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The goal of the *ASEAN Journal of Management & Innovation* (AJMI) is to publish insightful, original and timely research that describes or potentially impacts management and/or innovation that has the potential to be applied in the ASEAN context. Topics that are either distinctly ASEAN-related, or are regional or international in scope are encouraged. AJMI is multidisciplinary in scope and interdisciplinary in research methodology and content. AJMI accepts papers that initiate or redirect a line of inquiry as well as papers that provide new insights into previous work.

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**Editorial**

Dear reader,

Welcome to this edition of the ASEAN Journal of Management & Innovation (AJMI). It is a tremendous honor for me to be the current Editor-in-Chief (EIC) of this well-regarded journal. I am pleased to announce that the AJMI has recently been promoted to be placed in the ASEAN Citation Index (ACI). I would therefore like to take this opportunity to express my thanks to all the contributing authors for providing such a rich variety of outstanding research articles and to the editorial members, reviewers and all staff who have helped to make this AJMI successfully achieve this level.

In this issue (V3N1), we are pleased to publish eleven selected papers focussing on the diverse themes of business management, marketing, the hotel industry, education and the AEC impact on an important Thai industry. These papers explore (inter-alia) customer perspectives toward expectations of product returns in the mobile industry, satisfaction on service quality in the mobile banking service, and relationship management capability and marketing survival. Other interesting papers investigate the multilevel structural equation model of the universities in Thailand, climate change related research from within the banking industry, and international business law. One article outlines the research outcomes investigating the risk and return in the Thai equity mutual fund using ranking matrix. Papers relating to the hotel industry and business management investigate the integration of organic foods into the opportunities for the hotel industry in Thailand, along with a study of staff turnover and how to form a good organization for success. In writing on the AEC trend, the paper shows the effect of this trend on the frozen shrimp industry after AEC implementation using the analysis of the market occupation ratio and SWOT analysis.

As always, the success of this journal is built on the efforts of all the authors, reviewers, editors and the AJMI staff. Once again, my great thanks to all and I look forward to our continuing relationship and to receiving your future contributions to our AJMI which makes a valuable scholarly contribution to our academic and research community. If you have any comments, please do not hesitate to send an email to: [research@stamford.edu](mailto:research@stamford.edu) and/or visit the website: <http://ajmi.stamford.edu>.

Thank you for your continued support of the AJMI.

Sincerely yours,

Apitep Saekow, Ph.D.

Editor in Chief

ASEAN Journal of Management & Innovation

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# Customer Expectations of Product Returns Service in Thailand's Mobile Industry

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## Abstract

The first step towards satisfying the needs of customers, a key objective of marketing (Kohli and Jaworski, 1990; Narver and Slater, 1990) and reverse logistics management (Banomyong et al., 2008), is understanding customer expectations as reference points evaluating firm performance (Oliver, 1980; Robledo, 2001). Extant literature on managing product returns and the reverse flow of products (Bernon et al, 2013; Hess et al., 1996; Wang et al., 2007) focuses on firm foundations, instead of customer perspectives. This study proposed that to be better managed, consumer product returns might be seen as service offerings. Returns service management could then focus on actual customer expectations. In other words, customer needs and anticipations must be taken into account when providing returns service. A literature review in marketing, product returns, and reverse logistics, as well as individual in-depth interviews were employed. Samples were mobile telephone customers, a rapidly growing industry in Thailand. Qualitative content analysis was the technique used to analyze data. Results were that, based on customer viewpoint, the product returns processes included seeking for returns service information, contacting the service centers, looking forward to compensation/returns, inspecting and receiving compensation/returns and evaluating the whole returns process. Accordingly, twelve customer expectations were identified: tangibles; responsiveness; explanation; empathy; employee empowerment; reliability; timeliness; information availability; assurance; compensation; feedback; and convenience. The findings could facilitate further studies in product returns and reverse logistics integrating customer expectations. They will also be useful for practitioners to manage expectations and develop returns services meeting long-term customer satisfaction.

**Keywords:** Customer expectations, Product returns, Reverse logistics, Mobile industry

## 1. Introduction

According to Genchev (2007), product returns problems accounts for 15-20% on average of product sold across all industries. The problems could affect firms' cost and time (French and Discenza, 2006) and remarkably cause customer dissatisfaction (Potdar, 2009; Petersen and Kumar, 2010). Hence, effective product returns management cannot only decrease costs but also increase revenues, profitability and customer service level (Stock et. al., 2006). However, the past literatures in product returns management and reverse logistics were based upon firm perspective, instead of customer perspective. Designing product return policy (Wang et al., 2007; Yalabik, 2005), forecasting product returns (Agrawal et al., 2014; Potdar, 2009) and reducing product returns (Hess et al., 1996; Scariotta, 2003) are examples of issues emphasized in product returns area of study.

To manage product returns effectively, the study proposes that consumer product returns should be viewed as service offerings provided by firms and must be managed based on actual customer expectations. The understanding of customer expectations is the essential part in satisfying customer needs, the goal of managing reverse logistics and services marketing. Customer satisfaction is defined as an indicator of met or exceeded expectations (Grisaffe, 2001). According to the expectation-disconfirmation paradigm (Oliver, 1980), consumers compare between firm's actual performance and their expectations. Correspondingly, to meet or exceed customer expectations, the first step is to understand their expectations. The purpose of this study is therefore to reveal and analyze customer expectations of product returns service offered by firms. In this regard, the key research question in the current study is what the actual customer expectations of product returns service are. Specifically, what kind of service aspects customers anticipate when they consume returns service. Put differently, the research question identified the characteristics of services that the firms should target to improve their returns service in order to satisfy customer expectations. To gain insights in answering the questions, the combination approach of literature review and qualitative in-depth interviews was utilized. Regarding the contributions of the study, the results could enhance further theoretical researches in product returns management established from customer's point of view. Findings could also help practitioners manage customer expectations and develop returns service design to achieve long-term customer satisfaction. The rest of the paper is organized as follows. Firstly, the related literature in product returns, reverse logistics, and customer expectations are reviewed. Secondly, qualitative methodology and data analysis are described. Thirdly, the research findings are presented. Finally, it concludes a summary, discussion and implications of study.

## **2. Literature review**

### **2.1 Product returns and reverse logistics**

Product returns is defined as "the process of planning, implementing and controlling the efficient, cost-effective flow of raw materials, in-process inventory, finished goods and related information from the point of consumption to the point of origin for the purpose of recapturing or creating value or proper disposal" (Rogers and Tibben-Lembke, 1998, p.2). This definition was originally referred to the term of reverse logistics. However, when academics need to study the issue of product returns, reverse logistics has basically been specified (Stock et al., 2002; Stock and Mulki, 2009). In this study, the term "product returns" will be used to focus on service operations of returns. Product returns are grouped into five categories including consumer returns, marketing returns, asset returns, product recalls, and environmental returns (Rogers et al., 2002). The current research focuses on consumer returns, the largest category of returns (Rogers et al., 2002). Unlike other categories, this type of returns is originated from end consumers. It is a return that has the direct impact on the consumers and needs the best handling practice since it could affect long-term consumers' perception on the company (Rogers et al., 2002).

#### ***The product returns processes and management***

Product returns and reverse logistics processes in previous researches have generally been presented from firm perspective. For example, Stock and Mulki (2009) proposed four steps in product returns processing consisting of receiving, processing, sortation and disposition. Genchev (2007) developed a measurement tool in formalization of reverse logistics processes adapted from the operational returns management process described by Rogers et al. (2002). Such processes comprise six stages: receiving customer return request, determining routing, receiving returns, selecting disposition, crediting customer/ supplier, and analyzing returns and measuring performance. Those processes were proposed from the firms' point of



view. The existing studies in product returns and reverse logistics management have focused on several aspects such as designing product return policy (Wang et al., 2007; Yalabik, 2005), forecasting product returns (Agrawal et al., 2014; Potdar, 2009), reducing product returns (Hess et al., 1996; Scariotta, 2003), supply chain coordination (Bernon et al., 2013; Ferguson et al., 2006), efficiency improvement (Banomyong, et al., 2008). However, most studies have also put emphasis on operational-based approach.

### ***Product returns as service offerings***

Based on a service-dominant logic of marketing proposed by Vargo and Lusch (2004), the concentration has shifted from the firm to the consumer. Therefore, the focus in managing product returns should be extended from a goods perspective to a service-provision perspective. Additionally, service perspectives should emphasize customer orientation. In particular, service is defined based on customer-determined benefits. According to Hogan et al. (2002), one key source of competitive advantage of customer-oriented firms is the capability to manage customer information to initiate and maintain relationships with customers. Particularly, product returns service is unique as it requires marketing and logistics integration. Unlike other services in traditional forward logistics, returns service starts from the point of destination (customers) to the point of origin (firms). Interestingly, the process starts from unhappy customers (Potdar, 2009) since the customer returns the product for some reasons. From customer's assessment, service failure implicitly happens. According to Brown and Bitner (2006), recovering when service failures occur is necessary for revolutionary marketers. Successful service recovery include apology, explanation (Krishna et al., 2011), assurance (Chang, 2008), reliability, employee's empowerment, and responsiveness (Gilbert and Wang, 2003). In addition, viewed as service offerings, service quality literature should be considered. Key components of well-known indicators of i.e. SERVQUAL (Parasuraman et al., 1988) and SERVPERF (Cronin and Taylor, 1992) consisting of tangibles, assurance, reliability, responsiveness and empathy were taken into account as customer requirements of returns service.

## **2.2 Customer expectations**

Customer expectations involve the customers' anticipation of the firm's performance in providing services (Chang, 2007). According to Miller (1977), there are four possible meanings of the term "expectations". Firstly, "ideal" expectations stand for the wished for level of performance. Secondly, "expected" expectations refer to predicted performance based on past averaged performance. Thirdly, "minimum tolerable" expectations are defined as the least acceptable level of performance. Lastly, "deserved" expectations mean performance evaluation based on customers' investment of time and money. Since product returns service is a kind of service involving a consumer's experience in returning products with firms, the "expected" expectations would be implicitly referred in this study. It is widely accepted that customer expectations play an important role as reference points for consumers to assess the performance of a service provider (Oliver, 1980; Robledo, 2001). To get a better understanding of customer expectations, the expectancy-disconfirmation model is basically referred.

### ***The expectancy-disconfirmation model***

When customer expectations become more focused in customer satisfaction literature, the expectation-disconfirmation model has been the most prevalent paradigm (Myers, 1991). The disconfirmation approach describes that consumers compare between firm's actual performance and their expectations (Oliver, 1980). If the actual firm's performance is below customer expectations about the product or service, it is a negative disconfirmation and if the perceived performance is above expectations, it is a positive disconfirmation leading to customer satisfaction. Based on this model, to meet or exceed customer expectations, it is

necessary for firms to take customers' anticipation into account in providing product returns service.

### ***Customer expectations and product returns***

From a review of related literature in marketing and reverse logistics, the current study proposes that the starting point in managing product returns service within the returns process is customer. Consequently, to anticipate what customers expect from product returns service, the study integrates marketing initiatives with product returns and reverse logistics concepts resulting in returns service expectations dimensions as presented in Table 1.

**Table 1** Customer expectations of returns service dimensions from literature review

<b>Proposed returns service expectation dimensions</b>	<b>Literatures</b>
Tangibles	Service recovery (Boshoff, 2005) Service quality (Parasuraman et al., 1985, 1988)
Responsiveness	Customer orientation (Deshpande et al., 1993); Jeong and Hong, 2007) Service recovery (Boshoff, 2005; Gilbert and Wang, 2003; Krishna et al., 2011; Parasuraman et al., 2005) Service quality (Parasuraman et al., 1985, 1988)
Explanation	Service recovery (Boshoff, 2005; Krishna et al., 2011; Tax et al., 1998)
Empathy	Customer orientation (Deshpande et al., 1993; Jeong and Hong, 2007) Service recovery (Krishna et al., 2011; Tax et al., 1998) Service quality (Parasuraman et al., 1985, 1988)
Empowerment	Service recovery (Boshoff, 1997, 2005; Krishna et al., 2011)
Reliability	Service recovery (Gilbert and Wang, 2003) Service quality (Parasuraman et al., 1985, 1988)
Timeliness	Customer orientation (Tien et al., 2009) Service recovery (Mostafa et al., 2014; Tax et al., 1998) Service quality (Bienstock et al., 1997; Mentzer et al., 1999) Product returns and reverse logistics (Autry et al., 2001; Richey et al., 2005)
Information availability	Customer orientation (Tien et al., 2009; Jeong and Hong, 2007) Service recovery (Krishna et al., 2011)
Assurance	Service recovery (Barlow and Moller, 1996; Chang, 2008) Service quality (Parasuraman et al., 1985, 1988)
Compensation	Service recovery (Parasuraman et al., 2005; Tax et al., 1998) Product returns and reverse logistics (Autry et al., 2001; Richey et al., 2005)
Feedback	Customer orientation (Jeong and Hong, 2007) Service recovery (Boshoff, 2005)
Convenient process	Service recovery (Tax et al., 1998) Service quality (Mentzer et al., 1999) Product returns and reverse logistics (Autry et al., 2001; Petersen and Kumar, 2010; Richey et al., 2005)

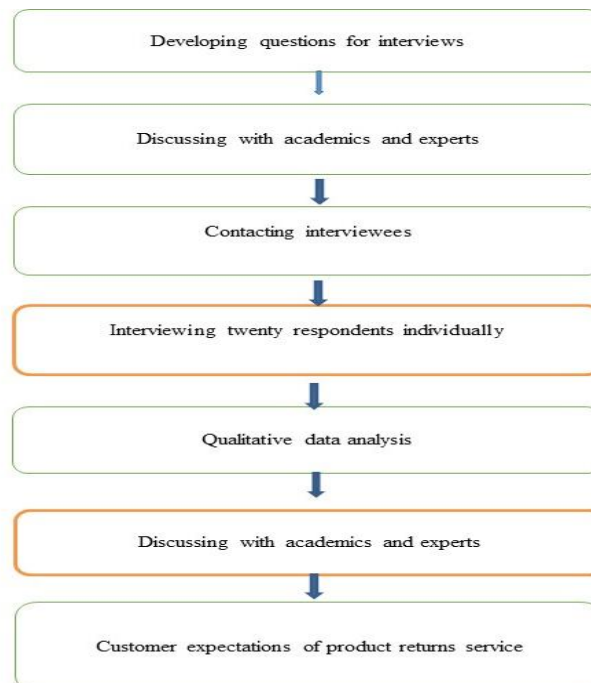
In summary, based on an extensive review of the related literature, previous researches in product returns and reverse logistics management have mainly focused on the firm process and operations. The current study proposed that the notion of service perspective and the understanding of customer expectations must be incorporated into product returns management. To initially anticipate the returns service expectations, the study integrates marketing concepts i.e. customer orientation, service recovery, and service quality with product returns and reverse logistics processes. As a result, customer orientation literature suggested five preliminary dimensions of returns service expectations consisting of responsiveness, empathy, timeliness, feedback, and information availability. Tangibles, assurance, responsiveness, empathy, timeliness, convenience, and reliability were the proposed service



aspects that customers would expect based on service quality literature. Timeliness, convenience, and compensation were the dimensions proposed within the area of product returns and reverse logistics literature. It should be noted that service recovery literature suggested twelve components of returns service expectations as managing product returns could be viewed as managing service recovery due to the fact that the core processes of reverse flow of products start from unhappy customers (Potdar, 2009).

### 3. Research methodology

Individual in-depth interviews were employed as the researcher could investigate much deeper into the interested issue and eliminate negative group influences (Churchill, 1995). The purpose of adopting qualitative interviews was to reassure returns service dimensions derived from literature review and gain a deeper understanding of actual customer expectations of product returns service. In this regard, the scope of study focused on the mobile industry which has been one of the growing fastest industries in Thailand in the past twenty years. As of the end of 2014, there were 97.68 million mobile subscribers in Thailand (Office of the National Broadcasting and Telecommunications Commission of Thailand, 2015), accounting for 146% of total population. The scope of consumer returns service includes receiving returns from the customers, exchanging for the whole product or some parts due to defects, requesting for repair and maintenance or any other customer requirements in the backward flow of processes (Autry et al., 2001). According to the interviews with customer service managers of the top two mobile companies in Thailand, selected from market share ranking in 2015 (Thai Mobile Center, 2015), the product returns service process practically consists of five steps: servicing a customer call and/or carry-in, processing the request, inspecting and completing the pick up process, and measuring performance. Focusing on customer service expectations from the firms' view, they put emphasis on timeliness, empathy and cost to customers. The study relies on phenomenological interviewing, a type of in-depth interview that grounds in the understanding of lived experiences to develop a world view (Marshall and Rossman, 2006). The qualitative process is described as follows (Figure 1).



**Figure 1** Steps for individual in-depth interviews

First, guided questions for semi-structured interviews were developed to gain the understandings of customer expectations of returns service in mobile industry and to ensure that all issues identified in the literature review were covered. Although the topics were planned, a set of questions were not asked with specific words or in a particular order to gain a smooth and natural interviewing (Babbie, 2010). The guided questions included cumulative returns experience for the past one year, the procedures of returning the products from their point of views, their expectations in each step of product returns process, and the preliminary returns service expectations derived from literature reviews. Participants' returns service involvement in a year possibly covers cumulative experiences that can be fruitful to the current study. Those guided questions were revised by three academics and experts in service marketing and reverse logistics area. Next, individual in-depth interviews with twenty customers who had returns experience in the past one year were conducted. According to Guest et al. (2006), the smallest acceptable sample for all qualitative study is fifteen, thus twenty samples in this study is sufficient for developing the meaningful patterns and subsequent interpretations. With the consent of interviewees, the interviews were recorded and fully transcribed following the conversations for later analysis. To achieve face or content validity, the findings were discussed with marketing and logistics experts. Data collection took place for four weeks. To gain a wide variety of answers, the sampling strategy involves diversity in consumer demographic profiles in terms of age, gender, education and occupation (Brunk, 2012). The characteristics of the participants are presented in Table 2.

**Table 2** Interviewees' characteristics

Variables	Categories	Percentage of Interviewees
Gender	Male	50% (10)
	Female	50% (10)
Age	Below 25	30% (6)
	25-35	30% (6)
	36-45	15% (3)
	46-55	15% (3)
	Above 56	10% (2)
Education Level	Below undergraduate	35% (7)
	Undergraduate	25% (5)
	Graduate	40% (8)
Occupation	Students	20% (4)
	Employees	25% (5)
	Business owners	15% (3)
	Lecturers	20% (4)
	Government officials	10% (2)
	Others (retiree, interior designer)	10% (2)

### *Qualitative data analysis*

Qualitative content analysis is referred as “a research method for the subjective interpretation of the content of text data through the systematic classification process of coding and identifying themes or patterns” (Hsieh and Shannon, 2005, p.1278) which is widely used to analyze text data. It is used to provide knowledge and understanding of the phenomenon of interest (Downe-Wamboldt, 1992). Three approaches of content analysis involve conventional content analysis, directed content analysis and summative content analysis (Hsieh and Shannon, 2005). Conventional content analysis is used when extant theories on a phenomenon

are limited, resulting in new categories flowing from the observations. Directed content analysis is applied to validate or extend a theory or research findings. Summative content analysis involves counting the frequency of words or text focusing on the appearance of a particular content or keyword. In this study, conventional content analysis was employed to derive the product returns processes established from customers. Then, directed content analysis was utilized to reassure the possible dimensions of return services generated from the related literature in marketing and logistics. Text would be categorized with the preliminary coding scheme. If any passages could not be categorized, they would be named a new code.

Accordingly, responses collected from qualitative interviews were classified or analyzed systematically through the procedures recommended by Marshall and Rossman (2006). The analytic procedures consist of seven stages: organizing the data, immersion in the data, generating categories, coding the data, writing analytic memos, searching for alternative interpretations, and reporting. After transcribing the data, it was organized according to names, dates and other demographic profiles using software. Reading through the data repeatedly was the next step to become familiar with those descriptive data. To generate themes and code the data, this study adopts content analysis, a method involving labeling recurring patterns in the text (Brady and Cronin, 2001). Three independent judges (marketing scholars) generated and coded the patterns of returns process and categories of returns service expectations. According to Neuendorf (2002), inter-judge reliability is established when there are at least two judges. Inter-judge reliability was examined to determine whether different judges categorized the same patterns into the same categories (Latham and Saari, 1984). The inter-judge agreement value of 0.95 was satisfactory, exceeding the cut-off value of 0.8 (Latham and Saari, 1984). Consequently, a preliminary summary was presented and searched for alternative understandings. The panels then analyzed and categorized the qualitative findings with initial dimensions derived from literatures.

#### 4. Research findings of the study

According to the interviewees' experiences, product returns within the reverse flow involved customer request to accommodate improper functions or damaged devices, to return the products, to execute the repairs, and to exchange the products. The provided services were repairing, product compensation, exchanging for new/refurbished ones under warranty period, exchanging for new/refurbished ones with additional payment, and providing a new purchase. Their experiences included five different brands. In contacting the service providers, the participants described the processes as follows (Table 3).

**Table 3** The product returns service processes from customer perspectives

The product returns service processes	Activities
1. Seeking for returns service information	Searching for locations and operating hours via phones and/or websites. Requesting for preliminary explanations of product problems.
2. Contacting the service centers	Bringing in the products to the store for servicing, queuing, complaining (if not customer's fault) and requesting for product's problem solving. Negotiating for claims, processing time and costs.
3. Looking forward to compensation/returns	Calling for status update of servicing. Notified for returns pick-up.
4. Inspecting and receiving compensation/returns	Testing functions of the returns/products. Paying service fee and related charges (if any).

The product returns service processes	Activities
5. Evaluating the whole returns process	Assessing performance of firm's returns service after completing the overall process. Contacting and complaining the service providers when the product does not perform well.

Focusing on product returns service processes from customer points of view, interviewees described their requirements and expectations in each step. Interestingly, the following quotation from a participant illustrated some passages which did not exist in extant related literatures:

As you know, we use our mobiles all and every day. When (it was) out of order and must be taken to the service center for checking, once it took almost two weeks. What should I do? I hope the firm provides a second mobile for me during that time, like car repair services.

Another participant noted:

I would expect service employee to explain in a simple word what happened with my mobile. They should provide me with cost and time information of repairing or exchanging for a new one.

Since returns processes involved the interaction between the customer and the front line employee during returns service delivery, the passage regarding interpersonal interactions was also addressed:

Once I contacted the service center, the queue was very long and the employee was in bad mood. As a customer service representative, she must be more willing to service people, recognizing that we (the customers) came in asking for the problem solving of the firm's product.

A participant also described an undesirable experience in having his device checked and repaired:

I took my phone in to get it repaired. They said they would get it done in two-week time. When it was the due date, I called them to get my phone back but the repairing was not completed and they didn't even tell me exactly how long it would take this time. I had to always call them to check the status. When it was actually done, I could only use my phone for three months until it broke down again. So I decided to buy a new brand. I was absolutely unimpressed. I'd like the service employees to be more reliable, update the progress periodically to customers, and assure that the problem would not happen again.

Based on three individual judges' analysis, these passages were considered with initial expectations dimensions derived from literature review. Customer expectations of returns service in each step of the returns process are shown in Table 4. Notably, there were no additional dimensions of returns service from the qualitative findings.

**Table 4** Customer expectations of product returns service

<b>Product returns service processes (Customer perspectives)</b>	<b>Customer expectations (In-depth Interviews)</b>	<b>Returns service dimensions</b>
1. Seeking for returns service information	Easy to access information	Information availability
	Availability of service locations	Information availability
	Availability and flexibility of operating hours	Information availability Empathy
	Concern for customer's problems	Empathy
	Preliminary explanation of why problems had occurred	Explanation
2. Contacting the service centers	Shorter length of time for queuing	Timeliness
	Adequate service employees	Tangibles
	Facilities and activities provided during queuing	Tangibles
	Good explanation of why problems had occurred	Explanation
	Communicating effectively	Responsiveness
	Taking care of problems promptly	Responsiveness
	Prompt and reliable employees' decision for claim	Empowerment Responsiveness
	Concern for customer's problems	Empathy
	Friendly, polite and service-minded employees	Empathy
	Understandings of customer needs and requests	Empathy
	Knowledgeable employees/technicians	Assurance
	Information of cost and time provided	Information availability
	Solution choices provided	Information availability
	Ease and speed of processing the requests	Convenient process
	Appropriate conditions for claim	Convenient process
3. Looking forward to compensation/returns	Easy to access information	Information availability
	Status information provided	Information availability
	Shorter length of time for processing	Timeliness
	Periodic feedback from service employees	Feedback
	Good responsibility of service employees	Reliability
4. Inspecting and receiving compensation/returns	Understandings of customer needs	Empathy
	Rental mobile provided for free	Compensation
	Accurate returns' functions	Reliability
	Delivery of returns at the time firm promises	Reliability Timeliness
	Shorter length of time for processing	Timeliness
5. Evaluating the whole returns process	Guarantee for double fault	Assurance
	Good explanation what has done and suggestion of product usage	Explanation
	Accurate returns' functions	Reliability
	Reliable and knowledgeable employees	Reliability Assurance
	Ease and speed	Convenient process Responsiveness Timeliness
	Convenient process of returns	Convenient process
	One-stop service	Convenient process

Product returns service processes (Customer perspectives)	Customer expectations (In-depth Interviews)	Returns service dimensions
	One service employee for one customer	Convenient process Empathy
	Overall returns process completed by one service employee	Convenient process Empowerment
	No double fault	Assurance
	Firm follow-up	Assurance
	Compensating when customer dissatisfaction has occurred	Compensation

The qualitative findings were finally discussed with academics and practitioners in service marketing and logistics field. Consequently, returns service expectations based on literature review, consumer interviews, and expert validation includes tangibles, responsiveness, explanation, empathy, empowerment, reliability, timeliness, information availability, assurance, compensation, feedback, and convenient process. It is noteworthy that the interview results were in line with previous empirical researches indicating the importance of these dimensions in assessing service performance in various service settings. For instance, tangibles (El-garaihy, 2013; Robledo, 2001), responsiveness (El-garaihy, 2013), empathy (El-garaihy, 2013), empowerment (Bowen, 1997), and reliability (Robledo, 2001) were what customer expected in airline services and hospitality industry. The dimensions of tangibles (Arasli et al., 2005; Boshoff, 2005; Chi Cui et al., 2003; Lam, 2002), responsiveness (Abdullah et al., 2011; Arasli et al., 2005; Lam, 2002), explanation (Boshoff, 2005; Tax et al., 1998), empathy (Arasli et al., 2005; Chi Cui et al., 2003; Lam, 2002; Tax et al., 1998), reliability (Arasli et al., 2005; Boshoff, 2005; Abdullah et al., 2011; Lam, 2002), timeliness (Tax et al., 1998), assurance (Lam, 2002), compensation (Tax et al., 1998), feedback (Boshoff, 2005), and convenient process (Lam, 2002) were indicated in banking industry. Three factors comprising timeliness (Mentzer et al., 1999; Tien et al., 2009), information availability (Tien et al., 2009), and convenient process (Mentzer et al., 1999) were addressed by customers in logistics service industry.

Table 5 summarizes customer expectations of product returns service in the mobile industry utilizing the combination approach of literature review and in-depth interviews.

**Table 5** Customer expectations of product returns service in mobile industry

Returns service expectations	Definitions	Literature review	Qualitative interviews
Tangibles	The physical evidences of facilities, equipment and service personnel. (Boshoff, 2005; Parasuraman et al., 1985, 1988)	Service recovery (Boshoff, 2005) Service quality (Parasuraman et al., 1985, 1988)	Facilities and activities provided during queuing Adequate service employees
Responsiveness	The employees' readiness to provide prompt service or prompt response. (Boshoff, 1997; Deshpande et al., 1993; Ladhari, 2009; Parasuraman et al., 1985)	Customer orientation (Deshpande et al., 1993; Jeong and Hong, 2007) Service recovery (Boshoff, 2005; Gilbert and Wang, 2003; Krishna et al., 2011; Parasuraman et al., 2005)	Taking care of problems promptly Communicating effectively Speed of processing the requests Prompt employees' decision for claim



Returns service expectations	Definitions	Literature review	Qualitative interviews
		Service quality (Parasuraman et al., 1985, 1988)	
Explanation	An explanation of the problems occurred and what has done to solve customers' problems. (Boshoff, 2005; qualitative study)	Service recovery (Boshoff, 2005; Krishna et al., 2011; Tax et al., 1998)	Preliminary explanation of why problems had occurred Good explanation of why problems had occurred Good explanation what has done and suggestion of product usage
Empathy	The sympathy and personalized attention the service employees provide to their customers and the understandings customers' problems from their point of views. (Krishna et al., 2011; Ladhari, 2009; Parasuraman et al., 1985)	Customer orientation (Deshpande et al., 1993; Jeong and Hong, 2007) Service recovery (Krishna et al., (2011; Tax et al., 1998) Service quality (Parasuraman et al., 1985, 1988)	Concern for customer's problems Understandings of customer needs and requests Friendly, polite and service-minded employees One service employee for one customer Flexibility of operating hours
Empowerment	The company gives the service employees the authority to use their common sense and to take care of their customers. (Lashley, 1999; Krishna et al., 2011)	Service recovery (Boshoff, 1997, 2005; Krishna et al., 2011)	Prompt and reliable employees' decision for claim Overall returns process completed by one service employee
Reliability	The company's ability to render the service reliably and accurately. (Parasuraman et al., 1985; Ladhari, 2009)	Service recovery (Gilbert and Wang, 2003) Service quality (Parasuraman et al., 1985, 1988)	Reliable employees' decision for claim Good responsibility of service employees Accurate returns' functions
Timeliness	The time taken to perform the service and the company's ability to provide its customers with timely returns delivery. (Mostafa et al., 2014; Tax et al., 1998; Tien et al., 2009)	Customer orientation (Tien et al., 2009) Service recovery (Mostafa et al., 2014; Tax et al., 1998) Service quality (Bienstock et al., 1997; Mentzer et al., 1999) Product returns and reverse logistics (Autry et al., 2001; Richey et al., 2005)	Shorter length of time for queuing Speed of processing the requests Shorter length of time for processing Delivery of returns at the time firm promises
Information availability	The company allows its customers to access information related to activities of returns process according to customer needs. (Jeong and Hong, 2007; Tien et al., 2009)	Customer orientation (Tien et al., 2009; Jeong and Hong, 2007) Service recovery (Krishna et al., 2011)	Easy to access information Availability of service locations Availability of operating hours Information of cost and time provided Solution choices provided

Returns service expectations	Definitions	Literature review	Qualitative interviews
			Status information provided
Assurance	The knowledgeable and respectful service employees and the customer's confidence that the problems would not happen again. (Barlow and Moller, 1996; Parasuraman et al., 1985; Ladhari, 2009)	Service recovery (Barlow and Moller, 1996; Chang, 2008) Service quality (Parasuraman et al., 1985, 1988)	Knowledgeable employees/technicians Guarantee for double fault No double fault Firm follow-up
Compensation	The compensation provided by company when returns or problems occur. (Genchev, 2007; Parasuraman et al., 2005; Rogers et al., 2002)	Service recovery (Parasuraman et al., 2005; Tax et al., 1998) Product returns and reverse logistics (Autry et al., 2001; Richey et al., 2005)	Rental mobile provided for free Compensating when customer dissatisfaction has occurred
Feedback	The feedback provided by company about the progress made to solve the problems. (Boshoff, 2005)	Customer orientation (Jeong and Hong, 2007) Service recovery (Boshoff, 2005)	Periodic feedback from service employees
Convenient process	The flexible returns process which should be easy to access in a convenient manner. (Tax et al., 1998)	Service recovery (Tax et al., 1998) Service quality (Mentzer et al., 1999) Product returns and reverse logistics (Autry et al., 2001; Petersen and Kumar, 2010; Richey et al., 2005)	Easy to access information Ease and speed of processing the requests Appropriate conditions for claim Convenient process of returns One-stop service

## 5. Conclusions, discussion and implications of the study

Since consumers use their expectations as reference or standard points to evaluate firm's performance (Oliver, 1980; Robledo, 2001), understanding customer expectations is one key consideration in providing superior services, consequently achieving customer satisfaction. While previous researches in product returns and reverse logistics management have mainly focused on firm-based approach, the current study proposed that to manage product returns effectively, the consumer returns process should be viewed as service offerings and such returns service should be managed based on actual customer expectations. The combination approach of a review of literatures and qualitative interviews was used to gain a deeper understanding of customer expectations of product returns service in mobile industry. As a result, the product returns process from consumer interviews includes seeking for returns service information, contacting the service centers, looking forward to compensation/returns, inspecting and receiving compensation/returns and evaluating the whole returns process. The resulting process could extend the body of knowledge in product returns and reverse logistics integrating customer perspectives as the returns process in previous literatures (Genchev, 2007; Rogers et al., 2002; Stock and Mulki, 2009) and service providers' interviews have been based on firm perspectives.

Subject to product returns processes from customers' viewpoint, findings revealed that returns service expectations comprise tangibles, responsiveness, explanation, empathy, employee's empowerment, reliability, timeliness, information availability, assurance, compensation, feedback, and convenient process. Tangibles include facilities, equipment and personnel. The contacting point at the service center becomes a starting point of the returns process. Customers assess the return service employee and their working environment at the contacting point. This dimension corresponds to service recovery (Boshoff, 2005) and service quality (Parasuraman et al., 1985, 1988) literatures. According to Parasuraman et al. (2005), immediate and effective handling of return requests and problems is required for managing product returns service; therefore, responsiveness was included. Explanation is also required for the returns service as from customer's point of view, the firm's failure happens. Hence, this dimension corresponds to service recovery literature (Boshoff, 2005; Krishna et al., 2011; Tax et al., 1998).

Empathy relates to interpersonal treatment by employees in the service recovery context (Tax et al., 1998) and the firm's willingness to put its customers first in customer orientation literature (Deshpande et al., 1993). Thus, empathy or the understandings customers' problems from their point of views is an important factor in providing returns service. Employee empowerment refers to the power given to service employees by the firm to take care of their customers (Lashley, 1999; Krishna et al., 2011). In this regard, customers should expect that the first employee who first receives the return request is able to solve the problem and does not pass it to the others (Boshoff, 2005). Reliability is needed for product returns management to ensure its stable service quality (Parasuraman et al., 1985; Ladhari, 2009). Timeliness is also a critical factor as the customers require that the firm should be able to keep promises concerning timeframes of returns delivery (Tien et al., 2009) and respond to customer requests with speed (Mostafa et al., (2014). Information availability is an essential element in providing the return service because the entire process may not end within a day. According to qualitative interviews, customers required information regarding service locations, operating hours, cost and time, solution choices and service status. Thus, the firm should allow its customers to access information related to activities of returns process according to customer needs (Jeong and Hong, 2007; Tien et al., 2009). In accordance with service recovery (Barlow and Moller, 1996; Chang, 2008) and service quality (Parasuraman et al., 1985, 1988) literatures, customers expect the knowledgeable service employees and that the problems would not occur again. Therefore, assurance dimension was included.

Based on qualitative interviews, some customers indicated that rental mobile should be provided for free as compensation during processing their requests or executing the repairs. Since in many cases, product problems were not initiated by users, recovering should be considered in providing returns service. Consequently, expectations of compensation correspond to service recovery concept (Parasuraman et al., 2005; Tax et al., 1998). In addition, the feedback about the progress provided by firm was also expected as it represents the firm's commitment to keep in touch with customers (Jeong and Hong, 2007). Finally, customer expectations of returns service include convenient process. For instance, the participants required one-stop service, ease of process and overall returns process completed by one service employee. Put differently, the returns process should be easy to access in a convenient manner (Tax et al., 1998). In summary, instead of managing product returns from firm foundation as past researches, the current study was established to meet the objective of services marketing and reverse logistics management in satisfying customer expectations. Put differently, the study attempts to shed new light on this issue in taking a different perspective in managing product returns. It constitutes essential groundwork for future empirical studies in product returns and reverse logistics management integrating customer expectations. Any subsequent research work could employ further research techniques such as observation and quantitative survey.

Future researches might include other industries that usually face product returns problems for enhancing generalizability. Additionally, since customer expectations regarding product returns service might vary among different regions, further studies could take cross-cultural context into account in managing product returns on the basis of customer perspective. Regarding managerial contributions, the study would be useful for practitioners to manage the resulting twelve dimensions of returns service expectations and adapt their strategies accordingly. For instance, firm might design returns service delivery process to be easy to access in a convenient manner termed as one-stop service and allow its customers to access information related to activities of returns process according to customer needs. In summary, the findings help practitioners formulate their returns strategies for long-term customer satisfaction.

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# Customer Relationship Management Capability and Marketing Survival

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## Abstract

This research aims to develop a conceptual model of customer relationship management capability (CRMC) which helps to broaden the understanding of CRMC and its role in enhancing business service outcomes and marketing survival. The results were derived from 122 beauty clinics in Thailand. The hypothesized relationships among variables are examined by using ordinary least square (OLS) regression analysis. The results suggested that some dimensions of CRMC (customer database value, customer learning continuity, and customer based participant) were a positive influence on service outcomes. Furthermore, customer communication channel was a negative influence on service outcomes and service competitiveness had a positive influence on marketing survival. In addition, this model provides the clearer understanding of CRMC in business value perspectives. Importantly, marketing manager could apply the result to improve CRMC of a firm to enhance service outcomes and marketing survival.

**Keyword:** Customer Relationship Management Capability (CRMC), Service Creativity (SCA), Service Innovation (SIN), Service excellence (SEC), Service Competitiveness (SCP), Marketing Survival (MSV), M31.

## 1. Introduction

Recently, the adoption of customer relationship management capability (CRM) as a core strategy has increased significantly (Rigby & Ledingham, 2004). Chen & Chen (2004) suggest that through using CRM, many firms can reach tangible benefits such as increasing of revenues and profitability, and also obtain intangible benefits such as improvement of customer service, and customer satisfaction. Evidently, customers are important to business survival. The customer orientation approach is a critical factor of business success and it guides business to focus on the customers (Ranjan & Bhatnagar, 2008). Consequently, 72 percent of businesses must focus on retaining customers (Band, 2010).

In the present, the services market has met a high competition that many service providers attempt to seek the new approach about implementing customer relationship management to enhance their competitive position (Roh et al., 2005), especially, in high involvement personal service (such as healthcare services and airline industry). High involvement personal service is affected by consumers' emotional states and it leads to customer satisfaction and loyalty (Bloemer & De Ruyter, 1999). If a firm cannot enhance customer satisfaction, customer may find alternatively the others service provider, who can make them more satisfied. Then, businesses must also build relationships with customers to protect themselves from competitors' offerings (Therron & Terblanche, 2010).

Furthermore, businesses are investing in building customer relationships, leading to developing business strategies for creating customer value. Barry et al. (2008) have investigated the long-term relationship with customers in order to increase profits and market shares.

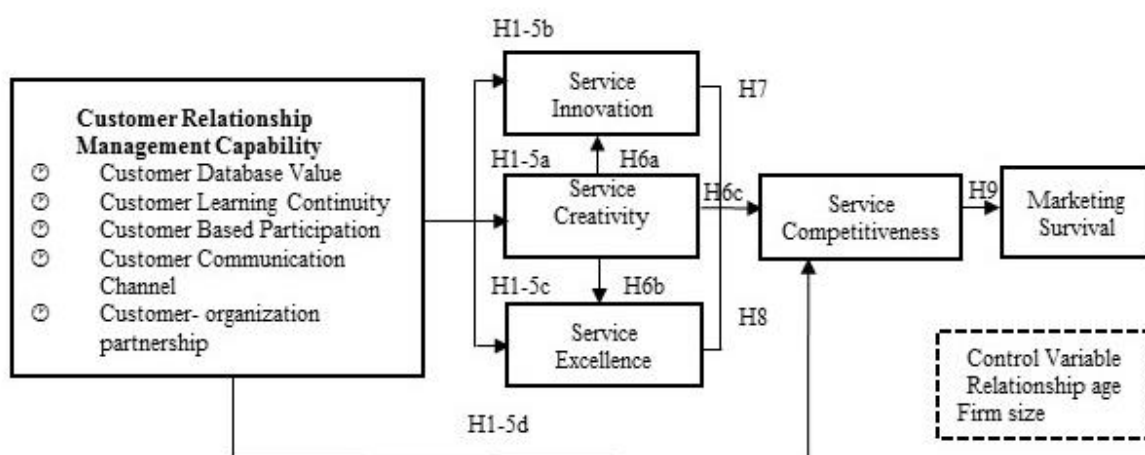
Moreover, most studies of marketing research have focused on the influence of CRM and how its affect does to customers and to create customer value, such as customer loyalty or satisfaction (Mithas, Krishnan & Fornell, 2005) but there is rare to focus on firm point of view. Furthermore, there are few empirical studies on the growth of CRM in developing market such as Asia and South America (Kumar, Sunder & Ramasseshan, 2011). Therefore, the researchers are interesting the effect of CRMC to marketing survival of high involvement personal service in Thailand.

## 2. Literature Review

### Customer relationship management capability (CRMC)

Customer relationship management (CRM) is evaluated by using the relationship marketing. The concept of CRM became popular in the 1990's (Ling & Yen, 2001). CRM is designed with the intention of building relationships with customers for enhancing business profitability in a competitive economy (Ismail, Talukder & Panni, 2007). In addition, CRM composes of performance-enhancing capabilities (Malmi et al., 2004) and improving firm performance (Coltman, 2007).

CRMC are imbedded in CRM activities that is also used a firm's skills and knowledge to "identify potential customers, maintain a relationship with them, and use this relationship to make a profit for the firm" (Morgan, Vorhies & Mason, 2009). Furthermore, CRMC is embedded in the core CRM activities (Reinartz et al., 2004). Furthermore, this conceptual framework suggests five dimensions of CRMC that includes customer database value, customer learning continuity, customer based participation, customer communication channel, and customer- organization partnership. Therefore, all hypotheses in this paper propose that customer relationship management capability are positively associated with marketing survival. Thus, a conceptual model of this paper is presented in Figure 1.



**Figure 1:** A Conceptual Framework

**Customer Database Value (CDV)**

CDV is significant to the CRM process, which focuses on business assets (Reimann, Schilke & Thomas, 2010). The efficiency of a CRM program comes from the customer database as a firm can deploy a customer database for reaching the potential information (Winer, 2001). Furthermore, the customer data collecting and mindset businesses can enhance customer value and overall business performance (Reinartz, Kraff & Hoyer, 2004). Therefore, the ignorance of customer data quality may cause of business failure (Zahay, Peltier, & Krishen, 2012). For this research, the customer database value refers to the ability of a firm to create an effective customer database obtained through analysis, and used to create a long-term relationship with a customer.

Moreover, businesses can enhance capabilities from a database by seeking out customer desires and needs. They can use this information to create new products and add future value, build creativity from the database (Zahay, 2008) and archive inventions. (Battor & Battot, 2010). Hence, hypothesis is given as follows:

*H1: Customer database value has a positive influence on a) service creativity, b) service innovation, c) service excellence, and d) service competitiveness.*

**Customer Learning Continuity (CLC)**

Learning is a process of seeking customer desires to identify a potential customer, evaluate customer values, and predict future behaviors of a customer (Sun, Li & Zhao, 2006). Organizations can obtain knowledge and new approaches through a continuous learning process and the interaction with the business environment (Argyris, 1977). Then CLC refers to the continuous process of managing customers and understanding customer needs which are used for creating superior customer value (Jumpang & Ussahawanitchakit, 2012).

Moreover, learning is a result of customer knowledge creation that leads to the creation of a competitive advantage of businesses (Murillo & Annabi, 2002). Customer learning orientation may help the business to understand customer needs, create new products and services, and reduce the launching time of new products and services (Feng et al., 2012). Furthermore, some research has suggested that customer orientation is positively related to innovation, customer value creation, and business performance (Nasution et al., 2011). Hence, hypothesis is stated as follows:

*H2 : Customer learning continuity has a positive influence on a) service creativity, b) service innovation, c) service excellence, and d) service competitiveness.*

**Customer-Based Participation (CBP)**

The strength of a core business's competencies comes from incorporating their customers by digesting a customer's knowledge and responding to customer needs (Dahan & Hauser, 2002). Then, customers have increased participation with businesses to co-create customer experience (Payne, Storbacka & Flow, 2009). This research defines CBP as the firms' ability to create customer involvement and collaboration with a firm in producing and delivering service to create value.

Additionally, the benefits of customer participation are presented as: reduction in market uncertainty, identification of a customer's need (Dahan & Hauser, 2002), varieties of ideas that lead to a business's creativity (Cooper et al., 2002), and creating a new product or new service (Dholakia & Morwitz, 2002). In addition, interaction between businesses and customers can help businesses to have greater service delivery (Auh et al., 2007) and lead to the competitive advantage (Bendapudi & Leone, 2003). Thus, hypothesis is provided as follows:

*H3 : Customer- based participation has a positive influence on a) service creativity, b) service innovation, c) service excellence, and d) service competitiveness.*

### **Customer Communication Channel (CCC)**

Communication is very important to business. Communication makes business understood and influenced customer behavior leading to improvement in customer retention, loyalty and profitability (Swift, 2001). Multichannel customer management is important because businesses use multichannel communication to enhance customer value drawing customer retention (Neslin et al., 2006). The customer communication and multichannel management perspective can explain the concept of a CCC as a firm's ability to create, deploy and evaluate a communication channel to enhance a long-term customer relationship.

For the business sector, marketing communication channels allow a firm to get deeper understanding of their customers. It also helps to interpret the customer's co-creation in the development process (Gustafsson, Kristensson & Witell, 2012). Moreover, social media can lead customer willingness to engage with business, creativity, and it can also create innovation (Baird & Parasnis, 2011). Thus, hypothesis is proposed as follows:

*H4 : Customer- based participation has a positive influence on a) service creativity, b) service innovation, c) service excellence, and d) service competitiveness.*

### **Customer Organization Partnership (COP)**

Potential resources are important to businesses for creating competitiveness. Businesses will find the potential resources to make their business successful. Productive resources include customers as a potential resource or as a potential partner (Lengnick-hall, 1996). Then, this research defines COP as a firm motivating customer behavior to support the ability of the firm to deliver quality service.

Additionally, partners can help a business to promote its product and service, develop service quality, and access information from the partner to create service innovation (Zeithaml et al., 1996). Partnership engagement and a co-working relationship create benefits for the customer and supplier (Gemunden et al., 1998). Additionally, customer-business collaboration leads business an innovation, economic success (Hakansson & Snehota, 1995), and a long-term competitive advantage. Hence, the hypothesis is postulated as follows:

*H5 : Customer organization partnership has a positive influence on a) service creativity, b) service innovation, c) service excellence, and d) service competitiveness.*

### **Service Creativity (SCA)**

SCA refers innovative, productive and potential ideas that are useful for the service business (Ambile et al., 1996). Creativity is a source of innovation. The lack of business creativity is meant lacking of innovation (Howard et al., 2008). A business is able to seek creativity from external sources such as a service user and customer information (Oke, 2007) and exchange knowledge with external partnership for building a network (Giannopoulou, Gryszkiewicz & Barletier, 2013). Moreover, the service excellence and competitiveness, both are based on creativity (Peter & Austin, 1985). Therefore, the hypothesis is hypothesized as follows:

*H6 : Service creativity has a positive influence on a) service innovation, b) service excellence, and c) service competitiveness.*

### **Service Innovation (SIN)**

Innovation becomes an important factor, plays significant role toward the business's value, and creates a competitive advantage under a changing business environment (Cheng & Krumwiede, 2012). Moreover, Battor & Battor (2010) indicate that innovation is the mediating



factor between CRM and its superior performance. In service perspective, the research defines SIN as a new form of service for the market (Thornhill, 2006). Furthermore, innovation can be an important key for competitiveness. Moreover, innovation is a key element of business success and business performance (O'Cass & Julian, 2006). Therefore, the hypothesis is posited as given:

*H7 : Service innovation has a positive influence on service competitiveness.*

### **Service Excellence (SEC)**

Excellence causes a firm had quick response to customer need and operation in the best way, and able to survive on risky environment (Kumar & Gulati, 2010). Additionally, SEC can be identified to the best of service pattern that is superior over a competitor (Akkarawimut & Ussahawanitchakit, 2010). Moreover, the excellence can support a business objective and value, enhancing a stakeholder's expectation and building competitiveness (Ritchie & Dale, 2000). Hence, the hypothesis is noted as follows:

*H8 : Service excellence has a positive influence on service competitiveness.*

### **Service Competitiveness (SCP)**

SCP can be defined as firm ability to develop, maintain and gain service quality to enhance marketing profit and get superior service management over competitors (Ussahawanichakit, 2007). According to Mei and Nie (2008), they indicated that business capability has a significant influence on competitiveness and gained performance. Moreover competitive action in business makes a firm concentrate on information and communication with customers for establishing sustainability (Sonntag, 2000). Thus, many competitive businesses will build business competitiveness and create a competitive position superior than their rivals. It can be interpreted to sustainability and the survival of the business. Hence, the hypothesis is illustrated as follows:

*H9 : Service competitiveness has a positive influence on marketing survival.*

### **Marketing Survival (MSV)**

Business survival is explained as sustainable economic growth and long-term business operation (Schwartz, 2009) and can be a potential indicator of business performance. In addition, MSV can be indicated to a firm that is permanently able to stay in the marketplace with a higher performance than the previous year (Christensen, Suarez & Utterback, 1998). Moreover, survival is dependent upon the business's ability to innovate and form relationships with external actors (Carroll & Hannan, 2000).

## **3. Research Methodology**

The population of this research was identified to 723 beauty clinic businesses in Thailand which was able to access from the database of Department of Business Development, Ministry of Commerce, Thailand. The Thai beauty clinic businesses were chosen because they were in high involvement personal service. It was interpreted as delicateness of the operation, high customer expectation and needed customer knowledge and information to develop services (Song & Song, 2010). They also needed to retain long-term relationships with customers in order to increase them in re-purchasing. The research employed a questionnaire for collecting data. It was measured by a five-point Likert scales ranging from 1 (strongly disagree) to 5 (strongly agree). The 723 questionnaires were directly distributed by mail to the marketing manager or marketing director of each beauty clinic. There were 122 completed questionnaires returned and usable. The causes of low response rate were from not up-to-date database and some clinic had no marketing manager position.



The non-response bias problem was tested and the results showed nonresponse bias among period of time responding back (earlier, middle, and late period).

Moreover, the validity and reliability of questionnaire were identified. Table 1 shows the factor loading of each construct ranging from 0.613 – 0.955 which was above the cut-off score of 0.4. It indicates to obtain the construct validity.

**Table 1:** Results of Validity and Reliability Testing of Pretest

Items	Factor Loadings	Cronbach's Alpha
Customer Database Value (CDV)	.613-.908	.763
Customer Learning Continuity (CLC)	.695-.918	.875
Customer Based Participation (CBP)	.659-.955	.851
Customer Communication Channels (CCC)	.635-.921	.808
Customer Organization Partnership (COP)	.690-.896	.873
Service Creativity (SCA)	.853-.912	.911
Service Innovation (SIN)	.833-.946	.911
Service Excellence (SEC)	.808-.885	.850
Service Competitiveness (SCP)	.743-.862	.807
Marketing Survival (MSV)	.707-.871	.865

The range of Cronbach's alpha coefficient was between .763 - .911, all of which were greater than 0.7. Therefore, it can be concluded that all items in this research had a sufficient internal consistency (Nunnally & Bernstein, 1994). The statistical techniques were included factor analysis, variance inflation factor, and results of the correlation analysis were presented in Table 2. Moreover, the Ordinary Least Squares (OLS) regression analysis was used to test all hypotheses following the conceptual model and presented in Table 3.

**Table 2:** Descriptive Statistics and Correlation Matrix

	CDV	CLC	CBP	CCC	COP	SCA	SIN	SEC	SCP	FIS
Mean	4.1462	4.2034	3.9936	4.3178	4.2949	3.8199	3.8729	3.8263	3.9682	
S.D.	0.67587	0.66125	0.76584	0.57603	0.59927	0.75859	0.76885	0.66488	0.60059	
CDV	1									
CLC	.786***	1								
CBP	.596***	.769***	1							
CCC	.720***	.713***	.655***	1						
COP	.638***	.776***	.722***	.652***	1					
SCA	.616***	.742***	.632***	.588***	.611***	1				
SIN	.554***	.644***	.536***	.476***	.500***	.785***	1			
SEC	.288***	.356***	.398***	.181**	.277***	.545***	.672***	1		
SCP	.219**	.252**	.319***	.049	.232***	.499***	.468***	.747***	1	
FIS	-.168*	-.208**	-.226**	-.106	-.081	-.178	-.107	-.114	-.062	1
RLA	.002	.096	.084	.122	.010	.075	.080	.170	.226**	-.003

\*p<0.1, \*\*p<0.05, \*\*\*p<0.01, a Beta coefficients with standard errors in parenthesis.

#### 4. Research Finding

The finding in Table 3 indicated that relationships between CDV and SCP were significant ( $b_{22}=0.343$ ,  $p<0.05$ ). Thus, hypothesis 1d was supported, consistent in conformity with the findings of Lee (2013) who summarized that data mining can be lead to business competitiveness. Additionally, unexpected results show that relationships among SCA, SIN and SEC were not significant. Businesses collect information but do not use it as potential information. Consistent with Tarafdar et al., (2015), they indicated that employees misuse information preventing businesses from creativity, innovation and firm excellence. Hence, hypotheses 1a, 1b and 1c were not supported.

**Table 3:** Results of Regression Analysis

Independent Variables	Dependent Variables							
	Eq.1	Eq.2	Eq.3	Eq.4	Eq.5	Eq.6	Eq.7	Eq.8
	SCA	SIN	SEC	SCP	SEC	SIN	SCP	MSV
Customer database value	.011 (.121)	.120 (.137)	.192 (.160)	.343** (.157)				
Customer learning continuity	.553** * (.150)	.520** * (.169)	.111 (.198)	-.097 (.193)				
Customer based participation	.114 (.108)	.134 (.122)	.399** * (.142)	.424*** (.139)				
Customer communication channels	.086 (.109)	-.027 (.123)	-.301** (.137)	- .511*** (.140)				

Independent Variables	Dependent Variables							
	Eq.1 SCA	Eq.2 SIN	Eq.3 SEC	Eq.4 SCP	Eq.5 SEC	Eq.6 SIN	Eq.7 SCP	Eq.8 MSV
Customer-organization partnership	.034 (.111)	-.042 (.126)	-.025 (.147)	.115 (.144)				
Service creativity					.532*** (.078)	.789*** (.058)	.315*** (.095)	
Service innovation							-.292** (.108)	
Service excellence							.760*** (.081)	
Service competitiveness								.673*** (.073)
Relationship age	.002 (.131)	.024 (.148)	.162* (.172)	.260** * (.169)	.130* (.154)	.021 (.115)	.097 (.119)	-.035 (.143)
Firm size	-.023 (.002)	.042 (.150)	-.002 (.176)	.028 (.172)	.020 (.157)	.033 (.117)	.050 (.120)	-.020 (.140)
Adjust R <sup>2</sup>	.538	.389	.170	.197	.296	.607	.589	.430

\*p<0.1, \*\*p<0.05, \*\*\*p<0.01, a Beta coefficients with standard errors in parenthesis.

CLC has provided significant relationship with SCA and SIN ( $b_2 = 0.553$ ,  $p < 0.01$ ;  $b_9 = 0.528$ ,  $p < 0.01$ ). Consistent with Blocker et al., (2011), they found that customer learning orientation was positively related to creativity and innovation. Thus, hypotheses 2a and 2b were supported. Nevertheless, Klarner & Raisch (2013) commented that inflexibility firms that did not respond to an environment change, although firms had continuity to learn about customers, firms did not employ customer information to create firm excellence and firm competitiveness.

Moreover, Zollo & Winter (2002) argued that continuity learning with customer behavior leading to improve service effectiveness, but it did not affect the advantage of the service. Therefore, hypotheses 2c and 2d were not supported. Moreover, CBP has provided significant relationships with SEC and SCP ( $b_{17} = 0.399$ ,  $p < 0.01$ ;  $b_{24} = 0.424$ ,  $p < 0.01$ ). Consistent with the findings of Auh et al., (2007), they suggested that co-operation with customers could help firms to provide better service to customer and achieved competitive effectiveness. Thus, hypotheses 3c and 3d were supported. Conversely, relationships between SCA and SIN were not significant. Consistent with Hsieh, Yen & Chin (2012), they mentioned that firms found extremely of customer participation-orientation, they had conflict between firm and customer. Then, the failure of creativity and innovation caused by the conflict opinion. Therefore, hypotheses 3a and 3b were not supported.

The results revealed that relationships among CCC, SEC and SCP had negative relationships ( $b_{18} = -0.301$ ,  $p < 0.05$ ;  $b_{25} = -0.511$ ,  $p < 0.01$ ). Being consistent with the finding of Pick (2014), he addressed that communication through confusing messages led customers switch to the rival. Also, bad communication may lead to a bad customer attitude (Duncan & Moriarty, 1998). Moreover, relationship between SCA and SIN was not significant because of communication channels could be led to negative effects such as people shared negative experiences about firm to others easier (Wang, 2011). Thus, hypotheses 4a-4d were not supported.

Also, COP had no significant relationships with SCA, SIN, SEC and SCP. From the result, consistent of Noble, Sinha & Kumar (2002), they identified that some unqualified service made lacking of potential to seek the right customer to be a partner. Additionally, customer's attitude to the firm had affected to customer partnership behavior such as willingness to share information and co-working with firm. The customer organization partnership did not influence on service creativity, service innovation, service excellence and service competitiveness. Thus, hypotheses 5a-5d were not supported.

Moreover, the results showed that SCA has positive effect to SIN, service excellence and SCP ( $b_{29} = 0.315$ ,  $p < 0.01$ ;  $b_{34} = 0.789$ ,  $p < 0.01$ ;  $b_{37} = 0.532$ ,  $p < 0.01$ ). Thus, hypotheses 6a-c were supported. Consequently, SIN had negative significant relationship with SCP ( $b_{30} = -0.292$ ,  $p < 0.05$ ). The diffusion innovation theory suggested that customer will accept innovation when they feel less risk and innovators have around 2.5% of customer (Rogers, 2010). If firm cannot provide innovation that being consistent with the existing values, past experiences, and needs of potential adopters, they can be the causes of acceptant innovation failures. Thus, hypothesis 7 was not supported. Also, relationships between SEC and SCP had significant relationship ( $b_{37} = 0.800$ ,  $p < 0.01$ ). Thus, hypothesis 8 was supported. In model 8 showed the significant relationship between SCP and MSV ( $b_{40} = 0.65$ ,  $p < 0.01$ ). Thus, hypothesis 9 was supported.

## 5. Discussion

The results show that each dimension of CRMC related to consequence consist of; CDV has strongly positive significant to SCP, and CLC has strongly positive significant to SCA and SIN. Moreover, CBP has strongly positive significant to SEC and SCP. Conversely, CCC has negative significant to SEC and SCP, and COP have not significant relationship to all consequence. In addition, SCA has positive significant to SIN, SEC and SCP, but SIN has negative significant to SCP. Furthermore, SCP has strongly positive significant to MSV. Moreover, most of CRMC dimensions are important to service firm and guide to market survival. However, firm should concern with CCC to crate the messages to customers and be careful when firm launch service innovation to the market.

For unexpected result in context of beauty clinics such as relationships between CDV and SCA, SIN and SEC which are not significant. This is because businesses cannot collect potential data. Most of beauty clinics have only customer's medical record that causes problematic to understand. Moreover, information of medical record does not concern with attitude of customer about service. It cannot compare service between others service. Then CLC does not provide significant relationship with SEC and SCP. Furthermore, customer participation does not lead to SCA and SIN because they just visit to doctors for solve their problems and receive advice from doctor. In addition, the most service creativity and innovation of beauty clinics are not from participate with customer but they are from medical research. Then CBP does not provide significant relationship with SCA and SIN. Despite the health-care businesses was less with considerate to the practice of 'emphasizing customer involvement in service' (Cheng & Yang, 2013, p. 322). Poor COB cannot enhance to performance and then COP does not provide significant relationship with all consequence.

## 6. Implication, Limitation, and Future Research

The main contribution of this paper is to provide a clearly definition of CRMC, and the same time, to generate five newly distinctive dimensions of CRMC at the organization level. This helps marketing executive, marketing manager and CRM manager to understand and be able to apply the CRMC component in their business in order to achieve superior marketing performance. However, the limitation of this paper is held on not up-to-date database.

Future research ideas are necessary to confirm the generalization and the reliability of the results by changing targeted population to other service such as airline etc. In addition, the different population in others country for a comparative study to broaden the perspective should be investigated.

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# Empirical evidence on mobile banking service quality and its effect on customer satisfaction in Thailand

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## Abstract

Nowadays, technology has been used widely in communication and the various operations. Smartphones and the Internet play essential roles in business transactions and daily lives. Mobile banking has been used widely due to convenient access to financial transactions. This paper studied the factors relating to mobile banking service quality that impacted customer satisfaction on mobile banking services. The study employed 1,368 Thai citizens as samples. The results from ordinal logistic regression suggested that variety of services, transfer beep, safety, and call center services significantly impacted the level of customer satisfaction with mobile banking services provided by Thai banks.

**Keywords:** Customer Satisfaction, Mobile Banking, Internet, Service quality

## 1. Introduction

Globally, diverse initiatives use mobile phones to provide financial services to those without access to local banks or laptop and PC (Donner & Tellez, 2008). Banks all over the world have tried to decrease costs and increase margins in order to sustain themselves in the competition. Nowadays, the Internet is a critical channel for selling virtually all goods and services (Parasuraman, Zeithaml, & Berry, 1988). The services provided by banks are all over the Internet, which once included only checking of accounts, but at present they have developed to wide range of services. Internet banking is an influential form of technology-based self-service which is denoted as e-banking, with the spread and origin of the mobile banking (Maygar, Knapp, Wojtkowski, Wojtkowski, & Zupancic, 2007). It enables customers to conduct their banking transactions anytime and anywhere, and also faster as compared to traditional services. Internet banking may bring a dramatic transformation in the way banks build and maintain close relationship with customers (Mols, 2000)

The mobile banking is similar to Internet Banking in that it provides a fast and convenient way of performing common banking transactions. It is the act of doing financial transaction on a mobile device. The activity can be as simple as a bank sending fraud or usage activity to a client's phone or as complex as a client paying or sending money abroad. The advantages to mobile banking are ability to perform banking transactions anywhere and anytime. A disadvantage is security concern and a limited range of capabilities when compared to banking in person or on computer.

In Thailand, technology has changed people's behavior in daily life. Banks have also altered their traditional services to internet and mobile banking applications. Internet banking was first established through personal computer (PC) and laptop. Later on, mobile banking services have developed from internet banking system during the time when smart phones have dramatically impacted people's lifestyle. Banking service users can complete their transactions by themselves without wasting time to travel. Mobile banking services in Thailand includes the features such as money transfer, bill payment, balance check, and credit balance. Additionally, some banks have integrated investment services such as mutual funds and stock

trading into their mobile banking systems. As there are varieties of mobile banking services offered by many banks in Thailand, it is worthwhile for the banks to pay attention to the level of customer satisfaction with those services. Acknowledging the level of customer satisfaction would help the banks to improve the quality of their banking systems and services, which would help bring customers back repeatedly and, thus, increase the number of financial transactions (Unyathanakorn & Rompho, 2014).

According to SERVQUAL service quality model (Parasuraman et al., 1988), which is applicable to the banking industry, the criteria to measure service quality include competence, credibility, security, access, communication, knowing the customers, tangibles and responsiveness. Firstly, credibility includes factors such as trustworthiness, belief and honesty. It involves having the customer's best interests at prime position. It may be influenced by company name, company reputation and the personal characteristics of the contact personnel. Secondly, security enables the customer to feel free from danger, risk or doubt including physical safety, financial security and confidentiality. Thirdly, access is ease for contact convenient office operation hours and locations. Fourthly, communication means both informing customers in a language they are able to understand. Fifthly, knowing the customer means making an effort to understand the customer's individual needs, providing individualized attention, recognizing the customer when they arrive and so on. This in turn helps to delight the customers by rising above their expectations. Lastly, responsiveness is the ability of bank to provide quick response on customer queries and complaints.

A few scholarly research articles have discussed topics relating customer services and online banking services in Thailand. Rattana et al. (2003) published a research article on customer trust in internet banking and concluded that pre-interaction factors (e.g. unambiguous laws), on-interaction factors (e.g. quality website), and post-interaction factors (e.g. skilled personnel) strongly correlated with customer trust. This paper also added that customers who were reluctant to use online banking services were those who had negative feeling toward privacy and security of the internet. Using a structural equation model, Boon-itt (2015) conducted a research paper focusing on customer e-satisfaction through the quality of self-service technology. It was found that technology readiness impacted the service quality of self-service technologies and resulted in improved e-satisfaction. Yet, only one published research article discussed issues relating mobile banking services especially in Thailand. In their research, Sripalawat et al. (2011) explored factors influencing mobile banking acceptance and associated impacts as well as compared key success factors of mobile banking services in different countries. However, no scholarly published papers directly demonstrate the relationship between the variables of service quality and customer satisfaction in especially in Thailand.

With the introduction of mobile banking services, Thai banks need to be motivated and constantly improve their service quality in this regard. Therefore, this research paper aims to explore the satisfaction level of Thai customers with the quality mobile banking services based on the criteria derived from the existing mobile banking service functions together with SERVQUAL service quality model: variety of services (Lee, Harindranath, Oh, & Kim, 2015), ease of use, use of languages, transfer beep, safety (Donna & Tellez; Lee, Kang, & McKnight, 2007), reliability, fee, and call center service (D. Campbell & Frei, 2010; Daskin, 2011). To fulfill the existing research gap, this paper aims to investigate the relationship between the quality of each mobile banking service functions and the overall level of satisfaction perceived by customers. This paper is organized as follows: section 2 illustrates methodology; section 3 presents and discusses empirical results of the study. Finally, section 5 provides conclusion and recommendations for management strategy to attract customers.

## 2. Data and Methodology

This study selected a total of 1,368 Thai citizens, who have experience using mobile banking applications, as samples. As for sampling methods, the samples were acquired using cluster sampling and simple random sampling. As for cluster sampling, we acquired 1000 samples from directly interviewing bank customers from 4 main regions of Thailand – the North, North-East, Central, and South – 250 people for each region. The remaining 368 people were collected using simple random sampling through online forms. The research employed the questionnaire to collect the data from all 1,368 samples with a corresponding Likert Scale, which was illustrated by fixed choice response formats and designed to measure attitudes or opinions (Likert, Roslow, & Murphy, 1934). Before the data collection, the variables were defined. The independent variables, which represent the quality of mobile banking service functions, included variety of services, ease of use, use of languages, transfer beep, safety, reliability, fee, and call center service, whereas the dependent variable was the overall level of satisfaction with mobile banking services. The scores ranged from 1 to 5. As for the independent variables, “1” was referred to as “Very Bad Quality”, “2” as “Bad Quality”, “3” as “Neutral”, “4” as “Good Quality” and “5” as “Very Good Quality” (Hadley, Mitchell, Sulmasy, & Bloche, 1999). Similarly for the dependent variable, “1” meant “Greatly Dissatisfied”, which ranged to “5” as “Greatly Satisfied”. Next, ordinal logistic regression analysis was used to determine the relationship among variables of interest (M. K. Campbell & Donner, 1989; Efron, 1978). The following ordinal logistic regression tests were performed using the following regression equation:

$$\text{Satisfaction} = b_0 + b_1\text{Variety} + b_2\text{Ease} + b_3\text{Language} + b_4\text{Beep} + b_5\text{Safety} + b_6\text{Reliability} + b_7\text{Fee} + b_8\text{Callcenter}$$

As for descriptive statistics, the samples were characterized as follows. Samples of 1,368 people contained 920 males (67.25%) and 448 females (32.75%). The respondent's ages were divided into below 21 years old = 3.5%, 21 to 30 = 25.1%, 31 to 40 = 13.5%, 41 to 50 = 4.1%, and above 50 = 3.8%. According to Table 1, the quality of mobile banking services in Thailand, on average, scored 4 to 5, which referred to “Good Quality” to “Very Good Quality”. Table 2 expressed correlations of the variables of interest.

**Table 1:** Descriptive Statistics of Mobile Banking Service Quality Scores and Overall Level of Satisfaction

Factor	Mean	Mode	Median	Mix	Min	S.D
Variety of Services	4.74	5	5	5	3	0.48
Ease of Use	4.59	5	5	5	3	0.55
Use of Languages	4.58	5	5	5	3	0.57
Transfer Beep	4.64	5	5	5	2	0.69
Safety	4.56	5	5	5	3	0.6
Reliability	4.56	5	5	5	3	0.57
Fee	4.36	5	5	5	2	0.84
Call Center Service	4.51	5	5	5	1	0.75
Overall Level of Satisfaction	4.66	5	5	5	3	0.52



**Table 2:** Correlation Table of the Different Variables

	Variety	Ease	Language	Beep	Safety	Reliability	Fee	Callcenter	Satisfaction
Variety	1.000								
Ease	0.612	1.000							
Language	0.535	0.652	1.000						
Beep	0.376	0.388	0.348	1.000					
Safety	0.381	0.356	0.428	0.485	1.000				
Reliability	0.448	0.382	0.404	0.443	0.777	1.000			
Fee	0.512	0.459	0.497	0.322	0.512	0.511	1.000		
Callcenter	0.406	0.499	0.412	0.509	0.448	0.438	0.498	1.000	
Satisfaction	0.608	0.557	0.445	0.596	0.574	0.533	0.477	0.634	1.000

### 3. Regression Results and Discussion

**Table 3:** Ordinal Logistic Regression, Dependent Variable: Overall Level of Satisfaction

	Coefficient	Std. Error	z	p-value	
Variety of Services	2.11348	0.674469	3.1335	0.00173	***
Ease of Use	1.34789	0.729354	1.8481	0.06459	
Use of Languages	-1.16956	0.782046	-1.4955	0.13478	
Transfer Beep	1.04254	0.398915	2.6134	0.00896	***
Safety	1.37743	0.685414	2.0096	0.04447	**
Reliability	0.114294	0.696742	0.1640	0.86970	
Fee	-0.236793	0.358752	-0.6600	0.50922	
Call Center Service	1.1802	0.392043	3.0104	0.00261	***

\*\*\*Denotes significant at 1% level; \*\*significant at 5% level

Ordinal Logistic Regression; n = 1,368; Dependent Variable: Overall Level of Satisfaction

Number of cases correctly predicted' = 87.5%

According to Table 3, using the ordinal logistic regression test results demonstrated that the quality of mobile banking services particularly variety of services, transfer beep, safety, and call center services have significant impacts on the level of customer satisfaction (p-value < 0.05). On the contrary, service quality in the aspects of ease of use, use of languages, reliability, and fee did not significantly correlate with the level of customer satisfaction. Some test results confirmed the existence of significant factors which may influence the level of customer satisfaction proposed by many scholars as mentioned in section one. In order to improve the level of customer satisfaction, firstly, Thai banks have to provide variety of services on mobile banking (Lee et al., 2015), which is the most influential factor affecting customer satisfaction (highest coefficient = 2.1135). Acquiring best practices from peers and constantly assessing the competitors in the industry are likely to generate an opportunity for banks to vary their mobile banking services that suit with customer's need. Secondly, transfer beep system of mobile banking improves customer satisfaction. Other than an awareness of



bank transfers, transfer beep can assure customers that the transfers travel to their bank account safely and timely (Parasuraman et al., 1988). Thirdly, improving safety of mobile banking system brings about an increase in the level of customer satisfaction (Donna & Tellez, 2008; Lee, Kang, & McKnight, 2007). Mobile banking users need to ensure that the website is safe from intrusion and that there is very less chance for monetary loss due to transaction error. Fourthly, enhancing the quality of call center services positively relates to customer satisfaction (Campbell & Frei, 2010; Daskin, 2011). Call center service is the quickest way to initially respond to the customer's need. With this service in place, customers do not have to waste their time travelling to banks (Parasuraman et al., 1988).

#### 4. Conclusion and Recommendation

This research paper investigated the relationship between the quality mobile banking service and the level of customer satisfaction in Thailand. Explicitly, it focused on the impacts of the quality of mobile banking services on the overall level of customer satisfaction in Thailand. The study surveyed a total of 1,368 Thai citizens who used mobile banking services provided by banks in Thailand. Ordinal logistic regression tests were used to discover the influences of the qualities of mobile banking service functions, which consisted of variety of services, ease of use, use of languages, transfer beep, safety, reliability, fee, and call center service, on the overall level of customer satisfaction. The regression results demonstrated that, among other factors, variety of services, transfer beep, safety, and call center services significantly influenced the level of customer satisfaction with mobile banking services provided by Thai banks.

To enhance the level of customer satisfaction on mobile banking services, according to the research results, Thai banks should critically and primarily pay attention to providing more variety of services, enhancing the quality of transfer beep, ensuring security of services, and empowering useful call center services. It is believed that improving the quality of the above services will increase the overall level of customer satisfaction which in turn may generate competitive advantage, attract new customers, retain the existing customers, and enhance profitability. Strategically, bank administrators should keep in mind that, among other factors, offering variety of high quality services on mobile banking is the strongest determinant of customer satisfaction in Thailand.

Lastly, in order for Thai banks to be fully beneficial from this study, it is suggested that the future research should focus on the relationship between customer satisfaction with mobile banking services and customer retention and/or banks' profitability.

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# Multilevel Structural Equation Model of Universities Effectiveness in Thailand

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## Abstract

The purpose of this research was to develop and validate a causal relationship model of organizational effectiveness for universities in Thailand. A total of 40 disciplines and 400 samples were stratified random sampling. Instrument used was a questionnaire. Organizational effectiveness was described by 9 variables, namely: 1) Student educational satisfaction (SS) 2) Student academic development (SD) 3) Student career development (SC) 4) Student personality development (SP) 5) Staff employment satisfaction (SE) 6) Staff professional development (SPD) 7) System openness and community interaction (SO) 8) Ability to acquire resources (AR) and 9) Organizational health (OH). Statistical analyses were made based on descriptive statistics and Multilevel Structural Equation Model analysis were performed using Mplus.

The research results were shown as follows: (1) The model of organizational effectiveness for universities in Thailand in terms of student's perceptions indicated that for both levels, all indicators were important for representing the effectiveness. At the individual level, the most important indicator was the student personality development while, at the discipline level, the most important indicator was the staff employment satisfaction. However, the organizational health was less important at both levels. (2) The proposed multilevel causal model of organizational effectiveness for universities in Thailand fitted quite well with the empirical data. The predictor variables at the individual and discipline levels accounted for variance of organizational effectiveness for universities in Thailand about 80.10% and 75.60%, respectively.

**Keywords:** Measurement model, Organizational effectiveness for universities in Thailand, Multilevel Structural Equation Model (MSEM)

## 1. Introduction and Background

Organization effectiveness is important to development of universities sector. However, it was found many problems in effectiveness measurement and assessment as stated by many researchers such as Stufflebeam et al. (1971); Katz & Kahn (1978); Goodman & Pennings (1980); Harrison (1994); Price & Mueller (1986), & Makmee (2016). They stated that the problems were 1) incomprehensive variable 2) abstract variable assessment 3) Insufficient indicator 4) uncovered analysis 5) last measurement and assessment not show the causes and 6) insufficient model and incomplete model. According to organization's measurement and assessment, it should be solved in further research in the future. In last researches, we found that there were 20 researches relating to development of organization effectiveness assessment model divided into 18 foreign researches and 2 Thailand's researches. We used the concept of Cameron (1978, 1986) as the guideline for specify the concept of development of universities organization's effectiveness assessment as previous statement.

We can see that measurement model used for research in Thailand and foreign country in term of development of organization's effectiveness rarely found research on universities effectiveness in educational institute level. According to reasons and importance mentioned

above, the researcher has foreseen the importance of learning and developing the organization effectiveness model of universities sector, educational institute. To do the research on this topic could provide us new knowledge. Also, the previous research have never directly studied on assessment model which considered the factors that influenced on organization effectiveness of universities sector in Thailand. Those researches had two main interesting issues. Firstly, there was limited of research because research methodology was not based on the real status of organization that related in descending order, especially education organization such as personnel level, major level or universities organization level which higher organization had more power than the lower one. This made inability to define which variables it caused or how much it influenced on. Secondly, most research faced the problem of selecting suitable analysis. If the organization was related in descending order, only personnel analysis level might make incorrect result or standard might get lower than it should be. This statistical significant might be type one error, higher than specified. On the other hand, if analysis in higher level, that mean personnel variable was needed to find average for used as higher variable, this would result in bias and ineffectiveness. To solve problems mentioned above, the researcher turned to interest to develop universities effectiveness assessment model in context of Thai social. This emphasized on the factors that influenced on effectiveness to universities sector. This was divided by the nature of educational data consisting of small group integrated into the bigger organization. For example, teachers were in a group of major or major was in the group of discipline.

Therefore, data analysis about universities effectiveness should be multilevel data so that we would know how the difference of influences of variables in different level. It is necessary to use analysis technique according with multi-level data. Applying the Multi-level Structural Equation Modeling could help describing which variables were related. Structural equation model is related directly and indirectly to effectiveness of universities sector. Such model was used as guideline to specify the policy of subject and major and this effectiveness assessment model was an modern model and keep up to date of Thailand's education and it could be based in development of other major's effectiveness assessment model. The researcher has applied Multi-level Structural Equation Modeling which used with normative model development. That means learning on attitude, theory, logical analysis and real situation of organization and applied it to be scope for developing education model with stakeholder (Principle of new measurement and assessment, in order to find influenced variable on organization effectiveness as concept of Steers (1977) and Gibson, Ivancevich and Donnelly (2000) consisting of characteristics of discipline, the internal environment, the characteristics of personnel in the organization, and policy and management. This would be beneficial for organization management effectively. Moreover, multidimensional integration model (Cameron (1978, 1986) which measured and assessed effectiveness of universities by multi-dimension indicator and it was widely used in America, England, Australia, and Canada. This was properly adapted to use with Thai educational nature so that it might meet requirement of society and sustainable efficiency and up to date which rapidly changed. We expected that research result would be guideline to develop universities effectiveness model. This is important mechanic lading to development of education management which is to lift up education standard to be acceptable for international level. This would affect to academic progress of doing research and further organization development.

### Objectives

1. To develop organizational effectiveness for universities measurement model in Thailand
2. To study causal factors from Thailand influencing organizational effectiveness for universities at individual and discipline levels

### Scope of Research

According to definition of universities effectiveness which means success level for operation of organization accepted by student though universities' mission, operation and development of human life and make peace in society. Moreover, we need to provide academic community service to teachers, educational personnel, professor, and local organization so that we would corporate to each other for education reform and develop local to be stronger and sustainable improvement which is the root of community. The researcher has applied multi-dimension integration model and multi-level structural equation model to develop normative model which is the study of concept, theory and logical analysis of organization effectiveness according to the concept of Steers (1977) and Gibson, Ivancevich and Donnelly (2000) consisting of characteristics of discipline, the internal environment, the characteristics of personnel in the organization, and policy and management. Those was used to find universities effectiveness in individual and discipline level. Also, effectiveness measurement model of university from research of Cameron (1978, 1986).

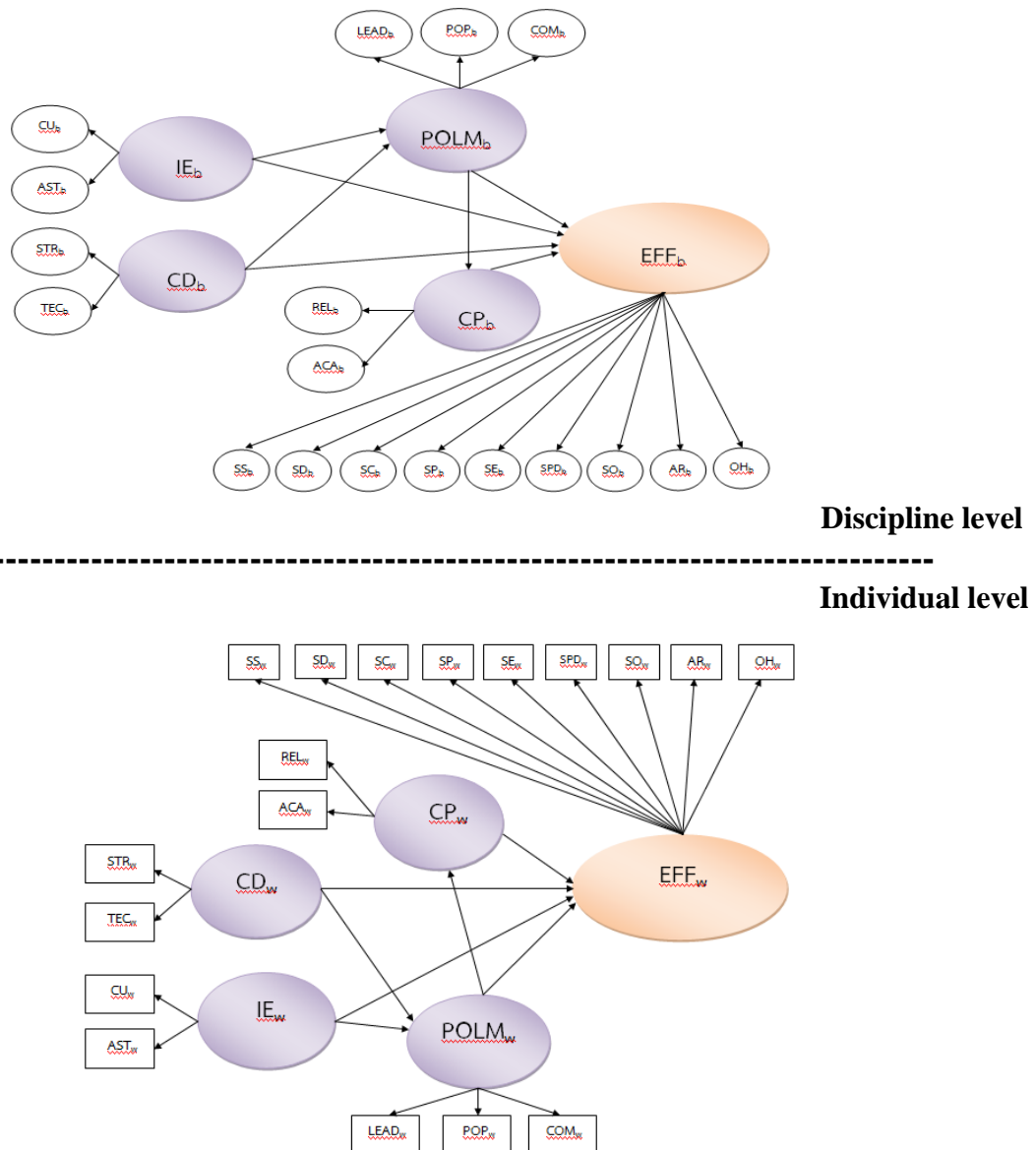
### Research Hypothesis

According to synthesis and analysis of relationship between each factor in individual level and discipline level that influenced on universities effectiveness from concept or related document, the researcher has set hypothesis as following.

1. Multi-level structural equation model for organization effectiveness measurement is according with empirical data.
2. Factor variable in individual level and discipline level could predict effectiveness of universities significantly.

## 2. Conceptual Framework

The concept of Steers (1977); Gibson Ivancevich and, Donnelly (2000) contains the Characteristics of Discipline, the Internal Environment, the Characteristics of Personnel in the organization, and Policy and Management. To study the effectiveness in University at the Individual Level, and Disciplines Level of education. Also the measurement model of effectiveness of University, Cameron (1978 1986), For the concept idea for universities effectiveness, it showed variable as effectiveness in individual level and discipline level for 9 indicators as follows 1) Student educational satisfaction (SS) 2) Student academic development (SD) 3) Student career development (SC) 4) Student personality development (SP) 5) Staff employment satisfaction (SE) 6) Staff professional development (SPD) 7) System openness and community interaction (SO) 8) Ability to acquire resources (AR) and (9) Organizational health (OH). A conceptual framework of research. As shown in the Figure 1.

**Figure 1** Conceptual Framework

### 3. Research Methodology

This research used exploratory research to develop effectiveness measurement model of universities sector in Thailand: Applying analysis of multi-level structural equation model. There are 2 main objectives. First, this is to develop effective measurement model of universities in Thailand. Second is to study factor of structural equation model in individual and discipline level which was related and influenced on effectiveness of universities organization in Thailand. The research was done 2 phases as follows.

**Phase 1:** Development of research concept idea, develop effectiveness measurement model of university in Thailand which applied by effectiveness measurement guideline of Cameron model as objective 1 of research in order to develop effectiveness measurement model of universities in Thailand.

**Phase 2:** Studying factor of multi-level structural equation model to check the accordance of effectiveness measurement model of empirical data in universities, Thailand. The research result as the objective 2 and investigate the factor of multi-level structural equation model in



individual level and discipline level which had relationship and influences on effectiveness of universities in Thailand

**Population and Sample:** Students of 3 universities in Thailand including Burapa University, Kasetsart University and Chulalongkorn University for 40 discipline and randomly selected participants for 400 students in Thailand (Hox, & Maas, 2001).

**Instrument:** Instruments used in research are questionnaire for students for 5 levels which had accuracy during 0.766 – 0.901

**Data analysis:** Using SPSS programme for descriptive statistic and program Mplus (Muthén and Muthén, 2012) for analyzing confirmatory factor analysis, multi-level confirmatory factor analysis and Multilevel Structural Equation Model (MSEM)

#### 4. Research result

The research result was found that 1) Effectiveness measurement model of universities sector in Thailand as the perception of students found that all indicators were closely important in individual and discipline level. For individual level, the most important indicator was student personality development while staff employment satisfaction was the most important for discipline level. However, organization health was less important in both personal and major level 2) Multi-level casual effectiveness model of universities sector in Thailand was according with empirical data)  $\chi^2 = 115.013$ ,  $df = 66.00$ ,  $p = 0.059$  Index CFI = 0.983, TLI = 0.975, RMSEA = 0.066, SRMR<sub>w</sub> = 0.023 SRMR<sub>b</sub> = 0.030). Predicted variable set in both levels could describe the effectiveness variance of universities sector in Thailand at individual and discipline level 80.10% and 75.60%, respectively. This could consider from detail in Table 1, Table 2 and Figure 2.

**Table 1** Effect size both directly and indirectly and effect of predictor variable in personal and major level influenced on organization effectiveness

Within (individual level)	DE	IE	TE	DE	IE	TE	DE	IE	TE	
	EFF <sub>w</sub>			POLM <sub>w</sub>			CP <sub>w</sub>			
	POLM <sub>w</sub> & CP <sub>w</sub>						POLM <sub>w</sub>			
CD <sub>w</sub>	0.138**	0.216**	0.001**	0.355**	0.284**	-	0.284**	-	0.026*	0.026*
IE <sub>w</sub>	0.145**	0.449*	0.003*	0.597*	0.591*	-	0.591*	-	0.055*	0.055*
CP <sub>w</sub>	0.051**	-	-	0.051**	-	-	-	-	-	-
POLM <sub>w</sub>	0.759**	-	-	0.759**	-	-	-	0.093*	-	0.093*
Between (discipline level)	EFF <sub>b</sub>			POLM <sub>b</sub>			CP <sub>b</sub>			
	POLM <sub>b</sub> & CP <sub>b</sub>						POLM <sub>b</sub>			
CD <sub>b</sub>	0.852**	0.005*	0.002*	0.859*	0.164*	-	0.164*	-	0.005*	0.005*
IE <sub>b</sub>	0.148**	0.003*	0.001*	0.152*	0.111*	-	0.111*	-	0.013*	0.013*
CP <sub>b</sub>	0.029*	-	-	0.029*	-	-	-	-	-	-
POLM <sub>b</sub>	0.101**	-	-	0.101**	-	-	-	0.118*	-	0.118*

$\chi^2 = 115.013$ ,  $df = 66$ ,  $p = 0.059$ ,  $\chi^2/df = 1.743$ , CFI = 0.983, TLI = 0.975, RMSEA = 0.066, SRMR<sub>w</sub> = 0.023, SRMR<sub>b</sub> = 0.030

R<sup>2</sup>EFF<sub>w</sub> = 0.801, R<sup>2</sup>EFF<sub>b</sub> = 0.756, R<sup>2</sup>POLM<sub>w</sub> = 0.758, R<sup>2</sup>POLM<sub>b</sub> = 0.071

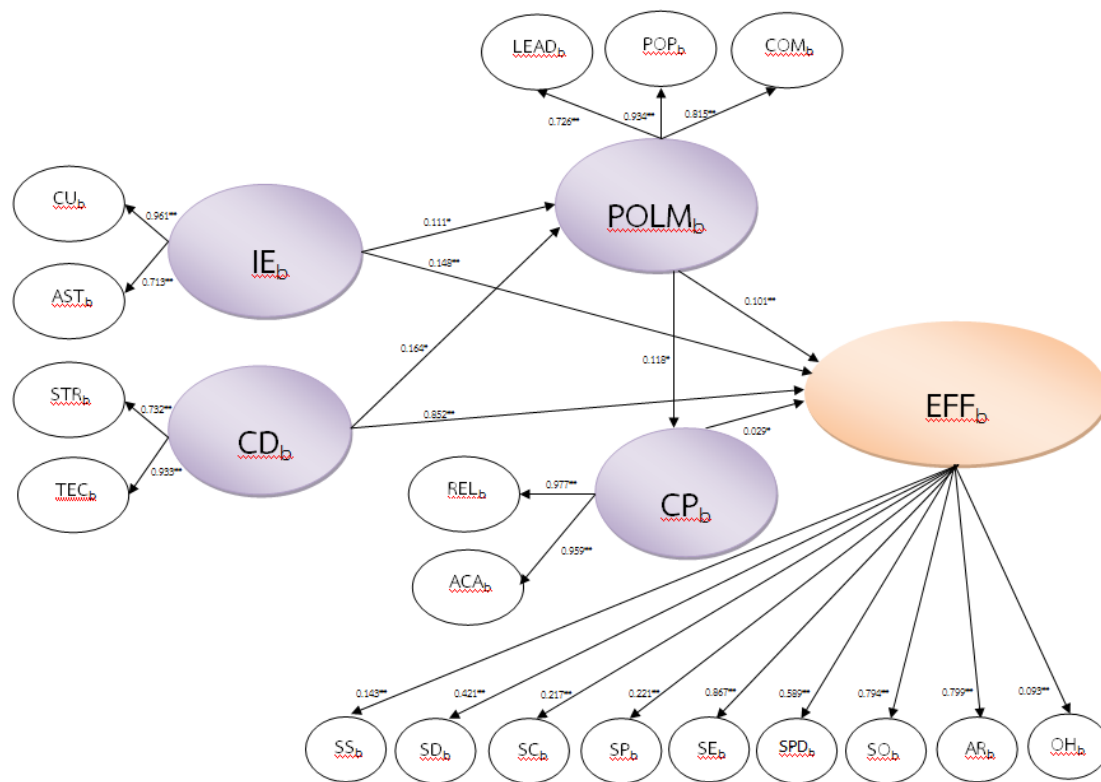
R<sup>2</sup>CP<sub>b</sub> = 0.009, R<sup>2</sup>CP<sub>w</sub> = 0.014

Average cluster size = 10.00, number of discipline = 40

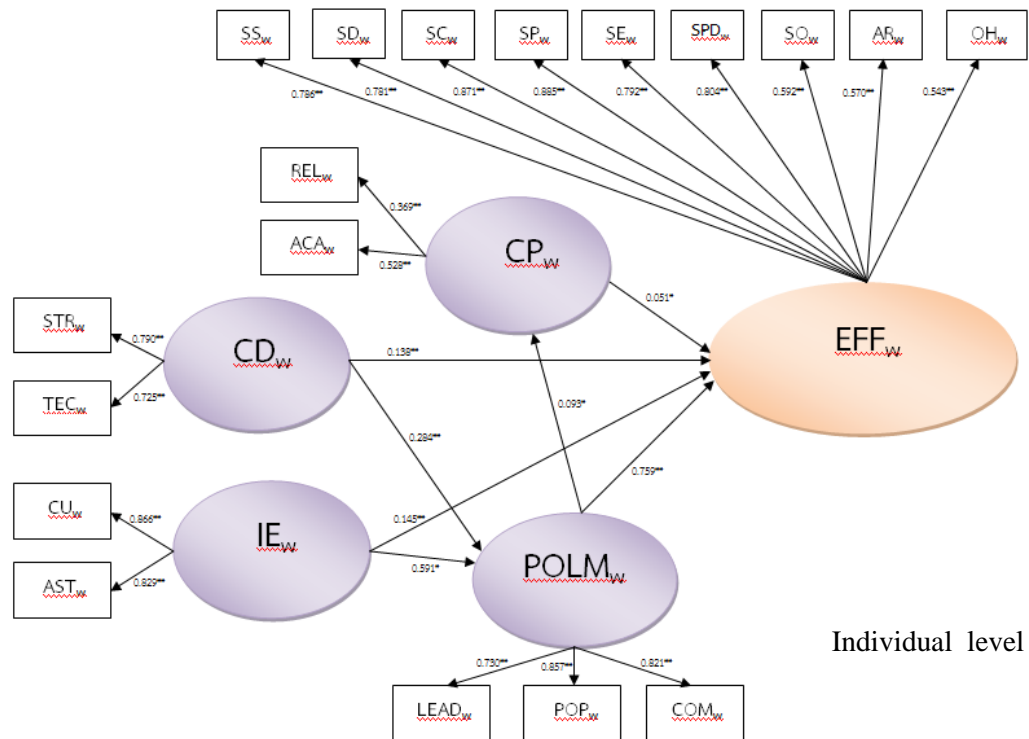
\* $p < .05$ , \*\*  $p < .01$  DE = direct effect, IE = indirect effect, TE = total effect

**Table 2** Factor loading of indicator in Multilevel Structural Equation Model of universities effectiveness.

Observable variable	(within groups: w)				(between groups: b)				ICCs	Intercepts or average group means
	β	SE	t	R <sup>2</sup>	β	SE	t	R <sup>2</sup>		
EFF										
1.SS	0.786**	0.020	39.300	0.618	0.143**	0.012	11.917	0.002	0.122	3.883
2.SD	0.781**	0.018	43.389	0.610	0.421**	0.269	1.565	0.178	0.090	3.536
3.SC	0.871**	0.012	72.583	0.758	0.217**	0.504	0.431	0.047	0.089	4.229
4.SP	0.885**	0.016	55.313	0.665	0.221**	0.447	0.494	0.049	0.096	4.216
5.SE	0.792**	0.019	41.684	0.627	0.867**	0.236	3.674	0.445	0.085	3.713
6.SPD	0.804**	0.031	25.935	0.000	0.589**	0.154	3.825	0.008	0.086	3.902
7.SO	0.592**	0.052	11.385	0.354	0.794**	0.030	26.467	0.988	0.119	3.972
8.AR	0.570**	0.054	10.556	0.325	0.799**	0.057	14.018	0.999	0.088	3.986
9.OH	0.543**	0.052	10.442	0.295	0.093**	0.065	1.431	0.986	0.123	4.138
CD										
1.STR	0.790**	0.016	49.375	0.624	0.732**	0.174	4.216	0.535	0.123	2.564
2.TEC	0.725**	0.030	24.167	0.526	0.933**	0.011	87.294	0.871	0.235	2.607
IE										
1.CU	0.866**	0.014	61.857	0.750	0.961**	0.012	80.056	0.923	0.130	2.764
2.AST	0.829**	0.016	51.812	0.688	0.713**	0.128	5.581	0.508	0.125	2.817
CP										
1.REL	0.369**	0.058	6.362	0.136	0.977**	0.006	150.772	0.954	0.086	2.587
2.ACA	0.528**	0.032	16.542	0.279	0.959**	0.009	102.051	0.919	0.119	2.947
POLM										
1.LEAD	0.730**	0.024	30.417	0.533	0.726**	0.006	122.623	0.526	0.084	2.485
2.POP	0.857**	0.010	85.574	0.734	0.934**	0.050	18.752	0.873	0.126	2.856
3.COM	0.821**	0.014	58.643	0.675	0.815**	0.109	7.444	0.664	0.089	2.915

\*\*  $p < .01$ 

Discipline level



**Figure 2** Multilevel Structural Equation Model of universities effectiveness in Thailand

## Discussion

According to research result, it was in line with hypothesis as follows.

1. Conformity between research result and development concept of Multi-level structural equation model to measure universities's effectiveness in Thailand

1.1 Development of Multilevel structural equation model of universities's effectiveness in Thailand.

The research result found that multilevel structural equation model for measure universities's effectiveness in Thailand was conformed with empirical data and accordant with research's concept idea. The model was developed from theory and related research. This showed that selective variable which was the main cause was characteristics of discipline, the internal environment, the characteristics of personnel in the organization, and policy and management. Those were effect variable influenced on effectiveness of universities in Thailand which is achievement of discipline as viewpoint of related person, Steers (1977), Gibson, Ivancevich and Donnelly (2000). Such model of effective assessment used the concept of Cameron (1978, 1986) as the guideline for specify effectiveness in universities in Thailand measured by 51 items and 9 variables, To be according with basic agreement of samples group of multi-level structural equation model, which was the perception model of students to achieve the main missions in term of educational institute including education, research, academic management and culture maintain which was according with the way Office of Education Standard Assurance and Educational quality Assessment.

1.2 Examining result of Multilevel structural equation model

The research result found that there was conformed with empirical data in individual level and found the most effect of policy variance and management discipline level on effectiveness of universities in Thailand. This was accordant with the research of Cameron (1978, 1986) that research on effectiveness and variance or factor that influenced on

effectiveness of universities organization in Thailand and accordant with the concept of Steers (1977) and Gibson, Ivancevich and Donnelly (2000). This variance was called “managerial strategies” and it was the factor mostly impacted on effectiveness of universities. We can see that the research result was accordant with the concept of Steers (1977) and Gibson, Ivancevich and Donnelly (2000) stated that organization effectiveness would be succeed or developed when manager has used managerial mechanical accordant with organization.

## 2. Relationship of structural equation influenced on effectiveness in individual and discipline level of universities in Thailand

According to hypothesis that individual and discipline level factor could significantly predict effectiveness of universities in Thailand, we found that it was according with hypothesis. The research result found that multi-level structural equation model for effectiveness measurement of universities in Thailand was harmonious with empirical data and being in line with research concept<sup>1</sup>. That means factor influenced on individual and discipline level of 1) characteristics of discipline 2) internal environment 3) characteristics of personnel in the organization, and 4) policy and management according with the concept of Steers (1977); Gibson, Ivancevich and Donnelly (2000). This reflected different organization effectiveness<sup>2</sup>. This relationship of structural culture of factor impacted on effectiveness of universities in Thailand shall describe as effect size on effectiveness of universities in Thailand based on individual level because it was the factor influenced on discipline level as individual level.

## 5. Suggestion

According to research result, we found that factor influenced on universities in Thailand at individual and discipline level the most was policy and management consisting of leadership, policy and strategy planning and communication. Therefore, if universities in Thailand need to develop effectiveness, they should improve policy and management as following.

1. *Leadership*. Should be firstly emphasized in term of supporting personnel in each major to take training courses so that they can apply with their work and also provide opportunity for personnel to have brainstorming to find out new way for effectiveness enhancement and decide based on the basic of accuracy information. The management need to give their time to tell the reason for making decision or set any policy to professor, personnel and concerned person to acknowledge for further practice and also person who search for new idea for self-improvement (Makmee & Luengalongkot, 2015)

2. *Policy and strategic planning*. This should be thirdly emphasised on setting policy or strategic planning of major. Analysis result of external and internal environment, weak and strong point, opportunity and obstacle (SWOT) were used in project planning to be possibly practice/ cover the main mission in practice and according with policy, objective and flexibility with changed situation. Also, success indicator should be set accordingly with criteria and emphasized on participation of each related section in planning and project to be practiced in organization.

3. *Communication*. This should be less emphasized and increase more channel to communicate in discipline to universities in Thailand to be in line with technology progress and it should be systematic. Also, there should be channel to communicate between personnel to management focusing on every group, every level. Problems or suggestion would be considered to find the solution. Discipline had data base that was important to all operation and the concerned person could reach the information properly. It should be improved to up to date and ready for use immediately for more effectiveness for working and there should be measurement and evaluation of news in term of language, communication and continuous improvement.

## Endnotes

- (1) Research concept, that means factor influenced on individual level and discipline level consisted of 1) Characteristics of Discipline (CD) 2) Internal Environment (IE) 3) Characteristics of Personnel in the organization (CP), and 4) Policy and Management (POLM) according with the concept of Steers (1977); Gibson, Ivancevich and Donnelly (2000)
- (2) Organization effectiveness, universities sector in Thailand as the perception of students found that all indicators were closely important in individual and discipline level.

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# A Preliminary Study of Climate Change Commitment: Evidence from the Banking Industry

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## Abstract

Climate change and the needs to protect the environment are increasingly recognized as the fundamental requirement for businesses worldwide. The World Business Council for Sustainable Development identifies the financial industry as an important sector for increasing sustainability. The aim of this paper to investigate the level of climate change commitment in the banking industry. Significant differences were found in the level climate change commitment between Asian and Western banks. The study is a unique comparative study on climate change commitment in the financial industry. The findings of this research extends the body of knowledge in the area of climate change in services firm, specifically on banks. The result can help to assist bank to develop effective environmental policies that provide support to climate change mitigation and drive sustainability.

**Keywords:** Climate Change, Environmental Management, Bank

## 1. Introduction

Current scientific and technical report present compelling evidence that human-induced climate change is happening, and its consequences could be devastating. Over the last century, the average global temperature has increased by more than 0.7°C and will continue to rise with the projections of 0.5°C to 5°C per decade (IPCC, 2013). Consistent with the problem of global warming is the impact of rising sea levels, changes in the precipitation patterns, drought and massive increase in weather-related natural catastrophes. In North Atlantic and Asia, an increase in the tropical cyclone activity can be observed. In Europe, there have been more frequent and intense winter storms. In the last 60 years, the number of natural catastrophes has increased dramatically. In 2013, 296 natural catastrophes were documented around the world, resulting in more than 20,000 deaths and \$192 billion in economic losses (Annual Global Climate and Catastrophe Report, 2014). Since 2000, economic losses from catastrophes related to climate change have cost the global economies approximately \$2.5 trillion (UNISDR, 2014). One of the major drivers of climate change is the increase in the amount of the greenhouse gases (GHG) concentration in the atmosphere. Stern (2007) reported that the amount of GHG emissions has almost doubled and continues to increase. The acceleration in the emission level of GHG across the world is due to the overall increase in demand for energy consumption, transportation usage and is induced by human. With the growing pressure from non-government organizations, the general public and responsible consumers, the Kyoto Protocol of the United Nations Framework Convention on Climate Change was signed in 1997. The Kyoto Protocol is an international agreement framework that aims to set the reduction baseline on GHG emissions. Since the 1997 Kyoto Protocol, businesses worldwide have adjusted their organizational policies and implemented climate-change related actions in their operations.

The financial industry has been identifies as an important sector for increasing sustainability (WBSD, 2006). To promote corporate accountability, transparency, climate



change mitigation and sustainability, leading financial institutions are now obliged to comply with international standards and codes of conduct such as the United Nation Environmental Program Financial Initiative (UNEPFI), the United Nation Global Compact (UNGC), the Equator Principles, and the Principle for Socially Responsible Investment (UNPRI) and the International Finance Corporation Standard. NGOs worldwide) demands the banking industry to increase accountability by ensuring that bank operations will make a positive contribution to society and preserve the ecological wellbeing of the planet.

Although several studies have examined the actions and strategies of organization in response to environmental issues (Jeucken and Bouma, 1999; CERES, 2008; Bowman; 2010, Bimha and Nhamo, 2013). Researches that emphasize on banking and climate change has been limited and received little attention by academicians. Prior research conducted on climate change primarily focused on manufacturing industries (Lee, 2012; Weinhofer and Hoffman, 2010, Sprengel and Busch; 2010, Kolk and Pinkse, 2005). This paper will provide a research that contributes to the limited literatures on the climate change as well as to examine level the commitment of international banks in relation to climate change.

## **2. Literature Review and Research Framework**

### ***The role of banking in relation to climate change***

Banks are the powerful intermediaries and considered as the backbone of the global economy. They price and value financial asset, monitor borrowers, manage financial risk, and organize the payment system (Greenbaum and Thankor, 2007). Banks have the power to raise and allocate capital and determine which businesses or individual activities receive financing. In comparison with other industries, the banking sector has not been seen as an industry with a direct environmental footprint (Boston Common Asset Management, 2014). Although the direct contribution of banks on climate change appears to be small, their indirect impact remains largely underestimated (Furrer et.al, 2012). The indirect impact of banks in relation to climate change refers to the emission of GHG from their corporate clients via bank's policies and lending decisions. The three major roles that the banking industry play in relation to climate change are as capital providers, risk assessors and shareholders (Bowman, 2010). As capital providers, banks have the power to supply or facilitate finance for GHG-intensive projects as well as to support clean energy initiatives. As risk assessors, banks can demand increased risk disclosure associated with climate change from companies. As shareholders, banks can have an influential power over corporate management and climate-related governance. The actions and decisions that are made (or not made) by banks with regard to corporate carbon strategies can exert impact on climate change, either to reduce levels of GHG or to increase emissions.

Compared with other industries, the banking sector has been late to respond to the trend of sustainability, especially with climate change. There is a lack of general understanding about climate change and its impact on bank operations (Carbon Disclosure Project, 2013). From the study conducted by Massachusetts Institute of Technology's (MIT) Sloan School of Management in 2013, managers in the financial sector indicated that being sustainable is necessary. However, only six percent of companies fully address the environment as a significant sustainability issue (MIT Sloan, 2013). According to the Global 500 Climate Change report in 2013, the financial sector received the lowest score in terms of climate change performance compared with other industries. While other industries successfully reduce the amount of GHG emission, the financial sector receives an increase in levels of GHG emissions by 4.2 percent. Furrer (2012) also finds evidence of a deflative decoupling of bank policies with regard to climate change, as few banks have taken substantive actions to implement climate change strategies. Bank Tracks (2014) illustrated that coal financing in the financial

industry is still growing. Top banks worldwide are still the major financial supporter for the coal industry.

### ***Research Framework***

Organizations are required to actively adapt to the issue of climate change by creating effective environmental strategy to promote sustainability. Furrer (2012) defines corporate climate change strategies as “a pattern of activities that address and cope with climate change. Several terminologies are used interchangeably, such as corporate carbon strategy, business response to climate change, and corporate CO<sub>2</sub> strategy (Jeswani et.al, 2008, Weinhofer and Hoffman, 2010; Lee, 2012). In this research, bank are assessed based the level of commitment and how proactive they are in response to the issue of climate change. Therefore, the definition of climate change commitment in this study is developed based on the study of Weinhofer and Hoffman in 201, which focuses on activities that are associated with the management of both direct and indirect greenhouse gases. In this research, banks are assessed based on how proactive they are in response to the different climate change activities

Based on the review of the academic and practitioner-oriented literature, activities in relation to the mitigation and adaptation of climate change can be classified into five categories: management commitment, emission reduction, product development, organizational development and external relationship development. (CERES (2008) Lee, 2012; Furrer, 2012, Jeswani et.al, 2008; Hoffman, 2005).

#### ***I) Management commitment***

Management commitment indicates how active the board of directors and management executives on the engagement of climate change policy as well as to monitor the progress of climate change strategies (CERES, 2008). According to Quazi (2003) and Swanson (2008), top management play a crucial role in directing company's environmental policy and social responsibility practice. Management and top executive has influences in creating policy to support the adaptation and mitigation of climate change. Management commitment refers to actions taken by Board of Directors and top management executive to create positive changes on environmental issue to mitigate the problem of climate change.

#### ***II) Emissions reduction commitment***

Emissions reduction commitment refers to the degree to which a bank actively reduce the amount of both direct and indirect GHG emissions (CERES, 2008). Emissions reduction activities includes establishing a GHG reduction target for facilities and operations based on quantitative measurements of GHG. This also includes having third-party verification on GHG emission reduction (Lee, 2010; Jeswani et.al, 2008; Hoffman, 2005, CERES, 2008).

#### ***III) Product development***

To mitigate the problems related to climate change, banks are required to offer specialized climate change product that contribute to their clients' emissions reduction (Boston Common Asset, 2014). Banks can implement climate change solutions by providing specialized green investment products and services or by financing companies that mitigate climate change (Furrer, 2012). These specialized products offered by bank can be classified as green financial products, carbon loans, climate loans, and specialized advisory services to reduce GHG. Green financial products refer to climate change investment-related products such as green bonds, sustainability bonds, ecological funds, or carbon-related investment products. Carbon loan and climate loan are loan provided to client at the lower price to incentivize client to reduce emission of greenhouse gases or to support low-carbon investment project such as clean energy and renewable energy. Specialized products also include advisory services offered by banks to promote sustainability and support the mitigation and adaptation of climate change and provide consultation for clients on the management of carbon emission and green investment.

**IV) Organizational involvement**

Organizational involvement refers to the involvement activities within the organization that support managers and operational employees on actions to reduce the impacts of climate change. This includes investments on banks' internal operation in reducing their own carbon footprint e.g. by replacing fossil fuels energy sources with renewable energy and by investing in green facilities with environmental building standard certification of LEED (Leadership in Energy and Environmental Design) or BREEM (Building Research Establishment). Involvement activities also includes actions related to a bank's supply chain management. This includes environmental practices to promote sustainable supply chain through environmental collaboration, environmental monitoring, and green purchasing.

**V) External relationship development**

External relationship development includes cooperation for climate change initiatives outside the organization through the engagement with other external stakeholders or by adopting international standards or codes of conduct set by government or non-government organizations (NGOS). External relationship development activities also includes training and workshops with clients and the public.

**3. Data and Methodology**

Based on the review of the academic and practitioner-oriented literature, banks' climate actions of banks are evaluated based five categories. In total, the index is composed of 20 items as presented in Table 1. The sample consists international banks from various regions. In terms of geographical context 38 percent of banks in this study are based from Europe, 34 percent in Asia, 20 percent in North America and 8 percent in Australia as shown in Table 1. The details of bank used in the study are shown in Appendix 1.

**Table 1. Distribution of Banks by Regions**

Regions	No. of Banks	Percentage
Asia	17	34%
Australia	4	8%
Europe	19	38%
North America	10	20%

The approach for this research paper is based on the secondary data. Climate change commitment related data were collected from publicly available sources such as sustainability report, annual report and company website. Content analysis is used to investigate the level of climate change commitment of these banks. The method also allow researchers to filter large amount of data in a systematic manners, which is suitable for study that relies heavily on publicly available data (Krippendorff, 2012; Weber, 1990). The method is useful when other data collection techniques are too costly, not possible or deficient. This applies to data on climate change commitment.

**Table 2: Climate Change Commitments Framework**

Categories	Description	Guidelines
Management Commitment	How actively a board of directors and management executives engage in climate change policy and monitor the progress of climate change strategies	1. Board is actively engaged in climate change policy and has assigned oversight responsibility to board members 2. Chairman/CEO assumes leadership role in articulating and executing climate change policy.

Categories	Description	Guidelines
		3. Top executives and/or executive committees are assigned to management climate change response strategies. 4. Climate change initiatives are integrated into risk management and mainstream business activities. 5. Executive officers compensation is linked to attainment of environmental goals and GHG targets
Emission Reduction	The degree to which a bank to actively reduce the amount of direct and indirect GHG emissions	6. Company pursues business strategies to reduce GHG emission 7. Company calculates and registers GHG emissions savings and offsets from operations. 8. Company sets absolute GHG emissions reduction target for facilities, energy use, business travel and other operations. 9. Company has third-party verification process for GHG emissions data.
Product Development	Specialized climate products or services that are offered by banks that contribute to their clients' emissions reduction	10. Company offers green financial products: Green bonds, sustainability bonds, ecological funds, and carbon related investment products. 11. Company offers carbon loans: Lending/financing, property financing/mortgages at lower pricing to clients reducing carbon emissions 12. Company offers climate loans: Lending/financing, property financing/mortgages at lower prices for use of clean technology and renewable energy sources 13. Company offers climate advisory services: Special advisory services related to carbon management/climate change
Organizational Involvement	Carbon management activities that increase the actions of management and employees with respect to reduce climate change impacts	14. Training / Workshop/ Campaign within the organization to raise employee's awareness on climate change in general 15. Green Building/ Energy efficiency building/LEED/BREEAM certification on buildings 16. Green purchasing/ Sustainable Supplier
External Relationship Development	Cooperation for climate change initiatives, for example, bank engagement with other stakeholders.	17. Memberships and active participation in investor coalitions (e.g., CERES, CDP, UNEPFI) 18. Support community affairs project aiming at climate change mitigation and adaptation 19. Adoption of Equator Principal 20. Certified environmental management system (ISO14001)

Information related to the banks' climate change commitment was selected from publicly available sustainability reports for 2013, Asset 4 databases, websites and annual reports. Banks were assessed based on 20 indicators related to five category of climate change commitment activities. Banks were scored based on a binary scale (yes =1, no=0) on each item in the

indicators. The degree to which the banks pursue climate change-related activities or how committed they are in mitigating the problem of climate change was measured by based on the percentage scores in each category based on the 20 indicators under the five categories. The level of climate change commitment of Asian banks and Non-Asian banks are then analyzed and compared based on the framework in Table 2.

#### 4. Results

**Table 3: Descriptive Statistic on Climate Change Commitment of Banks by Regions**

Indicator	Asia		Non-Asian		Total	
	n	%	n	%	n	%
<b>I: Management Commitment</b>						
1. Board oversight	3	21%	11	32%	14	28%
2. Chairman/CEO : Leadership on climate change	2	13%	20	59%	22	44%
3. Assignment of top executive to manage climate strategies	4	25%	18	53%	22	44%
4. Integration of climate change initiatives into risk management	4	25%	30	88%	34	68%
5. Executive compensation is linked to GHG target and environmental goals	0	0%	9	26%	9	18%
<b>II: Emissions reduction commitment</b>						
6. Company pursues business strategies to reduce GHG emissions	13	81%	32	94%	45	90%
7. Calculation of GHG emissions savings and offsets	7	44%	33	97%	40	80%
8. Company sets absolute GHG emissions reduction targets.	6	38%	31	91%	27	74%
9. Company has third-party verification process for GHG emissions data	5	31%	31	91%	36	72%
<b>III: Product Development</b>						
10.Green Financial Products	2	13%	20	60%	22	44%
11.Carbon Loans	10	63%	23	68%	33	66%
12.Climate Loans	5	31%	29	85%	34	68%
13.Climate Advisory Services	1	0.6%	9	26%	10	20%
<b>IV: Organizational Development</b>						
1. Training/workshops/campaigns to raise employee's awareness on climate change	15	94%	31	91%	46	92%
2. Energy efficiency building/LEED/BREEM certification	2	13%	24	70%	26	52%
3. Green purchasing/ sustainable supplies	4	25%	8	24%	8	16%
<b>V: External Relationship Development</b>						
4. Membership and active participation in investor coalition	7	44%	29	85%	36	72%
5. Support community affair projects aiming at climate change mitigation and adaption	11	69%	31	91%	37	84%
6. Adoption of Equator Principal	8	50%	25	73%	33	66%
7. Receive the certified environmental system ISO1400	5	31%	23	68%	28	56%

Note: Climate Change commitment is given in percentage and number of companies that satisfy each criterion



Table 3 present the descriptive statistics on climate change commitment activities engaged by international banks in different regions. The results from Table 3 indicates that less than 50 percent of banks in all regions provide evidence from publicly available data that their boards of directors have actively assigned oversight responsibility to board members on the issue of climate change. At the management level, CEOs, chairman and the top executives of the non-Asian banks (e.g. from North America, Australia, and Europe) are more active in articulating and executing climate change policy within the organization. Most Asian banks failed to integrate climate change initiatives into their mainstream business activities compared with bank in other regions.

Approximately 90% of banks worldwide obtain climate change policy to reduce both direct and indirect emission of greenhouse gases. However, in comparison with Asian banks, banks in other regions (e.g. in North America and Europe) are more committed in responding to the carbon reduction requirement by setting the absolute GHG reduction targets as well as to record and calculate the amount of emission reduction and offsets. Less than 40% of the Asian banks set absolute GHG emissions reduction targets or employed a third-party verification process for GHG emissions data.

On product development category, almost 70% of the banks worldwide provide climate change-related products including carbon loans and climate change related loans. Carbon loan and climate change related loans refers to the loan offered at the lower price to individuals and business clients to encourage the usage of clean technology and/or renewable energy to reduce the carbon emission for both households and businesses. For example, Societe Generale offered loans for clean energy home renovation. Bank of Communication and China Construction Bank also support green credit policies. In 2013, Morgan Stanley invested over \$1.4 billion of capital in wind, solar and geothermal energy projects. More than 50% of banks in other regions (e.g. Australia, Europe, and North American) banks offer specialized green investment products such as green and sustainability, or ecological funds compared to only 13% in Asia. Only 20% of the in the sample banks offer special advisory services with regard to the issue of climate change and carbon management.

As for organizational development, the banks across the regions are more vigorous in creating internal awareness of climate change but are less active in working with suppliers or operating with a green purchasing concept. Bank in other regions are more active in managing and reducing their own carbon footprints relates to infrastructure through the investment in green office facilities with LEED or BREEM certifications compare with bank in Asia.

The banks in all regions have adopted some type of international sustainable framework as a guideline for their operations. However, less than half of the Asian banks are the members or actively participate in investor coalitions for climate change compared with 85% of non-Asian bank. Most international banks provide support to community affairs projects for climate change. Only 31% of the Asian banks, received ISO 14001 certification.

Table 4 present the average score of banks on each categories of climate change commitment. Asian bank receive the average score of 27.79 percent on management commitment, 42.75 percent on emission reduction, 30.25 percent on product development, 40.48 percent on organizational involvement and 48.22 percent on external relationship development. Asian bank receive the overall score of 35.72 percent compared with bank in other regions (score of 64.17 percent).



**Table 4: Average Score of banks (express as the %) on climate change commitment**

Indicator	Asia	Non-Asian	All Banks	F-Value
I: Management Commitment	27.79	47.77	40.00	7.82*
II: Emissions Reduction Commitment	42.75	82.70	72.00	30.25*
III: Product Development	30.25	54.16	48.00	10.61*
IV: Organizational Involvement	40.48	62.00	56.00	12.15*
V: External Relationship Development	48.22	77.75	69.50	11.98*
Overall Score	35.72	64.17	56.20	29.859

Notes: \*P<0.01. The score is express as percentage

To test the level of climate change commitment for variation across the four regions, an Analysis of Variance (ANOVA) was performed on each category of commitment as presented in Table 4. Significant differences were found between Asian and western bank across all of the categories. The percentage score relates to significant on management commitment was 40.00 percent (F=7.82), emission reduction 72.00 percent (F= 30.25), product development was 48.00 percent (F=10.61), organizational involvement was 56.00 percent (F= 12.15), and external relationship was 69.50 percent (F = 11.98).

## 5. Discussion and Conclusion

This study provides an examination of the commitment of banks on climate change. The results indicates significant differences on the level of climate change commitment between Asian and western bank. Asian bank receive the lowest score in all five categories of climate change commitment. There is a lack of involvement of Asian banks in the global and international climate agenda. One of the barriers for banks to engage on climate change adaptation and mitigation is the lack of awareness and understanding of business risk in relation to climate change (Asia CSR, 2011). Policies in relation to climate change in Asia are still at an emerging state. There is also the absence of mandatory regulations with specific targets for bank to reduce GHG emission, resulting in a weak strategic response of banks in Asia on the environmental issues specifically climate change.

Based on the findings, the study provides an examination of the commitment of bans on climate change. Based on the result, the study contains both theoretical and practical contributions to the literature in banking and the environment. Since most research conducted on climate change primarily focused on the manufacturing industries, the finding of this paper contributes to the theoretical knowledge on climate change by focusing on in service industry, specifically on banks. An assessment framework to evaluate bank's commitment is also developed based on 5 commitment categories. For practical contributions, the research is beneficial for banks to develop effective environmental policies. The findings also reveals international banks' action in response to climate change and allow banks to benchmark against the most committed. The framework can also be used as guidelines to promote sustainability in the long run.

Limitations to the study must be considered. The study is exploratory in a nature with diverse but small sample. Publicly available data are used provide assessment of climate change on five major commitments using a binary scale. Future research could increase the sample size and expand the studies into different location settings and provide analysis of bank at different level. Additional research focusing on climate change performance would also be beneficial.

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# Use of UK/US common law contract law in international business contracts in Southeast Asia

## Empirical Evidence from Telecoms & Engineering

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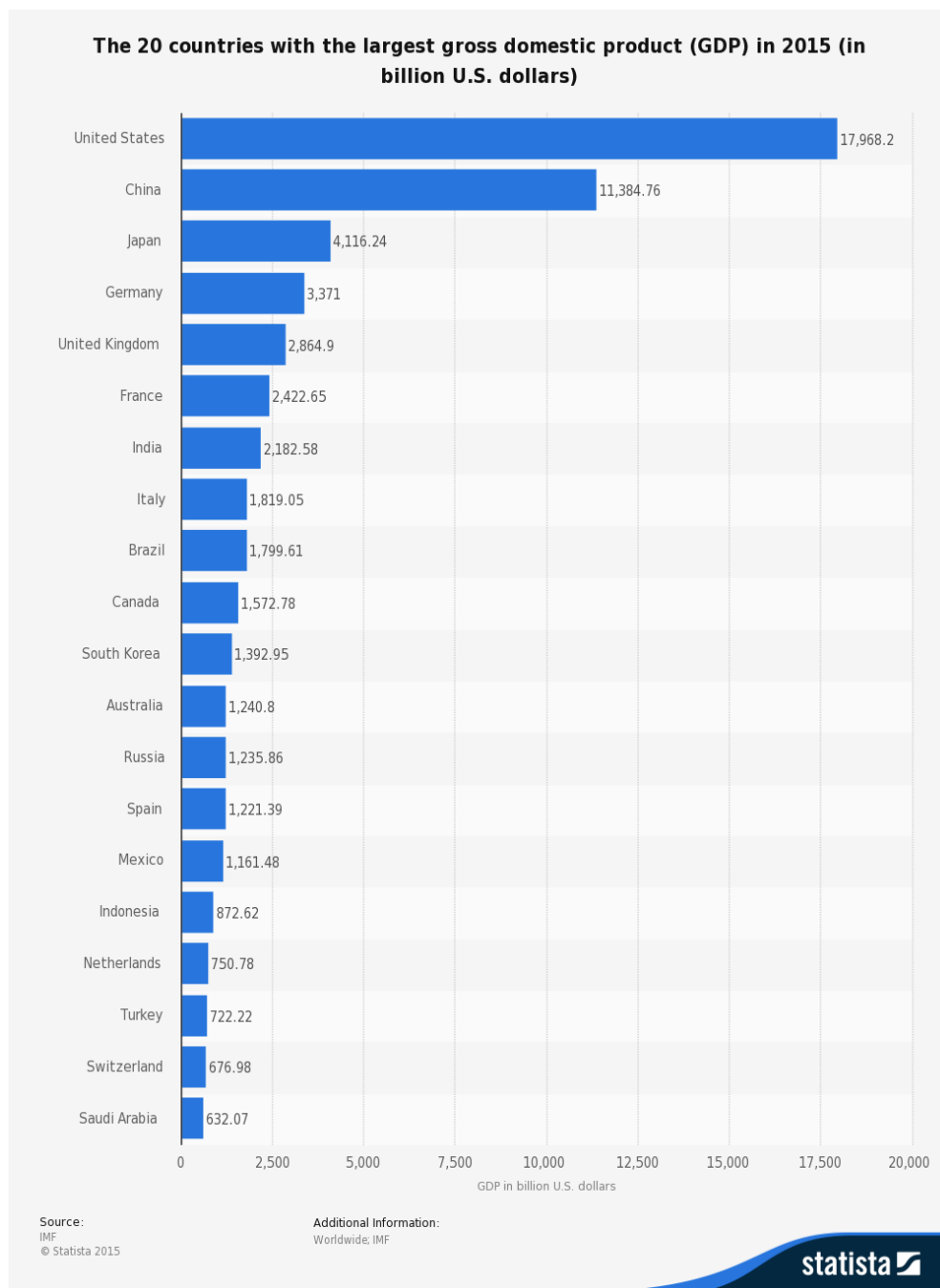
### Abstract

Most international cross-border commercial contracts in Southeast Asia are today written on the basis of English or American contract models & practice, using US (mostly New York state) UK or other Asian common law jurisdiction law (e.g., Singapore/Hong Kong) as the governing law. This practice has become pervasive and is irrespective of whether one or both of the parties to the contract is domiciled in a Common Law or Civil Law country or not. This trend has been documented globally, and discussed in the literature, but has not been definitively studied in the context of Southeast Asia (Cuniberti, 2013). These commercial contracts normally originate from the party domiciled or residing in the common law jurisdiction, and despite changes negotiated from the opposing party in the Civil Law jurisdiction, retain their common law characteristics of contract law. This paper asserts that such law has become the de facto law of international business contracts in Southeast Asia, as opposed to civil law. Recent efforts have witnessed the Singapore-led creation of a new Institute which aims to harmonize ASEAN (and in fact, more broadly, Asian) commercial contract law (Soon, 2015). However, little published academic research has tracked actual practice in corporate firms in Asia over the past decade or more. This article validates the theory that firms in Southeast Asia and in many parts of ASEAN largely use Common Law contract law in international commercial contracts by tracking 5 case studies over a recent span of 13 years.

**Keywords:** International contracts, Southeast Asia, ASEAN, Common law, Civil Law, business development, corporate development, negotiation, UNIDROIT

### 1. Introduction

Globally, contract drafting methods and use of governing laws in cross-border international commercial transactions have been evolving and harmonizing over many years (Schwenzer, 2013). Some trends have emerged from recent study. The most important trends are that United Kingdom & United States (hereinafter jointly referred to as UK/US) Common Law has become the most influential and most used in world business (Wood, 2008); and as illustrated by Figure 1 below that of the 20 countries with the largest gross domestic product (GDP) in 2015, 43.5% of the total GDP is in countries that are governed by Common Law commercial law (U.S., U.K., Canada, India & Australia).



**Figure 1. 20 Countries with largest GDP in 2015**

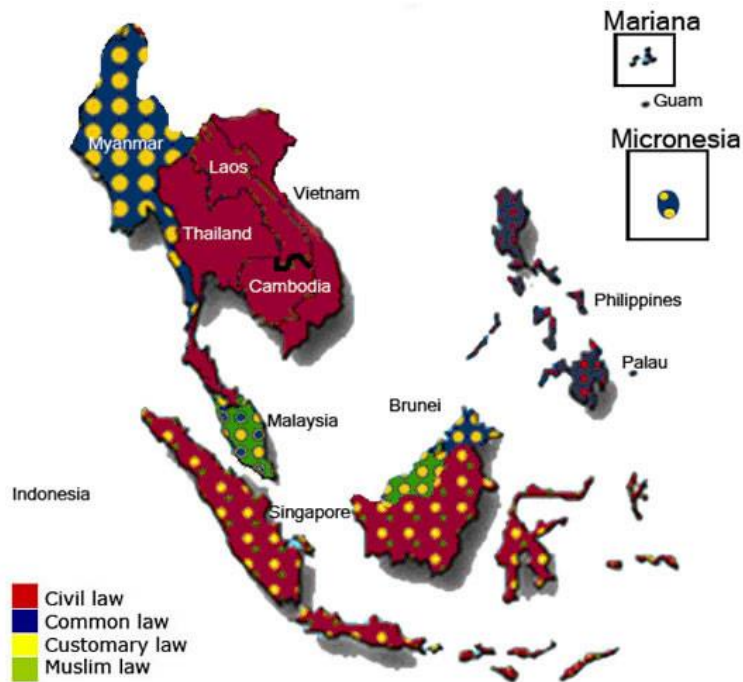
Source: International Monetary Fund. (2015). World economic outlook database.  
Retrieved from <http://www.statista.com/statistics/268173/countries-with-the-largest-gross-domestic-product-gdp/>

Furthermore, UK/US Common Law contract laws are the dominant applicable or governing laws as used in global dispute resolution in arbitrations (Cuniberti, 2013). The Southeast Asia (hereinafter referred to as SE Asia) region presents its own unique set of challenges, such as the confluence of important Common Law commercial hubs like Singapore, and even Hong Kong (though technically not in SE Asia is legally and regionally influential), and Civil Law and mixed or hybrid law countries using Common Law. In such a diverse legal environment (as illustrated in Figure 2 below) in one region how are decisions made as to governing law in contracts? The region as yet has not been the focus of as intensive study of dispute resolution (which answered this question of governing laws in contracts) in the region as done in the Cuniberti study. Using literature and existing studies (as cited in the literature review below), as well as case studies and replication logic, the author of this paper confirms the global trends cited above with respect to SE Asia as well. At the same time, in SE Asia, due to the rising economic and other integration among Southeast Asian countries, there have been merging or blending effects upon many cross-border international practices, transactions and regulatory schemes in that countries attempt to adopt similar practices for efficiency in frequent dealings. In business in SE Asia, this has led to a movement and desire for convergence of Civil and Common Law practices and harmonization (adopting uniform laws) of cross-border business law (including contracts), legal infrastructure (including dispute resolution forums), and regulatory standards across the region. Whether these harmonization efforts will succeed or not is not the focus of this study, nor what any future impact such efforts would have on international firms coming to SE Asia to do business. It might be expected, however, that contract laws would be harmonized in accordance with the conclusions reached in this paper.

The study of this phenomenon is made difficult as researchers from different fields, such as law, business management, international business, organization, and technology each approach the issue from different perspectives. For example, in legal research, great attention has been given to the legal issues presented, conflicts of laws, and other legal issues, but not much from understanding how international companies implement their legal negotiation and drafting in daily practice. Similarly, business, management, and organizational researchers have sought to understand specific issues, but may not have grasped the legal implications unless trained to do so. Technology researchers seek to understand the drivers of technology deals in Asia, but rarely analyze whether the legal contract structure is integral for such deals. A large part of this phenomenon is due to the fact that legal research mostly originates from legal scholars who may have access to law firms, but law firms may not always be privy to final business decisions or daily practices, especially of smaller firms who may not wish to incur the expense of legal advice for common transactions.

Business negotiation and contract drafting methods employed by business managers in firms in Asia have not been studied to a sufficient extent to determine the choice of laws and governing laws in cross-border commercial contracts in SE Asia (Cuniberti, 2013). Using a multiple case study approach studying the firms in this case study spanning over a decade, the major research aim is to analyze how international companies approach international contract negotiations in terms of contract law in SE Asia, and particularly what contract law they employ. Specifically, the goal is to ascertain which main system of laws these agreements are framed, and ultimately executed in.





**Figure 2.** 20 legal Systems of Southeast Asia

Source: Source: JuriGlobe 2009, Legal Systems Classification, 2009, Faculty of Law of the University of Ottawa. Retrieved from <http://www.juriglobe.ca/eng/rep-geo/cartes/asie-sud-est.ph>

## 2. Literature review

The main legal systems today governing contracts in most countries in the world are well defined; broadly categorized as Common Law (as originally developed in England and commonly referred to as English Common Law) and used in the UK/US, Civil Law (as developed in Germany & France), combinations of Sharia Law with either civil or common law (as seen in Malaysia or Indonesia), and hybrid or pluralistic systems combining elements of common law, civil law, and sometimes Sharia or other religious law (Thailand, Philippines, India) (JuriGlobe, 2009). As of 2008, English Common Law is now the most widespread legal system in the world with 30% of the world's population living under English Common Law systems and accounting for 14% of world GDP (Wood, 2008). However, when combined with U.S. Common Law systems, UK/US Common Law accounts for 35% of world population and 40% of world GDP and is used in 47% of the world's legal jurisdictions. By comparison, Civil Law applies to the largest share of the world's land mass (34%), and accounts for roughly the same percentages of population (34%) and GDP (42%) percentages as UK/US Common Law, but is used in fewer legal jurisdictions (36%) compared with the 47% of UK/US Common Law (Wood, 2008). Clearly then, UK/US Common Law combined world influence in terms of population, GDP, and jurisdictions is greater than Civil Law (Wood, 2008).

**Table 1. Statistics for Legal Groups**

Legal Group	Jurisdictions	2007 GDP	Population	Area
English Common Law	27%	14%	30%	21%
Napoleonic (Civil) Law	26%	23%	23%	34%
American Common Law	20%	26%	5%	7%
Roman Germanic (Civil Law)	10%	19%	11%	18%
New	6%	1%	5%	6%
Mixed Civil/Common law	5%	16%	25%	11%
Islamic	3%	1%	1%	3%
Unallocated	2%	0%	1%	0%

Table 1. Wood, Phillip (2008). Maps of World Financial Law: Law and practice of international finance series. Copyright 2008 by Sweet & Maxwell.

In Southeast Asia & ASEAN, there are English Common Law jurisdictions (Singapore), Mixed English Common Law/Sharia jurisdictions (Malaysia), Mixed Civil Law/Sharia jurisdictions (Indonesia) as well as Civil Law-based jurisdictions which are mixed and incorporate elements of UK/US and other common law, such as Thailand and Philippines. Other SE Asian countries, such as Indonesia have also been transforming their legal system ad hoc into mixed or hybrid systems, adopting principles from UK/US common law (Antons, 2007). Though not technically in SE Asia, Hong Kong remains an example of English Common Law, and its regional importance to this discussion will be examined below. Additionally, we see examples of Australian Common Law being used in contracts in SE Asia, also referenced in the findings below. With regard to contract law, there are significant differences between contracts drafted under Common Law and Civil Law principles. The common Law of Contracts is based on the principles of certainty and predictability, and a well-drafted contract, therefore, is deemed to be sufficient to regulate the transaction between the parties. The law of contracts in Civil Law systems, on the contrary, is concerned with ensuring that justice is rendered and the contract is interpreted in the light of implied principles of reasonableness, good faith or fair dealing (Giuditta Cordero Moss, 2007). There are, of course, other substantive differences in the law of contracts between Common and Civil law countries in Asia, such as the elements required to make a valid contract. For example, in Thailand, the common law element of consideration (promise to exchange something *of value*) is not needed for a contract to be valid, and mere exchanges of promises can be binding (Kamol Sandhikshetrin, 2008). Additionally, Indonesian law does not even distinguish between commercial contracts and other forms of contracts (Antons, 2007).

Notwithstanding all the differences in legal systems and contract law, In East Asia (Japan, China, S. Korea) we have seen movements at harmonization of contract law in Asia, and insofar as contracts between and among those East Asia countries it might work because they are basically Civil Law countries. There is a private initiative by scholars in East Asia trying to harmonize rules of contract law, and the aim is to create a model law called Principles of Asian Contract Law (PACL) (Han, 2013). This PACL model law likely may not extend to Southeast Asia, and arguably not to international contracts involving western parties for reasons argued in this paper. However, more relevantly to SE Asia, we also see current efforts underway to harmonize contract law in Southeast Asia, though possibly using the European contract law model of UNIDROIT, or more likely, English, American or Singaporean Common law models. Though UNIDROIT contract principles have been successful in harmonizing international contract law (as evidenced by the fact that over 300 published decisions rendered worldwide refer in one way or another to the UNIDROIT Contract Principles), (Dennis, 2014),

global companies and their lawyers will continue to insist on using well-respected national commercial or contract laws in their international commercial contracts, such as US or English Common Law (Dennis, 2014). A new organization to promote coherence in commercial laws across Asian countries is to be set up in January 2016 in Singapore. The Singapore-based subsidiary of the Singapore Academy of Law will be called the Asian Business Law Institute (ABLI). The ABLI will focus on how laws can be better harmonized across jurisdictions in Asia. It will initiate, conduct and facilitate research, and produce authoritative texts to guide and support the convergence of Asian commercial laws (Soon, 2015). Specifically, the ABLI is studying how a uniform and consistent set of Asian legal rules would aid the formation and validity of cross-border contracts in Asia (Singapore Academy of Law, 2015). So, presumably, the Singaporean effort also has a wider envisioned application of all of Asia, not just ASEAN, but as the scope of this paper is Southeast Asia and ASEAN, the ABLI effort is certainly the most visible and potentially viable effort at contract harmonization for the region. Certainly, Singapore's known ambition in the 21st century and overall strategy has been to position itself as a hub for legal activity and services in the region (Yihan & Tan, 2011). In fact, together with Hong Kong, Singapore is one the two most common seats of arbitration in Asia, (Vegrhes, 2015); testifying to the fact that international law firms have established these two Asian centers in Common Law jurisdictions and service their company clients in both drafting contracts and in resolving disputes in these forums. Due to Singapore's proximity and position as a member of ASEAN, together with statistics cited below, it is reasonable to assume that it is likely to remain the legal hub of SE Asia and ASEAN. Even without the harmonization and convergence efforts occurring, international contracts have been taking on many Common Law characteristics. In fact, promiscuous copy-and-pasting in business contracts practice results in concepts appropriate only under common law—for example, the requirement that a contract be supported by "consideration"—finding their way into civil-law contracts" (Adams, 2014)

So, in practice, what system of laws and types of contracts do we see used by international companies in SE Asia, when involving cross border, international contracts? Are contracts drafted and executed in the Civil Law tradition or Common Law tradition? What we see is increasingly commingled. US and UK contracts are longer, more detailed, and address provisions and deal points with much more specificity; with US-style contracts often going into explicit detail. The US influence has also increased in Asia due to the presence of US law firms. And, indeed most commercial contracts worldwide today are written on the basis of UK or US contract models (Adams, 2013). In many global jurisdictions, the local offices of U.S. and English firms are perceived as the top practices for high end legal services such as capital markets or corporate/mergers and acquisitions. (D. Daniel Sokol, 2007) Even without the harmonization and convergence efforts occurring, Anglo-American law firms have greatly influenced contract style practice, including Anglo-American-style transaction documentation, in civil-law countries.

As international commercial contracts are viewed as highly confidential to the parties, it is difficult to assemble statistics because most companies do not allow publication of these details. International law firms acting as outside counsel for companies in Asia would be a good source, but they are constrained by an even higher duty of confidentiality in attorney-client privilege, and again, contracts are generally not available to study. Most well drafted international commercial contracts have a dispute resolution clause and a governing law clause, which dictate where any dispute will be settled, and under which law the contract will be interpreted. Many international companies' contracts today use arbitration as their chosen method of ultimate dispute resolution. Therefore, in order to determine which contract law has been used in international contracts statistically, we might look to arbitration bodies for this information. However, arbitration is also confidential by its nature and in most arbitration forums. The largest international dispute resolution forum, the ICC, has, however, published

statistics that greatly aid in identifying which laws parties choose to govern their contractual disputes. In the most comprehensive global study to date, (Cuniberti, 2013) focused on the period from 2007 to 2012, and based the research on an empirical study of more than 4,400 international contracts by approximately 12,000 parties who participated in arbitrations under the aegis of the International Chamber of Commerce arbitration forum. The researcher found evidence that parties to international commercial contractual transactions often agreed to apply a contract law, other than their own, to their contracts, and specifically, that the parties generally choose the law of one of just five legal jurisdictions. Two of these five jurisdictions are chosen three times more often than their competitors and can, thus, be viewed as the global leaders: UK Common Law and Swiss Law. Globally, English and Swiss laws are around three times more attractive to international commercial actors than U.S. State, French, or German contract law (though for purposes of this paper, the author in Cuniberti admits that American and Asian parties are underrepresented in the study). English is the dominant language in international trade and contracts, and it therefore follows that English language laws will dominate in those choosing either English Common law or US or other Common Law. Therefore, in the literature, because of the difficulty in obtaining confidential legal documents researchers have looked to published arbitration data as a means determine the governing laws, not just for conflict resolution purposes, but as a way to deduce business legal decisions methods of international commercial contracts.

*Questions for Further Research:* It is reasonable to assume, in light of the sheer volume of international contracts executed each day, that parties often negotiate their transactions without the benefit of any lawyer, or at least without any outside counsel, as lawyers can significantly increase the cost of a transaction, and slow down the execution of doing business; and the findings in this paper validate that view. Further research should investigate why companies & their legal departments made their decisions as to choice of law; e.g., Common Law is perceived as more detailed and more precise, or one party deferred to more educated counsel or unequal bargaining power of the parties, etc.. Importantly, as the Cuniberti global study focused more on Europe and less on Asia, this researcher suspects that the results in Asia would prove to be overwhelmingly UK (and perhaps US) Common Law. It is highly unlikely that contractual parties in Asia would choose Swiss law in arbitration as legal practitioners and dispute forums in Asia are not as familiar with it as UK/US law, and Switzerland is not a convenient forum due to physical distance considerations. However, this has not been proven and is an important question for further research. In fact, more in-depth statistical analysis of ICC arbitrations in Asia is called for as a result of recent research.

### **Procedures for Data Design, Methodology, and Theory**

(Birkinshaw, Brannen, & Tung, 2011) recommended that qualitative research follow a four step approach that contains decisions regarding (1) the research topic, which should be new or under-researched; (2) research methodology; (3) data and transparency of methods; and (4) a theory that properly serves the research aim.

#### **(1) Research topic**

The topic of Civil vs. Common contract law use in international contracts in Southeast Asia has been discussed in the literature mostly from either academic legal perspective or legal practice of lawyers and law firms, but rarely studying the actual business practice and legal results used in businesses themselves. The topic of actual practice is discussed in the literature, (Cuniberti, 2013) in terms of global choice of law based on examination of

arbitration, but lacks a focused examination or discussion of actual company practice in Southeast Asia and SE Asia, and lacks an examination of contracts that do not contain arbitration clauses. Many contracts examined in this research contain dispute resolution utilizing the courts of various nations, not arbitration. This paper aims to explore and describe insights regarding actual practice and emerging and emerged trends.

## **(2) Methodology**

The intention of this paper is to explore whether one dominant form of contract drafting and governing law has emerged in international commercial contracts in Southeast Asia. To explore this situation, a case study approach is most workable (Stake, 1995). In fact, this study employs a multi-case study design (Yin, 2008) precisely to explore international companies' actual practice in Southeast Asia in drafting and executing international commercial contracts. This paper utilizes the ideas of (Eisenhardt & Graebner, 2007) who maintain that the process of using multiple cases can lead to theory building opportunities. Using replication logic, which dictates that over multiple cases to explore the same phenomenon, there is a greater probability to find repeatable patterns that result in some kinds of generalizations, and therefore patterns and theory that can be revealed. While traditional quantitative research can reveal some patterns, a case study can examine the depth of context and usage in actual business practice. Moreover, due to the highly confidential nature of international commercial contracts, proper quantitative methods are not available, except as noted in the literature above. Combined with the available quantitative studies, these case study patterns can reinforce and confirm those results. This research design was chosen precisely because of the difficult nature of obtaining information, due to confidentiality, and the availability to place the researcher as an active participant. Moreover, qualitative case study on this topic can only be undertaken by one educated and trained in UK/US, or related Common Law and preferably experienced in Singapore/Hong Kong actual contract business practice. Such a background enables the researcher to discern whether the examined contracts do, in fact, comply with, and conform to, Common Law contract law.

## **(3) Data collection methods**

The data sourcing process for multiple firm case studies follows the principles of purposeful or criterion sampling choosing a sample that has the characteristics relevant to the research question(s). Criterion sampling involves the selection of cases that meet a set of a priori criteria important to the research (Dimitratos, Plakoyiannaki, Pitsoulaki, & Tüselmann, 2011). In this narrow project, the investigated firms had to (1) operate internationally and in Asia, being based in an Asian country, or having a representative presence in an Asian country, (2) have a Common Law-trained in-house counsel or legal department, but also use outside legal counsel or law firms when needed, (3) maintain contractual business relations with foreign partners located in at least three Southeast Asian countries, and of those, (4) have meaningful international contracts with firms in ASEAN civil law countries. Additionally, though not a specific criterion requirement, the chosen firms operate in high technology telecommunications services or products or high technology engineering. In each case, the researcher was an active participant and observer, with full access to study and document all contracts signed and under review. As such, the researcher executed non-disclosure Agreements which endure to this day. As a result, the identities of all companies are undisclosed in this study. Participant observation allows business practitioners to capitalize on their unique access to information and experience to produce academic research which is important, timely, accessible and relevant to both industry practitioners and scholars. Participant observation is, in fact, the preferred method in highly confidential inaccessible qualitative studies such as this. (Iacono & Holtham, 2009). In this study, the researcher was



present in many cases in contract negotiation, and business and corporate development efforts. Secondary information and primary information was collected about each company and personal interviews were conducted with key business and legal managers negotiating contracts. Five firms were selected as the criteria were very specific, sensitive, and required confidentiality and insider status to observe. The researcher was present in many cases during the process of communications leading to contract negotiation, actual drafting and draft exchanges, and final execution of contracts. The sample of five firms located in Asia seems relatively small but reasonable considering the precise and narrow selection standards (see the 4 criteria listed above) and the fact that the research topic involves highly confidential information rarely disclosed to outsiders in the course of business. Furthermore, over a hundred commercially important contracts were examined in this study. Data collection occurred during the period from 2001-2013, so the results show contemporary and recent results collected over a sustained period of time. Moreover, this precise topic is under researched so far. (Eisenhardt, 1989) recommended at least four cases for multiple case study research. Thus the sample meets that recommendation.

#### **(4) Theory and research aim**

When using multiple-case studies, each case must be carefully selected so that it either: 1) predicts similar results (literal replication); 2) predicts contrasting results but for predictable reasons (theoretical replication); or 3) if all cases turn out as predicted, there is compelling support for the initial propositions. Replication logic procedures assume a fundamental theoretical framework for research (Yin, 2008). Thus, the underlying logic is replication, that is, the idea of treating a series of cases as a series of experiments with each case serving to confirm or disconfirm the hypotheses. In replication logic, cases which confirm emergent relationships enhance the internal strength, consistency, validity and generalizability of those relationships. The major research aim of this paper is the hypothesis that international commercial contracts in Southeast Asia and ASEAN are concluded most often using Common Law. This hypothesis has not yet been documented in the literature. Further that this represents common practice and emergent relationships in ASEAN and Southeast Asia international business contract practice today, and that it has been that way for at least 14 years. Replication theory is applied to the more than a hundred contracts studied in the case studies conducted over more than a decade.

#### **Findings & Discussion**

In order to utilize replication logic in multiple case studies, each case must be carefully selected so that it either (a) predicts similar results or (b) predicts contrasting results for reasons that can be anticipated (Yin, 2008). In this study, one company selected did produce some contrasting results for anticipated reasons. Thus, according to Yin, this study is designed to predict similar results. Table 1 displays an overview of the firms selected for the study. Over one hundred executed contracts were examined in this study among the five sample firms. Firms are summarized in Table 1, and shows 4 out of 5 selected have roots in Common Law countries. Varying in size from large Fortune 500 multinational to private regional startup companies, the samples are varied, though concentrated in telecoms or high technology. All companies are very active in ASEAN and Southeast Asia, with one company Headquartered in a SE Asian country.



**Table 2.** Classification of firms selected for multiple case study

Firm Case Industry	Annual Sales US\$ million *(2001-2013)	Employees *(2001-2013)	Employees in SE Asia	Headquarters
1. Global Telecom Services	10,000	25,000	100	United States
2. Pan-Asian Telecom Services	Undisclosed	150	130	Singapore
3. Global Telecom Services	1,300	1200	80	United States
4. Telecom Equipment Sales & Technology	Undisclosed	95	4	United States
5. High Tech Engineering	1,600	2300	55	Japan

\* Measured at the time the specific case studied

Table 2 provides the summary of average number of contracts examined per firm, and those contracts involving parties from Civil Law countries. Contracts were selected as representative international business contract practice for the firms. Subjective determinations were made to include relatively more important contracts; such as ones that included large sums of trade or investment, important strategic alliances or joint ventures, or regional distribution contracts. One hundred eight (108) executed contracts were examined in this study among the five sample firms, ranging from 17 per sample firm to 30 per sample firm, with the Mean of 21.6 per firm.

**Table 3.** Analysis of contracts examined

Contract Analysis (n=5 cases)	Sample Mean*	SD**	Min	Max
a) Number of contracts examined per firm	21.60	5.13	17	30
b) Number of contracts involving parties in Civil Law countries	11.00	7.10	1	20

\* a) Based on 108 total contracts; b) Based on 55 involving parties from Civil Law countries

\*\* SD=Standard deviation

As shown in Table 3, the examination was along five parameters, labeled A-E, as follows: 'Percentage of foreign partners that accepted Sample Firm's Common Law draft contract as model' as subject A, 'Percentage of final contracts executed conforming to

Common Law’ as subject B, ‘Percentage of executed contracts containing Common Law governing law clause, not Civil Law’ as subject C, ‘Percentage of executed contracts with arbitration in either HK/SG’ as subject D, and ‘Percentage of executed contracts with dispute resolution by courts in Common Law jurisdictions of US, UK, SG, or HK’ as subject E.

**Table 4.** Executed (signed) contracts that conform to UK/US or other\* Common Law contract law

Contract Analysis (n= 5 cases)	Combined Actual Sample % of Total
A) Percentage of foreign partners that Accepted Sample Firm’s Common Law draft contract as model	75
B) Percentage of final contracts executed conforming to Common Law	90
C) Percentage of executed contracts containing Common Law Governing law clause, not Civil Law	85
D) Percentage of executed contracts with arbitration in either HK/SG	40
E) Percentage of executed contracts with dispute resolution by courts in Common Law jurisdictions of US, UK, SG, HK, or AU	35

\* comprised exclusively of Hong Kong, Singapore or Australia Common Law

These research results in practice in Southeast Asia, verify, confirm and amplify the results obtained in the global ICC arbitration study (Cuniberti, 2013). The results show that not only is UK/US and other Common Law the most preferred and widely used law in contracts in Asia, but overwhelmingly so. The results are obtained over the span of recent 12 years of case study in the 5 cases examined, and though the sample size is small, the results were similar in each case except one.

Following replication logic, the one sample firm which did not fully conform did so for anticipated reasons. Sample firm 5 is a Japanese owned and controlled subsidiary in SE Asia, and not only is Japan not a Common Law Country, its own Civil Law is complicated, essentially modelled on German Civil Code, and due to historical and cultural reasons, terms of contract are assigned a much lower value than in Common Law tradition countries (McConnaughay, 2000). In other words, the findings in the Japanese company confirm that they would often accept Common Law, though just as easily Civil Law, but that they are largely indifferent, and assign much less value to the written contract and more to the relationship.

Furthermore, through the interviews and observations, it was determined that most contracts were negotiated without the input from an outside law firm, either in Southeast Asia, or in the HQ country. And, in fact, many business managers with no formal legal training were the ones who actually did the contract negotiations and editing, though usually, but not always, with legal oversight by the in-house counsel. To shed further light on the findings above, subjects A-E are verified in light of interviewee responses.

#### [General Counsel (Canadian trained attorney), Asia, Firm 2]

*Normally we always provide the first draft in any negotiation. We then carefully monitor any proposed changes by the other party to ensure compliance with our common law contract standards. Most of the time, in Southeast Asia, we are successful in achieving our goal of governing law and dispute resolution*

*forum, with the exception of China, which is a special case.*

**[Vice President, Asia, (US Fortune 500 firm), Firm 1]**

*We always provide the suggested first draft, and usually try to insist on US law as governing law, with dispute resolution in US courts. Our legal department is large and sometimes not too flexible on this, and if the contract is important and strategic, we will make exceptions, but not in the normal course of business.*

**[Senior Vice President, Sales, (Private international) Firm 4]**

*We have worked hard to perfect our international distribution and cooperation agreements, and because we have a high technology product and technology in great demand in Southeast Asia, we generally negotiate hard to have US governing law, and, if possible, dispute resolution in US courts. Of course, in order to close deals, we will be flexible on almost everything if necessary. We have agreed, for example, in Indonesia, to using Singapore law, with arbitration in Singapore.*

**[Senior Vice President, Asia, (US public company) Firm 3]**

*As our business involves doing telecommunication interconnection agreements with as many countries worldwide as possible, we have to be flexible in Southeast Asia. As a result, we have signed agreements which are governed by the laws of civil law countries, though normally, we are successful in negotiating a neutral forum and law, usually Singapore or Hong Kong*

**[Country Manager, Thailand, (Japanese subsidiary) Firm 5]**

*Because we are a Japanese company in Thailand, we follow directions from our Tokyo headquarters with regard to legal contracts. Much of the time, we use local law, and in international contracts we often do not make a distinction between civil law and common law. However, often our international partners insist on using Common Law as governing law. Japanese custom means that in any dispute, we always try to find a negotiated solution, so the choice of laws is not as important for us as for western firms, and we often comply*

These comments show that for the firms from Common Law countries, choice of law is an important negotiation point, as well as dispute resolution. Furthermore, because of the overwhelming acceptance of Common Law by their negotiating parties, it appears firms from Common Law countries usually get their way.

Concerning ‘Percentage of executed contracts with arbitration in either HK/SG’ as subject D, and ‘Percentage of executed contracts with dispute resolution by courts in Common Law jurisdictions of US, UK, SG, or HK’ as subject E, the following comments confirm the findings that firms usually arrive at contracts which are governed by a Common Law and with dispute resolution in arbitration or courts of law in Common Law countries.

**[Vice President, Business Development China, Firm 2]**

*As I work in putting together new deals in China, most of the time I recommend we use Chinese law and arbitration, usually in Shanghai. Otherwise, deal development takes too long. My colleagues that work in Southeast Asia are more flexible and can usually negotiate a neutral forum, such as Singapore.*

**[Vice President, Corporate Development, Firm 1]**

*As a US firm, we are actively expanding and buying operations in Southeast Asia, and these transactions involve large investment. We are very careful about our dispute resolution clauses. We prefer of course, to negotiate or mediate first, but if the matter must be litigated, we prefer US law and US courts, but will negotiate to ICC arbitration in Hong Kong or Singapore, but we still insist on US governing law.*

**[Senior Vice President, Operations, Firm 4]**

*As our goal is to not only increase sales, but also provide after-sales technical and customer support, we strive for long term relationships and dispute resolution which enhances the relationship. Contractually, we will accept arbitration in Southeast Asia, but only in Singapore, and only with US, UK, or Singapore governing law.*

#### 4. Conclusions and Implications

These research results in business practice in Southeast Asia, support the prevailing views and global trends in the literature, and the quantitative results obtained in the global ICC Cuniberti study (Cuniberti, 2013). The results show that UK/US or UK-derived Common Law is the most used and most influential contract law in international cross-border commercial contracts in Southeast Asia. The results show that not only is Common Law the most used in international commercial contracts in Asia, but overwhelmingly so.

As a result of the research findings in this study, combined with the existing literature, and applying the theory of replication logic, it is reasonable to conclude that the majority of international cross-border contracts being negotiated and signed between and among firms in Asia, and between Southeast Asian firms and other world firms are being negotiated in English, under Common Law contract principles, and often, with common law jurisdiction governing law provisions. Therefore, by definition, a minority of such contracts are using Civil Law, or Civil Law governing law. The finding also show that many contracts contained arbitration dispute resolution clauses, but a large number also contained clauses mandating use of the courts of the United States, United Kingdom, Hong Kong, Singapore and to a lesser extent, Australia. Singapore, as the literature shows, is the logical and most likely present and future venue as both a legal hub providing a base for international lawyers and practice, and dispute resolution of international commercial contracts in ASEAN. Singapore is well-positioned to consolidate this position with the efforts such as the new Asian Business Law Institute (ABLI) (Soon, 2015). Moreover, as Singapore is a Common Law jurisdiction, and in spite of speculation that the ABLI may adopt UNIDROIT contract principles, this author's contention is that there is ample evidence that UK/UK and other Common Law (including Singaporean) will predominate in contracts for years to come.

*Limitations of Conclusions and Implications.* It could be argued that the firms selected in this study are not representative of all international commercial firms operating in SE Asia, and that is strictly true. These firms are international telecommunications, technology and engineering companies. They may have relatively more sophisticated legal practices, and need for more Intellectual Property protection, and feel that Common Law systems afford greater protection. Furthermore, 4 of the 5 sample firms originate from Common Law jurisdiction legal systems, and more study needs to be done of firms operating internationally from SE Asia Civil Law jurisdictions. Finally, the sample size and number of contracts examined cannot be compared with the sheer number examined in the ICC arbitration study (Cuniberti, 2013). However, the researcher in that ICC study admitted that studying firms that resorted to arbitration may not be representative of all choices of law in all contracts because of the vast number of contracts that use other dispute resolution schemes, such as litigation in courts, and the even larger number which never result in disputes. Certainly a more focused Asian study needs to be done on the ICC arbitration data, and indeed non-arbitral contracts. Until further refinement, the results in this study, combined with existing literature present the following implications. Lastly, the results in this study reflect *actual practice* in the corporate firms studied. This may contrast with what law firms actually advise.

Notwithstanding the above, the implications for business and law school education in SE Asia and ASEAN are clear. Students in Civil Law or Common Law countries should study UK/US and regional Common Law contract principles and models for use in business. For undergraduate study, especially in International Business major programs, the existing textbooks are probably not sufficient. Most available widely-published business law textbooks are written from either a somewhat narrow US or UK perspective, with little application or customization to Southeast Asia or to ASEAN. As one author argues, what is needed is a type

of “free-standing” course that caters to the specifics of ASEAN students (Bitas, 2012). Therefore, existing textbooks and materials are not ideal when the contract law landscape for international business transactions in SE Asia or ASEAN, though arguably dominated by Common Law, is composed of both Civil Law and Common Law countries. The Harmonization efforts underway such as ABLI, further compound the peculiarity of contract law practice in ASEAN.

For companies in SE Asia and ASEAN, these implications affect hiring decisions for corporate counsel (choosing those well-trained in Common Law tradition, but who also understand Civil law principles), as well as those in business development, corporate development, sales and other cross-border contract negotiating, management and closing positions. For Human Resource departments, re-training should be conducted for contract managers and staff to ensure they understand the salient points of Common Law contract law, as well as the differences commonly seen in ASEAN Civil Law countries. For in-house General Counsel and company legal staff, training should also be done in continuing education courses offered locally, and abroad. There are additional implications for corporate counsel when hiring outside lawyers. Efforts should be made to be cognizant of the outside law firm’s fitness for the purpose of international contracts in light of the results of this study.

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# Risk and Return: An Unorthodox Relationship in the Thai Equity Mutual Fund Industry

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## Abstract

In 1980, Bowman documented the *Bowman Paradox*, a negative relationship between risk and return of 85 U.S. industries, a contradiction to the high risk-high return doctrine. Examining the open-end equity mutual funds in Thailand, this study documented the negative relationship between risk and return in the industry from time to time during 2003-2012. The study further examined the factors that will affect the probability that a fund will deliver an outstanding low risk-high return performance using unbalanced panel logistic regression on a binary dependent variable. The results showed that funds with high non-systematic risk, also called idiosyncratic risk, and/or older funds were more likely to deliver a low-risk high return performance and the company who managed a high number of funds was less likely to deliver such performance. This study also proposed a new performance evaluation tool called *the Risk-Return Ranking Matrix*. This matrix suggested funds with outstanding low risk-high return past performance.

**Keywords:** Mutual Fund Performance, Bowman Paradox, Negative correlation, Risk and Return, Portfolio Management

**JEL Classification:** G11, G12

## 1. Introduction

The conventional wisdom of economic theory suggests that one who expects a higher return should be able to assume higher volatility (Merton, 1973). However, Bowman (1980) presented the empirical evidence from 1,572 companies that a high return could be expected from a low risk company. His publication in *Sloan Management Review* entitled “A Risk/Return Paradox for Strategic Management” gained wide attention. The subsequent studies were in various areas; some were in management (Fiegenbaum & Thomas, 1986; Wiseman & Bromiley, 1991), some were in a financial context (Guo & Whitelaw, 2006), and a few were in the mutual fund area (Brockett, Charnes, Cooper, Kwon, & Ruefli, 1992; Cooper, Ruefli, & Wilson, 2011).

The studies of mutual funds in western contexts are much more numerous than studies in Asian contexts. However, the Southeast Asian economy was considered the next growth investment market (Bellman, 2012). The assets under management in this region reached 129.2 billion USD in 2013, a big growth from 82.5 billion USD in 2008. In This region, Thailand is the second largest economy in Southeast Asia after Indonesia (GrantThornton, 2014) and ranked 28<sup>th</sup> in the world in terms of the size of the economy (World Bank, 2013). The country had promising business potential as its stock market daily trading value in 2014 was 1.5 billion

USD dollars on average, the highest trading value among ASEAN<sup>1</sup> for three consecutive years (SET, 2015).

The negative relationship between the risk and return of firms found in Bowman (1980) and documented in the U.S. mutual fund industries (Brockett et al. 1992; Cooper et al. 2011) motivates this study to further examine the risk and return relationship in the Thai open-end equity mutual fund industry.

This study has two objectives. The first is to find out whether there was a negative relationship in the Thai open-end equity mutual funds industry during 2003-2012. Second, it will also determine what factors will affect the probability that a fund will deliver a low-risk high return performance.

## 2. Literature Review

Using firm level analysis of 85 U.S. industries, Bowman (1980) found that companies that had higher than average profit tended to have lower risk across companies within industries. That study was later known as the *Bowman Paradox*. There has been an increasing interest in extending the study of the Bowman paradox, especially in the United States, Europe and other Western countries (Baucus, Golec, & Cooper, 1993; Fiegenbaum & Thomas, 1986; Guo & Whitelaw, 2006; Wiseman & Bromiley, 1991).

The explanations regarding the paradox were categorized into three groups (Andersen, Denrell, & Bettis, 2007). The first group explained the paradox based on behavioral theory. They believed that in a situation of low return, decision makers tend to take higher risk. Examples of researchers in this group are Fiegenbaum (1990), Fiegenbaum and Thomas (1986, 1988), Jegers (1991), Johnson H. J. (1994), and Sinha (1994).

The second group explained the paradox based on statistical features. For example, Henkel (2000, 2009) argued that the skewness of the return leads to the negative relationship. The third group explained the paradox from an organizational management point of view such as Andersen et al. (2007), Bettis and Hall (1982), Bettis and Mahajan (1985), and Miller and Chen (2003). This group believed that the organizational structure and good management practices matter to the risk-return relationship. Managerial intervention to reduce operational risk was associated with better performance.

Most of the studies about the paradox were done in the context of industrial firms. Later, Brockett et al. (1992) used chance constrained programming to study mutual fund performance during 1984-1988. The authors classified the mutual fund returns into high, medium, or low returns using the chance that funds will have returns equaling or exceeding the S&P 500's return. They classified the risk by the probability that funds had returns at or below the T-Bill rate. Later, Cooper et al. (2011) made a quantitative evaluation of strategic performance of 120 U.S. equity mutual funds during 1993-1997. Both studies concluded that a negative relationship between risk and return could appear in the mutual fund industry as well. To the best of my knowledge, the examination of the Bowman paradox in the Thai mutual fund industry has not yet been documented.

Based on Brockett et al. (1992) and Cooper et al. (2011), this study conducted a Thai equity mutual fund study and proposed to test the first null hypothesis that

$H_{01}$  There is a significant positive correlation between risk and return in the Thai open-end equity mutual fund industry.

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<sup>1</sup> ASEAN is abbreviation for Association of South East Asian Nations. Its ten countries members are associated for a political and economic co-operation.

Mutual fund management is one type of portfolio management. Under Capital Asset Pricing Theory, assets are exposed to systematic and non-systematic risks. The systematic risk is non-diversifiable, while the non-systematic risk is diversifiable (Lintner, 1965; Mossin, 1966; Sharpe, 1966). Hence, under portfolio theory, the non-systematic risk, or firm-specific risk, sometimes called idiosyncratic risk, which is the diversifiable part of the risk, has not been the focus of any attention. A well-diversified investment should have a very low, if not zero, level of idiosyncratic risk (Bodie, Kane, & Marcus, 2011). However, during the 1990s to the early 2000s, many studies documented the increasing roles of idiosyncratic volatility in forecasting expected return; some attributed this trend to incremental institutional ownership (Malkiel & Xu, 2003), and some explained the trend with the firm's fundamental characteristics, such as maturity (Wei & Zhang, 2006) and competition within the industry (Irvine & Pontiff, 2009). Stambaugh, Yu, and Yuan (2015) emphasized the role of idiosyncratic risk in their recent work. They found that stocks with high idiosyncratic volatility presented opportunities for long-short arbitrage anomalous return (Stambaugh et al., 2015). The increasing role of idiosyncratic risks in security performance has been widely evidenced; its role for mutual funds has not been well documented. This study proposed to examine whether idiosyncratic risk would also have a predictive power on mutual fund performance.

As mentioned in the introduction, the first objective is to investigate the negative correlation in the Thai mutual fund industry. Such a negative relationship may consist of high risk-low return funds and low risk-high return funds. Since the latter is more beneficial to investors to enhance their portfolio returns, this study is interested in determining the factors that affect the probability of funds delivering such performance. This study offered its second null hypothesis that

$H_{02}$  The idiosyncratic risks of a fund have no significant effect on the probability that a Thai open-end equity mutual fund will deliver a low-risk high return performance.

There have been many studies about the characteristics of mutual funds on various subjects, such as on performance (See & Jusoh, 2012; Huang & Shi, 2013), on the growth opportunities of firm value (Kogan & Papanikolaou, 2013), on fund survivorship (Carhart, Carpenter, Lynch, & Musto, 2002), and on fund disappearance (Cameron & Hall, 2003). All these studies agreed that characteristics such as size, age, fund expense ratio, and others were important predictors of fund attrition, fund performance, etc.

The firm's strategic objective was found to influence the performance outcome and shape the risk-return profile of a firm (Andersen et al., 2007). As mentioned in previous paragraph, various literature studied the effect of fund characteristics on fund performance; however, to the author's best knowledge, the study of their effects on the probability that the fund will deliver low risk-high return performance has not been documented. This study proposed to examine such relationships and hypothesized that

$H_{03}$  Fund size has no significant effect on the probability that a Thai open-end equity mutual fund will deliver a low-risk high return performance.

$H_{04}$  Fund objective has no significant effect on the probability that a Thai open-end equity mutual fund will deliver a low-risk high return performance.

$H_{05}$  Fund age has no significant effect on the probability that a Thai open-end equity mutual fund will deliver a low-risk high return performance.

Mutual funds are not stand-alone units; they are managed by organizations, and hence this study also proposed to examine the organizational effects on the probability that the fund will deliver a low risk-high return performance. It hypothesized that

$H_{06}$  The type of parent company of an asset management company has no significant effect on the probability that a Thai open-end equity mutual fund will deliver a low risk-high return performance.

$H_{07}$  The number of funds under an asset management company has no significant effect on the probability that a Thai open-end equity mutual fund will deliver a low risk-high return performance.

$H_{08}$  The total assets under the management of an asset management company have no significant effect on the probability that a Thai open-end equity mutual fund will deliver a low risk-high return performance.

### 3. Data Collection

This study selected all active equity funds in Thailand during 2003-2012. It excluded international, closed-end, retirement (RMF) and long-term equity funds (LTF). Suppa-Aim (2010) and Tangjitprom (2014) also employed this data collection method in their studies of Thai equity mutual funds. The closed-end equity mutual funds in Thailand, which are mainly triggered funds, RMF and LTF funds are managed under some regulations because they are tax-benefited funds. This study excluded such funds because they have restricted risk patterns and appetites. This study required funds with at least 36 months history for regression purposes.

There were 118 funds under AIMC based on the AIMC<sup>2</sup> definition of the equity fund category of “EQSET” at the time of sample selection. After excluding 13 triggered funds, three index-tracked funds, and 22 funds with age less than 36 months, this study examined a total sample of 64 funds in 2003-2005, 70 funds in 2006, 78 funds in 2007, 80 funds in 2008-2009 and 83 funds in 2010-2012.

This study merged databases from three sources; the Securities and Exchange Commission Thailand (SEC), the Association of Investment Management Companies (AIMC), and asset management companies. The information for obtaining the data to calculate the mutual fund performance was acquired from the website [www.thaimutualfund.com](http://www.thaimutualfund.com) for the period 2003-2012. This database included information on total net assets (TNA), net asset value per unit, bid and offer prices, and dividend payments, in terms of both amount and date.

### 4. Methodologies and Results

This study performed two separate statistical steps to test eight hypotheses. The first test, described in section 4.1, is the correlation procedure to test the first hypothesis,  $H_{01}$ , which is the risk and return relationship in a Thai open-end equity mutual fund. The second test, presented in section 4.2, is the regression to test the hypotheses  $H_{02} - H_{08}$ , the factors that will affect the probability that a fund will deliver a low risk-high return performance.

#### 4.1 The Risk and Return Relationship

This study tested the first hypothesis  $H_{01}$  using the Pearson Product Moment correlation coefficient,  $\rho_T^j$ . This study correlated the return in excess of the risk free rate,  $r_n^j$  and its standard deviation in one-year, three-year, five-year and ten-year timeframes. This study assumed no transaction costs.

##### 4.1.1 Return

This study used the total capital gain and dividend in calculating the return, as it became a standard requirement in the latest 2010 Global Investment Performance Standards (GIPS 2013) item 2.A.1. For yearly return, this study used the time-weighted rate of monthly return as its measurement (Lawton & Jankowski, 2001), as follows.

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<sup>2</sup> AIMC is the Association of Investment Management Companies. Members consist of mutual fund, private fund, and provident fund managers. AIMC is an association relating to and representing investment management industry by the Office of the Securities and Exchange Commission (SEC).

$$r_Y^j = [\prod_{i=1}^n (1 + r_n^j)] - 1 \quad (1)$$

- $\Pi$  = The product of one plus monthly return from period 1 to n  
 $r_Y^j$  = Yearly return of fund j for the measurement year Y.  
 $r_n^j$  = Total return of fund j at month n,  $n=1-12$

The yearly return for any year is the multiplication of one plus monthly returns of corresponding months, then minus one.

The calculations of the monthly return,  $r_n^j$ , are as follows:

- (i) For a fund with no dividend pay-out policy, the  $r_n^j$  reflects the capital gain as follows.

$$r_n^j = \left\{ \left( \frac{Nav_{end}}{Nav_{begin}} \right) - 1 \right\} - r_{f,n}$$

- (ii) For a fund with a dividend pay-out policy, the  $r_n^j$  reflects the capital gain and the dividend income as follows.

$$r_n^j = \left\{ \left\{ \left( \frac{Nav_{end}}{Nav_{xd}} \right) \cdot \left( \frac{Nav_{xd} + Div \text{ per unit}}{Nav_{begin}} \right) \right\} - 1 \right\} - r_{f,n}$$

$r_{f,n}$  = Monthly risk free rate or T-bill rate.

$Nav_{xd}$  = Net asset value per unit at the end of the ex-dividend date.

$Nav_{end}$  = Net asset value per unit of the last working day of the testing month.

$Nav_{begin}$  = Net asset value per unit of the last working day of the previous month.

For three-year, five-year and ten-year timeframes, the annualized return is the geometric mean return of the corresponding yearly returns. The calculation of annualized return is as follows.

$$r_{NY}^j = \sqrt[n]{\prod_{i=1}^n (1 + r_{Yn}^j)} - 1 \quad (2)$$

Where,

$r_{NY}^j$  = The N years annualized return of mutual fund j.

$r_{Yn}^j$  = The yearly return of mutual fund j at year n.

#### 4.1.2. Risk

Following Fama and French (2012), this study employed standard deviation as its risk measurement. This measurement is widely used by the mutual fund organization such as Association of investment management companies (AIMC, 2016) and Morningstar®<sup>3</sup> (Morningstar, 2016)

The standard deviation is the square root of the volatility of monthly returns of the testing year (Reilly & Brown, 2011). ) and multiplies by the square root of twelve to make it annualized.

<sup>3</sup> Morningstar, Inc. is a provider of independent investment research in North America, Europe, Australia, and Asia

### 4.1.3 The Correlation Results

Table I presents the correlations results,  $\rho_T^j$ . Panel A. shows eight yearly correlations from 2005-2012. Panel B. shows the correlations of the roll over three-year annualized return and standard deviation. Panel C. shows the correlations of the roll over five-year annualized return and standard deviation. Panel D shows the correlation of the ten-year annualized return and standard deviation.

**Table I: The Correlation between the Risks and the Returns of the Thai Open-End Equity Mutual Fund Industry from 2003-2012**

The italic number in each box is the number of sample funds in that year.

Panel A. Yearly	2005	2006	2007	2008	2009	2010	2011	2012
$r_Y^j$ and STD	<b>-.428***</b> 64	<b>-.326***</b> 70	.794*** 78	<b>-.613***</b> 80	.637*** 80	.256** 83	<b>-.671***</b> 83	<b>-.337***</b> 83
Panel B. (3Y)	2003-05	2004-06	2005-07	2006-08	2007-09	2008-10	2009-11	2010-12
$r_{3Y}^j$ and $S_T^j$	.188 64	<b>-.409***</b> 64	-.054 64	<b>-.541***</b> 70	.052 78	.223** 80	.256** 80	<b>-.503***</b> 83
Panel C. (5Y)	2003-07	2004-08	2005-09	2006-10	2007-11	2008-12	-	-
$r_{5Y}^j$ and $S_T^j$	0.15 64	<b>-.482***</b> 64	<b>-.260**</b> 64	.259** 70	0.151 78	<b>-.402***</b> 80	-	-
Panel D. (10 Y)	2003-12	-	-	-	-	-	-	-
$r_{10Y}^j$ and $S_T^j$	<b>-.299**</b> 64	-	-	-	-	-	-	-

\*\*\* Correlation is significant at the 0.01 level

\*\* Correlation is significant at the 0.05 level

Table I presents the significant negative correlations in bold numbers. In Panel A., there are five negative correlations versus three positive correlations. In Panel B., there are three negative versus two positive ones. In Panel C. there are three negative versus one positive correlation.

Although the study did not find a negative correlation in every period during 2003-2012, the Thai open-end equity mutual fund industry did post more negative correlation years/intervals than positive ones. Finally, the important finding is that there is a significant negative correlation in the ten-year period in Panel D.

The results in Table I serve as empirical evidence to answer the first research question; it leads this study to reject the null hypothesis  $H_{01}$  and conclude that there could be a negative relationship between risk and return of Thai-open end equity mutual funds. The results are in line with the conclusion of Brockett et al. (1992) and Cooper et al. (2011) which suggested that a negative risk-return trade off could be found in the U.S. mutual fund industry.

## 4.2 The Factors Affecting Low Risk-High Return Performance

The results from Table I show that there could be a negative risk return trade off in the Thai mutual fund industry. This study further examined the factors that will affect this paradoxical mutual fund performance.

### 4.2.1 Identifying the Low Risk-High Return Funds

There are several performance measurements used in evaluating funds. A return-based measurement such as the Treynor ratio or Sharpe ratio measures the return per unit of risk, but does not indicate the actual level of risk to which the fund is exposed. A holding-based



measurement such as the Grinblatt-Titman measurement overlooks the portfolio risk-adjusted return (Reilly & Brown, 2011). Characteristic Selectivity (CS) by Daniel, Grinblatt, Titman, and Wermers (1997) measures the selection ability of manager but requires a great deal of information about portfolio holdings in each period.

This study proposes a new performance-ranking matrix, which takes into account both the levels of risk and return, and is easy to use. For each year, this study ranked the return and standard deviation of the return of all sample funds independently. It then divided funds into three groups at the 30<sup>th</sup> and 70<sup>th</sup> percentile, on both risk dimension and return dimension. This created nine groups of fund as shown in Figure 1. This study calls it the “Risk Return Ranking Matrix”.

**Figure 1: The Risk-Return Ranking Matrix**

<b>Risk \ Return</b>	<b>Low-risk (&lt;30<sup>th</sup>)</b>	<b>Medium risk (30<sup>th</sup>-70<sup>th</sup>)</b>	<b>High risk (&gt;70<sup>th</sup>)</b>
<b>High return (&gt;70<sup>th</sup>)</b>	Low-risk High return <i>Sweet Spot</i>	Med-risk High return <i>Umami-2</i>	High-risk High return <i>Hot</i>
<b>Medium return (30<sup>th</sup>-70<sup>th</sup>)</b>	Low-risk Med return <i>Umami-1</i>	Med-risk Med return <i>Salty</i>	High-risk Med return <i>Sour-2</i>
<b>Low Return (&lt;30<sup>th</sup>)</b>	Low-risk Low return <i>Bland</i>	Med-risk Low return <i>Sour-1</i>	High-risk Low return <i>Bitter Spot</i>

Naming each group according to their full descriptions as low risk-high return, high risk-high return or high risk-low return can be very confusing. To facilitate the user, this study assigned a name to each type of performance as shown in italic bold characters. The “Sweet Spot” represents the outstanding group of funds who have low risk but high return performance. The “Hot” group is the high risk and high return performance, and the “Bitter” group is a group of funds that delivers low return but carries high risk, and etc.

This matrix provides information that will assist investors with different levels of risk appetite. For example, in evaluating two choices of assets, asset A has a 3% return and a 1% standard deviation while asset B has a 9% return with a 3% standard deviation. These two assets will both have the same Sharpe ratio of 3 but may be ranked differently by the Risk Return Ranking Matrix of this study. Asset A may be ranked as Umami-1, a low risk medium return asset, since it has only a 1% standard deviation while asset B may be ranked as Umami-2, a medium risk high return group, since it has a higher standard deviation. Two investors with different risk appetites will perceive these two assets differently, even though the two assets have the same Sharpe ratio.

#### **4.2.2 Descriptive Information**

This study employed the *Risk-Return Ranking Matrix* in separating the fund performance of each year into nine groups. The results are presented in Table II.

**Table II: The Distribution of Fund Performance during 2005-2012**

For each year, the samples are categorized into nine types of fund according to their characteristic of the level of risk and return. The numbers in the column under each year are the distribution of the sample funds in those years into the nine types of fund. The total number of samples in each year is presented in the last row. The total numbers in the far right column are a summation of each type of fund from 2005 to 2012. This study had 621 fund-year samples.

Risk	Return	2005	2006	2007	2008	2009	2010	2011	2012	Total	Performance
Low Risk	High	10	5	7	13	0	9	17	10	71	Sweet Spot
	Medium	8	7	3	9	9	8	7	14	65	Umami-1
	Low	2	9	14	2	15	8	1	1	52	Bland
Medium Risk	High	3	7	4	7	13	2	5	12	53	Umami-2
	Medium	7	10	18	23	11	17	22	16	124	Salty
	Low	14	11	8	2	8	14	6	5	68	Sour-1
High Risk	High	7	9	13	4	11	14	3	3	64	Hot
	Medium	9	11	9	0	12	8	4	3	56	Sour-2
	Low	4	1	2	20	1	3	18	19	68	Bitter
Total		64	70	78	80	80	83	83	83	621	

Table II shows that during the study period, the industry had 71 fund-years with “Sweet Spot” performance and 550 fund-years with other types of performance.

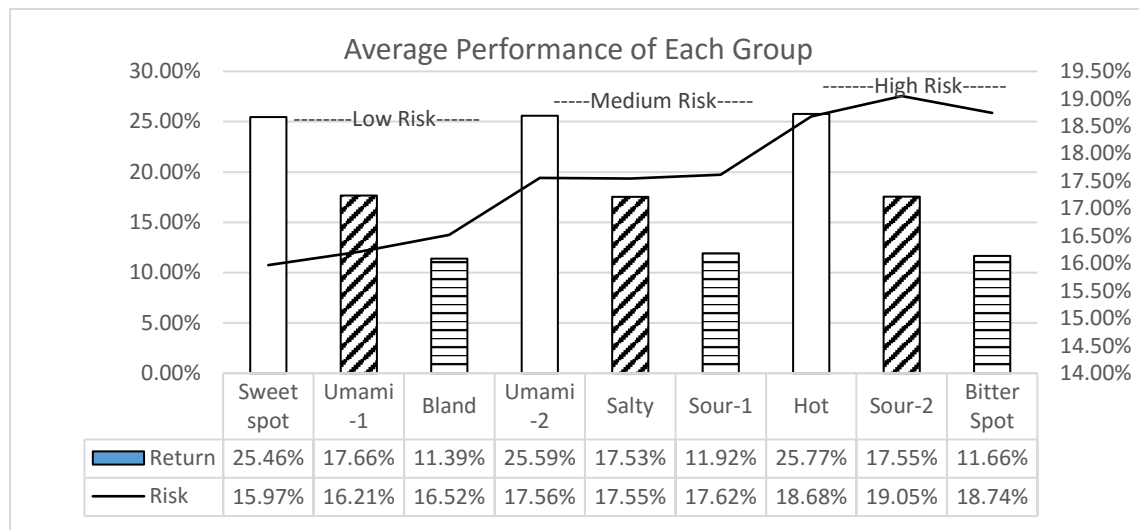
Table III shows the market performance using the stock market return and its standard deviations. In 2005, 2006, and 2009 the market risk and return were ranked as medium risk-high return, the Umami-2. The other five years were ranked as Bland, Umami-1, Sweet Spot, Hot and Bitter, one time each year. Out of 8 years, the majority of market performance shows medium risk and high return.

**Table III: The Market Performance Evaluated Using the Risk-Return Ranking Matrix**

Risk	Return	2005	2006	2007	2008	2009	2010	2011	2012	Performance
Low Risk	High								Set	Sweet Spot
	Medium						Set			Umami-1
	Low			Set						Bland
Medium Risk	High	Set	Set			Set				Umami-2
	Medium									Salty
	Low									Sour-1
High Risk	High							Set		Hot
	Medium									Sour-2
	Low				Set					Bitter

#### 4.2.3 Evidence on the Performance of the “Sweet Spot” funds

Figure II shows the performance in a longer timeframe, the average return of nine group during 2005-2012. Figure II shows the return of each group with a three shade vertical-bar chart and the risk level of each group with a line chart. The name of each group is shown under each bar with its performance.

**Figure II: The Average Performance of Each Group during 2005-2012**

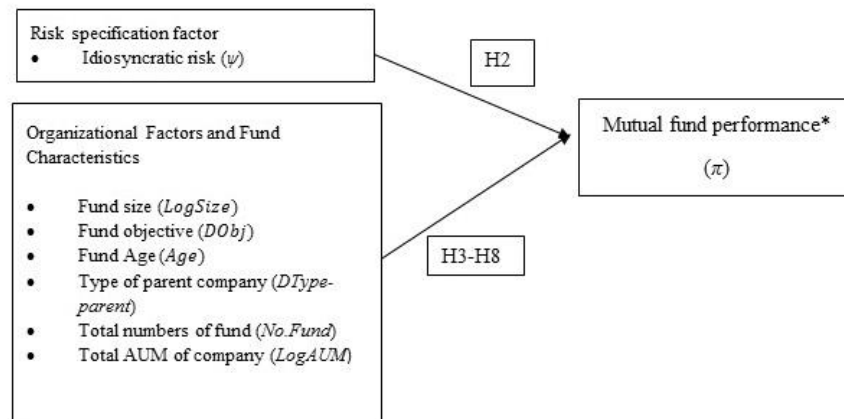
represent the “Sweet Spot” group, the “Sweet Spot” has the lowest risk of all at 15.97% versus 16.21 % and 16.52 %, despite its highest return at 25.46 % versus 17.66 % and 11.39 %. This information emphasizes the outstanding performance of the “Sweet Spot” group when compared to peers.

#### 4.2.4 The Conceptual Framework

Since the “Sweet Spot” group represents the best performance among the nine types, this study is interested in determining the factors that will affect the probability that funds will deliver such performance.

Differences in fund managers’ capability to manage funds were documented (Berk & Stanton, 2007; Chan, Chen, & Lakonishok, 2002). The negative relationship between risk and return found above could be a result of the differences in the ability of fund managers in managing diversifiable risk. Amihud and Goyenko (2013) estimated  $R^2$  from a regression of fund returns and market returns and showed that funds with lower  $R^2$  indicated greater selectivity and performed better than funds with high  $R^2$ . They implied that funds with low  $R^2$  were more active, had high idiosyncratic risk and would perform better. This study examined the effects of the idiosyncratic risk of funds on the probability that the fund will be in the “Sweet Spot” group. Based on the result by Amihud and Goyenko (2013), this study expected to find a high level of idiosyncratic risk with high probability that the fund showed a “Sweet Spot” performance.

This study also examined the effects of the characteristics in two dimensions: the fund characteristics and the asset management company characteristics. Apart from the idiosyncratic risk, other variables under this study were fund size, fund objective, the type of parent company of the asset management company, fund age, the total number of funds and the total assets under management of asset management companies. The study obtained most information from company websites and annual reports. The conceptual framework to test hypotheses  $H_{02} - H_{08}$  is presented in Figure III.

**Figure III: Conceptual Framework**

#### 4.2.5 The Model and the Result

To test the factors affecting low risk-high return performance, this study regressed equation (3), using logistic regression analysis with the unbalanced panel data technique.

Panel data are data in which the same cross-sectional entities are observed at multiple points in time. The panel data technique is commonly used in economics studies, such as in the National Survey of the Labor Market (NLS). Panel data analysis has many advantages over traditional cross-sectional or time-series analyses. The first advantage is for the case of a small “N” or few “T” studies (N refers to units, and T refers to Time-period). A limited number of observations have always been a problem both in cross-sectional and time-series studies. One problem is that small observations lead to inadequate degrees of freedom. The panel data analysis is designed to minimize this problem by increasing the cases to units (N) multiplied by the Time-period (T) observations.

The second advantage is the fact that the combination structure of panel data analysis leads to the benefit of capturing variations in the two dimensions simultaneously. In some cases, cross-sectional regression analysis may neglect the time variation, and a time-series study alone may neglect the variation caused by the spaces between data (Podesta, 2002).

To enhance the sample size and to capture both the time and space effects, this study used a panel data technique.

$$\pi_T^j = \mu_0 + \mu_1 \psi_T^j + \mu_2 \text{Log Size}_T^j + \mu_3 \text{DObj}^j + \mu_4 \text{Age}_{k,T} + \mu_5 \text{DType} - \text{parent}_k + \mu_6 \text{No.Fund}_{k,T} + \mu_7 \text{Log AUM}_{k,T} + \varepsilon_T^j \quad (3)$$

Where,

- $\pi_T^j$  = The binary variable represents the performance of mutual fund  $j$  at time  $T$ . It takes a value equal to one if the fund delivers a low-risk high return performance and zero otherwise.
- $\psi_T^j$  = Idiosyncratic risk of fund  $j$  at time  $T$
- $\text{Log Size}_T^j$  = Log of size of fund  $j$  at the period  $T$
- $\text{DObj}^j$  = Dummy variable for fund objective of fund  $j$ , it equals to one for growth fund and zero otherwise.
- $\text{DType} - \text{parent}_k$  = Dummy variable for the type of the parent company of the asset management company  $k$ , it takes value one for bank-related type and zero otherwise.

$Age_T^j$	=	Age of fund $j$ at time $T$
$No. Fund_{k,T}$	=	Total number of funds under management of an asset management company $k$ at time $T$
$Log AUM_{k,T}$	=	Log of the total assets under management of an asset management company $k$ at time $T$
$\varepsilon_{j,t}$	=	Regression residual

The idiosyncratic risk was obtained by calculating the residual from the Fama-French Three Factors Model using equation (4), and multiplied the square root of twelve to the standard deviation of the residual squared, as shown in equation (5).

$$r_n^j = \alpha_T^j + \beta_T^j(r_{mkt,n} - r_{f,n}) + s_T^j SMB_T + h_T^j HML_T + \varepsilon_n^j \quad (4)$$

$$\psi_n^j = \sqrt{\frac{1}{n} \sum_{j=1}^n \varepsilon_{j,n}^2}$$

$$\psi_T^j = \psi_n^j * \sqrt{12} \quad (5)$$

$\psi_n^j$  = The monthly idiosyncratic risk of fund  $j$  during the period  $T$ .

$\psi_T^j$  = The annualized idiosyncratic risk of fund  $j$  at time  $T$ .

$\varepsilon_{j,T}$  = Regression residuals from Fama-French Three Factors model.

Prior to the running of the equation, this study used the Hausman test to determine whether to use the fixed effect model or the random effect model<sup>4</sup>. The results from the Hausman test lead this study to use the random effect model. The regression results are shown in Table IV.

**Table IV: The Logistic Regression of the Factors Affecting the Mutual Fund Performance**

The dy/dx in the last column is the marginal effect of each variable.

Variables	Random Effect model			
	Coef.	z	P> z	dy/dx
$\psi$	.419	3.71	0.000***	.0262
<i>Log Size</i>	-.042	-0.26	0.798	-.0026
<i>DObj</i>	-.045	-0.10	0.921	-.0028
<i>DType – parent</i>	-.239	-0.48	0.634	-.0153
<i>Age</i>	.101	2.54	0.011**	.0063
<i>No. Fund</i>	-.014	-2.07	0.038**	-.0009
<i>Log AUM</i>	.294	0.92	0.356	.0184
<i>constant</i>	-11.083	-1.35	0.177	
<b>No. obs</b>	621			

<sup>4</sup> Details of the Hausman test is available upon request.

Chi2(df)			25.13(7)	
Prob>Chi2			0.0007***	

\*\*\* = significance at the 0.01 level,

\*\* = significance at the 0.05 level,

Considering the overall picture of the model by looking at the Chi square, *Chi2* in Table IV. The overall Chi2 test evaluates the significance of all coefficients in the model, with the probability of getting greater chi2 at quite low of 0.0007. It leads this study to conclude that the overall model is statistically significant.

From Table IV, the idiosyncratic risk of fund,  $\psi$ , shows its significant effect at the 99 % confidence level on fund performance, as its p-value = 0.000. Fund age, (*Age*), and the total number of funds, (*No.Fund*), are significant at the 95 % confidence level with p-values = 0.011 and 0.038, respectively. Other variables do not significantly affect the probability that a fund will deliver sweet spot performance.

In Table IV, the coefficient of 0.419 of the idiosyncratic risk ( $\psi$ ) indicates that, holding other variables at fixed value, the fund with higher idiosyncratic risk is more likely to deliver “Sweet Spot” performance than a fund with lower idiosyncratic risk. The dy/dx value of 0.0262 indicates the marginal effect of the variable. The one unit increases in idiosyncratic risk significantly increases the probability that that the fund will deliver “Sweet Spot” performance by 2.62 %.

The *Age* coefficient of 0.101 indicates that holding the other variables at fixed value, an older fund is more likely to deliver “Sweet Spot” performance than a younger fund. The dy/dx value of 0.0063 indicates that, as a fund gets older by one year, the probability that the fund will deliver “Sweet Spot” performance will increase by 0.63%.

The *No.Fund* coefficient of -0.014 indicates that holding the other variables at fixed value, the fund under the supervision of an asset management company that manages a large number of funds is less likely to deliver “Sweet Spot” performance compared to funds under the supervision of an asset management company that manages a smaller number of funds.

The dy/dx value of -0.0009 indicates the marginal effect of the variable. If the company increases the number of funds under its management by one, it will decrease the probability that the fund under its supervision will achieve “Sweet Spot” performance by 0.09%.

From the regression results, this study concluded that the idiosyncratic risk of funds and the age of funds have significant positive effects on the probability that a fund will deliver low risk-high return performance. The total number of funds under the management of an asset management company has a significant negative effect on the probability that a fund will deliver “Sweet Spot”, low risk-high return performance.

### Simulation on the Portfolio Performance

This study simulated portfolios to test the performance of the nine funds in Table V. In time  $t-1$ , all sample funds were divided into nine groups based on the Risk Return Ranking Matrix procedure stated in Figure 1. The portfolio was constructed at time  $t$  based on the fund performance at  $t-1$ . Their equally weighted return are shown in the column under each year. For example funds with Sweet Spot Performance in 2005, were selected to invest in Sweet Spot portfolio in 2006, and so on.



**Table V: The yearly and cumulative performance, at time  $t$ , of each group of funds, ranked in  $t-1$** 

Risk	Return	2006	2007	2008	2009	2010	2011	2012	Cumulative return	Risk Group average	Type
Low Risk	High	1.44 %	26.79 %	-39.96%	47.61%	41.62%	-4.26%	49.52%	131.09%	136.61%	Sweet Spot
	Medium	- 6.55 %	35.37 %	-38.90%	63.06%	43.44%	0.39%	38.00%	150.45%		Umami-1
	Low	- 1.77 %	35.50 %	-40.61%	48.83%	33.64%	5.61%	37.49%	128.29%		Bland
Medium Risk	High	- 3.73 %	31.57 %	-42.64%	52.56%	44.44%	-9.59%	36.26%	97.24%	92.57%	Umami-2
	Medium	- 8.10 %	32.71 %	-43.56%	60.92%	36.30%	-3.95%	35.69%	96.77%		Salty
	Low	- 8.25 %	33.17 %	-44.95%	58.90%	37.29%	-7.58%	35.45%	83.71%		Sour-1
High Risk	High	- 3.84 %	38.85 %	-48.10%	55.01%	44.39%	-6.94%	23.41%	78.13%	106.13%	Hot
	Medium	- 6.68 %	34.79 %	-43.56%	57.70%	51.01%	-0.91%	32.41%	121.84%		Sour-2
	Low	- 6.92 %	38.21 %	-44.28%	61.26%	43.59%	2.21%	28.75%	118.42%		Bitter
Industry average*		- 5.21 %	33.16 %	-43.45%	57.70%	41.62%	-3.38%	36.65%	110.45%	110.45%	Industry

\*Industry average is the average return of all sample funds in that year.

Table V shows that the cumulative return of portfolio of 7 years investment in “Sweet Spot” funds is much higher than that of the “Hot” funds. Though, it comes second to the “Umami-1” funds, the cumulative return of the Sweet Spot portfolio is higher than the rest 7 types of portfolio and is also higher than the industry average. The result shows that the average cumulative return of the low-risk group, which consists of the Sweet Spot, the Umami-1, and the Bland type, outperforms the average cumulative return of the medium-risk and high-risk group, which 136.61% is higher than 92.57% and 106.31%.

## 5. Conclusion and Future Study

This study offers three contributions to the financial study area. First, this study documents that a positive relationship between risk and return cannot always be expected from the Thai open-end equity mutual fund industry. The study found both positive and negative correlations when observing each individual year relationship, and there was a significant negative correlation of -0.299 when observing a long horizon of ten years, 2003-2012. To verify whether the phenomenon is country specific or not, the author encourages such examination in other mutual fund markets such as in neighboring countries.

Another contribution is that this study offers an alternative performance measurement. The methodology has produced a risk-return matrix of nine groups of fund performance and is proved useful in assisting investors to select the outstanding funds, as shown in Figure II and

in the simulation result in Table V. This Risk-Return Ranking Matrix performance measurement is easy to construct, less technical, and incorporates both risk and return into the measurement, which helps to eliminate the risk adjusted return issue that occurred in some holding-based measurements. The author hopes this *Risk-Return Ranking Matrix* will be a useful tool in mutual fund studies in the future, for example, the studying of the characteristic of these Sweet Spot funds can be used to identify the funds with high probability to be a successful funds in the future.

The third contribution comes from the result of the panel logistic regression. The significant positive coefficients of the idiosyncratic risk and fund age, and the significant negative coefficient of the number of funds managed by a company reveal something about fund characteristics. Idiosyncratic risk is related to a highly active fund (Amihud & Goyenko, 2013). It implies that an older actively managed fund under the supervision of a company, that manages fewer funds than its peers, could be a candidate as a Sweet Spot fund.

This study believes there could be several interesting subsequent studies. One is to extend the regression result, whether we could use these three characteristics from the regression to predict the future Sweet Spot funds. Future study could empirically examine whether funds that have those characteristics actually perform better than the industry. Second, since negative risk and return is documented, the study to examine whether holding a group of low risk funds will actually outperform a portfolio of high-risk funds can be another interesting study.

This study documented the unorthodox relationship, initiated some explanations to this unusual relationship, and proposed a new performance measurement. The author hopes that this study will encourage many subsequent studies, both theoretically and empirically, which will enhance the understanding of the mutual fund industry.

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# Forming Good Organization Culture ....Leading to ....Successful Organization Management

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## **Abstract**

This paper was conducted by reviewing relevant literatures from text books, academic journal, It could be summarized that The work environment in each organization is different as being the center for teamwork consisted of people from all walks of life with different ideas and attitudes. Therefore, working together in the same place may not be too easy, and the organization may aim for these employees to work in the same direction by developing the organization culture. Therefore, good organization culture is one of the key factor to drive the teamwork and united together for the same reason, which in turn benefit the performance and customers and suppliers or even stakeholders to see thing in the same perspectives.

**Keywords:** Organization culture, strategy, teamwork

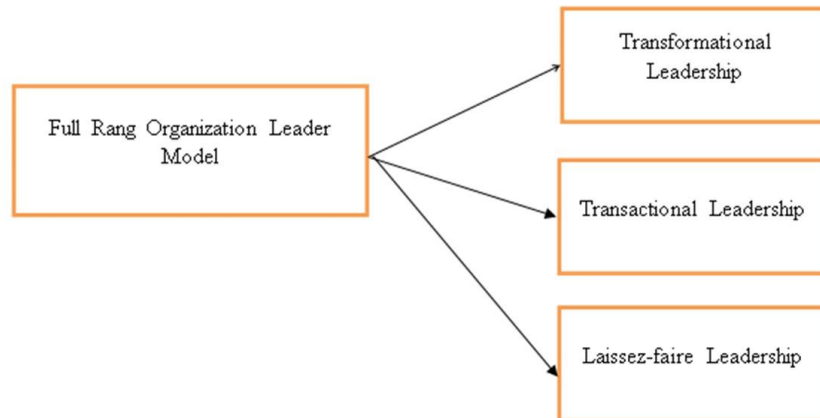
## **1. Introduction**

Organization Culture is the lifestyle of specific group that had been practiced for sometime from one generation to the next unite becoming the habit, tradition and cultures, norms, beliefs, values, including languages and objects. Cultures united people as one, forming a society with social order to regulate the normal existence. Cultures express in the ethical forms, values engaging in the decision-making or commanding. Organization culture is then extremely important to push the organization operation forward and resulted in social recognition. Therefore, it is necessary for all organizations to implement good organization culture in the administration as well as building teamwork in the organization, in which the organization that originated from people who following the order grouping together in systematic fashion. However, if we look carefully at each individual we should be able to form similar beliefs and values, leading to similar attitude, belief and values, so-called “Organization culture”. As being seen, to date, the study on “Organization culture” is quite popular due to social changes that created huge impact on the organization, which could facilitate operation in the globalization era until the organization able to down size its own organization and decentralize to other divisions or units. However, with the decentralization, the organization still maintains the connection or work cultures as the spiritual center for all employees so the organization and its employees are heading the same direction and thus working as a team.

## **Leadership and Organization Culture**

It has been widely known that leader is the most important key component of the organization success because the leader has the roles and direct responsibility to plan, command and organize the employees’ performance to achieve the set goal as planned. The concern of technocrats and general public is how the leader approached the subordinates to form special bond that they are devoted to the task and willingly completed the task, whereas, some leaders are not only failed to have his subordinates working to their full potential, they had developed the animosity and ready to expel the leader. Therefore, the organization leader must emphasize

on creating new values to increase employee's competency, directing at the employees work habit that could immediately respond to the organization's needs and eventually becoming the Organization culture. Furthermore, the leader has extremely important role to alter the organization culture. According to Bass and Aoolio (1994) who had presented model for the organizational leader in Full Range through the analysis component based on earlier model that had been presented in 1985. This model suggests 3 leadership types, namely, Transformational Leadership, Transactional Leadership and Laissez-faire Leadership as shown on Figure 1.



**Figure 1:** Leader Model in the Organization Full Rang Adapted from Bruce J. Avolio, Bernard M. Bass. (1994). Bass, B. M., & Avolio, B. J. (1994). **Transformational Leadership Development.** Pola Alto, California: Consulting Psychologists..

1) Figure 1 offers the following explanations: 1) Transformational Leadership is the process where the leader exerted his influenced over the subordinates and followers with the attempt to change and improve the ability of the co-worker and followers to higher perspectives, creating the awareness in the team mission and vision, thus motivating the followers and the co-worker to look beyond their own interests and directing at the group benefits, group or social benefits and 2) Transactional Leadership is the process where the leader used reward or punishment depending on the performance of followers. The leader would engage exchange process to motivate employees' point of views depending on the situation and motivation for the followers to practice and achieve the set goal. Meantime, the leader must clearly indentify the roles so that the followers could perceive the value of outcomes. The leader must learn what the followers should practice to achieve the desire outcome. The leader could motivate the followers by linking the need and reward with success as planned. Big reward is the extrinsic reward provided that the leader is fully aware of the needs of followers and 3) Laissez-faire Leadership is the process where the leader has not made any effort, lack of responsibility and involvement. When the followers need the leader's guidance, he is no where to be found. In addition, this type of leader has no vision regarding the organization as well as no clear direction. Meantime, Hesam Eshraghi et al., (2011) studied the relationships between the change leader and the leader of Manager of Physical Education Office in Isfashun. The finding suggest that many organizations at present had been changed abruptly to increase competitiveness. The essential aspect for this change is the organization employed staffs who could adjust to work environment and work effectively, having the system improvement as well as continuing to better the process, sharing the common goal to increase customer base and products. This study reveals that leader is the key factor in successful



management if he could inspire the employee apart from having vision and emotional quotient. These are the characteristics of change leader because actions weighted more for the organization employee and also the success of organization.

According to Elaine Wilmore (2007), the concept of teaches to improve instructions in the classroom and teacher responsibilities with leader roles in mind. Even though the formal roles of teacher are required, the new roles of teacher that included the leader are informal and derived mainly from the teaching experiences. These roles are as follows: 1) Sharing knowledge acquired in the classroom as well as exchanging own skills with others. 2) Constantly seeking self-improvement as well as being the mentor for new teacher 3) Being the model for cooperation. 4) Caring for own students and 5) Understand the conflict could happen during the course of school mission.

Meantime, Giles (2007) conducted the study over, "School Challenge : Relationships between leadership and learning organization." The findings suggest that leader model in the organization is necessary to make the school success in management because the leader is the one determining the direction of the staffs development, designing model and arranging instruction although the leader has to deal with organization learning through the complex structure, and main division. Moreover, the successful leader must motivate employee to learn and enhance the potential to work together. The outcome from learning should lead to the organization remodeling, including the auditing and modify the flaw from the past operation. In addition, it is the data for the management to make decision in the future. This is the characteristics of Transformational Leadership. Furthermore, Luaturo et al., (2007) studied the development of holistic leader: four key domains for being the leader in the development and effective practice. The findings indicates that the organization failure caused by poor leadership performance.

Therefore, there must be the training on leadership and initiative with clear scope and ability to analyze concept of Emotion and Spirit (ACES) of the leader, which comprise of four different domains as follows: 1) Analytical where the leader must be able to think, analyze and develop staffs in the organization to be experts at work, as well as possess ability to manage complex work and inconsistent, analyze the organization products, organization competitiveness, which requires a leader with a strong analytical skills. 2) Conceptual where the leader must have the expertise in dealing with complex management, with creative thinking and strong skills, including through understanding in managing. The leader must demonstrate to everyone in the organization his skills in extremely sensible thinking and 3) Emotional where the leader must be able to control own emotion and adjust to every situation well and able to manage other people's emotion when unavoidable confronting them. In light of the situation, he should be able to make use of the situation to bring about changes in behaviors of organization members to sum up, leader must possess skills or emotional quotient and 4) Spiritual where the leader must focus on the development with moral and ethic during the practice as the good example. The leader with high spirit must be willing to accept and share the values of organization staffs as well as perceiving the need of staffs.

The concept of Bass and Avolio (1994) had pointed out the interesting concept regarding the Transformational Leadership that it is the process when the leader exerted his authority over the co-worker and followers by making the effort to change and develop co-worker's competency to higher level, making them aware of the team and organization mission and vision. The leader would motivate the co-workers and followers to look beyond their own interests, instead focusing on the group benefits or benefits of the organization or society. In this process, the leader would influence the co-worker and followers through four specific components, namely, 1) having idealized influence, which refers to the leader acts as an example or a model for the followers and in turn he would earn praise, respect, faith and trust

from others as well as the followers would feel proud to work with such leader. In addition, the leader must put other's needs over own needs and share risk with the followers. The leader emotion must be stable and able to control his own emotion during the crisis. The leader must earn the trust from others that he had done appropriately as well as having high moral and ethical standard so that the followers would admire his actions and try to imitate the same way. The leader must not abuse his power for his own benefit, but instead acting in a way to benefit others and for group benefit. The leader would display his intellectual capacity, potential, intention and self-confidence, determination in his ideology, beliefs and values. The leader should gain the pride and loyalty of the followers and they would become his cohorts to share the same vision and objectives. 2) having inspiration motivation is defined as the leader would act in the way to inspire the follower by assigning the challenge tasks to the followers. The leader would create team spirit as well as displaying the enthusiasm and looking at things on the right side. The leader must be able to distinctively create and convey the message, including the devotion or bond toward sharing goal and vision.

The leader would display the confidence and reveal his strong intention to achieve the set goal as well as assist the followers to look across own benefit, aiming for the vision and mission of the organization only. The leader should assist the followers to develop long-term bond with their goals. Quite often, this creation of inspiration occurred on the individual level and concern on such level to make individual found self-valued and manage own problem effectively. As for the intellectual motivation, the leader could help the followers to manage own setbacks and find creative thinking path. 3) Intellectual Stimulation defined as the leader who constantly remind the followers of problems within the workplace so that the followers may want to find the solution or better approach, to create new and creative items by forming assumption, Reframing, observing problems and coping with the situation with new tactics, including the motivation and initiative ideas to solve problems. In addition, the leader should give full moral support to encourage the followers finding new solution as well as encourage the followers to express their opinions with sensible thinking and the leader should not criticize the idea of the followers, even it sounds different from the idea of the leader, the leader would make the followers feeling as if the problem is more of the challenge and presented him with the opportunity to solve problems together. The leader would build up the followers' confidence so that they would see solutions to every problem and thus they would overcome all obstacles from collaboration.

The followers would be stimulated to ask question on own values, trust, and culture as the important part of develop the followers' competency to be aware, understand and solve own problems and 4) concern on Individualized Consideration, where the leader would develop the relationship with the followers as the care giver individually so the followers would feel own value and importance. The leader would act as a coach and advisor of each follower to develop each one, but make sure that each follower's need had been met to achieve the set goal and advance in own career. The leader would treat the follower with respect and provide the opportunity for them to learn something new, including building the learning atmosphere and support by concerning individual differences in the necessities and needs. The leader's action indicated the acceptance on differences between individual. The leader should arrange two-way communication as well as encourage personal relationships. In addition, the leader should be interested when the individual showed sign of worried, regard as such individual as the acquaintance, instead of seeing them as an employee or a production factor. The leader must listen attentively with empathy as well as delegated work to train the followers and open for them to practice up to their full potential, learning new and challenged technique.

The leader must follow-up and provide the advice, support as well as help the followers to advance in his career and doing the job well, but never let the followers felt as if they had been under the surveillance, The leader must be able to develop the strengths and

eliminate weaknesses of each individual as well as providing the support for them to participate in the operation, which is considered as another duty the leader, quite challenge and consistent as well as building differences in education. Importantly, the leader must establish the knowledge management process in the organization to increase the competitiveness. Moreover, the research study of Ogbonna and Harris (2000) who studied the Leadership Style with organization culture and effective operational outcome among UK companies, the findings indicate that the leadership and organization culture were linking to the efficient operation. However, the connection between the leadership and efficient operation and the organization culture and efficient operation was tested independently, showing minor relationships between those factors.

The study also reveals the relationships between the leadership model and effective operation outcome from the medium namely, the organization culture, having the recommendations to manage the organization culture to remain, without any obstruction or accepting other cultures that may interfere with building teamwork and promoting the management with employee involvement in the organization. Robbins (2001) gave the opinion on the cultural management that it is the behavior of organization member and being part of the behavior, not formally set by the organization, instead it is the behavior that promoted organization efficiency, especially in the situation where work has not stopped changing and thus increasing more employee responsibilities. Therefore, one of the crucial roles of the leader is changing to good culture and in line with the context or workload of the organization member as well as ensure every employee work involvement. This concept is coincided with the idea of George and Jones (2002) gave his viewpoint on the cultural management that being the member of the organization beyond the roles and duties defined by the authorization could help the organization survival and success in set up the organization culture in which the leader should allow the employee's participation in building organization culture as well as building teamwork, job involvement and arranging the environment to favor the work that could be done in many ways by the organization should share knowledge and promote learning with definite plan for knowledge management, promotional plan for changing organization culture, performance, establish network with trade partners and internal network, including the community involvement, leading to international co-operation.

Furthermore, Ivancevich et. al., (2011) who studied the organization culture of the leading organizations found that the management and organization could create Productive culture through formulation of specific culture, with three components, comprised of Customer-service culture, Ethical culture and Diversity culture. Moreover, Xenikou and Simosi (2006) had studied the relationships between the transformational leadership and organization culture and performance. The findings suggest the relationships between those factors by culture focused in the success mainly. As for Kriengkraiyoed Punthai (2009) who had studied similar concept and found that transformational leadership and organization culture had the direct impact on performance. Therefore, the organization must create good organization structure by starting from the leader in the organization, in order to accomplish the management objectives.

### **Organization Culture and Successful Organization Management**

The current society is a learning-based society that considered knowledge as the adjust because changes occurred at all times and abruptly due to the unlimited technological development. New and sophisticated knowledge had been developed endlessly. Therefore, in order for the business to survive amidst the business turbulence, there must be the shift in paradigm and vision, management strategies and performance, including the organization structure and the most important the creative organizational structure and favored the teamwork. One of the most

important factor for the organization employee to gain knowledge and creativity is the organizational structure. Therefore, the organization leader must know and understand the organization thoroughly because it is comparable as the portion of the iceberg underneath the water. Then, the leader must learn to build and change organization culture in the positive direction in order to succeed and the organization culture would determine if the individual thoroughly understanding the right action and performance for the organization progress and thus own benefit (Black and Porter, 2000) by Daft & Lane (2002) gave his own opinion that the success of the business requires the leader to learn the nature and organization environment thoroughly to under the problems occurred within the organization. The more the leader understand the organization culture, the better for him to blend the values, beliefs and, including the necessary concept to reinforce the organization strength for successful organization, which could reflect the practice procedures of such organization. Therefore, creating or changing organization structure is to build or alter behavior of organization's members to be in the same direction, which could happen only if the management shows good role model the reflect the value and significant belief for the organization.

This finding is coincided with the study of Smith (2003) who stated that any management action must be scrutinized and interpreted by the organization members that it is important issue. Any action or practice of the management would reflect and develop into the organization value. Meanwhile, Obeng & Sakano (2000) gave his opinion that beside indentifying the vision and operational strategies, the management must always pay attention to the internal and external surroundings in order to improve the organization culture and operational strategies to match the surroundings environment, even though the organization culture is rather difficult to change. However, changes in the organization in some area may increase the effectiveness in the organization operation if the management understand which culture contributes to the organization success. Moreover, Robbins & Coulter (2002) proposed the guidelines for changing organization culture for the successful organization operation as follows: 1) analysis of current organization culture to understand all the component that needed changes. 2) Enhance the employees understanding that the operation could not survive if there is no changes 3) appoint the leader with clear vision to organize the change and 4) reorganize the organization structure appropriately. 5) build the new story tellers and rituals that would help promote vision to be known among the public and 6) alter the recruitment process and socialization, results assessment and incentive to support the values and new philosophy for building cultures. Somehow, the employees' involvement, Juliette Summers and Jeff Hyman (2005), who had studied the employees' involvement in the efficient corporation found the different impacts on involvement, even with different work environment, and performance measures could not alter the employees' attitudes.

Moreover, it was found that by allowing the employees' involvement, work barriers were subsided and performance become more effective. Meanwhile, the concept of Kim S Cameron & Robert E. Quinn (2006) mentioned work involvement as the Clan Culture, having work as a team and every employee participated in work or conducted different activities, whereas, employee's opinions were listened and the organization leader showed a good example with advice, assistance, support and facilitate each other. Therefore, a good organization would lead the organization to success because it helps for the employees to unite, especially, good organization culture would make employees developing strong bond and with team spirit that should lead to organization bond that would direct the member to the right path, appropriate activities. This way, they would know what should and should not be done. The organization culture is also the mechanism to control members' behavior as well as acting as transmitter of the unique identity and in turn differentiated the organization scope between each organization, affecting the organization effectiveness. When the culture created commitment, work involvement, the organization could adapt to the internal and external

environment and repeated the same action until becoming work coordination and could predict the incident that may happen (Piyawat Kaewkuntarat, search information from <http://www.thaihrm.com/articledetail.asp?id=2973> on March 5, 2016). Nonetheless, in creating or developing the organization culture, it is good to know the symbol that existed in such culture. Then, we would know the model of organization culture with latent definition, which could benefit the future growth of the organization.

## Conclusion

Organization culture is abstract but understandable and could be shared between the organization members and more influence on the work life of its members, which is made one organization differed from another. One organization could not copy this style, including the impact on the competency and survival of business in this globalization era with intense and turbulence competition. Therefore, the management should pay more attention to the organization culture to share the same work values and make it more tangible, deploying both tangible and intangible resources, boost up the employees' morale and develop the proper work guidelines to achieve the maximum benefit for the organization.

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# Integration of Organic Foods into Thailand's Hotel Industry as Opportunities

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## Abstract

With greater demand for organic foods worldwide, organic foods have become “opportunities” for many businesses, from local producers, restaurant operators, exporters to hotels. This paper discusses the potential opportunities underlying integration of organic foods into hotel businesses given the wide-ranging benefits of organic foods for producers, consumers and the environment. Organic foods usages in hotel industry abroad and in Thailand are exemplified to identify numerous ways organic foods can be applied to add-values to hotel businesses. Organic foods correspond to hotel guests' higher expectations and demand for healthier diet and lifestyle, improve life quality of marginal organic farmers, promote sustainability, and for hotels, they enhance the “green”, “responsible” and “sustainable” brand image as well. This paper recommends application of “Five C's of Sustainability Branding” concept to maximize effectiveness of organic foods usage in hotel businesses; and incorporation of organic foods education into hospitality-related studies to foster positive awareness and accurate understanding of organic foods' values among consumers and producers within hotels' value chain and beyond. The latter is particularly essential to overcome challenges impeding organic growth in Thailand.

**Keywords:** organic foods, organic foods production, organic foods usage, hotel industry

## 1. Introduction

Organic food is one of the most rapid growing sectors in the global food industry, and one of the biggest food trends over the past decade. According to “The World of Organic Agriculture: Statistics and Emerging Trends 2015”, a world organic agriculture condition report by the Research Institute of Organic Agriculture (FiBL) and the International Federation of Organic Agriculture Movements (IFOAM), the global organic foods market value has reached US\$ 72 billion by the end of 2013 with more than two million organic producers worldwide. (Willer & Lernoud, 2015). This trend will persist due to consumers' increasing concerns for improving overall health, rising awareness on organic foods' benefits, expanding organic farming in the world, more retailers providing a variety of organic products and implementation of government regulations that support organic foods production. (Singh, 2011; Willer & Lernoud, 2015).

While organic food standards vary worldwide, organic food is generally defined as a food produce of organic farming. According to Green Net/Earth Net Foundation, organic foods contain high nutritional values and are safe as they are produced without synthetic pesticides, chemical fertilizers, food additives, antibiotics, hormones or other genetically modified ingredients. (“Nine Reasons to Consume Organic Foods,” 2012) Use of food irradiation, industrial solvent and synthetic additives are prohibited in all organic foods production processes, and therefore unlike conventional farming which relies on chemicals, organic foods do not pose any health risks. (“Nine Reasons to Consume Organic Foods,” 2012) Furthermore, organic foods production promotes sustainable usage of earth's natural resources without harming the ecosystem, resolves climate changes, and eradicates local poverty small marginal farmers in developing nations are facing. (“Nine Reasons to Consume Organic Foods,” 2012)

Today, consumers can purchase organic foods more easily due to their increased availability in supermarkets, local stores and marketplaces globally. In hospitality sector, we are spotting organic foods being offered in restaurants, catering businesses, hotels, hospitals and even nursing homes. In many Nordic countries, catering organic foods at cafeterias at schools and public organizations has become the norm. (Mikkelsen, Kristensen & Nielson, 2002) Hotels, as major hospitality providers, can surely benefit from this trend by integrating organic foods as hotels' products and services.

This paper aims to shed light on the opportunities of integrating organic foods into Thailand's hotel industry for hoteliers. Benefits of organic foods as value-adding qualities for hotel businesses will be exemplified through various hotels' real practices. Effective application of organic foods through "Sustainability Branding" will be discussed, and challenges in applying organic foods to Thai hotel sector will be analyzed. Finally, this paper recommends more studies on the values and challenges of offering organic foods in the Thai hotel industry and other Thai hospitality sectors, and propose integration of organic foods education into hotels and hospitality related studies.

## **2. Research Methodology**

This research study employs qualitative approach, using secondary data for documentary review. According to Sekaran, (2003) secondary data refer to information gathered by someone other than the researcher conducting the current study. In this research data are obtained from both public and private sector, including journals, books, government publication of economic indicators, and internet. These secondary data reveal the demand for organic foods worldwide and are very useful to form an understanding on the potential opportunities underlying integration of organic foods into hotel business. There are many benefits of using secondary data. It is less time consuming. It requires data selection, instead of data collection. Many documents are in public domain, such as internet and journal. (Bowen, 2009). Thus, they are freely accessible without the need to come to an agreement with the holder of documents. Another advantage of using secondary data sources is saving in costs of acquiring information. (Sekaran 2003). Despite these merits, documentary research has a number of limitations such as biased information and the lack of credibility and reliability on data gathered through secondary sources.

Analysing the data found in research can not only help suggest conclusion, but also our own understanding of the bigger picture. This study would make sense of data collected using grounded theory. It involves inductive and interpretative; developing novel theoretical ideas based on the data. (Howie, 2010)

## **Overview of Organic Foods in Thailand**

In Thailand, the government has been pushing "Organic Agriculture" as one of its major National Agendas for agricultural development since October 2005. (Chinsathit, 2012) It reserved as much as 1,216 million baht (US \$ 39 million) as organic farming promotion budget between 2005 and 2009 to reduce agro-chemical usage in conventional farming. (Chinsathit, 2012) Policymakers believe that safe organic foods production for national export is vital for national development, and that continuing chemical usage in farming will only cause serious health consequences to consumers and producers. (Chinsathit, 2012) Along with the Ministry of Agriculture and Cooperatives, different Thai government agencies, namely the Thai Health Promotion Foundation and the Ministry of Commerce, have been strong promoters of organic foods production and consumption in Thailand. (On, 2014; Daily News, 2014)

With the government's strong supports, the organic food sector in Thailand, which primarily consisted of rice, vegetables and fruits, has been expanding steadily in the past decade. (Chinsathit, 2012) Department of Agriculture of Thailand has reported that domestic

organic agricultural foods production had also increased dramatically from US \$ 0.8 million in value in 1992 to more than US \$ 65 million in 2011. (Chinsathit, 2012) Corresponding to this, the ministry also has reported that Thailand's organic agriculture land had expanded by almost 19 times from 2,483 acres in 1998 to 46,689 acres in 2009. (Naewna, 2010) Study by Green Net/Earth Net Foundation confirmed that more organic produce can be found in Thailand's major supermarkets such as Central Department Stores' Tops Supermarkets, Siam Paragon Food Hall and Supermarket, Foodlands and Villa Markets. Smaller health foods stores such as Lemon Farm and Green Line also carry organic produce. ("Organic Products in Thailand," 2012) Although Thailand's organic sector is proportionally small compared to its conventional food sector, and although majority of Thais consumers continue to purchase conventional foods, we can still expect to see more organic foods in Thai markets, restaurants and even hotels in the future.

### Benefits of Organic Foods

Why are more consumers opting for organic foods? **The first reason is that they are safer than conventional foods.** Organic produce is perceived to be safe for consumption because it contains lower levels of toxic metals, chemicals, pesticides, antibiotics, food additives and growth hormones that are commonly found in conventional foods. ("Nine Reasons to Consume Organic Foods," 2012) All organic production processes do not utilize toxic, chemicals, antibiotics and other unsafe ingredients. Harmful food processing techniques such as irradiation and bleaching are also unpermitted. ("Nine Reasons to Consume Organic Foods," 2012) In an interview with an organic beef expert Asst. Prof. Dr. Suriya Sawanon of Kasetsart University, Thailand, the professor has explained that organic livestock products are safer options to conventional meats because organic animals are raised without antibiotics or growth hormones nor are they processed with food preservatives or coloring. (ASTV Online Manager, 2010)

**The second reason consumers choose organic foods is because organic foods promote good health.** Organic foods are more nutritious and richer with essential vitamins, omega and amino acid that are significant for developing and maintaining good health. ("Nine Reasons to Consume Organic Foods," 2012) They do not contain genetically modified ingredients, growth hormones and other unnatural substances, nor do they undergo numerous food processing steps that can threaten one's health. ("Nine Reasons to Consume Organic Foods," 2012) In addition, according to a study on differences between organic and conventional fruits, vegetables and cereals, led by Prof. Carlo Leifert of Newcastle University, United Kingdom, organic foods are confirmed to contain "substantially higher" level of antioxidants —ranging between 19% and 69% and therefore are healthier. (Carrington and Arnett, 2014) **The third reason consumers prefer organic is for their good taste.** Many are convinced that organic vegetables and fruits are more delicious than conventional foods since they contain little to no bitter chemical residues, and are free from preservatives and artificial ingredients that deplete the sense of freshness. (Sangkumchaliang & Huang, 2012)

**The fourth reason behind consumers choosing organic is the fact that organic foods production promotes ethical treatment of animals and helps sustain the environment.** Organic livestock is let free to roam in spacious natural environment outdoor unlike animals in industrialized food factories that are raised in closed environment. (ASTV Online Manager, 2010) As for organic crops, they are grown through organic agriculture methods that help preserve soil quality and water usage, enhance bio-diversity and stop global warming. ("Nine Reasons to Consume Organic Foods," 2012) According to the Food and Agriculture Organization of the United Nations (FAO), crop rotations and usage of organic fertilizers in organic agriculture improve soil formation and productivity, and enhance soil

retentive abilities for nutrients and water. (Food and Agriculture Organization of the United Nations, 2015) Replacing chemical fertilizers and pesticides with organic fertilizers can reduce water pollution faced in conventional agriculture and can enrich nature's bio-diversity; abundant bio-diversity will consequently enhance crops' immunity to pests and lead to greater environmental sustainability. (Food and Agriculture Organization of the United Nations, 2015) Eliminating agrochemical needs in organic agriculture will lower non-renewable energy usage, and organic agriculture practices such as "returning crop residues to soil" and "the use of cover crops and rotation" will increase the return of carbon to the soil, which will allow for greater "mitigation potential of agriculture against climate change". (Food and Agriculture Organization of the United Nations, 2015)

**The final reason consumers purchase organic foods is in the interests of supporting small-scale marginalized organic farmers and promoting fair trade.** Organic food producers are guaranteed higher price for their products due to organic foods' greater market value, numerous health benefits, their labor-intensive production, and greater attention and care necessary for successful organic farming. (Chinsathit, 2012) Organic farming proves to be a fair and profitable business that can help improve the livelihood of many small-scale local farmers. (Chinsathit, 2012) At the same time, it helps lower wealth disparity between small-scale marginalized producers and large multinational food conglomerates, and protects farmers against health risks from agro-chemicals and pesticides usage in conventional farming. ("Nine Reasons to Consume Organic Foods," 2012; Chinsathit, 2012)

#### **Integration of Organic Foods into Hotel Industry as Opportunities**

Many hotel operators are addressing organic foods' benefits and accommodating consumers' stronger demand for them by integrating organic foods into their businesses as hotel products and services. **One way organic foods are integrated into hotels is by being served in hotels' restaurants.** In an interview with Brian Povinelli, SVP Global Brand Leader for Westin and Le Meridien, Mr. Povinelli has stated that healthy and organic foods are now being expected by and provided to guests in their hotels' menus. (Rudnansky, 2014) Novotel Hotels in Australia are said to also increase hotels' usage of organic foods. In order to fulfill Novotel's "Designed for Natural Living" brand promise, it introduced a new, healthier breakfast buffet, consisting of organic items such as "organic banana bread, organic fruit compotes, organic toasted muesli and organic jams" as minimum Novotel breakfast buffet standard. (Gee, 2010)

Another example is the Four Seasons Hotel, California. Every weekend, the hotel organizes a healthy "Weekend Interactive Farmers' Market Breakfast" featuring local organic dairy goods and other produce from local farms to promote local produce and healthy eating habits. ("Travel Trend: Kids Eat Healthy at Four Seasons," 2014) As part of the breakfast, children are allowed to collect their own organic vegetables and learn about organic produce at nearby local farms. ("Travel Trend: Kids Eat Healthy at Four Seasons," 2014) Similarly, North American Hyatt Hotels and Resorts started to offer children guests "For Kids By Kids" 3-course organic meals to promote healthy eating and to lower obesity in children. (Goldberg, 2012) In Europe, the Scandinavian based hotel chain "Scandic Hotels" also began using organic foods in their restaurants. (Mikkelsen, Kristensen & Nielson, 2002) All of these initiatives not only serve to satisfy customers' demand, but they have contributed to enhancing the hotels' "green, responsible and sustainable image".

In Thailand, some hotels are now offering organic foods. The Bangkok upscale Grand Hyatt Erawan Hotel, for example, cooperates with an organic farm owner in Nakhon Ratchasima Province in growing over 60 types of organic vegetables on over 39 acres of organic farm land. (Khaosod, 2011) This "Organic Farming" project is being implemented with an intention to create the hotel into a sustainable "green hotel" by procurement of organic vegetables from the farm to serve to guests. This project has created jobs for local people living



near the farm. (Khaosod, 2011) While some hotels in Thailand like the Grand Hyatt serves organic produce regularly as standard, some hotels like Dusit Thani Hotel Bangkok serves organic foods as a special event. In 2014, the Dusit Thani Hotel organized an “Organic Food Buffet” luncheons to attract healthy eating guests. (Banmuang, 2014) In addition to serving organic foods in hotel restaurants, a resort like Outrigger Laguna Phuket Beach Resort, Phuket Province, also grows their own organic vegetables and herbs garden in the hotel’s property. (Rudnansky, 2014)

**Another way, organic foods are integrated into hotel businesses apart from for dining is as special, creative activities for guests.** At Thailand’s Sampran Riverside Hotel, Nakhon Pathom Province, guests can take the hotel’s organic farm tour to observe planting of organic vegetables, herbs and fruits that will be served at the hotel. They can also pick up organic produce from the farm for the hotel’s cooking lessons and enjoy fresh organic herbal tea. (“Organic Farm,” 2015) A second example is AoTearoa Organic Farm & Resort at Ratchaburi Province, Thailand. This small resort offers organic food tasting activities, and organic vegetables and organic rice farming experiences. Another interesting resort in Thailand that implements organic food activity is Hansar Samui Resort, Surat Thani Province. The resort plants its own organic vegetables garden to serve at the hotel and organizes a charity bazaar event to sell its yield to hotel guests and local community in order to raise funds to assist local school and temple. (Tuppen, 2015)

Integrating organic foods into hotel businesses is a significant strategy for attracting growing numbers of health-conscious customers who desire safe, nutritious and tasty dining. At the same time, organic foods protect the environment from pollution and climate change, improve bio-diversity, reduce carbon footprints and encourage sustainable usage of natural resources.

### **Effective Integration of Organic Foods into Hotels through the “Five C’s of Sustainability Branding”**

For hoteliers, another direct advantage of integrating organic foods into hotel businesses is the enhancement of hotels’ corporate image and brand as “green”, “socially and environmentally responsible” and “sustainable”. In order to articulate effectively all the benefits, “the greenness” and the added-values of offering organic foods and related services, hotels must apply “Five C’s of Sustainability Branding.” This concept constitutes the five qualities for successful “Sustainability Branding”, which was developed by Marc Stoiber, President and Founder of Change, a brand agency in Vancouver, Canada. (Maddock & Vitón, 2010) “Five C’s of Sustainability Branding” can be applied to present and promote organic foods usage in the hotel industry in the following ways;

1. **Competitive** – Organic foods are sustainable in the ways their production utilizes natural resources and preserves the environment; thus, making them “competitive”. There are rooms for more innovative creations with organic foods production and presentation. Although organic food choices are still limited in Thailand, great varieties of organic food products can be produced, and there are many more new innovative organic recipes that can be created by hotel chefs.
2. **Consumers facing** – “Greenness” branding must be easily visible to consumers to be effective. (Maddock & Vitón, 2010) Therefore, in terms of hotel industry, hotels must clearly indicate their offering of organic dishes and the benefits of organic foods they serve. These could be presented in the menus along with the numbers of carbon footprints reduced for each dish. Dining tabletops, for instance, can be adorned with “organic” and “eco-friendly” items, namely placemats, napkins or even on plates and cups. Hotel’s organic foods offerings and benefits should be clearly noticeable to

consumers, whether in hotel's facilities and on hotel's webpage. Organic certification labels, if available, should also be displayed.

3. **Core** – Tying sustainability to brand's core business is crucial. (Maddock & Vitón, 2010) For hotel businesses, which primarily offer hospitality, accommodations and leisure, organic foods are directly tied to hotel's core businesses. Beyond hotel restaurants, organic foods can also be used to accommodate hotel guests in other creative ways. For instance, hotels can offer organic juices, teas or coffee as welcome drinks or as complimentary gifts, or they can provide organic snacks and drinks in hotel rooms' mini bars. In this respect, organic food is an excellent strategy to express that the hotel is attentive to their guests' well-being and the future of their planet.
4. **Conversational** - Effective "Sustainability Branding" of organic foods in hotel industry must involve two-way communication, rather than one-way, in order to express honesty and transparency. (Maddock & Vitón, 2010) This entails disclosing what the hotel is doing well with organic foods and what could be improved. Hotels will benefit by blogging about organic foods on their homepages and other social media outlets such as Facebook, Twitter, Instagram or online communities. They can also incorporate organic foods promotion in their daily operations such as by simply standardizing hotel waiters to introduce and recommend organic foods and their benefits to guests. Hoteliers may also want to question or conduct surveys with guests prior to check-out to examine customers' satisfaction with hotels' organic foods offerings.
5. **Credible** – For effective "Sustainability Branding" of organic foods in hotel businesses, hotels must carry out organic food initiatives first before publicizing them. This strategy will strengthen hotels' credibility, and "credibility paired with innovation that excites", namely new organic foods recipes or related activities, "and communication that clarifies and engages-- is the key to sustainable brand success". (Maddock & Vitón, 2010)

### **Challenges of Integrating Organic Foods into Thailand's Hotel Industry**

Despite the long list of organic foods' benefits to consumers and hotel businesses, and despite the global public's greater demand for them, organic foods production and consumption in Thailand are still small-scale compared to that of conventional foods. (Sangkumchaliang & Huang, 2012) There are yet many challenges to integrating organic foods into Thailand's hotel industry. **The first challenge is the premium price of organic foods in Thailand.** (Sangkumchaliang & Huang, 2012) In Tops Supermarkets in Thailand, prices of organic fruits and vegetables are approximately 13% to 50% higher than prices of conventional food products. Many hotels in Thailand are reluctant to use organic ingredients due to organic goods' premium price, and many consumers decided not to purchase them seeing that they are more costly.

**The second challenge of adopting organic foods into hotel businesses is the lack of organic foods' assortment and availability in Thailand.** (Chinsathit, 2012) One cause of this is that there are still few organic suppliers in Thailand. Many Thai farmers are not taking up organic farming due to lower average yields per unit area of organic farms compared to conventional farming, and also due to the greater time, care, efforts and labor forces required for production. (Chinsathit, 2012) Conversion to organic farming is also not simple; it requires scientific knowledge on organic farming and strong cooperation with stakeholders which most Thai farmers currently lack. (Chinsathit, 2012) Moreover, securing organic fertilizers in large quantity for organic farming is difficult. (Chinsathit, 2012) Current high prices of many conventional crops in Thailand such as durian, banana and longan also discourage organic farming. (Chinsathit, 2012) Another cause of limited organic foods' availability is the low quality of plant varieties and organic seeds in Thailand. (Chinsathit, 2012)



**The third challenge for organic foods' growth in Thai hotel industry is the lack of accurate understanding and knowledge about organic foods among Thais.** One study on Thai consumers' perceptions towards organic food produce has revealed that "consumers know very little about the production process, as there is no identification with the product and its producer", thus lowering consumers' confidence in organic production and products. (Sangkumchaliang & Huang, 2012) The study also has found that majority of Thai consumers are still confused and cannot clearly distinguish between organic labels, safe food labels and hygienic food labels. (Sangkumchaliang & Huang, 2012) It was also revealed that "over 50% of organic buyers distrust the authenticity of organic food products in that they are not sure that they are genuinely organic", and lack of knowledge about organic foods prevents decision to purchase. (Sangkumchaliang & Huang, 2012)

To overcome challenges to successful integration of organic foods into hotel businesses, all stakeholders must cooperate to transfer knowledge and raise awareness about organic foods. Producers and consumers alike must be educated about the sustainable benefits and added-values of organic foods to health, quality of life, businesses, economy and the planet. Government, educational institutes and all concerned private sectors play pivotal roles in educating and enabling conventional producers to successfully convert to organic farming. (Chinsathit, 2012) In addition, they are essential partners in raising awareness and enhancing knowledge about organic foods to consumers. These are some actions to undertake to generate consumers' demand and new organic food suppliers.

In addition to educating producers and consumers, organic foods education should be incorporated into hospitality-related curriculum, such as hotel management and culinary arts studies, in order to enhance and promote the usage of organic foods in hotel industry. More studies on usage of organic foods in Thai hospitality industry should be conducted as Thailand's hospitality and tourism sector is continuously expanding and represents one of the main generators of Thailand's national economy. Scholars of marketing too can investigate further the patterns of reasoning consumers use for organic purchase. "Mastering and disseminating more profound discursive patterns about local and organic food would allow engaging in conversations and negotiations with suppliers and customers", thus enhancing hoteliers' ability to effectively manage procurement, food and beverages preparation and marketing for the hotels. (Mikkola, 2012)

Thailand's hospitality providers, whether hotels, restaurants, hospitals, nursing homes, public catering or even airline inflight-services, can mutually benefit significantly from the value-added, innovative and sustainable qualities of organic foods through organic foods education. Further studies on values of organic foods for hotel industry, and on effective and innovative ways to apply organic foods to Thailand's hotel industry should be further examined.

### **3. Conclusion**

Growing numbers of consumers perceive organic foods as safer, healthier and tastier. Unlike conventional farming and industrialized food productions, organic producers raise animals ethically and practice organic farming standards that protect the environment. In addition, organic farming raises incomes, and enhances the livelihood of small marginalized farmers given organic produce's higher prices. These organic foods' benefits add values to the hotel businesses in forms of hotel's food offerings such as "special organic breakfast" and as hotel's recreational activities such as organic farm tour, organic foods planting and cooking activities. Organic foods are clearly beneficial to producers, consumers and hotel businesses. Hotels, especially, can maximize the effectiveness and benefits of organic foods usage in their businesses by incorporating the "Five C's of Sustainability Branding."

Despite high price, lack of availability and public's insufficient knowledge and awareness on organic foods, greater knowledge transfer to producers and consumers is key to enhancing organic foods production and consumption in Thailand. Supportive government along with educational institutes are particularly essential in raising awareness and cultivating producers' and consumers' positive perceptions towards organic foods. Incorporation of education on organic foods into hospitality-related studies, namely hotel management and culinary arts, can help popularize organic food usage in Thailand's hotel industry. This will open up new opportunities to uncover more about the values of organic foods in hotel businesses, best practices, success factors and challenges of organic foods usage by hotels in Thailand. More understanding about organic foods and their increasingly significant roles in hotel businesses are essential not only to hotel industry, but other hospitality providers can also learn to integrate organic foods into their businesses in order to add "green, responsible and sustainable" values to their products and services.

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# The Effect on Thai Frozen Shrimp Industry after AEC Implementation

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## Abstract

As the AEC implementation is now in full effect, all the country members must adjust themselves to the change of business environment. We are talking about the new rules of running business, new perspective of directing the business, larger market and demand of products. Under the concept of the AEC which is “One Vision, one identity, one community”, there are a lot of changes that need to be explored and scrutinized very carefully. It is obvious that with the new opportunities arise from the implementation of the AEC there will always be the adverse downside effects. Being one of the members of ASEAN, Thailand is no exception to adapt itself to the change and the challenge of the new way of doing business. Aside to the preparation of the government sector to the introduction of AEC in late 2015, private sector must also prepare itself to this challenge as well. This piece of study will only specifically focus on one of the country’s major export which has been generated vast income to the country for the past decades. The author wishes it will be useful for the current frozen shrimp entrepreneurs to study and adjust themselves to the changes.

**Keyword:** Thai Frozen Shrimp Industry, AEC

## Introduction

Thailand has been the leading country in shrimp production since 1991 and ranked first among the ASEAN members. The country exports more than 350,000 tons per year( average number for the past ten year) with the average value of Baht 60,000 million(US Dollar 1,500 million) per year. As being a long time player in the shrimp export, with the 30-year experience Thailand has moved away from the conventional fishing which relies solely from the sea products to the on-land farming. Thailand has adjusted itself to develop the new breed of shrimp to withstand the disease and epidemic. In 2016 the country forecasts the ton 600,000 production of which 80 percent will be exported to its main markets which are The US, Japan, Canada and Vietnam. Shrimp becomes the popular health product and elastic to price increase.

The main objective of this research is to analyze and compare the effects on Thai Frozen Shrimp Industry after AEC implementation based on the interview with Thai Government officials and the selective shrimp and frozen shrimp exporters in addition to the Secondary survey based approach. The study will focus on the competitiveness of Thailand compared to the other ASEAN countries using the SWOT analysis, Market Occupation Ratio (MOR) and Reveal Competitive Advantage (RCA). It also provides the recommendations to Thai Frozen Shrimp entrepreneurs to adjust their business strategy to cope with the changes.

## Secondary Data sources

Secondary data are sourced from various government agencies, a number of publications, and industry associations such as Thai shrimp association, Thai frozen food association (TFFA).

## Current situation of Thai Frozen shrimp industry versus other ASEAN countries

### Tier-3 Issue

On June 20, 2014 The US foreign department issued the TIP (Trafficking in Persons) report downgrading Thailand from tier 2 (watch list) to tier 3 country the worst classification in human trafficking activities, primarily as a result of the evidence that Thailand has been using the illegal foreign labor particularly the child workforce. The fishery industry is the culprit to the charge with use of Burmese labor illegally and accordingly the frozen shrimp industry is the most hard-hit. All fishery products from Thailand are being sanctioned to enter the US market which accounts around 40 percent of the overall fishery product export value.

### **Epidemic on Shrimp Farming**

EMS (Early Mortality Syndrome) was first found in China in 2009 and expanded to Vietnam in the following year. Malaysia was the next target and not until 2011 the first EMS case was found in the Eastern part of Thailand. The full blown of EMS in Thailand was in 2013 when the annual country shrimp production was severely dropped from ton 472,881 in 2012 to 260,000 in 2013. The 45 percent decrease in shrimp production caused Thailand to lose its status as the number one frozen shrimp exporter to the US market to India for the first time at 16.4 percent share while India captures the first slot at 18.7 percent. Unfortunately as the supply shrinks, the price of the white shrimp soared by 61.9 percent and worsened the frozen shrimp export further. Thailand also lost its share in other major markets. In the first 11 months of 2013, the frozen shrimp export value to the US, Japan and EU was down by 39.5 percent, 28.3 percent and 44.0 percent respectively. Despite the upgrade in the product to emphasize on the premium market, the situation still persists. However the country is able to put the EMS under control and the production of the shrimp is expected to be back to normal in 2016.

## SWOT Analysis of Thai Frozen shrimp industry

### Strengths

- Possessing Expertise and Long-term Experience in Shrimp Farming.
- Favorable Climate and Geology for All Year Long Shrimp Farming.
- Possessing Standard Processing Plants with High-quality Skilled Labors.
- Thai Shrimp Products are Well Diversified and Being Well Accepted

### Weaknesses

- Cancellation of GSP.
- Heavily Rely on Imported Raw Materials.
- High Labor Cost Comparing With China and Vietnam.
- Shortage of Labor in Industrial Sector.
- Labor Cost and Other Processing Costs are on the Rising Trend.

### Opportunities

- High Demands on seafood products worldwide especially Thailand's major Customer, The United States whose economy is starting to recover.
- Drastic decrease of production from Thailand's competitors due to Natural storm and shrimp epidemic.

### Threats

- Shrimp exports are more costly and less competitive.
- Unfavorable economy of the EU countries
- Weaker in Euro dollar directly softens their purchasing power.
- Substandard in environmental management control which lowers the shrimp production.
- High transportation cost
- No frozen shrimp import quota creates fierce competition

### Market occupation ratio (MOR)

The market occupation ratio can be represented by the percentage of shrimp exports from one country to that of the world. Table 1 shows the shrimp market occupation ratio of Asian major shrimp producers from 1990-2003. Comparing the average market occupation ratio in 1990-2003; the result show that Thailand had the largest market occupation ratio (21.9%) of the world shrimp market, followed by Indonesia, India, and China of 8.8%, 7.5% and 4.9%, respectively. Since 1990, Thailand has lead shrimp exportation to the world.

Table 1. Shows MOR of Asian major shrimp production countries (1990-2003) (%)



Year	Bangladesh	China	India	Indonesia	Malaysia	Philippines	Thailand	Viet Nam
1990	2.2	10.0	4.9	9.4	1.7	3.2	14.4	1.6
1991	1.9	6.9	6.3	9.9	1.9	3.7	17.9	2.3
1992	1.8	7.7	5.9	9.3	1.7	2.8	20.5	2.8
1993	2.2	4.9	7.3	10.0	1.5	2.8	23.2	3.3
1994	2.8	3.9	8.3	9.5	1.5	2.6	25.7	3.4
1995	2.8	3.4	6.8	8.9	1.5	2.1	26.6	2.9
1996	2.9	2.2	7.5	8.8	1.4	1.6	25.5	2.7
1997	2.4	2.7	7.9	8.6	1.6	1.3	24.7	3.9
1998	2.5	2.3	7.7	8.7	0.9	1.3	23.4	4.6
1999	2.5	2.5	8.3	8.0	0.9	1.5	24.3	5.1
2000	2.9	3.5	8.5	8.9	0.9	1.4	25.4	6.2
2001	3.2	4.4	7.8	8.6	1.1	1.2	21.5	7.5
2002	2.6	6.1	9.1	7.9	2.0	1.6	17.3	9.2
2003	2.7	8.1	8.2	7.2	1.1	1.2	15.8	9.7
Average	2.5	4.9	7.5	8.8	1.4	2.0	21.9	4.7

Source: Calculated through the data from FAO, Fish stat plus

### Revealed comparative advantage (RCA)

Revealed comparative advantage (RCA) is based on observed trade patterns. An increase in the value of RCA means an increase in a country's competitiveness in a commodity. It can be computed by the formula below:

$$RCA_{ik} = (X_{ik}/X_i) / (W_k/W)$$

Where  $RCA_{ik}$  represents  $k$  commodity in country  $i$  has the revealed comparative advantage,  $X_{ik}$  is exports of commodity  $j$  by country  $i$ .  $X_i$  is the total exports by country  $i$ ,  $W_k$  is the world total exports of commodity  $k$ ,  $W$  is the world total exports of all commodities.

If  $RCA_{ik} > 1$ , it shows that the exports by the country is focused on few commodities, and it has a comparative advantage on that commodity;  $RCA_{ik} < 1$ , indicates that the country has wide trade commodities range, and it has no comparative advantage on the particular commodity.

In table 2, the RCA of shrimp in major Asia shrimp production was calculated. Thailand, China, Indonesia and Philippines have significantly decreasing RCAs, whilst India, Viet Nam has retained the same level of RCA. For Bangladesh the RCA increased since 1998. Malaysia has the lowest RCA among Asian countries, with an average of 1.14. The decreasing RCA in Thailand and China showed a significant losing of comparative advantage for shrimp products, and could be related to a major shift in the species culture.

Year	Bangladesh	China	India	Indonesia	Malaysia	Philippines	Thailand	Viet Nam
1990	1.20	206.90	9.54	12.59	2.00	13.61	206.54	23.12
1991	0.93	143.39	12.45	11.94	1.96	14.92	301.45	39.39
1992	0.81	138.66	11.37	10.34	1.58	10.71	298.60	40.59
1993	0.92	72.45	12.81	10.24	1.17	9.42	293.38	41.13
1994	0.98	58.02	14.29	10.23	1.07	8.30	274.40	36.20
1995	0.96	50.55	11.38	10.11	1.05	6.30	251.62	27.26
1996	1.04	27.79	12.23	9.48	0.99	4.13	189.15	20.16
1997	0.75	31.50	12.57	8.56	1.17	2.83	150.03	23.64
1998	26.80	0.69	12.67	9.85	0.76	2.46	24.04	26.95
1999	25.41	0.73	12.72	9.26	0.59	2.25	23.41	24.83
2000	29.00	0.90	12.74	9.15	0.62	2.18	23.40	27.22
2001	32.59	1.01	11.00	9.36	0.75	0.97	87.46	0.08
2002	27.39	1.21	11.89	8.93	1.35	2.79	16.16	35.84
2003	28.47	1.38	10.98	8.87	0.85	2.36	14.74	35.94
Average	12.66	52.51	12.05	9.92	1.14	5.95	153.88	28.74

Source: WTO database and FAO, Fish stat plus

Table 2. RCA of Asia major shrimp producers, 1990-2003.

In 2003, the total trade value of frozen shrimp and PUD shrimp was US\$ 9.15 billion, and was about 14.8% of total aquatic products trade. Based on the available data market occupation ratio (MOR), the revealed comparative advantage (RCA) for shrimp in the Asian countries, Thailand had the largest MOR (21.9%) of the world shrimp market, followed by Indonesia, India, and China of 8.8%, 7.5% and 4.9%, respectively.

The RCA for Thailand, China, Indonesia and Philippines have significantly decreased, whilst India and Viet Nam has retained the same level and for Bangladesh the RCA increased since 1998.

Analysis of the Thai Product' Competitiveness (Frozen Shrimp) with the world after the AEC implementation



#### Attractiveness Factor

5 year average World Shrimp Import  
(2007-2011)

5 year average Thailand Shrimp Export  
(2007-2011)

#### Weight

5.83%

11.65%

### **Recommendations**

There needs to be a strategy change in manufacturing and marketing in order to compete with the other countries in the Association of Southeast Asian Nations (ASEAN).

#### 1. Expanding Thailand's production and marketing bases into ASEAN

1.1 According to the above chart, it is certain that shrimp farming in the future will turn into a success after the implementation of AEC. Cold storages for post farming are recommended to migrate to neighboring countries that have tax privileges and low laboring cost such as Laos, Myanmar, Cambodia, and Vietnam, whereas Thailand will only serve as the shrimp's production base with professional farming technology and will only export raw material for the cold storages and factories in the neighboring countries.

1.2 By expanding the production and marketing bases, Thailand has to take the monetary barriers of each country into consideration, such as the day limitation of bank deposits or other regulations that require joint ventures in order to decrease other difficulties such as tax.

#### 2. The formation of the ASEAN Shrimp Alliance (ASA)

2.1 The ASEAN Shrimp Alliance (ASA) is needed to be formed in order to solve the problems of marketing limitations and set the standards of shrimp farming in ASEAN acceptable while also making negotiating power with importing countries.

#### 3. Self-Differentiation

3.1 Thailand must become a professional and the lead production in shrimp farming, producing in countries with lower income tax.

#### 3.2 Innovation in Shrimp breeding

3.2.1 Genetically converting male shrimp to female shrimp in order to lay more eggs that are compatible with all breeds

Raising only male shrimp gives more chance of growth, production, and survival than raising both male and female, resulting in the increase in production of male giant river prawns

by the use of genetic converted process, or producing neo-female prawns by cutting off the endocrine gland from male shrimp and turning the male shrimp female. Doing this will give the now-female shrimp the ability to lay eggs. Neo-female shrimp will now be used to reproduce with the normal male shrimp. Every male offspring of these shrimp will also undergo genetic converted process and the process repeats, creating more shrimp for production.

3.2.2 Thailand's specialty is taking all parts of a shrimp to good use. Because Thailand has a great amount of shrimp exports, much of the shrimp's shells are leftover within the country. With this, Thailand has become the leader of a technology in distilling chitosan by treating shrimp shells with the alkali sodium hydroxide. Chitosan can be used in cosmetics and other products because chitosan can make these cosmetics long-lasting, which further adds the value into these products.

### 3.2.3 Eco-friendly containers

Aside from cosmetics, chitosan also has the ability to shape up starch which could replace polyvinyl alcohol (or Polyethylene) in multipurpose containers. Chitosan are not sustainable for microorganisms, so they are very suitable for keeping vegetables and fruits clean and fresh. However, since chitosan are very expensive within Thailand, it is possible that if Thailand is able to harness their own chitosan at a very low price, they will be able to build up in many ways. One way is to export Chitosan to other countries outside and within ASEAN at a higher price while gaining more income to the country at the same time.

### 4. Consumer Behavior

Studying and observing the behavior of consumers in different countries

For example, Japanese market is more concern of product quality over the price. As for Thailand's standard practice which is different from other Shrimp producer such as India or Vietnam, the toxin-free residue in shrimp is the most concern and the selling point of the Thai shrimp.

### 5. Vertical Integration

#### 5.1 Backward Integration

To find a horizontal merger base for farming shrimp in a neighboring country that is in need of farming technology, such as Indonesia.

#### 5.2 Forward Integration

Investing money in cold storages with a country within ASEAN that is expanding their marketing bases

### 6. Horizontal Integration

Making products that are diverse and are suitable for all of the consumers' needs, such as

- Whole shrimp
- Headless shrimp
- Peeled headless shrimp
- Peeled headless shrimp without tail
- Peeled and deveined headless shrimp
- Peeled and deveined headless shrimp without tail

### 7. Production Cost Management

#### 7.1 Reduce Raw Material cost by eliminating the middleman

7.2 Reduce Labor cost by relocating the production plant to the neighbor countries where the labor is available and cheaper.

7.3 Reduce the transportation cost by direct investment or for forming the joint venture with the local partnership in the AEC country members. This policy will also alleviate the custom's tariff.

8. Effectively management of Tariff Barriers by G to G negotiation.

9. Within the AEC nations, free flows of human resource, capital investment are allowed. The government as well as the enterprises must be aware of the opportunity that may arise and benefit the frozen shrimp industry in term of market, source of raw material, cheaper labor and effective logistic.

10. The impose of article 9 to control the area of Shrimp farming under the environmental act accelerates the problem to the farmer to be more rely on the middleman as the suppliers are forced not to expand their shrimp farms. The product distribution channel is corrupted and incurs the unnecessary higher transportation cost. The government should support and encourage “contract farming” to overcome these problems and will eventually increase the competition advantage for the industry.

11. To tackle the problem on the labor shortage, Thailand should focus only on shrimp farming and redirect the shrimp frozen process to its neighbor countries which are still enjoying the GSP program and favorable lower duty rates. Thailand can leverage itself as a long-time experience in frozen products and either provides the knowledge or becomes a business partner thru direct investment or a joint venture.

12. Thai government should provide support to local business operators by encourage R&D budget to develop the high-end technic shrimp farming. New breed must be developed to get the shrimp that can withstand the disease and epidemic which always be the downside of the shrimp industry.

13. Improvement of the logistic system will cut down the unnecessarily higher transportation cost and will give Thailand a competitive edge over its rivalries.

## Conclusion

By analyzing the market occupation ratio, revealed cooperative advantage and SWOT analysis, the Asian major shrimp producing countries seem to have a higher comparative advantage in shrimp production. With rapid developments of shrimp products trade via AEC cooperation, Asian countries will become the most important producers of shrimp globally. Each country has different performance of comparative advantage: Thailand Indonesia and India had higher market occupation ratio, China had the lowest exportation price; Thailand, China and Viet Nam had the higher RCA. However, among the ASEAN countries Thailand seems to have an advantage edge over other members given its past experiences and favorable geographic location. Proper adjustment of its production and marketing process with the support from the government will ensure the frozen shrimp industry the sustainable growth.

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# **A Study of Staff Turnover of the Hotel Industry: A Case Study of the Amara Hotel Bangkok**

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## **Introduction**

The tourism and hospitality industry has become the fastest growing business in the world (Boella 1996). Notwithstanding this, the hospitality industry has extensive experience of turbulence as competitiveness compels the industry to make alterations under the severity of globalisation (Go *et al.* 1996). When tourism happens, it affects the economy (Dale *et al.* 2006). It is a corresponding influence to the hospitality industry as a competitive business (Yu 1999). The hospitality industry has to form competitive advantages by their employees to execute developed productivity and service action to achieve excellent results (Go *et al.* 1996). People seem a more important resource than materials, instruments, equipments and technology in order to deliver an organisation's products and services to customers (Hayes and Ninemeier 2009). It means the importance of human resources management is a central part of hospitality business.

People resources is the key to improving the hospitality industry (Littlejohn and Watson 2004). This research uses the Amara Hotel Bangkok as a case study and it aims to evaluate employee's turnover.

## **Research aims and objectives**

It is common in hotel industry to work on monthly turnover. The turnover identifies the level of hotel service and productivity (D'Annunzio-Green *et al.* 2002). The hotel business will move slowly when staff keep in and out all the time. All hotels want to keep low level of turnover which it shows the success of people management and relate to hotel operations. This research aims to study and identify the turnover rate of the Amara Hotel Bangkok since it is a very new hotel in Sathorn Area.

## **Background of the Amara Hotel Bangkok**

The Amara is the hotel group in Singapore. The group expanded the hotel investment and management and developed the Amara Hotel and Shopping Center in the Mid 1980s. Following that to compliment its hospitality management operations. Amara set up a number of specialty restaurant and food court.

The Amara Hotel Bangkok operated since July 2015, it is located in the choice Surawong Road which is parallel to Silom and Sathorn Roads. There are 250 rooms, the hotel is part of historic district of Bangkok, famous for its culturally-diverse local street food and exciting nightlife. It is also near shopping and jewelry district. There are several room types for guest stay such as Cabana room, Deluxe room, Club room and each room has the modern furnishing set up.

## **Introduction to Job Motivation**

Motivation is an important factor for employees giving their best to their jobs. As the human factor is the most vital resource in every job, it should be provided with opportunity for achievement and have the ability which motivation brings to an efficient job (Simpson 1983).



Hosie *et al.* (2006) stated if staffs were happy in their workplaces, it would affect the operations. Human resources are important to every business; therefore, the human resources department and managers mainly would be involved with employees, and coordinate them to bring a company to success (Bramham 1989). This is crucial in the hotel industry because employees provide service to customers worldwide, which is commonly known as “The People Industry” (Kusluvan 2003). If staffs are satisfied or well-motivated, they offer better service and are productive, there by gaining improved customer satisfaction.

Most analysts accede that the labour turnover average in the hotel industry is higher than other industries (Malhotra 1997); therefore, it has become a problem which affects productivity in the hotel business as well as being a barrier to raising productivity (D’Annunzio-Green *et al.* 2002). Besides, Johnson (1981 cited D’Annunzio-Green *et al.* 2002) claimed that higher turnover not only decreases the quality of hotel service but it also incurs a large amount of recruitment and replacement costs, which obviously brings profits down. Human resources management is currently an important part in world-wide business; it includes theories which could be executed in operational practice (Pieper 1990). It is necessary to study job motivation and satisfaction theories to understand the use of human resources management, in order to improve operations.

### Introduction to Turnover

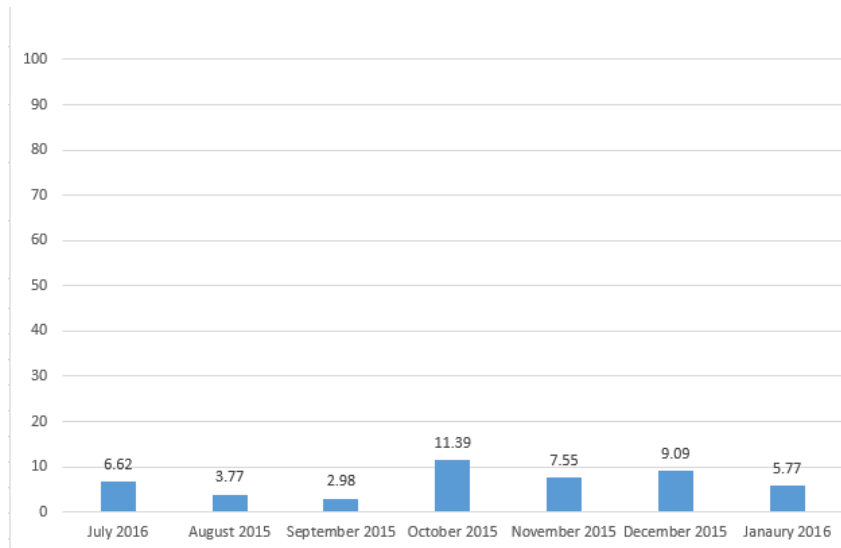
Obviously, Staff turnover or employee turnover plays important role in every industry nowadays. There are big amount of business competitors which they need huge of manpower more than the past. When the industry face high turnover situation, it definitely affect to all productivities. Generally, staff turnover starts since the first month or first year in industries (Bucknall and Wei 2006).

In addition, staff turnover has both advantages and disadvantages. The possible advantages are offer opportunity to other workers when someone left by building promotion or transfer staff positions, each employee may develop their skill to get promotion which the company will received more active employees. At the same time, the staff turnover also brings disadvantages which are cost to recruit new employees, hiring, and training, Moreover, staff has no loyalty to the organization (Phillips and Gully 2014).

On the other hand, Law and Kesti 2014 argued that the number of turnover will bring cost to every company and industry.

### Current labour turnover situation in the Amara Hotel Bangkok

Month	Turnover Rate	Staff	Temporary	In	Out
July 2015	6.62%	151	0	10	10
August 2015	3.77%	159	0	6	6
September 2015	2.98%	168	0	5	5
October 2015	11.39%	158	0	18	18
November 2015	7.55%	159	0	12	12
December 2015	9.09%	154	1	14	14
January 2016	5.77%	156	7	9	9



Source: Amara Hotel Bangkok (February 2016)

From above number of turnover, the Amara Hotel Bangkok has low percentage, it can be seen that the average is satisfied in terms of the new opening hotel. It can be implied that the hotel has good strategy to manage hotel human resources.

### Job Motivation in Amara Hotel Bangkok

This research presents some Human Resource Staff Benefits of the Amara Hotel Bangkok. In general, the Amara Hotel Bangkok provides;

- Social Security Insurance
- Health Insurance
- Accident Insurance
- Life Insurance
- Staff Orientation
- Staff Team Building
- Two Free Meals in Staff Canteen
- Uniform
- Laundry for uniform
- Staff position transfer and promotion
- Overtime
- Taxi Allowance

It can be understood that the human resources benefit is effective to staff job motivation and satisfaction. When the hotel provides the benefits to their own employees, the employees feel safe and loyal to the organization.

Apart from benefits, the hotel should create a good working environment or some training to make people love their workplace. This is the long run to the hotel in terms of keeping the lowest rate of turnover.

However, the hotel has some plans in the future to provide the Staff Provident Fund and Friend & Family rate for hotel rooms. These would be further progress in Human Resources.

### Methodology

The research methodology presents the methods used in this paper in order to reach the aim and objectives.

The research has gained the data and can explore the level of hotel management by turnover. It could help hotel human resources departments and hotel managers to clearly understand employees' situations and to improve their management.

Mostly, a case study is used for social and learning study in order to recognise both common and unique elements of the case, persons and program; in other words, researchers use a case study to know their story and understand them (Stake 1995). A case study forms a necessary pattern of inquiry; it is suitable when examiners either want or are pushed by situations to determine studies' topics. (Yin 2003). According to Scholz and Tietje (2002), a case study is used to discover possible problems with the research project as well as the benefit of solving it later.

## Conclusion

This research aims to study job motivation and staff turnover by using the Amara Hotel Bangkok as a case study and by accessing levels of employee turnover in the organisation. The paper used several methods in the research such as text books, electronic books, journals, electronic journals, and observation. The Amara Hotel Bangkok has been the case study in this research.

From this study, the researcher has found that the Amara Hotel Bangkok has a low turnover rate. In terms of job motivation in the hotel, the five most influential motivation factors for employees in the Amara Hotel Bangkok are "feeling interested in work", "have opportunities for work advancement or promotion (to higher level)", "feel secure in job", "have satisfied wages (money)", and "have satisfied benefit". The hotel has formed different strategies to motivate their staffs to work hard and improve themselves. In addition, the level of job satisfaction is quite high as it can be seen from the low turnover rate. Obviously, most respondents are satisfied with their hotel's human resource management. However, it is very important to keep improve the management to motivate and satisfy staffs in the hotel. Therefore, it is crucial for human resource management and managers to study more in order to enhance job motivation and job satisfaction to motivate and satisfy their employees and in order to decrease the hotel's labour turnover.

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