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Abstract

Lack of visionary leadership, inability to see the potential competition, inability to continuously innovate with the changing trend of consumer preferences and technology, have caused many leading enterprises like Black buster and Sonly. A recent one is BlackBerry. Founded in 1984, Research and Motion (RIM) became market leader in smart phone market with its stunning BlackBerry and strategic partnerships with different companies for technology and marketing. However, in 2009, Apple iPhone and Google’s android, proved disruptive and BlackBerry lost its place to them and went down to third place. The product introductions, there after failed leading to fall in revenues, market shares and stock prices. Change in leadership brought John S.Chen to the forefront as CEO for turnaround. Team building, sale of patents, layoffs, new partnerships, and new products using android apps advantage, are some of the turnaround initiatives. Improvement in its operating results and positive reports about the new smartphone Priv, have raised confidence of Chen and he declared that BlackBerry will be soon on the path of growth.

Keywords: Smart phone, Competition, Innovation, Customer satisfaction, Turnaround.

Turnaround of BlackBerry

Introduction

Companies rise and fall in most of the cases due to the failures in leadership, innovation and operational efficiency. Consider Black buster and Sony for example. Founded as a single store in Dallas in 1985, Blockbuster led the market and withstood historic transition from VHS to DVD, but failed to face Netflix and smaller rivals, who started mailing videos and selling videos-on-demand. Sony held lead in consumer electronics such as TVs, cameras and video recorders, and transformed into a colossal conglomerate with film and music divisions, However, LG, Samsung, Vizio, and Apple quickly outpaced Sony (Hoque F., 2012). In a similar way, we witnessed the rise and fall of Blackberry in the smart phone market. While it took around two decades to achieve the dominant position, it took not as much as half of that time for BlackBerry to lose. In this paper, an attempt is made to trace the rise and fall of Blackberry and the turnaround initiatives of its CEOs in recent years.
RIM journey before BlackBerry

Research in Motion (RIM), a Canadian telecommunications and wireless company headquartered in Waterloo, Ontario, became Blackberry Limited in 2013. Its progress as RIM can be traced as follows.

Leadership Changes

RIM was set up in 1984 by two engineering students, Mike Lazaridis and Douglas Fregin. When Fregin left the company in 1992 and Jim Balsillie, joined Lazaridis. Both of them served as co-CEOs until January 22, 2012.

Product Innovations

RIM made a mark, in the market by its successive innovations to become a strong player in the world market. The journey of innovation began in 1988, when RIM became the first wireless data technology developer in North America and the first company outside Scandinavia to develop connectivity products for Mobitex wireless packet-switched data communications networks. The successive product introductions (“RIM History - BlackBerry”, 2015 October) are listed in Table 1.

<table>
<thead>
<tr>
<th>Year</th>
<th>Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>DigiSync Film KeyKode Reader</td>
</tr>
<tr>
<td>1991</td>
<td>First Mobitex protocol converter.</td>
</tr>
<tr>
<td>1992</td>
<td>First Mobitex point-of-sale solution, a protocol converter box that interfaced with existing point-of-sale terminal equipment to enable wireless communication.</td>
</tr>
<tr>
<td>1993</td>
<td>RIMGate, the first general purpose Mobitex X.25 gateway and Ericsson Mobidem AT and Intel wireless modem containing RIM modem firmware.</td>
</tr>
<tr>
<td>1994</td>
<td>First Mobitex mobile point-of-sale terminal.</td>
</tr>
<tr>
<td>1995</td>
<td>Freedom, the first Type II PCMCIA radio modem for Mobitex.</td>
</tr>
<tr>
<td>1996</td>
<td>RIM 900 Inter@ctive Pager – first pocket-sized two-way messaging pager in the world, with a QWERTY keyboard and wireless capability for textual data transmissions</td>
</tr>
<tr>
<td>1998</td>
<td>Introduced Inter@ctive Pager 950.</td>
</tr>
</tbody>
</table>

Awards and Recognitions

RIM has received several awards for technology development and innovations. In 1994, RIM received the Emmy Award for Technical Innovation and the KPMG High Technology Award and in 1997, Award for Excellence in Innovation from the National Quality Institute. RIM got rankings from different associations and media agencies for its entrepreneurship drive, fast growth and quality of products during 1997-99.
Partnerships and Alliances

RIM has entered into partnerships and formed alliances with several companies to expand its business and develop technology. In 1998, RIM had strategic alliances with BellSouth Wireless Data and Sybase. It signed wireless handheld supply contracts with American Mobile (now Motient), IBM, Rogers Cantel (now Rogers AT&T) and BellSouth Wireless Data (now Cingular) and wireless radio modem supply contracts with Telxon, Panasonic, GMSI Fleet Management Systems, Itronix Ruggedized Notebooks and DataWave and Gooitech.

The rise of BlackBerry

Blackberry, as a brand came into existence in 1999, when RIM introduced the BlackBerry 850 pager. As the keys of keyboard resembled the drupelets of blackberry, it is named as Blackberry. Former RIM co-CEOs Jim Balsillie and Mike Lazaridis introduced (“The Rise and Fall of Blackberry - The Market Mogul” 2015, October) Blackberry as “The official equipment for powered businessmen, as necessary as the pinstriped suit.”

The initiatives that led to its phenomenal rise to leadership include the following:

Product Innovations

Continuous innovation helped RIM to become the market leader (“Timeline: From RIM to BlackBerry, a company in transition” 2013, January). In April 2000, RIM introduced BlackBerry 957, the first BlackBerry smart phone. Very soon, it had cemented itself as a power brand -- a corporate status symbol. In 2002, RIM released the 5810, its first Smartphone. Its instantaneous delivery of email (push e-mail) gave it an instant success made RIM a major player in the burgeoning mobile phone market.

In 2003, RIM introduced devices that catered to consumer market as well. RIM released Blackberry Pearl series, Curve Series and Bold 9000 which had facilities like mobile phone, push email service, web browsing, faxing, text messaging, etc. RIM expanded its market presence further by allowing people use its BlackBerry email service through software called ‘BlackBerry Connect’ by holders of other devices.

RIM continued introducing new versions and platforms to strengthen BlackBerry brand.

In 2004, RIM introduced color BlackBerry 7520™ with speakerphone and walkie-talkie for the Nextel network, BlackBerry 7750 for CDMA2000 1X networks, BlackBerry 7290, which features quad-band and Bluetooth support, a brighter screen and enhanced memory and so on.

In 2005, RIM previewed its next generation of BlackBerry MDS™ technology with the support of web services and announced the security-enhanced BlackBerry Smart Card Reader. RIM Introduced BlackBerry Built-in for the Siemens SK65 Handset and BlackBerry 7130 Wireless Handset Series.

In 2006, RIM introduced the UMTS-enabled BlackBerry 8707 Wireless Handheld which enables users to simultaneously send and receive email, browse the Internet
and use other applications while speaking on the phone, even while the handset is being used as a tethered modem. RIM also introduced Hosted BlackBerry Enterprise Server to enable service providers to offer a hosted managed service of the BlackBerry Enterprise Solution to Small and Medium Sized Businesses.

Awards and Recognitions

RIM continued to win appreciation and awards such as Market Engineering Product Innovation Award from Frost & Sullivan and Canadian-American Business Achievement Award. BlackBerry got recognition as brand and received in 2000, Product of the Year Award from InfoWorld Magazine and Best Telecom Product of the Year Award.

Partnerships

RIM had entered into partnerships and signed contract with various companies to expand BlackBerry ("Research in Motion Ltd. History" 2015, October).

In 1999, RIM signed BlackBerry distribution agreement with Dell Computer, for selling BlackBerry devices to large corporate accounts. In January 2000, RIM and Canadian telecommunications giant Nortel entered into a joint marketing and product development agreement and it enabled BlackBerry to enter into Europe. Compaq Computer agreed to distribute RIM's BlackBerry service to its corporate clients.

In mid-2000, the company signed a partnership agreement with America Online (AOL) to provide AOL Mail and AOL Instant Messenger service through RIM handheld devices. BellSouth also agreed to offer the BlackBerry wireless e-mail solution to its corporate clients. In another development RIM licensed CDMA (code division multiple access) technology and patents from Qualcomm Inc., which allowed the company to expand its customer base to include wireless users on CDMA cellular and PCS networks.

In 2001, BlackBerry wireless e-mail service became more widely available in Europe. Agreements with IBM, Vaultus and Kasten Chase helped BlackBerry to reach corporate and military officials. In 2002, RIM partnered with Hutchison Telecommunications International Limited in Hong Kong and Telstra Corporation Limited in Australia to penetrate into Asia-Pacific region.

In 2003, RIM partnered with Symbian Ltd, High Tech Computer Corp and PalmSource to increase the use of BlackBerry products. Similar effort was made in 2004 and later years to enable BlackBerry connectivity on third party handsets and operating systems. In 2005, RIM worked with IBM, Novell and AOL to bring instant messaging to BlackBerry users.

The fall of BlackBerry

BlackBerry, one of the respected, innovative tech companies in the world, became the embattled underdog in a course of five years due to competition and bad reputation.

(i) Threat of iPhone and Android
In 2007, Apple introduced iPhone, a small and lightweight handheld device combining three products—a revolutionary mobile phone, a widescreen iPod with touch controls, and a breakthrough Internet communications device. Steve Jobs, Apple’s CEO observed: “iPhone is a revolutionary and magical product that is literally five years ahead of any other mobile phone.” iPhone was successful in generating substantial media attention, and numerous media outlets called it a “BlackBerry killer”. However, Nokia and RIM dismissed it as a joke. Here is what Jim Balsillie, co-CEO of BlackBerry said about iPhone threat (Tofel K. S. 2013, October):

“The recent launch of Apple’s iPhone does not pose a threat to Research In Motion Ltd.’s consumer-geared BlackBerry Pearl and simply marks the entry of yet another competitor into the Smartphone market.”

It is interesting to note that Google quickly appreciated the impact that iPhone was going to have on the market. Fred Vogelstein’s 2013 book *Dogfight: How Apple and Google Went to War and Started a Revolution*, reported that .one of the android architects, Chris DeSalvo said (Savov V. 2013, December): “As a consumer I was blown away. I wanted one immediately. But as a Google engineer, I thought ‘We’re going to have to start over.’”

To combat Apple’s iPhone, RIM produced its first touch screen Smartphone for the competing network in 2008—the BlackBerry Storm (“The Inside Story of How the iPhone Crippled BlackBerry - WSJ” 2015, May). It sold well but suffered from mixed to poor reviews and poor customer satisfaction. In October 2008, Google released HTC Dream, the first commercially available Smartphone running Android. RIM had now tough time facing two competitors- Apple and Google. The competitive advantage it had in carrier and enterprise support, could not sustain the sales growth of BlackBerry for a long time. Apple continued gaining market share and by October 2008, Apple briefly passed RIM in quarterly sales. In the next quarter, RIM surpassed the sales of iPhone but, this triumph was temporary. The launch of Apple iPhone4 enabled Apple to sell more phones quarterly than the BlackBerry in 2010.

(ii) Microsoft - Nokia Challenge

For BlackBerry, competition further thickened with the introduction of Windows Phone by Microsoft in late 2010. As Microsoft found it difficult to face competition from Apple and Google, it entered into a strategic partnership with Nokia to focus on Windows Phone as the smart phone platform and ecosystem for both companies. Stephen Elop, the president and CEO of Nokia said (“Nokia and Microsoft Announce Strategic Partnership” 2011, February) “The game has changed in the smart phone market from a battle of devices to a war of ecosystems.” (Pall Turroft 2011)

(iii) Product Failure, World-wide Outage and Layoffs

In an effort to increase market share, RIM launched BlackBerry Torch, a touch screen phone with slide-out keyboard and improved web browser. In 2011, it released Playbook in US and Canada. Reviews declared the Playbook largely disappointing. Sales proved underwhelming, and the company took a $485 million write-down on it. Also RIM postponed the release of its QNX-based BlackBerry 10 phone to 2012.
In addition to the product woes, there was drop in employee morale as the company laid off 2,000 employees, (10.5 percent of the total workforce) under: a “cost optimization program.” Some of its key executives left the company and media reported pessimist outlook in October 2011, millions of BlackBerry users on five continents were left without email, Internet and instant messaging service by a massive failure of RIM's infrastructure (“Research, no motion: How the BlackBerry CEOs lost an ...” 2012, February).

(iv) Loss in Market Shares and Incomes

Table 2 shows the global market shares of the smart phone operating systems. Blackberry’s RIM, the market leader in 2009, with 19.9 per cent share lost to Google in 2010 and to Apple in 2011 and went down to third place.

Table 2: Global market shares (%) of smartphone operating systems (2009 to 2014)

<table>
<thead>
<tr>
<th>OS/Year</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Android</td>
<td>3.9</td>
<td>22.7</td>
<td>46.6</td>
<td>66.4</td>
<td>78.5</td>
<td>80.7</td>
<td>82.8</td>
</tr>
<tr>
<td>iOS</td>
<td>14.4</td>
<td>15.7</td>
<td>18.88</td>
<td>19.1</td>
<td>15.5</td>
<td>15.4</td>
<td>13.9</td>
</tr>
<tr>
<td>BlackBerry</td>
<td>19.9</td>
<td>16</td>
<td>10.9</td>
<td>5</td>
<td>1.9</td>
<td>0.6</td>
<td>0.3</td>
</tr>
<tr>
<td>Symbian</td>
<td>46.9</td>
<td>37.6</td>
<td>18.7</td>
<td>4.22</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Microsoft</td>
<td>8.7</td>
<td>4.2</td>
<td>1.85</td>
<td>2.5</td>
<td>3.2</td>
<td>2.8</td>
<td>2.6</td>
</tr>
<tr>
<td>Others</td>
<td>6.1</td>
<td>3.8</td>
<td>1.0</td>
<td>0.52</td>
<td>0.9</td>
<td>0.5</td>
<td>0.4</td>
</tr>
</tbody>
</table>


Table 3 presents the sales and income details of BlackBerry. The sales rose from $294 million in 2002 to $595 million in 2004, and BlackBerry registered profits. The subscriber based was about 2.5 million. The success story continued up to 2011. There was fall in sales from 2012 and losses from 2013.
Table 3: Sales, income and subscribers of BlackBerry (in million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales ($</th>
<th>Operating Income ($</th>
<th>Net Income ($</th>
<th>Subscribers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>294</td>
<td>(58)</td>
<td>(28)</td>
<td>0.53</td>
</tr>
<tr>
<td>2003</td>
<td>307</td>
<td>(64)</td>
<td>(149)</td>
<td>1.069</td>
</tr>
<tr>
<td>2004</td>
<td>595</td>
<td>78</td>
<td>52</td>
<td>2.51</td>
</tr>
<tr>
<td>2005</td>
<td>1,350</td>
<td>386</td>
<td>206</td>
<td>4.90</td>
</tr>
<tr>
<td>2006</td>
<td>2,066</td>
<td>617</td>
<td>375</td>
<td>8.00</td>
</tr>
<tr>
<td>2007</td>
<td>3,037</td>
<td>807</td>
<td>632</td>
<td>14.00</td>
</tr>
<tr>
<td>2008</td>
<td>6,009</td>
<td>1,731</td>
<td>1,294</td>
<td>25.00</td>
</tr>
<tr>
<td>2009</td>
<td>11,065</td>
<td>2,722</td>
<td>1,893</td>
<td>41.00</td>
</tr>
<tr>
<td>2010</td>
<td>14,953</td>
<td>3,507</td>
<td>2,457</td>
<td>70.00</td>
</tr>
<tr>
<td>2011</td>
<td>19,907</td>
<td>4,739</td>
<td>3,444</td>
<td>77.00</td>
</tr>
<tr>
<td>2012</td>
<td>18,423</td>
<td>1,497</td>
<td>1,164</td>
<td>-</td>
</tr>
<tr>
<td>2013</td>
<td>11,073</td>
<td>(1,235)</td>
<td>(646)</td>
<td>-</td>
</tr>
<tr>
<td>2014</td>
<td>6,813</td>
<td>(7,163)</td>
<td>(5,873)</td>
<td>-</td>
</tr>
<tr>
<td>2015</td>
<td>3,335</td>
<td>(423)</td>
<td>(304)</td>
<td>-</td>
</tr>
<tr>
<td>2016</td>
<td>2160</td>
<td>(223)</td>
<td>(208)</td>
<td>-</td>
</tr>
<tr>
<td>2017</td>
<td>1374</td>
<td>(1181)</td>
<td>(1206)</td>
<td>-</td>
</tr>
</tbody>
</table>


(v) Fall in Stock Values

The dwindling market shares and incomes and pessimistic outlook, presented by RIM angered the investors. By the end of 2011, RIM stock had lost nearly 75 percent of its value, dipping below book value, or the total value of the company's assets.

(vi) Loss of Reputation

The global launch in 2011 of BlackBerry Bold 9790 Bellagio at Jakarta, Indonesia, had affected the image of the company. The company promised to sell at half price the phones to the first 1000 customers. When the phones were sold, crowd stampeded and about 90 people were injured (“BlackBerry Bold 9790 launch event in Jakarta turns ugly ...” 2011, November). In the same year, RIM had another setback. Two executives of RIM were arrested for playing mischief in a drunken state in a plane and were sentenced probation and fine of $35,382 each (“BlackBerry maker RIM fires two executives who 'forced ...” 2011, December).
BlackBerry's revival initiatives

The company tried to arrest further decline by taking appropriate measures.

(i) Change in leadership

BlackBerry had lost the game due to two reasons - failure to understand the changes in market, and design right products with a long term perspective. The company took an almost arrogant approach towards its competition and clearly didn’t have a long-term plan to combat it. Although the market rejected his initial touch-screen approach, Lazaridis believed the four pillars of BlackBerry’s success—good battery life, miserly use of carrier’s spectrum, security and the ability to type—still ruled in the new Smartphone world and gave his company its competitive advantage (“The Inside Story of How the iPhone Crippled BlackBerry - WSJ” 2015, May). However, the rules and expectations were changed with the introduction of iPhone. Conservation didn’t matter. Battery life didn’t matter. Cost didn’t matter. Believing that change in leadership would help, BlackBerry appointed Thorsten Heins, as CEO at the start of 2012.

(ii) New competitive products

The company had failed to develop any compelling new products and remained reluctant to follow emerging trends such as including a camera or MP3 player in its Smartphone. Each time BlackBerry adjusted to the market, it would still be two steps behind iOS and Android, causing more churn with stopgaps such as BlackBerry 7.

BlackBerry made a mistake of diverting the resources from smart phone development to the Playbook, which failed miserably in market. Industry analysts opined that the company desperately needs low-end Smart phones to compete in key emerging markets. However, in 2012, the company launched Z10, a high-end phone. The mid-range BlackBerry Q5 was expected to come in 2013. Critics called the Z10 “lovely, fast and efficient, bristling with fresh, useful ideas”. However, it failed miserably forcing BlackBerry to write-down of about $934 million for unsold Z10 phones (Vara V. 2013, August).

(iii) New company to Gain from Image

Along with the new BlackBerry Z10 Smartphone came a change of name, Research in Motion was named as BlackBerry. The move was expected to consolidate the company's brand into a single cohesive global presence.

Frank Boulben, Chief Marketing Officer, BlackBerry explained (“Research In Motion Changes Its Name to BlackBerry - Press …” 2013, January). "We were becoming a house of brands -- with Research In Motion, BlackBerry and then all those franchises: Bold, Curve, Torch, Playbook. Outside of North America, we are known solely as BlackBerry and the strength of the brand has opened doors in new and emerging markets. We now represent a company with a clear global brand and cohesive global marketing approach. BlackBerry’s reinvigorated marketing efforts will now consistently represent the BlackBerry brand".
Turn around moves

The continuation of BlackBerry's former CEOs, Mike Lazaridis and Jim Balsillie, who were responsible for the company's debacle, limited the scope of progressive changes in company's strategy. John Chen announced: “I’m not focused on who BlackBerry used to be—I'm focused on what BlackBerry will be today and in the future.” (“John Chen, executive chair and CEO of BlackBerry, BlackBerry: The way forward, at BlackBerry CEO: Here's our new strategy—Commentary” 2013, December) The SWOT of BlackBerry is presented in the following lines.

Strengths

According to Chen, the strengths of BlackBerry are (“Android Vs iOS Vs Blackberry OS | TDK Technologies” 2015, October) (Touryalai H. (2013, February):

- With a global enterprise customer base exceeding 80,000, the company has three times the number of customers compared to Good, AirWatch and MobileIron combined. This makes BlackBerry the leader in mobile-device management.

- Blackberry lovers point out that the red indicator light, the physical keyboard and BlackBerry Messenger (BBM) are major attractions. Messaging service, BBM, is also renowned in regulated industries for being the most secure mobile-messaging service, and consumers love it, too.

- In a sea of identikit Androids, iPhones and Windows Phones, BlackBerry continues to stand out. They are built principally for communication. For emails, SMS, IM and making phone calls, a BlackBerry is still a good choice. The hardware QWERTY keyboard, allows lengthy hammering by even the least dexterous fingers. The square displays are perfect for reading and viewing email, documents and even spreadsheets. BlackBerry’s server-side email software is secure, and remains in the control of the system administrator back in the office.

Weaknesses

(i) Lack of Apps compared to rivals

The lack of applications had prompted users to prefer Android to BlackBerry. When Android came to market, it gave enormous opportunity to app developers and it resulted the conversion of Blackberry developers to Android developers. Apple is trying to even with Google when it comes to sheer number of items in the App Store and ahead when it comes to the quality of items in the App Store. Table 4 shows that Google play is leading with 1600,000 applications, and Android with 1500,000 is in the second position. BlackBerry has fewer applications than others.
Table 4: Applications in Leading App Stores

<table>
<thead>
<tr>
<th>App Stores</th>
<th>Number of Applications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Google play</td>
<td>1,600,000</td>
</tr>
<tr>
<td>Android app store</td>
<td>1,500,000</td>
</tr>
<tr>
<td>Amazon app store</td>
<td>400,000</td>
</tr>
<tr>
<td>Windows app store</td>
<td>340,000</td>
</tr>
<tr>
<td>BlackBerry app store</td>
<td>130,000</td>
</tr>
</tbody>
</table>

Source: Number of apps available in leading app stores 2015 - Statista
www.statista.com › Industries › Internet › Mobile Internet & Apps

(ii) Weak Management

As new rivals redefined the market, RIM responded with a string of devices that were late to market, missed the mark with consumers, and opened dangerous fault lines across the organization. The Globe and Mail’s interviews with insiders exposed a series of deep rifts at the executive and boardroom levels. For example, when Balsillie gave a novel plan of getting BBM onto hundreds of millions of non-BlackBerry phones, and charge fees for it, the idea was considered good but it was killed by Heins and Lazaridis. When Boulben and Tear told Lazaridis that the market for keyboard-equipped mobile phones – was dead, Lazaridis differed and argued that selling all-touch Smartphone in a market crowded with them, would be a huge mistake. (Silcoff S. Mcnish J. and Ladurantaye S. 2013, September)

Opportunities

Growth in sales in other than North American regions and consumer acceptance in all regions including USA, give place for optimistic outlook.

(i) Selling Opportunities in Emerging Markets

Smartphone sales are forecast to hit 1.7 billion in 2017, according to IDC (November 2013). Growth is expected from emerging markets, particularly in Asia, while Western economies rapidly approach Smartphone saturation. Asia/pacific dominates the market, accounting for 59 percent in 2017. Table 5 shows the details of forecast across regions.
Table 5: Region wise forecast of smart phone sales

<table>
<thead>
<tr>
<th>Region</th>
<th>Shipment Volumes (million)</th>
<th>Market Share (%)</th>
<th>Growth (%) (2013-17)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia/Pacific</td>
<td>986.0</td>
<td>58.5</td>
<td>23.2</td>
</tr>
<tr>
<td>Europe</td>
<td>261.0</td>
<td>15.5</td>
<td>11.1</td>
</tr>
<tr>
<td>North America</td>
<td>189.0</td>
<td>11.2</td>
<td>7.8</td>
</tr>
<tr>
<td>Latin America</td>
<td>154.7</td>
<td>9.2</td>
<td>23.7</td>
</tr>
<tr>
<td>Middle East and Africa</td>
<td>95.0</td>
<td>5.6</td>
<td>18.5</td>
</tr>
<tr>
<td>Total</td>
<td>1,685.8</td>
<td>100.0</td>
<td>18.4</td>
</tr>
</tbody>
</table>


(ii) Customer Acceptance

Though Blackberry failed in US market, its sales were on the rise in other regions like Europe, and Asia -Pacific. Figure 1 shows region wise sales in different nations.

Figure 1: BlackBerry market share - region wise

Though sales declined in USA, consumer acceptance was on the rise in USA as per different surveys (“comScore Reports June 2015 U.S. Smartphone Subscriber Market Share” 2015, August). According to the J.D. Power and Associates’ survey conducted
in 2007, BlackBerry devices, manufactured by Research in Motion (RIM), ranked highest in overall customer satisfaction among business wireless Smartphone users (“BlackBerry customer satisfaction in the US rising faster than ...” 2015, June).

J.D. Power US wireless smart phone user survey in 2013, revealed that Smartphone models that perform particularly well across all four U.S. wireless Tier 1 carriers: Apple iPhone 5; Blackberry Z10; Nokia Lumia 920 and Samsung Galaxy Note II.

American Customer Satisfaction Index (ASCI) published by the University of Michigan (“BlackBerry ranks highest in customer satisfaction” 2007, November), found a rise in US customer satisfaction of BlackBerry customers. The score of 69 in 2012 increased by 13% to be 78 in 2015, making their total gain the largest out of all Smartphone brands. Overall, BlackBerry stood in the fourth place with Apple, Samsung Motorola topping the list.

The South African Customer Satisfaction Index (SACsi) based on the survey (“BlackBerry SA customers are the least satisfied” 2015, July), in South Africa in 2014 Blackberry outsold both brands, Apple and Samsung- The brand also has the highest percentage of complaints and yet second highest in terms of complaint handling.

According to an Ipsos Mori Global Trends Survey (“South Africans still love BlackBerry” 2014, July 17) as many as 43% of South African respondents continue to use BlackBerry devices

Threats

The major threats to BlackBerry include strong competition and weak management company’s moves.

(i) Strong Competition

Global Smartphone operating system forecast for 2014 and 2018, according to IDC is shown in Table 6. It indicates that Android and iOS are leading and Microsoft is fast growing. In addition to the existing ones, new players such as Xiaomi and OnePlus are posing threat to BlackBerry.
Table 6: Sales forecast of smartphone operating systems

<table>
<thead>
<tr>
<th>Operating System</th>
<th>2014 Sales (million)</th>
<th>2014 Market Share (%)</th>
<th>2018 Sales (million)</th>
<th>2018 Market Share</th>
<th>Annual Growth (CAGR) %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Android</td>
<td>950.5</td>
<td>78.9</td>
<td>1,321.1</td>
<td>76.0%</td>
<td>10.7</td>
</tr>
<tr>
<td>iOS</td>
<td>179.9</td>
<td>14.9</td>
<td>249.6</td>
<td>14.4%</td>
<td>10.2</td>
</tr>
<tr>
<td>Microsoft</td>
<td>47.0</td>
<td>3.9</td>
<td>121.8</td>
<td>7.0%</td>
<td>29.5</td>
</tr>
<tr>
<td>BlackBerry</td>
<td>11.9</td>
<td>1.0</td>
<td>5.3</td>
<td>0.3%</td>
<td>-22.6</td>
</tr>
<tr>
<td>Others</td>
<td>15.1</td>
<td>1.3</td>
<td>40.7</td>
<td>2.3%</td>
<td>32.7</td>
</tr>
<tr>
<td>Total</td>
<td>1,204.4</td>
<td>100.0</td>
<td>1,738.5</td>
<td>100.0%</td>
<td>11.5</td>
</tr>
</tbody>
</table>


Strategic Initiatives

John Chen’s measures include the following (“John Chen, executive chair and CEO of BlackBerry, BlackBerry: The way forward, at BlackBerry CEO: Here's our new strategy —Commentary” 2013, December).

- Focus and Prioritization – Chen admitted that BlackBerry can no longer compete with the likes of Apple’s iPhone and Android-based smart phones in the consumer market. Therefore, he said the challenge is how to transform the company from a hardware-focused business to an enterprise software company to build in security, mobility, and productivity to the enterprise software market. To move to a new operating unit structure, Chen stated that the company’s priority was to focus on core business drivers: Enterprise Services, Messaging, QNX Embedded business and the Devices business. The company focused on the enterprise software market — with a focus on mobile, autos and cybersecurity — and it outsourced the smartphone business.

- Partnerships -The Company streamlined its devices business model and partnered with Foxconn to manufacture smart phones in Indonesia and other fast growing markets. The partnership creates speed to market and BlackBerry can design for faster product life cycles.

- New products - John Chen is pushing the sale of mobile device management software and other technology that works across BlackBerrys, Apple’s iPhones, and devices powered by operating systems from Google Inc. and Microsoft Corp. BlackBerry launched Classic, Leap and Passport.

Blackberry embraced Android technology of Google and is releasing a keyboard-equipped phone running the Android operating system. It's called the Priv, for "privilege" and "privacy." Chen maintained that it will solve an ongoing problem of the lack of apps that phone user might otherwise find on Apple iOS or Google’s Android platform.
• Team building - Chen said he will continue to build out his leadership team with those who have the skills and passion to get BlackBerry back on the path to profitability.

• Layoffs - In July 2011, the company cut 2,000 jobs, the biggest lay-off in its history. In July 2013, 250 employees from BlackBerry's research and development department and new product testing were laid off as a part of turnaround program. BlackBerry undertook a massive layoff of 4,500 employees by the end of 2013. In July 2015, BlackBerry announced an additional layoff of an unspecified number of employees. However, with expected improvements in the position of the company, it is reported that fresh hiring will start soon. The company currently employs about 7,000 people internationally.

• Sale of patents - John Chen declared that monetization of the company's patents is an important aspect of turnaround. Today, the company has about 44,000 patents. The patents that gave competitive advantage in the past, with features lie push email and security and battery life and also those related to general wireless technologies and LTE technology are as important as ever in today’s Smartphone environment and have traded for a premium in the last five or so years during the Smartphone patent wars.

• Sale of company - It is rumored that BlackBerry has put itself up for sale to revive the fortunes of its ailing brand. However, Chen confirmed that he is not ready for that until shareholders get good value for their stocks.

Confident Expectation

By June 2015, only 2.28 million (1.2%) of the 190.3 million Smartphone users in the United States were running BlackBerry compared to 83.92 million (44.1%) on an iPhone. The number of Android phones in United States, rose from 3 million (7.1% of the 42.7 million smart phones in use) to 98.19 million (51.6% of 190.3 million. BlackBerry performed dismally in comparison. BlackBerry phones decreased from 18 million BlackBerry devices (43% of the 42.7 million) to 2.28 million (1.2% of the 190.3 million) (Page Carly. 2015) (“IDC: Smartphone OS Market Share 2015, 2014, 2013, and ...” 2015).

The poor performance in 2015 and the strategic move to embrace Android for smart phones have raised eyebrows of critics. Some critics opined that embracing Android resulted in flop image of BlackBerry as it departed from the history of selling products using its own homegrown software. They see no advantage to BlackBerry, since Google's mobile platform powers so many other devices, BlackBerry would be one in the crowd and lose its identity, in course of time. BlackBerry, however, insists that it's not killing off its latest software version, BlackBerry and the B10 which gives unmatched productivity and security will be improved. (Rubin B. P, 2015, June)

Against this negative outlook, came BlackBerry Priv in November 2015. It has authentic BlackBerry keyboard, legendary security, streamlined communications, productivity, combined with the wide world of Google Play™ store apps and the exclusive DTEK™ by BlackBerry warning system app to provide the power of privacy.
It has everything a consumer and corporate employee asks for (Walton M., 2015, November).

When BlackBerry's CEO was asked about his chances of completely turning around the company, he said the odds were 99% in favor of his success. BlackBerry sold through 93% of its inventory last quarter. The company was cash flow positive and operating earnings showed a 1 cent a share profit. BlackBerry has survived; now we have to start looking at growth. (“Chen now 99% sure that BlackBerry will survive”, 2014, December).

Chen observed that if Priv is successful, BlackBerry will be able to “rebuild” its Smartphone business and regain lost market share. He further observed. “We are taking steps to make the handset business profitable. Also there’s a whole range of produces to come from the Canadian company. We believe these actions are prudent and necessary to grow the business. We believe the remaining milestones in our strategic plan are achievable” (“BlackBerry CEO John Chen’s software gamble paying off” 2015, June 23). The company believes that fiscal year 2018 would be a profitable with positive free cash flow (Wayne Duggan, 2017, September 28). As Chen mentioned the company made investment of over a billion-plus in software, in security (“BlackBerry CEO Says Turnaround Two-Thirds Complete” 2016, September 26).

As the smart phone market is growing fast, BlackBerry can revive its past glory, as hoped by John S. Chen, in a short period of 3 to 4 years, provided it uses innovative technology and makes products with customer orientation. However, according to many analysts and industry experts, BlackBerry’s turnaround has a long way to go. Though it had certainly made progress, the competitive environment remains tough for it (Tom Taulli. 2017, August 21).

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Abstract

The association between organizational performance and Human Resource Management has not yet been fully investigated in literature. The nature of this interaction and the search for conclusive evidence has been the 'Holy Grail' for many researchers. The current study will try to connect HR practices with society and the national culture by putting employees back into the centre of the equation, and asking HRM to forego its one sided understanding of performance and emphasize in human nature inside HRM. Despite the economic importance of the Gulf Region, in particular, there is a lack of literature on empirical studies of culture related management dimensions, for example emiratization. The survey method was chosen to address the issues and the sample is a list of one hundred United Arab Emirates (UAE) companies. Finally, the current research will conduct qualitative research too, with face to face interviews in order to examine the complex relationships of culture.

Keywords: HRM practices, Organizational Performance, Culture, Emiratization, UAE

Biographical notes: Valeria Gkoura completed her Bachelor Degree in Political Science and Public Administration in 2007 in National and Kapodistrian University of Athens, Greece. She then completed two Master Degrees (MSc), one in Management and one in Human Resource Management from University of Surrey in UK in 2009 and 2010 respectively. She is a PhD candidate in University of Nicosia in Cyprus since 2013. She is working in ADNOC schools in Abu Dhabi, UAE since 2010.

Hans Ruediger Kaufmann completed his sponsored PhD in 1997 after extensive experience in German Bank Management, and was as research assistant and then lecturer (p-t) at Manchester Metropolitan University. Later, he worked in Budapest, first as Course Director Marketing for a company affiliated with the Chartered Institute of Marketing and then as an Assistant Professor in Marketing at the International Management Centre Budapest as well as its contractual consultant. He launched his international management consultancy (in 1997. At the University of Applied Sciences Liechtenstein he was Academic Director Private Banking and, later, Head of the Competence Centre International Management. Since October 2006 he was an Associate Professor at the University of Nicosia and was ranked Full Professor in February 2013. He has been a launching member and President (2007-2009) of the international research network on consumer behaviour, CIRCLE. He also was a launching member of and is currently Vice-President of the EuroMed Research Business Institute (EMBRI). In 2011, Rudi was elected into the Board of the AMA (American Marketing Association) Global
1 Introduction

Within the last decades, globalization, market force and highly competitive markets have forced the organizations to become more and more competitive in order to maintain their status in the local and international market. A high level of skilled and competent labour force is able to contribute to the firm’s success by developing a comprehensive and internally consistent Human Resource Management system that is embedded in the organization’s structure and culture (Liu et al., 2007). In the beginning, HRM was developed as a United States management conception which placed emphasis on every employee and started treating them more as assets and less as a cost (Wilkinson 1990; Beaumont 1992). Lately, the role that HR practices play in the improvement of organisational performance has become more understood (Abudakar et al., 2013) and there are a lot of researchers are trying to connect HRM with organizational performance. The nature of this interaction and, especially, the search for conclusive evidence, has been the ‘Holy Grail’ for a lot of researchers (Boselie, 2005). The HRM – Performance link has been approached from various concepts and disciplines such as: economic, sociology, industrial relations etc. All of these researches can only prove that HRM is a quite vivid field of study. And as it has been mentioned by Boselie (2005) and Guest (1997) the field is lacking some theory that will clearly states what is the nature of the relationship that exists between the variables of HRM practices and performance.

2 Research aims and Objectives

Research aim: To examine the influence that Culture has on Human Resource Management Practices and Organisational Performance in UAE.

Research objectives:
• To investigate the influence that a particular set of HR practices have on organisational Performance.
• To explore if culture affects the selection of these HR practices.

3 The research gap

The relationship that exists between HRM practices and organisational performance and how this relationship can be measured, has been the main focus for a great number of studies (Huselid 1991, Arthur, 1994, Delaney and Huselid 1996, Huselid et al., 1997, Den Hartog and Verburg, 2004, Wood and de Menezes, 2008). Apart from USA and UK studies, similar studies have taken place within a variety of countries as research setting: Japan, Korea, India, Taiwan, New Zealand, Greece, Singapore and Oman (Guthrie 2001; Vlachos 2008; Unnikammu Moideenkutty et al. 2010). However, as Siddique (2004), Haggerty and Wright (2009), Chin-Ju Tsai et al., (2010 ), Meera Alagaraja (2012) and Kenneth Cafferkey and Tony Dundon, (2015) argue the association between organizational performance and HRM has not yet been fully established and continues to remain underdeveloped and therefore, additional exploration is necessary. Actually, the understanding of the relationship that exists between HRM and organizational outcomes is one of the longstanding aims of the macro HRM research (J Lang e al. 2012). In the same
line, Banks and Kepes (2015) added that over the past few decades, research has shown that HR practices affect firms’ outcomes. But then again, the causal chain between HR practices and firm-level outcomes is not well understood despite a mass number of calls for studies to explain the mediating processes (Patel & Cardon, 2010). To sum up, since the specific ways in which HRM affects organizational performance are not clear yet, there is a need for more investigation and research within this field of studies (Buller & McEvoy, 2012, Anastasia Katou 2014).

Following the same pattern, Bowen and Ostroff (2004) highlighted some very important issues that are still unanswered, and require the creation of relevant theory and more inclusive HR practices-Performance models. Their questions were regarding the actual impact of HR practices on the performance, how this impact takes place exactly and what is the mechanism that occurs in this relationship. Moreover, a little bit later, Boselie et al., (2005), Wright et al., (2005), Combs et al., (2006) and Sheehan (2013) stated that the causality of the linkage between HRM practices and organizational performance advancement has not been fully investigated, and there is a research gap that lies there. Guest et al., (2003), added more specifically, that there are insufficient levels of research being conducted in UK companies that are trying to explore the connection of HR practices with the performance of an organization.

In the 1990s there were a lot of simplistic models that were trying to correlate HR practices with performance (Jaap Paauwe, 2009), but nowadays the field has been advanced with a lot of new models that connect HR practices and financial performance in a more sophisticated way. These models’ main idea is that the HR practices influence the behaviour and the attitude of employees, the HR outcomes and, consequently, organizational outcomes and performance. Furthermore, according to Anastasia Katou (2014), more and more researchers are using not one, but a set of HR practices and the focus of the research have been moved from the individual practice to a set of practices. Thus, the current research is going to test a set of HR practices against performance. Nevertheless, according to Jaap Paauwe (2009) a lot of work needs to be done in the HR field and new models need to be created that provide a more detailed picture of the nature of the relationship that exists between HRM practices-performance. Additionally, as David Guest and Neil Conway (2011), Messersmith and Wales, (2011) and Sheehan (2013) stated there is a number of issues still unresolved regarding the relationship, like the concern of the process that is taking place. A little bit later, Almutawa et al., (2015) also stated, that several studies have highlighted the relationship that lies there, but there are still a lot of remaining questions regarding the ‘black box phenomenon’ and the intervening and mediating variables that link HR practices with performance: a big question still needs to be answered: "how does HRM contribute to firm performance? Such a question (the black box) urges the search for developing and refining theories and proposing more comprehensive models of the HRM-performance relationship that would include intermediate linkages".

4 The ‘black box’ phenomenon

In U.S.A., the relationship between HRM and performance was named the ‘black box’ problem. That problem was describing the difficulty in discovering the association between HR policies and the performance of an organization or, in other words, between the inputs and the outputs (possibly moderated by the intervening variables) (Boselie et al., 2005). As Delery (1998) stats: "there is little understanding of the mechanisms through which HRM
practices influence effectiveness". This vague and mysterious link in the causal chain is now identified in the literature as the “black box” phenomenon (Purcell et al., 2003).

In the past twenty years, researchers have tried to create new models that were trying to explain the relationship with new variables and some advancement has been succeed (Becker et al. 1997, Guest 1997, Wright and Gardner 2001), but unfortunately that progress has been modest and still remains largely unclear about how and why HR practices affect the performance of an organization, with the empirical evidence still questionable (Ramsay et al., 2000, Hesketh and Fleetwood 2006, Edgar and Geare 2009, Jaap Paauwe 2009, Guest 2011, Kenneth Cafferkey and Tony Dundon 2015). And finally as Kenneth Cafferkey and Tony Dundon (2015) stated: "we are more knowledgeable but not much wiser”.

This absence of relative theory and the black box phenomenon was noticed from quite early on, Guest highlighted the lack of relevant theory and stated: "If we really want to improve our understanding of the impact on HRM on performance, we need a theory about HRM, a theory about performance and a theory about how they are linked" (Guest 1997, p.263). This absence of theory and the need for one were mentioned later from Legge as well (2005). In 2011, Guess still, after all of these years, kept stating that even now there are a lot of challenges in this field that need to be covered, and while we are more educated about the linkage, a lot of research is still needed and there is a gap that lies there. To sum up, the main conclusion from his 2011 review is that after over two decades of extensive research, we are unable to answer core questions about this relationship. Finally, in order for the ‘black box’ process to be explained so many calls for papers took place, although, according to Banks and Kepes (2015) our understanding of the specific dynamics within the “black box” has not progressed significantly since Becker and Gerhart (1996) first introduced the term and our basic understanding of the dynamics within the ‘black box’ is quite insufficient.

5 Literature focus so far

As mentioned above, researches regarding the linkage between HRM practices - Performance and its nature (black box) have taken place in many countries and however, the literature is worldwide and does not consider country borders; there are a lot of studies in the literature which suggest that more research regarding the HRM-Performance linkage is needed in a specific country. As Rosenzweig and Nohria (1994) stated, HRM is the management territory that is subject to national differences. Moideenkutty et al., (2010) stated that the correlation that exists between the performance of organizations and HRM practices has not been fully investigated in the GCC countries. It has been stated that regardless of the fact that the Middle East is a politically and economically important region, with a population of more than four hundred millions and extensive natural resources (Ali, 1999), the region is left behind in terms of international and cross-cultural management research (Robertson et al., 2001; Aycan et. al., 2007; Abdulrahman, 2010).

A great part of the literature has been concentrated in north American and European environments, but in order to use these theories in another environment the only suggestion that they offer is to modify them since there is a lack of managerial practices for other national contexts. Abdulrahman, (2010) stated that despite the fact that these managerial researches are so crucial, there only a small amount of studies have focused on today’s Arab world, its culture and its managerial policies. Thus, there is a huge need
for the development of an ultimate Arab managerial style that will focus exclusively on the needs of this part of the world.

Moreover, Legge (2001), stated that in the literature of HR practices and Performance, a lot of emphasis has been given to the capitalist variables, and not enough to the non-financial variables, and consequently this freezes the deep understanding of the ‘black box’. Guest (2011) named this tactic “rush to empiricism” and stated that it has been taking place at the expense of the conceptual variables, so that is why our knowledge of the process remains frustrated. In addition, Kenneth Cafferkey and Tony Dundon (2015), came to add that the literature review, so far, usually prefers to focus on more accessible “hard” and singular constructs of employee-based categorisations of the black box (profit, Huselid, 1995; quit rates, Batt, 2002; absenteeism, Guest et al., 2003), while softer or less hard to measure outcomes like commitment (Whitener, 2001), satisfaction (Guest 1999) or motivation (Fey et al., 2000) frequently are omitted and remain untested, culture falls in the same category as well. Thus, the current study will try to connect the HRM practices with the society and the national culture by putting employees back into the centre of the equation, by trying to attribute more value, especially, to social values through asking HRM to forego its one sided understanding of performance and actively emphasizing the human nature inside HRM by approaching the black box throughout a cultural and a more human nature context.

6 UAE

Despite the economic importance of the Gulf region; a small amount of research in managerial fields has taken place in Gulf countries and UAE in particular (Weir, 2002), and as Siddique (2004) suggests, here is a lack of research in HRM issues and it needs to be encouraged in the UAE and other GCC countries. According to the UAE Government Official Website there is a necessity for investigation in organizations based in UAE in order to clarify why there is a high turnover of employees (57% of the employees intend to change their jobs and 31% have already changed, although the global standard of turnover is only 20% (Hays GCC Salary & Employment Report 2016)). Gulf news (2008) reported that high staff turnover in UAE organizations costs about AED 9.9 billion per year; and innovation suffers too (26th place in 2008 and 42nd place in 2016 Global Innovation Index). These are crucial issues that can influence organizational performance, and it is essential to consideration that the UAE is a very wealthy and resource-rich country and these results can determine those organizations’ market position and financial growth in the long run. Finally, as C.M. Siddique (2004) and Abdulaziz Al-Raisi et al., (2011) stated as well, the subject of performance in the UAE has not been widely studied and a research gap is lying there.

The UAE has been classified as one of the best economies worldwide for business and has quite a high Human Development Index in the Asian countries, and since the population is essentially a small one, a massive amount of expatriates have arrived to the country since its establishment. Subsequently, it has experienced very rapid growth following the oil finding and the sale of it to other countries. These employees are usually expatriates that are chosen according to their abilities and skills. The replacement of expatriate employees is quite an expensive issue for organizations. Under these circumstances, an organization is likely to think that any kind of investment in HRM is too expensive; then again, globalization brings a big challenge for Arabic organizations (Unnikammnu Moideenkutty et al., 2010) and the difference that an organization can make in today’s very competitive environment lies on the HR system so that an organization
applies (Cherian and Farouq, 2013). Finally, in contrast with the majority of the countries where research in the management field has been carried out, the GCC countries are described by a cultural diversity since they have large portion of expatriate employees (Al-Hamadi et al., 2007). Erez (2004) argues that the managerial practices of a company have to match with the natural culture of the country; otherwise they are going to be ineffective. Multiple researches have stated that compatibility between HR practices and national culture values is fundamental to be compatible. (Sparrow and Wu 1998, Sparrow and Budhwar 1997, Sparrow 2001, Aycan et al., 2007). Therefore, it is crucial to investigate the HR practices on organizational Performance within the UAE’s multicultural environment, since culture shapes HRM polices (Al-Hamadi et al., 2007, Aycan 2007, Unnikammmu Moideenkutty et al., 2010). And finally, as it has been claimed, the existing literature on strategic HRM has mainly overlooked the implications of external contexts, like the one of culture, on HRM–firm performance relationship (Datta, Guthrie and Wright 2005, C.J. Zhu et al., 2013).

7 Culture

HRM is not narrowed in organizational boundaries but is rather influenced by outside factors like culture (Hofstede, 1993; Rosenzweig & Nohria, 1994; Tayeb, 1998; Zhang, 2003, Friedman, 2007). So, Culture is a variable of a contextual nature that might, a priori, have a relevant influence on the HRM-Performance linkage. HR practises like the majority of the management techniques, are grounded on cultural beliefs. Subsequently, if an organization ignores these values, could possibly create a failure in the application of HR practices in every social context where the organization is functioning and could create numerous conflicts and inefficiencies (Lawler et al., 2000; Tayeb 2005; Kim and Gray 2005). However, when National Culture is in the same line with the managerial practices then the organization’s performance is enhanced (Hori et al., 2005). And not only that, but comparative researches showed that culture is such an important external factor that it even interferes at the acceptance or not of the practices, which are going to be adopted from the management of an organization (Laurent 1986; Schuler and Rogovsky 1998; Myloni, Harzing and Mirza 2004). Furthermore, the same HR policies may lead to different outcomes in different cultures (Hofstede, 1980) and may therefore be ineffective or problematic since culture influences social norms, government policies, consumption patterns, business transactions, managerial practices and of course labour relations (Abdulrahman, 2010). Hofstede (1991) stated that each culture has a mechanism that prefers to works with and subsequently every employee according to his cultural background, prefers to work with specific managerial practices that better fit him, and only if these conditions are met then the performance of the employees elevates. Thus, in order for higher performance to be achieved the deep understanding of every culture and the mechanisms they prefers to work with is crucial.

National culture has been studied by a huge number of researchers in relation to management practices and organizational behaviour. One of the leading studies of national culture is the GLOBE project "Global Leadership and Organizational Behaviour Effectiveness" that was conceived in 1991 by Robert J Wharton. The GLOBE Project is one of the most recent action-projects, that examines the cultural values and managerial practices in so many countries and the impact that they have on organizations (House et al., 2002). GLOBE research includes 62 societies but not the UAE. Also, this study is meant to enlarge GLOBE’s project by focusing on the role that National Culture plays on the adoption or not of the HR practices of an UAE organization.
The UAE as a country is quite different to other Western countries; and as Bowen et al., (2002) have quoted, management practices regarding HR are more vulnerable to cultural relativity because they are often designed by members of a particular culture to handle its members and not members of another culture, consequently, they conclude that HR practices need to be aligned with the organizational strategy of a firm given the cultural context in order to achieve a competitive advantage. However, in GCC countries, especially in the UAE, performance is considered crucial, and there is a big interest for the HR practices that are able to advance the organizational performance (Cherian and Farouq, 2013).

8 UAE's multicultural environment

Culture has constantly been one of the central areas of HRM discipline. Globalization and transferability of human capital across the globe has inspired a rise in the interest. Employees at the same company, of different cultural backgrounds, can be used wisely to become a huge asset as they can bring different values and talents. Of course, from another point of view, diversity could potentially be problematic in an organization due to the differences in values and practices which are embedded in people’s behaviour (Li, Karakowsky, 2001; Ferris, Treadway, 2008). A lot of cultural studies that have been taking place so far have focused on a particular culture or on the variety that exists in that specific culture; while what is required, according to Milikić and Janicijevic (2009) is more studies that will concentrate on the effect that several different cultures have on HRM practices, and the UAE can offer that within its organizations due to its multicultural environment.

The cultural literature so far has shown that there is an insufficient amount of studies that are concentrated in managerial and culture related issues when it comes to the Arab world (Abdulrahman Alyousif et al. (2010). UAE’s big difference from other countries lies at the idiosyncratic environment that is constructed by one of the most multinational countries all over the world. There are a lot of different cultures within the same country, almost eighty-five per cent of the population are expatriates from all over the world (more than two hundred countries) and UAE’s local population amounts to only 13.5% (Randeree, 2009). Moreover, Kaposzewski (2006) highlighted that the dominance of expatriates is more noticeable in the workforce than in the population. The workforce origins come from different parts of all over the world, Western and Eastern Europeans, Asians, Middle Eastern etc. Thus, different locations of the world represent different cultures and different ethical attitudes. Al-Faleh (1987) stated that the Arab culture has some idiosyncratic characteristics that govern managerial practices and behaviours like: the paternal role of managers, the consultative management, importance of social formalities and the importance of loyalty over efficiency. Thus, according to Sulliman and Moradhan (2013) Arab culture characteristics are quite different from the ones practiced in western culture.

Badawy (1980) discovered that local culture has significant influences on management practices and organizational structure and characteristics. Shortly after Ali (1990) defined Westernized, Islamized and Arabized as the three key categories of Arab management. Attiyah (1993) observed the effect that culture has on the organization and discovered that, management in Arab world is strongly consultative and participative despite the fact that multiple management styles are used in the region. Another attempt was made by Dadfar (1993), who demonstrated that the Arab Managers’ behaviour in their own context is highly influenced by social and cultural dimensions and specifically government intervention, Islam, tribalism and Westernization. Moreover, Al-Rasheed (1994) has stated that both influences Arabic and Islamic legacy, along with the impact of technology,
globalization and industrial development are equally important. Weir (2000) argues that Arabs’ managerial and cultural characteristic is a combination of the culture of Islam (which is considered to be the principal belief and social pillar) and Bedouin lifestyles. However, and despite the fact that the Arab Management has been analysed by the above mentioned studies, there is still a lack of empirical studies in literature that study the unique culture-related management and organization culture dimensions that characterize and distinguish the regional management practices from the rest of the world (Abdulrahman Alyousif et al., 2010).

The UAE according to Abdulrahman Alyousif et al., (2010) is generally adopting a mixed management style, which is compatible with its own cultural background and is genuine. It seems that although some aspects might be similar to Western practices, the majority are close to Eastern and local practices. This adopted mixed management style is reaffirming the existence of both Western and Eastern practices and it is primarily influenced by two main factors: internal, which refers to the Islamic culture and the national and traditional values (such as family bond, tribal relations, Arab pride, Islamic rules and beliefs) that influence the human factor and external, which primarily refers to globalization requirements, expatriate culture, financial factors (profit and growth), advanced technology requirements and the rise of globalization in general. Last but not least, according to Cherian and Farouq (2013) and their research of financial performance on the UAE’s bank sector, national culture was one of the several factors that influenced their research, but as their study was only conducting quantitative research, more complex relationships could not be examine; and they suggest for future research more qualitative research with case studies and more face to face interviews, and this is what the current research is going to try to achieve.

Finally, research that has been exploring the relationship that exists between the cultural orientations of the employees and organizational HRM practices (Sparrow and Wu 1998, Nyambegara et al.2000, Aycan, 2005, Abdullah et al., 2010) uses the cultural orientation framework in order to discover the influence that lies in cultural orientations and individual HRM preferences. The conclusion was that a crucial relationship lies between the inclination of the employees for specific HRM practices and their particular cultural orientation. Finally, the current research is going to explore the relationship between UAE employees’ cultural orientations and organizational HRM practices. Thus, a detailed understanding of the national culture and further contextual elements where HRM practices are being applied is necessary in order for the outcome to be maximized.

9 Cultural factors

It has been stated by Child, (1981) that culturally driven preferences affect the selection of the appropriate practices, and these preferences are rooted in the socio-cultural context of the employees (Kanungo & Jaeger, 1990). Efficient implementation of HR practices depends if these practices are perceived to be appropriate by managers and employees of the organization (Eveg & Eqile, 1993). According to Tayeb (1998) locally significant aspects of HRM are based on employees’ work-related values and attitudes contrasting universal aspects. A lot of researchers have established several value dimensions in order to offer some assistance and be able to conceptualize and measure culture (e.g. Hofstede 1980, House et al., 1999). Regardless of some criticisms, various researches have utilized the dimension-based methodology and it is also suitable for the current study’s purposes given that recognized cultural aspects indicate validity and create a link among phenomena. (Aycan, 2005, Abdullah et al., 2010). The cultural dimensions that have been
utilized for the present research is based on Hofstede’s model (see table 1). This framework has been proposed in order to investigate how these cultural aspects manifest themselves within the specific HR framework. In other words, to determine how culture affects the HR practices, the HRM of an organization and the organizational performance itself.

**Figure 1: Predicted Cultural Dimensions Based on Hofstede's (1980, 1993)**

<table>
<thead>
<tr>
<th>Cultural dimension</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power Distance</td>
<td>Power distance deals with the fact that not everyone in a society is equal in terms of power, and it expresses the attitude that a culture has toward these inequalities. The U.A.E scored 90 on this dimension that means that hierarchy is acceptable and everyone has their own place in a society and no further justification is needed.</td>
</tr>
<tr>
<td>Uncertainty avoidance</td>
<td>Uncertainty Avoidance refers to the way that a society deals with ambiguity and with the fact that the future is unknown. Members of a society can either feel threatened and try to avoid risks by favouring mechanism that increase the sense of security or they feel less uncomfortable with risks and they are eager to move forward. The U.A.E. scored 80 and this means that society tries to avoid uncertainty, do not tolerate Unorthodox behaviours or ideas.</td>
</tr>
<tr>
<td>Individualism</td>
<td>Individualism describes the degree of interdependence a society maintains among its members. If people in a society see themselves as &quot;I&quot; or &quot;We&quot;. An individualist society people take care of themselves and their direct family only, in contrast with the collectivist society that people belong in groups and take care of their members. The United Arab Emirates scored of 25 and is considered a collectivistic society. The society nurtures solid relationships and everyone takes responsibility for fellow members of their group.</td>
</tr>
<tr>
<td>Masculinity</td>
<td>A high score (Masculine) on this dimension designates that the society will be driven by masculine behaviours like antagonism, achievement and success, on the contrary low score (Feminine) indicates that the society values are more feminine behaviours like caring for others and quality of life. The United Arab Emirates scored 50 on this dimension and is considered to be neutral, neither Masculine or Feminine.</td>
</tr>
</tbody>
</table>

For the rest of the dimensions there are no data for U.A.E


**10 HR Practices**

The HR practices employed for this model in order to measure the influence they have on performance, have been selected on the basis that these are the most commonly examined set of factors across 30 of the most recent HRM performance and linkage
researches, the frequency that these factors have appeared in international HR research and their measurability and importance (given also that the primary focus in research of the HRM-performance relationship has shifted from individual to a set of HR practices (Anastasia Katou, 2014). Moreover, the intention was to place this research in the broader organizational performance and HRM literature.

The only factor that has never been used before is Emiratization as an HRM practice and this is the most innovative aspect of the research since Emiratization as an HR practice has never been connected with organization performance before in the research field. The chosen HR practices will cover the following areas of HRM:

1. Recruitment and selection
2. Training and development
3. Employee's involvement/empowerment
4. Performance appraisal
5. Emiratization

Emiratization is another very important HRM Practice/regulation that has not been studied enough so far and it is heavily connected with the national culture and the UAE in general. Numerous empirical findings have demonstrated that HR policy and practices are, to a large extent, based on local labour regulations (Bjorkman, Fey and Park 2007; Brewster, Wood and Brookes 2008, C.J. Zhu et al., 2013). Rees et al., (2007) stated that Nationalization programs employed with the purpose of promoting employment of nationals instead of expatriates have become key HRM initiatives throughout the Middle East region. And despite the fact that a body of literature relating to HR practices in the region is developing (see Murphy, 2002; Husan and James, 2003; Abdullah et al., 2010; Cherian and Farouq 2013), the scene presented by this literature will stay undeveloped at least until the understanding of the influence and the impact of nationalization strategies is improved on the international stage, Moreover, as Rees et al., (2007) continue, there is a big gap in the literature review of the above mentioned initiatives not only in the Middle East but also in the international HRM literature. This weakness affects both international and the Middle East region theory creation and has implications specifically regarding if it is possible to transfer HR practices and methods for one company to another that has different cultural environment. Therefore, taking into consideration the significance of nationalization plans within the Middle East region, it is really surprising to notice that international HRM literature has provided insufficient analysis on the subject (Rees et al., 2007) Thus, there is a dearth in the academic research that focuses on nationalization strategies such as Emiratization. Even though a body of literature in the region is emerging, the scene offered by this literature is going to stay undeveloped until the influence of nationalization strategies is comprehend on a deeper level on international stage. Furthermore, as Rees et al., (2007) argue, existing research on HRM and national culture in the Middle East cannot be expected to embrace analytical literature-based methodologies and it is possible that contains analysis tools that have not been previously tested in this region. From more global perspective, there is the lost opportunity of the international community that fails to grasp the opportunity to obtain and figure transferable knowledge from the examination of these nationalization strategies initiatives.

11 HR Outcomes

According to Huselid (1995), MacDuffie (1995) and Becker et al., (1997) the meditate variables at the relationship between organizational performance and HRM practices are
going to be employees’ motivation and competence. In other words, employees’ high motivation along with competencies and skills might be the main factors that employee performance depends on, since it is logical that when employees have a lot of knowledge and high skills they are more likely to contribute to the company and perform better. The HRM outcomes are usually indicated as being outcomes with respect to: skills like competence (Guest. 2001; Park et al., 2003) or cooperated (Richardson and Thompson. 1999); attitudes – motivation, commitment, satisfaction (Park et al., 2003); and behaviour like turnover or absenteeism (Guest, 2001; Richardson and Thompson, 1999). According to Fey et al.(2000) and Wright et al., (1994), competence is a vital factor that has an impact on organizational effectiveness, accordingly when employees are competent it is possible to help the organization to perform better. Moreover, lasting and better results and significantly contribution to the success of an organization will be observed if employees are motivated, satisfied and committed (Fey et al., 2000; Guest 2001; Paul and Anantharaman, 2003). In addition, when employees have a feeling of motivation they are more likely to add considerably to the organization’s success. Yet, employee retention is crucial for the performance of an organization since the company is able to retain its employees and avoid the turnover that costs so much, on many levels. In addition, turnover or absenteeism as it has been argued by d’Arcimoles (1997), Boselie et al., (2001) are mediating variables as well, but they might have a negative influence on organizational effectiveness. In general, if employees have good attitudes and behaviours, it is more probable for this to work for the benefit of the organization and firm performance (Arthur, 1994; Park et al., 2003). Finally, in the UAE, employee retention is crucial, there is a serious shortage of well-trained people so companies have to rely on expatriates that are very expensive to bring to the country, thus the minimizing the turnover of the employees will be an advance for foreign companies (Shekshnia, 1994).

12 Performance

In consistence with the HR literature so far (Dyer and Reeves, 1995, Wright et al., 2005, Paauwe, 2009, Sheehan, 2014), the measurement of performance will be multidimensional. The two indicators that will take place are:

• Financial performance,
• Innovation

The performance questions are going to follow a format similar to that in the Workplace Employee Relations Survey (Forth et al., 2006 and Sheehan, 2013), and there are going to be more general questions in order to avoid unanswered questions.

13 Initial Model developed from the Literature Review to bridge the gaps

Based on the literature review, the model in Figure 1 is used to determine the influence of the national culture in the HR practices of an organization, and how these HR practices can influence the organizational performance. National culture is one of the most common explanatory variables utilized to identify similarities and differences between various HRM practices in various countries across the world (Clark et al., 1999; Milikic and Janicijevic, 2009). Reeves (1995), Guest (1997) and Dyer and Wrigh &Gardner (2000), have argued that the relationship between HRM and performance is now considered to be indirect with mediating variables instead of a direct relationship. Dyer and Reeves (1995) have also indicated that the above mentioned indirect relationship between HRM and performance has been based on the concept that linking Organizational Performance with HRM directly is debatable as the potential effect of proximal variables on final results is not taken into
consideration. In theory, according to the HRM literature, any direct relationship between organizational performance and HR practices has been questioned on the basis of not considering various correlated variables. Thus, it is highly recommended to utilize mediating variables in order to have a more realistic picture of such relationship (Katou, 2012). Consequently, in order to get to the core of the black box and manage to discover what is hidden inside there, it is suggested to investigate to the effects of proximal variables (including employees’ behaviours and attitudes as HR outcomes) on the more distal variables (including organizational performance) (Jiang et al., 2012). The proposed model portrays an operational model that links Organization performance to HRM. In particular, performance is not the direct effect of a particular factor like HRM but it is one vital part of a diverse set of influences that determine performance level. As Legge (2001) mentioned, ‘there is a need to open up the “black box” of the process that links HRM and organizational performance’ because of intervening variables existence.

Going to a wider framework now, and trying to connect HRM, HR outcomes and performance, taking into consideration the culture influence, the beginning point has to be recognition that the feature of HRM is the assumption that higher organization performance will be achieved through human capital and any link theory ought to clearly build on this. Given the framework in Figure 1, it is vital to determine the HR practices and outcomes and also to understand how HR practices have their impact on performance.

Figure 2

Source: this study.
14 Methodology

The philosophical stand of the research is critical realism and it establishes that things exist apart from our experience and knowledge of those things and it enables to contact both kind of research, qualitative and quantitative research. The methodology of the current research is going to be divided into two parts; the first one will be the exploratory qualitative research followed by explanatory quantitative research. Exploratory research is helping the researcher to better understand the phenomena, to identify key issues and key variables (Saunders et al., 2007). Moreover and since the second stage of the research study will try to investigate the relationship that exists between the variables, it will be an explanatory study (Sekaran, 2003; Saunders et al., 2007). Finally, triangulation method is going to be used in order to facilitate validation of data through cross verification of qualitative and quantitative research. Finally, triangulation will check and establish the validity of the current research and overcome any problems that might occur from a single method technique.

15 Research methods

Case study: The case study will be used as a method in the qualitative research since it offers richness and depth understanding by capturing as many variables as possible in order to identify how complex the phenomena are. In the qualitative approach, case study refers to the in depth analysis of units (Saunders, 2007).

The Survey Method: The survey method is a popular and a common strategy in management and quantitative studies and it allows the gathering of a significant amount of data from a considerable population size in quite a cheap way (Saunders, 2007). Additionally, the survey is an efficient implement to gather attitudes, opinions and descriptions and at the same time getting reasons and result relationships so this is what the current research will try to achieve (Ghauri and Grohaug, 2005).

16 Research techniques

The research techniques that are going to be employed are as follows:
• Qualitative Study: Regarding the qualitative study, experts’ interviews are going to be utilized in order to investigate the second objective of the research that is to explore if culture affects the selection of a specific set of HR practices.
• Quantitative Research: Regarding quantitative study, the research technique that is going to be employed is questionnaires. The target is to investigate the first objective of the research which is to explore the influence that a particular set of HR practices has on organizational Performance.

Sampling technique:

Though a large amount of scholars have mentioned the importance of qualitative studies for the HRM field, quantitative data are more commonly used for the research because of their reliability. Moreover, Brown et al., (2008) discussed the interest of the large survey such as Workplace Employment Relations Survey (WERS) in the British context of HRM and however recent qualitative research has shown different ways of how the same formal HR policies are operated in different class and organizational contexts, quantitative surveys permit to identify the coverage of particular HR practices across the workforce.
within a specific establishment. Thus, quantitative as well as qualitative data will be used in order to address all aspects of the research. Finally, the sampling method which is going to be used is non-probability sampling; Purposive sampling will be used for the qualitative part and a convenience sample will be used for the quantitative part. A subset of 100 UAE companies has to be taken for examination, in order to address the issue of causality. The population sample that was chosen to be examined is a purposive sample from a list of 100 UAE companies which are going to be surveyed on the use of a selection of formal HR practices which were applied to ninety per cent of the population of the employees, these companies need to have more than 249 employees in order to be tested.

17 Research justification and contribution of the study

The primary focus of this research is to bridge the literature gap that lies between organization performance and HR practices and the link that they have with cultural variables. Thus, this is going to take place by examining if there is a positive association between the use of a selection of HR practices and their organizational performance, considering as well the cultural environment where these organizations operate. Furthermore, this study is going to contribute and extend the rising literature on HRM at the GCC countries, especially in UAE. Moreover and despite the fact that the effects of organizational and social context in HRM practices have been studied and analysed in various researches, none of those has explicitly studied the impact of national culture in HRM practices and organizational performance (Abdullah, 2010). Thus, this study is going to try and cover this research gap, regarding the role that the national culture is playing in HR practices in the Arab world. Finally, this research will attempt to provide some insight regarding the HR nationalization practice of Emiratization where, based on literature reviews lies a research gap. The result of this research will provide the opportunity to the UAE organizations to better understand what they need to do regarding the national culture; which HR policies to implement in order to improve employees’ performance, and consequently, organizational performance.

18 Future prospects of HRM linkage with performance

Wall and Wood (2005) made a plea with regards to obtaining large data ‘big science’ but this type of research would require thirty five years minimum. Hesketh and Fleetwood (2006) suggested the way of more in depth interviews and case studies in order to understand the social practices that are lying under the HR practices. The concept is in line with the proposal of Jaap Paauwe (2004) which suggests adopting a more contextual method in HRM analysis that will contribute towards shaping HR practices and systems in modern organizations. Additionally, as it has been highlighted, that from a global perspective it is crucial for HR specialists to know the pattern of HRM systems leading in these developing countries (Rees et al., (2007). Additionally, if the research focus on developing nations is going to add a new impetus to HRM research and is going to let researchers go beyond the current predominant emphasis on the research of the countries of Europe and U.S. Thus this kind of approach is going to help researchers to examine the transferability of HRM systems and practices.

References


Sustainability across retail supply chains: A case study of the European forest, paper and packaging industry.

Peter Jones
University of Gloucestershire, UK

Daphne Comfort
University of Gloucestershire, UK

Abstract

While the forest, paper and packaging industry is an essential component in retail supply chains approaches to sustainability within the industry have received little or no attention in the retail literature. The aim of this paper is to offer an exploratory case study of the sustainability agendas and achievements reported by the leading European companies within the forest, paper and packaging industry. The paper begins with brief outlines of corporate sustainability and the growing interest in sustainability reporting and the empirical material for the paper is drawn from the most recent sustainability reports posted on the leading European forest, paper and packaging companies’ corporate websites. The findings reveal that while the leading companies within the industry recognised the impacts their businesses have on the environment, on society and to a lesser extent on the economy, there are variations in the character, extent and detail of the sustainability reporting process. That said the sustainability reports included details of a wide range of environmental, social and economic issues but more generally the reports had a number of weaknesses that, at least partly, undermine their transparency and credibility. The authors also argue that the selected companies’ definitions of, and commitments to, sustainability are principally driven as much by business imperatives as by any fundamental concern to maintain the viability and integrity of natural and social capital. More critically the authors argue that this approach is couched within existing business models centred on continuing growth and consumption. The paper provides an accessible review of current approaches to sustainability in the global forest, paper and packaging industry and as such it will interest professionals working in the industry and its supply chain as well as academics and students interested in business and retail strategy and sustainability.

Keywords – European forest, paper and packaging industry: corporate sustainability; sustainability reporting; retailing;

Introduction

Packaging has become an increasingly important components of modern consumption. PricewaterhouseCoopers (2010, p.4) suggested that packaging fulfils four functions, namely, to ‘preserve and protect the product’, ‘to communicate brand image’, ‘to convey information’, and to ‘offer convenience.’ TAM, the Japanese packaging machinery manufacturer, lists the purpose of packaging as ‘protecting product integrity’, ‘enhancing convenience’, ‘enhancing product appeal’ and ‘improving logistics efficiency’ (TAM 2008, webpage). As such packaging plays a central role in sourcing, storage, distribution, display, branding, marketing, conveying essential product information and customer convenience across the whole spectrum of the retail industry. Armstrong et al. (2009, p. 235), for example, suggested that ‘traditionally while the primary function of packaging was to protect the product, in recent times, however,
numerous factors have made packaging an important marketing tool. Increased competition and clutter on retail store shelves means that packaging must now perform many sales tasks—from attracting the attention of customers, to describing the product, to making the sale.'

While packaging encompasses a wide range of materials including paper and paperboard, plastic, metal, glass and wood, in 2015, paper and paperboard packaging had the largest (31%) share of the global packaging market (All Pack 2017). As such the forest, paper and packaging industry is one of the principal, yet controversial elements, in the consumer supply chains which link primary production, manufacturing and retailing and underpin modern consumption. While there is no precise differentiation between paper and paperboard, though the latter is generally thicker than the former, both are ultimately produced from virgin sources, principally wood. In essence the paper and paperboard packaging make major demands on natural timber resources and their disposal has a direct impact on the environment and widespread concerns have been expressed about the environmental impact of such packaging materials.

In outlining the environmental impact of paper based packaging Michael Warner, for example, a Senior Resource Campaigner at Friends of the Earth, argued that ‘each stage of production – forestry, pulping, processing and printing – has associated environmental and human impacts’ (Raconteur 2013, webpage). The environmental pressure group the World Wildlife Fund (2017, webpage), for example, argued that ‘the forest practices associated with some pulp and paper operations have had devastating impacts on some of the world’s most ecologically important plants and species.’ However such views are contested. Jane Bickerstaffe, Director of the Industry Council for Research on Packaging and the Environment, claimed that the packaging industry ‘performs a major role in protecting far more resources than it uses and preventing far more waste than it generates.’ In a similar vein Europen (2011, p. 5), the European Organisation for Packaging and the Environment, argued that the packaging industry has claimed that ‘packaging clearly contributes to sustainability by limiting product waste and over production’ and Smithers Pira (2017, webpage) has argued that ‘sustainability will become an increasingly important factor for decision makers at all stages of packaging value chains.’

The ways in which leading retailers have been addressing sustainability within their organisations have been examined within the academic literature (Jones et al. 2012; Wiese 2015 et al.). More widely Styles et al. (2012, p. 57) have argued that ‘retailers are beginning to accept responsibility for the environmental impact of their product supply chain’ and more specifically that ‘retailers drive environmental improvements of supply chains using third party environmental certification.’ However while the forest, paper and packaging industry is essential component of contemporary retailing, approaches to sustainability within the industry have received little or no attention in the retail literature. With these thoughts in mind, the aim of this paper is to offer an exploratory case study of the sustainability agendas and achievements reported by the leading European companies within the forest, paper and packaging industry. The paper begins with brief outlines of the packaging industry and of corporate sustainability and the growing interest in sustainability reporting. This is followed by a review of the most recent sustainability reports and information published by the leading European forest, paper and packaging companies and the paper concludes by offering some reflections on current approaches to sustainability within the industry.
Packaging encompasses a wide range of materials including paper, board, plastic, metal, glass and wood. Originally packaging began with natural products, such as leaves, later woven materials and pots were used to package products and it is estimated that wood and glass packaging has been used for 5,000 years. The use of metal for packaging dates from the early nineteenth century, though conventional cans were not used until the twentieth century, and while paper and cardboard were increasingly widely used from 1900 onwards plastic packaging became much more widespread in the second half of the twentieth century (ASD 2013). EY (2013) identified paper and paper board as ‘the largest consumer packaging category with a 34% share of the consumer packaging market’ and geographically Europe has the largest market share with 34%.

While a number of the largest forest, paper and packaging companies, based in the US and Japan, including International Paper, Kimberley Clark, Oji Paper and the Nippon Paper Group, service the European packaging market, a number of the world’s leading players in the forest, paper and packaging industry are headquartered in Europe. Svenska-Cellulosa, UPM-Kymmene, Stora Enso and Smurfit Kappa were all in the leading ten in PricewaterhouseCoopers’ (2016) list of the top 100 companies in the global forest, paper and packaging industry and were ranked 3rd, 6th, 8th and 9th respectively. Svenska-Cellulosa (SCA), for example, is a Swedish timber, pulp and paper manufacturer, headquartered in Stockholm, it has some 46,000 employees and a turnover of approximately €11.1 billion and its largest markets are Germany, United Kingdom, United States, France, Sweden, Italy, Netherlands, Spain, Denmark, Australia, Mexico and Belgium. UPM-Kymmene and Stora Ensor are both based in Finland. UPM-Kymmene owns some 1 million hectares of forest land in Finland, US and Uruguay and manufactures paper, pulp and labels, along with a range of other products, with manufacturing plants in 13 countries and has some 20,000 employees. Stora Enso, produces paper, paperboard and pulp, has the majority of its manufacturing operations within Europe, owns forests in Uruguay and Brazil, and employs some 26,000 people. Smurfit Kappa, an Irish based company, is Europe’s largest corrugated packaging manufacturer and employs some 45,000 across 34 countries.

A variety of factors have been identified as driving change within the packaging industry including the levels of economic activity: demographic trends, not least the ageing of the world’s population, changing lifestyles, the growth in the numbers of both women in full time employment and in single person households; competition between retailers and the search for ever more efficient retail business models; increasing health and safety awareness; stricter regulatory and legislative frameworks; developments in Information and Communication Technologies; and growing environmental awareness.

This last factor recognises that the packaging industry has been increasingly cast in an often unfavourable light by a number of pressure groups because of the environmental problems associated with packaging waste. More generally the World Wildlife Fund (2017), for example, claimed that ‘making pulp and paper requires vast amounts of water’, that ‘the pulp and paper industry is the single largest consumer of water used in industrial activities in developed countries’ and that ‘paper mills may also discharge many pollutants in surrounding water bodies, which causes damage to aquatic ecosystems and threatens the health of people that live near the mill.’ Further the World
Wildlife Fund (2017) also claimed that pulp and paper operations have contributed to ‘human rights and social conflicts.’ That said the packaging industry is keen to emphasise the positive impact it has on the environment in that it reduces the use of natural resources by reducing waste and that the environmental impact of packaging waste can be reduced through the prudent choice of packaging materials and by recycling. At the same time the forest, paper and packaging industry is an important source of employment often providing jobs in rural areas where other employment opportunities are limited.

These contrasting, and in many ways contested, views on the forest, paper and packaging industry throws the issues of sustainability and more specifically corporate sustainability and corporate sustainability reporting into sharp relief. Mikkila and Toppinen (2008), for example, argued that ‘forest based industry has a crucial role in global sustainable development because of its unique raw material base and its increasing globalisation.’ At the same time PricewaterhouseCoopers (2010, p. 18) argued that ‘unless the industry becomes more proactive in the debate about the definition and role of sustainable packaging, it runs the risk of packaging continuing to receive disproportionate attention for its environmental impact’ but more recently Bouw (2014) claimed that ‘sustainability is a top priority among the world’s forest, paper and packaging companies.’

Corporate Sustainability and Sustainability Reporting

The concept of sustainability can be traced back as far as the thirteenth century but in more recent times it re-appeared in the environmental literature in the 1970’s and since then it has attracted increasingly widespread attention. Diesendorf (2000) has argued that ‘sustainability’ can be seen as ‘the goal or endpoint of a process called sustainable development.’ The most widely used definition of sustainable development is ‘development that meets the needs of the present without compromising the ability of future generations to meet their own needs’ (World Commission on Environment and Development 1987). However defining this concept is not straightforward and it ‘means different things to different people’ (Aras and Crowther 2008, p.436). On the one hand there definitions essentially based in and around ecological principles and secondly there are definitions which look to embrace social and economic development as well as environmental goals, and which also look to embrace equity in meeting human needs. More critically Hudson (2005, p.241) argued that definitions range from ‘pallid blue green to dark deep green.’ The former Hudson (2005, p.241) suggests centre on ‘technological fixes within current relations of production, essentially trading off economic against environmental objectives, with the market as the prime resource allocation mechanism’ while for the latter ‘prioritizing the preservation of nature is pre-eminent.’ In a similar vein a distinction is often made between ‘weak’ and ‘strong’ sustainability and Roper (2012, p.72) suggests that ‘weak sustainability prioritizes economic development, while strong sustainability subordinates economies to the natural environment and society, acknowledging ecological limits to growth.’

As investors, consumers, governments, interests groups and the media have become more acutely aware about the environmental, social and economic impacts of business activities so corporate sustainability initiatives have assumed ever increasing importance. KPMG (2012, webpage), for example, suggested that ‘the evidence that sustainability is becoming a core consideration for successful businesses around the
world grows stronger every day.’ While there is broad agreement that corporate sustainability is concerned with environmental, social and economic issues and with governance, there is little consensus in defining the term and, as with sustainability, a number of meanings can be identified. There are definitions which seem to emphasise business continuity. Dyllick and Hockerts (2002, p13), for example, define corporate sustainability as ‘meeting the needs of a firm’s direct and indirect shareholders…… without compromising its ability to meet the needs of future stakeholders as well.’ There are also definitions that look to include environmental and social goals and to formally incorporate these goals into corporate strategy. van Marrewijk and Werre (2002, p. 107), for example, argued that ‘corporate sustainability refers to a company’s activities – voluntary by definition – demonstrating the inclusion of social and environmental concerns.’ In some ways Amini and Bienstock (2014, p.13) combined both approaches and argued that corporate sustainability ‘embraces the idea that an organization, in order to remain fundamentally sustainable in the long term, must consider all of the contexts in which it is embedded: economic, social and environmental.’

More generally corporate sustainability is also increasingly seen to incorporate the more recently developed concept of the creation of shared value. This concept has been ‘defined as policies and practices that enhance the competitiveness of a company while simultaneously addressing the economic and social conditions in the communities in which it operates’(Porter and Kramer 2011, p. 78). Essentially Porter and Kramer (2011) suggested that the purpose of the corporation had to be redefined as creating economic values in a way that also creates value for society by addressing its challenges and needs and the concept has been adopted by a small but growing group of large companies. Nestle (2017, webpage), for example, claimed that 'looking to the future creating shared value remains a fundamental guiding g principle of how we do business' and that 'our positive impact on society focuses on enabling healthier and happier lives for individuals and families, on helping the development of thriving and resilient communities and, finally, on stewarding the planet's natural resources for future generations.'

The growing interest in and commitment to corporate sustainability has seen the emergence of sustainability reporting across a wide range of companies and organisations. In essence sustainability reporting is a general term used to describe how a company, or an organisation, publicly reports on its environmental, social and economic impacts and performance. For the Global Reporting Initiative (2011, webpage) ‘sustainability reporting is the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organizational performance towards the goal of sustainable development.’ van Wensen et al. (2011, p.14) argued that ‘sustainability reporting is the provision of environmental, social and governance information within documents such as annual reports and sustainability reports.’

A number of private companies and voluntary organisations offer sustainability reporting services and frameworks but the United Nations Environment Programme (2013, p.21), argued that the Global Reporting Initiative (GRI) ‘has become the leading global framework for sustainability reporting. ’ Within the current GRI guidelines materiality and external assurance are seen to be of central importance. Materiality is concerned with who is involved in identifying the environmental, social and economic issues that matter most to a company and its stakeholders and how this process is undertaken. External assurance is a procedure employed to provide confidence in both the accuracy and the reliability of the reporting process. External providers offer two
levels of assurance namely ‘reasonable’ (high but not absolute) and ‘limited’ (moderate) and the higher the level of assurance the more rigorous the assurance process. More generally the increasing focus on materiality and external assurance reflect calls for greater transparency within sustainability reporting.

Frame of Reference and Method of Enquiry

In an attempt to obtain an exploratory case study of how the forest, paper and packaging industry within Europe is publicly addressing and reporting on their sustainability strategies and achievements the top ten European companies, (as measured by 2015 sales and as listed by PricewaterhouseCoopers (2016) namely, Svenska-Cellulosa, UPM-Kymmene, Stora Enso, Smurfit Kappa, D.S. Smith, Mondi, Sequana Capital, BillerudKornsas, Mayr-Meinhof Karton and Metsaliitto were selected for study. As the leading European based players within the industry the selected companies might be seen to reflect contemporary approaches to sustainability within the sector and be keen to publicise their sustainability initiatives to a wide audience. Increasingly large companies employ the Internet to report on their sustainability strategies and achievements. This led the authors to conduct a digital Internet search for information, using the key phrase ‘sustainability report’ and the name of each of the selected packaging companies. This search was undertaken in July 2017, employing Google as the search engine, and the most recent report for each of the selected companies obtained via this search formed the empirical material for this paper.

More specifically the authors took the decision to tease out the key themes and narratives by a close reading and review of the sustainability reports. The aim is not to offer a systematic and detailed comparative analysis and evaluation of the selected companies’ approaches to sustainability and the specific examples and quotations are employed primarily for illustrative rather than comparative purposes, with the focus being on conducting an exploratory examination of the current sustainability issues being addressed by the leading companies within the forest, paper and packaging industry rather than on providing a systematic analysis and comparative evaluation of sustainability policies and achievements of these companies. Unless specifically cited all quotations are drawn from the selected companies’ sustainability reports. The paper is based on information that is in the public domain and the authors took the considered view that they did not need to contact the selected companies to obtain formal permission prior to conducting their research.

When outlining the issues of reliability and validity in relation to information on the Internet, Saunders et.al. (2009) emphasised the importance of the authority and reputation of the source and the citation of a specific contact individual who can be approached for additional information. In reviewing the sustainability reports the authors felt that the two conditions were met. At the same time the authors recognise that the approach chosen has its limitations in that there are issues in the extent to which a company's public statements fulsomely, and in detail, reflect strategic corporate thinking and whether or not such pronouncements might be considered little more than carefully constructed public relation exercises. However, the authors believe that their approach offers a suitable approach for the current exploratory study.
Findings

The findings revealed that five of the selected ten companies namely, Svenska-Cellulosa, Smurfit Kappa, Mondi, D.S. Smith and Metsaliitto had posted dedicated sustainability reports. Four of the companies namely, UPM-Kymmene, Stora Enso, Sequana, and BillerudKorsnas posted sustainability reports as part of their annual reports while Mayr-Meinhof Karton included some limited information on the company’s approach to sustainability within their annual report. The reports were variously described as a company’s sustainability report, sustainable development report, sustainability review and corporate social responsibility report and there were marked variations in the nature of the reporting process. Some of the sustainability reports provided detailed structured narratives and supporting data while others offered a lighter and less detailed commentary. The selected companies often looked to illustrative general narrative in their sustainability reports with cameo ‘case studies’ and with graphs, diagrams and photographic images. Eight of selected companies namely, Svenska-Cellulosa, UPM-Kymmene, Stora Enso, Smurfit Kappa, D.S. Smith, Mondi, BillerudKorsnas and Metsaliitto stated that their reports had been prepared within the GRI (G4) framework. There was little or no uniformity in the character and style of the sustainability reports published by the leading companies in the forest, paper and packaging industry and the reports varied considerably in length.

The majority of the leading European players within the forest, paper and packaging industry selected companies emphasised their corporate concern for, and commitment to, sustainability. D. S. Smith, for example, claimed ‘we value sustainability as it is the cornerstone of our overall business strategy’ and stressed its ‘continuing commitment to conducting business in a responsible and sustainable manner.’ In a similar vein Svenska-Cellulosa, reported that ‘sustainability is part of our business model and an integral part of our business strategy’ that ‘we must have systems and processes to integrate sustainability into the operations’, that ‘we do this, for example, by including our targets for people and nature – as well as our financial targets – in our business plans.’ BillerudKorsnas reported that ‘sustainability had long been an integral part of its ‘core business’ and Stora Enso emphasised that the company’s ‘sustainability strategy is incorporated into the wider company business strategy.’

These strategic commitments to sustainability were evidenced across a wide range of environmental, social and economic agendas. With the exception of Mayr-Meinhof, all of the selected companies outlined how they had employed materiality analysis to identify those environmental, social and economic issues deemed to be important to the company and its stakeholders. A number of environmental issues were addressed including climate change and greenhouse gas emissions, energy efficiency, sustainable forest management and sustainable sourcing, preserving biodiversity, water management and waste management and recycling. Svenska-Cellulosa, for example, emphasised that the company ‘was working in many ways to reduce its climate impact’, that ‘we continuously work with energy efficiency and to reduce the climate impact of our products’, that ‘we invest in renewable energy, such as biofuels and wind power’ and reported its target ‘to reduce carbon dioxide emissions from fossil fuels and purchased electricity and heating by 20%, with 2005 as reference year.’ Smurfit Kappa recognised that ‘climate change remains the key topic within environmental sustainability for civil society and business’ and reported that ‘from 2005-2015 we achieved a reduction of 22.9% of our relative carbon dioxide emissions from our paper and board mills.’
Forest and plantation management is an important environmental theme within many of the selected sustainability reports. Stora Enso, for example, emphasised that ‘sustainable forest management is in our immediate and long-term interest, as it keeps forests healthy and productive, and thus helps secure the long-term availability of the renewable resources we use.’ The company claimed that its ‘policy on wood and fibre sourcing covers the entire cycle of forest and plantation management’ and that ‘compliance with national legislation is only the starting point for our work’ which also includes supporting and implementing ‘voluntary forest conservation and restoration measures’ ‘tree breeding’, designed, for example, to improve the productivity and quality of eucalyptus trees grown on company plantations and participation in ‘numerous local and global forestry associations, networks and programmes.’ In addressing ‘sustainable silviculture’ and ‘responsible sourcing’, Svenska-Cellulosa, emphasised its commitment ‘to ensure that the wood raw material used in the company’s operations is not sourced from controversial sources’ and the company’s recognition that ‘preserving the biodiversity of our forests is the most important environmental target for the management of our forests, which cover an area nearly the size of Belgium.’ UPM-Kymmene stressed its commitment to ‘sustainable forestry’ and to ‘third-party-verified chains of custody to ensure the wood it receives is legally sourced from sustainable forests.’

Waste management is seen to be an important element in many of the selected companies’ sustainability plans and programmes. D. S. Smith, for example, ‘see waste as a resource’ and in putting the emphasis on recycling argued that ‘every tonne of recycled fibre offsets the need to harvest a tonne of virgin raw material’ and reported that ‘recycled fibres are turned back into new packaging within 14 days.’ At the same time the company stressed that ‘while waste to energy, incineration and other energy recovery techniques have a place in diverting non-recyclables from landfill, these technologies should not replace recycling and re-use in the first place.’ Svenska-Cellulosa reported that in 2016 it recovered almost 64.9% of all waste with 34.7% going to landfill but that no waste would be sent to landfill after 2030.

While the geographical location of many of the leading European players in the forestry, paper and packaging industry means that the availability of water is not a critical issue there are concerns about waste water management. That said Mondi acknowledged that ‘the production of paper and pulp is water intensive so we mange water wisely and responsibly. Wherever possible, and economically feasible, we recycle water to conserve this important resource.’ At the same time, the company recognised that ‘the cost of the water we use and the treatment of effluent from our production processes can be significant and uncertainties over the availability of water in some of the countries we operate can be a risk factor’ and claimed that ‘given its importance to our business and the communities in which we operate, we use water wisely and efficiently and we treat it responsibly at all times.’ While the majority of Stora Enso’s production plants are located in areas where water is relatively abundant there is a clear recognition that ‘global water scarcity may still impact our operations in the long term through our supply chains, and as controls on pollution, recycling and water pricing are toughened.’

In reviewing the social dimensions of sustainability being addressed by the selected packaging companies a number of themes can be identified including, the importance of employees, human rights and labour practices, diversity and equality of opportunity,
employee training and development, the health, wellbeing and safety of employees, employee representation and association, links with local communities and charitable donations. BillerudKorsnas, for example, stressed its commitment to ‘provide engaging workplaces where safety, human rights and diversity are a priority’ and reported that ‘together we are building a company characterised by good development opportunities, diversity, good leadership, a safe working environment and an ethical business approach in everything we do.’ Svenska-Cellulosa emphasised that ‘the working environment and safety of its employees is of paramount importance to SCA and the company wants everyone to feel safe at work’ and that ‘this relates not only to the physical work environment, but also to promoting a culture where safety always comes first.’ Mayr-Meinhof Karton simply reported ‘we promote the vitality and safety of our employees by ensuring a healthy, safe and humane working environment.’

Stora Enso reported on working with BSR, a global not-for-profit organisation, to define and calculate living in Brazil, India, China, Pakistan, Russia, Laos and Uruguay. In this exercise, a living wage was defined a level of earnings that best corresponds to the actual costs of acquiring the goods and services that are necessary for a basic standard of living and at the start of 2016 Stora Enso reported its current minimum salary levels exceeded the living wage estimates in all seven countries. In reporting on its approach to ‘Community Relations’ Svenska-Cellulosa claimed it wanted to ‘help solve social challenges’, and reported that the company ‘prioritizes social initiatives with a clear link to the company’s values, expertise, operations and geographic presence’, that ‘many initiatives are in hygiene and health, often related to women and children’ and that ‘these projects strengthen SCA's position in the community and build loyalty and goodwill.’ By way of an illustration of its work Svenska-Cellulosa provides outline details of its support for adolescent girls in Mexico, sick children and their parents in Hungary and more generally its help for communities struck by natural disasters.

The majority of the selected companies reinforced the wide ranging narratives on environmental, social and economic agendas with single year or time series data, often across three and in some cases across ten years, or graphical representations of such data. UPM-Kymmene, for example, provided a bar graph of its annual fossil carbon dioxide and acidifying flow gas emissions, of its sources of electricity, of its total waste sent to landfill and of the volume of waste water generated, from 2007-2016. Mondi published a range of ‘consolidated performance data’ including carbon dioxide emissions from its pulp and paper mills by country for 2016, for annual fuel consumption and electricity self-sufficiency at its paper and pulp mills, and waste and hazardous to landfill for 2012-2016 and for fuel and energy related emissions for 2015 and 2016. Seven of the selected companies namely, Svenska-Cellulosa, Stora Enso, Smurfit Kappa, D.S. Smith, Mondi, BillerudKorsnas, and Metsaliitto provided some form of independent external assurance of the environmental, but not of the social or economic data in their sustainability reports, but in all cases this was limited, rather than reasonable, assurance as defined earlier.

More generally corporate commitments to sustainability within the European forest, paper and packaging industry were often informed and underpinned by a number of interlinked themes namely, the creation of value, innovation and the circular business model. A number of the selected companies highlighted their commitment to creating value. UPM-Kymmene, for example, provided a chart to illustrate how the company created economic, social and environmental value, both directly and indirectly. The illustrations of economic value included creating customer and supplier value and
enhanced business practices, social value achievements included improved employee wellbeing and skills enhancement and the environmental dimensions included the sustainable use of natural resources and climate change mitigation. Sequana emphasised its ‘innovative circular economy solutions for waste paper collection and recycling.’ Metsaliitto identified how the company’s achievements in ‘creating value’ locally, nationally and internationally. At the local level value was seen to be created, for example, in terms of employment and the associated wage benefits within communities and payments to forest owners from wood sales, at the national level value creation included the export value of the company’s paper mills and its contribution to the generation of renewable energy while internationally the focus was on reducing the dependence on fossil fuels and the payment of shareholder dividends.

A number of the leading European forest, paper and packaging companies stressed the importance of innovation in improving efficiency across the sustainability spectrum. BillerudKorsnas, for example, claimed that ‘through innovation’ the company ‘challenges conventional packaging choices’ and that ‘innovation is also essential to change the driving forces in the market by reinforcing the role of renewable packaging materials and developing packaging solutions that efficiently meet the sustainability challenges of the future.’ In a similar vein Smurfit Kappa claimed that ‘innovation drives how we operate – from analysing customer challenges to understanding specific markets and finding the right solutions.’ Svenska-Cellulosa cited innovation as one of its strategic priorities. The company has a portal for open innovation and here inventors, entrepreneurs and small companies are invited to submit solutions in response to various challenges from the company. In 2013 Svenska-Cellulosa launched an internal innovation platform which spans manufacturing, logistics and marketing.

Some of the selected companies reported, explicitly or implicitly, on their commitment to the concept of the circular economy and to a circular business model, which looks to minimise waste and to use renewable resources in a sustainable and circular way. The concept of the circular economy features prominently, for example in UPM-Kymmene’s sustainability report. In illustrating its focus on the circular economy, the company outlined a research programme designed to improve environmental performance and energy and water efficiency through new technologies at one of the company’s paper mills in China. The overall aim is to ‘move towards a closed cycle mill’ where carbon dioxide and particle emission are reduced and all the water leaving the mill is clean and has no environmental impact. Smurfit Kappa reported ‘for many years we have focussed on designing our operations around a circular economy model- a truly closed loop system in which the productivity of the resources we use is maximised and waste, including carbon dioxide emissions, is minimised. Simultaneously we endeavour to promote sustainable use of renewable raw materials, to reduce the use of and replace non-renewable raw materials where feasible and ultimately to reuse resources we take out.’ More generally in reporting on their commitment to a circular business model the selected companies might also be seen to moving towards more sustainable patterns of consumption but this concept receives only limited explicit attention in their sustainability reports.

Discussion

While the findings revealed that while the majority of the leading European players in the forest, paper and packaging industry publicly recognised the impacts their
businesses have on the environment, on society, and to a lesser extent, on the economy, there are variations in the character, extent and detail of the reporting process. That said four sets of issues merit discussion and reflection. Firstly while the majority of the selected companies emphasised their commitment to sustainability, neither sustainable development nor sustainability, is formally or explicitly defined within their sustainability reports. That said these reports include implicit definitions of sustainability which consistently emphasise business continuity rather than the preservation and enhancement of natural and social capital. Such definitions are primarily built around business efficiency and cost savings and are driven largely by business imperatives. Thus while many of the environmental agendas addressed by the selected companies are designed to reduce greenhouse gas emissions, energy, water consumption and waste, for example, they also serve to reduce costs. In a similar vein the packaging companies’ commitments to their employees focusing for example, upon good working conditions, health and safety at work and training all help to promote stability, security, loyalty and efficiency within the workforce.

Secondly while the leading European players within the forest, paper and packaging industry addressed a range of environmental, social and economic agendas in their sustainability reports there are issues about the selection of these agendas and about the independent assurance of the data provided to illustrate achievements against these agendas. Generally there was only limited reference, for example, as to how material issues were identified by the companies or to the role of a range of external stakeholders in the identification process. As such the sustainability reports and information posted by the selected packaging companies might be seen to represent the executive management’s approach to sustainability rather than the potentially wider sustainability agendas and concerns of the company’s stakeholders. At the same time the approach to the construction of materiality matrices employed by some of the leading companies within the forest, paper and packaging industry might be seen to suggest the corporate privileging of sustainability goals rather than environmental, social and economic concerns. McElroy (2011, webpage), for example, claimed that this approach ‘essentially cuts out consideration of what are arguably the most material issues’ namely ‘the broad social, economic and environmental impacts of an organisation regardless of how they relate to a particular business plan or strategy.’

The independent external assurance of the data in the selected companies’ sustainability reports can be seen to be problematic. While the majority of the leading European companies in the forest, paper and packaging industry commissioned external assurance, the scope of the assurance exercises was limited both in its scope and extent, and others did not report on commissioning such assurance exercises. This can be seen to reduce the credibility, integrity and reliability of the sustainability reporting process undertaken by the leading European players in the forest, paper and packaging industry. That said the selected companies are large, complex and dynamic organisations and capturing and storing comprehensive information and data throughout the supply chain in a variety of geographical locations and then providing access to allow external assurance is a challenging and a potentially costly venture. Thus while data on a company’s carbon emissions may be systematically collected, collated and audited as part of the company’s environmental commitments, information on their impact on local communities and levels of staff satisfaction may be more difficult to measure, collate, interpret and assure. Currently some of the leading European companies within the forest, paper and packaging industry choose not to publicly pursue such an exercise.
Thirdly the interlinked themes of the creation of value, innovation and the circular business model, which informed and underpinned corporate commitments to sustainability within the European forest, paper and packaging industry, merit discussion. The leading players in the European forest, paper and packaging industry certainly see continuing innovation and technological development as vitally important in improving more efficient resource use across the sustainability spectrum. More generally Clark and Dickson (2003, p. 8059) suggested that ‘the need for sustainable development initiatives to mobilize appropriate science and technology has long been recognized’ and advances in technology are often seen to provide the best way of promoting greater efficiency. However while Schor (2005, p.310) recognised that ‘advocates of technological solutions argue that more intelligent design and technological innovation can dramatically reduce or even stop the depletion of ecological resources’ he argued that such approaches ‘fail to address increases in the scale of production and consumption, sometimes even arguing that such increases are not unsustainable if enough natural-capital-saving technical change occurs.’

Value creation has traditionally been seen as one of the major objective of businesses though in posing the question ‘for whom is value created’ Haksever et al. (2004, p. 291) drew attention to whether companies must create value for its shareholders or more generally for all stakeholders. In addressing value creation some of the leading European companies in the forest, paper and packaging industry detailed benefits to both shareholders and stakeholders and such would seem to reflect the concept of shared value. That said Crane et al. (2014) identified a number of weaknesses and shortcomings in the creation of shared value model. More specifically Crane et al. (2014, p.131) argued that the model ‘ignores the tensions between social and economic goals’ that it is ‘naive about the challenges of business compliance’ and that it is ‘based on a shallow conception of the corporation’s role in society.’ In examining the first of these concerns, for example, Crane et al. (2014, p136) suggested that ‘many corporate decisions related to social and environmental problems, however creative the decision-maker may be, do not present themselves as potential win-wins, but rather manifest themselves in terms of dilemmas.’ As such Crane et al. (2014, p. 136) suggested that such dilemmas are effectively ‘continuous struggles between corporations and their stakeholders over limited resources and recognition.’

The concept of the circular economy has been gathering momentum. In 2015 the European Commission, for example, in launching its ‘action plan for the circular economy’ suggested that ‘the transition to a more circular economy, where the value of products, materials and resources is maintained as long as possible’ is ‘the opportunity to transform our economy and generate new and sustainable competitive advantage for Europe’ (European Commission 2015, webpage). However the concept of the circular economy has also attracted criticism. The idea of designing out waste, for example, faces practical challenges in that continually recycling may not always be feasible, particularly in the forest, paper and packaging industry. Conventional wisdom has it that wood can be recycled up to seven times but the fibres become shorter and lose some of their strength with each round of recycling and the recycling process itself uses water, energy and chemicals which have cost as well as environmental implications for companies within the industry. While the circular economy has a strong environmental focus much less attention has been paid to the social dimension. Murray et al. (2015, p. 22), for example, argued that the circular economy ‘is virtually silent on the social
dimension, concentrating on the redesign of manufacturing and service systems to benefit the biosphere.’

More specifically in discussing the circular economy, the spectre of sustainable consumption, and more specifically unsustainable consumption, described by the European Environment Agency (2012, webpage) as ‘the mother of all environmental issues’ looms large at both ends of the supply chain. On the one hand, the European Commission (2012a) has argued that Europe’s environmental footprint is one of the largest on the planet and suggests that if the rest of the world lived like Europeans, it would require the resources of more than two and a half earths to support all of us and, as such, all industries can be seen to have a role to play in moving towards more sustainable patterns of consumption. Here the forest, paper and packaging industry surely has a particularly important role than most, not least because forests are fundamental elements in the earth’s climate and water systems. On the other hand, as outlined earlier, paper and paperboard packaging, play a vital marketing role in enhancing the appeal of products within shops and stores and as such can be seen to be promoting, rather than restricting, consumption. The European Commission (2012a) has argued that ‘retailers in Europe are in an exceptional position to promote more sustainable consumption not only via their daily contact with millions of European customers but also through their own actions and partnerships with suppliers.’ However store based research undertaken Jones et al. (2014), for example, revealed that the UK’s top ten retailers make very limited public corporate commitments to sustainable consumption and that while some of these retailers were offering customers some information which might encourage more sustainable shopping behaviour, such information was systematically undermined by marketing messages which were designed to encourage rather than restrict consumption.

Finally, the sustainability reports posted by a number of the leading companies within the forest, paper and packaging industry are couched within the idiom of continuing growth and there are fundamental questions about whether continuing economic growth is compatible with sustainability. On the one hand some critics would suggest that continuing economic growth and consumption, dependent as it is, on the seemingly ever increasing depletion of the earth’s natural resources is fundamentally incompatible with sustainability. Daly (2017, p. 85), for example, suggested that ‘there is an obvious physical conflict between the growth of the economy and the preservation of the physical environment’ while Higgins (2013, webpage) argued ‘the economic growth we know today is diametrically opposed to the sustainability of our planet.’ Arguably more radically Valenzuela and Bohm (2017, p. 23) argued that while ‘the concept of sustainability was originally brought to light to the growth doctrine of capitalism and the overconsumption of natural resources’, four decades later ‘the term sustainability has been captured by politic-economic elites claiming that rapid economic growth can be achieved in a way that manages to remain responsible to environment and society.’

On the other hand the dominant corporate argument is that continuing economic growth will inevitably be accompanied by the more efficient use of resources. This trend which is seen as either relative or absolute decoupling (relative decoupling refers to using fewer resources per unit of economic growth while absolute decoupling refers to a total reduction in the use of resources) underpins many conventional definitions of sustainability and the vast majority of current corporate sustainability strategies and programmes. However decoupling is seen by some critics as an elusive goal and
Conrad and Cassar (2014, p 6370) suggested that ‘a substantial body of research has cast doubts on whether countries can truly grow their way out of environmental problems. Arguably more radically Jackson (2009, p. 57) concluded a discussion of what he described as ‘the myth of decoupling’ by arguing that ‘it is entirely fanciful to suppose that deep emission and resource cuts can be achieved without confronting the structure of market economies.’

Equally critically Castro (2004) has questioned the very possibility of sustainable development under capitalism and argued that economic growth relies upon the continuing and inevitable exploitation of both natural and social capital.

Conclusion

All the leading European companies within the forestry, paper and packaging industry publicly reported or provided information on their commitments to sustainability and on their achievements in meeting such commitments. A number argued that by integrating sustainability into their businesses, they are creating sustainable value, are better placed to provide long term growth and financial security for all stakeholders and to enhance their market position and reputation. However the authors argue that the selected companies definitions of, and commitments to, sustainability can be interpreted as being driven as much by business imperatives as by any fundamental commitments to sustainability. Thus the accent currently appears to be on making efficiency gains across a wide range of economic, social and environmental issues rather than on maintaining the viability and integrity of natural ecosystems and on reducing demands on finite natural resources. As such the leading companies within the forest, paper and packaging industry are, at best, pursuing a ‘weak’ rather than a ‘strong’ model of sustainability. More critically the authors suggest that the selected companies’ commitments to sustainability are couched within existing business models centred on continuing growth and consumption and that current policies might be viewed as little more than genuflections to sustainability. This echoes Roper’s (2012) belief that weak sustainability represents ‘a compromise that essentially requires very little change from dominant economic driven practices but effectively works to defuse opposition, increase legitimacy and allow business as usual.’

Looking to the future and in the face of growing media, investor, customer, pressure groups and government scrutiny, the leading companies within the European forest, paper and packaging industry may seek to further develop, and adopt, a more rigorous and transparent approach to, their sustainability reporting. Here the leading players in the forest, paper and packaging industry may want to address how they can continue to reflect on corporate approaches to sustainability, on the development of such approaches over time and on how to bring greater value and transparency to the reporting process. At the same time it is important to recognise that the approaches to sustainability being pursued by the leading European players within the forest, paper and packaging industry have an impact on the sustainability of retailers not only that they affect the sustainability of the supply chain but also in the role the packaging they produce and supply to retailers plays in encouraging consumption. Finally future academic research agendas might usefully build on the current exploratory paper by focusing on a number of avenues of enquiry. These might include detailed investigations of the ways the major players within the forestry, paper and packaging industry are engaging with stakeholders to identify material issues and of whether greater transparency in the sustainability reporting process is reflected in corporate
investment and profitability. More specific retail research agendas might include market research into customers' perceptions of the environmental and social impacts of the forest, paper and packaging industry and its impact on purchasing behaviour, investigations into how retailers to drive sustainability issues in the forest, paper and packaging industry within their supply chains.

References


The role of intangibles in the implementing marketing strategies

Chrystyna Misiewicz

Abstract

A considerable increase in the importance of intangibles in marketing literature can be observed. With their development and exploitation, it is argued that organizations will be in a stronger position to succeed in the marketplace (Srivastava, Shervani, Fahey, 1998). Through intangibles, marketing creates value for the organization (Edeling, Fisher, 2016; Hanssens, Pauwels, 2016). However, little is known what constitutes intangibles and how are they implemented within the marketing strategy.

The aim of the article is to improve the understanding of intangibles from a marketing perspective. For the purpose of the study, individual in-depth interviews were conducted with marketing executives of 12 organizations in Poland. The respondents had to identify the resources considered necessary in implementing marketing effects.

The findings suggest that despite economic benefit of intangibles, financial assets are still viewed as more important and in a greater demand in implementing marketing strategy.

Key words: intangibles, marketing effects, resource allocation, market-based assets

Introduction

The digital revolution caused profound changes in the organizations. However, today the dynamics of competitive advantage have shifted towards intangible components. A recent study by The Chartered Institute of Management Accountants (CIMA) and Oracle among managers has examined what drivers would matter in creating organizational value. As can be seen from Figure 1, the most significant value drivers are intangible.

Figure 1 Top 5 valuable drivers

![Figure 1](image)

Source: Brand Finance GIFT 2016

There is a tendency for a growing importance of intangibles. According to IP merchant bank, Ocean Tomo, the market value of S&P 500 companies consists more of intangible than tangible components. In 2015, only 13% of its resides in tangible assets in comparison with 32 % in 1995. In addition, it can be observed that manufacturing corporations have been replaced by companies from Silicon Valley, as Figure 2 shows. The latter not only produce goods and services but primarily deal with collecting, storing and analysing its customers’ data. For instance, it is argued that due to Amazon's ability
to personalize the shopping experience of each customer, it has become a leader in e-commerce (Mangalindan, 2012).

**Figure 2 The largest companies by market capitalisation**

Despite the importance of intangible resources, there has been little investigation on their implementation within a marketing strategy. It has not been determined how intangible resources are perceived by marketing managers. What components are recognized as intangible? Is there any ‘shift in the mindset’ of marketing practitioners of understanding the role of marketing within the organization? (Srivastava, Shervani, Fahey, 1998; Doyle, 2008). It might also be of interest to investigate the relative importance of intangibles in the implementation of marketing effects (Rust, et al, 2004).

This research addresses the understanding and relative role of intangibles from a marketing perspective. In doing so, it makes three contributions to the literature. Firstly, the article extends theory in marketing management research by integrating and consolidating existing typologies of organizational resources. Secondly, it proposes a conceptual framework of intangibles from a marketing perspective. Thirdly, this article posits a set of research directions that will enable to investigate empirically how intangibles resources impact the marketing strategy.

This article is structured as follows. The author first provides a brief review of the intangibles based on the marketing literature. Next, the author defines the scope and assumptions of the qualitative study. In the following section, the conclusions from in-depth interviews are presented. The author concludes with a discussion on the implications and limitations of the findings.
theory

Resources for marketing

Due to previous studies, an organization is less commonly perceived as a “black box” than it has been in the past. According to the resource-based view, an organization is a bundle of resources, which can be either of a tangible or of an intangible nature (Barney, 1991). Moreover, resources can be on or off balance sheet, internal or external to the organization. There is several different views on definition and classification of the resources:

- a combination of assets controlled by the organization that serve as inputs to organizational capabilities and therefore have rentearning potential (Grant 1991)
- any physical, organizational, or human attribute that enables the company to create and realize strategies that enhance its competitive position (Barney 1991)
- stocks of available factors that are owned or controlled by the organization (Amit and Shoemaker, 1993).

Tangible resources have a material existence and usually refer to inventory, cash, equipment (GAAP, 2014). They can be easily identified and evaluated as these resources are obliged to be reported in the company’s financial statements.

Intangible resources have no physical form, consequently, it is difficult to identify them across the organization. They are not easily transformed, harder to imitate than tangible resources (Obloj, Obloj and Pratt, 2010), and not traded in the active and transparent market (Lev 2004). As International Financial Reporting Standards (IFRS) defines, the intangible asset is ‘a resource controlled by the entity as a result of past events: and from which future economic benefits are expected to flow to the entity’ (Mackenzie, 2014). IFRS provides a list of assets that are recognized as intangible. They are:

- marketing-related (trademarks, trade dress, internet domain etc.)
- customer-related (customer lists, order or production backlog, customer contracts and the related customer relationships)
- artistic-related (plays, operas, and ballets, pictures, musical works etc.)
- contract-related (employment contracts, licensing, lease agreements etc.)
- technology based (patented technology, computer software, trade secrets etc.).

However, IFRS points out that it is not exhaustive and may include other assets provided that they meet the definition of an intangible asset. In addition, GAAP recognizes primarily all internally generated intangibles not as investments but as costs (Lev, 2004). A number of theoretically derived typologies are proposed for delineating intangible resources (see, Surroca, Tribó and Waddock, 2010; Lev,2001, Hall 1993)

Below previous research, discussions on identification and disposal of resources in marketing perspective will be presented. For the purpose of this article, resources are considered as the generic term, while assets and capabilities are different types of resources. However, in the current usage the terms resources, assets, capabilities, and competencies are frequently used interchangeably (Hooley and Greenley 2005; Srivastava, Shervani and Fahey, 1998).
Marketing generates and/or leverages multiple forms of intangible resources. Customer satisfaction (Fornell, Morgeson III and Hult, 2016), skilled workforce (Ulrich and Smallwood, 2004), organizational culture (Marcoulides and Heck 1993), brand reputation (Madden, Fehle and Fournier, 2006; Keller and Lehmann 2006, Aaker and Jacobson, 1994) and the like may be important inputs to implementing effective marketing strategies.

Previous studies suggest that due to marketing actions, specific intangibles resources are created (Doyle, 2008; Rust, et al, 2004). Srivastava, Shervani and Fahey defined them as market-based assets, that ‘arise from the commingling of the firm with entities in its external environment’ (1998, p.2). Subsequently, the authors underline the primarily external character of market-based assets to the organization.

The concept of market-based assets attempts to explain the input side of marketing resources to marketing strategy choices. It underlines that by leveraging intangible assets, managers go beyond the traditional inputs and outputs of marketing analysis. Due to the impact of market-based assets on the financial performance, marketing managers are able to explain and justify the financial consequences of their actions. And that gives more value relevance to marketing within the organization (Edeling and Fischer 2016) and helps marketers to gain a ‘seat at the [top] of the table’ (Katsikeas, et al, 2016).

A study by Srivastava, Shervani and Fahey shows that market-based assets can be of two types, relational and intellectual (1998). Relational assets can be generated from the relationship between a firm and its external stakeholders. For example, these include brand and channel equity that reflects the interaction between an organization and its customers, channels, outsourcing agreements, strategic partners, network and ecosystem relationships, providers of complementary goods and services. Intellectual assets include different types of knowledge a firm possesses about its external and internal environment. It can be recognized as three major intellectual assets: marketing knowledge, customer-driven culture, and marketing orientation (Srivastava, Fahey, Christensen, 2001).

Following studies of Srivastava et al. (1998) and Barney (1991), Hooley et al. (2005) distinguish between market-based resources and marketing support resources. Market-based resources ‘are those resources that can be immediately deployed in the market place to directly create or maintain competitive advantage’, whereas marketing support resources underlie and support the market-based resources (2005, p.19). The following can be identified as such market-based resources: customer linking capabilities, market innovative capabilities, human resource assets, reputational assets. Market orientation and managerial capabilities are proposed as marketing support resources.

According to Hooley, Piercy and Nicoulaud (2008), marketing assets encompass four groups of company properties: customer-based assets (e.g. company name and reputation, brands, relationship with customers, market domination), internal support assets (e.g. franchises, licenses, copyrights, information systems, cost advantage, partnerships, technical skills), supply chain assets (e.g. distribution network, supplier network and relationships, pockets of strength) and alliance-based assets (e.g. shared technology, access to markets, access to management skills, exclusivity) (p.153).
Unlike the abovementioned studies, Morgan (2012) has drawn attention to the fact that past research has focused primarily on customers or brands and little is known about other types of resources for marketing such as human and financial resources. It was suggested that resources for marketing should include: tacit knowledge resources, physical resources, reputational resources, human resources, organizational resources, financial resources, informational resources, relational resources.

Recent studies on marketing resources are concentrated on their measurement aspects. As Rust et al. (2004) note, marketing assets ‘are a customer-focused measure of the value of the firm (and its offerings) that may enhance the firm’s long-term value’. In the empirical works marketing assets are represented by variables such as brand-related or customer-related metrics. Drawing on marketing literature, Edeling and Fisher (2016) distinguish two groups of marketing assets metrics that have received considerable attention: valuation metrics (brand value, customer lifetime value/customer equity) and perception metrics (brand perception, customer satisfaction, quality perception).

Methodology

Research questions

Following a review of marketing literature and strategic management studies, a qualitative approach was adopted. The combination of formal theory, concepts, models with one’s personal understanding (tacit knowledge) is ‘a starting point for discovering a potential issue problematic question, or a curious phenomenon’ (Marshall, Rossman, 2006, p.31). Hence, the further stage can involve the quantitate study in order to generalize the findings.

For the purpose of the qualitative study, four main research questions were established:

1. How are effects of marketing actions defined?
2. What is the relative importance of firm’s resources for marketing purposes?
3. What types of resources determine the marketing strategy implementation?
4. In what way and which intangibles serve as inputs to the marketing strategy?

In order to obtain answers to research question, three specific research areas for discussion during interviews were developed. As can be seen in Table 1, each area includes issues that should have been discussed by interviewees.
Method and data collection

Because the goal was to explore the perception of the intangible resources, the in-depth interviews with chief marketing executives in Poland were conducted. All selected interviewees were responsible for resource deployment within marketing strategy in their organization. For that reason, chief marketing managers are in the best position to answer questions about firm’s resources. As suggested by Rust et al. (p.84, 2004), Fahy et al. (p.154, 2006) firm’s industry and customer markets may determine the importance of different types of resources. Hence, respondents came from services firms and manufacturing firms. Table 2 shows the details of the sample.
The format of the interview was semi-structured. On the one hand, the interviewer could change the order and the content of questions in order to encourage respondents to reveal as many details as possible. On the other hand, an interview script was prepared in order to ensure that all topics of interest would have been discussed. Additionally, it allowed comparing the collected data among different interviews. All interviewees agreed on an audio recording of the conversation.

The interview consisted of three parts. The first part was an introduction. The interviewer presented the scope of the study. Next, the interviewees were asked to answer questions about their experience in marketing, main job responsibilities, firm’s industry and a number of employees. The second section was a discussion on topics of interest. During the last section, interviewees were given a map of resources, in which different types and examples of firm’s resources that might be important for marketing purpose were presented.

The map of resources had two goals. Firstly, the managers had to divide 100% between resources listed in the map by their importance in the marketing strategy implementation. With regard to marketing resources, the categorization proposed by Morgan (2012) was adopted (physical resources; reputational resources; human resources, organizational resources; financial resources; informational resources; relational resources). Secondly, the interviewees had the possibility to present their suggestions and comments about the theoretically derived typology of resources for marketing.

The interview data included 15 hours of recorded conversations, which later were transcribed. Following the common practice in qualitative data analysis, a software NVivo was used. It allowed to organize and analyse content from interviews. First, the first-order codes were identified. According to Saldana (2013), coding can be divided into two steps: first cycle and second cycle coding. During first cycle coding, the data is initially summarized. A second cycle method is a way to group the first order codes into a smaller number of themes, categories. Subsequently, categories based on prior theoretical research were developed.

Findings

Analysis of marketing effects

According to the CMOs, marketing effects are associated with financial measures. Although, some of the interviewees perceive effects of marketing actions as the impact on customer’s purchase behaviour. Nevertheless, sales revenue and market share are 67
recognized as the most important financial measures of marketing decisions. It seems that in the firms the traditional view of marketing’s impact dominates, specifically ‘positive product-market results will translate automatically into the best financial results’ (Srivastava, Shervani and Fahey, 1998, p.2).

It might also be of interest that interviewees underline the difficulty of considering marketing effect as a result of solely marketing actions. The cooperation with other departments, especially with sale department, appears to be significant in implementing effective marketing strategy.

CMOs were also asked to give examples of metrics that are used in their firms in order to measure the effects of marketing action. They distinguish customer-focused measures (e.g. customer loyalty, satisfaction, retention), brand equity (e.g. brand’s strength, brand perception), product-market measures (e.g. market share, unit sales), measures of product distribution (numeric distribution, ACV distribution, PCV distribution).

The perception of intangible resources

The issues from this area were found difficult for interviewees. The managers needed more time to answer in comparison with previous questions. It can be assumed that the expression “intangible resource” or “intangible asset” is not in common use in their business language. It seems that intangibles are primarily associated with human resources. In addition, brands as an intangible asset were identified. However, none of the interviewees mentioned customer relationships, databases, intellectual property rights and many others examples of intangible resources.

Since intangible assets were perceived mainly as human resources, it was difficult to answer how these assets can be measured. However, from previous section concerning effects of marketing action, it was obvious that some types of intangible resources are measured in interviewees’ firms. Additionally, it may be observed, that medium size firms (50-200 employees) in comparison to large firms (above 200 employees) measure intangible assets to a lesser degree. In the group of large firms, measures such as customer satisfaction, customer loyalty, awareness, top of mind were identified as intangible assets.

Analysis of firm’s resources allocated to the marketing strategy

The goal of the last section of issues was to encourage the CMOs to discuss firm’s resources that might be important in the implementing of the marketing strategy. As it was observed early, expression “intangible resources” was confusing for managers. For that reason, the author tried not to use it. For example, the question “What intangible resources serve as inputs to marketing strategy?” has been changed into “What might you need to realize marketing strategy?”. Consequently, a substantial number of different issues were mentioned. Using qualitative data analysis NVivo, 17 first-order codes were identified from the data. Next, based on prior theoretical studies, the initial codes were organized and defined into a smaller group of categories. Table 3 shows key categories that were developed.
At the end of the conversation, the interviewees were given a map with resources to fill in. They had to divide 100 % between proposed resources with respect to their importance in the implementing resources. Not all answers were consistent with the previous section of questions. It would appear that financial resources are still viewed as the most important resources. Especially, in the medium size firms. Relational, informational, reputational and human resources were better assessed in comparison to other types of intangibles such as legal and organizational resources. Additionally, legal resources received little attention among managers.

Conclusion

Marketing strategy involves decisions on resource deployment. Morgan (2012) notes that marketing requires different types of organization’s resources, which can be
recognized more than just ‘marketing budget’ or ‘marketing personnel’. According to Hooley (2008), it can be critical to know how firm’s resources are grouped and identified.

For that reason, a qualitative study was conducted. The goal was to explore what resources might be important in the implementing of the marketing strategy. Based on prior theoretical research, it had been assumed that intangibles resources would have been recognized as more important than tangible one. However, it seems that managers still perceived tangible resources, especially financial, to be more crucial.

Of course, this is the qualitative research and its findings cannot be generalized. Nevertheless, the strength of such approach is that existing theoretical framework can be extended. There are already indications that the findings from this study may enhance further steps of research. For example, it is frequently underlined the increasing role of intangibles in marketing literature. The initial findings show that such assumption must be treated cautious. However, the in-depth interviews provide analysis of relatively small number of marketing managers. A useful extension to this work would be a quantitate study based on qualitative findings. This might be addressed through broad-scale survey.

References


Brand extension of Italian luxury fashion labels into the hospitality industry and conceptualisations of luxury: the cases of Armani Hotel Milano and Fendi Suites

Alice Dallabona
University of Leeds, UK

Abstract

Recently luxury fashion brands have been creating new spaces where people can experience a lifestyle that reflects the identity and philosophy of the brand. This article examines the brand extension practices employed by luxury fashion brands and their relationship with the concept of luxury by focusing on the ventures in the hospitality industry of Armani and Fendi.

Firstly, the brand extension practices employed by luxury fashion brands are explored considering the advantages and risks associated with such strategies, contextualising them within the current shift from fashion to lifestyle affecting the luxury fashion industry. Moreover, it is discussed how brand extension practices employed by luxury fashion brands in the hospitality industry relate to the practices they employ in the fashion industry. Lastly, this article explores the relationship between the practices employed in brand extensions of luxury fashion brands into the hospitality industry and conceptualisations of luxury.

Keywords: Armani Hotel Milano, Armani Hotels, Fendi Suites, luxury fashion flagship hotels, Italian luxury fashion, Fendi, Armani, lifestyle, brand extension, luxury, hospitality industry, hôtellerie.

From fashion to lifestyle

In the last few years, hotels associated with luxury fashion labels have mushroomed. Many luxury fashion brands have launched a series of ventures aimed at expanding their recognisability, and increase their turnover, by expanding outside the realm of accessories or cosmetics through the creation of new spaces where people can experience a lifestyle that reflects the identity and philosophy of the brand. This phenomenon has been gathering momentum over the last few years and Italian fashion labels are particularly active in this regard.

In 2000 Versace launched the Palazzo Versace hotel in Australia's Golden Coast and in 2011 a second hotel opened in Dubai. Bulgari Hotels and Resorts first launched in Milan in 2004 and then, in 2006 and 2012, two more hotels followed, respectively in Bali and London. In the 2010 the chain Armani Hotels debuted in Dubai and in 2012 a second hotel in Milan followed (Emaar Properties PJSC 2010). Moreover, in 2016 the house of Fendi launched the Fendi Suites in Rome. This type of brand extension in the hospitality industry by luxury fashion labels is defined as luxury fashion flagship hotels (Dallabona 2015a). Luxury fashion flagship hotels are located in prestigious areas and cities and are characterised by a very close relationship with their respective parent brands in terms of their empirical manifestations and brand values, encouraging interest and brand awareness as they offer opportunities of media coverage.
In addition to these luxury fashion flagship hotels, which are opened worldwide as brand extensions of Italian luxury fashion houses, there are other ways in which the Italian luxury fashion industry has entered the realm of hospitality, as for example in 1990 Krizia opened K Club in Bermuda and, more recently, Alberta Ferretti has launched two hotels, Castello Montegridolfo and Carducci76, in Emilia-Romagna (Italy). Moreover, Bottega Veneta curated suites for the St. Regis Hotel in Florence and Rome and, more recently, also for the Park Hyatt Chicago. However, the latter examples are the result not of brand extension practices but of a different paradigm that sees luxury fashion labels venturing into the hospitality industry through sporadic and occasional collaborations. This, as explored in Dallabona (2015b), constitutes the norm for international luxury fashion labels. Whereas other international luxury fashion brands have ventured, in a variety of ways, into the hospitality industry, they have not done so as consistently as Italian fashion labels and to date there are no comparable hotel brands associated with other luxury international fashion houses. This is possibly due to the fact that Italian luxury fashion labels were already extremely active on the brand extension front.

This article addresses a series of issues related to the brand extension practices employed by luxury fashion brands and their relationship with the concept of luxury by focusing on different Italian fashion houses and their ventures in the hospitality industry through the cases of the Armani Hotel in Milan and Fendi Suites in Rome. In this sense the present study employs a multiple case studies methodology, allowing for the distinguishing characteristics of the single cases to underline situations of dialogue and contradiction. Armani is an Italian luxury fashion brand founded by Giorgio Armani in Milan in 1974 and is known for its understated elegance. The label initially consisted only of a menswear line, but soon a womenswear line followed, and now the label operates with different sub-brands and diffusion lines, and also includes a home line, Armani Casa, which is showcased in the Armani Hotels. Fendi on the other hand was founded in Rome in 1925 as a leather and fur workshop by Edoardo Fendi. The business was developed into a luxury fashion house by his five daughters, Paola, Anna, Franca, Carla e Alda, who were also responsible for the double F logo. Karl Lagerfeld has been the creative director of Fendi for over fifty years, since 1965. Although the brand is still renowned for its furs and leather goods it has expanded into womenswear, menswear, childrenswear, and also has a timepiece line and home line, Fendi Casa, which is featured in the Fendi Suites.

Brand extension and the luxury fashion industry

In the luxury industry the phenomenon of brand extension is widespread (Roux 1996, Stegemann 2006, Chevalier and Mazzaalovo 2008, Cappellari 2008) and is present in many different forms. In this respect, the luxury fashion industry is considered emblematic (Fabris and Minestroni 2004: 321, Varacca Capello and Ravasi 2009: 2 and Okonkwo 2007). Fendi and Armani are expanding their brands into areas that are more and more distant from the core where the company originated, in line with many other Italian luxury fashion brands, but what is the rationale for that?

Brand extensions are attractive to companies “because they provide a way to take advantage of brand name recognition and image to enter new markets” (Aaker and Keller 1990: 27). This involves a parasitic relationship between the parent brand and the extension, that relies on the former in terms of reputation. Brand extension is used to capture a greater market share (Smith and Park 1992: 296, Dawar and Anderson 1994: 119, Milewicz and Herbig 1994: 40) and increase brand equity (Stegemann 2006: 58, Viot 2011: 216, Batra et al. 2010: 335, Milberg et al 1997: 138) whilst capitalising on the brand
image of the parent brand (Keller 1993: 15, Kim and Lavack 1996: 24, Pitta and Katsanis 1995: 51, Dawar and Anderson 1994: 119) and in this respect luxury brands seem to be the ideal candidates for making the most of such a strategy.

Considering that the raison d’être of brand extension is “the assumption that favorable associations and evaluations linked with the brand name will transfer to the extension” (Barone and Miniard 2002: 283, see also Aaker and Keller 1990, Boush and Loken 1991), it is easy to see that luxury brands, which are generally associated with favourable attitudes and evaluations, are going to benefit greatly from this strategy (Roux 1996: 2060).

Given the potential for evaluative transfer of this nature to occur, an “ideal” deployment of this strategy would seem to involve core brands for which consumers hold favorable evaluations, given that such evaluations would transfer over to extensions offered by these brands. Consistent with this line of reasoning, the marketplace is replete with extensions introduced under brand names that consumers generally hold in high regard.

(Barone and Miniard 2002: 283)

It has been observed that brand extensions carried out by luxury brands will be evaluated more favourably than the ones associated with non-luxury brands (Lye et al. 2001: 55). However, there seems to be limits to the transfer of positive characteristics from the parent brand to the extension, as the more the latter is distant from the former the more difficult it is for favourable evaluations to be transferred to the extension. But the brand extensions into hôtellerie by luxury fashion labels can nonetheless benefit from the favourable evaluations associated with the fashion labels because high-quality brands, like the ones operating in the luxury fashion industry, “stretch farther than average quality brands” as “one important benefit of building a strong brand is that the name can be extended effectively to more diverse product categories” (Keller and Aaker 1992: 44). This is because the identity of luxury brands primarily rely on the symbolic meanings that they can evoke, making labels like Armani and Fendi flexible enough to be successfully extended in different areas, even when those are rather distant from the core where the brands operate (Cappellari 2008: 69, Dubois and Paternault 1995: 71, Aaker and Keller 1990: 28). Luxury brands can be described, in semiotic terms, as “pure forms” characterised by immaterial and transferable qualities (Marrone 2007: 11) that can easily assume different shapes and expand in different areas. In this perspective brands are characterised by the faculty of acting as mediators between the company and consumers and proposing a contract with the latter, a communicative pact that acts as a guarantee of the offerings’ quality and that is the result of the faith of the consumer in the production of such offerings (Marrone 2007: 9, Semprini 1997, Lipovetsky and Roux 2003, Bertrand 1999, Heilbrunn 1998). In this sense, the luxury fashion brands Fendi and Armani represents figures of authority that act as a guarantor of the prestige of Fendi Suites and Armani Hotels.

The appeal of brand extension lies in the fact that it can increase turnover and profit for luxury fashion brands (Cappellari 2008: 73). Most high-end lines of luxury fashion labels are loss-makers but cannot be eliminated as they constitute the core of the brand, that would not exist otherwise (Cappellari 2008: 71). Moreover, luxury companies spend considerable amounts of money on advertising and marketing, so brands might be tempted to amortize these substantial expenses on more than one product.
It's natural to want to amortize communication efforts on a larger number of products. That is why the development of new categories has always been a favourite area for brands. (Chevalier and Mazzalovo 2008: 130)

Brand extensions can enjoy “the distinct advantage of instant recognition, benefitting from the 'halo effect' of the brand’s established reputation”, whilst at the same time being more easily accepted by consumers and growing faster because of the existing consumers’ attitudes toward the brand (Milewicz and Herbig 1994: 39). Moreover, brand extension has been associated also with a lower risk of failure (Milewicz and Herbig 1994: 39, Viot 2011: 216, Aaker and Keller 1990, Batra et al. 2010) and can increase the ability to predict sales, especially if the extension is into a sector where the competitors of the parent brands have already extended, which is possibly why luxury fashion labels are extending consistently in the same areas (Colucci et al. 2008: 131-136).

But there are risks, as for example the brand extension could fail and this could “backfire on the image of the parent brand” (Batra et al. 2010: 335). This is the principle that Milewicz and Herbig (1994: 40) describe as “one bad egg may well spoil the entire basket”. In fact any type of brand extension venture dialogues with its parent brand and does not merely receive or passively absorb the characteristics of the latter, but can also influences it and contribute to its re-positioning on the market, as happened in the case of Pierre Cardin, a label that in the 1970s and 1980s employed an aggressive licensing strategy and ended up losing its prestige due to an over-diffusion of products (Fabris and Minestroni 2004: 322, Okonkwo 2007: 300). In this sense it is not only the failure of a brand extension that companies should be wary of, as just for merely existing the brand extensions in the hospitality industry could have an impact on the parent brands.

"Each new introduction under a parent brand umbrella forces consumers to redefine what that name stands for" (Buday 1989: 29). Keller (1993: 15) observes that “when multiple product or service extensions are associated with the brand, the congruence among their associations becomes an important determinant of the consistency and cohesiveness of the brand image". This is particularly relevant for luxury brands, as it is believed that "whatever their nature and price, all products sold under the same brand name share a symbolic identity and a core of values expressing the 'quintessence' of that brand" (Dubois and Paternault 1995: 70-71). In fact, "if a firm appears to be stretching excessively beyond its area of competence, negative reactions such as skepticism or even laughter might be stimulated and lead to negative associations" (Aaker and Keller 1990: 30 but also Boush and Loken 1991: 26 and Barone and Miniard 2002: 284). In this sense, in order to protect the reputation and positioning on the market of luxury fashion brands like Armani and Fendi it is essential that the brand identity of the extensions is coherent with that of the parent brand.

Moreover, the use of brand extension into hôtellerie might harm the parent brands in terms of “brand dilution” (Aaker and Keller 1990, Milberg et al. 1997, Loken and Roedder John 1993, Lye et al. 2001). Brand dilution “damages the brand name through undesirable associations, weakening existing associations” (Lye et al. 2001: 55) and it has been observed that luxury companies are particularly at risk if they employ brand extension widely and consistently. As observed by Loken and Roedder John (1993: 71), “questions have been raised about the possibility that repeated brand extensions will eventually 'wear out' a brand name and that unsuccessful brand extensions will 'dilute' the equity.
associated with a well established brand name”. Brand dilution is associated in particular with brand extensions in the masstige sector, which is one of the areas where Armani operates. However, as it will be discussed later in more detail, Fendi engages significantly less with this sector.

From luxury to masstige

It is argued here that the extension practices employed by luxury fashion brands in the hospitality industry closely resemble the practices that they employ in the fashion industry, and in this sense the cases of Armani and Fendi present some differences.

The Armani Hotel in Milan is a high-end hotel and has a price tag to match, but it also operates at different price ranges by offering services that appeal to a broader customer base. For example it is possible to live the brand for less at the Armani Bamboo Bar, which is characterised by significant lower prices, therefore appealing to a wider base than the one constituted by the hotel’s guests. This means that the Armani Hotel in Milan also operates at the masstige level, associating its name with products that are not only characterised by a premium price (Truong et al. 2009). In this sense the strategies employed by the Armani Hotel in Milan present similarities with those employed by its parent company Armani as the latter also offers products that are more expensive and exclusive, such as first lines aimed primarily at the affluent market segment, and a variety of more affordable goods that are appealing to a broader customer base like for example eyewear, fragrances and diffusion lines.

In this respect within both the Armani Hotel in Milan and the label Armani coexist elements of horizontal brand extension (as they are operating in a different sector but in the same luxury market segment) and elements of downscale vertical brand extension (as they operate also in a different market segment that is removed from the high-end products associated with the brand). However, the case of the Fendi Suites is quite different, as it features only an horizontal brand extension that sees the hotel operating in the same luxury market segment that characterises the Fendi fashion label.

By extending their brands downward into masstige, the likes of Armani and its ventures in the hospitality industry can augment their profits and turnover as they reach a broader customer base.

While there are admittedly negative consequences for the core brand, there may also be tremendous market potential in introducing a step-down brand extension. The greatest potential for highly successful step-down brand extensions exists among prestige-oriented products. Middle-class consumer segments who cannot afford an expensive prestige-oriented core brand may enthusiastically welcome its lower-priced step-down extension. The profit potential for the step-down extension in a large middle-class market may be many times larger than the profit potential for the core prestige-oriented brand in a small upper-income market.

(Kim and Lavack 1996: 28)

However, downscale vertical brand extensions can be dangerous for luxury brands (Arslan and Altuna, 2010: 172, Kim and Lavack 1996: 28, Loken and Roedder 1993 and Kunde 2002). Firstly, masstige strategies can be problematic in terms of maintaining the
exclusivity and prestige associated with luxury companies (Stegemann 2006: 63, Roux 1995: 1977, Dubois and Paternault 1995: 73, Phau and Prendergast 2000) because they can reduce “the prestige of the core brand, perhaps because the core brand becomes mentally associated with a lesser quality brand extension” (Kim and Lavack 1996: 28) and, moreover, because vertical extensions offer very little distancing and “the risk of negative information is higher than with a horizontal extension” (Pitta and Katsanis, 1995: 60). In this sense Armani and its ventures in the hospitality industry could risk losing their prestige by associating their name with lower priced products. Secondly, downscale vertical brand extensions can be dangerous for luxury fashion labels because the former “have negative impact on the customers” (Pitta and Katsanis, 1995: 62) and carry the risk of creating negative feedback among their original clientele of the brand. Regular consumers of the more expensive products of Armani and Armani Hotel in Milan could feel cheated by these more accessible elements.

As another example of a potential dilution effect, successful extensions for brands with an exclusivity and prestige image that effectively broaden the target market may produce negative feedback effects on the brand from members of the original consumer franchise who resent the market expansion.
(Keller 1993: 15)

In this sense, the label Armani could alienate part of their customers by proposing offerings that aim to broaden their customer base downward. This phenomenon has been associated with claims that a democratisation of luxury is taking place, as “an increasing number of people gain access” to goods that are considered to belong to the realm of luxury (Mortelmans 2005: 517).


Even though the Armani label engages with such traits, its ventures into the masstige segment make the association between traditional conceptualisations of luxury and the more accessible facets of the brand rather problematic. In this perspective the label Fendi and its extension in the hospitality industry are connoted by an higher level of exclusivity that is a function of high price, lack of more affordable products or services that are accessible to the majority of consumers and also of a different management strategy.

The Fendi Suites in Rome only consists of seven suites, whereas the Armani Hotel in Milan has 95 rooms and suites, so that the former offers a much more limited availability, supporting connotations of scarcity, rarity and exclusivity. Luxury fashion brands sustain the exclusivity of their most prestigious and expensive products through a variety of strategies like limited production and availability (Phau and Prendergast 2000, Dubois and Paternault 1995, Mortelmans 2005: 505, Aiello and Donvito 2006: 2). Luxury fashion brands employ strategies of limited distribution in order to create a “well-controlled scarcity” (Chevalier and Mazzalovo 2008: 14) and maintain their prestige and reputation.
(Okonkwo 2007: 105, Moore and Birtwistle 2005: 268, Mortelmans 2005: 505) or at least try to convey an “impression of scarcity” (Chevalier and Mazzalovo 2008: 49). In this sense, the Fendi Suites in Rome can better convey an impression of scarcity, as the hotel is significantly smaller than the Armani Hotel in Milan. Even though the Armani Hotel Milano has a broader variety of rooms typologies, so that some of its suites are actually more expensive than the ones of Fendi Suites in Rome, nonetheless it can be argued that the sense of exclusivity of latter is buttressed by the fact that there is a real sense of restriction due to the more limited availability of rooms.

Moreover, the lack of cheaper services within the extension of the house of Fendi in the hospitality industry means that it is not accessible to the masses. In fact even thought some suites in the Armani Hotel Milano are more luxurious and can cost significantly more than the Fendi Suites, the Armani Hotel in Milan and the extensions of Armani in the hospitality industry also include a variety of cheaper and less exclusive outlets. In Milan the brand Armani is associated to a variety of restaurants, bars and clubs, and although some of them are characterised by premium prices others are not so expensive to be out of reach for the majority of people. In fact in addition to the Armani Prive’, Armani Restaurant and Nobu Milano, which are Michelin-starred restaurants, there is also the Bamboo Bar and the Emporio Armani Caffe’, where patrons can experience the Armani brand at a cheaper price. This is in line with the strategies that Armani employs in terms of brand management, as Armani features many diffusion lines (Armani Collezioni, Emporio Armani, AJ Armani Jeans and A/X Armani Exchange, see Moore and Wigley 2004) in addition to fragrances, make up and even a confectionery line (Armani Dolci). On the contrary, the fashion brand Fendi presents an extremely limited amount of products and services that can be considered as masstige, with only an eyewear collection and fragrance line. Fendi currently has no diffusion lines, as the diffusion line Fendissime, launched in 1987, was discontinued after the takeover of Fendi by the LVMH group in 2001. This strategy that sees the Fendi label engaged more with high-end products and services and move away from cheaper and less exclusive elements is also employed with regards to brand extension in the hospitality industry. There are no restaurants or bars where a less affluent clientele can experience the Fendi lifestyle. In fact the Zuma restaurant located above the hotel is a separate business and is not a function of brand extension, in opposition to the several Armani bars and restaurants in Milan. Moreover, even though in Rome there is a small Fendi Caffe’ (launched in 2016) at the labels headquarters located within the Palazzo della Civiltà Italiana, that is actually not open to the public but only to be used by the employees and guests of the house of Fendi (Cavalluzzo 2016).

In this perspective scarcity, restriction, exclusivity and premium price are suitable to describe the services offered by Fendi in the hospitality industry and to describe the majority of the goods associated to the label, but on the contrary it is only suitable to describe the high-end products of luxury fashion brands Armani and its high-end services in the hospitality industry, which represent only a fraction of the brand’s offerings but that nonetheless constitute the core that gives the label its reputation and positioning in the market.

Many authors in the marketing field consider exclusivity as a function of price (Mortelmans 2005: 505, Jackson 2004: 158, Fionda and Moore 2009: 349, Vigneron and Jonhson 1999: 4) and in this sense the more affordable facets of luxury fashion brands cannot be considered as exclusive as their high-end ones. Luxury goods are associated with premium price but that is a problematic issue in the contemporary luxury fashion industry,
as many luxury brands like Armani and its ventures in the hospitality industry have
associated their names to goods that are not always characterised by a high price tag,
extending towards the lower-end of the market. Those product, the least luxurious and
expensive ones produced by those brands, are accessible to the mass market.

Scholars have created several conceptualisations in regard to the different levels of luxury
that can be found within the luxury industry. Alleres (1990) distinguishes three types of
luxury goods: inaccessible luxury, characterised by very high prices, intermediate luxury,
characterised by products that are more accessible than the goods in the previous
category, and accessible luxury, characterised by even cheaper prices than the ones
associated with the other two typologies of goods. Whereas both the Armani and Fendi
label engage with those three segment, it is nonetheless evident that Armani is engaging
far more then Fendi with the level of accessible luxury, both in terms of its core products of
fashion and accessories but also with regards to brand extension.

It is the accessible luxury that nowadays is the most important financially, as Chevalier and
Mazzalovo (2008: xi) report that “98% of the luxury business today corresponds to the
accessible luxury category”, which explains why luxury fashion labels like Armani face the
risk of losing their prestige positioning and alienating their customer base by continuing to
extend in this area. Similarly to Alleres, Silverstein and Fiske (2003 and 2005) also
recognise that contemporary luxury goods are not always associated with premium prices
and identified three typologies of new luxury, all of which “are not so expensive as to be
out of reach” (Silverstein and Fiske 2005: 3), i.e. accessible super-premium products, old
luxury brand extensions and masstige goods, which are products that refer to established
luxury brands but are sold at much cheaper prices and therefore are accessible to the
majority of the population.

Consequently, there are now three distinct product groups in the luxury
product portfolio: (a) Lower-priced luxury products such as make-up,
cosmetics, fragrance and writing materials. (b) Mediumpriced luxury
products, such as restaurants, exclusive clubs, eyewear and in some
cases wristwatches. (c) Expensive luxury products such as leather-
goods, apparel, jewellery, wristwatches, special edition products, hotels
and spas.
(Okonkwo 2000: 237)

However, premium pricing is nonetheless a crucial aspect for luxury fashion labels, at least
in their high-end manifestations which are the ones that actually create the aura and
prestige of the brands and that support their connotation of luxury, upon which they can
subsequently cash-in through brand extensions.

Many have argued that masstige implies a democratisation of luxury (Mortelmans 2005:
2012) but in the context of vertical brand extension employed by luxury fashion labels we
merely see a democratisation of the brands in question. By buying an Armani fragrance or
going for a drink at the Emporio Armani Caffe people are not accessing the world of luxury
but the one of the brand, and those are different things.

However, luxury and luxury fashion brands share an inherent strength: their most
distinctive feature is “irreducible entirely to the material” (Berthon 2009: 47). Luxury
brands, like luxury goods, are signs that stand for something else, for the brand or for
signalling to “fairly complex social messages”, incarnated signs “whose principal use is rhetorical and social” (Appadurai 1986: 38).

To borrow Pierre Bourdieu's notion of “symbolic magic”, a fashion designer's label possesses the aural potency to conjure the mystique of distinction, authenticity and exclusivity which in turn engenders a fervent dedication (verging on the religious) on the part of faithful costumers.

(Potvin 2008: 247)

In fact, “more than other products, luxury items are bought for what they mean, beyond what they are” (Dubois and Paternault 1995: 71).

References


Biographical note:
Alice Dallabona is a Lecturer at the University of Leeds. Her work examines issues related to luxury fashion, brand extension, fashion communication and marketing but also branding and national identity. Alice has explored such issues, with a particular focus on the Italian luxury fashion industry and Italian national identity, during her PhD at Nottingham Trent University (UK), for which she was awarded the Vice-Chancellor Studentship. She holds a Laurea Magistrale in Semiotic Disciplines (University of Bologna, Italy) and a MA in Critical Theory and Cultural Studies (University of Nottingham, UK).
Foreign Direct Investment in Kosovo after the change on Value Added Tax rate and its impact in the budget of Republic of Kosovo

Bashkim Mustafa
PTK Kosovë

Ejup Fejza
University of Prishtina

Drita Konexheli
University of Prishtina

Abstract

The purpose of this paper work is analysis of Direct Foreign investments (further on this text DFI) in Kosovo after the change of rate of Value Added Tax (further on this text VAT) and the impact on GDP and the budget of Republic of Kosovo. Kosovo a country in the middle of Balkans within South East Europe, from 1999 has been through a process of creation of statehood and creation of institutions on national and local level. Passing through transition phase, Kosovo economy during last years experienced a situation of positive economic growth but insufficient to generate creation of new jobs and growth of economic wealth. A reliable source of economic growth in a country such is Kosovo are foreign investments.

Government of Republic of Kosovo on 2009 has changed VAT rate from 15% to 16% having the impacts on foreign investments and Kosovo budget. This paper work aims to present most clearly the impact of this change on Direct Foreign investments and budget by analyzing and comparing years through which hasn’t been VAT change and the years that has been VAT change. For this frame work are analyzed time periods 2002-2008 with the VAT rate of 15% and time periods 2008-2014 with the VAT rate 16%. Has been comparing also on Foreign Investments, VAT, GDP and public expenses, and budget performance through this years also, to get a conclusion what is a role and impact of such decision in budget from Government of Republic of Kosovo to give recommendations regarding that decision which in future will serve politic makers and researches of this field.

Results of this paperwork are presented with tables and graphics which are processed with statistics package SPSS.

Key words: budget, VAT, foreign direct investment, tax rate, economic growth.

Introduction

Direct foreign investments as a term means a partial or full ownership of a company of a foreign country, and were control of economic activity usually has a foreign enterprise. In, practice there are two types of foreign investments: 1) indirect portfolio investment, were there are no purpose or interest to control an enterprise, but the purpose of indirect portfolio investment is as better as possible financial return as in case of investments on shares, bonds, etc. and 2) Direct Foreign
Investment comes directly through construction of facilities for work and bringing the machinery for a tangible economic operation. In Kosovo the first type of foreign investments was not applied because Kosovo doesn’t have a stock market to perform the necessary operations depending on type of investments, but investments came in two forms: in one side as greenfield investments which have been the direct investments of foreign companies in creating economic operations; and in another side we have brownfield investments where foreign investor invested in Kosovo by buying an existing property through the process of privatisation of socially owned enterprises.

Kosovo is a very liberal country regrading to foreign investors. Law on foreign investment guarantee to investor all the rights and makes them equal to domestic investor. The legislation in Kosovo is in a full accordance to the EU legislation, not only in the field of foreign investment but also on other fields, and especially on the tax system. Kosovo tax system was introduced by United Nations Mission in Kosovo (UNMIK) until 2008, when Kosovo get its independence and created Kosovo Tax Administration as a body that is responsible to the Ministry of Finance. Until 2009, there was a flat tax rate of 15% in all products, which changed in 2009 from 15% to 16%. This had an effect to the foreign direct investments in Kosovo and also was reflected on the budget and Gross Domestic Product- GDP, but also on public expenditures which has an increase year by year and affected economic growth.

Monitoring and registering body of foreign investments in Kosovo is Central Bank of Kosovo and Statistical Agency of Kosovo while support to foreign investors is given by the Kosovo Investment and Enterprise Support Agency- KIESA . Investments are guaranteed from a moment when Kosovo become a member of Multilateral Investment Guarantee Agency (MIGA) which guarantees investments in Kosovo up to value of 20.000.000,00 euro. Also being the member of organisation Overseas Private Investment Corporation (OPIC), foreign investors have secured their capital from political risk (APIK,2012).

**Literature review**

**Direct Foreign investments**

Definition of foreign investments it’s a little bit tough and complicated and depends a lot from legislation of host country. Different organizations and different authors have given different definitions regarding the foreign investments. Organization for Economic Cooperation and Development (OECD, 2007) defines foreign investments as a reflection of aim of certain interest of unit resident in an economy “direct investor” into other economy unit resident “direct investment enterprise”. While International Monetary Fund-IMF defines foreign investment as direct if investor owns 10% or more of wealth of an enterprise out of his country sufficient to give foreign investor a piece of control in enterprise management (Kida,2016).

Foreign investments are made for different purposes and they depend from several factors, but most important goals for what foreign investments take place are: creation of common enterprises in hosting country or opening of new branches and taking under control enterprise and managing it at hosting country, they aim creation of profit to return investments and what is more important direct foreign
investments tend through investments of physical and tangible assets to create control and grow of their influence at hosting country.

Based on organisational forms and IMF and OECD standards, Direct Foreign investments include so-called *greenfield investments* in which foreign investor invests in new facilities of production or distribution, *brownfield investment*-in which foreign investor invests in existing facilities (Johnson 2006), like the case of foreign investments in Kosovo through privatisation process of socially owned enterprises. But foreign investments can be offered also through expansion of capital or fund lending for domestic company from foreign investor.

There are two different theories about definition and role of foreign direct investments and these theories according to Rugman & Hodgets (2003) are grouped in three groups/classes: theory of trade, theory of traditional approach and theory of diversity factors.

**Value Added Tax**

In practice as the base for tax assignment are taken income ore net income which is taken after all other expenses are deducted which tax obligor had through realisation of income or revenues. During the establishment of the tax base very important is evaluation of amount. Speaking about Value Added Tax determination of this value is possible through two methods of evaluation which are practically applied:

a) Direct method of value added tax
b) Indirect method of value added tax

**a) Direct method of value added tax**

According to direct method tax obligation is set by application of tax scale based on collection amount of all elements which contain added value or amount of difference of the total amount of turnover and the total amount of supply.

From what is said above its clear that during the assignment direct value added tax this two methods of accounting are applied:

- direct method of VAT collection
- indirect method of VAT collection. (Bozhidar J,1997: 284)

**b) Indirect method of Value Added Tax**

Besides the use of certain direct methods of tax added value mentioned above, preferably is the use of indirect method. During indirect taxing of added tax, added value is not taxed but instead is used deduction of tax from taxing meaning that tax obligation is evaluated during the deduction of paid tax in earlier phase of circulation from the amount of evaluated tax in overall value in taxing phase. (Bozhidar J,1997:285)

**Budget**

State Budget is a project, government program, financial statement respectively, consisting on planned financial means, beginning from expenses to public income, which is approved every calendar year from highest legislative authority of state.
Approach on state budget mainly change in theoretical aspect, but not on that practical. So, approach on state budget change depending on review and treatment made to this problematic, this depends on which budget is about, central level budget or other administrative unit institution, while for purposes and goals there are not any substitution change for treatment of this problematic. Among common characteristics on budget in definition and meaning are those (Komoni S. 2008:550): that state budget is public; state budget is 1-year, budget is planned prediction of income and outcome; budget consists characteristics social-economic relationship and certain politics appointed by the state where is approved. A definition or other meaning about state budget is given this way: Juridical accounting document that contains the amounts of income and expenses of state, as 1-year regulation is called state budget. This document, state budget, should define and specify volume of public expenses inside of frame of predicted income, during a given time period. (Komoni, 2008: 551.and Hilmia, & Angjeli, 1994: 103).

Budget system consists according to organisation, regulation and according to the levels on which the state is organised and functioning. Therefore, budget system consists from national and local budget or other lower units. On the first one, in national budget are included income and expenses administrated from government, and second one, income and expenses administrated from local authorities, municipalities etc. On overall aspect, for the purpose of better perception, state budget should be unique, must include all income and state expenses from central level to other administrative units. In the part of expenses maximal amount of fund is predicted for the expenses of certain categories, wages and salaries, goods and services, transfers and subventions, capital investments, financial of functional branches among which holding state administration, economy, national defence, education in all levels, culture, health, social assistance, for needs of order and security, and, also expenses from payment of interest rates of public loan. In political and budget system, it is important to pay attention to process of planning, managing, realisation and best use in order that government through budget can be able to fulfil objectives and goals. (Limani, 2008: 230).

Use without proper care of this important instrument, for example, increase of budget expenses without criteria, use without effectivity, creation of large deficits, and growth without any criteria of public depth, have heavy negative consequences for economy of every country (Pano, 2002,:113,177-178)

**State functions**

Having in mind the role and importance that state budget has into state activities, development of economic process, social issues and many other economic issues, political and legal, as financial-economic document of governments performs many functions. The main, and most important functions of budget are: economic function, political function and legal function.

**Public expenses**

Public expenses are monetary funds, financial funds which serve for financing of state needs. Every budget system along with possibilities for public income, examine the possibilities for public expenses: “Public expenses, in overall have they
role and their function to fulfil the needs and requests of state which are necessary for function of state in all its segments” (Komoni 2008:21).

In modern states, and Republic of Kosovo too, we have similarities in definition of system and structure of public expenses. In budget system and fiscal politics public expenses are classified in:

- Economic category and functional category or according to branches and category by programs.

In order of better managing of public expenses exist economic codes in all categories of expenses (Komoni 2008: 20-22).

**Table1. Relation between GDP, Budget, VAT and FDI**

<table>
<thead>
<tr>
<th>Years</th>
<th>GDP</th>
<th>Budget</th>
<th>VAT</th>
<th>FDI</th>
<th>Economic growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>2,590,000,000</td>
<td>517,695,000</td>
<td>60,355,986</td>
<td>300,000,000</td>
<td>1.2</td>
</tr>
<tr>
<td>2003</td>
<td>2,670,290,000</td>
<td>586,850,000</td>
<td>74,948,000</td>
<td>302,000,000</td>
<td>3.1</td>
</tr>
<tr>
<td>2004</td>
<td>2,911,800,000</td>
<td>602,270,000</td>
<td>231,199,358</td>
<td>42,900,000</td>
<td>3.2</td>
</tr>
<tr>
<td>2005</td>
<td>3,002,800,000</td>
<td>628,220,000</td>
<td>239,612,462</td>
<td>107,600,000</td>
<td>3.9</td>
</tr>
<tr>
<td>2006</td>
<td>4,291,100,000</td>
<td>712,010,000</td>
<td>255,082,000</td>
<td>294,800,000</td>
<td>4</td>
</tr>
<tr>
<td>2007</td>
<td>4,769,800,000</td>
<td>902,998,000</td>
<td>304,240,000</td>
<td>440,700,000</td>
<td>8.3</td>
</tr>
<tr>
<td>2008</td>
<td>3,882,762,000</td>
<td>959,900,000</td>
<td>363,400,000</td>
<td>366,450,000</td>
<td>7.2</td>
</tr>
<tr>
<td>2009</td>
<td>4,069,622,000</td>
<td>1,142,400,000</td>
<td>403,100,000</td>
<td>287,410,000</td>
<td>3.6</td>
</tr>
<tr>
<td>2010</td>
<td>4,401,964,000</td>
<td>1,139,000,000</td>
<td>455,700,000</td>
<td>365,800,000</td>
<td>3.3</td>
</tr>
<tr>
<td>2011</td>
<td>4,814,535,000</td>
<td>1,311,300,000</td>
<td>540,200,000</td>
<td>393,860,000</td>
<td>4.4</td>
</tr>
<tr>
<td>2012</td>
<td>5,058,763,000</td>
<td>1,383,400,000</td>
<td>547,800,000</td>
<td>228,640,000</td>
<td>2.8</td>
</tr>
<tr>
<td>2013</td>
<td>5,326,617,000</td>
<td>1,355,700,000</td>
<td>558,700,000</td>
<td>259,020,000</td>
<td>3.4</td>
</tr>
<tr>
<td>2014</td>
<td>5,567,494,000</td>
<td>1,349,500,000</td>
<td>558,800,000</td>
<td>151,300,000</td>
<td>3</td>
</tr>
</tbody>
</table>

**Methodology of research and hypothesis**

The collection of data that have been used in this paper are empirical, descriptive / narrative, cooperative / Comparative and tertiary which have been analyzed through the method of Ordinary Least Squares regression (OLS) with the degree of reliability 95%.
Factor analysis included in this econometric model will be:

Economic factors which have organic relation in budget income collection and which all together represent Gross Domestic Product.

The focus will be change of VAT rate and reflection on Foreign Direct Investments and into budget, in macroeconomic aspect in Republic of Kosovo.

**Research questions and Hypothesis**

Q1: Has the increase of VAT and DFI had positive impact to increase the budget of Republic of Kosovo?

Q2: Does the change of the VAT rate affected on decrease of FDI and other determining factors of GDP of Kosovo?

**H1: The change of VAT rate affected FDI and resulted with decrease of FDI in Kosovo**

**H2: FDI has an positive impact on economic growth of Kosovo**

**Findings**

On the tables below are presented variables' impacts Y by years (2002-2008), based on linear regression, to be able to see the connection with quantitative variables and their impact in budget for this years.

Through this tables is proved to verify if VAT increase through years had direct impact on budget growth for years 2002-2008.

Independent variables are: VAT,GDP, Public expenses and DFI.

Dependent variable is Budget.
Lower budget value (minimum) in 2002 was 517,695,000.00, and higher value of 959,900,000.00 in 2007.

To analyse value of standard and median deviation is used formula of linear regression.

\[ y = \beta_1 + \beta_2 d_1 + \beta_3 d_2 + \beta_4 \text{VAT} + \beta_5 \text{(GDP)} + \beta_6 \text{PE} + \beta_6 \text{DFI} + \epsilon \]

And according to this we have the result that independent variables: VAT, GDP and public expenses have impact on budget increase, evenly not showing any factual correlation and not showing any significant coefficient to each other, while FDI has shown correlation of real growth. This was expressed with standard deviation in positive values as shown in table below:

**Table 2. Impact of VAT, GDP, PE and DFI in budget presented through the statistical summary**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Observations</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget</td>
<td>7</td>
<td>517,695,000.00</td>
<td>9599000000.00</td>
<td>701420428.57</td>
<td>168140750.3</td>
</tr>
<tr>
<td>VAT</td>
<td>7</td>
<td>60,355,986.00</td>
<td>363,400,000.00</td>
<td>218405400.86</td>
<td>112479074.5</td>
</tr>
<tr>
<td>GDPP</td>
<td>7</td>
<td>2590000000.00</td>
<td>4,769,800,000.00</td>
<td>344550742.85</td>
<td>863486892.4</td>
</tr>
<tr>
<td>Public expenses</td>
<td>7</td>
<td>380842000.00</td>
<td>941810000.00</td>
<td>670700142.86</td>
<td>170511314.7</td>
</tr>
<tr>
<td>FDI</td>
<td>7</td>
<td>429000000.00</td>
<td>440700000.00</td>
<td>264921428.57</td>
<td>140681531.1</td>
</tr>
</tbody>
</table>

Based on above data it is proved that through correlation matrix was found that VAT has an impact on budget as independent variable, as significant variable for this study. But, based on data below, of correlation matrix, VAT does not have any significant correlation with other variables, because VAT growth through years is in direct correlation with other variables, which indicates uniform connection and does not show any significant change towards budget growth.
Table 3. VAT, GDP, PI and FDI impact on budget 2002-2008 presented through correlation matrix

<table>
<thead>
<tr>
<th></th>
<th>VAT</th>
<th>GDP</th>
<th>Public expenses</th>
<th>FDI</th>
<th>Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>VAT</td>
<td>1</td>
<td>0.752</td>
<td>0.829</td>
<td>0.146</td>
<td>0.862</td>
</tr>
<tr>
<td>GDP</td>
<td>0.752</td>
<td>1</td>
<td>0.353</td>
<td>0.592</td>
<td>0.827</td>
</tr>
<tr>
<td>Public expenses</td>
<td>0.829</td>
<td>0.353</td>
<td>1</td>
<td>-0.106</td>
<td>0.680</td>
</tr>
<tr>
<td>FDI</td>
<td>0.146</td>
<td>0.592</td>
<td>-0.106</td>
<td>1</td>
<td>0.598</td>
</tr>
<tr>
<td>Budget</td>
<td>0.862</td>
<td>0.827</td>
<td>0.680</td>
<td>0.598</td>
<td>1</td>
</tr>
</tbody>
</table>

Based on data’s presented below is noted that none of above indicators are equal with zero (0) or lower than 0.05 which proves one more time uniform connection of VAT with Budget variable.

Tables below where model parameters and model equation are compared, prove uniform growth of budget, as a result of VAT growth by time periods analysed for this study (2002-2008) and PI value is higher than 0.05 in accuracy of the lower and higher bounds. But this is not valid in case of FDI where their growth had direct impact in budget increase. This data’s correspond also with table below where is tested connection of variables with the help of model equation, linear regression, which proved non correlation because PI values are higher than 0.05, except correlation between FDI and budget, where PI is 0.025 meaning that FDI values are only values to have impact in real budget growth.
Table 4. Impact of VAT, GDP, PI, FDI in 2002-2008 Budget presented through model parameters

Table 5. Model equation

On the table below is shown analyse of GDP variation through value of significance Pi through which is attempted to prove the hypothesis of VAT impact on budget growth, and public expenses. Since Pi value is 0.014 which is lower than 0.05 this signifies correlation, that there is a variation of F value with 70.374, meaning that variable Y and X doesn't correspond uniformly for the reason, as seen in model of equation of FDI regression had impact on budget growth.

Table 6. Impact of VAT, GDP, Public expenses and FDI on budget by variance analyses
On table below are featured differences between planed and realized budget where we can see that during years 2002, 2005, 2006 and 2008 has been stumble from planed budget compared with realized budget, while VAT during this years had constant growth which proves that VAT growth had direct impact on budget growth.

<table>
<thead>
<tr>
<th>Observation</th>
<th>Weight</th>
<th>Budget</th>
<th>Pred(Budget)</th>
<th>Residual</th>
<th>Std.residual</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>1</td>
<td>51769500.00</td>
<td>519822350.27</td>
<td>-2127350.27</td>
<td>-0.087</td>
</tr>
<tr>
<td>2003</td>
<td>1</td>
<td>58685000.00</td>
<td>584733614.69</td>
<td>2116385.31</td>
<td>0.087</td>
</tr>
<tr>
<td>2004</td>
<td>1</td>
<td>60227000.00</td>
<td>590725116.82</td>
<td>11544883.18</td>
<td>0.472</td>
</tr>
<tr>
<td>2005</td>
<td>1</td>
<td>62822000.00</td>
<td>630101132.88</td>
<td>-1881132.88</td>
<td>-0.077</td>
</tr>
<tr>
<td>2006</td>
<td>1</td>
<td>71201000.00</td>
<td>735246431.22</td>
<td>23236431.22</td>
<td>-0.950</td>
</tr>
<tr>
<td>2007</td>
<td>1</td>
<td>90299800.00</td>
<td>881737878.55</td>
<td>21260121.45</td>
<td>0.869</td>
</tr>
<tr>
<td>2008</td>
<td>1</td>
<td>95999900.00</td>
<td>967576475.57</td>
<td>-7676475.57</td>
<td>-0.314</td>
</tr>
</tbody>
</table>

Conclusion

Based on literature used from different authors and based on the empiric data collected from agencies and government institutions of Republic of Kosovo and also by using econometric model of linear regression we could conclude verification of s hypothesis.

H1: The change of VAT rate affected FDI and resulted with decrease of FDI in Kosovo

H2: FDI has a positive impact on economic growth of Kosovo

H1: This hypothesis has been tested as correct based on results from table 1. where economic trends are described, and it is clear that with VAT growth from 15% to 16% in 2009, FDI has decreased by 79 million meaning that change of VAT had impact on FDI decrease which is followed in upcoming years too.

H2: This hypothesis too has been tested as correct because there is correlation expressed between FDI and budget, where Pi value is 0.025 meaning that FDI are the only that impacted real growth of budget. This is shown on tables 4 and 5,

Based on submitted hypothesis and findings from this research we could conclude that VAT growth has impacted FDI decrease very much, expressed in value of FDI in 2009 compared with value of FDI in 2008, but even with this decrease of FDI, they are only ones that had impact on budget growth of Republic of Kosovo as a main pillar that in indirect way has grown also the part of public expenses and GDP of Kosovo for the years taking for this study.

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