of R&D spending among these companies, detailed in Table 5.4 – R&D expenditure as a percentage of total expenditure. We found that 16 per cent of companies had R&D expenditure of greater than 40 per cent, 23 per cent had R&D expenditure of between 21 and 30 per cent and 54 per cent had R&D expenditure ranging from 1 to 20 per cent. The R&D intensity of high-technology sectors is much cited in the literature (Young, 1987; Barkema and Vermeulen, 1998) as one of the key factors accelerating internationalisation. Karagozoglu and

Lindell (1998) in their study of small technology companies (small defined as having less than 99 employees) in the US, found that the third most important reason for the US companies to internationalise was the size of the domestic market to sustain competitive levels of R&D, which they define as 35 per cent of expenditure. One could conclude that to sustain *competitive* levels of R&D, Irish companies need also to sustain levels of international growth.

Table 5.4: Levels of R&D

Percentage (%) of Expenditure on R&D	Percentage (%) of Respondents
None	4
1–10	27
11–20	27
21–30	23
31–40	4
> 40	15

Firm motives for internationalisation
The most important reasons for companies to expand internationally were rated as follows:

1. Market growth/access to new country markets (75 per cent ranked this no. 1);
2. International customer requirements (50 per cent ranked this no. 2);
3. International competition (44 per cent ranked this no. 3).

Given the small size of the Irish domestic market and the R&D intensity of this sector, it is not surprising that market growth should rank as the most important motive for internationalisation. In the above mentioned US study, Karagozoglu and Lindell (1998) found that the opportunities in foreign markets and following inquiries from foreign buyers were the key motives for small US technology firms to internationalise. The high ranking of 'international customer requirements' is consistent with the findings of Bell's study of Irish, Finnish and Norwegian software companies. He found for

62.5 per cent of firms, that client international requirements had influenced both the initial decision to export and the choice of foreign market. He concludes that there is strong evidence that the internationalisation process for small computer software firms is influenced by domestic and client followership as opposed to the psychological or geographical proximity of export markets. He refers to Czinkota and Ursic (1987), in that they do not believe those firms undergo a complex systematic analysis of geographical, cultural and political factors. From our study, there is evidence of psychic distance being a factor in the first internationalisation decisions and the influence of client international requirements. The two are not necessarily mutually exclusive and while firms might not undergo complex systematic analysis, perhaps it is an implicit bias in decision-making on international markets. It is possible also that previous experience, knowledge and connections relating to prior international experience can also explain it.

Two reasons for expanding internationally which were ranked the lowest were 'access to technology' – 45 per cent ranked this as 10 out of 11 in order of importance and 'access to skill or knowledge base' – 30 per cent ranked this as 10. Given the strategic importance of the US market in the software industry and the No. 2 ranking of this market in the study, one might have expected that software technology companies are moving to critical strategic arenas of their industry. For example, Bell (1995:66) found that 'industry-specific factors were much in evidence' – in that markets where software development was concentrated, that this was a factor in the decision. While one cannot conclude that small firms are primarily following larger international clients or competition, as opposed to developing a presence in strategic locations of the industry, it is possible that this is related to the small size of the companies.

Barriers to internationalisation
Those firms who have not yet engaged in international activities were asked to rank in importance 1 to 6 the key reasons why they have not done so to date.

Ranking highest were 'sufficient growth in domestic market' – 50 per cent ranked this as No. 1 and 'lack of financial support' –

50 per cent also ranked this as No. 1. This may indicate support for a gradual but quickened pace of internationalisation process as noted in the above studies, in that years one to two of existence are focused on domestic growth. In contrast, in a study of the US software technology SMEs, only 9 per cent indicated that funding was a barrier to internationalisation. The lack of financial support in the Irish companies may be related to a number of institutional and organisational factors, which are also self-perpetuating in relation to the growth of the company.

The issue that 'the nature of the product or service is tailored to the local rather than international market' was ranked by 40 per cent as the No. 1 reason. And although lack of international experience was not ranked as a key barrier, with 60 per cent of companies ranking this as No. 4, product internationalisation or localisation knowledge could be classed as implicit knowledge gained by experience. Therefore, one could argue that although firms, when not engaging in internationalisation, don't see their lack of experience as a barrier, it may become more evident as a factor when they start internationalising. This is also related to the role of psychic distance as noted earlier.

CONCLUSION

This study has been exploratory in nature and, in common with other e-surveys, has had a low response rate. Nonetheless, it does provide insight into the internationalisation of the indigenous Irish software sector and highlights some interesting areas for further study. We believe it is possible to conclude from this some key findings in relation to the pace of internationalisation, the factors influencing the process and the profile of internationalisation as follows:

Pace and pattern of internationalisation
Internationalisation of the indigenous Irish software sector follows a gradual process but this is at an accelerated pace. There is evidence of 'born global' companies within the sector, i.e. internationalising early (within the first 2 years of their existence). The pattern of internationalisation – the use of multiple modes of market entry and the timing of the stages of entry, appears to be diverse across micro, small and medium sized enterprises in the study.

Influencing factors

What are of particular interest are the factors driving the process and the inter-relatedness of the factors. There was evidence of psychic distance influencing the early internationalisation decisions. There was also evidence of international clients and competition influencing the decision to internationalise. The study findings did not suggest that firms internationalise to access technology or knowledge in specific markets, although the findings did show that firms viewed the US market as one of strategic importance. By following international clients and competitors, companies are moving to strategic locations of the industry like the US, albeit not explicitly stated in the study.

Underpinning many of these inter-related influences in the context of the internationalisation of the indigenous high-technology sector is the role of knowledge.

The role of knowledge

The role of knowledge and in particular experiential knowledge has been one of the key assumptions underlying the internationalisation models to date. What has emerged from this exploratory study and review of the literature to date in this area is the role of knowledge in perhaps a different way. This role may be seen as an influence from two different but related perspectives – knowledge intensity and knowledge accumulation.

- Knowledge intensity – Stewart (2001) provides three measures of the knowledge intensity of a business, one of which is the R&D spending as a percentage of the revenues. We have contrasted the study findings with a US study in relation to the motives to internationalise being driven by the need to sustain competitive levels of R&D. This is of significant importance in this industry sector study. Given the R&D levels indicated by the study and the wider software industry R&D levels reported by ICT, 2000 – this competitive level of R&D is likely to be a key driver of internationalisation going forward.
- Knowledge accumulation – While experiential knowledge is still of key importance, the role played by other types of knowledge emerges from this exploratory study. The influence of psychic

distance may be related to the tacit knowledge (Nonaka, 1991) that the firm possesses, not necessarily gained by experience about a specific market but as a result of the collective individuals' knowledge. This also relates to the tendency in the study for firms to follow international clients or competitors. The level of employee international experience in the companies that had a greater degree of internationalisation, together with the similar findings of studies in Canada and Finland would indicate that there is a positive relationship between the two. Therefore, it would suggest that the stock of knowledge already accumulated in the firm plays an important role in internationalisation.

Eriksson et al. have extensively researched different aspects of internationalisation knowledge accumulation – the effect of variation on knowledge accumulation in the internationalisation process (Eriksson, Johanson et al., 2000), experiential knowledge and cost in the internationalisation process (Eriksson, Majkgard et al., 1997), the perceived usefulness of network experiential knowledge in the internationalising firm (Blomstermo et al., 2004) and path dependence and knowledge development in the internationalisation process (Eriksson, Majkgard et al., 2000). Eriksson's differentiation of the various types of knowledge accumulated in firms – internationalisation, business and institutional knowledge – provides a wider framework for understanding this at firm level, while at the same time including the role of experiential knowledge in the internationalisation process.

Recommendations for further study
Coviello and Munro (1997: 383) note that case research provides 'richness and depth of understanding to internationalisation which is not possible with survey data'. We recommend further in-depth case analysis to explore in more detail the issues that have arisen from the study. Specifically the role of knowledge – knowledge intensity and knowledge accumulation in influencing the pattern, pace and level of internationalisation in this sector.

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Review of the Potential and Practice of Professional Roles and Responsibilities of Executive Directors on Boards

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T H O M A S   O ' T O O L E *

ABSTRACT

The roles and responsibilities of executive directors on boards are given scant literature attention in comparison to their non-executive counterparts, and potential professional roles and responsibilities receive minimal review or mention even in the light of a growing focus on ethical behaviour and advocacy for directors to take personal responsibility. The professional roles and responsibilities of human resource and marketing directors are the focus of investigation in this paper. Could these roles and responsibilities lead these directors to become representative of other stakeholder groups or, indeed, are they relevant? A mix of desk and empirical research is used to explore these questions and implications for practice developed. The roles and responsibilities would appear relevant but are at a nascent stage of development and the likely pressure for adoption would appear to be external to the board.

INTRODUCTION AND BACKGROUND

The board of directors is a key focus of governance research and of regulatory attention. The research and regulatory focus tends to be on the independence of boards, role of CEO/Chair, executive pay and audit. All the major governance reports (from Cadbury, 1992, to Higgs, 2003) examine aspects of these issues which are critical to the

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control of corporations. By its nature, corporate control is driven by financial accountability for shareholder interests and thus regulation, practice and research is concentrated in this arena. While most commentators accept that boards have a wider accountability remit than just those of the shareholder, it is difficult to prioritise these issues unless they directly affect the accumulation of wealth to the shareholder. Wider accountability pressure on boards is, perhaps, coming from the general public and other interested groups, given the employment and global impact of large public companies. While boards have always been under scrutiny and this lens tended to be financial, in the light of the 'Enron effect' in the US and the political pressure for social responsibility brought on by global operational difference in MNCs and the anti-globalisation movement, ethical conduct is now seen by some as a means of ensuring boards function effectively while not being overtly regulatory or mandating in detail the roles and responsibility of each director.

The conduct of individual board members is of course culture-bound to some extent. However, Higgs (2003) and others have identified clear roles for non-executive directors and the broad role of the board has been specified. Indeed, aspects of the role of inside directors or executive directors have been delimited. However, professional roles and responsibilities of executive directors have been largely ignored. This paper focuses on human resource and marketing directors but it would appear that beyond fairly limited parameters financial directors' professional roles may also be very scantly outlined.

Professional roles and responsibilities are important from an internal and external context. There is a sense that managers' self-interests are well catered for on boards and there have been many controversial reports, especially in the popular media, about supposed excessive executive remuneration and pay-outs after the sale or purchase of companies. Externally, pressure for recognition and the activism of individual stakeholders puts further pressure on the executive director because, as a professional, he or she may have wider employee or consumer responsibilities not inherent in his or her executive role.

This paper will explore the potential use of professional roles and responsibilities of executive directors, especially human resources

and marketing, on the boards of public companies to represent wider stakeholder interests. In the case of human resources and marketing, employee welfare and rights and consumer/buyer relationships could be represented at board level by executive directors. Professional roles and responsibilities are inherent in the profession of the executive if not in his/her job. The explicit use of these roles is outside the current remit of unitary boards and may prove controversial if codified in regulation given the current single and shareholder focus of public companies.

The paper will review the current state of corporate governance literature in relation to its objective, use a mix of desk research and interviews to explore professional roles and responsibilities and examine the potential of these for the professional practice of certain executive members of boards, and report any potential contribution and conflict to the conduct of boards.

STAKEHOLDER VIEWS OF THE COMPANY

The governance of a company is a particularly loaded concept and the questions of 'how to govern' and 'for whom' can quickly reveal the analyst's or academic's hand. Most commentators will agree that the governance of public companies is of major concern as they are core economic entities in terms of wealth measures and are also part of the fabric of the social system as individuals are dependent on these companies for employment and indirectly through investment funds for pension growth. This paper views the corporation in its wider context and takes a stakeholder view (Agle et al., 1999 and Korac-Kakabadse et al., 2001). Whilst boards have a primary accountability to shareholders there is a wider set of responsibilities that cannot be ignored at board level. Indeed, the Department of Trade and Industry in the UK, while emphasising 'light touch' regulation, is examining ways to deal with international labour issues and wider stakeholder concerns.

The Hampel Report (1988) states that 'the directors as a board are responsible for relations with stakeholders; but they are accountable to the shareholders' (p. 12). This accountability quotient has meant in practice that little effective attention, measured by prioritising in key decisions, has been paid to the protection of stakeholders that do not have a financial stake in the company such

as banks, creditors or perhaps employees through stockholding. Public companies are owned by shareholders. These shareholders appoint boards on their behalf to maximise their return on capital and act in their interests. The directors are the agents of the shareholders and are entrusted as such. This one-step-removed risk is one of agency and its management ensures and unpins a functioning market for corporate control. The agency risks and monitoring safeguards provide the rationale for many stock market rules and legislative efforts. It is to deal with agency abuses that other than market forces have had to intervene. In a perfect market there would be full transparency and disclosure and companies' asset values would align to market valuations at a point in time. The vision of shareholder as capitalist only becomes slightly blurred when one considers who these one-step removed entities are.

Aside from the one dominant, family type, shareholder and its implications for the other shareholders, institutions own/manage much of corporate wealth. According to The Conference Board (2003), institutional ownership of the top 1,000 US companies in 2000 was 61.4 per cent. These institutions represent people at one remove, for example, individual workers through pension funds. Therefore, arguments about how these individual interests are best protected have gained ground in the governance debate. The AFL-CIO (American Federation of Labor and Congress of Industrial Organisations, www.afl-cio.org) union in the US, for example, has urged fund managers to vote according to union client recommendation (OECD, 2000). Short-term needs for gains are now seen, even in the traditional economic models, as being balanced by the need to ensure the protection of the long-term value of the assets. This view has led to more complex theoretical contributions but to few answers (Biggart and Delbridge, 2004).

The OECD's (Organisation for Economic Co-operation and Development) Governance Principles (1999) (known as the Principles) rank the role of stakeholders as one of the Principles with the rationale that their interests are in the long-term interests of the corporation. The Principles see stakeholders as secondary even though they are strong on the wider obligations of companies. This is a view shared by the Conference Board (2003): 'Although most state corporation laws establish that corporations

should be run to enhance that corporation's economic interests, and therefore the interests of its shareowners, corporations are also expected to fulfill their legal and ethical obligations to other constituencies'(p. 17). This view that behaving responsibly is in the economic interests of the firm is the major force behind the current dominant view of regulators and policy makers. Claessens (2004) argues that there have been few empirical studies to document these effects. The latter's research concluded that there was mixed evidence or no relationship between corporate social responsibility and financial performance. The case for wider sets of responsibilities is one that is, in part, theoretically supported but may be only alluded to in most government and industry commissioned reports. The wider stakeholder responsibility can be justified in the narrow, self-interested, corporate view especially as, for example, the effect on corporate reputation of an action by a company can be deleterious and enduring. Of course, professional responsibility goes beyond self interest and is also an internalised view. Even though a push for responsibility should be coming from within the board and this paper is suggesting a route for this through the professional roles and responsibilities of executive directors, why has most pressure come from forces external to the board? For example, there are many international and domestic initiatives led by government and non-governmental organisations (NGOs) such as the OECD's governance fora, Sarbanes-Oxley in the US, the World Council for Corporate Governance (www.wcfcg.net), the global reporting initiative (www.globalreporting.org), the International Accounting Standards Board (IASB – www.iasb.org.uk), stock exchange rules and pension fund activism, and self regulation and industry specific regulation (for example, the Irish Financial Services Regulatory Authority is now advocating board level metrics for ethical consumer dealing in response to overcharging by a bank(s)). Perhaps, as alluded to earlier, the stakeholders that matter are to a large degree satisfied with the current model.

ROLES AND RESPONSIBILITY OF BOARD MEMBERS

The roles and responsibilities of board members are set out in many reports and indeed in legislation. All board members share a

common set of duties in a unitary board. Adrian Cadbury (1992) summarises the dominant view of the role of the board:

> Boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship.
>
> (p. 15)

Freeman and Reed (1983) take a more socio-political view and assert that the role of stakeholder is determined by the degree of influence or power stake that they have, and this approach may explain why certain stakeholders such as managers have a more prominent role than would appear in an exogenous definition. Even taking this into account, the debate about what the board should do does not extend to the professional remit of individuals (Johnson et al., 1996). This is the case even though directors' personal responsibility has become more important, as has the ethical dimension to the work of the board.

The generic role of chairman, CEO, and secretary have been well covered as has the role of the independent director (Coulson-Thomas, 1993; Dulewicz et al., 1995; McNulty et al., 2003; The Conference Board, 2003) but even these roles do not extend to professional roles and responsibilities and therefore are managerial and shareholder focused. O'Neal and Thomas (1996), in a study of roles, found that '…maximising shareholder wealth, CEO succession planning, evaluating management performance and determining top management compensation as the board's most important responsibilities. This is consistent with the commonly held perception that the board's primary role is one of control – ensuring that management is diligent in its responsibility to the firm's owners' (p. 315). This type of commonly held view may lead to increasing regulation as the boundaries of these roles are clearly limited and are not regulated by a professional ethic and duty that impacts on decision making. The lack of a professional input or the simple neglect of the background and profession of the executives involved on the

board is a feature of the development of the governance debate from its origins in an economic school of thought (Licht, 2003). Added to the conventional wisdom on the role of the board is that lack of general attention given to the role of executive directors as illustrated in Johnson et al. (1996): '…Rather, the clear focus is on "outside directors", more specifically non-management directors. With few exceptions, the role of the insider director has received little attention, although agency theorists' advocacy of inside directors as monitors of the CEO has received preliminary, but indirect, support' (p. 432).

The background of the shareholder has been shown to have an impact, yet this has not led to a focus on the professional remit of members of the board (Johnson and Greehing, 1999). For example, pension fund equity may contribute to an equality focus in the assessment of the corporate social responsibility by these funds, given their owners. In general, human resource and marketing functional issues have become of increasing importance to boards, yet this is not represented by these functions being on boards. Perhaps, these functions' concerns are dealt with at executive committee or at strategy sessions on boards. The issues surrounding employees as a stakeholder are even more difficult to examine from a corporate governance perspective, in part because of the complexity of such arrangements. One area where the legal rights of stakeholders need improvement is in the area of 'whistleblower' protection, which is also important in implementing anti-bribery measures (OECD, 2003). Using OECD (2003) statistics, it would appear that both employee participation in works councils and employees share option schemes (ESOPs) have positive effects on corporate governance. Yet there are calls for further legal protection of employee and other stakeholder rights, which may in part be explained by a lack of trust in boards. If professional representation was taken more seriously then this may not be such a concern.

Customers and suppliers are sometimes identified as stakeholders if they make costly and specific commitments to the company and are closely involved in contributing to its success. This limited view of their importance as stakeholders comes from an agency view of their actual legal role. In practice, their role goes far beyond the transaction and is core to the long-term success of any enterprise. However, their interests are often handled outside of the framework

of corporate governance via private contractual arrangements and other market mechanisms. Moreover, as many contracts are ongoing, third party instruments, such as conciliation, both formal and informal, have evolved to meet the need for reducing the perceived risk associated with this mode of conducting business. In short, in all advanced market economies relational transactions are more the norm than the exception with arrangements depending on trust and on an efficient method of contract enforcement, including a framework for conciliation and arbitration. This suggests that the governance mechanism needs to evolve to include such stakeholders in corporate decision-making, as the relationship is one of temporal duration and interdependence.

Roles and responsibilities are not merely box ticking, that is making sure one is covered from a legal point of view, but are systemic in values often personal but certainly capable of being articulated at board level. Generic ethical problems revolve around issues such as worker rights and some metrics are being developed for these in an accounting sense. This type of ethical perspective is illustrated by the following quote from the OECD (2003):

> National principles often call for a code of company ethics to be developed and disclosed by the board which includes compliance (e.g. NYSE listing requirements). In a number of cases there is also a call for an ethics committee of the board to be established or for a board member to take responsibility for overseeing the code. It appears that many companies see ethical codes or company codes of conduct as a way to prevent abuses of market power and behaviour that approaches too closely to the point of committing illegal conduct, and to act as ethical guidelines in the decision making process…Most company codes include provisions on environmental policies, labour management, bribery and corruption prohibitions, consumer protection, scientific and technological advancement and disclosure.
>
> (p. 69)

However, these issues go deeper than the negative protectionist stance inherent in the OECD quote, into functions and roles expected of executive directors who have direct ethical and professional responsibilities for other stakeholders.

PROFESSIONAL ROLES AND RESPONSIBILITIES OF EXECUTIVE BOARD MEMBERS

Hempel (1998) describes the general role of executive directors as being akin to that of the non-executive, independent:

> As well as speaking for the business area or function for which he or she is directly responsible, an executive director should exercise individual judgement on every issue coming before the board, in the overall interest of the company. In particular, an executive director other than the chief executive officer needs to be able to express views to the board which are different from those of the chief executive officer.
>
> (p. 24).

Higgs (2003) outlines in some detail the role and responsibilities of non-executive directors and these general roles are also applicable to executive directors but do not address the professional part of their role. Some of the research for the Higgs' review (McNulty et al., 2003) casts a sharp light on the underperformance of executive directors in their generic role:

> The executive directors of boards have very little awareness of their responsibilities under company law or any other law, and the reason for that is quite understandable; they owe their jobs, careers and futures to the chief executive…It is the job of the executives to bring not merely routine figures and the annual business plan and budget to the table, but to bring issues that they believe, with their much greater knowledge, are important issues for the company on which they expect non-executives to have a view: it is a duty.
>
> (pp. 11-12)

The Conference Board's (2003) report advocates directors taking personal responsibility. One of the aspects of personal responsibility is the broader professional responsibility to stakeholders. Professional representation runs against the unitary board as the dominant model but is not contrary to it. Bringing a professional hat to the board may enhance its operation. Indeed, the finance function, usually represented on boards, is accepted

to play a professional as well as a unitary role, as it is expected that it retain its independence of the board and executive for the financial reporting of the company. These same roles are not expected of the human resources and marketing functions, as the two other functions likely to have executives on the board. These functions are expected to bring their expertise to the board but not to act as independent professionals. That is, to have an independence that is represented by professional codes of practice, or by the history of the profession, that is acted upon at board level. These functions are therefore more likely to represent company interests rather than, for example, those of the employees or customers, as a case in point. Perhaps part of the reason that these roles have not developed is the deregulated entry routes for professionals in these areas making sanctions by professional bodies or other bodies difficult to enforce.

Given the dynamics of the board (consensus making and collegiate), the relationship to the CEO and, in many cases, the remuneration incentives, it is understandable if executive directors do not act as professional independents (Forbes and Milliken, 1999). Professional bodies should perhaps be directing and leading this challenge for an independent role for their members. It would certainly help to reduce the information deficit many non-executive directors find when on the board (Cohan, 2002).

Given that there is very little written on what exactly the professional role might be for HR and marketing directors on boards, one can be guided by the external and internal stakeholder concerns of consumers and employees, about which much has been written. HR is seen as the cultural steward of the organisation and deemed responsible for the protection of cultural values in a company (Boyd and Begley, 2002). The OECD (2003) points to further roles:

> In a study of 100 multinational enterprises prepared by the OECD in 2003 around 95 of them had made policy statements on the environment and health and safety, 80 on labour relations and 45 on anti-corruption, integrity and transparency. An important development is that the demand for broader reporting has been accompanied by suggestions about how company reporting can be verified.
>
> (p. 61)

On the negative side, from a professional roles and responsibility perspective, Kelly and Gennard (1996) demonstrated, through their access to HR directors, that these directors saw their primary role as addressing corporate and business objectives rather than those particular to the professional HR practitioner. In some respects this study found that HR directors want to be like every other director instead of assessing the potentially unique contribution that a different role could bring to the operation of the board.

Marketing has, for good or ill, been placed firmly in the company's pocket rather than as custodian of brand and product values. 'Convince the consumer to buy' has been the unfair maxim given to marketers. There are many areas where the marketer could act as professional representative as well as the company person. *Caveat emptor* has led the board's position on its customer – the market will decide rather than the marketer acting as arbiter between company and market. In tandem with HR, marketing has the possibility of becoming representative of a wider world. Two examples illustrate the distance marketing has to travel before it is considered an independent voice of consumers. Fournier et al. (1998) questioned the use or non-use of consumer information by companies. Company-held customer records may be sold on by companies without their consent, which makes consumers feel frustrated, but they seem powerless to do anything about it. The authors argued for the need to regain trust through honest dealing and by being up-front about motives. LaBerge and Svendsen (2000) described how a forest products company rebuilt its relationships after the discovery by consumers and other interest groups of its intention to log old-growth forests. The company was forced by its stakeholders to change via the activism of these groups. The company's turnaround was based on ethical values and led to the signing of a memorandum of understanding with interest groups six years after the problem surfaced.

Professional values and competence are secondary in the toolkit used by current marketing and HR functions. These functions seem content to be part of the team and see their role as bringing marketing and HR concerns to the board but from a company's perspective only. This complements the dominant view of the role of the board as an independent actor managing the risks associated with its expected return from its investment.

These risks are somehow external, atomised and don't impinge on other stakeholders interests in any negative way. The assumption of a stakeholder position in this research, and thus an inter-dependent world-view, implies that the development and delimitation of a wider set of roles and responsibilities might have positive effects for the marketing and HR professions and for individual companies.

RESEARCH METHOD

A mix of methods was used in order to begin to scope the issues and assess their potential importance. The source material for the findings originates from the following: one hour long interviews with a human resource and marketing director with a combined experience of, at least, twenty years in the boardrooms of different companies; personal observation on reported events on board room activities of major Irish companies, which has been the motivation for the research in the first place; an examination of the relevance of the current work through the annual reports and web sites of the top ten Irish companies by market value; reflections on the ethical codes of three professional bodies – one accountancy, one marketing and one human resource. Finally, the contribution of experts, fellow researchers, who come from the financial and auditing position on corporate governance matters, was necessary to complete the paper. These mixed sources provide for the opinions and facts presented in the results.

RESULTS

Table 6.1 presents the analysis of the representation of executives on boards of the top 10 Irish companies by market value. The average number of executives on boards is towards the UK average (4.5 executive directors) and the majority on the board in all cases is non-executive. When it comes to marketing and HR, the position is of no representation and a four out of ten on executive committees. There may be an industry effect here. Employee and consumer rights cited in governance standards were a feature of four out of ten of the companies. Again, this may be expected in banking/insurance given the effects of, for example, 'churning' in the insurance industry. Ethical codes were strongly represented in six out of ten companies. The sources of information may have biased the results.

Table 6.1: Representation on boards and professional responsibilities

	Number of executive directors	HR or Mk director on board	HR or Mk chiefs on executive committee	Employee/consumer rights other than obligations/ compliance mentioned in governance standards	Codes of conduct/ ethical codes
Allied Irish Banks	4	No	Yes	Yes	Yes
Bank of Ireland	3	No	No	Yes	Yes
CRH	6	No	Yes	Yes	Yes
Elan Corporation	2	No	Yes	No	Yes
Anglo Irish Bank	5	No	No	No	Statement
Irish Life and Permanent	5	No	Yes	Yes	Yes
Ryanair	1	No	No	Yes	None found
Kerry Group	5	No	No	No	None found
Galen Holdings	3	No	No	No	Yes
Independent News and Media	7	No	No	No	None found

Notes to table:

a. Top ten taken from market capitalization in May 2004 (www.finfacts.com/stockmarketcap.htm). Company websites and annual reports used for data. Errors and omissions accepted by author.

b. Average number of executives on boards is 4.1 which is similar to the UK (FTSE 100, 4.5 with 11.5 average number of directors).

c. There is a majority of non-executives on all boards.

d. Employee/consumer rights mentioned in governance framework is a beyond fiduciary obligation test of commitment.

No representation on the board does not indicate that the particular functions would not contribute to the work of the board and have substantial proportions of meetings devoted to issues from their function. Lack of representation on the board may not be the trend in a larger sample size, or may be due to the small relative size of Irish companies as UK participation rates are higher among general company samples. For example, the Chartered Institute of Marketing in the UK claims that eight of the FTSE 100 companies have marketing directors on boards, which would imply a higher percentage on executive committees. The lack of representation of human resource and marketing directors on boards does make it difficult to promote a professional role. However, this professional role may need to be developed for all executive directors, and perhaps all directors, when one considers current trends, lack of research in the area, and the low status of the issue in the bodies representing the business professions.

An example of a code of practice going beyond legal obligations was as follows: 'we also strive to create a workplace which inspires, challenges, develops and rewards employees to achieve success whilst maintaining an effective work-life balance'; 'our code of business conduct sets out our standards in dealing with customers and other stakeholders' (company in the financial services sector). Obviously this kind of statement would have to be followed through to examine its implementation, that is, do employees' work-life balance choices impact on promotions, are standards of fair customer dealing given priority when a marginal sale/no sale opportunity arises?

The professional bodies do not appear to go into roles and responsibilities of their members on boards in any great depth. For example, in one accountancy body's ethical guide, there does not appear to be even a sentence relating specifically to board level. The same would appear to be true for marketing and human resources. The main issue for these latter groups is getting on to the board in the first place. However, some of the general principles of these bodies' codes of conduct would relate to work on a board, for example, the Chartered Institute for Personnel and Development (CIPD) emphasises general principles of a professional that would seem to encourage members to act independently of their function – 'must promote and themselves seek to exercise employment practices that

remove unfair discrimination'. This, taken to its logical conclusion, might infer that a HR executive director would use his/her position to promote equality. There does appear to be an opportunity for professional bodies to develop codes in this area.

The marketing and human resource directors interviewed for this research both felt that functional directors needed to assert their independence at board level and, if necessary, to take opposing views to that of the chair. Obviously, many of the executive conflicts can be overcome outside the board and with the chief executive. Perhaps because of the experience of those interviewed, they both saw the role as getting more independent. Marketing and human resources have important inputs to make to board level decisions but not to the extent that these functions should become activists in their own right. The roles and responsibilities, therefore, were managerial (from the perspective of the company) rather than determined by the profession from which both executives emerged. It is important to note that both of the executive directors have impeccable credentials in their field and did not come to their roles from other backgrounds. People and market risks are the key responsibilities of these directors in addition to generic board roles. For example, the HR director had a major role in succession planning, the marketing director in sustaining brand equity. The protection of a company's assets was the limit to how far a director should go as independent actor: the HR director should ensure that employee risks do not become a major issue, for example, evaluating HR risks and cultural compatibility in a merger, and the marketing director should ensure that the brand equity is maintained even if pressure on margins is high. The more general role as advocate for particular stakeholders that might come from their profession was not seen as a dominant preoccupation or one that needed increasing emphasis. Yet both directors felt that the HR and Marketing functions should be the ones to represent their respective stakeholders rather than these groups being represented at board or subsidiary board level.

Both directors had been through periods and could cite instances where their functions became core to boardroom considerations, for example, when a retailer decided to move out of town and in a major brand extension policy decision. These issues, while seen as good for both businesses, have core HR/marketing risks and decisions would not have been made in these cases if assessment that the equity of either group would

have been undermined – the employee loyalty that the company traditionally had or the esteem in which the brand was held by its customer. Given the fact that both directors did not consider the advocacy dimension as being important, it was not measured. However, a range of metrics are used by the respective boards, but more especially at executive committees, to assess employee attitudes including the use of a climate survey and focus groups, and consumer research. Key performance indicators that might result from such research are more a feature of the executive committee. Both boards spend considerable time on the two sets of stakeholders and, in the case of the HR director, the current company spent two thirds of two meetings addressing HR issues. Indeed, for example, gender and diversity are now systematically measured. Both directors agreed that regular assessment of metrics in these areas was relatively new.

   Both directors' current companies had codes of conduct for directors and general ethical codes. The development of these was in response to changes in company strategy rather than by governance issues and does not address the roles and responsibilities of executive directors as outlined in this paper. The main professional bodies in the two director's areas did come in for some criticism and both felt that they were more operational than strategic and did not address board level issues. The company view was the core vantage point for any director rather than an 'outside' professional stance. Interestingly, one director felt that the strain of being a company director in the current climate might persuade company executives to stay off the board especially due to the disclosure requirements.

IMPLICATIONS AND CONCLUSIONS

There are many aspects to the wearing of a professional hat by an executive board member. The dimension focused on in this paper is independence with a particular focus on representational independence of the HR and Marketing directors to employees and customers. Clearly, there is outside pressure from these groups but within the board no one person has yet taken on these roles in the sense implied in this paper. Within the definitions of both marketing and HR, there is space for being in the best interests of these groups, the advocate, the guardian of values, the arbiter between dominant shareholder concerns and other stakeholders. This role

has not been developed by the main professional bodies in these areas as of yet but if they wish to promote their functions onto the board, then it would seem a logical place to progress. The downside of this development would be to introduce a more value-laden executive to the board, but as most management is culture-bound then this may not necessarily be a bad thing. Corporate social responsibility will lead to an inevitable push for more regulation and reporting but this will not be embedded without a change in the mindset of members of the board. Such change would be copper-fastened by strong executive directors representing functional concerns but also representing wider values and issues emerging from their general professional responsibilities.

If the argument is building, and this might be a big 'if', then what professional roles and responsibilities should be represented by HR and Marketing directors? Table 6.2 presents the space within which individual responsibilities could be fleshed out. The first three roles are roles normally attributed to directors and detailed in a review by Johnson et al. (1996). These roles would remain in a professional consideration with the control role, expanded to include responsibility for other stakeholders. Two additional roles are added here based on the literature and empirical analysis – ethical and relational. These are fundamental in a professional consideration and involve values and social structures.

Roles	Responsibilities
Control	Monitoring management* *Proxy for stakeholders*
Service	Professional input into decision making and strategy
Resource dependency	Conduit for resources
Ethical	*Professional ethical dimension*
Relationship	*Communication and dialogue with stake-*

*One step removed role of all directors on a board

The responsibilities italicised in Table 6.2 represent the wider professional independence not yet well developed on boards by functional executives. The non-italicised responsibilities would appear to be the current set attributed to functional directors. However, in terms of control it appears difficult for executive directors to act independently and meet the traditional monitoring management responsibility. Indeed, their input to the service role also tends to be biased by the management view and the view from their function rather than as an independent professional. In practice much more thought needs to be given to the roles and responsibilities of executive directors including those argued for in this paper. In terms of the italicised set, leadership could be provided by individuals and professional bodies in these arenas. There is a continuum of these responsibilities ranging from the radical-activist end of behaviours to extending accountability in a real sense to groups on the outside but central to the success of any enterprise.

Changing roles and responsibilities require shifts in the dynamics of boards. CEOs would have to become more accommodating of divergent views and of executive director conflict on the board as a necessary but positive process. Without this, the tendency to support a managerialist perspective will be difficult to dissuade and the reward of a board seat returned with loyalty and consensus to existing board policy.

Education and research have a major role to play in extending the professional roles and responsibilities of executive directors on boards. This may be quite challenging given that roles for non-executives have received much attention but amount to 'tests of independence' rather than a set of specific actionable professional roles and responsibilities. Education for the marketing and HR professional needs to develop the professional practice of an individual's remit even further than is current. Functional roles are well developed but this tends to be within the company's interest rather than in the interests of stakeholders. These latter interests need specific space on the curriculum. They need to be added to the current syllabi but also developed into separate modules on developing professionals for work and life. This implies that such a development is not just about adding a module on ethics, although this may be part of the overall module set on professional practice, but is about how

future professionals practice and how their responsibility in carrying out their function is corporate, managerial but also representative and value-bound.

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Management Style in the Non-Profit Sector in Ireland

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P A U L I N E C O N N O L L Y *

ABSTRACT

This paper examines the style of management in the non-profit sector in Ireland and it explores the extent to which the values of managers translate into the practice of management in Irish voluntary organisations. One of the most obvious manifestations of management practices is the style of management adopted in an organisation. One of the most influential contemporary writers on the subject, John Purcell (Purcell, 1987; Purcell and Grey, 1986), states that management style is 'the existence of a distinctive set of guiding principles, written or otherwise, which set parameters to, and signposts for, management action in the ways employees are treated and particular events handled' (1987: 267).

Using both quantitative data from surveys and qualitative data from in-depth interviews, the findings from this study indicate that managers' style is consensual, consultative and inclusive, and they are more people-oriented than task-oriented. Overall the data shows that there is a good 'fit' between managers' description of their management style and their values. The majority of managers described their most important values as universalism, spirituality, benevolence and self-direction, which find resonance with the caring, enabling, people-focused style of management in the non-profit sector in Ireland.

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INTRODUCTION

The purpose of this paper is to examine the extent to which the values of managers in the non-profit sector translate into the practice of management in Irish voluntary organisations. One of the most obvious manifestations of management practices is the style of management adopted in an organisation. Style has been defined as 'the distinctive manner, pattern or approach of individuals or entities in doing something' (Fowler and Fowler, 1996). One of the most influential contemporary writers on the subject, John Purcell (Purcell, 1987; Purcell and Grey, 1986) states that management style is 'the existence of a distinctive set of guiding principles, written or otherwise, which set parameters to, and signposts for, management action in the ways employees are treated and particular events handled' (1987: 267).

Management style can, according to empirical studies (Park, 1996; Rees and Porter, 2001), be categorised on the basis of four determinants: firstly, how managers make decisions; secondly, how managers handle information; thirdly, how managers build social relations with other individuals in the organisation; and finally, how managers exercise control and motivate others. This study will use these categories to examine and discuss the style of management that respondents in the survey said they used.

In order to explore how managers' values translate into their management style, the question of what style of management is adopted by the respondents will be addressed. Managers' perception of their own style or approach to management, as well as their views on the style of management in the Irish voluntary sector as a whole will be explored. How managers' values impact on their management style will then be examined. Given the crucial role that values play in voluntary organisations, as suggested by the literature (Jeavons, 1992; Salamon et al., 1999), it is suggested that the style of management described by the respondents will be related to the values that they state are important to them.

Non-profit sector and the private sector
In focusing on the non-profit sector, there is a wealth of evidence that suggests that there are enough significant differences between the public and private sectors to merit the non-profit sector worthy

of separate attention. Drucker (1973), a leading management theorist, commented that unlike the commercial sector, market behaviour does not influence the decision making of non-profit organisations. According to Drucker, non-profits' income is derived typically from multiple sources and is not related to performance, but rather to their fund-raising capacity and a budget. Drucker (1990) takes this line of distinction even further in contending that the business of non-profits should be conceived of in terms, neither of making money nor of providing service as an end in itself, but rather of effecting change. The 'product' of a non-profit organisation, according to Drucker, is 'a changed human being' (1990: xiv). Gazell (2000) draws together Drucker's insights regarding the non-profit sector and suggests that there are difficulties inherent in managing non-profit organisations that differentiate them from the private sector. According to Nutt (2005) one of these important differences lies in their different approach to decision-making. In his study on budgeting practices, Nutt concludes that private sector managers place too much reliance on analytics and too little on bargaining, while public sector managers rely too heavily on bargaining and too little on networking.

Following on this theme of the purpose of non-profit organisations, Dabbs (1991) argues that, in the absence of a profit motive, members of a non-profit organisation need to be able to identify with its goals in order for them to feel a sense of personal significance and social acceptance. He suggests that, generally, wealth-creating businesses monitor and control their activities by the three Es – efficiency, effectiveness and economy – with efficiency being the main element. Efficiency is the relationship of inputs to outputs, which usually generates profits. In the non-profit sector, effectiveness is more important, that is, the extent to which objectives are achieved (Dabbs 1991).

This distinction between the goals of a non-profit organisation and a commercial company is reflected in an organisation's primary task according to Dartington (1998). A primary task is defined as the task that the system was created to perform. Dartington (1998) believes that this is the essential difference between the non-profit sector and private sector. In the private sector, the primary task is always linked to making profit, whereas in the non-profit sector, the

primary task relates to the mission of the organisation. A commercial company may change from producing razor blades to aftershave if the move will result in increased profits. A non-profit organisation will not change from providing hostels for the homeless to day care centres for children if its mission is to alleviate homelessness in the elderly.

What is emerging from the above discussion is that the mission of an organisation is the essential difference between the private sector and the public sector. Businesses exist for, and are driven by, the profit motive whereas non-profit organisations exist for the mission itself. O'Neil and Young (1988) suggest that the activities that businesses engage in are 'instrumental' to achieving their overall objective of profit. In contrast, the particular activity the non-profit organisation engages in is 'of primary concern, not subservient to an overriding financial bottom line' (1988: 3–4). This view is echoed in the research findings of Rhodes and Keogan (2005) who found a strong emphasis on mission in relation to strategic objectives.

METHODOLOGY

Having examined the benefits and limitations of the available tools, it appeared that a combined research approach would be most appropriate. Data was needed from as many organisations and as wide a spectrum as possible to ensure the validity of the findings so this pointed towards a survey. A survey would facilitate the gathering of information from a wide range of organisations. Having decided on a survey, the decision as to whether to utilise a postal survey or telephone survey arose. A postal survey was the obvious choice, as this seemed to be the best way to collect data from as many organisations as possible.

Rather than relying solely on a survey for the data, however, it seemed appropriate to try to get behind the data, to understand the processes at work. A postal questionnaire would not elicit any depth in the responses and it was thought that a greater understanding of the processes at work in management style could only be achieved by talking to managers of voluntary organisations. The decision was taken to combine both quantitative and qualitative approaches in order to give richness to the data and to

increase confidence in the findings. A questionnaire survey was decided upon, followed up by in-depth interviews with a selection of the respondents from the survey.

Prior to designing a survey some definitional and methodological issues remained to be resolved, however. At the time of writing, no single, comprehensive representative database of non-profit organisations, or of the voluntary and community sector in Ireland, existed. The sample used for this study, therefore, was a list, provided by the former Eastern Health Board, of all organisations funded under Section 65 of the Health Act 1953 and Section 10 of the Child Care Act 1991 in the Eastern Health Board region. This database had the advantage of providing a cross-section of organisations, from the larger, well-known ones to small, local agencies. It included urban, rural, local and national organisations. There are also a wide variety of organisations represented in the sampling frame as they were funded under a range of programmes, such as Children and Families, Community Services, Disability Services and Health Promotion. A significant amount of work was necessary to update this list and to locate some of the more obscure organisations.

A total of 314 questionnaires were mailed out. Of these, 23 were not valid for reasons such as that the organisations had ceased to be in existence or could not be traced. This gave a valid sample of 291 (314 minus 23). The objective was to achieve as high a response rate as possible to increase the validity of the findings. Babbie (1995) indicates that an adequate return rate on postal questionnaires is in the order of 50 per cent, while Bailey (1982) acknowledges that many studies only achieve 10–20 per cent response rates.

Twenty people were chosen to participate in the in-depth interviews. The decision on whom to select was guided by the findings that emerged from the quantitative data.

MANAGEMENT STYLE

Some preliminary data is available on the respondents' view of their style of management from the quantitative survey, which is amplified with data from the in-depth interviews. In the in-depth interviews, respondents were asked a number of more probing questions. They

were asked to describe their style of management and if they varied their style according to circumstances or the needs of staff. They were also asked for their view on the style of management in the voluntary sector as a whole and if they viewed the management style in the voluntary sector as more feminine or masculine in orientation. We shall firstly consider what the quantitative data tells us about the respondents' view of their management style and then we will further explore their perceptions using the qualitative data.

Managers, in responding to the survey, tended to regard their own management style as consultative and participative.

Table 7.1: The Degree to which the Organisation Consults with the Consumer

	Frequency (N)	Percentage (%)
Often consults with consumer	145	70.3
Occasionally consults	45	21.8
Rarely consults with consumer	16	7.9
Total	206	100.0

Table 7.2: Frequency of Consultations with Staff over Decisions that Affect Them

	Frequency (N)	Percentage (%)
Often	193	93.7
Sometimes	13	6.3
Never	0	0
Total	206	100.0

The data in Tables 7.1 and 7.2 indicate that the managers in the study said that the norm was for consultation to occur, although, interestingly, managers said that they consulted more often with staff (94 per cent) than with consumers (70 per cent). Furthermore, ninety-two per cent of managers said that their organisation was democratic, a figure borne out by the high numbers who stated that they involved staff in decisions (93.7 per cent) that affected them. A total of 96 per cent of managers described their organisation as

participative. In other words, managers were indicating their support for a consultative/participative approach to management.

So far, the quantitative data suggest that the respondents considered that they had a democratic, inclusive management style. To achieve a more in-depth understanding of this approach to management, participants were asked about their style of management during the fieldwork interviews. There was a great deal of similarity and overlap in the style described by the respondents. Some of the words that respondents used to describe their style were 'facilitative', 'enabling', 'consensual', 'consultative' and 'open'. One respondent who had been chief executive of a large, Dublin-based organisation for 25 years gave this view on his management style: 'I would like to think of it as enabling – it's not top-down, and it's not directive. It's by consultation, by consensus' (VO 10).

Frequent reference was made by managers in interview to this type of consensual approach to decision-making. This can be seen in the following quote from an interview with a manager of a small, national association: 'An inclusive style is used most often. We look at the problem; we see what needs to be addressed. Then by and large we come to a consensus about the solutions. "We" means at a staff team meeting, manager and staff together' (VO 5).

Another chief executive of a large, multi-centred organisation also said: 'I am inclusive and like listening to people so you get ideas all the time. I work with my door open and I think I am fairly accessible to people as well' (VO 2). This idea of an open door, accessible approach to management was alluded to often in interview and was associated with a hands-on approach. The following manager of a medium-sized, national organisation suggested: 'I would like to think I have an open door…I think I am approachable on a daily basis to staff and I try to involve myself in a very hands-on approach' (VO 4). A hands-on style of management was stated to be the norm as reported by managers. 'I lead by example' (VO 9), said one manager, while another stated that he did not ask staff to do anything he would not do himself.

Another respondent who had managed a small, community-based service for 25 years gave the following description of her management style: 'I talk to my staff every morning to see if they are happy and then I delegate what we'll do today. I would involve staff in most decisions' (VO 14).

As can be seen, therefore, managers in interview said that they had an open, consensual, inclusive style of management. This is explored further in the next section.

A PEOPLE-ORIENTED STYLE

Many theorists conceive of the various management styles as lying on a continuum. While the terminology differs, it can be suggested that, in essence, at one end of a continuum are people who are very task oriented and concerned with output. Task-oriented people are those with strong concerns about a group's goals and how to achieve them (Bass, 1981). These people are also referred to as production-oriented, goal achieving, work-facilitative or goal emphasising (Blake and Mouton, 1964; Bass, 1981). At the other end of the continuum are people who tend to pay more attention to process than output and place a higher priority on people than tasks. Managers who have strong concerns about their group members' relations with them and each other, and express these concerns by creating a friendly and supportive atmosphere, are said to be people-oriented (Katz et al., 1950; Beatty, 1988).

The quantitative data showed that 97 per cent of managers said that their organisations were either caring or very caring. Furthermore, the majority of respondents (90 per cent) said that there was a friendly atmosphere in their workplace. It is not unexpected that the majority of respondents would view their organisations as friendly and caring, but managers also seemed to be placing an emphasis, themselves, on people-centredness. Perhaps also as a consequence of this stated strong person-orientation, the majority of managers (67 per cent) perceived that there were high levels of staff morale in their organisations (see Table 7.3). It could be suggested that managers themselves were transferring their own view of people-orientation onto their organisation and wanted to view their organisation thus.

Table 7.3: How High is Morale in your Organisation?

	Frequency (N)	Percentage (%)
High staff morale	139	67.5
Average staff morale	49	23.8
Low staff morale	18	8.7
Total	206	100.0

In addition, managers said that they placed a high value on their interactions with staff and that this is important to them (see Tables 7.4 and 7.5). Almost all the managers said that they held face-to-face interaction with staff frequently and most of them (96 per cent) said that they met regularly with all their staff, while 91 per cent said that they encouraged teamwork.

Table 7.4: Communications with Staff Face-to-Face

	Frequency (N)	Percentage (%)
Often	199	96.6
Sometimes	6	2.9
Rarely	1	0.5
Total	206	100.0

Table 7.5: I Meet Regularly with All Staff

	Frequency (N)	Per cent
Yes	197	95.6
No	9	4.4
Total	206	100.0

The quantitative and qualitative data in this study revealed a clear pattern, in that the respondents said that they displayed a primary orientation towards people rather than toward processes or outputs. As one respondent said: 'There is a lot of give and take. Human beings will always take priority with me over anything else because they are the biggest resource we have and they are tremendous' (V0 5). Another manager believed that her most important job was to support the staff as the following quote illustrates: 'My main function is to make sure that staff are stable and motivated' (VO6).

The stated people orientation of managers in interview can be seen in the following quote from a respondent who was discussing how staff are treated differently in the commercial sector:

The difference is the way you view staff. You're not looking towards staff as having to produce a contribution toward bottom line profit. It's a totally different thing altogether – what you are

> looking for is someone who will fit into a family of an organisation, that will share in the general ethos of the organisation.
>
> (VO 10)

The analogy of a family that the above manager used to describe his organisation brings to mind Handy's (1997) view. He suggested that perspectives of organisations are changing to embrace a concept of 'community'. In these communities, employees are thought of as citizens rather than human resources. It could be argued that, in voluntary organisations, there is a good fit between these concepts of family values, organisations as communities and employees as citizens. The above manager said that she consciously sought staff that already possessed the appropriate values, in order for them to fit into the 'family' of her organisation, a view echoed by most other respondents. Another respondent said that, in her organisation, the induction period was used to socialise staff into the ethos and values of the organisation.

These views indicate an awareness in managers of the importance of values permeating the whole organisation. A further indication of the respondents' stated primary orientation toward people emerged during the interviews. Managers said that they were aware of staff needs. A manager of two community-based projects gave this example:

> I got a phone call from a member of staff today who is not well. I asked another staff member how long we could pay that person for. Realistically, we will pay that person for as long as we can without telling the funder because that person has been very good since they came here.
>
> (VO 7)

Another newly appointed manager of a small, volunteer organisation suggested that she changed her style according to the needs of her staff. She said: 'Different people need different styles. Some people need direction more than I would like to give them. Sometimes you have to be easygoing with people, coax them, pat them on the back, other people you have to be more stern' (VO 18). Another manager said that the needs of staff took priority:

If a staff has health needs or child-care needs, or anything like that, difficulties with children, that's a huge priority and that is much more important than them being at work here anxious…there would be evidence here at times when the staff are more important than clock-watching and the staff would respond to that in a tremendous way by staying late another time.

(VO 5)

This paper set out to explore managers' perception of their management style and a picture is now emerging from the data. Respondents view their style as inclusive, consensual, participative and people-centred. Besides being asked about their own management style, in interview managers were also asked for their views on the style of management within the wider voluntary sector and the analysis of their responses are contained in the next section.

MANAGEMENT STYLE IN THE WIDER VOLUNTARY SECTOR

In the in-depth interviews managers were asked for their views on the style of management in the wider voluntary sector. A number of respondents were unable to comment on what sort of management style prevailed in the wider voluntary sector as they said that they had little involvement with agencies other than their own. Of those who were able to offer a view, there was considerable variation in the responses. Several respondents related management style to the size of the organisation, suggesting that the larger organisations were more professional in their approach. Two other respondents said that they had witnessed a management style imported from the private sector that had failed. The following is the comment from one of them: 'I've seen people put in rigid management style that may prevail in the private sector and they have failed miserably' (VO 7).

In terms of what differentiated the style of management in the voluntary sector, two respondents referred to the slower pace and the emphasis on staff: 'There's a higher than usual focus on the staff in terms of how they feel, how they cope' (VO 9). Other words that the respondents used to describe the style of management that prevailed were democratic, consultative and consensual. While the

managers were less expansive in discussing management style in the wider voluntary sector than when they were talking about their own style, nevertheless, the responses given were similar to the responses regarding their own personal style.

The next section goes onto explore another aspect of management style in the voluntary sector as a whole. Given that the survey had revealed that there were more female than males in the sample, the author was interested to discover if managers thought that there was a gender element associated with the management style described by the respondents. This is the topic explored in the next section.

MANAGEMENT STYLE AND GENDER

In interview managers were asked whether they would describe the management style within the voluntary sector as more masculine, that is competitive, or more feminine, that is caring and co-operative, in orientation. The Economist Intelligence Unit with Korn/Ferry International (1996) study described those with a masculine management style as having the following five traits: risk-taking, self-confident, competitive, decisive and direct. Those with a feminine management style were said to be empathetic, supportive, nurturing, relationship-building, power sharing and information sharing.

The figures from the survey show that males were in the minority (44.2 per cent, N = 91), while females accounted for 56 per cent (N = 115) of the sample. As the majority of managers in this study were women, it is pertinent to explore if there was any significance in this in relation to management styles.

The majority of the managers said that, overall, the sector's style of management tended to be more feminine than masculine. The following comment from a male manager of a large national organisation, was typical of the views expressed: 'I'd say more feminine overall but it's such a diverse sector there's probably a mixture of both but more feminine overall' (VO 2). Another female manager compared the management style of the voluntary organisation where she currently worked to the management style of two private sector organisations that she had previously worked in: 'It is more feminine really because it is a caring profession. It's not competi-

tive…the accountancy firm was 100 per cent masculine, and the insurance company was 80 per cent' (VO 18).

Indeed, respondents used the term 'masculine' to typify a stereotypical approach to management that focused on competition, on the bottom line and results. One manager who said that he sat on the board of a semi-state body commented: 'The commercial sector, I would not like to be working there…there is a culture of bravado' (VO 10). None of the men or the women interviewed associated this approach, however, with either males or females. The following manager said that the males she knew in the voluntary sector exhibited a feminine style: 'The people I have dealt with are mostly men but they have that feminine approach' (VO 11).

Both male and female managers used the word 'caring' frequently to illustrate how they believed that the voluntary sector was more feminine in its orientation: 'The people involved are more caring and take more caring approaches' (VO 15). These comments were consistent with the findings from the quantitative data noted earlier in this paper that showed that 97 per cent of managers perceived their organisations to be either caring or very caring.

The description of 'caring' is interesting in itself, as it is a word that feminists would argue that is associated with the female role in society. Worthy of note is that when caring was cross-tabulated with gender, no statistically significant results were found. This means that male managers were just as likely to perceive their organisation as caring as the female managers. This bears out Donoghue's (2001) note of caution about stereotyping both the voluntary sector and women as caring.

Like the myth of 'goodness' that Donnelly-Cox and Jaffro (1999) suggest is identified with the voluntary sector, perhaps there are also commonly held assumptions made about the role of women and caring in voluntary organisations. The findings discussed above demonstrate the value in exploring the complexity of these roles in voluntary sector organisations.

The evidence from the both the quantitative and qualitative data suggest that the feminine approach to management that respondents described has more to do with the values of the managers in the voluntary sector, rather than their gender. The

following manager expressed the view that a combination of both so-called masculine and feminine traits is needed to manage voluntary organisations:

> I see feminine values definitely in…I would hope that managers would have feminine qualities and it is a help. If you are all masculine, the budgets, the money, and the figures, I think they (the management board) are looking for those sort of people, but I think they are also looking for a balance.
>
> <div align="right">(VO 8)</div>

The results of the Economist Intelligence Unit survey (1996) confirmed this view that this dual approach to management is more effective than a singular approach.

One further aspect of the masculine versus feminine style of management discussion merits attention. While the consensus from the managers who were interviewed was that there was a more feminine than masculine style of management practised in voluntary organisations, two respondents related a masculine or feminine management style to the life cycle of an organisation. The view was expressed that as an organisation gets bigger and takes on a closer relationship with the state, it changes from having a feminine management style to a more masculine management style. This is highlighted by the following comment: 'As organisations get bigger, they probably go more toward the masculine mode or competitive and if they are smaller, and more in the beginning stages they are probably more feminine' (VO 8).

Indeed, some respondents suggested that voluntary organisations become more like statutory agencies as they get bigger. Similar views were also noted earlier, when managers were asked about the style of management in the wider voluntary sector. Kramer (1987) has argued that, as voluntary organisations get bigger, they adopt more bureaucratic policies and procedures. Meanwhile, Donnelly-Cox and O'Regan (1998) have suggested that with age, voluntary organisations in Ireland move towards an institutional approach, which is characterised by professionalism, with the majority of funding coming from the state. Furthermore, they argue that the professional, not the organisation, becomes the repository of the

'philanthropic value' when an organisation moves to phase three of its growth (1998: 19).

These comments from several of the respondents support the view in the literature that organisations become more formal and structured as they get bigger. One might, therefore, expect to find a difference in the value structure and a decrease in the importance of caring in the larger, more established organisations. The data did not show any such difference, however.

COMPETING VALUES

Despite this orientation toward a people style of management that managers reported, in the interviews some respondents referred to a tension between meeting the needs of staff and the organisational goals. This tension was described as the need for a balance between supporting the staff and getting the work done, and the need for balance between democratic decision-making processes and the reality of the responsibility of the chief executive. One manager said that she placed equal value on the needs of her staff and the clients of the organisation as she recognised that 'one needs the other'(VO 9). The tensions she faced, however, were revealed, as she also said that at times she had to sacrifice efficiency in the interests of staff: 'I do like efficiency and that sort of thing but I can't get hung up on planning and efficiency because that is not the priority' (VO 9).

Some managers referred to situations where they typically had to confront situations where competing values were at play. They may have to choose between behaving efficiently and compassionately, between the needs of their staff and the clients they serve. According to Rokeach (1973) a person's hierarchy of values determines the choice that is made. In the example above, the choice was made to give priority to staff needs.

Another manager acknowledged that at times, she experienced a tension with the general culture of tolerance prevailing in her organisation, which she felt could be also be interpreted as 'lax administration' (VO 3). She suggested that her role was to keep a balance between the competing values of efficiency and tolerance by keeping the organisation running smoothly within the 'easy-going atmosphere' that the volunteers created.

This need for balance has been noted by Jeavons (1992). In the long run he believes the effectiveness of the organisation will be undermined if those in charge are not seen to honour a range of basic human, social and professional values in the way that it operates. When discussing management style in interview, many respondents said that they would change their style from a democratic, participative approach to a more directive one if the situation warranted it. For example, the manager quoted below said she changed her style if tasks needed to be completed: 'I can be plain straightforward directive at times and authoritarian at times but not too often. Inclusive is the style used most often' (VO 5).

Despite their consultative, democratic approach to management, many managers said that they were aware that at the end of the day they had to be responsible for decisions taken, a view voiced by the following manager:

> It's a way of them knowing that you are the boss and if you need to, you are the boss. They have that guidance, they're not free-floating. The other side of that is you see them as people and you are aware of their difficulties and problems…Positives should be praised as that is how you get the best out of people.
>
> (VO 11)

Overall, it appears from the data that while the people-centred approach typified management style, at times this caused tensions in perceived levels of efficiency and, at times, the need to achieve organisational goals resulted in a shift toward a more task-centred approach.

CONCLUSION

The objective of this paper was to explore how the values of managers translate into the practice of management in voluntary organisations. Having examined management style, the conclusion was drawn that that managers perceived it as consensual, consultative, open, and inclusive. Furthermore, the data indicated that the respondents were more 'people-oriented' than 'task-oriented'. When respondents were asked about the overall style of management in

the voluntary sector, the language used was similar to that used by the respondents to describe their personal management style.

Furthermore, respondents regarded the style of management in the Irish voluntary sector as more feminine than masculine in orientation, in that the feminine style was related to a more caring approach. The data from this study demonstrated that, although there were more women than men in management positions in voluntary organisations, the values and management style were not differentiated by gender. No significant differences were apparent in the management style of men and women and no significant differences were found in the values of male and female managers.

There was some evidence, however, to suggest that at times there was a tension between respondents' need to be efficient and achieve organisational goals, and the people-centred approach. It is acknowledged that the findings in this study are based only on the perception of managers. Further research to include the views of other stakeholders, such as staff and management committee, would advance scholarship in this area.

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Value of Analysts' Investment Recommendations: Evidence from the Irish Stock Market

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P A U L   R Y A N *

ABSTRACT

This paper is the first study investigating the market impact of sell-side analyst investment recommendations in the largely unexplored Irish stock market. We find the market is influenced by analysts' recommendations. The price reaction to sell recommendations is greater than the price reaction to buy recommendations which is consistent with analysts generating an adequate return compensating for the 'costs' associated with issuing a sell recommendation. In addition, in the case of sell recommendations there is evidence of post-recommendation drift which is consistent with initial underreaction to bad news. The high proportion of buy relative to sell recommendations is suggestive that Irish analysts are subject to similar incentive problems as their US counterparts. Interestingly, in this regard, we also find that a significant proportion of hold recommendations may, in fact, be disguised sell recommendations.

INTRODUCTION

A potentially key source of company information to the equity markets is the investment recommendations and earnings forecast revisions of the sell-side analyst. Analysts are arguably the eyes and ears of the market. Brokerage houses invest enormous sums gathering, processing and disseminating information to their insti-

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tutional and retail clients. If the markets are perfectly efficient, analysts will not provide an economic function, as any information will already be reflected in share prices. However, if analysts have an informational advantage in gathering and analysing value-relevant information, or otherwise have access to information not in the public domain, they may indeed add value.

In recent years, however, the role of analysts as impartial intermediaries has been progressively compromised. The literature argues that there are incentives for analysts to bias optimistically their recommendations in order to maintain links with management (Francis and Philbrick, 1993) or to preserve the investment banking relationship (Dugar and Nathan, 1995; Lin and McNichols, 1998).

A number of studies appear to suggest that analysts are able to influence stock prices (e.g. Bjerring et al., 1983; Elton et al., 1986; Stickel, 1995; Womack, 1996; Barber et al., 2001). Womack (1996) is the only study that documents a sustained continuation of price trend in relation to sell-side analysts' recommendations. He finds that this post-recommendation drift is primarily associated with sell recommendations (i.e. negative news).

Very little evidence exists on the investment value of analysts' recommendations in other institutional settings. The only exception is the limited study of Dimson and Fraletti (1986) in the UK, who examine buy recommendations from a single brokerage house only. They find such recommendations generate excess returns which, though statistically significant, are not economically significant after adjusting for reasonable transaction costs.

We contribute to the literature by exploring the market impact of sell-side analysts' investment recommendations in the under-researched Irish equity market. The Irish market is a small market by international standards. The information environment of firms quoted on the Irish Stock Exchange appears, from casual observation at least, to be substantially less rich than their US and UK counterparts. For example, there are far fewer sell-side analysts per quoted company than in either the US or the UK. In addition, individual analysts tend to cover more sectors than their US or UK equivalents. Management forecasts are rarely disclosed publicly to the market. Also, with the development of the Euro, fund managers are diversifying their portfolios internationally and reducing portfolio weights

placed in Irish companies, thereby reducing the incentives for information gathering by the professional investment community and financial press for a large number of Irish companies. In such circumstances, the economic role of the sell-side analyst is an open question.

Our results demonstrate that analysts' recommendation changes communicate valuable information to the Irish equity markets. Stock prices are significantly influenced, not only at the time of the recommendation, but also in subsequent months. The price reaction to sell recommendations is greater than the price reaction to buy recommendations. However, these immediate price reactions appear to be incomplete for sell recommendations showing recommendation drift. This drift, we argue, is potentially consistent with the loss aversion 'disposition effect' hypothesis.

The remainder of the paper proceeds as follows. The next section sets out our data source and methodology and the following section provides descriptive statistics. In the next section the empirical results are presented and the final section summarises and concludes.

DATA AND METHODOLOGY

Sample selection and data source

We analyse the price performance of the written circulars of the four leading Dublin-based brokerage houses, over the eighteen month period 1 July 1998 to 31 December 1999.[1] These are ABN Amro, Davy, Goodbody, and NCB.

Event window

We use monthly returns to calculate the abnormal returns associated with the investment recommendations in the analysis that follows. There are a number of reasons for this:

- We are interested in whether sell-side analysts' recommendations have long-term investment potential.
- Our source for the recommendations is the written circulars issued by the stockbroking houses. The news content of these circulars may have been released selectively to certain clients in the days prior to the official release date. [2]

- Womack (1996) shows that using US data abnormal returns for buy recommendations continue for up to one month after the date of the recommendation change. The corresponding number of months for sell recommendations is six months.

Our event period runs from month -6 to +6. This is consistent with many previous studies (e.g. Groth et al., 1979; Dimson and Fraletti, 1986; Elton et al., 1986; Womack, 1996) and is also motivated by the potential for analyst recommendations to be 'price driven' rather than 'information driven'.

Return-generating methodology

To measure medium-term stock price performance we track the performance of a recommendation relative to a benchmark portfolio. For each calendar month we calculate the abnormal return on each stock with a recommendation using a reference (benchmark) portfolio approach. If firms incur a reverse recommendation after the recommendation month we drop them from all further analysis. We match the sample firm return with a portfolio-based return based on two firm characteristics: size and book-to-market.

To devise the appropriate benchmarks we form six portfolios based upon three size groupings and two book-to-market groupings. On 30 September of each year from 1998 to 1999, all portfolio firms are first separately ranked on size (market capitalisation) into three groupings.[3] Each size grouping is then broken into two book-to-market equity groups.

To calculate the abnormal returns of our sample firms, we allocate each sample firm to one of the six matched portfolios formed previously for the appropriate year. Using the most recent market capitalisation, book-to-market ratio for the sample firm, we compare these values to the break points for the matched portfolios of that period. The abnormal returns for each sample firm are then calculated by comparing the returns of the sample firm with that of the matched portfolio on a monthly basis.

The return (R_{it}) on a buy-and-hold investment in sample firm i in month t less the return on a buy-and-hold investment in a portfolio with an appropriate expected return $E(R_{it})$ known as the buy and hold abnormal return (*BHAR*) is given by:

$$BHAR_{it} = \prod_{t=0}^{n}[1+R_{it}] - \prod_{t=0}^{n}[1+E(R_{it})] \tag{1}$$

Returns are calculated as follows:

$$R_{i,t} = (P_t + D_t) / P_{t-1}) - 1 \tag{2}$$

where: $R_{i,t}$ = return on stock i in month t,

$P_{i,t}$ = share price for stock i in month t, and

$D_{i,t}$ = dividend for stock i in month t

We employed the cross-sectional dependence adjustment technique to calculate the t-statistic as employed by Desai et al. (2000).

The standard error for the cross-sectional dependence-adjusted t-statistic is calculated as follows: using monthly abnormal return data from 24 months prior to the recommendation change to 24 months after the recommendation change (total of 49 months), we compute the correlation coefficient, $\rho_{i,j}$ for all pairs of i and j. Then Cov $_{i,j}$ for any period T is given by $\rho_{i,j}\delta_i\delta_j$, where δ_i and δ_j are the standard deviations of abnormal returns for stock i and stock j respectively over time period T. δ_i for T-month abnormal return is given by the standard deviation of monthly abnormal returns multiplied by the T. For an equally weighted portfolio of n stocks, the dependence-adjusted standard error of portfolio abnormal returns is given by

$$SE_T = \sqrt{VAR_T + \frac{1}{n^2}\sum_{i=1}^{n}\sum_{j=1}^{n}COV_{ij}\Big/n-1}, \ \forall i \neq j \tag{3}$$

Using this method of calculating the standard error the t-statistic is the portfolio abnormal return up to time period T divided by SE_T.

RECOMMENDATION CHARACTERISTICS

Table 8.1 presents the matrix of 398 recommendations for the four participating brokerage houses over the eighteen month period, July 1998 to December 1999. There are a total of 251 buy recommendations and 35 sell recommendations yielding a ratio of 7.17:1. The total number

of hold recommendations is 112. However, if we exclude cases where there are similar recommendations made by more than one stock-broking house in the same calendar month there are a total of 195 unique buy recommendations and 33 unique sell recommendations yielding a ratio of 5.91:1. The corresponding number of hold recommendations is 104.

Table 8.1: List of Recommendations

Recommen-dation	No. of Recommendations	No. of Unique Recommendations
Buy	251	195
Hold	112	104
Sell	35	33
Total	398	332

The comparable ratio of buys to sells for Womack (1996) is 6.3:1. For Ho and Harris (1998, Table 2) the respective ratio is 5.2:1 for brokerage firms in their sample using a three level scale, and 4.1:1 for firms using a five point scale. Stickel's (1995) equivalent figures are a similar ratio of 4.6:1. On this basis Irish brokerage houses appear as reluctant to issue sell recommendations as their US counterparts.[4]

Analysts are less likely to issue sell recommendations for a number of reasons. For instance, sell recommendations may be harmful to a firm's present and potential investment banking relationships (Dugar and Nathan, 1995). Also, top management may limit or cut off the flow of information if a house issues an unfavourable recommendation (Francis and Philbrick, 1993). In addition, issuing sell recommendations can be more risky as they are more visible and less frequent (Womack, 1996). Analysts may also be subject to biases, which lead them to believe their own sales pitches (Ho and Harris, 1998) and/or underreact to negative information and overreact to positive information (Easterwood and Nutt, 1999).

EVENT PERIOD ABNORMAL RETURN PERFORMANCE

The abnormal return performances attributable to buy, sell and hold recommendations are presented in Tables 8.2, 8.3 and 8.4

respectively with returns calculated from six months prior to the recommendation to six months after the event month. [5, 6]

Table 8.2: Buy Recommendations: Mean Abnormal Returns

Month Relative to Recom-mendation	Abnormal Return (%)	Abnormal Return (*t*-statistic)	BHAR (%)	BHAR (*t*-statistic)
−6	0.78	0.99		
−5	0.26	0.34		
−4	−0.48	−0.61		
−3	−0.51	−0.68		
−2	0.29	0.39		
−1	0.43	0.59		
0	1.68	2.13*	1.68	2.13*
1	−0.03	−0.03	1.32	1.24
2	0.10	0.13	1.33	1.03
3	−0.65	−0.78	0.58	0.38
4	0.17	0.17	1.08	0.58
5	0.15	0.19	1.15	0.57
6	0.61	0.65	2.33	0.89

*Statistically significant at α=0.05

The average abnormal return for new buy recommendations is 1.68 per cent in the month of the recommendation (Table 8.2) and the equivalent average return for sell recommendations is -6.45 per cent (Table 8.3). Both of these returns are statistically significant at α = 0.05. The returns to hold recommendations are insignificant in the recommendation month in line with expectations (Table 8.4).[7] [8]

The magnitude of these results is broadly similar to Womack (1996) who found a three day abnormal return of +3 per cent for buys and -4.7 per cent for sells. Our results, however, exceed those of Elton et al. (1986), who find smaller calendar month excess returns of -0.5 per cent for sells, and Stickel (1995), who finds abnormal returns of +0.9 per cent (buys) and -0.8 per cent (sells) for

Table 8.3: Sell Recommendations: Mean Abnormal Returns

Month Relative to Recommendation	Abnormal Return (%)	Abnormal Return (*t*-statistic)	BHAR (%)	BHAR (*t*-statistic)
−6	−2.87	−0.95		
−5	−3.36	−1.43		
−4	−0.73	−0.21		
−3	−4.18	−1.26		
−2	−1.94	−0.79		
−1	−7.82	−2.26*		
0	−6.45	−2.08	−6.45	−2.08*
1	−3.72	−1.40	−10.56	−3.07*
2	−2.18	−0.68	−13.05	−3.42*
3	−1.79	−0.54	−14.03	−2.99*
4	2.64	0.83	−11.98	−2.12*
5	1.79	0.68	−9.83	−1.40
6	4.39	1.24	−6.29	−0.80

*Statistically significant at α=0.05

eleven day event windows. Groth et al. (1979) document a calendar month return of 1.8 per cent for buys and -1 per cent for sells.

For sell recommendations we document negative abnormal returns in each of the six months prior to the recommendation (Table 8.3). In month -1 this return is -7.82 per cent and is statistically significant at α = 0.05. Womack (1996) and Stickel (1995) also document negative abnormal returns in the period preceding the recommendation change, though only Stickel finds his returns are statistically significant.

Interestingly, for hold recommendations the returns are negative in each of the preceding six months (Table 8.4). In the case of some months these returns are close to being significant at the 90 per cent level. As the pattern is similar to that of sell recommendations (Table 8.3) it may be that in some cases the hold recommendations

Table 8.4: Hold Recommendations: Mean Abnormal Returns

Month Relative to Recom- mendation	Abnormal Return (%)	Abnormal Return (*t*-statistic)	BHAR (%)	BHAR (*t*-statistic)
−6	−0.97	−0.64		
−5	−1.42	−1.42		
−4	−0.77	−0.77		
−3	−1.56	−1.56		
−2	−1.80	−1.34		
−1	−1.06	−0.71		
0	−0.91	−0.58	−0.91	−0.58
1	−2.26	−1.48	−2.86	−1.15
2	−3.74	−2.41*	−6.17	−1.88
3	−0.59	−0.43	−6.74	−1.83
4	0.17	0.11	−5.63	−1.07
5	−1.54	−1.22	−7.60	−1.64
6	2.88	1.95	−6.32	−1.57

*Statistically significant at α=0.05

may be disguised sells! Investors may take time to realise that this is the case and this may explain the -3.74 per cent return (statistically significant at α = 0.05) in month 2.

In Table 8.2 for new buy recommendations, we find no evidence of 'price following' behaviour in the months preceding the recommendation change. In fact, returns are negative in two of the preceding six months. In the other months, though the returns are positive (including months -1 and -2), they are nowhere close to being statistically significant. Groth et al. (1979), in comparison, find positive and statistically significant returns in the six-month period prior to buy recommendations.

Our negative returns for new sell recommendations (Table 8.3), however, even though consistent with price following behaviour, can be legitimised in other ways that are still consistent with analysts

having an informational advantage. In terms of our results analysts are not 'price followers' for buy recommendations. There is nothing in the literature to suggest that analysts are less able to process negative information about companies than positive information. In contrast, the analyst may face incentives not to issue an unfavourable report even though they possess unfavourable information about a company (Francis and Philbrick, 1993; Francis and Soffer, 1997; Womack, 1996). Thus the negative news circulating about companies prior to the recommendation change may not have been significant enough to justify analysts issuing 'costly' sell recommendations.

For buy recommendations the evidence is that the price reaction is immediate and confined to the recommendation month. The BHAR is not significant after month 0 (Table 8.2). Womack (1996) reports similar results. Elton et al. (1986) find statistically significant abnormal returns for month 0 and the two subsequent months. Bjerring et al. (1983) and Groth et al. (1979) find no statistically significant evidence of subsequent abnormal returns for buys.[9]

For sell recommendations, there is evidence of negative statistically significant returns in subsequent months (Table 8.3). The BHAR for sell recommendations continues to be significant up to month 4 generating an abnormal return of -11.98 per cent (t-statistic = -2.12) in that month. Interestingly, if we recompute the BHAR excluding the month of the recommendation (Table 8.5) the BHAR is significant up to month 3 indicating evidence of significant post-recommendation drift independent of the month 0 return.

Our results in relation to the post-recommendation drift are consistent with Womack (1996) who reports large six month cumulative abnormal returns of between -8.4 per cent and -13.7 per cent depending on the return-generating model benchmark. Elton et al. (1986) record statistically significant returns for up to two months after the sell recommendation, though these are of smaller magnitude than we report.

For hold recommendations the BHAR is not statistically significant. This is what we would have expected (Table 8.4). However, if we exclude the recommendation month and compute an adjusted BHAR starting in the month after the recommendation, the BHAR (Table 8.5) is significantly negative up to month 2, generating an

**Table 8.5: Post-Recommendation Drift: Abnormal Returns
Accumulated from the Month after the Recommendation**

Month Relative to Recommendation Month	Buy	t-Statistic	Sell	t-Statistic	Hold	t-Statistic
BHAR (1,1)	–0.03	–0.03	–3.72	–1.40	–2.26	–1.48
BHAR (1,2)	3.04	1.08	–6.87	–2.31*	–6.39	–2.27**
BHAR (1,3)	3.78	0.97	–8.34	–2.07*	–5.57	–1.41
BHAR (1,4)	5.53	1.27	–5.92	–1.06	–3.35	–0.80
BHAR (1,5)	5.37	1.15	–3.10	–0.41	–3.16	–0.53
BHAR (1,6)	5.51	1.06	1.36	0.16	0.67	0.11

*Statistically significant at α=0.05
BHAR(1,1) = abnormal return in the month after the recommendation; BHAR (1,2) = buy and hold abnormal return from the start of month 1 to the end of month 2. Remaining BHARs can be interpreted on a similar basis.

abnormal return of -6.39 per cent (*t*-statistic = -2.27). Thereafter, though the BHAR is negative up to month 5, it is not statistically significant. Such evidence is again potentially consistent with a significant proportion of the hold recommendations being disguised sell recommendations.

As we report a dichotomy between the duration and magnitude of the post- recommendation drift process for buy and sell recommendations, our results may be consistent with a loss aversion 'disposition' effect hypothesis whereby investors avoid actions that create regret. Regret is the emotional pain that comes when investors realise that a previous buy decision turned out to be a bad one. In such circumstances Shefrin (2000) shows that fearing regret causes investors to be predisposed to riding losers too long. In such circumstances, they will take time to dispose of losers and hence the price impact will not be immediate and will be spread out over time. Are holders of stocks subject to sell recommendations reluctant to respond in a timely manner to the bad news conveyed, compared with investor reaction to good news associated with buy recommendations?

Such results are also consistent with the literature on price momentum strategies whereby the market appears to be slow in incorporating the full impact of information into company valuations (e.g. Jegadeesh and Titman, 1993; Chan et al., 1996). Hong et al. (2000) find price momentum is most pronounced in circumstances when the news is negative.

In aggregate, our results suggest the sell-side analyst has a significant role to play in communicating value relevant information in the Irish market. The price reaction to sell recommendations is greater than the price reaction to buy recommendations. This may be consistent with the potential costs of disseminating rather than gathering information *per se.* As new sell recommendations are less frequent and more visible, an incorrect judgement on a sell recommendation is likely to be more costly to reputation than an incorrect buy recommendation, when other analysts are likely to be making similar recommendations. Thus, if the costs of issuing a sell recommendation are greater, then the analyst's expected return for issuing these should also be greater.

SUMMARY AND CONCLUSIONS

Our research into investment recommendations made by Irish sell-side analysts indicates that share prices are significantly influenced by analysts' recommendations.

There is little evidence of price following behaviour for buy recommendations. However, for sell recommendations we find some evidence of price following behaviour, but we rationalise this as potentially attributable to other causes as well.

The price reaction to sell recommendations is greater than the price reaction to buy recommendations. We argue that this is associated with the potential costs of disseminating rather than gathering information *per se.*

Even though immediate price reactions are large, they appear to be incomplete showing considerable post-recommendation drift in the case of sell recommendations. This result is potentially consistent with loss aversion (Shefrin, 2000).

The disproportionately high number of buy relative to sell recommendations is consistent with analysts' incentives to avoid alienating company management and damaging present and

potentially future investment banking relationships. Our results in relation to hold recommendations reinforce this view.

Analysts incur costs in acquiring, processing, and disseminating information to their clients. Our analysis demonstrates that the issuance of buy and sell recommendations has a substantial impact on prices. Such returns are consistent with Grossman and Stiglitz (1980) who argue that valuable information gathering should generate a clear return.

In conclusion, therefore, sell-side analysts serve an economic role in communicating value relevant information to investors in the Irish equity market but there is also evidence to suggest that investors need to be aware of the conflicting incentives facing analysts in their decision-making processes.

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1 In the analysis that follows we include all buy, sell, and hold recommendations made over the sample period. We do not distinguish between new buy, sell, and hold recommendations versus reiterations of existing recommendations for two reasons. Firstly, the sample size of new buy and, in particular, new sell recommendations would be too small, leading to problems of statistical inference. Secondly, our sample is drawn from the written circulars of the stockbroking houses. It is possible that a recommendation may have changed and have been disseminated orally without the release of a written circular. By working with written circulars we are unable to pick up such events.

2 Prior disclosure is a problem in relation to analysts' investment recommendations where there are incentives to disseminate such releases to clients prior to the market as a whole. There is some such evidence from studies examining the price and trading volume impact of the secondary dissemination of analysts' stock recommendations in the financial press which document price movement prior to 'public' disclosure (e.g. Davies and Canes, 1978; Bauman et al., 1995).

3 We work with the 30 September date as representing the best estimate of when most firms will have disclosed up-to-date book value per share figures, associated with prior December and March financial year end clusterings plus accounts publication delay.

4 Womack (1996), Ho and Harris (1998) and Stickel (1995) do not appear to adjust their sample of recommendations for multiple same-type recommendations made by more than one stockbroking house at the same time.

5 These abnormal returns are calculated based on the number of unique buy, sell and hold recommendations (3rd column of Table 8.1) to avoid obvious cross-sectional dependence problems in the interpretation of the statistical tests.

6 We re-ran our results presented in Tables 8.2, 8.3 and 8.4 using the market model rather than the benchmark portfolio approach with no significant impact on our reported results.

7 Of the extant studies mentioned in the introduction, Barber et al. (2001) is not directly comparable to our study as their approach is based on consensus (average) recommendations for all analysts in their database following a stock, uses frequent portfolio rebalancing and is restricted to the reporting of returns for only one month.

8 We need to be slightly careful in comparing the magnitude of our abnormal returns with other studies due to differences in the time period over which returns are measured and accumulated in these studies.

9 It is difficult to make inferences about the results of Dimson and Fraletti (1986) as no *t*-statistics are reported.

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Union Organising, Union Recognition and Employer Opposition: Case Studies of the Irish Experience[1]

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ABSTRACT

In the last few years a dramatic decline in union density has prompted the Irish Congress of Trade Unions to seek a formal procedure to support union recognition. This has resulted in the institution of new codes of practice and the passage of the Industrial Relations Amendment Act, 2001. In this paper, using a number of case studies, we examine the practical application of these initiatives and their effectiveness in creating conditions for union recognition. The evidence from the case studies suggests that the Act is inadequate in facilitating independent collective representation and provides little protection for union activists and members in the recognition and dispute process.

INTRODUCTION

In the ten years between 1990 and 2000 union membership in Ireland has increased by 14 per cent. Nevertheless, since 1980, there has been a steady decline in union density (D'Art and Turner, 2002). Union density is now at its lowest point since the 1950s, which was a period of economic stagnation. However, union density in the public sector is in sharp contrast to this general picture of decline. Union density is estimated to be in the region of 80 per

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cent, covering approximately 270,000 employees in the public sector (see McGinley, 1997). Unfortunately, there are no separate union membership figures for the Irish private sector. Yet there appears to be a general consensus that in recent times the sector has experienced a dramatic decline in union density. The Private Sector Industrial Committee of the Irish Congress of Trade Unions estimates that union density in the sector is now a little over 20 per cent (D'Art and Turner, 2004).

According to D'Art and Turner (2002), one factor contributing to the steady decline in union density may be the increasing difficulty experienced by trade unions seeking recognition. Union recognition is the formal acceptance by management of a trade union(s) as the representative of all, or a group of, employees for the purpose of jointly determining their terms and conditions of employment. Union recognition can be seen as incorporating two distinct but complementary steps. Firstly, the employees have a right to join a union of their choice. While crucially important, this right alone may be insufficient. The second essential factor is the willingness of employers to recognise and negotiate with the trade union as representing the collective interests of a group of workers. Recognition, it has been argued, is the key determinant of union growth. Bain and Price (1983) suggest that union recognition and growth enjoin what they call a 'virtuous circle' of cause and effect whereby the more unions obtaining recognition the more they are likely to grow (see also Green, 1990). The weight of the available evidence points to increasing employer resistance to granting recognition to trade unions for collective bargaining in the workplace (see for example Roche and Geary 1995; D'Art and Turner, 2005). A recent analysis of union recognition cases in the Labour Court shows that few of the companies involved acted on the recommendations issued by the court (Gunnigle et al., 2001). Furthermore, case study evidence indicates the hostility of management towards unions and the difficulties experienced by workers in securing recognition for collective representation in small and medium enterprises (McMahon, 2001).

In this paper, using two case studies, we examine the effectiveness of the recent Industrial Relations (Amendment) Act, 2001 in facilitating union recognition. In particular, we assess the practical

application of this Act and its effectiveness in creating conditions for union recognition.

THEORETICAL EXPLANATIONS OF UNION DECLINE

In many countries between 1980 and the mid-1990s trade union density registered a considerable decline (Ebbinghaus and Visser, 2000). While unions in Ireland and the UK experienced a sharp decline, density levels in Sweden and Finland increased. Other countries such as Norway, Belgium and Denmark experienced only marginal fluctuations. Thus, while some countries experienced substantial decreases in union density, others registered increases or only marginal decreases (D'Art and Turner, 2003). A popular explanation ascribes union decline in the private sector to long-term socio-economic changes. A number of structural variables such as shifts in employment from manufacturing to services, changes in industrial structure, product markets and capital intensity have been advanced to account for variations in union membership across industries (see Deery and De Cieri, 1991).

Yet there is substantial evidence to suggest that the significance of structural factors in union decline may be exaggerated. These factors, Disney (1990) claims, have played little part in the decline in British union density during the 1980s. Structural factors, it has been estimated, account for at most three percentage points of the eight-point fall in British union density between 1980 and 1986 leaving nearly two-thirds of the decrease attributable to other factors (Freeman and Pelletier, 1990). In the US, union decline has been precipitous and largely a private sector phenomenon (Lipset and Katchanovski, 2001). Private sector union density dropped from approximately one third in the 1950s to below 9 per cent in 2001 – lower even than union density at the end of the 1920s, the lowest ebb of organised labour in the 20th century (Nissen, 2003). Several reasons for the decline in private sector unions have been advanced in what is now an extensive literature on the topic in the US. However, the general consensus regarding structural change is that it cannot explain all or even most of the union decline (for an alternative view see Troy, 2001).

An implicit assumption of the structural explanation is that union representation is unnecessary and that there is no demand from the

growing number of employees in the new sectors of the economy. For example, Troy (2001) argues that in the new age of Adam Smith, it is not employer but employee opposition that is the principal ingredient in the union decline across the G7 countries. Given that the union redundancy argument appears to receive greater currency in the US, it is useful to examine the evidence for attitudinal change towards trade unions over time. According to a recent attitude survey, negative attitudes towards unions have declined from one out of every three Americans to one out of every four since 1997 (Hart Research Associates, 1999). In the six years since 1993 there has been an eleven point drop in negative attitudes from 34 to 23 per cent. A majority of those polled (52 per cent) believed it would be good for the country if more workers had union representation (Hart Research Associates, 1999). These findings are broadly supported by a review of Gallup Poll results for the 1947 to 1999 period (see Nissen, 2003). In the context of the active aggression of anti-union employers, along with an unfavourable cultural and political climate for collectivism, these findings are remarkable (Human Rights Watch, 2000). A similar conclusion can be drawn from the limited available evidence on workers' attitudes towards trade unions in Ireland. In a 1998 survey of men and women aged 18 and over living in Ireland, 59 per cent of the respondents, who were employed but not currently members of a union, said that they would join a union if they had the opportunity (ICTU, 1998, p. 14). The percentage of those between the ages of 18 and 24 who would join if given the opportunity was even higher at 65 per cent.

In contrast to the structural perspective, the institutional explanation focuses on the effects of each country's particular historical development and the specific national institutions governing industrial relations. Changes in unionisation have been attributed to a range of institutional factors and processes such as the nature, scope and depth of collective bargaining, labour legislation and more recently the effects of management strategies on union organisation. According to Freeman and Pelletier (1990), the Thatcher government's labour laws and the consequent change in the legal environment for industrial relations account for the vast bulk of the 1980s decline in UK union density. In their analysis of the changing shape of industrial relations in the US, Kochan et al. (1986) suggested that

industrial relations processes and outcomes were increasingly deter-mined by corporate strategies that often had adverse consequences for trade unions. Indeed, the increasing intensity of legal and illegal hostile managerial action, ineffectively checked by an unsympa-thetic state, are the principal reasons for union decline in the US (see D'Art, 2002, p. 37-39). The supply or availability of unions at the workplace and the supporting legislation for a union presence are the key elements in the institutional explanation of union growth and decline. Union membership is a function not only of the individual demand for membership but crucially dependent on the availability of a union to join. From this perspective, a country's institutional arrangements and the extent of legitimacy accorded to worker col-lectives is the most important factor in union growth and decline. The evidence from a number of comparative studies would suggest that the prevailing institutional arrangements are the principal deter-minant of union growth or decline in the European countries (for example, see Ebbinghaus and Visser, 1999; Blascke, 2000).

Declining union density in the private sector prompted Irish trade unions to seek a more formal procedure to achieve recognition for collective bargaining in the workplace. These procedures were embodied in the Industrial Relations (Amendment) Act (IRAA) 2001 (see Appendix 1). A recent analysis concluded that the Act was extremely unlikely to improve trade union availability in the work-place, especially where employers are opposed to unions and would do little to reverse the decline of union density in the private sector (D'Art and Turner, 2002). A second flaw noted in the Act was the absence of any legal protections for union members involved in a recognition dispute exposing union activists to hostile employer pressure. Finally, cases could take from six to twelve months to process through the codes of practice. In the absence of legal pro-tection this inordinately lengthy process could leave union activists vulnerable to employer pressure.

CASE STUDIES OF UNION RECOGNITION CAMPAIGNS

As we have seen in the Irish case, union recognition has become more difficult to achieve. Employer behaviour and the institutional context are two factors likely to determine the outcome of a recognition request. Hostile employer behaviour towards trade unions is likely to

intimidate employees, raise the cost of union joining and make a campaign for recognition less likely to succeed. However, the particular institutional context may exacerbate, moderate or neutralise such employer behaviour. There is a growing theoretical and empirical literature on union organising in the US and, to a lesser extent, in the UK (Heery et al., 2000). The case study format followed here draws on the union-organising experiences described in this literature. It is possible to identify a number of distinct stages in the union organising process (see Markowitz, 2000). The first stage describes the background triggers to unionisation. Secondly, the extent of the demand for unionisation is described. Thirdly, the union's campaign for recognition and the employer's response is considered. An additional consideration in the Irish context is third party intervention by the Labour Relations Commission and the Labour Court, which has become an essential part of this process. Fourthly, the outcomes of the recognition campaign for the union members and the employer are assessed. Overall, drawing on our case study evidence two propositions are explored. Firstly, the effectiveness of the IRAA, 2001, in facilitating union recognition and secondly, whether the Act provides adequate protection for union activists and members who seek to organise and bargain as a collective.

Case study 1: A small/medium size Irish owned firm

The company is located in a rural area in the south. It was established in 1991 to cultivate, harvest and process Irish rope mussels mainly for export. It employs 95 workers, of whom 76 are operatives, the grade seeking formal discussions on terms and conditions of work. The work tends to be seasonal and there is no guarantee of a consistent or continuous full working week for many of the employees. Material for the case study was provided from interviews with the union official involved in the case and a local part-time union branch secretary. An interview by telephone was sought with the main activist but unfortunately he declined.

Background triggers to the demand for unionisation

In early 2002 the company appointed a new chief executive. Up to this time there appears to have been quite a good relationship between management and workers. Under the new regime there was a distinc-

tive shift to a more autocratic management style. There was now lit-tle personal communication between management and workers. Workers were merely 'told what to do'. Against this background, the immediate triggers to the demand for representation were:

- The absence of written contracts of employment;
- The absence of any discipline and grievance procedures;
- The refusal of the employer to give the national pay awards in the Programme for Prosperity and Fairness (PPF).

Demand for unionisation

In general, for those who sought union representation, the princi-pal reason was protection from arbitrary and unfair treatment. Although the rate of hourly pay was judged by workers to be 'good', there was no guarantee of a full working week. This was the union's second attempt to organise this firm. Approximately three years before the present attempt, the union approached the workers at the request of two workers in the firm. The union offi-cial arranged a general meeting but it was poorly attended and the campaign fizzled out. The current campaign for union representa-tion began in early 2002, when about ten workers joined the union. Subsequently up to 30 or nearly 40 per cent of the opera-tives (the relevant bargaining unit) joined the union. According to the full time union official involved in the case, four or five of these members could be categorised as active members, i.e. will-ing to act on behalf of the union and encourage other employees to join the union. However, there was only one main activist who was central to the union organising campaign. Initially, the union official wrote to the company seeking recognition and bargaining rights to discuss the issues noted above. The company refused to recognise the union and the union official referred the case to the Labour Relations Commission (LRC).

Campaign for recognition

In this section we explore the employer's reaction to the demand for recognition, the union's campaign and the intervention of the LRC and the Labour Court (LC).

Employer's reaction: A preliminary reaction by the employer to the union's request for recognition was to isolate the main union activist in the company by assigning him first thing in the morning to the Cold Chamber (an area in which he did not usually work), initially without protective clothing and with the fans turned on. This produces an extremely uncomfortable cold and wet climate. Although he was eventually allowed protective clothing after some two hours, he was ordered to remain working in the cold chamber for two full days (work in this area is normally rotated regularly). During break times, the activist was followed around to ensure minimal contact with other workers (at this time he ate his lunch alone in his car). According to the union official these actions were also intended to intimidate other union members.

A second response of management was to request that all workers sign a letter stating they did not wish to join a union or wished to resign from the union. While about ten union members signed such a letter and sent it to the union out of fear, nevertheless they remained as secret members of the union. Thirdly, the company refused to co-operate with the LRC process for dispute resolution and the case was referred to the Labour Court (LC). The employer's response can be summarised as:

- Isolation of the main activist;
- Intimidation of union and potential union members;
- Non-co-operation with third party agencies.

The union's campaign: According to the union official, it was difficult to counteract the employer's actions. The union activists feared losing their jobs if they resorted to industrial action. The union official attempted to build solidarity among union members by arranging meetings outside the company in the local town. Meetings had to be arranged clandestinely. An example is one meeting held at 10.00pm at night in an activist's house to ensure that members were not seen gathering together. Members were careful not to draw attention to their activities and usually arrived in ones and twos to the meeting. Indeed, when walking through the local town on weekends, union members were afraid to be seen talking to the union official or part-time branch secretary. If such activity became

known to the employer, members feared it would result in dismissal. In any case, the meetings were not successful as few members attended. According to the union official it was just not possible to protect union members in the workplace.

Third party intervention: As noted above, the case was initially submitted and processed through the Code of Practice on Voluntary Dispute Resolution. The company refused to participate at this stage and the union's application was referred to the Labour Court in accordance with Section 2 of the IRAA. Since the Act precludes any reference or negotiation on arrangements for collective bargaining, the immediate claim by the union was employer refusal to meet with the union to agree formally a contract of employment for members. In addition, the union raised the employer's tactic of issuing letters of resignation to employees as an unfair labour practice. The LC issued a recommendation on the case in August 2002 (see details below). The Irish Business and Employers Confederation (IBEC) represented the company at the Court hearing.

Outcomes
The union failed to gain recognition from the employer. The Labour Court found that the distribution of the letters of resignation to employees could only be interpreted as an unfair practice and recommended that the employer 'provide each employee with a written statement to the effect that it is company policy to respect the right of each employee to join a union if they wish'. Furthermore, that this statement should point out that no employee will suffer as a consequence of exercising that right.

   A second element of the recommendation was that the employer put in place discipline and grievance procedures within one month of the date of the recommendation – and that these procedures should also provide for the full utilisation of the normal dispute resolution machinery of the state. However, the recommendation pointed out that the 'Court cannot and does not recommend that the parties engage in collective bargaining in relation to terms and conditions of employment and [that] nothing contained in this recommendation should be construed as providing for collective bargaining'.

Since the issue of the recommendation in August 2002 the union members have failed to meet and vote on the Labour Court recommendation. The union official attempted to organise a meeting but only three members attended. Union members were also individually written to with a copy of the recommendation and also to ascertain whether the employer had complied with the recommendation and issued a statement to each employee. It appears that the employer has so far failed to comply with the Court's recommendation. Nor have the company responded to written inquiries from the union official regarding compliance with the Court's recommendation.

The lack of response from union members most likely reflects the stress and difficulties experienced by the union activists during the organising campaign. Out of the five members categorised as active during the campaign, one has moved to another job, the main activist now prefers to stay out of trouble and keep a low profile – his spouse experienced considerable stress at the time. Indeed, the union official described the activist as occupying a 'courageous and lonely position'. Similarly, the remaining three activists wish to keep a low profile. According to the union official it is difficult to assess the number of workers who are still members of the union – possibly around fifteen to twenty – as the union now operates a membership facility on the internet, which allows people to join or remain a union member with strict confidentiality assured.

The future: As noted earlier, the union official made a submission on grievance and discipline procedures to the company and IBEC but received no reply. The next step is to contact the Labour Court and seek a determination under the IRAA 2001. However, over one year later, no union member from within the company is willing to come forward to be party to the process. Consequently, the union official has not sought a determination.

Case Study 2 – A Multinational Subsidiary
The company 'Cargo Handling' is located at Dublin Airport with its headquarters in France. It is a baggage and cargo ground handling operation and contracts its services to a number of airlines and freight firms who use Dublin Airport. Overall it employs a total of 130 employees of which 70 are general operatives, 50 are clerical

workers and the remaining 10 are managerial staff. Material for the case study was provided from interviews with the union official involved in the case.

Background triggers to the demand for unionisation
There were three main triggers to the demand for union representation. Firstly, the pay and shift allowance was significantly below that paid to workers doing the same jobs in similar companies at the airport. For instance the weekly shift allowance at Cargo Handling was 30.52 while the allowance for operatives in similar companies was 73.11. Secondly, the general terms and conditions of employment were perceived to be inferior to other companies. Thirdly, there was general dissatisfaction with the grievance procedure and representation at Cargo Handling.

Demand for unionisation
In December 2000 ten employees of the company approached the Services, Industrial, Professional and Technical Union (SIPTU) official at Dublin Airport. They wished to join the union so it could negotiate an improvement in pay, conditions and representation on their behalf. Initially the official was cautious and suggested more members were required in order to strengthen their case. To that end two leaflets were produced addressed to operatives and clerical staff pointing out disparities in pay and conditions at Cargo Handling compared with similar companies at the Airport. A meeting or question and answer session was arranged for all staff interested in union representation. Forty employees attended the meeting and at its conclusion all became union members. In turn they distributed union membership forms to their colleagues that brought total union membership at Cargo Handling to 80, or a little over 61 per cent of the workforce. It was at this point the union official wrote to Cargo Handling seeking union recognition.

Campaign for recognition
In all, three letters were sent to the company requesting recognition but all were rejected. A fourth letter outlining a claim for improvements in pay and conditions was ignored. Consequently the union official referred the case to the Labour Relations Commission

(LRC). On the day of the hearing (June 15th, 2001) the company did not appear or send a representative. The union official requested the LRC not to use the 2001 Act, as he believed it was not appropriate in this case. Nevertheless it recommended that the union pursue a resolution according to the criteria laid down in the Act and appointed an Industrial Relations officer to the case. The Industrial Relations Officer handling the case made it clear that the outcome could not deliver union recognition. However, the IRO recommended the establishment of an in-house committee, elected by the workers to represent their interests to management. These internal procedures, it was suggested, should be given time to work.

Employer's reaction: The employer complied with this recommendation and established a committee. However, the expectation was that employees would elect the committee members. Only one of the committee members was elected, while the other two were management appointees. Furthermore, the company insisted that the subject of wages and conditions or representations on these matters by the committee was excluded. By February 2002, union members in the company were complaining that both the procedures and the committee were ineffective. In March, the union submitted or resubmitted the pay claim.

The union official now called a general meeting of union members in the company. Owing to the high turnover of staff there were some new members but the generality of members were young and with little experience of trade unions or industrial action. The official reviewed progress to date, the failure of the procedures and outlined various possible courses of action. It was decided to conduct a ballot for industrial action. When the shop steward attempted to conduct the ballot on the company premises she was called to the manager's office and suspended. Representation from the union official reduced the suspension to four days. The ballot was now run in the baggage hall at Dublin Airport, but as many workers were frightened to be seen entering the hall this proved unsatisfactory. Eventually the ballot was completed in the SIPTU office at the Airport. The result was 87 per cent in favour of industrial action and the company was notified on the 27th June.

<u>Third Party Intervention again</u>: Both parties were now called back to the Labour Relations Commission. The company argued that they had implemented the previous recommendation and established a committee. The union offered to negotiate with the company immediately but Cargo Handling requested a two-week moratorium on any discussion or negotiation, a request refused by the union as it believed the interim period would be used by the company to intimidate workers, spread anti-union propaganda and undermine solidarity. Subsequent events were to confirm union apprehension. During the two three hour stoppages of 3 and 4 July, workers involved in the action were threatened by the company with the loss of their jobs. In the two-week lull that followed these stoppages, unionised supervisory staff demanded a meeting to call for the withdrawal of industrial action. When a meeting was duly convened arguments were heard for and against industrial action, but on its conclusion a majority voted for its continuance.

A full strike was called for 28 August and in the run up to this date many workers were nervous, probably due to their inexperience, youth and the company's hostility. Nevertheless on the day union members did not attend work, though some simply stayed at home. In all there were 27 workers on the picket line. However the company continued to operate and one of its customers served a number of injunctions on the strikers. The union official and strikers made a partially successful attempt to seek support from workers at other airports and French workers at Paris. In the meantime the company replaced the striking workers with employees from an employment agency and continued to operate. By the end of the year many of the strikers had returned to work and eventually the pickets were withdrawn as there were only 10 members still in receipt of strike pay. Though the strike collapsed these ten members still receive strike pay. Within the company there are still twenty-five union members who continue to pay their membership dues.

Outcomes

Apparently the employer has successfully avoided the granting of union recognition. Despite the efforts of the union and the members, their campaign for recognition failed. Nevertheless, in the immediate

aftermath of the strike, up to approximately 35 per cent of the operatives within the company retained their union membership.

<u>Future</u>: The campaign for union recognition was bitter, protracted and ended in defeat. Nevertheless, there remained a core of workers loyal to the union. It seemed that these might provide a base from which in the future another campaign for union recognition could emerge. However, within a year all members, save one, who had participated in the strike were paid off by the company.

<div align="center">CONCLUSION</div>

Two questions were posed earlier. Firstly, whether the IRAA 2001 is effective in facilitating members seeking union representation and recognition. Secondly, whether the Act provides adequate protection for union activists and members in the recognition and dispute process. The evidence from both case studies provides substantial evidence that the Act is inadequate in both of these areas. In case study 1, the Labour Court issued a recommendation regarding letters of resignation and the establishment of procedures. Yet neither has been acted on by the employer. In case study 2, the employer failed to engage in the Labour Court process. In both cases, it was made clear to the union officials and members that the Court could not adjudicate on the central issue of union recognition. As we have seen, the Court is explicitly precluded from doing so under the Act. However, even if the specific recommendations of the Court had been acted on by the employer, there is no effective mechanism for dealing with future industrial relations issues, except via a return to the cumbersome and lengthy state dispute resolution machinery. This was certainly the situation in case study 2.

   In both cases employer hostility and intimidation of union members were features of the organising campaigns. The ineffectiveness of the Court's recommendations and the vulnerability of union activists were major factors in the failure of the organising drive.

   Yet how representative are these case studies of the general experience of employees attempting to secure union recognition in the private sector? Given the levels of employer hostility and coercion involved, they might appear as aberrations, radical departures from the norm of managing industrial relations in a democratic polity. In

a survey of Irish trade union officials organising in the private sector over a ten year period, only 2 per cent reported that union recognition had become easier to secure, while 40 per cent felt it had become more difficult and 23 per cent that it had become much more difficult to secure. Indeed in attempting to defeat recognition campaigns, a sizeable proportion of employers used coercive tactics. According to union officials surveyed 48 per cent of employers victimised union activists, 38 per cent threatened plant closure, while a further 22 per cent, acting illegally, sacked union activists (D'Art and Turner, 2005). Thus the case studies in this paper do not appear to be atypical. A number of conclusions can be drawn from these case studies. Where the employer resists a demand for union representation, the codes of practice and the Act appear relatively ineffective in supporting a desire for a collective employee voice. Unions initially supported the legislation in order to stem the decline in Irish private sector unionism. The evidence from these case studies suggests that such an outcome is unlikely. Finally, the decline in private sector unionism cannot be simply ascribed to a fall in employee demand for union representation. Indeed, it can be argued that the demand for union membership in private sector workplaces has not been met.

Subsequent to the completion of the above case studies an amendment to the IRAA 2001 was passed. The purpose of the Industrial Relations (Miscellaneous Provisions) Act 2004 is to enhance the effectiveness of existing procedures. Firstly, by the introduction of a time frame of between 26 and 34 weeks, beyond which a determination must be issued if there is no agreement between the parties. Secondly, the Labour Court no longer reviews a determination and the union involved can apply for its immediate enforcement. Finally, the introduction of an anti-discrimination code designed to protect union activists. While the shortened time frame will be welcome to trade unions and members seeking recognition it is still substantially longer than the estimated twelve week maximum in Britain. Both the case studies in this paper and our more recent work (D'Art and Turner, 2005) clearly demonstrate the vulnerability and victimisation of union activists. Indeed, in the latter work, union officials attempting to organise in the private sector reported that 28 per cent of employers acted illegally and

sacked union activists. It remains to be seen whether employers will be constrained to any great extent by the anti discrimination code. However, it seems unlikely that the 2004 amendment will fundamentally alter employer hostility towards union activists and members outlined in the case studies. Only further research will determine whether, in practice, the 2004 amendment protects union activists and facilitates the legitimate demand by workers for union representation.

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APPENDIX

Disputes over union recognition are referred in the first instance to
the Advisory section of the Labour Relations Commission (LRC).
Though the primary issue in contention is generally union recogni-
tion, this cannot be considered by the LRC as the dispute is
processed through the Code of Practice on Voluntary Dispute Res-
olution (SI 145 of 2000). This Code of Practice is solely designed
to settle disputes or claims regarding pay and conditions. The issue
of union recognition is outside its scope and cannot be addressed
directly. Indeed, the Irish Congress of Trade Unions (ICTU)
advises unions seeking recognition to add specific claims relating
to pay, conditions of employment or procedures in relation to
grievance and disciplinary matters (ICTU, 2001: 3).

When the issues in dispute are not resolved or the employer
refuses to cooperate the union may refer the dispute for investiga-
tion by the Labour Court under section 2 of the IRAA. However any
recommendation by the Court cannot provide for arrangements for

collective bargaining (section 5(2)). Indeed, the Act explicitly excludes any recommendation on collective bargaining. Since the passage of the IRAA, unions seeking recognition under section 20(1) of the Industrial Relations Act, 1969 are now being referred to the Advisory section of the LRC to be processed through the Code of Practice. Yet under the 1969 Act unions could receive an unequivocal recommendation for union recognition. Now under the Code of Practice and the IRRA, this is no longer possible. Thus it can be argued that the IRAA may serve to hinder rather than assist unions in pursuit of recognition.

An Exploratory Study of the Process by which Recent Graduate Entrepreneurs (RGEs) Become Self-Employed

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ABSTRACT

Entrepreneurship is recognised as a lot more than a business or economic activity. It has become a social ethos, forming what is known as the 'entrepreneurial society'. However, there is a need to develop effective entrepreneurial programmes that provide entrepreneurs with a supportive environment through the educational system, which may facilitate a Recent Graduate Entrepreneur (RGE) in starting a business soon after graduation. The RGE is defined as an entrepreneur who becomes self-employed within a short time of leaving university, and without having an intervening period of professional employment. The RGE has unique contextual and behavioural characteristics that have not been comprehensively examined in previous research. A phenomenological methodology was chosen for this research whereby the essence of the phenomenon of RGE start-up was sought through five in-depth interviews with recent graduates. Phenomenological research aims to understand human

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experience rather than to statistically generalise and in this research is based on a small sample size. Semi-structured in-depth interviews were conducted with five co-researchers: two females and three males. Interviews were also conducted with Faculty Deans and the CEOs of enterprise agencies to understand the context of the RGE. This research found that if an RGE was highly motivated, and focused, then the RGE had the ability to become successfully self-employed. In concert with the RGE's entrepreneurial ability, a supportive environment was key to success, as the RGE was vulnerable to external factors. This research also found that, for the RGEs, experience was not a prerequisite for success, which is contrary to current literature on the topic. This research has implications for public policy, for the educational system and for graduates who aspire to self-employment.

INTRODUCTION

Entrepreneurship is now recognised as a lot more than a business or economic activity. It is an impulse that permeates all of society. It has become a social ethos, forming what is known as the 'entrepreneurial society' (Florida, 2001). Flores and Gray (2000) defined the 'entrepreneurial society' as a new economy characterised by perpetual change, which transforms people's working lives to embody entrepreneurial characteristics, such as innovativeness, risk-taking, and independence.

   Ireland's dependency on foreign direct investment (FDI) has left the country vulnerable to a global economic slowdown, with a resultant increase in unemployment levels (Goodbody Economic Consultants, 2002). Thus, fostering an 'entrepreneurial society' is important as it keeps society, the economy, industry, the public service, and business flexible and self-renewing (Scase, 2000). However, a significant gap exists in Ireland between those individuals aspiring to self-employment and those who actually become self-employed. Closing this gap requires a strengthening of the 'entrepreneurial society' at a deep cultural level (Fitzsimmons et al., 2001; European Observatory, 2001; Goodbody Economic Consultants, 2002).

   Fitzsimmons et al. (2001) noted that the most entrepreneurially active age group in Ireland was the 18 to 34 year age category.

However, Garavan et al. (1997) pointed out that there was still a great need to develop effective entrepreneurial programmes that provide potential entrepreneurs with the supportive environment they require in the education system. Parsons and Walsh's (1999) UK research found that only 1 per cent of graduates moved into self-employment soon after graduation.

LITERATURE REVIEW

Defining the entrepreneur

The term entrepreneur encompasses a broad category of individuals (Cunningham and Lischeron, 1991). Historically, entrepreneurship was the function served by the businessperson in the economy (Bull and Willard, 1995). In addition to Knightian uncertainty and Schumpeterian innovation, some researchers have found entrepreneurship as a function of the interaction between the need for achievement, risk-taking propensity, preference for innovation, and the need to maintain personal control (Carland and Carland, 1997; De Noble et al., 1999). Equally entrepreneurship is also a function of individuals who see abnormality (Penrose, 1959) and seek out opportunities (Kirzner, 1979). Additionally, Chell et al. (1991) through their book *The Entrepreneurial Personality: Concepts, Cases and Categories* sought to categorise the different types of entrepreneur.

Previous empirical research has examined the graduate entrepreneur who became self-employed soon after graduation, however the researchers did not control for experience. Various characteristics were identified that set the graduate entrepreneur apart from the entrepreneur in general. These included: developing entrepreneurial aspirations within a higher education institute (Brown, 1990; Fleming, 1993; Fleming, 1996); and the graduates' expectations of what starting a business entails and their resultant motivation to start the business (Brenner et al., 1991; Tackey and Perryman, 1999; McLarty, 2000). The graduate entrepreneur is also more dependent on family background for financial and emotional support (Scott and Twomey, 1988; Parsons and Walsh, 1999), as a way of networking, and for the provision of business advice (Tackey and Perryman, 1999; McLarty, 2000).

Research also identified that graduates were disproportionately disadvantaged in starting a business, especially when seeking external advice, support and financial backing due to their limited practical experience (Garavan et al., 1997; Parsons and Walsh, 1999; McLarty, 2000). A graduate needs to be highly motivated in order to overcome the unique barriers they face in becoming self-employed soon after graduation (Garavan et al., 1997; Tackey and Perryman, 1999; McLarty, 2000) and Parsons and Walsh (1999) note that perhaps this is a reason why so few graduates choose self-employment as a career option.

In addition, graduates acquire a specific set of skills during their time at university (Tackey and Perryman, 1999). Timmons et al. (1985) proposed that entrepreneurial skills and behaviours could generally be nurtured, developed and acquired. Different researchers such as Timmons et al. (1985), Brown (1990) and Fleming (1993) have argued that business experience, management skills and wisdom could be acquired through a nurturing environment.

An entrepreneur's practical experience is highlighted by knowledgeable practitioners, such as venture capitalists (Reuber and Fischer, 1999) and people engaged in business (Jo and Lee, 1996), as being important to the success of a new venture. However, Reuber and Fischer (1994 and 1999) and Jo and Lee (1996) found that there was no direct relationship between a founder's experience and the success of the venture. Experience can be categorised into education and work experience (Jo and Lee, 1996). Graduates possess education experience and learn certain skills through this process (Garavan et al., 1997; Parsons and Walsh, 1999; Tackey and Perryman, 1999; Woodhull, 1999; McLarty, 2000). Work experience can be subdivided into management and industrial experience, also termed practical experience. However, lack of practical experience has not been comprehensively examined in the literature (Reuber and Fischer, 1999).

A comprehensive categorisation of the entrepreneur must encompass the context from which they have come to set up a business (Chell et al., 1991). For the RGE, education is a major factor of their environment. Many researchers have confirmed from their empirical studies that education plays a major role in the development of the RGE through awareness, support and as a path into self-employ-

ment (Fleming, 1996; Tackey and Perryman, 1999). Furthermore, Brown (1990) observed that 90 per cent of graduates surveyed in the UK would not have started their business soon after graduation if it were not for the British Enterprise Programme. According to certain authors (Drucker, 1985; Flores and Gray, 2000) to foster an 'entrepreneurial society' the most fundamental of changes have to be made within the education system.

The start-up process

According to Reynolds (1997) the process of start-up is a complex interaction among personal, life course, and contextual factors that do not fit into a linear model. However, through empirical studies, patterns of motivation for graduates to enter self-employment have emerged (Brown, 1990; Fleming, 1996; Parsons and Walsh, 1999; McLarty, 2000). Scott and Twomey (1988) depicted the intricate relationship of external factors, predisposing factors and triggering factors on the self-employment decision through a model (see Figure 1 Phase 1 of the conceptual framework).

Research has focused on understanding this start-up process: key factors in start-up events (Gibb and Ritchie, 1982); the sequence of start-up events (Vesper, 1980); the impact of start-up events on success of the new venture (Timmons, 1985); and external factors that influence new venture formation (Harrison and Hart, 1983). The concept of the incubation organisation developed by Cooper (1981) has interesting implications for the context within which the entrepreneur decides to start a business and the impact this context has on the start-up process.

Bull and Willard (1995) believed that motivation and personality traits of the entrepreneur, and the entrepreneurial skill and training acquired, must be taken into consideration if a comprehensive model of entrepreneurship was to be formed. They also propounded that the structure of the external environment must be an important aspect of any complete model of entrepreneurship. Previous research examined different aspects of the start-up process in isolation. However, there is also a need to understand this complex process in a holistic manner through an in-depth micro-level investigation of the new business and its founders (Shabir and Gregorio, 1996).
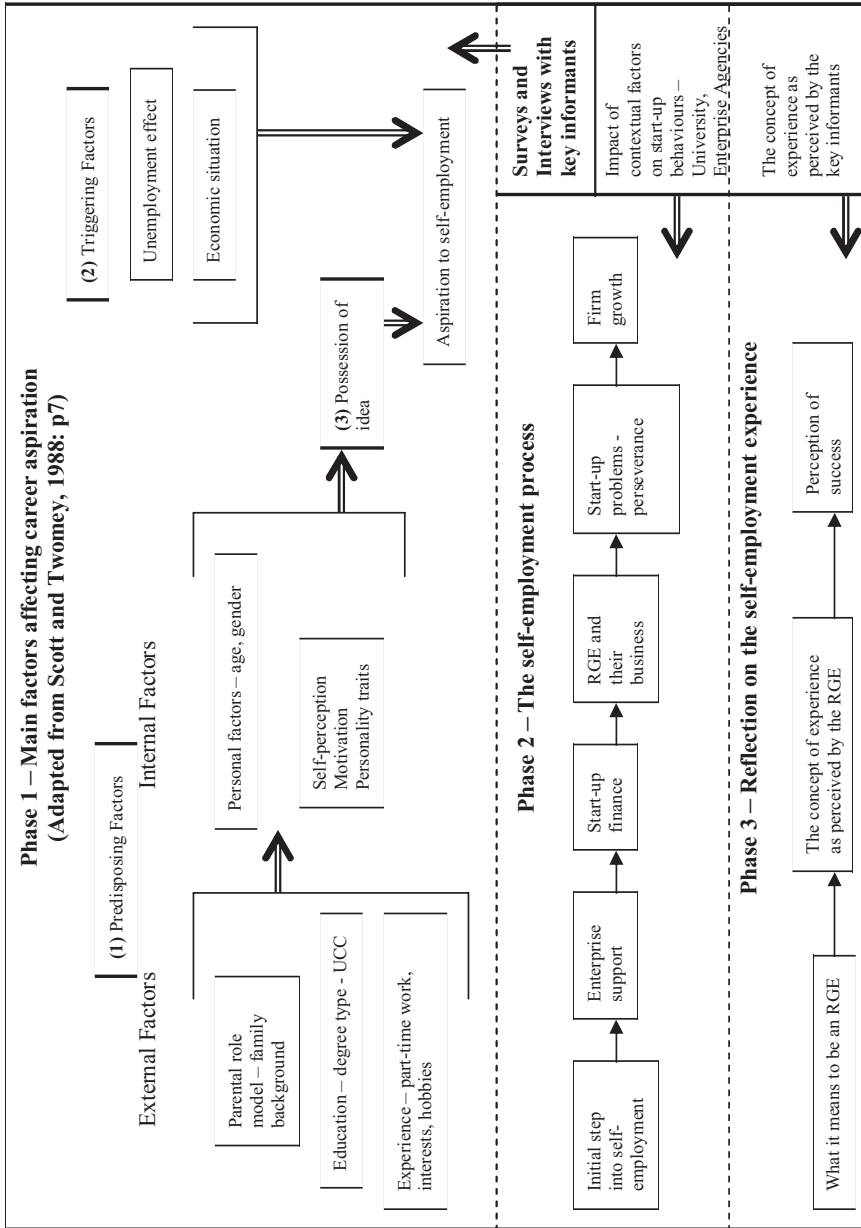
**Phase 1 – Main factors affecting career aspiration
(Adapted from Scott and Twomey, 1988: p7)**

(1) Predisposing Factors

External Factors

Internal Factors

Parental role model – family background

Education – degree type - UCC

Experience – part-time work, interests, hobbies

Personal factors – age, gender

Self-perception
Motivation
Personality traits

(2) Triggering Factors

Unemployment effect

Economic situation

(3) Possession of idea

Aspiration to self-employment

Phase 2 – The self-employment process

Initial step into self-employment

Enterprise support

Start-up finance

RGE and their business

Start-up problems - perseverance

Firm growth

Phase 3 – Reflection on the self-employment experience

What it means to be an RGE

The concept of experience as perceived by the RGE

Perception of success

Surveys and Interviews with key informants

Impact of contextual factors on start-up behaviours – University, Enterprise Agencies

The concept of experience as perceived by the key informants

Figure 1: Conceptual Framework

OBJECTIVES AND RESEARCH QUESTIONS

The RGE has unique contextual and behavioural characteristics but has not been comprehensively examined in previous research. Based on the literature review it is evident that there is a significant gap in the literature as regards the RGE without post-graduation experience. The main question guiding this research was: how does the RGE become self-employed? This research also asked whether the reason for the low percentage of RGEs entering self-employment soon after graduation was directly related to the obstacle of having to overcome the lack of experience? These questions addressed the need to examine the start-up models and concepts identified in previous entrepreneurship research from the perspective of the RGE (Figure 1, Conceptual Framework).

METHODOLOGY

A phenomenological methodology was chosen for this research whereby the essence of the phenomenon of starting a business for the Recent Graduate Entrepreneur (RGE) was examined (Seidman, 1991). The major data for this study was based on semi-structured in-depth interviews with five RGEs: two females and three males. Interviews were also conducted with five Faculty Deans and eight CEOs of enterprise support agencies in order to understand the context of the RGE. The code 'FRGE' was used to denote the female RGEs and 'MRGE' for the male RGEs. Phenomenological research aims to understand human experience rather than to statistically generalise, and it is therefore based on a small sample size. The co-researchers were purposively sampled by fulfilling all of the criteria necessary to be a recent graduate entrepreneur.

Criteria of RGE for this research

The co-researcher must have received his or her primary degree from University College Cork (UCC) within the period of 1990-2002. The criteria were developed based on five UK Department for Education and Employment reports in 1999 (Parsons and Walsh, 1999). From these reports the graduate entrepreneur was defined in the narrower sense, i.e. people who started a business, even if they were technically employees of that business. In addition, it included those graduates who considered themselves to be self-employed i.e.

those with more than one customer or client, such as freelances. It also excluded graduates who were self-employed because it suited their employers' tax arrangements and 'intrapreneurs'.

Work experience is defined as a full-time professional job, where the graduate has worked at a regular activity performed in exchange for payment in a career or occupation and this is their primary source of income. Full-time work is defined by the Organisation for Economic Co-operation and Development (OECD) as 30 or more hours per week (OECD, 1997). A graduate without post-graduation work experience means that they have not worked at a full time professional job from the time they received their primary degree to when they became self-employed. The definition of post-graduation work experience is narrow because many graduates obtain part-time work experience. However, this is not considered under the heading of managerial experience and industrial experience as discussed in the literature review.

DATA COLLECTION

A list of potential co-researchers was compiled via a survey in the UCC alumni magazine, *The Graduate Review,* with a circulation of 40,000 graduates. In parallel a survey was sent by e-mail to all 600 academics within UCC, requesting information on recent graduate entrepreneurs. A screening questionnaire was administered to the 39 identified graduate entrepreneurs over the telephone in order to ensure fit with the RGE criteria for this research. Criterion sampling was utilised to select the sample for this research (Miles and Huberman, 1994). Five people fulfilled the criteria and all were willing to participate in the research. In addition, exploratory telephone interviews were conducted with eight enterprise support agencies in the Cork region and five Faculty Deans at UCC.

The semi-structured in-depth interviews with the RGEs were conducted in person and consisted of three phases each lasting around twenty minutes. This three-phase interview format was recommended by Kvale (1996). The three phases were as follows: the co-researcher's background experiences and what led them to the self-employment decision; their start-up behaviours; and a reflection on what the start-up experience meant to them now. Miles and Huberman (1994) note that one method to check the validity of the

research is getting feedback from respondents. Once the individual cases were written up by the author they were sent to the respondents to check for accuracy.

DATA ANALYSIS

In-depth phenomenological interviewing applied to a sample of participants who all experience similar structural and social conditions gives enormous power to the stories of relatively few participants (Seidman, 1991). With these criteria for research quality in mind, a model of data analysis for this research was adopted from a number of writers (Seidman, 1991; Moustakas, 1994; Kvale, 1996).

The transcript from each interview was read in full, in order to get a sense of the perspectives of the co-researcher. Categories specific to the research questions were formulated and specific statements that referred to these categories were selected. The theme that dominated each significant statement was expressed as simply as possible and was called a 'natural meaning unit' (Moustakas, 1994). Each 'natural meaning unit' was examined and coded. Issues and themes discussed in the interviews were reviewed and a code-system developed. This facilitated the process of identifying relevant information from the interviews (Holm and Kildevang, 1996). Further analysis was conducted on the 'natural meaning units' and examined the underlying dynamics of the experience, the themes, and the qualities that accounted for 'how' self-employment was experienced by the co-researchers.

RESULTS

Profile of Co-Researchers (Table 10.1)

Four of the businesses developed were in the services sector and one was in the manufacturing sector; primary degrees were awarded across five different faculties and four of the co-researchers had post-graduate degrees (Table 10.1). The length of time in business varied from one to nine years. All co-researchers came from middle class backgrounds and did part-time work during their time in college. Three of them started their business in a discipline similar to that of their part-time work. Two of the co-researchers' parents were self-employed.

Table 10.1: Profile of the Co-Researchers

Case Code	FRGE1	FRGE2	MRGE1	MRGE2	MRGE3
Gender	Female	Female	Male	Male	Male
Age	28-33	28-33	28-33	28-33	22-27
Business	French school	Manufacturer of fishing flies	Food consultancy	Multimedia	Web design & software development
No. years business open	7 years	9 years	5 years	2 years	1 year
Degree	Law & French	Commerce	Food Business	Arts	Computer Science
No. years from primary degree to business opening	3 years	3 years	1 year	4 years	3rd year college
Postgraduate degree	MBS in Entrepreneurship	MSc in Competition & strategy	MBS in Agribusiness	Diploma in Film production	None
Part-time work	French grinds	Family business	Family business	Theatre	Computer technician

Personal characteristics of the RGE – Phase 1 (Table 10.2)

The results gathered from the respondents are displayed in the tables below. A 'tick' represents each co-researcher that experi-

enced certain 'natural meaning units'. For example, Table 10.2 shows freedom as a motivation for self-employment and this was experienced by a total of four of the co-researchers. All co-researchers expressed 'following their interests' as a motivation for becoming self-employed. For example, FRGE2 was motivated by developing ideas while MRGE2 was interested in the media industry. All co-researchers were very focused, as expressed by MRGE3: 'I really was never interested in anything else. Basically computers were for me.' This approach to their future had repercussions on their career aspirations.

FRGE1, MRGE1, MRGE2 and MRGE3 possessed a negative opinion of a conventional career, mainly due to the low salaries being offered. Financial considerations acted as a motivation for three of these co-researchers to become self-employed. For FRGE1, FRGE2, MRGE2 and MRGE3 freedom, although expressed in different ways, powered their motivation to become self-employed. Freedom took a range of forms such as: the freedom to develop interests; the freedom of time; and the freedom from constraints of conventional employment. FRGE1 explained that with self-employment: 'you have got freedom to just do what you want and I just love that'.

Four of the co-researchers displayed strong aspirations toward self-employment for a long time before becoming self-employed. MRGE2 noted that 'I always wanted to work for myself,' and FRGE1 stated that 'I wanted to run a business since I was about ten.'

The entrepreneurs knew what they wanted to do and they were also very aware of what they were good at, and displayed a strong self-perception. FRGE2 stated: 'I am a very creative person,' while MRGE3 stated: 'I knew I could sell my ideas and make them work.' All co-researchers perceived little risk associated with becoming self-employed. FRGE2 explained: 'If you go straight from university into self-employment and you weren't interested in making money in the first year then you have little to lose.'

For the female entrepreneurs they found their youth to be an advantage in becoming self-employed. For example, FRGE2's age benefited her in selling her product: 'People spotted we were young and fresh and kind of pathetic in some way, so they felt they could trust us and our product'. However, some of the co-researchers'

ages hindered their ability to attain support. MRGE2 felt he did not need support as he operated in an industry with an environment that supported young and enthusiastic individuals. MRGE3 acknowledged his need for support but was unable to acquire it. He felt his business struggled due to a lack of support:

Table 10.2: Personal Characteristics of the RGE

'Natural Meaning Units'	FRG E1	FRG E2	MRG E1	MRG E2	MRG E3
Motivation:					
Follow interests	✓	✓	✓	✓	✓
Freedom	✓	✓		✓	✓
Financial rewards	✓		✓	✓	
Triggering Factors:					
No career prospects			✓	✓	✓
Negative perception of conventional career	✓		✓	✓	✓
General entrepreneurial characteristics:					
Long-term aspirations to self-employment	✓	✓		✓	✓
Strong self-perception	✓	✓	✓	✓	✓
Internal locus of control	✓		✓	✓	✓
Low propensity to risk	✓	✓	✓	✓	✓
Personal characteristics:					
Age had no impact on receiving support	✓	✓	✓		
Age had impact on receiving support					✓
Formed partnership		✓	✓	✓	✓
Some form of industry experience	✓			✓	✓

> We had a meeting with the County Enterprise Board and basically they told us that they couldn't help us because we were too young and we had not yet graduated. So that wasn't very helpful. As far as I could see there wasn't really any support out there for us.
>
> (MRGE3)

Some form of support was expressed by all RGEs as an important factor in becoming self-employed at a young age. This resulted in FRGE2, MRGE1, MRGE2 and MRGE3 forming a partnership with like-minded acquaintances:

> There were three of us, all partners, which provided a support base. I was not out totally on my own and that is invaluable for starting a business when you are 23.
>
> (MRGE1)

Three co-researchers acquired experience through hobbies, part-time work while in college, and for MRGE3 an internship as part of his degree.

Background of the RGE – Phase 1 (Table 10.3)
Various external factors influenced the RGEs in becoming self-employed. For example FRGE2 and MRGE1 had self-employed parents and this greatly influenced their awareness of career alternatives. MRGE2 did not have self-employed parents but recalled a childhood memory that influenced him:

> My mother is a teacher and before she went back to teaching she set up her own classroom and advertised tutorials. I remember seeing that and thinking I never have to be worried about getting a job because there was always something I could do.
>
> (MRGE2)

Conversely, MRGE3 when reflecting back on his family life felt that his father's discontentment for his job translated into his own disenchantment with conventional careers. Furthermore, FRGE2's father felt it was advantageous for a female to be independent. This led him to encourage her to become self-employed.

FRGE1's family fostered independence by not giving her pocket money when she was growing up:

> The only way I got money was if I worked. My house isn't a place where you get paid to vacuum. So I had to find some proper work. So that is what led me to teaching kids. I was 10 and teaching kids French and Art in my playroom.
>
> (FRGE1)

Three of the co-researchers found their degree useful in becoming self-employed (Table 10.3). It gave them the theoretical background to what they were doing and FRGE1 noted: 'My degree gave me the language to communicate in the business world and it opened my eyes.' However, with regard to the practical running of the business all three co-researchers found their subjects irrelevant. FRGE2 noted:

> With the day-to-day running of the business you never feel that you are ever relating to something you have studied. These are problems you wouldn't have come up against before, and certainly not in the classroom.
>
> (FRGE2)

This experience of education was consistent with the results found from the interviews with the Faculty Deans. They perceived that they could teach the theory but not entrepreneurial qualities such as the drive to succeed. They also felt that the education system's structure did not inherently facilitate entrepreneurship, as it was geared toward conventional employment. However, UCC did provide an environment for FRGE2, MRGE1 and MRGE3 to network with like-minded individuals and form partnerships. MRGE1 also developed contacts in the food industry through a practical fourth year project that won him a National Student Enterprise Award.

FRGE1, FRGE2 and MRGE1 expressed that the view that the University fostered confidence in them through developing their skills and especially through awarding their achievements:

> I always say to myself: 'I did really well in college and I have come from that academic background and that gives me confidence in my business especially when I was starting out.'
>
> (MRGE1)

Three of the co-researchers (FRGE1, FRGE2 and MRGE1) received some form of support from UCC, although on an informal basis through advice from lecturers. MRGE1 found this advice to be cautious. FRGE1, FRGE2 and MRGE3 became self-employed whilst still in college. MRGE3 was the only co-researcher to seek formal support from UCC and had the most difficulty in securing support:

> A defining moment for me was when I called up Campus Companies in UCC (an enterprise support initiative). I remember I rang them from a payphone and got through to the secretary. I put in the money and I was put on hold. I waited 5 minutes, ran out of money and hung up. I later found out that they closed that year because people weren't using the service. There were grants available but no one was utilising the service. And I don't blame the students for not making use of it because I had never heard of them until I went looking for them. There should be some type of entrepreneurship module available to all students telling you exactly where to go to get support and how to approach it. But there is nothing like that. So I would say the University was not a big help at all.
>
> (MRGE3)

The CEO of one of the enterprise agencies interviewed for this research was involved in this entrepreneurial initiative, which was terminated, because as he stated: 'No one even applied for the programme.'

The general attitude among the Faculty Deans was the importance of practical experience when becoming self-employed. Although certain aspects of experience were perceived to be teachable, the curricula, time and resource constraints mitigated against this. The general consensus was that entrepreneurship was dependent on the individual and certain innate characteristics. As one Dean commented: 'If people want to become self-employed no one can tell them how to do it. They are just going to do it.'

Table 10.3: Background of the RGE

'Natural Meaning Units'	FRG E1	FRG E2	MRG E1	MRG E2	MRG E3
Family environment:					
Family fostered entrepreneurship	✓	✓	✓	✓	✓
Supportive family environment		✓	✓	✓	✓
Education environment:					
Degree helpful in self-employment	✓	✓	✓		
UCC fostered confidence in themselves	✓	✓	✓		
Started business whilst still in UCC	✓	✓			✓
Found partners in UCC		✓	✓		✓
Acquired support from UCC	✓	✓	✓		
Education system needs to educate for self-employment	✓	✓	✓	✓	✓

The self-employment process – Phase 2 (Table 10.4)

All of the co-researchers initially developed business plans, which took between six and twelve months to complete before they entered self-employment full-time. The main priority of four co-researchers was to keep their start-up capital and personal investment to a minimum. This was not a factor for MRGE3 as he had acquired a partner for financial support. FRGE2, MRGE1 and MRGE3 kept overheads as low as possible and FRGE1 persisted in acquiring grant aid.

Three co-researchers (FRGE1, FRGE2 and MRGE1) secured support from their local enterprise board. MRGE3 was unable to attain support and MRGE2 felt he did not need the support for his business.

Five out of the eight key enterprise agency informants perceived experience to be crucial for a graduate becoming self-employed. One CEO pointed out that 'the university is a very sheltered place, so graduates have a lack of exposure to the real world'. The three enterprise CEOs that advocated the possibility of a graduate going straight into self-employment from university felt that it would come down to a dynamic individual with a great idea. As one CEO commented: 'It is the individual that must be able to carry the business through and breakdown the obstacles.' However, the CEOs of the local enterprise agencies recognised the need to foster a spirit of entrepreneurship, especially within the education system, as the enterprise agencies were constrained by their budgets.

Table 10.4: The Self-Employment Process

'Natural Meaning Units'	FRG E1	FRG E2	MRG E1	MRG E2	MRG E3
Developed business plan	✓	✓	✓	✓	✓
Minimised start-up capital	✓	✓	✓		✓
Networked to acquire clients			✓	✓	✓
Enterprise Support:					
Received support from enterprise boards	✓	✓	✓		
No support received					✓
No support needed				✓	
Grants fully funded business start-up	✓				
Start-up problems:					
Partnership problems				✓	✓
Labour problems	✓		✓	✓	✓
Acquiring resources		✓		✓	✓
Focussed on business growth		✓	✓	✓	

Enterprise support was highly valued by those RGEs who received it. FRGE1, FRGE2 and MRGE1 received support through the development of their business plans to local enterprise board requirements. In particular, FRGE1 was able to fully finance her business through grants.

Start-up problems centred on: issues of delegation (FRGE2, MRGE1 and MRGE3); acquiring motivated staff for little money (MRGE2); and reprimanding staff (FRGE1). The age of the RGE also had implications for staff relations, as MRGE1 and MRGE3 experienced difficulties when hiring people of a similar age as themselves.

Reflection on the self-employment experience − Phase 3 (Table 10.5)

The co-researchers expressed varying degrees of success. FRGE1 possessed a great sense of achievement mainly stemming from an increase in sales:

> This business is life changing. It is different. If you set up on your own, it is just amazing, it is fulfilling and I would never ever take back one minute of it. I would never work for anybody.
>
> (FRGE1)

For MRGE2 and MRGE3 learning from their experiences represented an achievement for them. However, they felt that they had not yet achieved business success. A key success factor purported by all of the RGEs was their ability to optimise their circumstances and utilise the immediate environment for assistance. Interestingly, all the co-researchers perceived that only entrepreneurship theory could be learned in the classroom. However, on reflection, all of the co-researchers identified that entrepreneurship education would have assisted them in becoming self-employed. In particular, this was strongly emphasised by MRGE3. For the co-researchers entrepreneurial education meant bringing practical elements into the curriculum, creating awareness and signposting the information and support available.

Table 10.5: Reflection on the Self-Employment Experience

'Natural Meaning Units'	FRG E1	FRG E2	MRG E1	MRG E2	MRG E3
Perceived success:					
Sense of achievement	✓	✓	✓		
Business success not yet achieved				✓	✓
Success through customer loyalty	✓	✓	✓		
Impact of education on self-employment:					
Learn facts in classroom not practical	✓	✓	✓	✓	✓
Needed signposting of support		✓	✓	✓	✓
Certain entrepreneurial qualities innate	✓	✓	✓	✓	✓

DISCUSSION AND CONCLUSIONS

Understanding self-employment for the RGE

According to Chell et al. (1991), entrepreneurs should be categorised by their contextual and behavioural characteristics. For the RGE their unique contextual and behavioural characteristics encompass their lack of professional experience, their young age, and their recent departure from the education system. These points of differentiation impacted on the RGE self-employment process in terms of employee, work and financial issues. Similar to previous research (Tackey and Perryman, 1999; Parsons and Walsh, 1999; McLarty, 2000), the RGE was highly motivated and persevered in order to overcome barriers to self-employment. An important aspect of the RGE was the context within which the motivation and fragile aspiration to self-employment developed. An environment that supported the self-employment decision for the RGE was an intricate relationship of many factors, such as their background characteristics, their family environment, the education system and the availability of support.

Each RGE in this research displayed varying degrees of general entrepreneurial characteristics. For all co-researchers their family environment, to some extent, developed entrepreneurial characteristics within them. The main motivation that led them to the eventual decision to become self-employed was their universal passion, and dedication, to a particular domain of expertise. This extreme focus resulted in a perceived lack of career opportunities in their sectors (MRGE1, MRGE2 and MRGE3), and the desire for freedom to pursue their goals (FRGE1, FRGE2, MRGE2 and MRGE3). The motivation to follow their passion had far reaching implications for the future of the RGEs' businesses. Motivation affected their growth orientation, the structure of their business, customer relationships, as well as their eventual satisfaction with being self-employed. It was found that the development of the RGEs' passions occurred within their family and education environment, as they were able to explore their interests.

In contrast to previous research by McLarty (2000), the RGEs in this research displayed realistic expectations with regard to the earning potential of self-employment. This resulted in their ability to work hard for an initial low return, especially during the initial start-up phase. Actualising their aspirations to become self-employed and following their interests resulted in a sense of achievement and satisfaction, especially with regard to acquiring customers.

The skills and characteristics presented by the co-researchers, such as drive to succeed, creativity and intelligence were consistent with the skills purported by Timmons et al. (1985) as not being learnable. Since the other skills needed to become self-employed were identified as being learnable, the RGE is vulnerable to their surrounding environment to provide these skills.

The role of experience in relation to RGE start-ups
This research concurs with Reuber and Fischer (1999) and Jo and Lee (1996) that there is no direct link between a founder's experience and the performance of a new venture. The RGEs perceived their lack of professional experience as having little impact on their self-employment process and focussed more on being able to learn quickly from the environment, acquiring experience that way, and

maximising their previous experiences. However, as Timmons et al. (1985) noted, lack of practical experience can render the entrepreneur vulnerable as external factors are influential in shaping the ability of the entrepreneur to be successful.

Consistent with Reuber and Fischer (1999) practitioners emphasised the importance of founder experience when assessing businesses for support. The discrepancy in perceptions of experience between the RGEs and the practitioners meant that the RGEs had to be particularly resourceful and persevere more than others in order to acquire support. The key informants in the RGEs' environment perceived individuals that become self-employed without experience as enigmatic individuals who *'can do it on their own'* and thus don't need their support. The difficulty in acquiring support, due to the emphasis on founder experience, results in an indirect relationship between RGEs' experience and business success.

Education and the RGE

Education was an important external factor for the RGE as there was a short interim period between leaving the education system and becoming self-employed. Three of the co-researchers became self-employed whilst still at university. All co-researchers displayed a low propensity to risk. However, in contrast to Brenner et al. (1991) they were not risk-seeking, but rather perceived low risk due to the education environment they were coming from because as recent graduates they felt they had little to risk. This points to the potential of the education system to foster entrepreneurship.

This research concurred with Timmons et al. (1985) that certain entrepreneurial skills and behaviours could be nurtured, developed and acquired. The education system impacted on the RGEs not only through creating expertise but fostering confidence and giving the RGEs credibility in the domain of their self-employment. The results of this research found that a university can be viewed as an incubation organisation, as outlined by Cooper (1981). The university can equip the RGE with skills and knowledge, industry contacts, an environment conducive to finding business partners and the geographic location of the new venture.

The key informants also perceived certain aspects of experience could be acquired without attaining professional work experience if

the correct education was provided. The key enterprise agency informants felt experience should be taught through the education system. However, the key education informants, although they acknowledged the importance of fostering an entrepreneurship culture felt they were constrained in doing so. All key informants perceived entrepreneurship education to be less relevant to their discipline and taking responsibility for this type of education beyond their capability.

Start-up support for RGEs
All the co-researchers experienced issues in acquiring support due to certain selection criteria. The main repercussion of this lack of support was the availability of little start-up capital. This had long-term effects on their business growth. The provision of financial support was not the only form of support needed. Business advice and encouragement were also important forms of support required by the RGEs.

In order to overcome the lack of support, one co-researcher (MRGE2) acquired an experienced partner. However, this did not provide the support he needed and so the partnership was dissolved. Another co-researcher (MRGE3) also believed an experienced partner would compensate for the lack of support but could not identify a suitable one. The three most successful co-researchers persevered with their businesses and ensured they acquired support from enterprise agencies.

If an 'entrepreneurial society' is to be fostered in Ireland then public policy should take the RGE's important role into account. Thus the criteria for selection of enterprises for support used by state agencies should emphasise the founder's motivation, perseverance and focus, rather than their prior experience alone.

In line with the requirements of the emerging 'entrepreneurial society' this research concludes that there is a need to shift peoples' perceptions and concepts. This entrepreneurial shift has implications for the education system and public policy. The RGE is vulnerable to the external environment, in particular during the interim period between entrepreneurial aspiration and actually becoming self-employed. This research recommends a champion of entrepreneurship for recent graduates to provide consistent advice, support and representation at a national level.

FUTURE RESEARCH

The major limitations of this research were the focus on one Irish university and the small sample size. Further research on the other third level institutes in Ireland is necessary in order to identify the number of RGEs in Ireland and to understand the RGE on a wider scale. Further in-depth research should be undertaken to explore whether RGEs are deviants of society or leaders of the *'entrepreneurial society'*. Also a large-scale study is proposed to compare the following types of entrepreneurs: recent graduate entrepreneurs with no post-graduation experience; graduate entrepreneurs with experience; and non-graduate entrepreneurs. This research will enable a deeper understanding of the influence of education and experience on the entrepreneurial process.

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