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Statement from the Managing Editor

We are very pleased to publish the second issue of the AU Journal of Management. This issue presents articles on economics, management, and marketing, topics that are very important to any business-oriented university and thus we expect that they will be useful to many of our readers. As always, we present these articles from the perspective of an international journal, but one that has its roots planted firmly on Thai soil. This dual perspective is demonstrated especially by our articles on Human Resource Management.

Article #1 Uratsuji and Arttachariya

In the first article, Yoshimichi Uratsuji and Patricia Arttachariya, assess the ethnocentric staffing policies that Japanese multinational companies (MNCs) employ to coordinate the activities of their subsidiaries in Thailand. It focuses on the role of Japanese expatriates in these subsidiaries and assesses their performance. In the process, it offers a comprehensive evaluation of the organizational fit of the Japanese HRM practices within the current Thai business environment.

Article #2 Visitchaichan

In the second article, Somchart Visitchaichan investigates human resource management (HRM) practices in Thailand, focusing specifically on HRM's role as a strategic partner. HRM in Thailand has undergone gradual, but significant, change, with movement away from more traditional styles of HRM toward more flexible employment systems. The drive towards a more strategic role for human resources within Thai organizations stems from pressures relating to a demanding business environment, advancements in technology, changes in legislation, global expansion and an increasingly diverse workforce, as the author points out in his article.

Article #3 Titheesawad and Kijboonchoo

The third article is one that explores the effects of bundling on consumers' purchase intention by Issara Titheesawad and Thongdee Kijboonchoo. Product bundling is a common tool to increase sales and profits for the firms when they sell products. In traditional markets, because the consumer's reserve price to each product is different, adopting product bundling strategy can achieve organizational goals. Given that there are plenty of forms and varieties of product bundling, the authors believe that it is necessary to modify the product bundling strategy to meet consumer demand.

Article #4 Ngamkroeckjoti and Johri

In the fourth article, Chittipa Ngamkroeckjoti and Lalit M. Johri investigate the environmental scanning practices of medium sized finance companies after the 1997 economic crises. The authors argue that regardless of size and performance, firms must have the means to assess the external environment to maintain competitive edge.

Changing customer needs, competitive forces, and the macro economy demonstrate the importance of assessing and analyzing the external environment and has made environmental scanning essential to the strategic management process. The findings of their study hold implications for both practitioners and researchers.

Article #5 Theingi and Purchase

In the final article, Theingi and Sharon Purchase focus on the importance of SMEs in the Thai export economy. Given that more than 90% of the total number of establishments in the manufacturing sector in Thailand are SMEs, discovering how Thai SMEs operate and perform well in their export markets is of vital importance to Thai manufacturing exporters, export intermediaries, policy makers and researchers.

I thank all the authors and reviewers for their vision, hard work and dedication. The AU Journal of Management is interested in publishing articles from a wide range of disciplines. It is my hope that the Journal continues to expand its local and international boundaries, and that it can further broaden its range of functional areas to include more articles on strategic management, supply chain and logistics, product design, and so on. I look forward to receiving your contributions.

Patricia Arttachariya, Ph.D.
Managing Editor

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AN EXAMINATION OF HUMAN RESOURCE MANAGEMENT PRACTICES BY JAPANESE EXPATRIATE MANAGERS AND THEIR IMPACT ON JOB SATISFACTION OF EMPLOYEES OF MATSUI (ASIA) CO., LTD.

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Abstract

This paper explored the job satisfaction of employees of Matsui (Asia) Co., Ltd. (MAC), a foreign subsidiary of Matsui Mfg. Co., Ltd., which employs an ethnocentric staffing policy. A survey was used to assess employees' perceptions toward MAC's management policies in general and toward Japanese expatriate managers on four dimensions of management skill. Job satisfaction was assessed in terms of the four dimensions of Herzberg's Motivation-Hygiene theory. Demographic attributes also were assessed. Attitudes toward MAC's ethnocentric staffing policy also were explored through an open-ended question and a focus group.

Results indicated that respondents held both positive and negative attitudes toward management, but the perception that MAC has an ethnocentric staffing policy is more strongly associated with positive attitudes. Job satisfaction was most clearly related to the perception that work is challenging and that management is flexible.

Introduction

HRM strategies of foreign subsidiaries of multinational companies (MNCs) can be discussed in terms of Perlmutter's tripartite model, which divides strategy types into ethnocentric, polycentric, and geocentric (Perlmutter 1969; Heenan and Perlmutter 1979; Adler and Ghadar 1990; Tung and Punnett 1993). The practice of managing a subsidiary predominantly with parent country nationals and following parent country management practices has been termed the ethnocentric approach (Dowling, Welch, and Schuler, 1998). The benefits are that it promotes transfer of core competence developed by the parent companies and overcomes deficiencies in management practices in host countries.

The drawback, however, is that it may tend to exaggerate the expatriate's own perception of cultural superiority, which leads to a bias in judging the behavior of other cultures. Banai (1992, 1993) noted that, by definition, ethnocentric policy blocks the promotion of local employees to management positions at home and at headquarters. The result is a lack of comparable training and compensation for host country nationals relative to parent country employees. This is a discrete

form of discrimination (Banai, 1993) that is justified within a decision-making structure that values productivity outcomes over the possible "sacrifices" that must be made along the way to achieve them. Ethnocentrism also tends to reinforce stereotypes that characterize the relative abilities of parent country and host country workers, sustaining an in-group/out-group categorization that actually works to justify discriminating policies long-term (Banai, 1992).

The ethnocentric policy may well be justifiable if it provides the benefits of technical transfer to generate competitive advantage and of consistent management of the company. However, if the blockage of promotion opportunities and "cultural myopia" of the expatriate managers outweigh those benefits, local employees may not be happy with the staffing policy and may have low job satisfaction.

Empirical studies show that Japanese MNCs tend to place a large number of Japanese expatriate managers in their overseas companies (Hanami and Blanpain, 1993; Kono, 1984) although they tend to lack organizational preparation in cross-cultural adaptation, particularly as regards Asian nations. Lawler, Siengthai, and Atmiyanandana (1998) argued that the domination

by expatriates of key positions in subsidiaries in Thailand is still very much in evidence. Due to the shared aspects of East Asian religious cultural heritage (Fukuda, 1987; Fukuda and Chu, 1994), Japanese expatriates may not be so sensitive to the cultural distance between Japan and other Asian nations as they are to that separating Japan from western nations.

Because the Japanese are socialized to be part of the shared fate of the company (Dambman, 1986), they are committed to the parent company and less likely to have a sense of shared fate with host country nationals. For example, while American expatriate managers show a dual pattern of organizational commitment to both the parent company and local work units (Gregerson, 1992), Japanese managers demonstrate a single, global pattern of commitment directed to the parent company (Gregerson and Black, 1996). These reasons may explain why Japanese expatriates tend to be less concerned with acquiring cross-cultural adaptability.

This paper presents the results of a study on attitudes toward ethnocentric policies and the effect of such a policy on the job satisfaction of host country nationals (HCNs). The study was conducted in Matsui (Asia) Co., Ltd. (MAC), a Japanese subsidiary company manufacturing plastic-processing machinery in Thailand that has taken an ethnocentric staffing policy for over 16 years since it was established in Thailand.

Conceptual Framework

This paper explores a conceptual model which establishes that an ethnocentric staffing policy often blocks the promotion of the HCNs to management positions and that ethnocentrism often leads to the "cultural myopia" of the expatriate managers, while it theoretically helps transfer core competencies of parent companies. This conceptual framework is explored through two main sets of analyses: (1) examination of local employees' attitudes concerning MAC management policy, to determine the degree to which they consider it ethnocentric or Japanese-oriented; (2) examination of local employees' judgments regarding expatriate manager attributes that are relevant to ethnocentric management and whether these judgments are directly related to job satisfaction.

Dependent Variables: Job Satisfaction

Herzberg's Two-Factor theory (Herzberg, Mausner, and Synderman, 1959) is one of the most distinguished models for identifying the causes of job satisfaction and job dissatisfaction. Herzberg identified

five determinants of job satisfaction (Achievement, Recognition, Responsibility, Opportunities for personal growth, and Advancement), called *motivator needs*, which are associated with the actual work itself and how challenging it is. Job facets such as interesting work, autonomy on the job, and responsibility are factors that satisfy the motivator needs. He also identified the major causes of job dissatisfaction (Company policy, Supervision, Salary, Interpersonal relations, and Working conditions) as *hygiene needs* and argued that offering more *hygiene needs* is not the best way to strengthen motivation since they only placate dissatisfaction of employees.

The two types of motivator need that were expected to be most affected by an ethnocentric staffing policy (advancement and personal growth) and overall job satisfaction were chosen as dependent variables. In addition to the two types of motivator need, three types of hygiene need (salary, company policy, and job security) were assessed to give a more comprehensive picture of overall job satisfaction and perceptions of the staffing policy.

Independent Variables

As indicated above, the ethnocentric staffing policy often blocks the promotion of local staff and brings lack of local adaptation of expatriates, although it may help transfer core competencies of the parent companies. Therefore, the main set of predictors were employees' attitudes toward four categories of manager attributes addressing those issues: Skill Competence, Promotional Opportunity, Local Adaptation, and Communication Skill. *Skill Competence* is the level of technical expertise and cultural, relationship, and political skills exhibited by expatriate managers. *Promotion Opportunity* refers to the degree to which expatriate managers offer HCNs opportunities for promotion. *Local Adaptation* is the degree to which expatriate managers fit in with local culture and labor market considerations and fulfill legal requirements. *Communication Skill* is expatriate managers' competence in communicating with HCNs. Managers in an ethnocentrically managed company should exhibit lower levels of Promotion Opportunity, Local Adaptation, and Communication Skill than managers in companies that are not ethnocentric. Skill Competence may not differ between ethnocentric and other companies, but the possibility of transferring skills is one of the potential benefits of ethnocentric management, so this attribute was assessed as well.

Methods

The study used a questionnaire methodology. Since the target population is not large (N = 85) and is easily measured, a complete *census*, rather than a random sample, was selected as the survey technique.

Questionnaire

The questionnaire was prepared in the Thai language. Attitudes toward MAC management policy were assessed with seven questions. Attitudes toward expatriate manager attributes (Skill Competence, Promotion opportunity, Local Adaptation, and Communication Skill) were assessed with five to eight questions for each group. Each facet of job satisfaction was assessed with two items. The above questions used a five-point Likert-type response scale, with anchors of 1 = strongly disagree and 5 = strongly agree.

Qualitative Analyses

A single open-ended question asking for any comments and suggestions was included to supplement the scaled-response items. In addition, a focus group was held with eight MAC employees to examine the following issues: (1) Is the staffing policy taken by Matsui headquarters/MAC perceived as an ethnocentric approach or not? (2) If it is so perceived, what are the perceived advantages and disadvantages of the policy or behavior? (3) What should the policy be in the future?

Hypotheses

All facets of job satisfaction were hypothesized to be positively related to each of the four categories of manager attributes, that is, to the degree to which managers were seen to have skill competence, to provide promotion opportunities, to exhibit local adaptation, and to have communication skills.

Data Reduction

Each category of attributes regarding Japanese expatriate managers was assessed with five to eight items. Therefore, each hypothesis concerning the relationship between perceptions of managers and job satisfaction could conceivably be tested by up to 16 correlations (8 independent variables and 2 dependent variables). To minimize the number of analyses, each hypothesis was tested using the single item that best represented each attribute category: one each representing Skill Competence, Promotion Opportunity, Local Adaptation, and Communication Skill. The items representing each group were selected by performing a factor analysis on

all the questions for each category. In each factor analysis, a single-factor solution was specified. The item that loaded highest on each factor was selected as the “primary question” for each group, to be used in testing the hypotheses. The following primary questions were selected in this manner (the factor loading for each item is shown in parentheses):

- *Skill Competence*: Skill competencies of Japanese expatriates managers are high. (Loading: 0.746)
- *Promotional Opportunities*: Japanese expatriates have negative attitudes toward empowerment (i.e., they are not willing to hand over authority to Thai employees) (Loading: 0.790)
- *Local Adaptation*: Generally, Japanese expatriate managers in MAC seem to understand the personal traits of Thai people well (Loading: 0.826).
- *Communication Skill*: Japanese expatriates are capable of explaining things sufficiently in the Thai language or English (Loading: -0.626).

This reduced the number of tests of each hypothesis to two, one for each of the dependent variables assessing each facet of job satisfaction. A hypothesis was considered fully supported if both tests showed statistically significant results, partially supported if only one test was significant, and unsupported if neither test was significant.

Method of Analysis

The *Pearson correlation coefficient* was used to investigate the relationships among the perceptions toward manager attributes and the dependent variables.

Results

Attitudes toward Ethnocentric Staffing Policy

Table 1 shows responses to the seven questions about MAC management policy. Nearly two-thirds of MAC employees agreed that Japanese expatriates fill key management positions (65.5%), that the cost of hiring expatriate managers is high (65.5%), and that there is no opportunity to participate in making significant decisions (64.7%). Nevertheless, a large majority agreed that job assignments were challenging (59.9%) and they overwhelmingly believed that Japanese expatriates are necessary in MAC’s organization (82.2%). Similarly, while half thought that MAC’s corporate culture is Japanese-oriented (50.0%), a large percentage (63.5%) indicated that MAC’s management was flexible. These findings present no clear, unitary perception regarding MAC’s ethnocentric management practices.

Table 1 MAC’s Ethnocentric Staffing Policy and Behavior

Question	Completely disagree		Moderately disagree		Neutral		Moderately agree		Completely agree	
	N	%	N	%	N	%	N	%	N	%
Key management positions are filled by Japanese	0	00.0	16	19.0	13	15.5	29	34.5	26	31.0
MAC is Japanese-oriented	2	02.4	22	26.2	18	21.4	29	34.5	13	15.5
MAC is flexible	10	11.8	14	16.5	7	8.2	25	29.4	29	34.1
Cost of expats is high	2	2.4	1	1.2	26	31.0	21	25.0	34	40.5
Job is challenging	5	5.9	8	9.4	21	24.7	39	45.8	12	14.1
No participation in decision making	6	7.1	14	16.5	10	11.8	28	32.9	27	31.8
Expats are necessary	1	1.2	5	6.0	9	10.7	35	41.7	34	40.5

Note: Between 98.8% and 100% of participantes repoded to the above items.

Attitudes toward Expatriate Managers

Table 2 shows the responses to the primary questions assessing attitudes toward expatriate managers. Well over half (60.3%) of the respondents moderately or completely agreed that skill competencies of expatriate managers are high. However, just more than one-quarter (28.2%) agreed that Japanese understand Thais (Local

Adaptation), compared to 43.8% who disagreed with this proposition. In contrast, there were similar levels of agreement and disagreement with the statements representing attitudes toward Promotional Opportunity and Communication Skill, indicating no general trend of agreement or disagreement for these attributes.

Table 2 Summary of the responses to the four primary items

Category: Question	Completely disagree		Moderately disagree		Neutral		Moderately agree		Completely agree	
	N	%	N	%	N	%	N	%	N	%
Skill Competence: Skill competencies are high	2	2.4	15	18.1	16	19.3	35	42.2	15	18.1
Promotion Opportunity: Japanese are negative toward empowerment	11	13.3	24	28.9	15	18.1	22	26.5	11	13.3
Local Adaptation: Japanese understand Thai people well	17	20.2	20	23.8	23	27.4	20	23.8	4	4.8
Communication Skill: Japanese are capable of explaining in Thai or English	9	10.7	25	29.8	13	15.5	31	36.9	6	7.1

Relationship between Attitudes toward Managers and Job Satisfaction

Table 3 shows the correlations between the items assessing attitudes toward expatriate managers and the job satisfaction dependent variables. Of the 20 hypotheses concerning the relationship between job satisfaction components and perceptions regarding Japanese

expatriates, 10 were fully or partially supported. The strongest support was found for hypotheses relating to Local Adaptation. The hypothesized relationship between Local Adaptation and job satisfaction for personal growth, salary, and company policy were fully supported; the relationship with advancement was partially supported; only the relationship with job security was not supported.

Table 3 Correlations (*r*) between manager attributes and job satisfaction

<i>Job Satisfaction Facets</i>	Manager Attributes			
	Skill Competence	Promotion Opportunity	Local Adaptation	Communication Skill
Satisfied with advancement	.147	-.122	.148	.085
Satisfied with advancement policy	.270*	-.057	.248*	.165
Hurting my career progress	.084	.052	.260*	.213
Satisfied with learning skills	.345*	.016	.236*	.213
Satisfied with pay	.170	-.003	.251*	.114
No relation of salary and performance	-.139	-.096	-.316*	-.240*
MAC’s policy is understandable	.379*	-.090	.225*	.149
No program to attract capable staff	-.114	-.152	-.247*	.000
Management is consistent	.300*	-.143	.169	.216*
Employment is secure	.100	-.092	.114	-.030
Overall satisfaction	.092	-.121	.200	.035

*Statistically significant at *p* ≤ .05.

The sample size was between 81 and 84, inclusive, for all correlations.

The hypothesized relationships for Skill Competence were partially supported for four job satisfaction facets: advancement, personal growth, company policy, and job security. For Communication Skill, the hypotheses relating to salary and job security were partially supported. Interestingly, the correlations for both items relating to personal growth just missed being statistically significant. However, since the performance of multiple significance tests dictates the need to be conservative, the hypothesis regarding the effect of Communication

Skill on job satisfaction for personal growth is considered not to have been supported. No support was found for hypotheses relating to Promotion Opportunity.

Qualitative Analyses: Open-Ended Question and Focus Group

Request for increase in basic salary was the dominant comment (42 comments). Other common comments were complaints about lack of leadership and skill competence (22), request for increase in fringe

benefits (20), and lack of management skill or morale (15). It must be noted that although lack of leadership and skill competence was mentioned frequently, the objects of these comments were directed not only toward Japanese expatriate managers but also Thai staff.

Although the focus group did not find explicit perceptions toward the ethnocentric staffing policy, some members expressed dissatisfaction toward slow advancement. Some respondents admitted that opportunities for advancement and individual performance are related, whereas the advancement policy imposes too long a wait on staff to become a manager or director. Skill transfers by expatriate managers are perceived to be lacking, although local employees expect them. Some respondents were confident that they could fulfill their responsibilities without expatriate managers, whereas some justified the existence of Japanese managers in view of technical competence and sales capabilities to retain patronage from loyal customers or Japanese purchasers.

Discussion and Conclusion

This paper explores a conceptual model that the ethnocentric staffing policy often blocks the promotion of the HCNs to management positions and that ethnocentrism often leads to the "cultural myopia" of the expatriate managers, while it theoretically helps transfer core competencies of parent companies. Despite the expectation that MAC employees are more or less dissatisfied with the de facto ethnocentric staffing policy implemented by the subsidiary and its headquarters, no distinct dissatisfaction was found with the policy itself and the conceivable drawback such as blockage of the promotion of the HCNs. Overall, while these data revealed that most respondent believed that top MAC management positions are filled with high-cost Japanese that do not include Thai managers in decision making, they also think that the work is challenging and that MAC management has flexibility in adopting suggestions. From these findings, the de facto ethnocentric staffing policy of the MAC may not be doing critical harm to the employees in the light of Herzberg's motivator needs (opportunities for personal growth and advancement).

However, as it became evident in the focus group, the MAC employees are not satisfied with the degree of skill transfer. This may imply a sort of ethnocentric behavior of Japanese managers, reflecting that they may somewhat neglect HCNs, based on the underlying belief that their superior technical skill cannot easily be transferred, and that they feel more comfortable in their

do-it-themselves attitude rather than practicing coaching management.

The correlational analyses revealed the Local Adaptation of Japanese expatriate managers had the greatest impact on locals' job satisfaction, affecting all facets except job security. This may suggest that, to the degree that HCNs perceived expatriate managers as having attempted to adapt to the local culture, they trusted them to promote their interests at work. Skill Competence and Communication Skill also were related somewhat to job satisfaction. These findings indicate that Japanese headquarters should attempt to support these qualities in their expatriate managers. Interestingly, the degree to which expatriate managers were seen as providing promotion opportunities was not related to job satisfaction.

Based on these findings, it is suggested that the expatriate managers of MAC review mentor-protégé relations and reinforce training programs in MAC to promote technical transfer. Although the skill competence of Japanese expatriates was perceived as high, it remains one of headquarters' responsibilities to examine the technical level of expatriates and make sure that these expatriates' levels are appropriate to meet the requirements of the subsidiary.

Limitations and Recommendations for Future Study

Three main limitations should be mentioned. Since this paper focused on a single specific company, general perceptions of Thais toward Japanese people and subsidiaries could not be known. Thus, the findings of the study may not be generalizable to other Japanese subsidiaries in Thailand.

Secondly, the mean responses to the questions about ethnocentric management practices did not suggest strong feelings one way or the other and, moreover, it was difficult to assess to what extent the advantages of ethnocentric management, such as skill transfers generated under the policy, outweigh its disadvantages, such as blocking the promotion opportunity of local staff.

Thirdly, whereas this study was undertaken based on the assumption that staff localization is necessary, there are many considerations affecting whether or not the ethnocentric policy should be followed. The ethnocentric staffing policies make sense under conditions in which placing parent country nationals in management positions abroad will lead to valued outcomes, while placing host country nationals in those positions will lead to negatively valued outcomes. Further, Rosenzweig and Nohria (1994) argued that choice of the policy is often dictated

by other factors, such as restrictions and bargaining power of the host country, degree and nature of technology transfer, country of origin effect, and industry and market influences on the relative need for local responsiveness versus standardization. Nevertheless, this study argues the policy only from the aspects of perceptions from employees and job satisfaction.

Therefore, three recommendations are made for future study: (1) Ethnocentric, Polycentric and Geocentric policies should be viewed from broader aspects in the light of desirability, practicability and rationality; (2) more solid definitions for the three policies should be made; and (3) further discussion is required in regard to the ethical rationale of those policies.

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STRATEGIC HUMAN RESOURCE MANAGEMENT IN THAILAND

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Abstract

The purpose of this article is to review relevant literature and discussion about concepts, theories, and approaches in strategic human resource management. Empirical studies of related subjects which have been carried out overseas and in Thailand are also explored in this article. The author concludes by arguing that the future of Thai organizations depends more heavily than ever before on the quality of the management of its people. To equip the Thai HR professionals and business practitioners with the human resources skills needed to undertake value-added activities and to demonstrate that these business and strategic activities can successfully be developed and implemented, the author strongly urges that universities and graduate institutes in Thailand will need competent faculties and experienced researchers with a wide variety of human resources and business skills who are dedicated to develop academic programs and carry out HRM research that will respond to the needs of the future organizations. Although substantial advances in Human Resource Management research has been made during the past ten years, considerable work still remains to be done.

Introduction

In Thailand, attention during the early 2000s was paid to the development of human resource strategies and policies, which served to promote the achievement of organizational objectives. However, numerous studies indicate that much of organizational life and interaction is not directly related to achievement of organizational objectives. This discrepancy between formal objectives and behavior derives from a number of sources including the meanings people bring to organizational life (Silverman, 1979: 141), the operation of coalitions of competing groups often with interests different from those of stated organizational objectives, (Dalton 1950, 1959; Pettigrew 1973; Gowler and Legge 1975), the competing social interests and power relations of groups in the social structure (Salaman 1981; Purcell and Ahlstrand, 1994), the nature of the process of decision-making which is sometimes not a rational exercise of wisdom, judgment and expertise, but one in which managers act out of habit or instinct (Marshall and Stewart, 1981: 274; Anthony, 1977: 62; Wrinkler, 1974: 210; Simon, 1960: 28) and also the nature of the implementation of policy involves the creation and maintenance of informal, social networks based on doing favors, nurturing professional reputations

and controlling resources and information. (Kotter, 1996: 69-70; Whetten and Cameron, 2002 and Yukl, 2002)

From the literature reviews, this suggests that although a strategic approach to human resource management may have initially been explored in an organization, in practice, organizational dynamics might have limited its application. There are many obvious reasons why many organizations fail to develop and implement strategic approaches to human resource management. One of the conventional beliefs is that if line managers are not involved in setting the objectives and strategies, the plans then may not be effectively implemented. In addition, the development of planning systems in many organizations, which are typically bottom up, requires the involvement of too many people from different departments and levels in the whole organization. To make the concept work, what is critical is an understanding of the fit with the level of environmental turbulence, whether the culture of the organization could tolerate such an approach, and the fact that commitment alone is not enough to implement strategy.

Theoretical Review

Although, a strategic approach to Human Resource Management has evolved nearly 20 years ago with an article entitled "Human Resources

Management: A Strategic Perspective” by Devanna, Fombrun and Tichy in 1981, it was only during the past 10 years that much of the writing and research on a strategic approach to Human Resource Management has attained growing importance among academic scholars and business practitioners. In 1996, both the *Academic of Management Journal* and *Industrial Relations* devoted special issues to the topic of HRM practices and organizational performance and in 1997, the *International Journal of Human Resource Management* published a special issue on Strategic Approach to Human Resource Management and organizational performance (Wright, 1998: 187-191). Since then, the popularity of the study and research on the topic of Strategic Human Resource Management implied the strong belief that sound people management is a truly strategic competence of most organizations. From a strategic point of view, human resource management has two important responsibilities: the functional responsibility of the HR department and the responsibility of the entire management of an organization. This means that effective human resource management is a strategic imperative for a growing number of organizations and it is important for human resources professionals and line managers to clearly understand the relationship and critical link between human resource management and corporate strategy.

The human resource management practices of the past are no longer appropriate for today's complexity as organizations are now realizing that in order to staff many of the new organizational forms, they need a shifting array of workforces, including a core workforce, contractors, temporary and part-time employees (Handy, 1990; Rousseau and Wade-Benzoni, 1995; Hall and Mirvis, 1995; Wayne, 1997; and Greer, 2001). With the current unpredictable environmental changes and continued dynamic competition, the human resource function will have to reshape itself, populate and redesign itself differently, become a true strategic partner of the business organization, and provide value added contribution to the organization as a whole. These massive new design trends in organizations pose challenges and opportunities for the development of the new human resource function. Mohrman and Lawler III (1998: 214-215) have summarized the challenges and opportunities as follows:

1. Human resources practices will have to be redesigned to fit with the new way of organizing and new business requirements.

2. Organizations will have to find their way to become integrally involved in thinking through organizational design and human resource practices and issues in a systematic way.

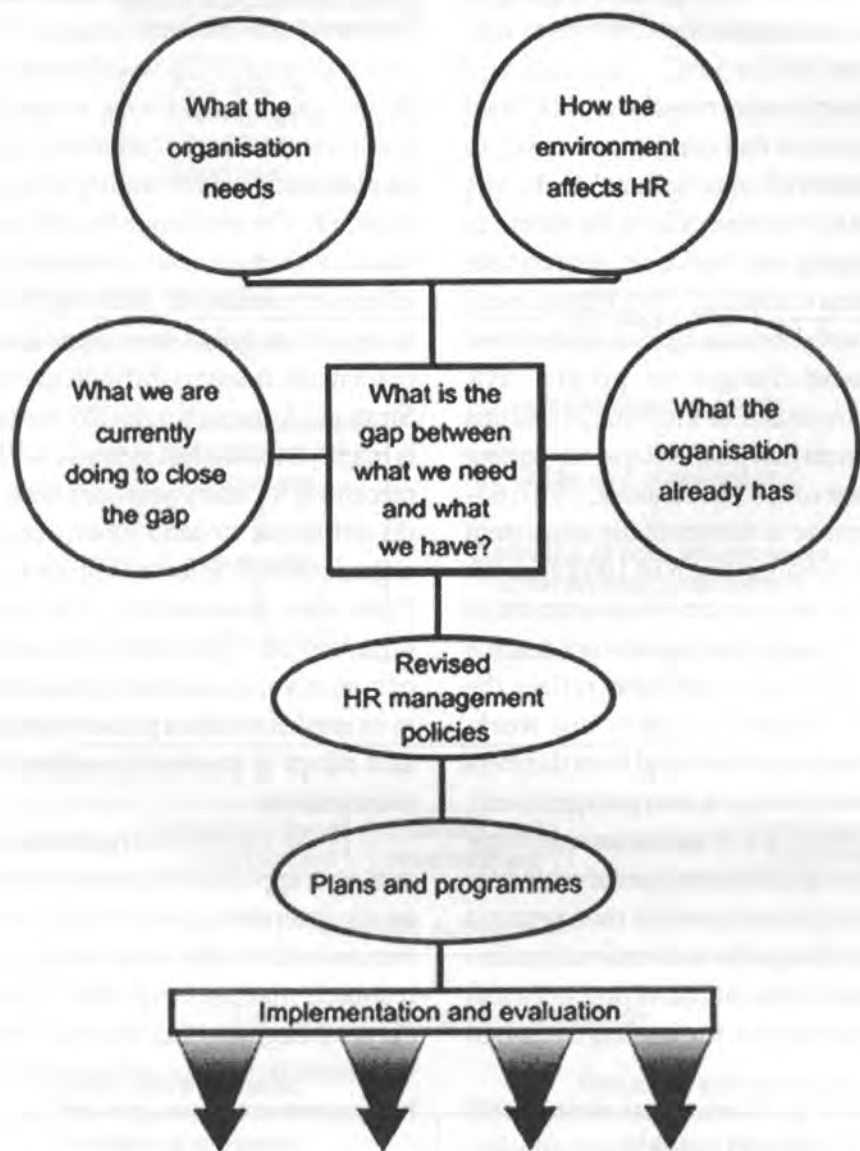
3. Human resources function will have to find its place in the new design trends in organizations. It will have to redesign itself with an eye to adding maximum value to the organization.

According to Mohrman and Lawler III, these challenges and opportunities can give rise to the new perspective of HRM. They strongly believed that HR functions can become a true business partner in the organization and can provide real value added contributions far above what this function has achieved in the past (Mohrman and Lawler III, 1998: 214-215).

The focus of human resources functions in many organizations has shifted from an administrative and auditing role to that of a strategic business partner as well as a developer of human resource systems. For human resource professionals to truly provide value added contributions, they must be able to work at multiple levels of analysis and to take a holistic view of the organization. The Human Resources function is now being blended more and more into the business management of the organization, as a full business partner bringing expertise and a specialized perspective to the process of running a business and improving organizational performance. (Mohrman and Lawler III, 1998: 223-224) Results from a research study of 130 companies undertaken by Mohrman, Lawler, and McMahan in 1996 indicated that human resource professionals now spend more time in developing human resources systems and practices and being a strategic business partner. This includes being a member of the senior management team and being involved with strategic human resources planning, organizational design, and strategic change. In order for human resource professionals to play the role of business partner, human resource professionals must possess in-depth knowledge, broad business knowledge, and change-mastery skills (Mohrman, Lawler III and McMahan, 1996: 24-26) This requires the development and adoption of strategic approaches to human resource management, reconfiguration of the human resources function, and most importantly commitment and involvement from both line managers and HR professionals.

One piece of work that provides evidence of the model of strategic approaches to human resource management is that by Lundy and Cowling (1997). Such a model, which is illustrated in Figure 1 consists of:

Figure 1 Strategic Human Resource Management



Source: Adapted from Lundy, O. and Cowling, A. 1997. **Strategic Human Resource Management**. London: International Thomson Business Press:5.

1. Both internal and external environmental analysis in which a human resource perspective is introduced into the strategic process
2. Implementation in which attention is devoted to the interpretation of strategic aims in terms of specification of philosophy, culture and resultant required human resource effectiveness criteria, which, when combined with task specific effectiveness criteria, provide the basis for the design of a coordinated set of activities such as selection and employee rewards, performance assessment and management development programs
3. Consideration of approaches to the management of change
4. Evaluation of effectiveness with emphasis on human resource outputs (Lundy and Cowling, 1997: 6).

One of the most fundamental aspects of Strategic Human Resource Management is the challenge for HR practitioners to decide where they are going to focus and bring about change which is in line with what the business needs, even if they may be some short-term costs to the function. For Strategic Human Resource Management to successfully take place in organizations, they will need skilled and motivated employees who are committed to achieving business strategies and goals. To obtain organizational synergy through effective and strategic HR processes which improve organizational functioning and performance, the organizations will have to find ways of helping employees to develop new and satisfying careers and reward them appropriately and fairly (Brockbank, 1997: 65-69)

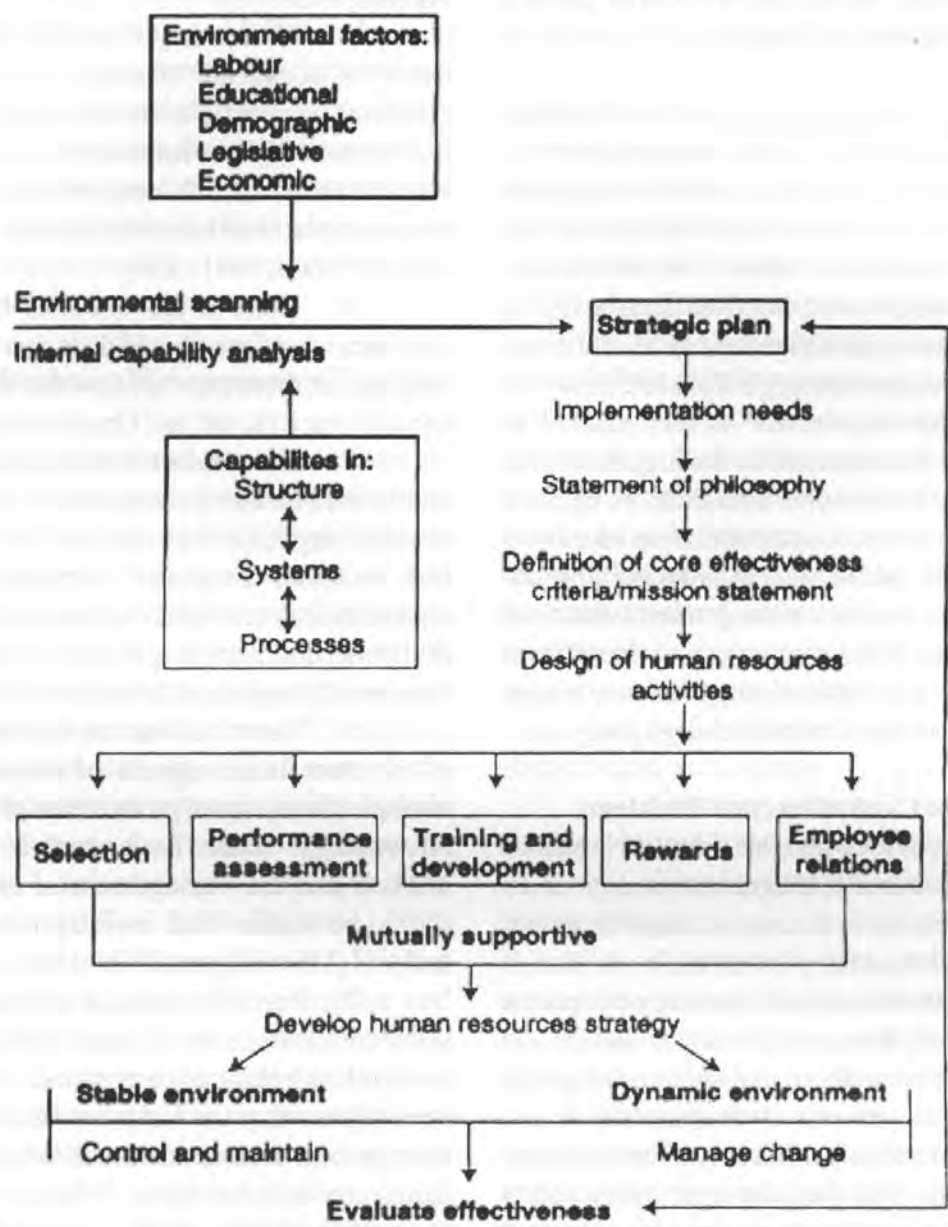
If the development and adoption of Strategic Approach to Human Resource Management is going to be taken seriously within an organization, HR has to earn a place at the table, not on the table. The role and accountability of HR practitioners must be repositioned to reflect a new strategic view that employees are key to the success and achievement of organizational goals. HR practitioners must learn to be aware of how the nature of their business is changing and make an appropriate assessment of the business challenge. They must closely and strategically work with line managers to understand the implications of those changes for people. HR practitioners must develop business knowledge and this requires working in business unit partnerships, supporting managers as the local face of HR (Brockbank, 1997: 65-66). No doubt, this premise is conceptually consistent with the arguments by Wedchayanon in 1995 that the process of change in human resource management in Thailand must not only change the type of work and the organizational structure, but it must also reflect the knowledge and skills required to carry out work. Although these arguments were developed from different cultural contexts (Western Versus Asian perspectives), nevertheless, both Brockbank and Wedchayanon strongly share a similar belief that a shift from traditional personnel management to strategic human resource management would reflect the need to change the conventional pattern of thoughts and generate different HRM practices and philosophy and approaches to the management of employees at work.

One of the main problems associated with Strategic Approach to HRM lies in its HR competencies.

In addition to developing a strategic agenda, HR practitioners must implement the strategy in order to deliver organizational change (through systems and cultural initiatives) which support the business in its goals. As we all know, organizations tend to have complex political dynamics, which often make the implementation of Strategic Approach to HRM very difficult. The challenge for HR practitioners is to make sure that short-term business needs and HR processes are effectively managed. Although the need and importance to reposition HRM from transactional to value added is evidenced, it seems difficult to develop and implement Strategic Approach to HRM in many work places. This is mainly because HR systems have often been developed piecemeal for many years and very often different systems do not speak to each other, leading to duplication of organizational efforts (Ulrich et al., 1995: 473-495). From this perspective, it is more likely for many organizations with complicated human resource processes or systems and complex organizational structures to fail in its implementation phase when they attempt to develop and adopt a strategic approach to human resource management.

To successfully develop and implement a strategic approach to human resource management, it seems interesting to consider an eight step conceptual framework for planning strategic approach to human resource management developed by Hussey (2002). Figure 2 suggests that there is a sequence of steps which, with modification, can be applied to various aspects of human resource management activity.

Figure 2 A Conceptual Framework for Planning Strategic Approach to Human Resource Management.



Source: Adapted from Hussey, D. 2002. **Business Driven HRM: A Best Practice Blueprint**. West Sussex: John Wiley & Sons: 50.

What is important in the above figure is that it helps us understand the basic relationship between the importance of organization objectives and needs and the development and implementation of HRM policies and programs (Hussey, 2002: 49-52)

Another critical research based study on the subject is that by Ulrich, Huselid and Becker (2001). They have conceptually identified and developed a seven-step model for formalizing and implementing HR's strategic role for today's organizations. This conceptual model suggests how organizations could integrate human resources into a business-performance measurement systems and identify the link between human resource

and the organization's strategy implementation. To summarize the importance and merit of this conceptual model, senior management and human resource professionals should regularly review the HR deliverables they have defined in order to ensure that these drivers and enablers remain strategically significant. This is logically true for HR enablers that have direct links to specific business objectives. Experienced HR professionals should understand when an enabler is no longer playing a strategic role and needs to be replaced. (Becker, Huselid, and Ulrich, 2001: 36-52) For strategic approach to human resource management to take place in an organizational context, organizations must develop

current human resource professionals who possess this new set of skills in the future, and must fully provide supportive environments and management tools on a continuous basis.

Furthermore, top management executives must strongly believe and show that employees are key to the success and achievement of corporate objectives and must strategically be involved with development and implementation processes of these human resource policies. Senior management executives must be highly committed in delivering human resource initiatives and organizational efforts, and strongly believe and show that the human resource department is very critical to contributing to the achievement of the organizational goals and improved business performance. To be more specific, the human resource department must take a new strategic and value-added role in working and coordinating closely with senior management executives and other members of business units and department heads in developing and implementing these new human resource policies and organizational change programs.

Current Research: Limitations and Problems

Research provides insights into the issues of strategic human resource management, and gives an impression of the interest in the approach and the extent to which it is executed and implemented. In addition, it provides evidence that is useful in shaping perceptions of the general state of affairs, and stimulates thought and conceptual development about the issues of strategic human resource management. Overseas research and investigation reveal a totally different picture to that of Thailand. Over the past two decades, many social scientists and scholars in Western countries have devoted their attention to the study of theory and practice of a strategic approach to human resource management. However much of the writing on strategy-human resource management linkages has been developed at an abstract and highly generalized level. There are a number of limitations and problems with current literature and research investigation. Purcell and Ahlstrand (1994: 36-37) have summarized the limitations and problems as follows:

1. The specified links between strategic planning and human resource management have been too theoretical and abstract. Such generalized models thus provide little for the practitioner at a more detailed operational level.

2. The few prescriptions which have been identified have been found to have limited validity when

subject to careful empirical testing (Dyer, 1984: 160; Nkomo, 1988: 70).

3. While many of the links have been specified between corporate strategy and human resource functions, very little is known about the precise nature and content of these interactions. In fact, the specific steps required to link corporate strategy and human resources practices have often been neglected from such studies (Grant, 1991: 359).

4. There is too much of the writing which describes what firms should do to accomplish this critical linking, yet there are very few that describe how to go about doing it (Kydd and Oppenheim, 1990: 145).

5. The research into links between corporate and human resource management strategy assumes a standard organizational design configuration and does not imagine linkages varying with different organizational structures. In reality, such links in a multi-divisional company might be different from those in a functionally organized company for instance.

6. There has been an inadequate theorization of the more basic aspects of corporate strategy, for example, the nature of product markets and their links to HR strategy. Basic issues such as the link between markets and the management of employee relations should be studied and investigated in more detailed analysis (Marchington, 1990: 111).

7. Purcell and Ahlstrand have argued that the literature has been too optimistic about the possibilities for the close linking of corporate and HR strategy. It has been argued that the links between human resources activities and business need tend to be the exception even during non-turbulent times. When such links occur, they are usually driven by the organization's efforts to formulate and implement a particular strategy (Schuler, 1992: 20-21).

8. Finally, the current literature on strategic approach to human resource management tends to be based on good management practices and a rational model of both man and organization. Such a model ignores the impact and significance of the power and control perspective in influencing corporate strategy. It seems logical to argue that power of both politics and culture are also critical factors shaping and possibly subverting such strategy (Purcell and Ahlstrand, 1994: 36-37).

Furthermore, human resource management researches focused almost exclusively on the objectives, activities and behavior of labor organizations, and on the structure of human resource departments and units. By

contrast, management's role in personnel and human resource matters was largely neglected. Despite the role that management played in defining and shaping the form of the employment relationship, there was little systematic research as to their attitudes and behavior. Although this imbalance is now being corrected, the level of information that exists about employees and their organizations is not matched by a corresponding body of knowledge about the functions and responsibilities of management in the personnel and human resource area.

Strategic Human Resource Management in The Thai Context

Unlike many other academic disciplines of management and social science studies, the development of the body of knowledge in the field of Strategic Human Resource Management has not been studied and researched for very long. It is only recently that people have paid much attention to the importance of the notion and academic development of strategic human resource management. Much of investigative research has during the past 20 years, been developed and carried out particularly in Southeast Asian countries (which include Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand, Vietnam, Cambodia, Laos and Myanmar). (Asma, 1992; Chew and Teo, 1991; Hofstede, 1988; Lawler, Atmiyanandana and Zaidi 1989, 1992; Pun and Taylor, 1992; Putti and Chong, 1985; Siengthai and Vadhanasindhu, 1991; Wan, Wyatt, Tseng and Chia, 1989). This implies that current roles and contributions of human resource specialists have significantly been changed and expanded in both public and private organizations.

In Southeast Asian countries, the importance of strategic human resource management has been recognized only in the past ten years. Human resource management practices and philosophy in these countries vary widely because of differences in the history, culture, social and political systems as well as the stage of the economic development of these countries. With the exception of Thailand, most countries in this part of the world were under colonial rule in the past. It is therefore common to find the influence and value of Western multi-national companies in these countries. Management practices vary considerably between different companies. The contrast becomes even more obvious when we compare the practices found in multi-national companies and local organizations (Huat and Torrington, 1998: 32-35).

In Thailand, the meaning of strategic human resource management is similar to those available in other Southeast Asian countries. Strategic Human resource management practices conceptually depend on the types of business organizations. Local and multi-national organizations in Thailand have their own styles of managing employees. Organizations, whether they are in public or private sectors in Thailand, have been traditionally influenced by the management practices and philosophy of multi-national companies from the West as well as those from other Southeast Asian countries. Nevertheless strategic human resource management philosophy and practices in Thailand have long been influenced by the Buddhist approach to life. This implies the Thai desire to keep peaceful relationships between employers and employees, the desire to be self-effacing, respectful, humble, and extremely considerate as well as the wish to avoid embarrassing other people in the working place. In essence, Buddhists have to take into account the following factors:

- Self-realization (know who you are, your strengths and weaknesses).
- Knowing others (know whom you are dealing with and how to deal with them).
- Causality (know the cause and effect of what you are doing).
- Appropriate time and place (know the appropriate time and place to deal with problems).
- Potential (know your ability and limitations) (Siengthai and Vadhanasindhu, 1991: 233-234).

Recently, the term "*strategic human resource management*" is widely used and has achieved increasing importance among multi-national organizations both in the public and private sectors in Thailand. During the past ten years, many large business organizations in Thailand, such as General Electric, Unilever and Coca-Cola have changed their basic management functions from personnel administration to strategic human resource management and development. One piece of work that concludes the process of change in human resource management in Thailand is by Wedchayanon (1995). She basically argued that

these sort of changes not only change the kinds of work and the organization structure, but also affect the knowledge and skills required to carry out work. Similar to this, a shift from the term 'personnel management' to 'human resource management' reflects the need to change the traditional pattern of thoughts and generates a

different philosophy and approach to the management of people at work (Wedchayanon, 1995: 15)

This means that the role and accountability of both human resource specialists and line managers in the organizations have to be changed to reflect a new strategic view that people are key to the success and achievement of organizational goals. To better understand the meanings of strategic human resource management, its philosophy and current practices in the Thai context, it then seems logical in this section to briefly examine the evolution and current status of the HRM researches in Thailand.

In many Thai business organizations, human resource management policies and practices develop on an ad hoc basis, with little integration of the organization's future needs. Often human resource policies and strategies are developed to solve an immediate problem, with no strategic thought to their long-term implications. Such policies and practices lock the organizations into inflexible modes of operation, leaving them unable to see that other strategies might be more appropriate. The literature and empirical studies on the adoption of the strategic approach to human resource management of organizations in Thailand have been very minimal and also limited in terms of the scope of their studies. One recent research on the integration of human resources and business strategies was conducted by Albrecht and Pagano from the University of Illinois at Chicago and Palin Phoocharoon from the National Institute of Development Administration in Bangkok. By focusing only on the study of international joint ventures (IJVs), their article provided an integrative framework based on the development of a new paradigm for strategic human resources management in multinational corporation's (MNCs) strategic alliances. Based on this study, the authors believed that there is a need for an integrated framework linking human resources, strategic planning and business objectives. The integrative framework multinational corporations (MNCs) need to shift their management direction to the international collaborative strategies, which is seen as necessary for successful globalization and research propositions to guide future research were then developed in their study. From this perspective, the conceptual model will allow multinational corporations (MNCs) to sustain their competitive advantage through IJVs by integrating human resource and strategic business planning. (Albrecht, Pagano and Phoocharoon, 1997: 4-12) While

this research article is very useful in providing a solid foundation for understanding the concept of strategic human resources management in multinational corporations, it yet focuses on only one form of strategic alliance; the study of international joint ventures. Many other human resources management research in Thailand focused on few key aspects of human resources strategy in public enterprises and descriptive surveys of human resource/personnel policies and practices. For example, Vanchai Ariyabuddhiphongs (2003) conducted a descriptive survey of personnel policies and practices on recruitment, selection, performance evaluation and training among industrial companies in Thailand. The major findings from 687 human resource managers revealed that companies rely on walk-in applicants and newspapers for recruitment, while written examination and structured interviews are used for selection. The new methods of performance evaluation, such as 360 degree and Balanced Scorecard, have yet to gain wide adoption among these industrial companies. In addition, budgeting for training expenses seems to fall into the extremes of providing a lump sum for the entire organization or depending upon requests from the supervisors. The latter method raises doubt about the control of costs as well as contents of human resource development programs. (Ariyabuddhiphongs, 2003: 1-6)

Nisada Viasuvanna (1988) conducted an analysis of recruitment and selection processes of public enterprises in Thailand. The purpose of her study was to understand and explain the relationship between the level of technology used in three public enterprises and the recruitment and selection behavior of enterprise personnel. The three public enterprises under study were the Thai Petroleum Organization (PTT), representing a high-technology enterprise, the Provincial Waterworks Authority (PWA) and the Government Lottery Office (GLO) representing medium- and low- technology enterprises respectively. Research findings revealed that there was a significant relationship between the level of technology used in the enterprise and the technological qualification of the employees. Furthermore, there was no relationship between the level of technology used in the enterprise and the universalistic characteristic in the recruitment and selection process of the enterprise, that is, the competence of applicants was judged by several means such as job-related competitive examination, interview, letters of recommendation and physical examination. Conclusions drawn from her study also indicated that the notion of personalism plays a critical role in the recruitment and selection process of all three

enterprises (Viasuvanna, 1988). Another important human resources management research in Thailand which focused on training and development strategy in public enterprises was conducted by Chindalak Vadhanasindhu in 1988. Similar to the research objectives of Viasuvanna's study yet emphasizing different aspects of human resources strategy in Thai public enterprises, Vadhanasindhu's study dealt with the problem of the Thai National Civil Service Training Institute (CSTI). Conclusions drawn from his study showed that the basic impediments to the attempts of the CSTI to improve the training and performance of civil servants are its lack of authority in a bureaucratic system characterized by relatively autonomous ministries and departments, and its limited role in training programs (Vadhanasindhu, 1988). There is no doubt that the above studies led by Thai scholars provide much fertile ground for future research on strategic human resource management in Thailand, but there seems to be an insufficient level of empirical evidence and inadequate theorization on the adoption of the strategic approach to human resource management of organizations in Thailand. From the literature reviews, this suggests that more detailed studies on the subjects of strategic approach to human resource management and its development in Thailand (both quantitative and qualitative researches) are increasingly needed and therefore should be

empirically conducted at different organizational contexts.

From this perspective, it can be envisaged that these studies would scientifically demonstrate how concepts, theories and approaches in strategic human resource management can be applied to provide solutions to organizational and human resource problems and issues in Thailand. It is strongly believed that Thailand needs competent faculties and experienced researchers with a wide variety of human resources and business skills who are dedicated to develop academic programs and carry out HRM researches that will respond to the needs of the future organizations. If we achieve an adequate level of empirical evidence and strong theorization on the development and adoption of the strategic approach to human resource management of organizations in Thailand, such studies would then reveal a number of important gaps in our understanding of the role, importance and usefulness of strategic approach to human resource management of the Thai workforce. More importantly, such studies will offer practical solutions to organizational problems currently plaguing line managers and human resource executives, thus providing much fertile ground for further research on strategic human resource management and development in Thailand.

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THE EFFECTS OF BUNDLE COMPOSITION, PRICE, FRAMING AND FAMILIARITY ON CONSUMERS' PURCHASE INTENTION

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Abstract

This paper attempts to investigate the effects of bundle composition, price level, price sensitivity, frame and familiarity on consumer's purchase intention. The bundle products under study composed of Pantene shampoo and conditioner, and Pantene shampoo and Parodontax toothpaste. A laboratory experiment was employed. Findings showed that bundle composition, price level, price sensitivity, frame and familiarity influenced purchase intention. The finding also showed that there exists an interaction effect between price levels and frames of bundling.

1. Introduction

Bundling, a sale of two or more separate products in a package (Stremersch and Tellis, 2002), is pervasive in today's market. Firms in a number of industries, such as consumer products, hotels, health clubs, theaters and sport events, have employed such a tactic to increase sales.

The idea of bundling has received attention since 1960s. Economists viewed price bundling as an alternative technique for monopoly to price discrimination. Most researchers (Stigler, 1963; Adam and Yellen, 1976; Gultinan, 1987; Schmalensee, 1984; McAfee, Mcmillan and Whinston, 1989; Venkatesh and Mahajan, 1993; Dolan and Simon, 1996) emphasized on the optimal bundling strategy to investigate how and when bundling can maximize profit. In the 1990s, when a strong focus was placed on customer relationship, bundling received more attention in the marketing literature. The focus of the studies was on customers' perspective. The studies have explored the processes employed to value overall bundles and items within a bundle (Yadav and Monroe, 1993; Yadav, 1995). These studies suggested that price bundling often can, and should, decrease price sensitivity and increase purchase likelihood.

However, in practice, not all bundles are successful. Many managers view bundling as unprofitable because it cannot attract customers (Ailawadi and Neskin,

1998). Several bundles are not appealing to the customers, especially for those who don't usually buy the products (Schultz, Robinson and Peterson, 1998).

Therefore, in order to investigate and resolve this issue, important questions should be raised on how to successfully adopt bundling strategy: what factors make customers decide to buy or not buy the bundles, what types of products should be bundled together, what price should be charged for the bundle, and, how to attractively present a bundle to customers. Thus, this paper attempts to find answers and explanations to these questions.

The major objective of this paper is to explore factors that have an influence on bundle's purchase intention. Five factors, which consist of bundle composition, price level, price sensitivity, frame and familiarity of the products within a bundle, are hypothesized to have an effect on consumers' purchase intention for bundles.

To achieve the objective, a laboratory experiment was conducted. One hundred and twenty eight students of Assumption University were selected as respondents to fill out a questionnaire and specify their purchase intention on the 10-point scale of two given products bundles: Pantene shampoo and Pantene conditioner, and Pantene shampoo and Parodontax toothpaste. Respondents were divided into three groups. Each group received a questionnaire in different frames. The first

group received a questionnaire, which presents subjects with a mixed-joint frame. The second group received a questionnaire presenting a mix-leader frame, and the last group was presented with a separated frame. The data obtained from the questionnaires was analyzed by analysis of variance (ANOVA) and correlation method. ANOVA was used to test the difference between the components of the bundle composition, price and frame. In addition, bivariate correlation was used to test the association between familiarity of the products and consumers' purchase intention.

This article is organized as follows. The effects of bundling are discussed in section 2. Section 3 describes variables and hypotheses that will be tested. Section 4 presents the results of hypotheses testing, conclusions, and recommendations.

2. Effects of Bundling

Two forms of bundling strategies are available: pure and mixed bundling. *Pure bundling* is a strategy in which a firm sells only bundles and not (all) the products separately. *Mixed bundling* is a strategy in which firms sell both the bundle and all separate products in a bundle separately (Stremersch and Tellis, 2002). There are two methods of presenting mixed bundling: mixed-leader bundling and mixed-joint bundling. In *mixed-leader* bundling, the price of one of the two products is discounted when the other is purchased at a regular price. In a *mixed-joint* bundling, a single price of bundle is set when two products (or more) are purchased jointly (Guiltinan, 1987). The profitability of pure or mixed bundling depends on the market situation and customers' perception of the products (Dolan and Simon, 1996). However, sellers must be careful when adopting pure bundling strategy. For pure bundling to be successful, monopoly power in the market of those bundle products (at least one product) is required. On the other hand, pure price bundling with a monopoly power is illegal (Stremersch and Tellis, 2002).

Several advantages are provided by bundling. Firstly, bundling can be an instrument to segment customers into groups. Segmentation allows firms to increase profit by charging higher price for customers who really prefer the product while charging lower price for the bundle to induce non-customers to try the product. Secondly, implementing bundling can save cost through economies of scale, economies of scope and economy of aggregation. Economies of scale refer to the reduction of average total cost due to the scale of operation increases. Economies of scope refer to a

decrease in cost per unit of two or more products due to producing them together. Economies of aggregation refer to a decrease in cost due to marketing or selling products together (Bakos and Brynjolfsson, 2000). Thirdly, bundling of some products can strengthen market power. The case of Microsoft, which bundles Windows and Explorer together, is an obvious example. However, bundling to capture monopoly power may involve an illegal issue. Finally, bundling can be used as a short-term promotional strategy to stimulate purchase. Firms often bundle a new product with an existing one aiming at raising awareness of the new product while simultaneously increasing sales of their existing products.

3. Definition of Variables and Hypotheses

This section discusses the five main variables employed in this paper: bundle composition, bundle price level, bundle price sensitivity, bundle frame, and familiarity.

Bundle Composition

Bundle composition refers to the usage characteristics of the two products within a bundle. Two usage characteristics of the product bundle are investigated: complementary products and unrelated products. *Complementary* products refer to products and services which are used together, when the price of one decreases, the demand for the other increases, and conversely (McConnell and Brue, 1999). Here, the bundle of complementary products is Pantene shampoo and Pantene conditioner. *Unrelated* products are independent products; a change in the price of one product has no impact on the demand for the other (McConnell and Brue, 1999). Here, the bundle of unrelated products is Pantene shampoo and Parodontax toothpaste.

Difference in composition within a bundle should affect purchase intention differently. Although, there is no theory stating that a bundle composed of complementary products leads to higher purchase intention than a bundle of unrelated products, several researchers such as Dolan and Simon (1996); Harlem, Krishna and Mela (1995) believed that complementary products in a bundle certainly fosters sales. A complementary product bundle is superior to the unrelated product bundle because it provides value added to customers. This value added raises customers' reservation price for the bundle. Thus, customers are willing to pay more for the complementary products bundle (Guiltinan, 1987; Stremersch and Tellis, 2002). Therefore, it is expected that:

Ha1: Purchasing intention for a bundle composed of complementary items is higher than purchase intention for a bundle composed of unrelated products.

Bundle Price Level

Unlike previous studies (Harlem, Krishna and Mela, 1995; Stremersch and Tellis, 2002) that investigated the effect of reservation price of the bundle, this paper investigates the effect of *market* price of the bundle. The market price is given as a reference price to replace customers' reservation price which is inside each customer's mind and difficult to measure.

In this study, three types of bundle price level are considered: (1) 'decrease', (2) 'same', and (3) 'increase'. (1) The bundle price is considered to 'decrease' when the bundle price is lower than the sum of the reference prices (using market price as a reference price) of an individual item in a bundle. (2) The bundle price is the 'same' when a bundle price is equal to the sum of the reference prices of an individual item within the bundle. (3) The bundle price is considered to 'increase' when the bundle price is higher than the sum of the reference prices of the individual products in a bundle.

Price is the crucial factor that affects purchase intention. According to the law of demand, the lower the price, the higher demand for that good. Hence, lower price should lead to higher purchase intention. However, some researchers indicated that bundling can mask the cost of each product. With bundling, customers face difficulty in allocating the cost of each product in a bundle and some customers may buy the high-price bundle because they don't want to allocate the cost of each product in the bundle.

Some researchers, such as Dolan and Simon (1996); Cready (1991); Stremersch and Tellis (2002), indicated that discount is not a necessary condition for bundling. Some customers are willing to pay a premium for the bundle if the bundle of the products provide value added. Thus, it is expected that:

Ha2: Bundle price 'decrease', 'same' and 'increase' relative to the sum of the reference prices of an individual item in a bundle will lead to different purchase intention.

Bundle Price Sensitivity

In addition to price level, price sensitivity is investigated in this research. Price sensitivity refers to the change in purchase intention when the price is varied. Two characteristics of customers' price sensitivity are

considered in this study: customers' sensitivity to price *decrease* and customers' sensitivity to price *increase*. (1) *Customers' sensitivity to price decrease* is measured by the difference in purchase intention of bundle price 'decrease' and purchase intention of bundle price remaining the 'same'. (2) *Customers' sensitivity to price increase* measured by the difference in purchase intention of bundle price 'increase' and purchase intention of bundle price remaining the 'same'.

Kahneman and Tversky (1979) suggested that people perceive gain and loss differently. Losses appear larger than gains. People are more sensitive to price increases rather than price decreases. Therefore, it is expected that consumers are more sensitive to a bundle price 'increase' (loss) than to a bundle price 'decrease' (gain). Thus,

Ha3: Customers' sensitivity to price increases is different from customers' sensitivity to price decreases.

Bundle Frame

Bundle frame is the price presentation format of the products within a bundle. Bundle price can be presented in various forms. In this paper, the focus is on the following three forms of bundle presentation, which can be observed in today's market. First is the mixed-joint frame. In a mixed-joint frame, a single price of bundle is set when two products (or more) are purchased jointly (Guiltingan, 1987). The following is an example of mixed joint frame:

"Buy Pantene shampoo and Pantene conditioner at \$ 280".

The second bundling frame is Mixed-leader frame. Mixed-leader frame refers to the bundle presentation when the price of one of the two products is discounted while the other is presented at the regular price (Guiltingan, 1987). The following is an example of mixed-leader frame.

"Buy Pantene shampoo now at \$145 and get Pantene conditioner at a special price of \$ 135".

Finally, the third frame is separate frame. Separate frame refers to the practice of presenting separate discounted price for each individual item within a bundle. The following is an example of separate frame;

"Buy Pantene shampoo at a special price of \$140 and Pantene conditioner at a special price of \$ 140, (if you buy both)".

Different frames should have different impact on purchase intention. Based on Prospect Theory, Thaler (1985) extended the value function of Kahneman and Tversky (1979) by proposing the ways in which

customers value their gains and losses when they are confronted with two compound events. Thaler (1985) demonstrated that people prefer separate gain and integrated loss. This principle has an implication on bundling strategy.

Stremersch and Tellis (2002) stated that it is better to integrate all price information in a single bundle price rather than present it in a list of separate product prices and separate the bundle discount in multiple savings rather than present it as a single saving. Similar to Stremersch and Tellis (2002), Yadav and Monroe (1993) indicated that consumers prefer two small savings separately rather than one big saving. Therefore, dividing up that one large saving into two small savings may be an appropriate pricing alternative to implement a mixed bundling strategy.

Based on the previous studies, it is expected that different frames would result in a significant difference in purchase intention of the bundle. Thus, it is expected that:

Ha4: Purchasing intention of customers who are presented with a mixed-joint frame, mixed-leader frame and separate frame, are different.

Familiarity

Familiarity with the products refers to the products that customers are able to recognize or know well because they have seen, heard or experienced them before.

It is believed that there is a relationship between familiarity and purchase intention for bundles. People who are more familiar with the products are more likely to purchase the bundle. Bundles are generally unappealing to customers who don't usually buy the products (Schultz, 1998). In addition, Harlam, Krishna and Mela (1995) stated that people who are more familiar with (at least one) product in a bundle would be more sensitive to the price of the bundle. Thus, it is expected that

Ha5: There is a relationship between familiarity of (at least one) product within a bundle and purchase intention for the bundle

4. Conclusions and Recommendations

This section discusses critical analysis of ANOVA results for bundle composition, bundle price level, bundle price sensitivity, bundle frame and familiarity, on consumers' purchase intention. Thus, this leads to useful conclusions and recommendations:

Bundle Composition

ANOVA results indicate a significant effect for bundle composition. The significant two-tailed value divided by two is equal to 0.00, which is less than 0.05 ($0.00/2 < 0.05$) and the F-value is positive ($F = 20.612 > 0$). Thus, the null hypothesis (H_{01}) is rejected meaning that the bundle composed of complementary products shows a higher consumers' purchase intent than a bundle composed of unrelated products.

Bundle Price Level

The results of ANOVA reveal that price level has an impact on purchase intention. The significant value is 0.00, which is less than 0.05. Hence, H_{02} is rejected. ANOVA results indicate that purchase intention is different when the price is varied. The lower the price level, the higher the purchase intention. The average purchase intention when price 'decreases' is 6.422, which is higher than purchase intention when price remain the 'same' (5.207) and 'increases' (4.188).

Bundle Price Sensitivity

The results from ANOVA illustrate that the change in purchase intention due to price increase is not different from change in purchase intention due to price decrease. The mean of different purchase intention between price remaining the same and price decrease (sensitivity to price decrease) is 1.770, while the difference between price remaining the same and price increase (sensitivity to price increase) is 1.660. The two-tailed significant value is 0.44, which is higher than 0.05. Thus, the null hypothesis (H_{03}) is accepted indicating that respondents are sensitive to price increase as well as price decrease.

Bundle Frame

ANOVA results reveal a significant main effect for frame ($\text{sig.} = 0.00 < 0.05$) meaning that purchase intention of mixed-joint frame, mixed-leader frame and separate frame are different. Mixed-leader frame received the highest mean of purchase intention (mean = 5.756), while mixed-joint frame produced the lowest mean, which is 4.793.

Familiarity

Correlation results indicate that there is a positive relationship between bundle's purchase intention and familiarity with Pantene conditioner. The correlation coefficient is equal to 0.106, which is statistically significant at 95% confidence interval ($\text{Sig.} = 0.038 <$

0.05). However, the correlation coefficient between the bundle's purchase intention and Pantene shampoo is 0.078, which is not statistically significant at the 95% confidence level ($\text{Sig.} = 0.126 > 0.05$).

The result also illustrates that the correlation coefficient between consumers' purchase intention and familiarity with Pantene Shampoo is 0.04 indicating that there is no relationship between purchase intention for the bundle and familiarity with Pantene shampoo at 95% confidence level ($\text{Sig.} = 0.943 > 0.05$). In contrast, a relationship between purchase intention and familiarity with Parodontax toothpaste was found. The correlation coefficient is 0.254 indicating that there is a positive relationship between purchase intention for the bundle and familiarity with Parodontax toothpaste, and the correlation is statistically significant at 0.05 level ($\text{Sig.} = 0.000 < 0.05$).

Therefore, correlation results show that there is a positive relationship between one product in a bundle and consumers' purchase intention.

Additional Findings (Interaction effects)

In addition to the main effects, interaction effects between independent variables (treatment variables) were found. The interaction effect is the effect produced by treatment of variable A and treatment of variable B simultaneously, which cannot be accounted by either treatment alone. If the effect of one treatment is different at different levels of the other treatment, interaction occurs (Zikmund 2000, p.263). The interaction effect may be greater than the total of the main effects.

ANOVA results reveal that there is a significant interaction effect between price and frame of the bundle ($\text{Sig.} = 0.00 < 0.05$). Although, the main effect indicated that *mixed-leader* frame shows the highest purchase intention (mean = 5.756) for *overall price level*, the interaction effect shows that presenting customer with a *mixed-joint* frame has the highest score of purchase intention when the bundle price *decreased* (mean = 6.756). When bundle price is the same as the sum of the separate product price, mixed-leader frame is the most effective way to induce customer to buy, while mixed-joint frame is the least preferred. When the bundle price is higher than sum of the separate price, the average score of purchase intention of every frame is lower than 5, indicating that no matter what frame, customer will not purchase the bundle when the bundle price increases.

Conclusions

The following insights are drawn from a critical analysis of variance results.

First, ANOVA results confirm the study of Harlam et.al (1995) which indicated that a bundle composed of complementary products provides relatively higher purchase intention than one composed of unrelated products.

Secondly, although, several researchers, such as Dolan and Simon (1996); Cready (1991); Stremersch and Tellis (2002), indicated that discount is not a necessary condition for bundling and some customers are willing to pay a premium for the bundle, the result of research findings indicated that customers are not willing to pay a premium for the bundle. Respondents will buy the bundle when the bundle price is lower than the sum of the separate price. This finding is consistent with the law of demand, the lower the price of the bundle, the higher the purchase intention for that bundle.

Thirdly, when the prices of the separate products and a bundle are highlighted, respondents are sensitive to price increases as well as price decreases of the same amount. The result is in contrast with the study of Harlam et.al (1995) which is based on Prospect Theory which states that customers are sensitive to price increases rather than price decreases.

Fourthly, the results of ANOVA confirm the study of Harlam et.al (1995) and Stremersch and Tellis (2002) which indicated that presentation format (frame) of the bundle has an influence on consumers' purchase intention for bundles. Presenting respondents with a mixed-joint frame, mixed-leader frame and separate frame received different scores for purchase intention. In addition, there was an interaction effect between framing of the bundle and price of the bundle. ANOVA results indicated that when bundle price 'decreases', mixed-joint frame is the most effective way to induce respondents to buy the bundle, especially in the case of complementary products. When bundle price is the 'same' as the sum of the separate product price, mixed-leader frame is the best, while the mixed-joint frame is the least desirable. However, when the bundle price 'increases', respondents will not buy any bundle, irrespective of its frame.

Finally, the positive relationship between familiarity with (at least one) product within a bundle and purchase intention was found. This means the more respondents are familiar with the product within a bundle, the higher the purchase intention for that bundle.

Recommendations

The research findings provide the following suggestions and useful implications to firms that would like to implement bundling strategy.

The first issue is the selection of products to be bundled. The complementarity aspect is a crucial aspect for firms to consider. Hence, before choosing product bundles, firms should be certain that customers consider the components of the bundle as complementary.

The second issue is the price of the bundle. When the prices of the separate products are highlighted, the bundle price should be set lower than the sum of the separate price. This study showed that, irrespective of a bundle composed of complementary or unrelated products, respondents are not willing to pay a premium for the bundle.

In addition, the result of this research indicated that respondents are sensitive to both price increases and price decreases. Therefore, firms should be careful when setting the price of the bundle. Setting the bundle's price lower than the sum of the separate product prices can

significantly increase purchase intention. However, setting the price of the bundle higher than the sum of the separate price can significantly decrease consumers' purchase intention.

A bundle's presentation format (or bundle's frame) is another issue that firms have to consider. Different frames of bundle affect respondents' purchase likelihood differently. Mixed-joint frame is the most effective way to induce respondents to buy when price decreases, especially in the case of complementary products bundle. When the price increases, no matter what frame, respondents will not buy the bundle. Thus, when presenting price of the bundle, integrating all discounted price into one single bundle price would be more effective than presenting a list of separate prices.

Finally, this study illustrates that there is a significant relationship between familiarity with product in a bundle and consumers' purchase intention. Therefore, to make a bundle more attractive, firms should ensure that potential customers are familiar with (at least one) product in a bundle.

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ENVIRONMENTAL SCANNING PRACTICES DURING PERIODS OF HIGH UNCERTAINTY

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Abstract

The research on environmental scanning practices of medium sized finance companies in Thailand, during and after the 1997 economic crisis, shows that companies with well-organized and managed environmental scanning process have steered through the turbulent environment and have become highly competitive in their posture. As companies focus on short and long term horizons and look at a broader set of factors they are able to better foresee changes in the environment and respond towards these movements more pragmatically. The multi tier environmental scanning process inside these organizations helps in identifying opportunities for new products and services. However, companies who base their decisions on imitating competitors are vulnerable to the turbulent changes in the environment and are on the horns of a dilemma. They have not only to recover their non-performing loans but also need big effort to improve their products and services to face stiffer competition.

Introduction

The 1997 economic crisis in South East Asian countries posed a highly turbulent and continuously changing environment. In Thailand, immediately after the economic crisis, the business environment was characterized by a large drop in the exchange rate of Thai currency in relation to the US dollar, a steep rise in interest rates and large scale demand contraction in all the sectors of the economy. Between mid 1997 and mid 1998, on account of bad debts and non performing loans, a large number of finance companies faced bankruptcies and as many as 56 finance companies were delisted by regulators.

To mitigate the adverse impact of the 1997 economic crisis, the Thai government has implemented a number of measures to revive domestic consumption and stimulate new investments. A key measure is setting up of institutions to channel resources to restructured firms. The Bank of Thailand (BOT) has set up the Thailand Asset Management Corporation (TAMC) as a vehicle for speeding up debt restructuring and reducing non-performing loans. TAMC's main objective and responsibility are to purchase, manage and dispose of the distressed assets acquired from 56 closed finance companies and other financial institutions whose operations have been taken over by the Financial

Institution Development Fund (FIDF) and the Property Loan Management Organization (PLMO). To speed up the process of debt restructuring, the Corporate Debt Restructuring Advisory Committee (CDRAC) was set up for establishing corporate debt restructuring policies and to facilitate negotiation between the private sector and financial institutions. CDRAC encourages faster re-negotiations of overdue debts, ensures time bound framework for implementing debtor-creditor agreements, and provides services of professional mediators to expedite difficult cases. The other measures for the medium-term structural changes in Thailand include tax reform, trade liberalization, strengthening education and improving the statistical databases for refining decisions.

Finance companies have difficulties in recovering bad debts and have to be more cautious about lending fresh loans. The liberalization and opening of the financial services sector to foreign investors has resulted in an influx of foreign financial and banking institutions which have been acquiring stakes in private and nationalized financial institutions. Introduction of new financial instruments as well as advanced technology has further intensified competition in finance and banking sector. Moreover, while raising new capital and debt restructuring remained top priorities for local finance companies over the past year, internal reforms also made

significant progress as these companies took steps to slash costs and prepare for stiffer competition in the future.

Thus, the restructuring and liberalization measures taken by Thai government for restoring the health of the financial services sector have created a very complex and uncertain business environment. The finance companies have to be more watchful of the trends in the external environment in order to craft successful strategies. In this paper we present our analysis of how three successful finance companies which survived the crisis analyze the external environment for adopting an appropriate strategy and healthy performance.

Objectives

This paper intends to analyze the various aspects of environmental scanning policies and practices amongst finance companies in Thailand. Specifically, the issues covered are: -

- What are the environmental scanning objectives of companies during the periods of high uncertainty?
- What is the organizational set up for environmental scanning in these companies?
- What is the process of environmental scanning?
- What are the environmental factors that are analyzed by companies?
- How do these companies judge the effectiveness of the environmental scanning process used by them?

Methodology

This study is based on case research methodology. In order to map the environmental scanning practices in the firms under study, a series of interviews were conducted amongst the CEOs and managers who were directly or indirectly involved in environmental scanning in their companies.

Environmental Scanning Practices

This research focuses on three finance companies in Thailand. These companies have survived the 1997 economic crisis by adopting different patterns of environmental scanning practices.

1. Ayudhya Investment and Trust Public Company Limited (AITCO)

AITCO is a medium sized finance company with an authorized capital of 3.9 billion Baht (1 US\$ = 44 Baht). The foreign share holding in the company is 0.75

percent. AITCO has two subsidiary companies in which it holds 99.99 and 10 percent shares respectively. The company services comprise - financing for commerce, development, housing, leasing; managing provident funds and guarantee business. The company is a cautious player and can be described as a follower. The loan quality is vital to the company's operations because of the uncertainties in the business environment. Therefore, AITCO has adopted a policy to periodically review its loan portfolio and has established the risk management department independently from the lending department to ensure the good credit risk management, transparency and good corporate governance.

In preparation for meeting intense competition from domestic and international companies, AITCO has taken many strategic initiatives that include establishing a risk management department, developing human resources, exploring new market segments to expand business, and adopting flexible strategies to cope with changing economic environment.

In scanning external environment the company has several objectives. The key objective is to raise awareness of top management and operating level managers about potential developments in the direction of rules and regulations and enable them to design strategies that will be in compliance with the guidelines recommended by International Monetary Fund.

Since the credit department of the company is engaged in restructuring increasing volumes of bad debts, the credit officers have to analyze the trends in various industry in order to offer mutually workable solutions to borrowers. AITCO management has to be continuously aware of the potential developments within the industry in clearing out remaining bad debts resulting from the 1997 economic crisis. The company has to be accurate in its analysis to be able to claim rehabilitation of its non-performing loans from Thai Asset Management Corporation (TAMC). As mentioned earlier in this paper, the Thai government has established the TAMC as a key instrument for alleviating bad debts in the financial sector.

The environmental scanning processes within the company are carried out at the level of the top management, product teams and front line managers. The top management analyses the overall changes in the external environment. In a bottom up manner, the product management teams analyse industry specific trends by consulting their clients. Based on the holistic analysis done by top management and the industry specific analysis carried out by product management teams, the front line managers prepare client specific reports that

are used for designing and advancing fresh loans to creditworthy customers. In case of debt restructuring, the written reports including environmental scan of the relevant industry are prepared by front line managers and are first sent to supervisors and then to top management for their consent and approval. For resolving specific issues which can not be dealt with by the product management teams and the front line managers, consultations are carried out with top management. The front line managers collect direct feedback and bring to the notice of the top management the issues related to client dissatisfaction. The three key areas of dissatisfaction are interest rates, exchange rates and the lending terms.

The choice of scanning factor is driven by the nature and needs of clients and the increasing regulatory nature of the financial sector in Thailand. Since the client portfolio of AITCO comprises healthy as well as weak customers, the company is not concerned with developing new financial instruments for the clients at the moment. The company tries to understand the economic and technological trends in the industries in which its clients operate and also identifies the emerging opportunities and help available to clients under the new rules and regulations. The main objective of exploring these factors is to improve the performance of clients at the industry level, comply with legislation and assist in clearing the bad debt and give loans only to the creditworthy customers.

AITCO taps many alternate sources of information that include discussions with customers, board members, officials, friends, batch mates and ex-colleagues of AITCO's managers at the previous working place, for example, Citibank Corporation, Thailand. The front line managers collect information about customers mainly through direct interactions. The customers are the most important source of information on competitors as they continuously compare AITCO's offer with competitors' offer and lodge their complaints to the front line managers. The front line managers transmit this vital client feedback to their supervisors and to top management. The top management discusses the feedback with board members and is able to offer customized solutions within a given horizon of risk and return. This bottom up scanning process helps AITCO in catching up with local and foreign competitors.

In addition to tapping customer as a source of information, AITCO's top management refers to publications that include research from other investment houses, academic institutions, financial and investment

magazines both local and foreign and government reports and public announcements. Industry reports, both prepared internally and externally, are discussed during board meetings. The President, in consultation with the board, is responsible for lending new direction to the company and he scans the new regulations and macro policy trends in the financial sector.

2. Tisco Finance Public Company Limited (TISCO)

TISCO operates through a network of four hire purchase and leasing companies that it has acquired since 1999. A large proportion of the company's shares is held by several foreign investors. The network of acquired companies has helped the parent company in increasing the business potential of the TISCO Group in terms of customer base utilization, a larger market share and increased economies of scale. In the financial service sector, TISCO offers broad range of financial instruments and advisory services to various state-owned enterprises, financial institutions, fund managers and individual customers. Their services include consumer lending, corporate lending, financial advisory services, fixed income products and funding. The company has been very successful in improving the quality of loans and in accelerating debt recovery.

TISCO has short and long-term environmental scanning objectives. The company considers 3 years as "short-term" and 5 years as "long-term". In the short-term, the first objective of environmental scanning is to analyze industry trends on time as an early warning system. Immediately after the 1997 economic crisis, the company was able to restructure bad debt very efficiently because it was prepared to meet the risks on the basis of its understanding of environmental trends. The second short-term scanning objective of the company is to analyze competitors and improve the competitiveness of various business units by scaling down assets, promoting fee-based business, and taking cost controls measures including rationalizing interest rates. The long-term objective for environmental scanning is to predict future driving forces, mainly economic, that will shape the financial service sector in the region. The company prefers to be a leader in innovating new products and services. The company is credited with offering innovative risk management instruments to its clients after 1997 economic crisis. Furthermore, TISCO uses environmental scanning to gain long term competitive advantage by investing in building new sources of competitive advantages such as information technology.

The company invested in the SAP software system to monitor and control operations on a real time basis.

The President and the Senior Executive Vice President of the company are responsible for scanning the environment. By combining in-house research and outside opinions from academics, industry experts, government officers and external consultants, the top management develops alternate scenarios and based on these, they propose new products and services to the Board for final approval. The members of the Board engage in unstructured discussions to arrive at future strategic directions. The final decision to launch new products and services is made by the President and the Board. The scanning and planning functions are highly centralized and the top management team formulates and implements strategic decisions down to various departments and subsidiaries of the company.

The senior executive vice president uses information collected through feedback from customers, surveys conducted by market research agencies, reports prepared by academic research institutions and articles in local and foreign economic journals and magazines. Special attention is paid to research reports prepared by Thai academic institutions that mainly focus on Thai financial markets and give customized solutions for the local markets. Based on deep insights, the company has developed a model for risk management in the context of the Thai financial market. As for foreign sources of information, TISCO regularly analyses reports coming from foreign banks, for example Banker Trust from Germany and Dai-ichi Kanyo Bank from Japan.

Since the 1997 economic crisis, the local economic and regulatory factors are considered as major environmental scanning factors as these factors play a key role in influencing the incremental and major changes in the design of the strategy of the company. The second most important scanning factor of TISCO is the competitive trends. To stay ahead of its competitors, the company monitors them and often collaborates with foreign banks and finance companies to expand scope of its business within the financial sector. For identifying growth opportunities the company specifically analyses the economic growth rate and trends in private consumption. Specific growth industries, for example agrobusiness and retailing, are studied carefully to explore market opportunities for loans to small and medium sized enterprises. The market risk is assessed by analysing the difference in the interest rates for assets and liabilities, the price risk arising out of changes in the

value of portfolios of financial products and foreign exchange fluctuations.

With serious attention paid by top management to understanding the local market conditions, the company, from time to time, collaborates with TAMC in issuing new rules and regulations for the regulation of the market. This provides a "time advantage" to the company and helps it in developing expansion strategies on pro active basis.

The environmental scanning practices of the group and the consequent strategic changes in the business have helped TISCO to achieve a remarkable recovery from the impact of economic crisis. The TISCO Group has substantial competitive advantages over other competitors in terms of scope and scale of financial business products and services. Despite increased competition from foreign firms and commercial banks, TISCO has maintained its competitive position.

3. Asia Credit Public Company Limited (ACL)

ACL with its high profile international partner Societe Generale focuses on providing credit facilities to export and import businesses along with providing foreign exchange related services. The company is now expanding its financial advisory business especially in the direction of mergers and acquisitions. ACL is supported by its overseas shareholder in providing technology transfer and know-how in offering new instruments that are adapted to suit local needs of investors in Thailand. Recently the company was granted a license to provide risk management services in telecommunications, energy and manufacturing sectors.

Being a medium company, it is highly vulnerable to turbulent environment and therefore the environmental scanning system of the company must operate well. Within the framework of rules and regulations set by regulators, ACL began to restructure its cost and capital holding by buying out smaller partners and selling their share to Societe Generale. Thus, the key environmental scanning objective of the company is to learn from the strategic behavior of other companies and, thus improve its own business model including cost and capital structure.

Another objective of environmental scanning is to identify new opportunities in the securities trading business. In this segment the company faces stiff competition and constantly adjusts its strategy to increase its market share.

A third objective of environmental scanning is to analyze emerging needs of existing customers and identify new customer segments to expand the customer base. For example, the company analyzes new trends in financing of export and import business including providing support in the foreign exchange operations.

The board of directors and chairman of the company is the nodal point for aligning latest environmental trends and the strategies at the corporate and business levels. The views of the operational level staff are incorporated for smooth implementation of strategies.

The head of divisions has formal meetings with board of directors on weekly basis. Sometimes, when there are quick shifts in the environment, these meetings are also organized on a more frequent basis and informal discussions are conducted on the telephone. The members informally share with each other whatever information they can receive from their personal channels. The personal sources are mainly government officials. The head of divisions also brings to the notice of the board of directors the feedback they receive from their customers. The key mode of analysis is intense discussions amongst the members of the board and head of divisions. For analyzing broad indicators and for advance warning on potential threats the company might face from changes in international context the company depends on Societe Generale - its major shareholder for information. Any information on changes in the European financial system is instantly transmitted to the company.

In terms of environmental factors the company mainly focuses on legislation and competitors. This follows from the immediate challenges the company faces, that is firstly, to comply with new guidelines imposed by International Monetary Fund (IMF) and rules and regulations issued by regulators and secondly to compete successfully against local and foreign competitors.

Corresponding to rivalry with competitors, the company is internally focused and has placed strong emphasis on human resources development. The strategy of the company is to train its staff through in-house and outside training to sharpen their skills and broaden their knowledge. Furthermore, the company is recruiting new employees with high profile education and relevant work experience.

As a result of environmental scanning practices that are narrowly focused the company is still struggling to restructure its debts. ACL has to rewrite its past and has to take measures to respond to the future. They

company has been sheltered by investments made by Societe Generale.

Conclusions

1. Companies that are struggling to restructure large amounts of bad debt on one hand and facing stiffer competition on the other, are pursuing short-term approach for environmental scanning. Their main objectives are first, to follow the new rules and regulations and take opportunities and easier terms for debt restructuring offered by TAMC and second, to benchmark competitors activities, new products and services. The longer these companies take to restructure bad debts the less is the chance that they will adopt a long term view of the environment and thus a long term strategy.

2. Companies that have managed to restructure bad debts are now focused on two time horizons. They scan environment for both short and long term view. The short-term scan helps the company in analyzing client's industry portfolios and its impact on the lending programs of the companies. The long-term view of environment on the other hand allows companies to predict future driving forces and thus help them to design new products and services and maintain their leading position. A faster recovery of bad debts is the result of these companies having a superior system for scanning environment even prior to the 1997 economic crisis.

3. All finance companies scan economic and legal factors. The economic trends, such as industry growth rates, inflation, interest rates, import and exports, currency exchange rates, foreign direct investment and level of non-performing loans in different industries are used for designing balanced loan portfolios and deciding on interest rates. The legal factors scanned include the bankruptcy, corporatisation and alien business laws and regulations for debt restructuring. The companies with large amounts of bad debts take a defensive view of these factors whereas the companies that have successfully overcome all their bad debts take a more proactive view of these factors. Changes in economic factors have been the most important environmental scanning factors even before 1997 economic recession in Thailand. After the economic crisis the importance of legal factors increased because of the International Monetary Fund (IMF) driven policies implemented by the Ministry of Finance.

4. Since the environment is highly turbulent, the top management in companies plays an active role in performing various tasks associated with environmental scanning. The senior managers and

members of the board collect information from a variety of sources and process it in informal as well as formal meetings of the board. The sources of information include personal contacts in government, friends and relatives in banks and companies, academic institutions and information services agencies, advisors and experts. The information is received mainly through conversations and in the form of reports. Given the pace at which the environmental factors change in finance sector, the direct involvement of the top management in scanning ensures that the decisions will be made without much delay. In companies whose management style is centralized, top management act as the center of environmental scanning sources of information while companies whose management style leans towards decentralization give greater authority to senior managers, experts, and consultants. The decentralization broadens scanning scope to a greater extent while ideas under centralization

have been held onto only top management and their connections.

5. In companies, which are still laden with large debt from the pre 1997 days, there is a convergence in the top down and bottom up scanning approaches. The front line staffs collect feedback from clients and transmit it to top management for modifying products and services to make them more attractive to clients. Based on the analysis of environmental practices, finance companies can be categorised into leaders and followers. The success of leaders in foreseeing environmental trends has influenced innovations in products and services and has given a lead to these companies over domestic and foreign competitors. The followers are less fortunate, they are not able to foresee opportunities and are mainly involved in modifying services and improving performance through debt restructuring.

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THE IMPORTANCE OF RESOURCE-BASED VIEW IN EXPORT PERFORMANCE OF SMEs IN THAILAND

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Abstract

This study focuses on the importance of manufacturing SMEs in the Thai export economy and develops propositions based on the Resource-Based View adapted from the Strategic Management literature. This study also highlights the important link between variety of firm resources and export performance.

Introduction

Advances in transportation, communication, and technologies have resulted in an increasing number of Small and Medium Enterprises (SMEs) pursuing opportunities in international markets (Knight 2000). As a result, SMEs have become critical players in national economies and world trade. Exporting is the most popular mode of international market entry for SMEs (Katsikeas et al. 1998; Leonidou et al. 2002a). However, little is known about how such firms operate and prosper under globalization (Acs 1999; Knight 2000).

SMEs are particularly important in contributing to exports of manufactured goods in Southeast Asia (Sawhney 1998). Among Southeast Asian nations, Thailand, known as the fifth tiger in Asia, is a country where export performance plays a crucial role in its economy, and hence this study focuses on export performance of manufacturing SMEs in Thailand.

Although there is a wealth of research in the area of export performance, the existence of major inconsistencies is often recognized by researchers (Cavusgil and Zou 1994; Katsikeas et al. 1998; Leonidou et al. 2002a). The typical problems are the multiplicity of determinants of export performance, the large number of different measures of export performance and the lack of a consistent theoretical framework (Zou and Stan 1998).

Many empirical studies have researched the determinants of export performance, such as firm characteristics, managers' characteristics, external

environments and marketing strategies. Despite the fact that the Resource-Based View (RBV) appears more frequently in strategic management literature, Peng's (2001a) study indicated a lack of RBV studies in export and international marketing disciplines (Srivastava et al. 2001). It is well-recognized that, firm resources, are crucial in influencing internationalization of SMEs (Jones 1999) and important determinants of export performance (Leonidou et al. 2002b; Zou and Stan 1998). However, most studies have looked at firm resources in general, and hence the effects of specific firm resources on export performance have not been investigated. Therefore, it is important to fill this gap by investigating the role and influence of firm resources on export performance in Thailand, highlighting the link between the resource-based view and export performance.

Thailand: Export Economy

Thailand is an export-oriented country where exports account for around 47 % of the gross domestic product (GDP) (IMD 2000). Thailand had the 20th largest export market share in the world in 2000 and accounted for the 7th largest gains in market share during 1985-2000 (World Investment Report 2002). Thailand's present export structure reveals a greater diversity in terms of both products and markets than its main competitors (The National Identity Board 2000).

It is widely accepted that Thailand's economic recovery lies with strong export growth, and exports were among the key engines driving Thailand's economic

recovery in 2002 (Maneerungsee 2002). Moreover, the advantages of low-priced handling, cheap labor and inexpensive storage cost offered by Thailand, and its strategic location at the centre of South East Asia have helped to make it an export platform in Asia (Country Commercial Guide 2002).

Underpinning the importance of the export sector's contribution to the Thai economy, the manufacturing industry is crucial to export competitiveness and Thai economy. The growth of the manufacturing sector is directly related to export growth in the manufacturing sector (Bangkok Bank 2000). It is evident that the export manufacturing sector is an important aspect of the Thai economy.

More than 90% of the total number of establishments in the manufacturing sector in Thailand are SMEs (APEC 2003). Therefore, the Thai government promotes and assists SMEs, especially those in the manufacturing sector, to improve export competitiveness of Thailand in an increasingly competitive global environment (Japan Bank for International Cooperation 2003).

Why study SMEs?

SMEs are important in many countries due to their large number, the employment they provide and growth opportunities, making them worthy of further research (Moen 2000a). This study aims to focus on SMEs based on the following reasons: Firstly, more than 90% of firms in most ASEAN countries are SMEs (APEC 1998). In the Asian economies, SMEs contribute between 25-35% of world exports (OECD 2000; World Investment Report 1999) and provide 35% of direct exports (Acs 1999). Secondly, despite the crucial role of SMEs to the country economy, there are only limited, poor quality data on SMEs in Southeast Asian countries (Bjerke 2000). Finally, in Thailand, SMEs account for 80% of producers and contribute 70% of all employment (Bunyamanee 2000); they are therefore important to the Thai economy.

SMEs in Thailand

Thai SMEs are characterized by their lean organizational structure, their limited resources and their lack of core competencies (Regnier 2000). SMEs also face financial problems due to lack of capital and difficulties in securing credit from formal financial institutions (Eiamkanitchat 1999). They also encounter supply constraints and rising input costs because of the depreciation of the Thai baht (Regnier 2000). Difficulty in acquiring information, lack of managerial export experience and weak formal planning systems are also internal barriers faced by Thai SMEs (Regnier 2000). In addition, most Thai SMEs are family owned and they have limited capabilities in financial management, market research, administration, and analysis of markets as well as cost benefits (Eiamkanitchat 1999).

Despite those challenges, SMEs in Thailand represent the backbone of the economy, especially in the manufacturing sectors and export-oriented industries (Phuangketkeow 2003). Thus, discovering how Thai SMEs operate and perform well in their export markets is of vital importance to Thai manufacturing exporters, export intermediaries, policy makers and researchers.

Definitions of SMEs

The definition of SMEs varies across countries (APEC 2002; OECD 2000) and at present, there is no generally agreed definition of SMEs in Thailand (see Table 1 for more details). SMEs are referred to non-subsidiary, independent firms which employ fewer than a given number of employees (OECD 2000). In this study, SMEs are defined as "firms with fewer than 500 employees" because: 1) potential growth in exports are the greatest among this group in Thailand (Julian 2003); and 2) previous empirical studies (Naidu and Prasad 1994; Piercy et al. 1998; Styles and Ambler 2000) have used the same definition, which could allow comparability of data across studies.

Table 1 Definitions of SMEs

Firm size	Ministry of Industry, Thailand	APEC	(Naidu and Prasad 1994; Piercy et al. 1998; Styles and Ambler 2000)
Small firm	Fewer than 50 employees. Invested capital not exceeding 10 million baht (about 250,000 US\$)	Fewer than 50 employees. Invested capital not exceeding 20 million baht (about 500,000 US\$)	
Medium firm	Between 50 to 200 employees. Invested capital between 10 to 100 million baht (approximately between 250,000 to 2,500,000 US\$)	Between 50 to 200 employees. Invested capital between 20 to 100 million baht (approximately between 500,000 to 2,500,000 US\$)	Fewer than 500 employees.

Literature Review and Conceptual Development

The Resource-Based View (RBV) describes a firm as a unique bundle of tangible and intangible resources (assets, capabilities, competencies, organizational processes, firm attributes, information and knowledge and so forth) that are controlled by the firm (Barney 2002). These resources enable a firm to implement strategies designed to improve its efficiency and effectiveness (Barney 2002; Camelo-Ordaz et al. 2003). The resource-based view suggests that valuable firm resources are usually scarce, imperfectly imitable and lacking in direct substitutes (Peteraf 1993). A firm's resource must have four attributes: 1) it must be valuable; 2) it must be rare among a firm's current and prospective competition; 3) it must be imperfectly imitable; and 4) it cannot be substituted for strategically equivalent resource (Barney 1991).

There is a controversial issue on whether the resource-based view should be recognized as a theory (Priem and Bultur 2001). While some researchers applied the "Resource-Based Theory" in their studies (Andersen and Kheam 1998; Conner 1991), some conservative academics just use the term "Resource-Based View (RBV)" and regard it as a potential theory (Barney 2001; Collis 1991; Mahoney and Pandian 1992; Michalisin et al. 1997) arguing that many RBV studies are not empirically grounded (Conner 1991; Grant 1991).

However, there are some empirical studies that constitute direct tests of the resource-based theory (Barney 2001). Since there is very limited application and empirical studies of RBV in export literature, this

study uses the term "Resource-Based View (RBV)" to be conservative.

Although it is understood that the resource-based view focuses internally on the firm and its resources (Jarema 1996), a fundamental idea in the resource-based view is that a firm must continually enhance its resources and capabilities to take advantage of changing conditions (Pettus 2001). A firm can change to acquire new competencies that can shift the competitive environment in its favor (Pettus 2001).

Classifications based on resource-based view

The strategic management literature provides different classifications of resources. Some empirical studies used simple classifications such as tangible and intangible resources (Michalisin et al. 1997). Human resources (for example, knowledge and experience of managers), technological resources, reputation and organizational assets are also categorized as intangible resources (Andersen and Kheam 1998). Penrose (1959) claimed that the firm is a collection of productive resources: physical and human resources. However, physical, tangible resources are not necessarily rare resources because they are often purchasable on the open market (Michalisin et al. 1997). Thus, intangible resources receive more attention from researchers as they are difficult to imitate (Hall 1993; Michalisin et al. 1997). Thus, for this study, the firm resources' category is made up of a combination of classifications in the above mentioned studies.

The effect of firm resources on export performance

The following comprehensive classification is developed based on the resource-based literature. In the following propositions after each classification, the firm refers to SMEs in Thailand.

Physical resources

Physical resources include the physical technology used in a firm, plant and equipment, its geographic location and its access to raw materials (Barney 1991). Although physical resources such as proprietary process and equipment may be able to imitate in the long term (Schroeder et al. 2002), continuous development and improvement of resources and capabilities could help firm to maintain its competitive advantage. Moreover, superior export performance is linked to advantages in physical resources (Piercy et al. 1998). Therefore, the following proposition has been developed.

P1: There is a positive relationship between firm's physical resources and its export performance.

Financial resources

Firms need to gain access to one of the important resources, capital input, in entering an industry (Guillen 2000). The availability of capital and ability to acquire financial capital allows the firm to overcome problems and to pursue a broader range of activities (Westhead et al. 2001). It was found that the amount of capital contributed a positive association with marginal survival and growth (Cooper et al. 1994) as financial resources are basic requirements to implement business operations. Moreover, adequate financial resources are positively associated with high level of performance (Piercy et al. 1998). This leads to the following proposition.

P2: There is a positive relationship between firm's financial resources and its export performance.

Human resources

Despite the fact that the role of human resource management is an internal determinant of export performance, it has not been explicitly examined in the literature (Gomez-Mejia 1988). Human capital resources include the training, experience, judgment, intelligence, relationships, and insight of individual managers and workers in the firm (Barney 1991; Camelo-Ordaz et al. 2003).

RBV suggests that human knowledge and skills are the most important resources to many business operations (Wang and Olsen 2002). Human resources in this study focuses on managers rather than employees since the availability of educated and experienced individuals (especially decision-makers with a wide variety of skills and networks) are regarded as key factors influencing business survival and development (Bjerke 2000; Westhead et al. 2001). Manager's international experience, competence and commitment to a particular export venture contribute to export performance (Cavusgil and Zou 1994). Therefore, it is important to examine how these valuable human resources contribute to export performance in the Asian context.

P3: There is a positive relationship between firm's human resources and its export performance.

Technological resources

Process-related knowledge such as technology and operational know-how are also important firm resources (Guillen 2000). A high technological intensity was indicated by a high research and development expenditure and technology know-how (Dhanaraj and Beamish 2003). Evidence on the effect of technology intensity on export performance was mixed and the role of technological resources in export performance has not been clearly demonstrated. However, it was claimed that firms with high technology competencies perform better at exporting (Chetty and Hamilton 1993) and the intensity of research and development is a prominent export success factor (Gemunden 1991; Kotabe et al. 2002). Thus, it is worth investigating how technological resources influence export performance of SMEs in the Thai context.

P4: There is a positive relationship between firm's technological resources and its export performance.

Organizational capabilities

Intangible resources such as reputation of firms, products and services and organizational culture are positively associated with future performance (Michalisin et al. 2000). Intangible resources and capabilities such as close relationships with customers, close cooperation among managers and a sense of loyalty to the firm are productive assets that are difficult to observe, describe and value but that can have a significant impact on a firm's performance (Barney 2002).

One aspect of organizational capabilities that has been researched in the export literature is organizational structure. Good organizational structure could enhance the firm's ability to manage change and team working abilities, both of which are an important part of organizational resources (Hall 1993). Another aspect of organizational capabilities that has been extensively researched is that of information usage and marketing research. Acquisition of useful information about customers and export markets are important sources of firm intangible resources (Hall 1993; Michalisin et al. 1997). Awareness of foreign market opportunities is commonly acquired through social contact linking decision makers with others abroad (Ellis and Pecotich 2001; Leonidou and Adams-Florou 1999). The same is also true in Thailand as the study found that 82% of international market research was obtained through personal visits to foreign markets (Koh et al. 1993). Moreover, a review on 50 studies conducted in 18 countries concluded that export-oriented information activities had a positive relationship with export success (Gemunden 1991). Hence, these organizational capabilities should be paid an extra attention.

P5: There is a positive relationship between firm's organizational capabilities and its export performance.

Marketing capabilities

The export literature suggested that exporting firms seeking opportunities in world markets should develop their own marketing capabilities (Haar and Ortiz-Buonafina 1995). Marketing capability is defined as a company's ability to market and sell its products effectively and efficiently (Rangone 1999).

The previous empirical studies found that marketing capability in terms of export knowledge and expertise were found to be directly responsible for export profitability (Pope 2002; Wang and Olsen 2002). In the export literature, successful export marketing management was also facilitated by export experience in general and to an even larger extent by country-specific

export experience (Madsen 1989). Atuahene-Gima (1995) and Kirpalani and Macintosh (1980) also found that international market experience has a strong impact on export performance. Hence, the firm's marketing capabilities are crucial for export success.

P6: There is a positive relationship between firm's marketing capabilities and its export performance.

Production capabilities

Previous studies have strongly argued that production capabilities such as acquisition of appropriate production equipment and proprietary process are an important contribution to firm performance (Schroeder et al. 2002). A review of previous studies concluded that product strength (which was measured in terms of product uniqueness, product quality, design, before and after sales service) had a positive relationship with export performance (Madsen 1987; Pope 2002). Conformity to specification is also identified as an important production capability in the literature (Rangone 1999). In addition, possessing product quality was a distinctive characteristic of successful exporters (Bilkey 1987a; Christenson et al. 1987; Louter et al. 1991). Previous studies conducted in the Western countries consistently indicated the importance of production capabilities to export performance and the same could be true for manufacturing exporters in Thailand. Thus, the following proposition has been developed.

P7: There is a positive relationship between firm's production capabilities and its export performance.

Hence, the resource-based literature indicates that the availability of resources is important to gain competitive advantage and affects firm performance. However, most studies do not include a comprehensive classification of resources. Thus, it is crucial to highlight the applicability of resource-based view in explaining export performance. Figure 1 shows the relationships of firm resources and export performance.

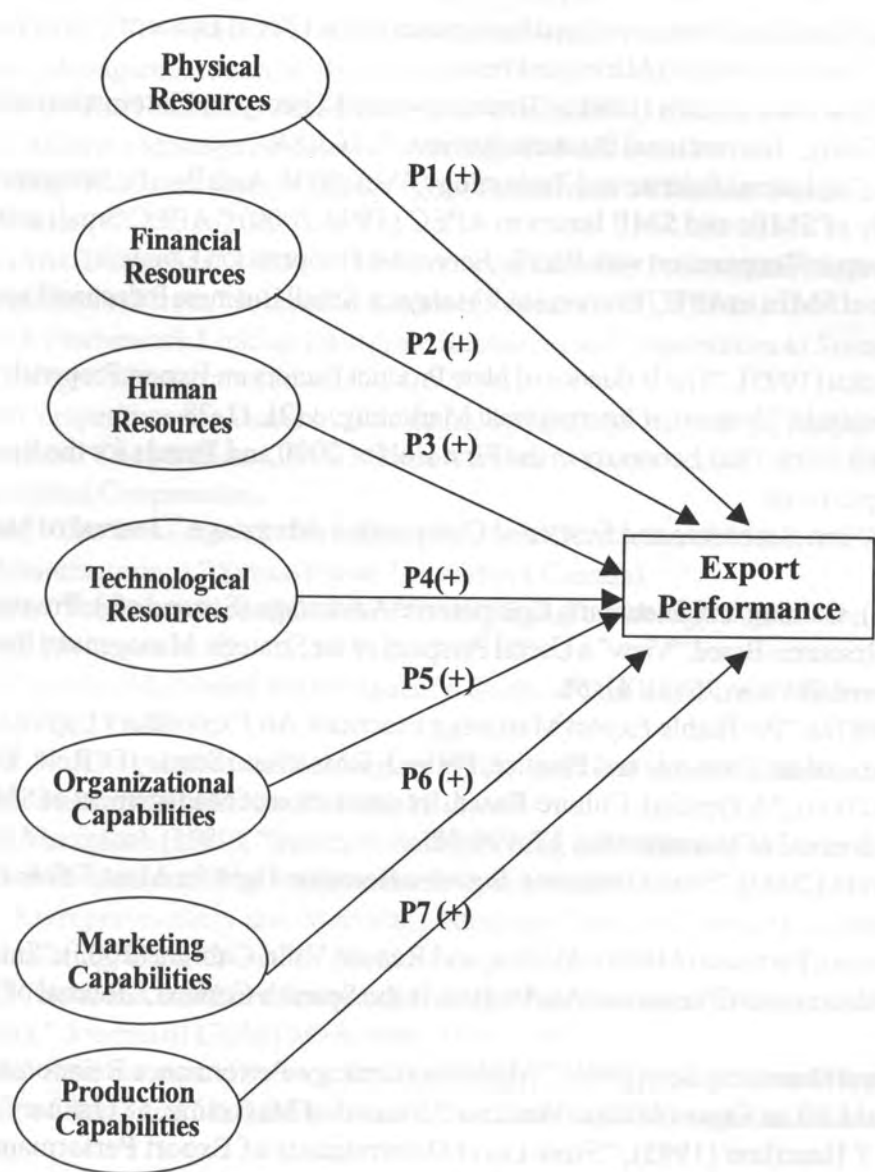


Figure 1 The Effect of Firm Resources on Export Performance

Conclusion

This research makes two major academic contributions. Firstly, it enhances the understanding and applicability of the resource-based view within the export marketing discipline. Secondly, the findings from this research provide a unique contribution to SMEs research, particularly for export driven economies such as Thailand. As to its managerial contribution, this study

provides information to export managers in allocating their budgets and efforts on enhancing particular resources which contribute most to the export performance of firms. Therefore, future research on the propositions developed in this study will provide an impetus in improving export performance of SMEs in Thailand.

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