Information Management & Business Review (IM&BR)

| Vol. 9 No. 5 | ISSN 2220-3796 |

Published by

International Foundation for Research and Development (IFRD)

Editorial

Information Management and Business Review (IMBR) provides a unique platform to scholars around the world to share their knowledge and publish research work in the fields of information management, business, management and related disciplines. The work submitted for publication consideration in IMBR should address empirical and theoretical developments in the subjects related to scope of the journal in particular and allied theories and practices in general. Scope of IMBR includes: subjects of finance, accounting, auditing, cost & management accounting, financial psychology, financial literacy, marketing, information management, human resource management, knowledge management, innovation, change management, enterprise management, e-commerce and information system. Author(s) should declare that work submitted to the journal is original, not under consideration for publication by another journal, and that all listed authors approve its submission to IMBR. It is IMBR policy to welcome submissions for consideration, which are original, and not under consideration for publication by another journal at the same time. Author (s) can submit: Research Paper, Conceptual Paper, Case Studies and Book Review. The current issue of IMBR comprises of papers of scholars from Ukraine, Pakistan, Saudi Arabia and Indonesia. Impact of intellectual capital management and human capital circulation on business practice, store loyalty: exploring the role of preferential treatment & salesperson trust, measuring the performance of logistics industry, customer attitudes towards advertising and a Comparative Global Geothermal Development Analysis are some of the major practices and concepts examined in these studies. Journal received research submission related to all aspects of major themes and tracks. All the submitted papers were first assessed by the editorial team for relevance and originality of the work and blindly peer reviewed by the external reviewers depending on the subject matter of the paper. After the rigorous peer-review process, the submitted papers were selected based on originality, significance, and clarity of the purpose. Current issue will therefore be a unique offer, where scholars will be able to appreciate the latest results in their field of expertise, and to acquire additional knowledge in other relevant fields.

Prof. Dileep Kumar, M., Ph. D.
Editor In Chief

Editorial Board

Table of Contents

PAPERS

Impact of Intellectual Capital Management and Human Capital Circulation on Business Practice at Macro- and Micro Level

Iryna Oleynikova, Zhanna Balabaniuk
Drahomanova Street, Kiev, Ukraine
iryna13579@gmail.com, zhannabalabaniuk@gmail.com

Abstract: Nowadays the main potential for growth comes from the ability to innovate and succeed with breakthrough ideas. However, despite growing importance of the subject matter, there are still no standard practices that would perform such a measurement and employ tendencies of human capital circulation. Various attempts have been made over recent years, but none have achieved general acceptance among experts in business field. Although there is no universally accepted theory, each has its own strengths and weaknesses in deriving approximate value of intellectual capital for various companies. In this work, we looked over some theories that have been suggested to estimate intellectual capital and analysed data from Ukrainian IT companies in order to prove how important measurement of intellectual capital and human capital circulation trends to allow for much better representation of an organisation's competitive position. Additionally, the impact of intellectual capital on various Key Performance Indicators, such as Economic Value Added and Weighted Average Cost of Capital, was examined with supporting financial analysis performed. The paper concludes with overview of methodological and managerial implications of the research, theoretical and practical limitations and possible improvements, and considerations for further research in the field of study.

Keywords: *Intellectual Capital, Human Capital Circulation, Business Capitalization*

1. Introduction

There is a great range of opportunities in the turbulent and highly dynamic contemporary global business world. Businesses today need to work to be more efficient and understand what drives their own capitalization growth. With growing focus on the intellectual development, business must adapt human capital recognition and circulation trends which will dramatically change the global job market and business practice in the nearest future. The 'global war for talents' gets tougher, as it becomes accepted that only creative and proactive talents are able to generate a sustainable competitive advantage. There are four main global trends which shape the future of intellectual capital Management and Human Capital Circulation we would like to highlight:

Forms of Diversity in the Workplace: Today one in ten employees are remote workers, freelancers or part-time workers. In 2014 the survey of business leaders at the Global Leadership Summit in London found that 34% of the companies surveyed expected more than half of their employees to be working remotely by 2020. Additionally, 25% of the companies surveyed said that over three quarters of their workers would not be working in a traditional office by that time (Vanderkam, 2014). At the global level, the distribution of the labor forces between countries and regions is creating the opportunity to attract employees at any given moment from any part of the world. This means that, on the local level, every worker competes not only with other specialists in the country, but also with candidates from the global pool of employees. That is pushing companies to re-think talent management and intellectual capital policies. Businesses aim to create new ways of development of their and define standards of assessment and management of the companies' intellectual capital.

Robotics: The study of Martin's Oxford School in 2013 placed 47 percent of the total US workforce in the high-risk category due to advances in automation that will replace the jobs over the next several decades (Frey & Osborne, 2013). The director of the Global Institute McKinsey speculated that 45% of the production activities performed by humans can be fully automated with the current technology (Chui, Manyika & Miremadi, 2016). If this prediction comes true, we will get a situation when the structure of such jobs dramatically transforms. The ability to create innovative and technological breakthroughs will be key for

business development, and thus knowledge assets and intellectual capital will become the main drivers of the new growing economics.

Labor Mobility and Migration: The United Nations report from 2016 projects that by 2050 the world population will reach 9.7 billion. This means there will be 321 million migrant workers in the world in 2050, compared to 71 million in 2000 (Report of the Secretary-General Assembly of United Nations, 2016). The increase in population migration leads to the erosion of labor potential from some territories. For example, workers from developing countries tend to move to developed countries with high level of social protection guarantees. As a result, some countries need to create programs aimed at retaining the labor potential within the country and more favorable conditions for attracting workers. These factors influence the strategies that identify and exploit intellectual capital to create business opportunities.

Types and Sources of Financing Businesses: Nowadays, entering and scaling business is faster and easier. The tendencies are facilitated by many factors, such as the creation of more flexible organizational structures, the ability to attract remote workers, the capability to attract funding for startups through crowdfunding platforms, etc. At the global level, there will be an increase in individual entrepreneurial spirit. At the national level, countries will develop new conditions for expansion of entrepreneurship in certain areas. Consequently, the changes will lead to the creation and employment of innovative methods of valuating and managing intellectual capital.

2. Literature Review

We use the following definition of intellectual capital for research purposes:
"Intellectual capital is the group of knowledge assets that are attributed to an organization and most significantly contribute to an improved competitive position of this organization by adding value to defined key stakeholders" (Understanding corporate value: managing and reporting intellectual capital, 2002).

In deeper detail, the opportunities that a business can get by implementing intellectual capital concept and employing tendencies of human capital circulation are the following:
- Usage of business opportunities and the design of a long-term competitive advantage;
- Adjustment of traditional strategies towards innovative leadership;
- Deployment of critical thinking as a strategic lead of execution;
- Talent management across a knowledge sharing system;
- Reflection of the company's real value through the assessment of intellectual capital.

There are many methods of intellectual capital assessment that have been created by researches and practitioners working in the field. Some of them implement classification according to the general principles of valuation. These include the following groups of methods:
- Market Capitalization Methods – MCM;
- Return on Assets Methods – ROA;
- Direct Intellectual Capital Methods – DIC;
- Scorecard Methods – SC.

Other methods classify according to the valued objects, and include such methods as:
- Holistic;
- Atomistic.

Finally, the use of a monetary unit in the process of valuation grouping consists of two types:
- Monetary;
- Non- monetary' (Ramanauskaitė and Rudžionienė, 2013).

Referring to the paper by Sveiby (2004), there are 28 different models for Intellectual Capital Valuation (Sveiby, 2004). The most often used methods for the purpose of constructing reports on intellectual capital are Kaplan and Norton's Balanced Scorecard (Kaplan & Norton, 1996), Karl-Erik Sveiby's Intangible Assets Monitor (Sveiby, 1997) and Skandia's Value Scheme (Edvinsson & Malone, 1997). In our research, a number of methods of intellectual capital measurement and valuation were analyzed, specifically, Kaplan and Norton

(1996), Brooking (1996), Sveiby (1997, 2004), Edvinsson and Malone (1997), Stewart (1997), Luthy (1998), Edvinsson (2000), Pulic (1998, 2000, 2004), Andriessen and Tissen (2000), and Andriessen (2000, 2001, 2005).

Balanced Scorecard: The Balanced Scorecard looks at a business unit's performance from four perspectives: financial, customer, internal business process, and learning and growth. After the business defines the core business activities which require the most efficiency and create the main value for the business unit, the business evaluates the performance from each of the four perspectives. The Balanced Scorecard attempts to broaden the focus of the business to look beyond short-term financial information towards other intangible items that are implicated in the value generation process. This way, the business can encourage long-term development. The limits of The Balanced Scorecard method are: absence of clear correlation between the factors, lack of records for assessing the contribution of intellectual capital in comparison with other assets to general business result, focus on asset management rather than on asset financing, impossibility of forming a single and universal set of indicators for organizations of even one industry, and lack of estimations of model uncertainties and risks impacts.

Intangible Assets Monitor: The Intangible Assets Monitor (IAM) reports aim to present a more complete and realistic account of the performance and of the future business perspective. Intangible assets are classified by Sveiby into three parts: internal capital, external capital, and employee competence. Internal capital includes the organizational structure, legal parameters, manual systems, research and development, and software. External capital includes brands, and customer and supplier relationships. Employee competence includes education and training of the professional staff who are the principal generators of revenue. Each of the parts produces comparisons over one period to the next period. While the Intangible Assets Monitor (IAM) reports can provide account on one specific business, it is not possible to use the reports across businesses, even in the same sector. This approach is based on the range of knowledge, whose flow is a result of human effort and is dependent on the context specific to the subject. As such, it cannot be monetized objectively for a few businesses or over one sector.

Skandia Value Scheme (SVS): The Skandia Value Scheme (Edvinsson & Malone, 1997) offers correlation between intellectual capital and financial (traditional accounting) capital in estimating the market value of the business. The business market value is seen as the result of combining the financial capital and the intellectual capital. Intellectual capital, in turn, is comprised of human capital, structural capital, customer capital, organizational capital, innovation capital, and process capital. However, the Skandia Value Scheme (SVS) does not include one single integrated indicator of the intellectual capital, the correlation between business valuation and business value. Additionally, the growth of the market value of a business is conditional on the impact of the new reporting on investors' expectations.

Market-to-Book Value Ratio: Some authors (Brooking, 1996; Edvinsson, 2000; Edvinsson & Malone, 1997; Stewart, 1997) offered to estimate the intellectual capital as the difference between the market value of the company's shares and the book value of the assets reported on the balance sheet. Stewart argued that the market-to-book value ratio is easy to understand and can be quickly calculated (Stewart, 1997). However, the market value can be influenced by many different factors. For example, in different tax jurisdictions, companies can apply different business models to encourage investments into new fixed or intangible assets. Also, the assets reported in the balance sheet might be understated.

Tobin's "q": According to James Tobin (1969), intellectual capital is the ratio between a physical asset's market value and its replacement value.
The formula for Tobin's "q" is:
Businesses often use this method as a measure of corporate performance. It is possible to use it for individual assets and for all of the business. This method is also possible to use to compare the businesses with similar types of physical assets in the same industry.

Calculated intangible values (CIV): This method was created by Stewart (1997) and Luthy (1998) and was presented at the Asian Pacific Interdisciplinary Research as a tool for financial institutions to grant loans for knowledge based business. (CIV) is used for calculating the fair market value of a firm's intangible assets. The

CIV method is connected to all types of capital assets (physical, financial, combined physical and financial and intangible). The CIV method evaluates financial efficiency derived from business' return on assets (ROA). As a result, it cannot estimate intangible values. This method can also be used to recognize the overall financial comparative advantage between businesses in the same industry.

Value Added Intellectual Capital Coefficient (VAIC): The Value Creation Efficiency Analysis, called VAIC (Value Added Intellectual Coefficient) was developed by Ante Pulic (1998, 2000, 2004). According to Pulic (2004), the model determines the size and the efficiency of intellectual capital. In the VAIC model, the most important indicator for business success is the value added. This method divides the intellectual capital into two major categories of human and structural capital. However, this model estimates the efficiency of the company's labor and capital investments. As a result, using the VAIC model does not produce results that correlate with a company's stock market value.

The Value Explorer: KPMG The Netherlands developed the method called The Value Explorer (Andriessen, 2001; Andriessen & Tissen, 2000; Andriesson, 2005). A company should indicate the core competencies which identify the strategic importance of intellectual capital for the business. As was noted by Andriessen (2005), there are five steps to implementing The Value Explorer:
- The organizational core competencies are listed in order to identify the intellectual capital;
- A checklist is used to evaluate the value added, the sustainability, and the validity of these core competencies;
- The financial value of the intellectual capital is determined by attributing a portion of the expected normalized earnings to these core competencies;
- Recommendations are made to the management on possible ways to improve the value of the intellectual capital;
- A report is created using a value dashboard.

Despite having explored many methods of valuating the intellectual capital, we still cannot identify a universal one to employ for our research purposes. Methodologies of hiring and, thus, recording intangible assets can vary significantly depending on the industry. In this part of the research, a mixture of Investor's assigned market value, Value Added Intellectual Capital Coefficientand The Value Explorer methods of intellectual capital valuation has been considered as the main approach. The methods have been modified for the purposes of evaluating the companies' intellectual capital and their parts in considering the companies' current business performance.

The Industry and Research Overview: From the perspective of integration of the Ukrainian economy into the world economy, we must pay attention to the specifics of the development of the services sector. The Ukrainian service sector is slightly inferior in its growth to developed countries, primarily in the creation of the GDP in this sector - 62.8% (in 2014) and 68.36 (2016) (Fakty Ukraine, 2016). Nevertheless, the service sector can contribute to a significant increase in the gross domestic product at a relatively low cost and shorter payback periods, and can also contribute to the development of the domestic market as the basis for sustained economic growth. Thus, Ukraine's economic development is characterized by an increase in the share of the services sector in the GDP and reflects the worldwide trend. The fastest growing sector, whose product is in demand not only in Ukraine, but also in foreign markets, is the IT sector. According to an independent macroeconomic survey conducted by PwC at the request of the IT-committee of the European Business Association, the export-oriented IT industry can double all indicators and generate up to 27.2 billion hryvnias of revenue to the state budget in 2020 (PwC. Doing business and investing in Ukraine, 2016).

Over the past four years, IT's contribution to Ukraine's GDP has increased from 0.6 to 3.3% (from $ 1.1 billion to $ 2.7 billion). This development was achieved due to the growth in the number of programmers from 42400 to 91700 people. However, the intensive growth of the industry due to the increase in the number of companies and specialists engaged in the industry is not the only factor that can lead to an increase in the sector's contribution to the country's GDP. Very important is the effective development of the industry through better use of the available human and intellectual resources, knowledge and implementation of the concept of creating, and managing intellectual capital. Importance of the industry is significant according to

the numbers and trends. However, Ukrainian financial crises and lack of financing opportunities has already led to decreases in the industry growth and could stop further development. As a result, the industry will be dependent on external outsourcing models only. With such a huge business potential, it is crucial to create a full-cycled industry.

To attract investors and finance the development and expansion of the industry it is necessary to make business understandable to the investors and this can be achieved through properly creating, evaluating, and managing the intellectual capital. Not all companies are ready to enter the markets of foreign loans, issue shares, bonds. And here is a serious problem of the company's financial statements, in which, as is typical for service companies, and, consequently, IT companies, there are practically no fixed assets. However, no enterprise can sustain and grow without the availability of financial resources and investments. In Ukraine, for the IT sector, attracting loans and investments by private investors at this stage of the industry development is a priority. Therefore, the main goal of the project was to create such a business description model in figures and to reflect these figures in the company's reporting system in order to show the potential investors and creditors the risk-free decision to invest in companies that do not have fixed assets, but there is a more important competitive advantage - intellectual capital - which can be recognized as intangible assets of the company. And it is the presence of intellectual capital that is the main factor of stable development and long-term competitive advantage of IT industry.

3. Methodology

For the reasons described above in the critical analysis of the methods for intellectual capital valuation (since no method can fully satisfy the need for a correct estimate of intellectual capital), during the project we used a combination of several methods to evaluate different groups of intellectual assets. In the course of the project, after evaluating the intellectual capital, certain operating expenses of the company were capitalized and transferred from current expenses to the value of intangible assets. Some results of the project are given in Tables 1-8. The data in the tables reflect the main trends in the company's performance, but are not entirely real. This is done to prevent the leakage of the company's financial information.

4. Results

In tables 1-4 financial indicators are shown before the intellectual capital evaluation.

Table 1: Profit and Loss Statement

Year	1	2	3	4	5
Sales	284,000	212,800	318,000	425,000	467,500
Sales Growth	*147.9%*	*-25.1%*	*49.4%*	*33.6%*	*10.0%*
Cost of Sales	204,480	172,368	248,040	361,250	406,725
Gross Profit	79,520	40,432	69,960	63,750	60,775
Gross Margin	*28.0%*	*19.0%*	*22.0%*	*15.0%*	*13.0%*
S, G & A	55,212	60,733	66,807	73,487	80,836
Depreciation & Amortization	15,205	15,205	15,205	15,205	15,205
Operating Profit	9,103	(35,506)	(12,052)	(24,942)	(35,266)
Operating Margin	*3.2%*	*-16.7%*	*-3.8%*	*-5.9%*	*-7.5%*
Interest Expense	2,819	1,823	1,802	1,869	2,064
Other (Income) Expense	-	(65)	(39)	215	1,395
Pre-tax Profit	6,284	(37,265)	(13,815)	(27,026)	(38,725)
Net Profit	5,153	(30,557)	(11,328)	(22,161)	(31,754)
Net Profit Margin	*1.8%*	*-14.4%*	*-3.6%*	*-5.2%*	*-6.8%*
EBITDA	24,308	(20,236)	3,192	(9,953)	(21,456)
EBITDA Margin	*8.6%*	*-9.5%*	*1.0%*	*-2.3%*	*-4.6%*

As can be seen from Tables 1-4, the company during the entire period of analysis is unprofitable, despite the growth in sales. However, operating expenses are growing at a faster pace. The capital employed is reduced, and the investments in R&D remain unchanged, the economic added value is negative, which indicates the problems of long-term business development. However, the company is quite successful in terms of obtaining and executing contracts, and the growth of its capacity. Therefore, it was decided to analyze in more detail the operational costs in order to understand the reasons for their growth and reasons for the company's losses.

Table 2: Total Invested Capital and Cost of Capital

Year	1	2	3	4	5			
Capital Employed:								
Debt	125,537	26,737	25,537	25,487	21,787			
Equity	15,513	22,000	26,700	28,700	(3,054)			
Book Value of Capital	141,050	48,737	52,237	54,187	18,733			
Adjustments:								
Capitalized R&D	6,901	6,751	6,662	6,680	6,600			
Depreciation	-	-	-	-	-			
Goodwill	-	-	-	-	-			
Present Value of Operating Leases	10,558	12,645	11,678	9,700	7,400			
Total Adjusted Capital	**158,509**	**68,132**	**70,577**	**70,566**	**32,732**			

Cost of Capital:	Pre-Tax	After-Tax	Weighting					
Debt (Kd)	**7.5%**	6.2%	89%	55%	49%	47%	116%	
Equity	**12.0%**	12.0%	11%	45%	51%	53%	-16%	
Weighted Average (Kw)	8.0%		6.8%	8.8%	9.1%	9.2%	5.2%	
Tax Rate	**18.0%**							

Table 3: Economic Value Added

Year	1	2	3	4	5
NOPAT	10,410	(26,541)	(7,126)	(16,915)	(27,797)
Capital Cost	10,768	5,989	6,451	6,526	1,701
Annual EVA	**(358)**	**(32,531)**	**(13,577)**	**(23,441)**	**(29,498)**
Current Value of Cumulative EVA	**(275)**	**(26,985)**	**(38,889)**	**(60,839)**	**(90,337)**
NOPAT Return on Adjusted Capital	6.6%	-39.0%	-10.1%	-24.0%	-84.9%
Return Hurdle (cost of capital)	6.8%	6.8%	6.8%	6.8%	6.8%
Value Added (-Shortfall)	-0.2%	-45.7%	-16.9%	-30.8%	-91.7%

Table 4: Other Performance Indicators

Year	1	2	3	4	5
EBIT	9,103	(35,441)	(12,013)	(25,158)	(36,661)
EBITDA	24,308	(20,301)	3,153	(9,737)	(20,061)
Sales Growth	147.9%	-25.1%	49.4%	33.6%	10.0%
Operating Earnings Growth	31.8%	-490.0%	-66.1%	107.0%	41.4%
Net Earnings Growth	-27.1%	-693.0%	-62.9%	95.6%	43.3%
Operating Margin	3.2%	-16.7%	-3.8%	-5.9%	-7.5%
Net Profit Margin	1.8%	-14.4%	-3.6%	-5.2%	-6.8%
EBITDA Margin	8.6%	-9.5%	1.0%	-2.3%	-4.6%
Return on Equity (ROE)	33.2%	-138.9%	-42.4%	-77.2%	-75.2%
Return on Net Assets (RONA)	1.7%	-53.6%	-18.7%	-35.1%	-43.4%
Sales to Gross Fixed Assets	1.0	2.1	2.8	3.5	3.4

The result of intellectual capital evaluation and recording in financial statements is shown in Tables 5-8.

Table 5: Profit and Loss Statement

Year	1	2	3	4	5
Sales	284,000	212,800	318,000	425,000	467,500
Sales Growth	*147.9%*	*-25.1%*	*49.4%*	*33.6%*	*10.0%*
Cost of Sales	88,051	111,720	166,950	223,125	245,438
Gross Profit	195,949	101,080	151,050	201,875	222,063
Gross Margin	*69.0%*	*47.5%*	*47.5%*	*47.5%*	*47.5%*
S, G & A	67,556	74,312	81,743	89,917	98,909
Depreciation & Amortization	11,123	12,192	18,540	21,750	23,025
Operating Profit	117,270	14,576	50,767	90,208	100,129
Operating Margin	*41.3%*	*6.8%*	*16.0%*	*21.2%*	*21.4%*
Interest Expense	2,819	1,823	1,802	1,869	2,064
Other (Income) Expense	-	(65)	(39)	215	1,395
Pre-tax Profit	114,451	12,818	49,004	88,124	96,670
Net Profit	93,850	10,511	40,183	72,262	79,269
Net Profit Margin	*33.0%*	*4.9%*	*12.6%*	*17.0%*	*17.0%*
EBITDA	128,393	26,833	69,346	111,743	121,759
EBITDA Margin	*45.2%*	*12.6%*	*21.8%*	*26.3%*	*26.0%*

Table 6: Total Invested Capital and Cost of Capital

Year	1	2	3	4	5
Capital Employed:					
Debt	125,537	26,737	25,537	25,487	21,787
Equity	209,087	62,879	84,148	103,001	182,270
Book Value of Capital	334,624	89,616	109,685	128,488	204,057
Adjustments:					
Capitalized R&D	6,901	6,751	6,662	6,680	6,600
Depreciation	-	-	-	-	-
Goodwill	-	-	-	-	-
Present Value of Operating Leases	10,558	12,645	11,678	9,700	7,400
Total Adjusted Capital	**352,084**	**109,011**	**128,025**	**144,867**	**218,056**

Cost of Capital:	Pre-Tax	After-Tax	Weighting			
Debt (Kd)	**6.0%**	4.9%	38%	30%	23%	20%
Equity	**12.0%**	12.0%	62%	70%	77%	80%
Weighted Average (Kw)	9.7%		9.3%	9.9%	10.4%	10.6%
Tax Rate	**18.0%**					

Table 7: Economic Value Added

Year	1	2	3	4	5
NOPAT	99,107	14,526	44,386	77,509	83,226
Capital Cost	32,898	10,779	13,253	15,350	24,518
Annual EVA	**66,208**	**3,748**	**31,133**	**62,159**	**58,708**
Current Value of Cumulative EVA	46,316	49,183	75,222	132,070	190,778
NOPAT Return on Adjusted Capital	28.1%	13.3%	34.7%	53.5%	38.2%
Return Hurdle (cost of capital)	9.3%	9.3%	9.3%	9.3%	9.3%
Value Added (-Shortfall)	18.8%	4.0%	25.3%	44.2%	28.8%

Table 8: Other Performance Indicators

EBIT	117,270	14,641	50,806	89,993	98,734
EBITDA	128,393	26,768	69,307	111,958	123,154
Sales Growth	147.9%	-25.1%	49.4%	33.6%	10.0%
Operating Earnings Growth	1598.3%	-87.6%	248.3%	77.7%	11.0%
Net Earnings Growth	1228.1%	-88.8%	282.3%	79.8%	9.7%
Operating Margin	41.3%	6.8%	16.0%	21.2%	21.4%
Net Profit Margin	33.0%	4.9%	12.6%	17.0%	17.0%
EBITDA Margin	45.2%	12.6%	21.8%	26.3%	26.0%
Return on Equity (ROE)	44.9%	16.7%	47.8%	70.2%	64.3%
Return on Net Assets (RONA)	27.7%	11.6%	36.3%	55.6%	54.0%
Sales to Gross Fixed Assets	1.0	2.1	2.8	3.5	3.4

It is obvious that reflecting the intellectual capital as part of intangible assets leads to an increase in the value of the company's assets. Another positive effect, as noted, is the reduction in the costs of the period and the growth of the operating profit, all financial indicators affecting the credit rating of the company improve, allowing an increase in the rating by 2-3 positions on average. A consequence of improving the credit rating is the possibility of obtaining cheaper credit resources, which in turn reduces the weighted average cost of capital (WACC) and increases the economic added value (EVA). Moreover, the company's reporting transparently reflects the essence of the business, making the business more comprehensible and attractive for external creditors and investors. Eventually, some financial resources will be re-invested to alter business efficiency especially, to build flexible business models and structures, create remote teams and implement staff development activities, such as training, life-long learning approach and knowledge management system. It means the business will invest in future intensive growth and, as a result, get the intellectual capital upsurge.

5. Conclusion and Recommendations for Future Research

Taking into account the trends mentioned above, there will be some limitations and opportunities for further development and employment of macro and micro trends in human capital circulation for the purposes of intellectual capital advance, such as:
- Opportunities for decreasing the costs of employees. Businesses can transform organizational structure and make it more flexible by hiring remote workers and building virtual teams;
- Prospects for recruiting top-experts for projects, so that they can bring maximum benefit for the business being employed on part-time or project-type contracts;
- Scenarios for transforming performance systems throughout significantly increasing and connecting bonuses and variable parts of salaries to KPI's system and, thus, advancing performance and execution.

Being flexible for business is the crucial, but not only success factor. We need to build a system which can be adaptive and stable at the same time. In such systems, the concept of intellectual capital will become vital for the advancement of the business as it can ensure sustainable competitive advantages by employing key success factors, namely:
- Supervision of future business opportunities;
- Deployment of Knowledge Management System;
- Labor / Human resource management and advancement
- Constant execution of the ability to innovate.

The preliminary results of the project showed that the effect of evaluating, managing and reflecting intellectual capital in reporting for an individual company can be significant. However, the macroeconomic effect, in the case of using approaches to the disclosure of information about intellectual capital, also exists, and it is connected with the possibility for the whole industry to get a new impetus to development. This possibility is grounded in the fact that banks and investment funds receive more transparent and understandable information and reporting, and are ready to lend to the industry. At the same time, the approach will give options for business to build a flexible talent management strategy utilizing trends of human capital circulation at global and local levels. Nevertheless, it is not necessary to keep silent about the complexity and ambiguity of the evaluation of intellectual capital for the purposes of disclosure and reflection in the financial statements. The uniform methodology, as before, does not exist and there are no qualitative preconditions for its harmonization and approval in the short term. Any uncertainty and ambiguity generates a different interpretation of figures and estimates of both present and future business development. It should be noted that an unambiguous answer about the future of intellectual capital is still not found. However, in our opinion, not even the ideal but maximally adapted assessment methodology can, and should be, used by high-tech companies and sectors with high added value and a small amount of fixed assets. Such an approach will ensure better manageability of companies' activities, understanding of the future prospects of businesses for both management and investors, and will become the basis for attracting the necessary financial resources. Finally, it is a good opportunity for companies to get long term competitive advantage, employ global human capital circulation tendencies, and ensure the growth of business efficiency at micro and macro levels.

References

Andersen, R. & McLean, R. (2000). Accounting for the Creation of Value: Ongoing research project sponsored by the Canadian Institute of Chartered Accountants.

Andriessen, D. (2001). Weightless wealth: four modifications to standard IC theory. *Journal of Intellectual Capital*, 2, 204-214.

Andriessen, D. (2004). IC valuation and measurement: classifying the state of the art. *Journal of Intellectual Capital*, 5(2), 230-242.

Andriessen, D. (2004). Making Sense of Intellectual Capital: Designing a Method for the Valuation of Intangibles. Burlington, MA: Elsevier Butterworth Heinemann.

Andriessen, D. & Tissen, R. (2000). Weightless Wealth: Finding Your Real Value in a Future of Intangible Assets. London: Financial Times/Prentice Hall.

Andriesson, D. (2005). Implementing the KPMG Value Explorer: Critical success factors for applying IC measurement tools. *Journal of Intellectual Capital*, 6(4), 474-488.

Brooking, A. (1996). Intellectual Capital: Core Assets for the Third Millennium. London, United Kingdom: Intl Thomson Business Press.

Chui, M., Manyika, J. & Miremadi, M. (2016). Where machines could replace humans—and where they can't (yet). July 2016, [online] http://www.mckinsey.com/business-functions/digital-mckinsey/our-insights/where-machines-could-replace-humans-and-where-they-cant-yet

Edvinsson, L. & Malone, M. S. (1997). Intellectual Capital, Piatkus, London.

Edvinsson, L. (2000). Some perspectives on intangibles and intellectual capital 2000. *Journal of Intellectual Capital*, 1(1), 12-16.

Fakty Ukraine. (2016). IT-отрасльвУкраине: очеммногоговорят, номалознают. Ноябрь, 23, 2016, [online] http://fakty.ictv.ua/ru/ukraine/20161123-it-galuz-v-ukrayini-pro-shho-bagato-govoryat-ale-malo-znayut/

Frey, C. & Osborne, M. (2013). The Future of Employment: How Susceptible are Jobs to Computerisation. September 17, 2013,[online]http://www.oxfordmartin.ox.ac.uk/downloads/academic/The_Future_of_Employment.pdf

Kaplan, R. & Norton, D. (1996). Using the Balanced Scorecard as a strategic management system. Harvard Business Review, January-February 2016, 71-79.

Luthy, D. H. (1998). Intellectual capital and its measurement. Paper presented at the Asian Pacific Interdisciplinary Research.

Pulic, A. (1998). Measuring the performance of intellectual potential in Knowledge Economy. Paper presented at the 2nd World Congress on Measuring and Managing Intellectual Capital, McMaster University, Hamilton.

Pulic, A. (2000). VAIC™–an accounting tool for IC management. *International Journal of Technology Management*, 20(5/6/7/8), 702-714.

Pulic, A. (2004). Intellectual capital–does it create or destroy value? *Measuring Business Excellence*, 8(1), 62-68.

PwC. Doing business and investing in Ukraine, 2016, [online] https://www.pwc.com/ua/en/survey/2016/assets/ukraine_doingbusiness_2016.pdf

Ramanauskaitė, A. & Rudžionienė, K. (2013). Intellectual Capital Valuation: Methods and Their Classification, 2013, [online] http://www.journals.vu.lt/ekonomika/article/viewFile/1413/802

Report of the Secretary-General Assembly of United Nations. In safety and dignity: addressing large movements of refugees and migrants. 21 April 2016, [online] http://refugeesmigrants.un.org/sites/default/files/in_safety_and_dignity_-_addressing_large_movements_ of_refugees_and_migrants.pdf

Sveiby, K. E. (1997). The New Organizational Wealth: Managing and Measuring Knowledge Based Assets, Berrett-Koehler Pub. Inc., San Francisco.

Sveiby, K. E. (2004). Methods for Measuring Intangibles [online] www.sveiby.com

Stewart T. A. (1997). Intellectual capital: the new wealth of organizations. New York, NY, USA: Doubleday.

Tobin, J. (1969). A general equilibrium approach to monetary theory. *Journal of Money, Credit and Banking*, 1(1), 15-2.

Understanding corporate value: managing and reporting intellectual capital, 2002, [online] http://www.cimaglobal.com/Documents/ImportedDocuments/intellectualcapital.pdf

Vanderkam, L. (2014). Will Half Of People Be Working Remotely By 2020? Fast Company. August 14, 2014, [online]https://www.fastcompany.com/3034286/will-half-of-people-be-working-remotely-by-2020

How to Generate Store Loyalty? Exploring the Role of Preferential Treatment and Salesperson Trust:
Mediating role of Commitment to Salesperson

Khalid Jamil[1], Muhammad Asghar Ali[2], Ahsan Zubair[3*]
[1]National University of Modern Languages (NUML) Islamabad, Pakistan
[2]International Islamic University Islamabad, Pakistan
[3]Government College University Faisalabad, Pakistan
khalidjamil29@yahoo.com, asghariqbal68@yahoo.com, *ahsan_zubair@hotmail.com

Abstract: This article describes how much the importance and impact of preferential treatment by salespersons & customers-salespersons relationship & trust for store loyalty. Providing preferential treatment and customer trust to salesperson can be very useful for managers so that customers can be loyal. This long-term relationship helps retailers gain profits and survive in business. A questionnaire was used to collect data. Most of the data was collected from Faisalabad University students by using convenience sampling, but some of the respondents responsible for different spheres were also included in generalizability. A sufficient number of females have also been included according to the needs of the research. Both preferential treatment and trust in salesperson have a positive impact on the build-up of store loyalty. The results also that trust in the salesperson is more affecting the customer's commitment to salesperson and thus creates loyal customers.

Keywords: *Customer loyalty, Store loyalty, Commitment to salesperson*

1. Introduction

Customer loyalty is essential for business survival Reichheld (1993). When the customers getting, something valuable, more than simply the products/services obtained, they are then will consistently uphold a lifelong connection and alliance with that specific retail store, subsequently demonstrates loyalty. "Loyalty is shown when persons do not undermine others by what they say or do. A person who has undisclosed misgivings, yet still behaves supportively, is seen as loyal" (East, Gendall, Hammond, and Lomax, 2005). Building the customers loyalty is not an easy task. Customers' views suggest that loyalty is a long term relationship commitment, it must be earned by the retailers and that it can't be bought so easily. For enhancing the customers value most of the retailers are very much obliged to continually seek out products, processes and technologies (Morgan and Hunt, 1994; Parasuraman, Zeithaml, Berry, 1988; Woodruff, 1997). As stated by Woodruff (1997), "the issue does not seem to be whether an organization should compete on customer value delivery, but rather how it should do it". Many researchers explore the different factors that can build customer loyalty through store brands Kremer and Viot (2012), the presence of other customers in retail store effect customer loyalty Soderlund (2011). Whereas our study will take an insight to how the customer loyalty can be built through the customer-salesperson relationship?

Berry and Gresham (1986) believe that the 'relationship retailing' is the key factor in today's business world as it works like two edge sword by increasing the basket size of the current customers and also preventing their switching to other competitor stores. The relationships are the key to success in today's competent world. Without being established deeper relationship with the key customers, retailers will face many difficulties to compete for larger "share of wallet" (Wirtz, Mattila and Lwin, 2007). Purchase intention is directly related with the trust, commitment and interpersonal relationships of the customers with the salespersons (Macintosh and Lockshin, 1997). Our study find out the trust factor in personal relationship of customer-salesperson and the benefit got by that relationship to both of them, i-e; customers get what they want, something extra from the products they purchased, from their retailers and retailers got the loyal customers in result. In the twenty-first century, when many alternatives are available in the market for the customers Trout and Rivkin (2000), the retailers are also now have to develop some long-term relationships with their customers (to make them loyal) to avoid the store switching behavior. In this context, in common distribution systems share, the adoption of comparable prices and follow price promotions of competitors by retailers is often observed, and making an edge by offering good quality service to their customers in term of relationships (Berry and Gresham, 1986; Davis, 1997). So, in the scenario where companies offer similarly high levels of product or service quality, the relationship benefits are now become an important way of

gaining the edge over other competitors (Berry, 1995; Gwinner, Gremler and Bitner, 1998; Juttner and Wehrli, 1994; Wray, Palmer, and Bejou, 1994). The findings of the inquiry will cause the retailers to strategically develop and keep up connections with the clients to make them loyal to that store, prudently.

2. Literature Review

Store Loyalty: A customer shows store loyalty when s/he have intention to buy things from a specific store and want to maintain a long-term relationship with that store due to various reasons, even when s/he have sometime a better or same alternative to that. Repetition of purchase and attitude of a customer towards a specific thing shows the loyalty of the customer Day, (1969); a situation where psychological bond results in the repeat purchase behavior of the customer and repeat purchase intention and behaviors Jarvis and Wilcox (1977); and repeat purchase intentions and behaviors (Peter and Olson, 1990). Many researches have been done before to identify the importance of store loyalty for retailers. Reichheld (1993) argued that customer loyalty is essential for business survival. The loyalty program is intended to increase the number of loyal customers and to entice loyal customers to increase their shopping frequency and expenditure (basket size) (Richard et al., 2009). A number of researchers have identified and discuss different factors affecting the store loyalty, e.g. Macintosh and Lockshin (1997); Wulf and Schroder (2003); Wong and Sohal (2003). In this study we will explore the relationship effect of customers-salespersons on store loyalty.

Trust in Salespersons: Trust, in few decades, has been the focus point of the researchers in discussions of marketing relationships. Trust in the salesperson and store trust are positively related to each other (Guenzi, Johnson and Castaldo, 2009). According to Morgan and Hunt, (1994) the confidence of one party's on other party's integrity and reliability. Same nature of definitions can be found in literature review by different other another. This definition is consistent with a number of others in the marketing literature (e.g., Schurr and Ozanne, 1985; Swan and Nolan, 1985; Moorman, Zaltman, and Deshpand, 1992). It is often noticed that retail consumers usually develop multiple relationships with front line employees/salespersons (e.g., sales associates) Guenzi, Johnson, and Castaldo (2009). Trust is key factor in making deeper relationships with the salespersons to make the customers committed with those salespersons Morgan and Hunt (1994) and cooperation Schurr and Ozanne (1985), and will indirectly contributed to the customer's store loyalty.
H_1: Trust in salespersons is positively related to the commitment to the salespersons

Preferential Treatment by Salespersons: Sheth and Parvatiyar (1995) recognized that "implicit in the idea of relationship marketing is consumer focus and consumer selectivity that is, all consumers do not need to be served in the same way". Consumers perceive this selectivity of customers as a preferential treatment that is not generally delivered to other consumers Bitner (1995); Gwinner, Gremler and Bitner, (1998). Retailers can make two broad identifiable categories of consumers; loyal and non-loyal consumers. The differentiating between these groups enables a retailer to take the advantage by filling customers need to feel important (Peterson, 1995; Ping, 1993). Preferential treatment means that something extra is provided to the loyal customers in terms of better service and other extra efforts that is not usually provided to the non-loyal customers. In line with Gwinner, Gremler, and Bitner (1998), we defined preferential treatment as "a consumer's perception of the extent to which a retailer treats and serves loyal consumers better than non-loyal consumers". This preferential treatment will lead to the commitment to the salespersons and hence contribute in making customer store loyalty.
H2: Preferential treatment by salespersons has a positive effect on customers' commitment to the salespersons.

Commitment to the Salespersons: Commitment is also considered a key factor in marketing relationships (Morgan and Hunt, 1994; Gandlach, Achrol, and Mentzer, 1995). Commitment can be defined as one's "enduring desire to maintain a valued relationship" Moorman, Zaltman, and Deshpand (1992). Commitment has been decided into three components (Meyer and Allen, 1991). Gandlach, Achrol, and Mentzer (1995) define these components as: (1) instrumental, where action of one party demonstrates commitment; (2) attitude, which relate to the intention of a person to maintain relationship; and (3) temporal, showing that commitment refers to something over time. Dick and Basu's (1994) definition is much identical with this definition, which were based on repeat patronage and attitude. Therefore it is suggested that commitment

can be taken as store loyalty at the store level Sheth and Par-vatiyar (1995) consisting of both positive attitudes and repeat purchase behavior.

H_3: A customer's commitment to a salesperson is related positively to the customers store loyalty.

Figure 1: Framework of the study
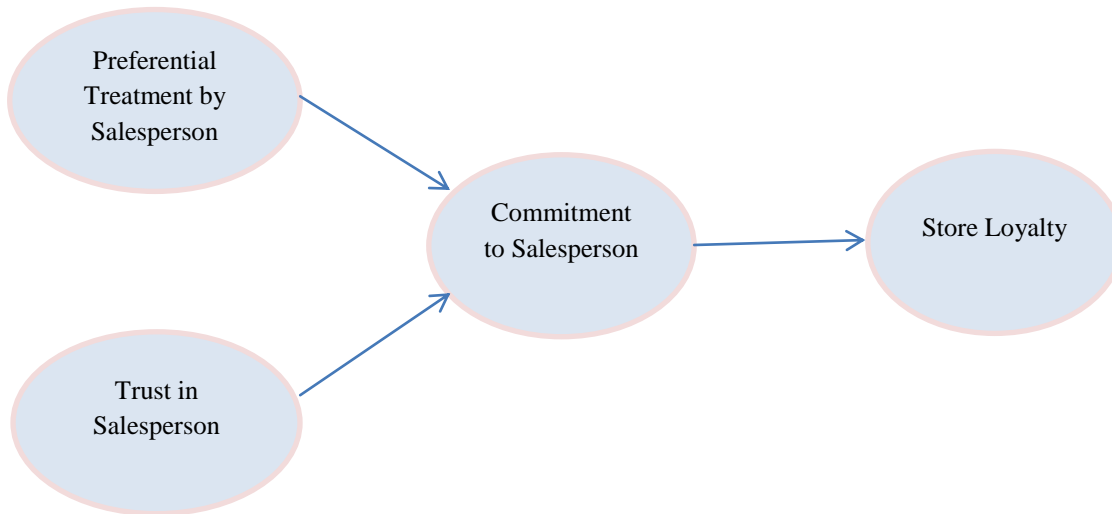
3. Methodology

Data Collection: Survey technique was used to collect the data from the different peoples from different occupation and profession to make our finding more general. Most of the data was collected from convenience sampling. Questionnaire was distributed to 260 peoples from different field of life, among which 55 percent were male. Most of the data was collected from the universities students (66%). A reasonable percentage of females are also included in the respondents as females are more frequent in shopping. Respondents were asked to consider their favorite store while completing the questionnaire. Whereas, some of the data were collected by filling the questionnaires through the customers on different retail stores. A total of 220 questionnaires were received, among which 209 were usable, hence shows 80 percent of response rate. The sample also shows reasonable age group frequencies, 37 percent are below 25 years, 53 percent between 25 and 35 years, whereas 10 % above the 35 years. The summary of demographics is shown in the Table 1.

Measures: The scale used to collect the data from different past research studies. Preferential treatment (four items, e.g., This retailer treats regular customers differently than non-regular customers) and Store loyalty (four items, e.g., I feel loyal towards this retailer) Wulf, and Odekerken (2003), trust in salesperson (three items, e.g., This retail salesperson has high integrity) Crosby et al. (1990) and Commitment to salespersons (three items, e.g., I am very committed to maintain my relationship with this retailer's salesperson) Morgan and Hunt, (1994). All the variables are measured on 5-point likert scale (1=strongly disagree, 5=strongly agree).

4. Results

Means, standard deviations, and correlations for the study variables are reflect in the Table 2. The Cronbach alpha reliability is also evident from the table II to be significant and shows the reliability of all the items of the variables, used in the scale. The colinearity is found to be less than 10, so it shows that there is no problem of multi-colinearity according to the Neter, Waserman and Katner (1989). The correlation between each variable is also found to be significant ($p < 0.01$), hence give support to all our hypotheses.

Table 1: Demographics of respondents

	F	Percentage
Age (n=209)		
Under 25	78	37.3
25-35	111	53.1
35-45	15	7.2
Above 45	5	2.4
Sex(n=209)		
Male	115	55
Female	94	45
Profession(n=209)		
Professional	72	34.4
Student	137	65.6

Table 2: Mean, Standard Deviation and Correlation

Variable	Mean	SD	SL	PT	CTS	TOS
1. Store Loyalty	3.703	.799	(.820)			
2. Preferential Treatment	3.488	.888	.273**	(.848)		
3. Commitment to Salesperson	3.542	.799	.543**	.257**	(.810)	
4. Trust on Salesperson	3.810	.882	.322**	.217**	.313**	(.782)

**. Correlation is significant at the 0.01 level (2-tailed).

The higher value of the correlation coefficient (0.543) of commitment to salesperson and store loyalty shows that commitment has a 'strong' relationship with store loyalty. From the regression table (Table 3) it can be observed that all the hypotheses are found to be accepted. The overall model explained 29 percent of variation in the dependent variable (i-e, adjusted R^2 = 0.271). Trust on salesperson effect positively the customers' commitment with salespersons (H_1=.270, t=4.07, p < 0.001) thus supporting H_1. Preferential treatment of the salespersons increases the customers' commitment with salespersons (H_2=.199, t=2.99, p < 0.01) thus supporting H_2. At the end commitment with salespersons will increase the customers loyalty towards the store (H_3=.543, t=9.29, p < 0.001) hence also support H_3.

Table 3: Parameter estimates for the research model

Parameter Description		R^2	Standardized coefficients( )	t-values	P<	Hypothesis supported
H_1	Trust on Salespersons Commitment with salespersons					
		.059	.270	4.07	0.001	Accepted
H_2	Preferential treatment Commitment with salesperson					
		.056	.199	2.99	0.01	Accepted
H3	Commitment with salespersons					
		.271	.543	9.29	0.001	Accepted
	Store loyalty					

5. Conclusion

Previous study has showed the importance of customers-salespersons relationship to be very effective in making the customers loyal towards the particular store. Different authors conducted different studies in

finding of these relationships. The finding of this study hence also proven that the relationship between customers and salespersons is very critical to build store loyalty, providing the competitive edge in the competition. Our findings are aligning with the previous finding of Wong and Sohal (2003), that the service quality that the salespersons provides to their customers, positively affect the customers loyalty. On theoretical point of view, our study add to the existing knowledge the importance of the extra care of the customer by the salespersons in the shape of the preferential treatment, to increase the loyalty of the customers towards a particular store. Trust on salesperson is also found to be the critical in building this customers-salesperson relationship, and in turn store loyalty. When a customer have trust on the salespersons and consider him/her a good adviser in various occasions, while choosing among the different alternatives, will also contribute to bringing that customer again and again and to increase the basket size. Hence, our study proves that this extra benefit, preferential treatment, and the customers trust on the salespersons will enhance the customers' commitment with the salespersons in maintaining long term favorable relationship, which is the key to success of any store. As the ultimate factor that highly influence the customers' store loyalty in our study is commitment with the salespersons, but in the comparison of the two variables that have direct impact on customers' commitment with salespersons, trust is found to be the most critical one then preferential treatment. Our study evidenced that most of the peoples are interested in maintaining long term relationships with salespersons and that in turn results in the customers store loyalty. The same is urged by Hrebiniak (1974), in sociality point of view trust is an important factor in light of the fact that relationships build on trust are so greatly valued that peoples will want to maintain that relationship for longer time.

Managerial Implications: The results of the study are very much significant for the store managers in practical side. However the implication of result of this study and others, of same kind, as well are not an easy task. A thorough analysis of the results, cultural values and norms, individual's preferences and interests is necessary for the successful implication. Overall, the result of the study indicates that salespersons' personality, attitude and sociality with others are very much important when store loyalty is concern. The result of the preferential treatment is also found to be significant in this study. So individuals, for whom preferential treatment is also critical in the relationships, are actually showing their 'esteem' level. So managers must have to make policies of training of salespersons, which are more concern in enhancing their attitude towards the customers and train them that how to make a customer committed in relationship. The implication of the results is never being easy. The sales force have to check the psyche of the different customers, that whether or not they are being motivated with the preferential treatment, and upto what extent they are becoming committed to the salesperson by applying different strategies.

Limitation and Future Research: The study is based on the data that were collected mostly from the university students and very few professionals were included. The sampling is mostly based upon the convenience sampling, so the sample is not representative of the general population, and hence weakens the generalizability of the study. Future research is recommended to include more respondents from almost every field of life that should more representative of the general population. Relationship trend differ in different countries (i-e; collectivist and individualist). People respond differently on the relationship building efforts by the marketers, and have the different habits and trends toward making relationships with the salespersons. The study is done in one single city of Pakistan; future research will give more clear insight about the topic in various regions. There are some other factors like race, religion and emotions that can also affect the chances of building relationship with the salespersons, which are excluded from this study. By taking into account all these factors, and other as well, that have the impact upon the customers attitude towards building the long term relationship with the salespersons, will also be a great contribution by the researcher(s).

References

Berry, L. L. (1995). Relationship marketing of services – growing interest, emerging perspectives. *Journal of the Academy of Marketing Science*, 23, 236-45.
Berry, L. L. & Gresham, L. G. (1986). Relationship retailing: transforming customers into clients. *Business Horizons*, 29, 43–47.

Bitner, M. J. (1995). Building service relationships: it's all about promises. *Journal of the Academy of Marketing Science*, 23, 246–251

Crosby, L. A., Evans, K. R. & Cowles, D. (1990). Relationship quality in services selling: an interpersonal influence perspective. *Journal of Marketing*, 54, 68-81.

Davis, J. F. (1997). Maintaining customer relationships through effective database marketing: a perspective for small retailers. *Journal of Marketing Theory and Practice*, 5, 31–42.

Day, G. S. (1969). A two-dimensional concept of brand loyalty. *Journal of Advertising Research*, 9, 29-35.

Dick, A. S. & Basu, K. (1994). Customer loyalty: toward an integrated conceptual framework. *Journal of the Academy of Marketing Science*, 22, 99–113.

East, R., Gendall, P., Hammond, K. & Lomax, W. (2005). Consumer loyalty: singular, additive or interactive. *Australasian Marketing Journal*, 13(2), 10-26.

Gandlach, G. T., Achrol, R. S. & Mentzer, J. T. (1995).The structure of commitment in exchange. *Journal of Marketing*, 59, 78-92.

Guenzi, P., Johnson, M. D. & Castaldo, S. (2009). A comprehensive model of customer trust in two retail stores. *Journal of Service Management*, 20, 290 – 316

Gwinner, K. P., Gremler, D. D. & Bitner, M. J. (1998). Relational benefits in services industries: the customer's perspective. *Journal of the Academy of Marketing Science*, 26, 101-14.

Hrebiniak, L. G. (1974). Effects of job level and participation on employee attitudes and perceptions of influence. *Academy of Management Journal*, 17, 649-662.

Jarvis, L. P. & Wilcox, J. B. (1977). True vendor loyalty or simply repeat purchase behavior? *Industrial Marketing Management*, 6(1), 9-14

Juttner, U. & Wehrli, H. P. (1994). Relationship marketing from a value system perspective. *International Journal of Service Industry Management*, 5, 54–73.

Kremer, F. & Viot, C. (2012). How store brands build retailer brand image. *International Journal of Retail and Distribution Management*, 40, 528 – 543

Macintosh, G. & Lockshin, L. S. (1997). Retail relationships and store loyalty: a multi-level perspective. *International Journal of Research in Marketing*, 14, 487-97.

Meyer, J. P. & Allen, N. J. (1991). A three component conceptualization of organizational commitment. *Human Resource Management Review*, 1, 61-89.

Moorman, C., Zaltman, G. & Deshpande, R. (1992). Relationships between providers and users of marketing research: the dynamics of trust with and between organizations. *Journal of marketing Research*, 29, 314-329.

Morgan, R. M. & Hunt, S. D. (1994). The commitment–trust theory of relationship marketing. *Journal of Marketing*, 58, 20–38.

Neter, J., Wasserman, W. & Kutner, M. H. (1989). Applied linear regression models, Homewood, IL: Irwin;

Parasuraman, A., Zeithaml, V. A. & Berry, L. L. (1988). SERVQUAL: a multiple-item scale for measuring consumer perceptions of service quality. *Journal of Retailing*, 64, 12–37.

Peter, J. P. & Olson, J. C. (1990). Consumer Behavior and Marketing Strategy, Richard D. Irwin, Homewood, IL

Peterson, R. A. (1995). Relationship marketing and the consumer. *Journal of the Academy of Marketing Science*, 23, 278–281

Ping, R. A. (1993).The effects of satisfaction and structural constraints on retailer exiting, voice, loyalty, opportunism, and neglect. *Journal of Retailing*, 69, 320–352

Reichheld, F. F. (1993). Loyalty-based management, Harvard business Review, March/April, 64-73

Richard, H., Leo, H., Stanley, H., Tina, L., Alexander, R. & Christopher, S. T. (2009). An approach to develop effective customer loyalty programs: The VIP program at Tamp; T Supermarkets Inc. *Managing Service Quality*, 19(6), 702 – 720

Schurr, P. H. & Ozanne, J. L. (1985). Influence on exchange processes: Buyer's preconceptions of a seller's trustworthiness and bargaining toughness. *Journal of Consumer Research*, 11, 939-953.

Sheth, J. N. & Parvatiyar, A. (1995). Relationship marketing in consumer markets: Antecedents and consequences. *Journal of the Academy of Marketing Science*, 23(4), 255-271

Soderlund, M. (2011). Other customers in the retail environment and their impact on the customer's evaluations of the retailer. *Journal of Retailing and Consumer Services*, 18, 174–182.

Swan, J. E. & Nolan, J. J. (1985). Gaining customer trust: A conceptual guide for the salesperson. *Journal of personal Selling and Sale Management*, 5, 39-48.

Thiele, S. R. (2006). Look after me and I will look after you! *Journal of Consumer Marketing*, 23, 414 – 420.

Trout, J. & Rivkin, S. (2000). Differentiate or Die: Survival in Our Era of Killer Competition,

Wiley, N. Y., Wirtz, J., Mattila, A. S. & Lwin, M. O. (2007). How effective are loyalty reward programs in driving share of wallet? *Journal of Service Research*, 9(4), 327-34.

Wirtz, J., Mattila, A. S. & Lwin, M. O. (2007). How effective are loyalty reward programs in driving share of wallet? *Journal of Service Research*, 9, 327-341.

Wong, A. & Sohal, A. (2003). Assessing customer-salesperson interactions in a retail chain: differences between city and country retail districts. *Marketing Intelligence & Planning*, 21, 292 – 304.

Woodruff, R. B. (1997). Customer value: the next source for competitive advantage. *Journal of the Academy of Marketing Science*, 25, 139–153.

Wray, B., Palmer, A. & Bejou, D. (1994). Using neural network analysis to evaluate buyer–seller relationships. *European Journal of Marketing*, 28, 32–48.

Wulfa, K. D. & Schroder, G. O. (2003). Assessing the impact of a retailer's relationship efforts on consumers' attitudes and behavior. *Journal of Retailing and Consumer Services*, 10, 95–108.

Measuring the Performance of Logistics Industry in the Context of Karachi

Ifrah Quais*, Danish Ahmed Siddiqui
Karachi University Business School, University of Karachi, Pakistan
ifrahqais@hotmail.com*, Daanish79@hotmail.com

Abstract: The Freight Forwarding and Logistics industry play a vital role in the overall economy of Pakistan. The purpose of this study is to determine the effect of the dynamic capabilities, services, capabilities, competitive advantage, and information sharing capabilities on organizational performance in the logistics industry in Karachi, Pakistan. Dynamic capabilities, services, capabilities, competitive advantage, and information sharing capabilities hypothesized as positively impacting on organizational performance. An online survey was conducted and the data were obtained from a sample size of 100 full time and part time employees from the logistics industry in Karachi. We performed multiple regression analysis to indicate all factors significant impact on organizational performance. Reliability test was also performed which showed that our study is significant. Conducting the research in a city with low literacy rate and low employee growth rate resulted in a small sample size because many people tend not to respond to online surveys.

Keywords: *Logistics performance, dynamic capabilities, services, capabilities, competitive advantage, information sharing capabilities*

1. Introduction

Tremendous amount of work (Lai et al., 2008, Kuo et al. 2017, and Mohd et al. 2017) has already been done on performance of the logistics industry in various fields and many of the authors describe the different situations and capabilities that have greater impact on organization performance of the logistics industry and Many of them conducted from different country according to their mindset or philosophy. The aim of this study is to evaluate the relationship with diverse capabilities and organization performance. Illustrate the impact of organizational performance through these Dynamic capabilities, Services capabilities, logistics capabilities, information capabilities and competitive advantage. As a logistics hub of global importance, Pakistan also been providing world-class logistics services and enjoys many advantages to sustain this position and take part in the global marketplace on having the "right" logistics by eliminating wastage and makes available the right product at the right time. (Hajiesmaeili el at. 2016) it is scrutinized that logistics performance have influences on the organizational performance. Working to the right line of logistics or selecting it according to the priorities of the firm give best result to the organization performance. Providing good quality and services to the customer it is also a main function in the firm which are done by supply chain and in more with the help of logistics. (Agrawal el at. 2015). interlink with of Logistic Service Providers (LSPs) with global study on the capabilities and performance characteristics. Organization performance deals with operations, information technology and dynamic capabilities as well as financial. The firm's size delineate overall results focus between the different capabilities on the performance of the organization which set of expand the function of Logistics services capability. Main important factors of freight forwarding firm to afford the need of specific services customer, ability to transport the material or to provide warehouse space.

According to Tsamenyi et al. 2010 organizational performance has been described as the cover of a firm's efficiency, which is different from target achievement. There are five dimensions of a balanced business scorecard that consist of a financial dimension (profits, sales growth, and expense growth), an internal business dimension, a customer perspective (customer satisfaction, service quality, and market share), a learning and growth perspective (employee job satisfaction, and employee training) and a community perspective (corporate reputation). (Green et al. 2008) a supply chain focus consequence in get better logistics performance, which in turn led to progress organizational performance. Logistics performance is positively impacted by supply chain management strategy and directly impacts marketing performance, which, in turn, impacts financial performance Logistics is the main function of supply chain that link together for the best outcome. (Stank et al. 2001) Logistics is a competency within supply chain management, which possesses both strategic and structural capabilities that are focused exclusively on managing the activities solely used to fulfill customer orders. (Knee, 2001) A freight forwarder is an intermediary linking a shipper

(e.g. An electronics manufacturer exporting semiconductor) to an airline, shipping line or trucking firm and/or linking one of those transportation services firms to the consignee. (Meyer et al. 2012) the globalization of business and the increase in competitive stress have prompted many firms to develop logistics as a part of their corporate strategy for cost and service advantages. This research outline provides on five main segments of the paper. Section one presents an overview of all the important elements. Section two provides the literature that is relevant to the selected research variables. Section three presents the research methods along with research and tools that are adopted for this research. Section four shows about the research findings and interpretation of the data findings or results of the data. Section Five presents the conclusion, recommendations, further research implication and limitations based on research findings.

2. Literature Review

Dynamic Capabilities: Teece (2007) defines the concept of "dynamic capabilities" as the firm's ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments. The brass tacks of dynamic capabilities are the individual skills, processes, procedures, organizational structures, decision rules, and disciplines. (Zollo & Winter, 2002) Organization activity generate its operating routines in pursuit of improved effectiveness. The ability to plan and effectively execute post acquirement integration processes is another example of a dynamic capability. (Wang et al. 2007) Strategic management gives the indication about dynamic capabilities that are associated with superior firm performance to enable a quick response to changes in the business environment and influence in the organization performance with better knowledge. Tsekouras et al. (2011) examined on the small companies in a traditional to develop service sector the types and the nature of innovations by, as well as the ways that innovations impact their strategic capabilities which very power of changing journey. (Cepeda & Vera, 2007) amplification of the link between operational (how you earn your living) capabilities and dynamic (how you change your operational routines) capabilities. (Wamba et al. 2017) he studies examine on firm performance as well as the arbitrate effects of process-oriented dynamic capabilities on the relationship between them. Data collected from 297 Chinese IT managers and business analysts with big data and business analysis experience. The results show that all the causal links cited by both Dynamic capabilities and firm performance explain 65% of the variance of FPER in which 30% of the variance is explained by the mediator.
Hypothesis 1: Dynamic capabilities are positively related to organizational performance in the Logistics industry.

Competitive Advantages: (Halilović & Ilgun, 2014) competitive advantages give unique points from the competitors. Firm acing uncertain environments, to achieve greater supply chain teamwork to influence the resources and knowledge of their suppliers and customers. (Talaja, 2012) analyzes the organization performances have impact of competitive advantage by characteristics of resources and capability. The companies with more valuable and rare resources achieve higher levels of sustainable competitive advantage and performance. (Cheng & Yeh, 2007) the key capabilities are composed of company scale and information equipment, relationship with competitors, clients, upstream and downstream partners and corporate reputation and past delivery. Internal allocations of resource and staff capabilities are the competitive advantage. (Wong & Le Chong, 2016) challenges faced by third party logistics (3PL) with the fast dismantling of economic barriers, brutal global competition, immovable economic uncertainties and delicate balancing of a sustainable differentiated consumption and low cost production. The questionnaires concerned 163 valid responses and sustainable pathways through the firm's 3PL. Lower cost as the metric of competitive advantage by different systems. (Gimenez & Ventura, 2003) analyzing the relationship between internal and external integration processes, their effect on firms' performance and their contribution to the achievement of a competitive advantage. The resulting sample had 199 manufacturers and analyzed through costs, stock out and lead time reductions. And, the achievement of a better competitive position is measured by comparing the firm's performance with its competitors' performance.
Hypothesis 2: Competitive Advantages is positively related to organizational performance in the Logistics industry.

Services Capabilities: (Huang et al. 2015) Service capabilities refer to "the process of delivering products in a way that creates added value to customers. The key factors found in Service capabilities have to fully

satisfying customers' increasing requirement in container shipping. Implementation of ISO standard may ensure the confidence of the customer for liner shipping services. (Kent & Parker, 1999) services capability has same important attributes were claims processing, pickup and delivery service, special equipment, line haul services, and quality of carrier salesmanship. Moving good from start point to end consumer it all depend what service are providing them to get best result. (Oh & Kim, 2017) aims to evaluation Service quality in the hospitality and tourism field which have a strong impact on organizational performance. Services qualities have many different models to elevate but one of that is customer value which is given to the customer and what end customer get behind that internal services should work in good flow. (Hinkin & Tracey, 1998) Organization meet combines intangible service with tangible products and facilities. Resulting depend upon analyzing by different service factors are safety, security, training may impact on performances. Meeting effectiveness of organization identifies a comprehensive set of physical and service-related characteristics. (Yang & Peterson, 2003) Quality services in realm of the context of Internet retailing. Data gathering by analyzing 1,078 consumer stories of online shopping experiences. Main service-quality factors determine responsiveness, credibility, ease of use, reliability, convenience, communication, access, competence, courtesy, personalization, continuous improvement, collaboration, security/privacy and aesthetics. (Huang et al. 2015) The empirical study is performed to investigate service quality of Asian liner shipping industry by focusing on a group of nameless leading liner shipping companies. The survey data were collected through e-mail, interview or personal visit. One of the major findings is the customer of liner shipping service tends to purchase a complete transport service including other logistics services. The important technical measures are the implementation of the ISO 9001 framework, cheaper service and exemption of terminal handling fee.
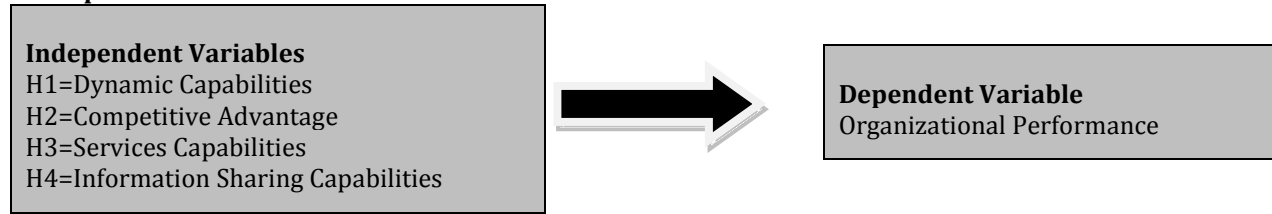
Hypothesis 3: Services Capabilities are positively related to organizational performance in the Logistics industry

Information sharing capabilities: (Lai et al. 2008) the electronic integration impact on business processes of organizational performance in terms to reduce logistics cost and service improvements. Resources for the company are information gathering and finance knowledge to perform logistic activities. (Kawasaki et al. 2011) information and Communication Technology (ICT) that becomes competitive in the logistics market that value for customers and other stakeholders in the way to give benefits cost reduction and better service to the customer. (Hsu et al. 2009) information technologies are used at every point of life and in organization it playing a vital role. In logistic, importing a cargo needed to construct a network of information and human flows for the customs clearance.

Information Sharing Capability: (Shu-Mei, 2017) Firm is facing the complexity in the business processes, trying to find ways to improve performance. The result of a survey of 130 firms in Taiwan confirmed the mediating role of operational capabilities. Method to enhance the IQ of enterprise applications are information completeness, information accuracy, information format, and information currency constitutes the construct information quality. (Mohd el at. 2017) Road logistics, transportation need mobility medium to run a business process. Delivery delay and rising costs are the two major effects of business performance for logistics service providers (LSPs). This study is based on empirical data gathered from 81 LSPs in the East Coast region registered with the Federation of Malaysian Manufacturers directory of Malaysian industries. (Benitez-Amado & Ray, 2013) explores that information technology (IT) infrastructure affects firms' ability to brains and grab Merger and Acquisition (M &A) opportunities and integrate acquisitions. Data collected as matched-pair survey data from 100 mid-size Spanish firms using a combination of secondary as well as. Development of business flexibility and IT integration capability, a flexible IT infrastructure enables firms to chase M&A opportunities and facilitates the integration of IT and business resources of the merged firm to help realize the economic benefits.

Hypothesis 4: Information Sharing capabilities are positively related to organizational performance in the Logistics industry

Conceptual Framework

Independent Variables
H1=Dynamic Capabilities
H2=Competitive Advantage
H3=Services Capabilities
H4=Information Sharing Capabilities

Dependent Variable
Organizational Performance

3. Methodology

It is the industrial research and data depend upon the primary data source. A well-designed questionnaire, which incorporated all the selected variables, is used to collect data for this research study by means of a questionnaire survey. The questionnaire survey for this research study was administered among the population of freight forwarding and logistics industry people in Karachi. The large number of information collects in short time with the help of Google drive. In this, structured questionnaire developed and which is close-ended question using the Likert scale which was used to indicate the level of responses to all items; 1= strongly disagree, 2= disagree, 3= Neutral, 4= agree, 5 strongly agree (Likert, R., 1932). The questionnaire work on analyzing and designed to find factors influencing to organizational performance. Dynamic capabilities - Dynamic capabilities were measured as respondents' employing companies'/agencies' ability to integrate, build and reconfigure their competences to face a changing environment. The 3 measurement items were adapted from Lin and Wu (2014).
Service capabilities: Service capabilities of respondents' employing container shipping companies/ agencies were measured using 3 items adapted from the study of Yang et al. (2009).
Competitive advantage: Competitive advantage was measured by respondents identifying specific competitive advantage in their employing companies/agencies. 3 measurement items were adapted from Schilke (2014).
Information Sharing Capabilities: Information sharing capabilities play a fundamental role in the delivery of logistic services, in particular real time visibility into processes and data. The capabilities also relate heavily to the interconnectivity to its customers and its resources. 3 measurement items were adapted from Sandberg & Abrahamsson (2011).
Organizational Performance: Organizational performance was measured by respondents identifying specific organizational performance in their employing companies/agencies. 3 measurement items were adapted from Tsamenyi et al. (2010).

The questionnaire was sent through email messages to the 250 employees of different companies who belonged to the logistics/ freight forwarding industry in Karachi and 100 responded back having a response rate of 40%. The measurement scales are separately tested for their reliability and validity. The answers of the respondents were after collection, processed into SPSS and different analysis and tests were performed such as reliability test, factor analysis and regression analysis to find out the reliability of the data, the relationship between the variables and the authenticity of the items of each variable.

Regression Equation: The Regression Equation for this model is as below;
$$OP = \alpha_0 + \beta_1 DC + \beta_2 SC + \beta_3 CA + \beta_4 ISC + e$$
Where,
α_0 **=** is the intercept
β**=** are the regression coefficients for all independent variables.
DC= Dynamic capabilities, which were measured as respondents' employing companies'/agencies' ability to integrate, build and reconfigure their competences to face a changing environment. The 3 measurement items were adapted from Lin and Wu (2014).
SC= Service capabilities, respondents of employing Logistics industry were measured using 3 items adapted from the study of Yang et al. (2009).
CA= Competitive advantage, was measured by respondents identifying specific competitive advantage in their employing companies/agencies. 3 measurement items was adapted from Schilke (2014).

ISC= Information Sharing Capabilities, play a fundamental role in the delivery of logistic services, in particular real time visibility into processes and data. The capabilities also relate heavily to the interconnectivity to its customers and its resources. 3 measurement items were adapted from Sandberg & Abrahamsson (2011).
OP= Organizational Performance, was measured by respondents identifying specific organizational performance in their employing companies/agencies. 3 measurement items were adapted from Tsamenyi et al. (2010).

4. Results and Empirical Analysis

Findings and Interpretation of the Results: In this section we analyzed factors that influence organizational performance of freight forwarding/logistics industries in context of Karachi.

Table 1: Distributions of Questionnaires

Items	Number
Questionnaires distributed	250
Total response	120
Unusable response	20
Usable response	100
Total response rate	40%

Table 2: Profile of the respondents

Respondent's Profile	Categories	Percent %
	Multinational	97.2
Company	Local	2.8
Job title	Manger	60.8
	General Employees	39.2
Work experience	2-5 years	39.6
	6-10 years	37.1
	10 years or above	23.3
Length of business organizational	3-5 years	8.3
	6–10 years	8.3
	11–20 years	45.4
	21 years or above	38.1

The industry wide survey was completed by 100 employees from various logistics/freight forwarding organization in Karachi. As regards ownership pattern, almost hundred (97.2%) of respondents' employing firms were multinational owned, and 2.8% were local owned. The profile of respondents shows that 60.8% were managers and 39.2% were general employees. This oblique that most respondents had abundant practical experience and a high enough position to answer questions with respect to dynamic capabilities, service capabilities, competitive advantage, information sharing capabilities and organizational performance. With regard to length of work experience in their employing company, 39.6% respondents to 2-5 years, where else 37.1% respondents had worked at their company for 6-10 years and 23.3% were 10 years or above. Respondent's rates the length of business organizational 8.3% were the 3-5years and 6-10 years, 45.4% were the 11-20 years of business organizational length and 38.1% were 21 years or above.

Table 3: Reliability Statistics

Variables	Cronbach's alpha	N of items
DC	.847	3
SC	.619	3
CA	1.000	3
ISC	.620	3
OP	.684	3
Overall Reliability	.881	15

Table 3 provides Reliability test is used to check the reliability and validity of data collected through questionnaires. It checks the consistency and accurateness in answers collected. The value of Cronbah's alpha for the entire variable which is 0.881. It appears from the table that the values of Cronbach's alpha of DC,SC,CA,ISC and OP range from 0.6 to 1.0. Thus it can be concluded that the measures have an acceptable level of reliability.

Table 4: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy	0.749
Bartlett's Test of Sphericity	
Approx. Chi-Square	2776.459
Degree of freedom	171
Sig. value	.000

Table 4 shows the Kaiser Meyer-Olkin Measure of Sampling Adequacy (KMO) for this study was high as 0.749 whereas Bartlett's Test of Spehricity was significant.

Table 5: Factor Analysis of Correlation Matrix

	Factors analysis	1	2	3	4	5
DC	My company can flexibly develop new services.				.691	
DC	My company changes our operation when customer feedback gives us a reason to change.				.789	
DC	My company has the ability to acquire new skills from partners.				.751	
SC	My company has the ability to trace the cargo where is.			.811		
SC	My company provides good sales activity.			.791		
SC	My company has ability to pick-up and delivers products on time.			.613		
CA	My company provides a superior delivery service.	.883				
CA	My company has service differentiation from its competitors.	.883				
CA	My company has gain strategic advantages over its competitors.	.884				
ISC	My company share information by electronic links which connections throughout the firm.		.836			
ISC	My company can collect all the information related to customer and their specific needs.		.592			
ISC	My company can share related logistics information between all departments.		.623			
OP	My company has improved return on investment in the past three years					.920
OP	My company has improved sales in the past three years.					.539
OP	My company has improved profit growth in the past three years.					.525

Table 5 illustrates all variables that are Dynamic capabilities, services capabilities, Competitive advantage, Information Sharing capabilities and Organizational performance. To obtain the concrete result of grouping, a factor analysis was conducted and we rotated the factors by using varimax method to simplify our results interpretation and all items were scrutinized for patterns through factor analysis. Table 5 illustrates rotated component matrix. When loading less than 0.40 were excluded, analysis resulted a five factor solution with a simple structure (factor loadings > 0.40). Three items loaded onto Factor 1 which is related to competitive Advantage. Three items loaded onto Factor 2, represented information sharing Capabilities whereas three items loaded onto factor 3, resulted in Services Capabilities. Three items loaded onto Factor 4 which is about Dynamic Capabilities. Lastly three items loaded onto Factor 5 representing Organizational Performance.

Table 6: Regression Analysis

Variables	Coefficient	T.STATS	PROB. VALUE	VIF
Constant	1.11	3.61	.000	
DC	.024	.363	.718	2.22
SC	.420	4.69	.000	1.86
CA	.035	.412	.681	2.88
ISC	.286	3.55	.001	2.43
R Square		.591		
F-Statistics		34.26		
Probability (F-Stat)		.000b		

A multiple linear regression test was performed to examine the relationship between Organizational performance and dynamic capabilities, services capabilities, competitive advantage, information sharing capabilities. Variance Inflation Factor (VIF) in our study for all four independent variables is low 2.25, 1.86, 2.80 and 2.43 this leads to the result that multicollinearity does not exist. R square shows the dependent variable variance explained in context independent variable. 0.591 is the value of R square, which means that 59.1% variation in organizational performance being the dependent variable is explained by the independent variables (dynamic capabilities, services capabilities, competitive advantage and information sharing capabilities). Value of coefficient or slope represents the relationship between the variables. With the demographic variables included Table 6 illustrates the results of regression analysis which clearly depicts that coefficients of dynamic capabilities (β= .024), services capabilities (β= .420), competitive advantage (β= .035) and information sharing capabilities (β= .286) are positive and there is a positive relationship between dependent variable (Organizational Performance) and Independent variable (dynamic capabilities, services capabilities, competitive advantage and information sharing capabilities). As we already know that in multiple linear regressions, the sign of coefficient whether it is negative or positive give us the direction of the effect. We can clearly observe that Significance F value is less than 0.1 which states that combine effect of all independent variable is significant. According to the results obtained, regression equation is as follows;

$$OP = 1.11 + (.024)DC + (0.420)SC + (.035)CA + (.286)ISC$$

To better understand this study, Table VI results showed that dynamic capabilities has a positive but insignificant (β = 0.024, p>0.1) impact on organizational performance thus failing to support the hypothesis H1. Services capabilities also has a positive and significant (β = .420, p<0.1) impact on organizational performance thus supporting the hypothesis H2. Competitive advantage also has a positive but insignificant (β = .035, p>0.1) impact on organizational performance thus failing to support the hypothesis H3. Information sharing capabilities also has a positive and significant (β = .286, p<0.1) impact on organizational performance thus supporting the hypothesis H4. The above equation is interpreted as: 1 percent of the organizational performance increase, if the dynamic capabilities are increased by 0.024 percent. The organizational performance increases by 1 percent, if the services capabilities are increased by 0.420 percent. The organizational performance increases by 1 percent, if the competitive advantage is increased by 0.035

percent. The organizational performance increases by 1 percent, if the information sharing capabilities are increased by 0.286 percent.

Table 7: Hypothesis Assessment Summary

Research Hypothesis	Results
H1= Dynamic capabilities has an insignificant effect on organizational performance.	Rejected
H2= Competitive advantage has an insignificant effect on organizational performance.	Rejected
H3= Services Capabilities has a significant effect on organizational performance.	Accepted
H4= Information sharing capabilities has a significant effect on organizational performance.	Accepted

In Karachi, companies are suffering from insufficient resources; in which some they are human knowledge, technologies and information materials to cope with different environment in the market. In companies employees are not well trained to manage the situation. Competitive advantage is neglect due to not working in strategies based on the resources. Companies do not have such kind of resources and capabilities to exploit opportunities to beat the market. They do not pitch up by differentiate them each other. Another reason is that, sometime companies do not approach right customer due to that they failed to achieve competitive advantage. Sometime, culture of the organization causes failure of these things by not changing environmental work place.

5. Conclusion

This study investigated the linkages between dynamic capabilities, service capabilities, competitive advantage, information sharing capabilities and organizational performance in the freight forwarding industry. The Logistics Industry plays an important role in Pakistan's economy. Karachi is the main city for moving goods towards other countries. As Karachi has seaports, airports and the most benefiting sectors is the road transportation logistics that in turn somehow created unwanted road congestions as a by-product of its development, particularly affecting urban areas. Working in the right line of logistics or selecting it according to the priorities of the firm give the best result in the organization performance. Providing good quality and services to the customer it is also a main function in the firm which are done by supply chain and in more with the help of logistics sectors. In service industry, it is one of the biggest challenges in providing relevant service to customers is very important. Identifying customers' needs and rapidly fulfilling they can bring about positive and fruitful outcomes. It is proved from the analysis that information sharing capabilities and services capabilities have a positive and significant impact on organizational performance. Whereas, dynamic capabilities and competitive advantage have insignificant impact on organizational performance. Meeting effectiveness has impact on physical and service-related uniqueness of properties that is an important. Regarding service capabilities attribute, respondents strongly agreed that they are good to trace out the cargo in where point of movement, have abilities to pick up and deliver the goods on time which provides good sales activity.

Information sharing plays an excellent role organizational performance in terms to reduce logistics cost and service improvements. By electronic link company share information which connections throughout the firm, collect all the information related to customer and their specific needs and share related logistics information between all departments. Competitive advantages give unique points from the competitors. The organization always wants to achieve competitive advantage in that they have to improve organizational performance. Dynamic capabilities, ability to integrate, build and reconfigure their competences to face a changing environment, but some time the company fails on it. Failure of dynamic profit margins and competitive advantage its effect on organization, the target profit effect on profit margin of the organization and when it not getting target profit they start fire employees and sometime they do from top level manager who have great experience relocate them, reprimand them, and make their lives unpleasant. Sometime, it arises threat to the organization. It is the main reason that few companies are working in good path and the rest of them are running out of it.

Recommendations and Policy Making: We recommend that organizations and higher level managers should make strategies for Competitive advantages. A company should focus to have ability to provide

superior delivery services, gain strategic advantage over its competitors. The company should have characteristics of resources and capability to attract more potential customer and expand the market share with the help of Porter's cost leadership strategy which may be the best choice for regarding select the mode of transportation. Employees usually come from a middle class background in logistics industry of Karachi so they tend to majorly emphasize on the salary they get because at the end they run their family and that effect the performances of the organization. Employees don't have such knowledge about how to work out according to the dynamic changes. For that organizational have to trainee and give some class to their employees regarding, the need of specific services, customer and taking feedback from the customer so companies can better understand the changes need in the operation. By attending seminars or workshop which helps the Organization to learn from partners about changes or new development acquiring in the market.

Thus we recommended that the organization should conduct monthly feedback sessions with each employee to discuss the issues facing in the operation of the organization. There should be a collaborative committee in the organization that must ensure to conduct for sharing different experiences faced which can improve the performance organization. To set the direction of success of the organizations, they should conduct weekly team meetings to put light on the daily work load and exceptions that employee is facing, when the targets are assisted timely. Monthly organizational meetings should be conducted to discuss the current performance of the organization, the future targets to achieve and proper goal setting on departmental level and individual level. The organization should Removes inefficiencies to embrace and encourage failure; they will be able to more effectively eliminate projects and initiatives before they suck up any more resources.

Limitations and direction for future research: In Pakistan, supply chain industry is still evolving and there are very few companies in Karachi who are engaged in Supply Chain activities. Thus we were not able to reach other companies in many different cities. There are many challenges faced by logistics industry. The organization always wants to achieve competitive advantage in that they have to improve organization which creates devotion on overall performances. This study has several limitations and can be suggested for future research. First, this study has demonstrated that dynamic capabilities are needed and should be especially stressed in a situation of environmental dynamism. However, in order to prove that this is also useful in the other parts of the world, it would be valuable to collect data from other regions or cities in Pakistan to obtain a balanced view of the relationships between dynamic capabilities, service capabilities, competitive advantage, information sharing capabilities and organizational performance in operations of the logistics industry. Thus, future research will be investigated on technologies and software application on logistics performances of the organization. Also approach to identify the priorities of strategic choices. More work on overall main cities of Pakistan.

References

Agrawal, S., Singh, R. K., & Murtaza, Q. (2015). A literature review and perspectives in reverse logistics. *Resources, Conservation and Recycling*, *97*, 76-92.

Benitez-Amado, J., & Ray, G. (2013). Impact of Information Technology Infrastructure Flexibility on Mergers and Acquisitions.

Cepeda, G., & Vera, D. (2007). Dynamic capabilities and operational capabilities: A knowledge management perspective. *Journal of Business Research*, *60*(5), 426-437.

Cheng, Y. H., & Yeh, C. Y. (2007). Core competencies and sustainable competitive advantage in air-cargo forwarding: evidence from Taiwan. *Transportation Journal*, 5-21.

Gimenez, C., & Ventura, E. (2003). Supply chain management as a competitive advantage in the Spanish grocery sector. *The International Journal of Logistics Management*, *14*(1), 77-88.

Green Jr, K. W., Whitten, D., & Inman, R. A. (2008). The impact of logistics performance on organizational performance in a supply chain context. *Supply Chain Management: An International Journal*, *13*(4), 317-327.

Hajiesmaeili, A., Rahimi, M., Jaberi, E., & Hosseini, A. A. (2016). Studying the Influence of Logistics on Organizational Performance through a Supply Chain Strategy: Case Study in Goldiran Electronics Co. *World Academy of Science, Engineering and Technology, International Journal of Social, Behavioral, Educational, Economic, Business and Industrial Engineering*, *10*(4), 1042-1050.

Hajiesmaeili, A., Rahimi, M., Jaberi, E., & Hosseini, A. A. (2016). Studying the Influence of Logistics on Organizational Performance through a Supply Chain Strategy: Case Study in Goldiran Electronics Co. *World Academy of Science, Engineering and Technology, International Journal of Social, Behavioral, Educational, Economic, Business and Industrial Engineering*, *10*(4), 1042-1050.

Halilović, A., & ILGUN, E. (2014). The Impact of Supply Chain Management Practices on Competitive Advantage and Organizational Performance; Case: Companies in Bosnia and Herzegovina. In *International Conference on Economic and Social Studies*. International Burch University.

Hinkin, T. R., & Tracey, J. B. (1998). The service imperative: Factors driving meeting effectiveness. *The Cornell Hotel and Restaurant Administration Quarterly*, *39*(5), 59-67.

Hsu, C. I., Shih, H. H., & Wang, W. C. (2009). Applying RFID to reduce delay in import cargo customs clearance process. *Computers & Industrial Engineering*, *57*(2), 506-519.

Huang, S. T., Bulut, E., & Duru, O. (2015). Service quality assessment in liner shipping industry: an empirical study on Asian shipping case. *International Journal of Shipping and Transport Logistics*, *7*(2), 221-242.

Huang, S. T., Bulut, E., & Duru, O. (2015). Service quality assessment in liner shipping industry: an empirical study on Asian shipping case. *International Journal of Shipping and Transport Logistics*, *7*(2), 221-242.

KAWASAKI, T., HANAOKA, S., & LE, H. T. (2011). The Impact of Information and Communication Technology on Performance of Logistics Service Providers in Vietnam. *The impact of information and communication technology on performance of logistics service providers in Vietnam*, (44).

Kent, J. L., & S. Parker, R. (1999). International containership carrier selection criteria: shippers/carriers differences. *International Journal of Physical Distribution & Logistics Management*, *29*(6), 398-408.

Knee, R. (2001). Mergers in transit. *Logistics Management and Distribution*.

Kuo, S. Y., Lin, P. C., & Lu, C. S. (2017). The effects of dynamic capabilities, service capabilities, competitive advantage, and organizational performance in container shipping. *Transportation Research Part A: Policy and Practice*, *95*, 356-371.

Lai, K. H., Ngai, E. W. T., & Cheng, T. C. E. (2002). Measures for evaluating supply chain performance in transport logistics. *Transportation Research Part E: Logistics and Transportation Review*, *38*(6), 439-456.

Lai, K. H., Wong, C. W., & Cheng, T. E. (2008). A coordination-theoretic investigation of the impact of electronic integration on logistics performance. *Information & Management*, *45*(1), 10-20.

Li, S., Ragu-Nathan, B., Ragu-Nathan, T. S., & Rao, S. S. (2006). The impact of supply chain management practices on competitive advantage and organizational performance. *Omega*, *34*(2), 107-124.

Likert, R. (1932). A technique for the measurement of attitudes. *Archives of psychology*.

Lin, Y., & Wu, L. Y. (2014). Exploring the role of dynamic capabilities in firm performance under the resource-based view framework. *Journal of business research*, *67*(3), 407-413.

Meyer, J. P., Stanley, D. J., Jackson, T. A., McInnis, K. J., Maltin, E. R., & Sheppard, L. (2012). Affective, normative, and continuance commitment levels across cultures: A meta-analysis. *Journal of Vocational Behavior*, *80*(2), 225-245.

Mohd, N. F. B., Wahab, S. A., Al Mamun, A., Ahmad, G. B., & Fazal, S. A. (2017). Logistics Capability, Information Technology, and Innovation Capability of Logistics Service Providers: Empirical Evidence from East Coast Malaysia. *International Review of Management and Marketing*, *7*(1).

Mohd, N. F. B., Wahab, S. A., Al Mamun, A., Ahmad, G. B., & Fazal, S. A. (2017). Logistics Capability, Information Technology, and Innovation Capability of Logistics Service Providers: Empirical Evidence from East Coast Malaysia. *International Review of Management and Marketing*, *7*(1).

Oh, H., Oh, H., Kim, K., & Kim, K. (2017). Customer satisfaction, service quality, and customer value: years 2000-2015. *International Journal of Contemporary Hospitality Management*, *29*(1), 2-29.

Sandberg, E., & Abrahamsson, M. (2011). Logistics capabilities for sustainable competitive advantage. *International Journal of Logistics Research and Applications*, *14*(1), 61-75.

Schilke, O. (2014). On the contingent value of dynamic capabilities for competitive advantage: The nonlinear moderating effect of environmental dynamism. *Strategic Management Journal*, *35*(2), 179-203.

Shu-Mei Tseng (2017)"How Information Quality Leads to Operational Capabilities and Corporate Performance." *source: International Journal of Innovative Science, Engineering and Technology (IJISET)* 4 (2017): 26-34.

Stank, T. P., Keller, S. B., & Closs, D. J. (2001). Performance benefits of supply chain logistical integration. *Transportation Journal*, 32-46.

Talaja, A. (2012). Testing VRIN framework: resource value and rareness as sources of competitive advantage and above average performance. *Management: Journal of Contemporary Management Issues*, *17*(2), 51-64.

Teece, D. J. (2007). Explicating dynamic capabilities: the nature and micro foundations of (sustainable) enterprise performance. *Strategic management journal*, *28*(13), 1319-1350.

Torres, A. R., Raitasuo, P., Oliver, Y., & Kuula, M. Capabilities And Performance Of Logistics Service Providers In Four Countries: Some Preliminary Results.

Tsamenyi, M., Onumah, J., & Tetteh-Kumah, E. (2010). Post-privatization performance and organizational changes: Case studies from Ghana. *Critical Perspectives on Accounting*, *21*(5), 428-442.

Tsamenyi, M., Onumah, J., & Tetteh-Kumah, E. (2010). Post-privatization performance and organizational changes: Case studies from Ghana. *Critical Perspectives on Accounting*, *21*(5), 428-442.

Tsekouras, G., Poulis, E., & Poulis, K. (2011). Innovation and dynamic capabilities in a traditional service sector: evidence from shipping companies. *Baltic Journal of Management*, *6*(3), 320-341.

Wamba, S. F., Gunasekaran, A., Akter, S., Ren, S. J. F., Dubey, R., & Childe, S. J. (2017). Big data analytics and firm performance: Effects of dynamic capabilities. *Journal of Business Research*, *70*, 356-365.

Wang, E., Klein, G., & Jiang, J. J. (2007). IT support in manufacturing firms for a knowledge management dynamic capability link to performance. *International journal of production research*, *45*(11), 2419-2434.

Wong, W. P., Soh, K. L., & Le Chong, C. (2016). Differentiated service consumption and low cost production: Striking a balance for a sustainable competitive advantage in Malaysia. *International Journal of Production Economics*, *181*, 450-459.

Yang, C. C., Marlow, P. B., & Lu, C. S. (2009). Assessing resources, logistics service capabilities, innovation capabilities and the performance of container shipping services in Taiwan. *International Journal of Production Economics*, *122*(1), 4-20.

Yang, Z., Peterson, R. T., & Cai, S. (2003). Services quality dimensions of Internet retailing: An exploratory analysis. *Journal of services marketing*, *17*(7), 685-700.

Zollo, M., & Winter, S. G. (2002). Deliberate learning and the evolution of dynamic capabilities. *Organization science*, *13*(3), 339-351.

Studying Customer Attitudes towards Advertising in Pakistan

Sheikh Aftab Ahmad[1], Khalid Jamil[2*], Muhammad Asghar Ali[3]
[1]University of Hail, Hail, Saudi Arabia
[2]National University of Modern Languages (NUML) Islamabad, Pakistan
[3]International Islamic University Islamabad, Pakistan
Aftab_ahmad@hotmail.co.uk, *khalidjamil29@yahoo.com, asghariqbal68@yahoo.com

Abstract: The purpose of the paper is to examine the customer attitudes towards advertising in Pakistan. In this study researcher examine the different dimensions of attitudes towards advertising economics beliefs, social beliefs, regulation beliefs, and personal usefulness and ethics beliefs. Data for the study collected from the customers in twin cities of Pakistan. Final analysis performed on 116 valid responses. Cronbach's Alpha was used to check the reliability of the scale. Correlation and regression analysis was used to test the hypothesis and check the variance. The findings of the descriptive analysis shows that customer's regulation and ethics beliefs towards advertising are not better and Economic beliefs, Social beliefs and Personal usefulness about advertising are better. The current policies of advertisers are not according to customer's regulation beliefs and ethics beliefs. The data was collected just from students and used small sample of 116 respondents however it may effects to generality. The study provides significant practical implications for the marketing managers as well as advertisers to adjust their advertising plans or policies in Pakistan with respect to different dimensionality of consumer's attitudes toward advertising.

Keywords: *Consumer's attitudes, advertising, social beliefs*

1. Introduction

Advertising as a most important social event communicates a key changes in values, beliefs, behavior and buying patterns of the peoples which manipulate the lifestyles of people (Pollay & Mittal, 1993). Munusamy and Wong (2007) mentioned that Attitude toward advertising is an interior concept and fundamentally is one of the determinants of attitude towards any specific advertisement (Lutz, 1985); attitude of the user or person towards a sole particular advertisement is predisposed by attitude towards general advertising (Bauer & Greyser, 1968; Lutz, 1985). Tan and Chia (2007) quoted that researchers observes favorable or unfavorable attitude towards advertising. Advertising represents an important means by which organizations communicate with their customers, both current and potential (Bendixen, 1993). On one hand, attitudes toward advertising in general (defined as learned tendencies to respond in a consistently favorable or unfavorable manner to advertising in general) are major determinants of brand attitudes and purchase intentions (Lutz, 1985; MacKenzie & Lutz, 1989). Hence, knowledge of public's predispositions towards advertising in general can yield insights into the effectiveness of advertising (Mehta, 2000). On the other hand, various publics' attitudes toward advertising shed light on the role of advertising as seen by diverse groups in a society and can potentially guide voluntary or mandatory corrective actions (Wills Jr & Ryans Jr, 1982). Attitudes are conventionally regarded as an indicator of the effectiveness of advertising (Jun & Lee, 2007). According to Mitchell and Olson (2000), an attitude towards an object is defined as an individual's internal evaluation based on his or her beliefs. Pakistan is considered as an emerging market; due to trends of globalization, establishment of multi-national companies; advertisement has undergone drastic changes in the recent years which has a great impact on the attitudes and beliefs of the consumer (Usman, Ilyas, Hussain, & Qureshi, 2010). In 2007, spending on advertising was estimated at more than $385 billion worldwide.

2. Literature Review

Attitudes towards Advertising: Lutz (1985) defined general attitudes toward advertising as an educated tendency to respond in a positive or adverse behavior to advertising in general. Consumers who consider advertising can create a constructive impact on the economy also have a tendency to more optimistic thoughts to advertising (Pollay & Mittal, 1993). Sandage and Leckenby (1980) argue that thoughts to Advertising in general are highly optimistic than attitudes to real advertising and that consumer are less serious to economics beliefs in advertising than social beliefs in advertising. In this study we examine

different dimensions of attitudes towards Advertising in Sargodha city of Pakistan. These dimensions are discussing below.

Economics beliefs in advertising: Consumers make decision better and easily due to advertising provide information about a product (Alwitt & Prabhaker, 1992). Consumer has believed that advertising is main sources of information advertising (Siu & Kai-ming Au, 1997). As McGuinness and Cowling (1975) explains, that consumer may be wrong informed when they search information about a product e.g. price location and qualities of product so their search cost is high then a firm advertise to provide information to consumer and reduce their search cost of product. Kaldor (1950) considers that advertising has indirect effects and economy of scale. He argues that advertising leads to more concentrated markets. Advertising may leads to lower price, if economies of scale are significant in production but if it crate brand loyalty so higher price.
H1: There is a significant, positive correlation between Economic beliefs and General attitude.

Social beliefs in advertising: Hunt and Arnett (2004)Says that there are two "social" criticisms, one is explicitly blame advertising with the influence to force to consumer buy product which they do not want or need and second is implicitly blame advertising with this power. Consumer may focus on attractive advertising and promote product in a positive manner for development of consumer's self –image (Richins, 1991). Mostly consumers are persuaded to buy a product they should not to purchase in real (Smith & Andrews, 1989). Consumers purchase product to see famous logos, slogans add other corporate designs (Pollay & Mittal, 1993). Although in primary this may seem logical, earlier research has actually designated that while the social role advertising plays is important; consumers generally do not trust advertising reveals their likeness.
H2: There is a significant, positive correlation between Social beliefs and General attitude.

Personal usefulness in advertising: Consumers make decision better and easily due to advertising provide information about a product (Alwitt & Prabhaker, 1992).General attitudes to advertising have been forced by major dimensions or "personal uses" of advertising (Pollay & Mittal, 1993) and distal background of advertising. The informative observation embrace that advertising mainly influences demand by conveying information. Bagwell (2007)stresses that advertising may generate brand loyalty and prevent entry. Kaldor (1950) progress the view more and strains that advertising guides to a more concentrated market, due to the occurrence of an advertising scale economy. Wills Jr and Ryans Jr (1982)argues that advertising typically presents slight information and is convincing in nature.
H3: There is a significant, positive correlation between Personal usefulness and General attitude.

Regulation beliefs in advertising: Advertising to children is extensively sighted as the factor of a progressively more commercialized culture (Kunkel & Ford, 2005). Preschool audience is an important demographic group for building brand loyalty (Klein 1999). The second factor is that the childhood size rate is high in overall world. The children are mostly involves in food product's advertising so marketing of food products has significant relation with this problem (Kunkel & Ford, 2005). In donating to diverse rules of advertising regulation, countries present their consumers various degrees of protection. Yet, as Kanter (1974) argues, regulations must be created according to customer's views. This argument suits especially effective in the environment of developing economies where the customer, frequently have a limited education and market knowledge, may be much less disbelieving of advertising (Cassim & Langton, 1996).
**H4: There is a significant, positive correlation between Regulation beliefs and General attitude.**

Ethics beliefs in Advertising: The rise of ethical consumerism demonstrates that customers are gradually more ready to integrate ethics in their product buy decision. By "ethical" products, we pass on to products that display one or numerous social or environmental values which might influence consumer purchase decision. While a product cannot be ethical as such, it can be improved by ethical concerns or characteristics that are positively perceived (Crane, 2001). The advertising that mostly depends on children has been highly criticized for being controlling and for unfair benefit of children's unawareness. The advertising industry is struggling, with harsh calls for regulations and ethics in advertising. Sometimes it is appealing choice for government to controlling or banning advertising but government may serious in such issues even it may be useless to achieving the objectives set by policy maker (Eagle, Kitchen, & Rose, 2005).
H5: There is a significant, positive correlation between Ethics beliefs and General attitude.

3. Methodology

Research framework:: This research is quantitative because researchers want to check the relationship of dependent and independent variables.
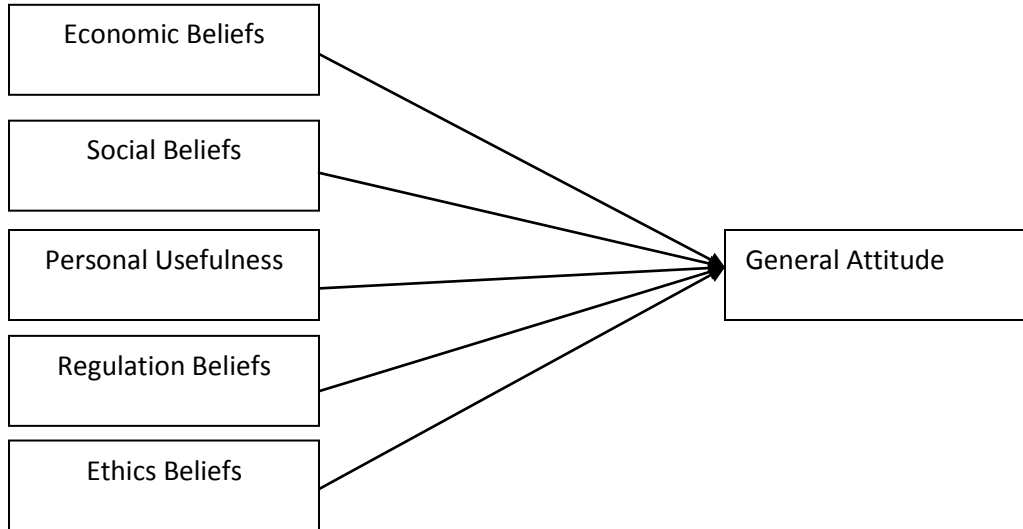
Sample: These study researchers are using the quantitative questionnaire. The questionnaires were filled from student of bachelors and masters program of University of Sargodha. Total 130 questionnaires were distributed among students, 120 were returned out of which final analysis adopted on 116 questionnaires. The 60 were males and 56 were females.

Instrument: The questionnaire used to check the relationship between the independent variables (Economics beliefs, Social beliefs, Personal usefulness, Regulations beliefs, Ethics beliefs) and dependent variable (General attitude).The questionnaire of likert scale ranges from 1= strongly disagree to 5= strongly agree was used and modified with the purpose of examine to the consumer attitudes towards advertising in general. The likert scale consisting of 20 items was adopted from (Wen-ling liu, 2002). General attitude has 3 items and independent variables, Economics beliefs has 3 items, Social beliefs has 2 items, Personal usefulness has 3 items, Regulation beliefs has 4 items and Ethics beliefs has 3 items. Total items are 18 in this research paper.

Data Analysis: The researchers used "Statistical Package for Social Science" Software to check the relationship of independent dimensions and dependent variable and reliability of questionnaire. Correlation and Regression analysis were used to test the hypotheses and variance. Comparison of means was used to examine the customer attitude towards different dimensions. Cranbach's Alpha was used to check the reliability of the scale which is (0.601) after deletion of 5 items (Hair, Anderson, & Tatham). Multivariate Data Analysis, 5th ed, Prentice-Hall, Upper Saddle River, NJ).

4. Results

Table 1: Frequency Analysis

Gender of respondents	Frequency
Male respondents	64
Female respondents	54
Total respondents	**116**

Table 2: Respondent's Age

Age of respondents	Frequency
17-19 Years	18
20-22 Years	84
23 Years and above	14
Total	**116**

Tables 1 and 2 show that there are "116" total respondents in which "62" respondents are male and "54" are females and from those 18 respondent's age is between 17 to 19 years, 84 respondents are between 20 to 22 and 14 respondents are between 23 and above respectively.

Descriptive Statistics

Table3: Means

Dimensions	N	Mean
Economics beliefs	116	3.2299
Social beliefs	116	3.0733
Personal usefulness	116	3.5201
Regulation beliefs	116	2.4547
Ethics beliefs	116	2.9397
General attitudes	116	3.7586
Valid N	**116**	

Table 3 shows the means of all the variables used. Most of the means show that people have a positive perception about the questions asked as mostly means are higher than 3 and 3 is considered as indifferent and after 3 there is agree and strongly agree options respectively. The mean 3 or more than 3 means that customers are satisfy through these dimensions towards advertising in general and less than 3 mean shows that customers are not satisfy through these dimensions towards advertising in general. The mean for economics beliefs is (3.2299), for social beliefs (3.0733), personal usefulness is (3.5201). The mean for regulation beliefs is (2.4547) and ethics beliefs (2.9397) which is low in respect of other variables. So its means that customers have different perceptions about these two variables and advertising in Sargodha is not according to customer's regulation and ethics values. Therefore advertiser has a dire need to focus on the regulation beliefs and ethics beliefs to satisfy the customer and has a need to adjust their advertising policies according to customer's regulation and ethics values.

Table 3 shows correlations among independent variables and their relationship with dependent variable. There is a positive and significant relationship between Economics beliefs and General attitude (.375). Personal usefulness has also positive and significant relationship with general attitude (.416). It means that these dimensions have positive impact on dependent variable. There is negative relationship of general attitude with social beliefs (-.080), and regulation beliefs (-.176). There is positive relationship between general attitude and ethics beliefs (.129) but not at significant level. Economic belief has a positive relationship with social beliefs (.059), personal beliefs (.176) and ethics beliefs (.110) but not at significant level and has a negative relationship with regulation beliefs (-.044). Social belief has positive relationship with personal usefulness (.167), regulation beliefs (.139) and ethics beliefs (.021) but there is not at significant level. Personal belief has negative relationship with regulation beliefs (-.203) and has a positive relationship with ethics beliefs (.097) but not at significant level. Regulation belief has positive and significant relationship with ethics beliefs (.206). On the basis of this the following hypothesis has been formulated:

H1: There is a significant, positive correlation between Economic beliefs and General attitude.
Table 4 indicates that there is a positive correlation (r =0.375) between Economic beliefs and General attitude, which is significant at (0.000) level. Therefore H1 is accepted.

H2: There is a significant, positive correlation between Social beliefs and General attitude.
Table 4 indicates that there is a negative correlation (r =-0.080) between Social beliefs and General attitude however it is not significant (0.396). Therefore H2 is not accepted.

H3: There is a significant, positive correlation between Regulation beliefs and General attitude.
Table 4 indicates that there is a negative correlation (r =-0.176) between Regulation beliefs and General attitude, however it is not significant at (0.059) level. Therefore H3 is not accepted.

H4: There is a significant, positive correlation between Personal usefulness and General attitude.
Table 4 indicates that there is positive correlation (r =-0.416) between Personal usefulness and General attitude which is significant at (0.000) level. Therefore H4 is accepted.

H5: There is a significant, positive correlation between Ethics beliefs and General attitude.
Table 4 indicates that there is a positive correlation (r=0.129) between Ethics beliefs and General attitude, but it is not significant at (0.169) level. Therefore H5 is not accepted.

Table 4: Correlation

		Social beliefs	General attitude	Ethics beliefs	Regulation beliefs	Personal usefulness	Economic beliefs
Social beliefs	Pearson correlation	1	-.080	.021	.139	.167	.059
	Sig. (2 tailed)		.396	.824	.138	.072	.527
	N	116	116	116	116	116	116
General attitude	Pearson correlation	-.080	1	.129	-.176	.416**	.375**
	Sig. (2 tailed)	.396		.169	.059	0.000	0.000
	N	116	116	116	116	116	116
Ethics beliefs	Pearson correlation	.021	.129	1	.206	.097	.110
	Sig. (2 tailed)	.824	.169		.026	.301	.240
	N	116	116	116	116	116	116
Regulation beliefs	Pearson correlation	.139	-.176	.206	1	-.203*	-.044
	Sig. (2 tailed)	.138	.059	.026		.029	.642
	N	116	116	116	116	116	116
Personal usefulness	Pearson correlation	.167	.416**	.097	-.203*	1	.176
	Sig. (2 tailed)	.072	.000	.301	.029		.058
	N	116	116	116	116	116	116
Economic beliefs	Pearson correlation	.059	.375**	.110	-.044	.176	1
	Sig. (2 tailed)	.527	.000	.240	.642	.058	
	N	116	116	116	116	116	116

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson	F	Sig.
1	.550a	.303	.271	.55987	1.935	9.561	.000a

The results in Table 5 indicates that there is a positive correlation (R: 0.550) between the independent (economics beliefs, social beliefs, regulation beliefs, personal usefulness & ethics beliefs) and dependant variable (general attitude). The value of Durbin-Watson statistic (1.935) is also within acceptance range which indicates that there is no autocorrelation among the variables. In the Table the value for Adjusted R Square (0.271) shows that the independent variables (economics beliefs, social beliefs, regulation beliefs, personal usefulness & ethics beliefs) explain 27.1% variance in dependant variable (general attitude).Similarly it also shows that the F statistic value of 9.561 is significant at 0.000 level.

Table 6: Coefficients

	Unstandardized Coefficients		Standardize Coefficients		
	B	Std. error	Beta	T	Sig.
(constant)	2.009	.442		4.543	.000
Economics beliefs	.305	.081	.307	3.778	.000
Social beliefs	-.118	.065	-.148	-1.805	.074
Regulation beliefs	-.084	.084	-.085	-1.000	.319
Personal usefulness	.321	.075	.362	4.264	.000
Ethics beliefs	.069	.071	.80	.973	.333

Dependent Variable-General attitude: In the table6 the Beta values for economics beliefs, (0.307) and Personal usefulness, (0.362) are significant at 0.000 levels than Social beliefs, regulation beliefs and ethics beliefs. It's means that Economics beliefs and Personal usefulness are most important for advertising agencies. The minor changes in these two dimensions will bring a huge change in response of customer attitude towards advertising.

Discussion
- There is a positive and significant relationship between economics beliefs and general attitude and same relationship personal beliefs and general attitude.
- The findings of the descriptive analysis shows that customer's regulation and ethics beliefs towards advertising are not better and Economic beliefs, Social beliefs and Personal usefulness about advertising are better.
- This study shows that customers are satisfy with general attitude towards the advertising through Economics beliefs and personal usefulness beliefs.
- Customers are not satisfied with general attitude towards advertising through three dimensions social beliefs, regulation beliefs and ethics beliefs.
- The empirical research shows that there is a positive correlation between independent variable (Economics beliefs, Personal usefulness) and dependent variable (General attitude).
- Therefore hypothesis H1 and H4 are accepted and hypothesis H2, H3 and H5 are not accepted.
- Its means that consumer's perceptions about Social, Regulation and Ethics beliefs towards advertising in Sargodha are not positive and consumer's perception about Economic beliefs and Personal usefulness towards advertising in Sargodha are positive.
- The current policies of advertisers are not according to customer's regulation beliefs and ethics beliefs.

5. Conclusion

However, the study found that personal usefulness in advertising is the most important dimension among independent variables (economics beliefs, social beliefs, regulation beliefs, personal usefulness, ethics beliefs)

effecting consumer attitudes toward advertising in Sargodha. All dimensions are very important but economics beliefs and personal beliefs have a positive and significant relationship with general attitude towards advertising and all dimensions have a direct impact on customer satisfaction but minor changes in economics and personal usefulness beliefs brings huge changes in satisfaction of customers and attitude towards advertising. These dimensions are very important for examine the satisfaction of customers and their attitudes towards advertising. The impact of this research is very positive for advertisers.

Limitations: This is very popular research area in Pakistan and there is more research on this topic. The research was carried out only in Sargodha city. The data was collected just from students and used small sample of 116 respondents however it may effects to generality.

Recommendations: According to research results the advertisers have a need to adjust their advertising policies according to advertising regulation and ethics due to customers are not satisfy with advertising regulation, ethics and advertising to children as you know that media has changed culture in Pakistan. Advertising regulation authority has needed to make proper advertising planning about rules and most important is implementations in this sector. Regulation Authority must keep in mind all negative effects of bad advertising to make advertising rules and should bane illegal Advertising. The top management of all Advertising organizations should follow all rules and regulations of customer or audience ethics.

References

Alwitt, L. F. & Prabhaker, P. R. (1992). Functional and belief dimensions of attitudes to television advertising: Implications for copytesting.

Bagwell, K. (2007). The economic analysis of advertising. *Handbook of industrial organization,* 3, 1701-1844.

Bauer, R. A. & Greyser, S. A. (1968). Advertising in America, the consumer view.

Bendixen, M. T. (1993). Advertising effects and effectiveness. *European Journal of Marketing,* 27(10), 19-32.

Cassim, S. & Langton, R. (1996). Current issues in the regulation of deceptive advertising: Some consequences for South Africa. *South African Journal of Business Management,* 27(4), 82-88.

Crane, A. (2001). Unpacking the ethical product. *Journal of Business Ethics,* 30(4), 361-373.

Eagle, L., Kitchen, P. J. & Rose, L. (2005). Defending brand advertising's share of voice: A mature market (s) perspective. *The Journal of Brand Management,* 13(1), 65-79.

Hair, J., Anderson, R. & Tatham, R. Black. WC (1998). *Multivariate data analysis, 5.*

Hunt, S. D. & Arnett, D. B. (2004). Market segmentation strategy, competitive advantage, and public policy: Grounding segmentation strategy in resource-advantage theory. *Australasian Marketing Journal (AMJ),* 12(1), 7-25.

Jun, J. W. & Lee, S. (2007). Mobile media use and its impact on consumer attitudes toward mobile advertising. *International Journal of Mobile Marketing,* 2(1).

Kaldor, N. (1950). The economic aspects of advertising. *The review of economic studies,* 18(1), 1-27.

Kanter, D. L. (1974). Research on the effects of over-the-counter drug advertising. *Journal of Drug Issues,* 4(3), 223-226.

Kunkel, D. & Ford, J. (2005). Predicting a renaissance for children and advertising research. *International journal of Advertising,* 24(3), 401-405.

Lutz, R. J. (1985). Affective and cognitive antecedents of attitude toward the ad: A conceptual framework. *Psychological processes and advertising effects*, 3, 45-64.

MacKenzie, S. B. & Lutz, R. J. (1989). An empirical examination of the structural antecedents of attitude toward the ad in an advertising pretesting context. *The Journal of Marketing*, 4, 48-65.

McGuinness, T. & Cowling, K. (1975). Advertising and the aggregate demand for cigarettes. *European Economic Review,* 6(3), 311-328.

Mehta, A. (2000). Advertising attitudes and advertising effectiveness. *Journal of advertising research,* 40(3), 67-72.

Mitchell, A. A. & Olson, J. C. (2000). Are product attribute beliefs the only mediator of advertising effects on brand attitude? *Advertising & Society Review,* 1(1).

Munusamy, J. & Wong, C. H. (2007). Attitude towards advertising among students at private higher learning institutions in Selangor. *Unitar E-journal,* 3(1), 31-51.

Pollay, R. W. & Mittal, B. (1993). Here's the beef: factors, determinants, and segments in consumer criticism of advertising. *The Journal of Marketing*, 3, 99-114.

Richins, M. L. (1991). Social comparison and the idealized images of advertising. *Journal of Consumer Research,* 18(1), 71-83.

Sandage, C. H. & Leckenby, J. D. (1980). Student attitudes toward advertising: Institution vs. instrument. *Journal of Advertising,* 9(2), 29-44.

Siu, W. S. & Kai-ming-Au, A. (1997). Women in advertising: A comparison of television advertisements in China and Singapore. *Marketing intelligence & planning,* 15(5), 235-243.

Smith, W. F. & Andrews, R. L. (1989). Instructional leadership: How principals make a difference: ERIC.

Tan, S. J. & Chia, L. (2007). Are we measuring the same attitude? Understanding media effects on attitude towards advertising. *Marketing Theory,* 7(4), 353-377.

Usman, M., Ilyas, S., Hussain, M. F. & Qureshi, T. M. (2010). General attitude towards advertising: Cultural influence in Pakistan. *International Journal of Marketing Studies,* 2(2), 124.

Wills Jr, J. R. & Ryans Jr, J. K. (1982). Attitudes toward advertising: A multinational study. *Journal of International Business Studies,* 13(3), 121-129.

A Comparative Global Geothermal Development Analysis: Indonesia Investment Perspective

Noeroso L. Wahyudi
Fiscal Policy Office, Ministry of Finance, Indonesia
nlwahyudi@yahoo.com, nlwahyudi@fiskal.go.id

Abstract: One of the current suggestions on low global oil price is a good momentum to optimize utilization of geothermal resources as renewable energy. Meanwhile, Government and donors countries have partnership experiences to remove some barriers such as legal framework on business process for attracting private sectors to invest on geothermal project financing. An explorative analysis on comparative global geothermal development based on Indonesia investment perspective is methodology of this paper. As a qualitative-descriptive paper, this method focused on literature review to obtain literature or secondary data. The data used are secondary data obtained from various sources, such as, Ministry of Energy and Mineral Resources (MEMR), Ministry of Finance, PT PLN as well as a range of research and other resources accessed through the internet. The goal of these explorations to find some lessons learnt which might be used by the GoI to utilize its largest world potential of geothermal resources more transparent, efficiently, and effectively. Based on global geothermal development current status shows that the role of private companies in Indonesia position is the second ranking on share geothermal utilization. Unfortunately, Indonesia position on share of resource to potential utilization is in the third ranking compare to six leading geothermal countries. This mean that Indonesia has opportunity to scale up its resource potential utilization. Managing this opportunity, the GoI should continue its experience to support and guarantee private companies business process strategically.

Keywords: *Global Geothermal, Business Strategies, Indonesia Experience*

1. Introduction

Global geothermal opportunity and barrier: History of the first global Geothermal Generation Status began over 100 years ago and the first large scale generation operated over 50 years ago (Lawless, 2013). Countries along Latin America's Pacific Coast and in the Caribbean have significant geothermal resources. However, these potential resources have been underexploited. It is estimated that only 4-5% of geothermal energy's potential has been developed in this region (Bruni, 2014) .Similarly, total global potential resources utilization is estimated around 10% (Rahardjo, 2013). In addition, Bruniclaims when the price of global crude oil drops, it is a time to seize the moment of geothermal energy. Meanwhile, in general there are 2 (two) barriers namely uncertain economics and uncertain environment (Rahardjo, 2013). Uncertain economics contains some barrier such as i) High upfront capital requirement and ii) Uncertainty on pricing. Similarly, uncertain environment contains some barrier such as i) Regulatory uncertainty and ii) other risk. In term of financing, construction of a geothermal power plant requires a huge initial cost of the project economics, i.e. upstream side (including exploration), pipeline system and power plant which can be divided into 4 (four)stages namely: i)Preliminary Survey, ii) Exploration, iii) Exploitation, iv) Commercial. To solve these barriers ,there are some different government supports to optimize its resource utilization.

Government support experience: The role of government support on business strategy determines the success of global geothermal investment including Indonesia (Campen, 2015). In addition, some studies have been conducting some experts facilitated by multilateral agencies, such as ADB, (Asian Development Bank and WB. (World Bank) One of these studies has been published on, "*Unlocking Indonesia's Geothermal Potential*". This report provides useful insights to policy makers, investors, geothermal industry practitioners", and all geothermal development stakeholders for global geothermal countries especially Indonesia. Specifically, this report identifies the main issues that are hindering geothermal power development and reviews geothermal related policies and regulations in Indonesia.

Objective of the study: Considering on history, moment on scale up, barrier of geothermal development and the role of government and donor support, there is a need an explorative study on global geothermal development in some leading countries. The goal of this study is to find some lessons on geothermal energy on global and domestic experience and suggest to the GoI formulize more attracting policy on private

companies to invest in geothermal energy. In general, this paper will present comparative progress and the role of government experience to support for utilizing geothermal as renewable energy globally. Specifically, this paper present Indonesia experience on legal reform to promote private company business process on geothermal project development gradually.

A way forward: The result of an explorative study based on literature review and Indonesia case analysis will be presented on this paper. The result of this study is to suggest the GoI (Government of Indonesia) to continue for implementing strategic policy especially for attracting private companies. This suggestion is very useful to scale up geothermal energy domestically resulted in increasing on share of private companies to global potential on geothermal resource utilization.

The methodology of this paper is an explorative study. Briefly, this explorative study is a combination between literature review and secondary data analysis for finding some lesson learns on appropriate global and domestic experience. These findings are very important for justification to provide better regulation based on private business practices in future. The secondary data obtained from various sources, such as, Ministry of Energy and Mineral Resources (MEMR), Ministry of Finance, PT PLN (State Electricity Company) as well as a range of research and other resources accessed through the internet

As mentioned in introduction, there is a long history in global geothermal development. This imply that there are many experience can be explore especially on government regulation and donor support to improve private companies to invest on geothermal energy. Consequently, there are two session to achieve the goal of this study namely, i) Literature review, and ii) Analysis. In the literature review, this paper presents an explorative reference related to: i) progress of global geothermal development, i) the role of government and donors in, iii) Global status Indonesia in geothermal development, iv) Comparative investment policy. In analysis session, this paper discusses how to attract private companies through legal reform and harmonize major stakeholders on geothermal development.

Based on global exploration, analysis session present domestic experience focus on two issues on legal framework stage namely: i) Periodically stages on geothermal business process, ii) The main government stakeholders on geothermal investment. The first issue discuss on stage of legal related to business process and industrial performance. The second issue discuss on the main government stakeholders on issuing regulation based on existing regulations to remove the barriers of geothermal development in Indonesia.

2. Literature Review

Progress Global Geothermal Development. At present, installed geothermal power generation capacity worldwide is around 12.6 GWe in 2015. This amount is spread into 9 (nine) leading countries such as i) USA, ii) Philippines, iii) Indonesia, iv)Mexico, v)New Zealand, vi)Iceland, vii) Kenya, viii) Japan, and ix) Turkey . The first leading country is USA which has installed geothermal capacity around 3,450 MW. The second leading country is the Philippines with 1,850 MW, and the third country is Indonesia with 1,340 MW. The following geothermal power producers countries are Mexico, New Zealand, Kenya, Japan and Turkey. These counties develop each installed capacity are 1,058 MW, 1,005 MW, 665 MW, 636 MW, 519 MW and 407 MW (Bertani, 2016). In the future Indonesia has opportunity to be as a super power in geothermal utilization (Al Gore, 2011). To response this opportunity, some studies have been conducted to scale up the prospect of geothermal development for the future (Ardyansah, 2013, Jacques, 2014, and ADB and WB, 2015). One of the barriers to realize this opportunity is how to mitigate risk of global power development including in the early phases before test drilling for estimate the size and nature of the underlying resource (Vernier & Jaudin, 2013). Specially. Indonesia and the Philippines face other for geothermal development risk such as : a) High upfront cost of investment and resultant cost of electricity production; b) Extensive initial geotechnical work required; c) High complexity of planning needed for variable timelines and costs (depending on outcomes of drilling and exploration); d) Long lead times; e) Regulatory risk and bureaucracy (weak policy coordination between the central and regional governments); f) Legal certainty (paras 19, ADB CTF Private Sector Geothermal Program: Indonesia and Philippines,2016).

The Role of Government Support: The characteristic of geothermal business is promising on to realize energy security based on sustainable energy. On the other hand, there are many barriers on stages development namely: i) pre exploration, iii) exploration, and iii) exploitation or commercial of this energy. Based on these stages, there is necessary to make summary on the role of government to promote geothermal development among leading countries. The government support on pre exploration is government funded on research. This support is very important to estimate the proven of geothermal can produce energy for electricity. The other important support is government funded on drilling, incentive price on renewable energy, generators. Completive price on electricity market is also very important government role. Last but not least central government is very important to role to coordinate with local government. A comparative on the role of government on among 6 (six) leading geothermal countries can be seen table 1 bellow.

Table 1: A comparative on the role of government among 6 (six)) Leading Geothermal Countries

No.	Country	Government funded research?	Govt. funded drilling?	Generators	Price incentives For renewables?	Vertically Integrated?	Electricity market
1.	USA	Yes	No	IPPs and utilities	Yes	Mostly	Open
2.	Philippines	Minor	Yes in past	IPPs and SOEs	No	Some	Open
3.	Indonesia	Minor	Minor	in past IPPs and SOEs	No	Mostly	State monopoly
4.	Mexico	Minor	Yes by SOE	SOE	No	Yes	State monopoly
5.	New Zealand	Yes	Yes	in past Mostly IPPs	No	Yes	Open
6.	Iceland	Yes	Yes	in past IPPs and utilities	No	Yes	Open

Source : Lawless, 2013

Figure 1: A Comparative between resource utilization and share of private among Geothermal Countries
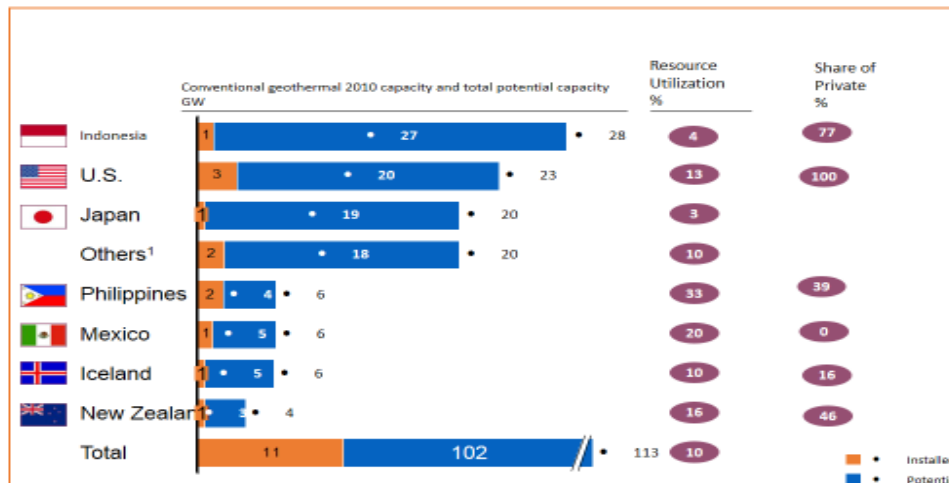
Table 1 shows that the role of government USA give the most comprehensive support among the six leading geothermal development with give government funded research and price incentive for renewable energy. While government of Philippine opens its electricity market, Indonesia government set state monopoly on its electricity market

Global Status Indonesia on Geothermal Development: As mentioned above, Al Gore describes that Indonesia could become a super power country in electricity production from geothermal energy in the future. This description is justified that Indonesia has highest potential capacity as shown figure 1 above. Figure 1 describe that Philippine is the first position on resource utilization with 33% and Mexico is the second position on resource utilization with 20%. While, USA is the third position with 14% and Indonesia is the seventh with 4 % above Japan position is the eight with 3 %. In the future, Indonesia could become a super power country in electricity production from geothermal energy and this would benefit its economy (Al Gore, The Climate Project Asia Pacific Summit, 2011). This description suggest that the GoI (Government of Indonesia) should explore best practices on global geothermal governance to reform country strategy geothermal development especially in promoting private climate investment efficiently and effectively. As a result, best practices experience in global and domestic on private business process based on existing legal should be used as reference to scale up geothermal project development.

Comparative Investment Policies. History on comparative analysis on investment policies in developing countries give a lesson how to identify the role of stakeholder to scale up geothermal utilization. The exploration the role of stakeholders to promote investment policies can be seen on table 2 below.

Table 2*: Comparative Investment Policies on Developing Countries

No.	Countries	History	Present
1.	Philippines	had 2 large waves of geothermal development under government and donor-lead	more private sector but with significant support policies
2.	New Zealand	Major state support from 1950s-1980s	virtually no state support
3.	Kenya	significant donor and state support, including state-company exploration	
4.	Chile	liberal electricity market framework with limited geothermal support	(but new government is designing policies with multilateral organizations)
5.	Indonesia	Assignment of geothermal concession to SoE Development Rights Granted under Presidential Decree 45/1991	More transparent for Private Involvement Geothermal Law 27/2003 amended no 21/2014

Source: Campen, 2015 and Ibrahim, 2015

Table 2showsthat Indonesia more aggressive on relaxing legal barrier to scale up geothermal development. The new regulation states that geothermal is not the mining activity because geothermal areas are mostly in the protected forest area that does not allow for mining activities. Furthermore, private entities can compete with State owned enterprises and possible to be a government partner through Public Partnership (PPP) scheme..Since commercial stage is indication of the success on geothermal development, some countries issue FIT (feed in tariff) to attract private investment. WB and ADB explore feed in tariff in some countries that can be seen on table 4.

Table3: Global Comparative on Feed in Tariffs

Countries	Size	Currency/kWh	US¢/kWh
Indonesia			7 - 18.5
Philippines			0.0
Germany		0.25 €	33.7
Japan	<15 MW	27,3 Y	26,6
	>15MW	42.0 Y	40.9
Italy	< 1 MW	0,20E	27,0
Taipei, China		W,80 NTS	17,0

Note: In Indonesia and the Philippines, geothermal resources are found at depths of up to 2-3km underground. Source: WB and ADB 2015

Table 3indicates the different of rate FIT is meaningful between developing countries such as Indonesia, and Taipei, China, and developed countries such as Japan, and European centuries. This means that "affordable

price " is one of the factors a key success on FIT or Public Private Partnership scheme on a renewed wave of infrastructure finance (Nishizawa, 2016).

Critical on Government Support: As mentioned above exploration stage is critical point which need government support. The table 4 below describe summary on best practices scheme on geothermal exploration.

Table4: Summary of Geothermal Exploration Support Schemes on some countries

No	Country/Scheme	Nature	Premium Required	Scope	Cap/ project $ million	% Cover	Criteria for Payment
1.	Germany						
1.a.i	Federal	Loan	No	Drilling and heat plant	3.5 per well and 2.8 for the heat plant	80	Completion
1.a.ii		Drilling Risk Cover	No	Drilling	1.8	50% of originally Planned costs	Failure
1.a.iii		Exploration Risk Cover	Higher interest rate while drilling, 10%–20%	Drilling	None	80% of drilling Costs	Failure
1.b.i	State	Loan	No	Drilling	1.3	25	Failure
1.b.ii	Commercial	Insurance	Yes	Drilling	Partial		Failure
2.	Switzerland	Risk cover	No	Drilling and testing	50–80		Failure
3.	France	Risk cover	Yes	Whole project		Up to 90	Failure
4.	Australia	Grant	No	Drilling	4.7	50	Completion
5.	US						
i.	UCCDP	Loan	No	Drilling		20–90	Failure
Ii	GRCP	Loan	No	Drilling and geosciences	3	50–90	Failure
6.	**Iceland**	Loan	No	Drilling and geosciences		60	Failure
7.	**World Bank**						
7.i.	GeoFund	Risk cover	No	Drilling		Up to 80	Failure
7.ii	ARGeo	Risk cover	Yes	Drilling		Up to 80	Failure

Source: (ADB, World Bank Publication, 2015
Note: ARGeo = African Rift Geothermal Development Program (World Bank), GeoFund = Geothermal Energy Development Program, GRCP = Geothermal
Reservoir Confirmation Program (US), UCCDP = user-coupled confirmation drilling program, US = United States. Notes: Only the more relevant schemes are included in the table. Drilling usually includes well testing and stimulation (if used).

In the recent articles on Mechanism of Fiscal and Taxation Policies in the Geothermal Industry in China (Yong, 2016), review that Geothermal projects are capital-intensive and high-risk. Fiscal and taxation policies that could support the different phases of geothermal development are important to take into consideration

(Campen and Petusdottir, 2016).Furthermore, Public mechanisms for supporting investments in geothermal energy exist at many countries. Kaneko argued that implementation of fiscal and taxation assistance such as Feed-in Tariff, tax-reduction, government subsidy for survey and construction cost would bring significant benefits both to the government and to the society. He estimated impact on electricity price if the subsidy had been issued to construction of the geothermal power plant based on Japanese model and he found that when the subsidy is granted 20% of the construction cost instead of 0%, the selling price could be economized by USD 1.3 cent/kWh less (Kaneko, 2010 and Hayashi, 2015).

3. Results

Indonesia investment perspective: In Statistical Highlights, Indonesia is top three of Top five countries for installed capacity in 2015 with 1 340 MWe under USA and Philippine with 3 450 MWe and 1670 MWe. In addition Indonesia is number five for "Top Five Countries" for absolute value increase with only 12% since 2010. Surprisingly, Turkey is number one of Top five countries for the absolute increase in 306 MWe MWe since WGC2010 (Bertoni,2015). Even though Indonesia position on resource utilization and share of resource to potential utilization are in the third among the six position compare to some leading geothermal countries, but the role of private company in Indonesia position is the first ranking on share geothermal utilization (see table 2).This current status means that there is opportunity for the GoI to scale up share of resource utilization through adopting the first and second leading counties experience. The first leading contrary experience is to   facilitate research especially on provided reliable data potential government and formulize appropriate scheme of government support on exploration. The second leading countries experience is to release the price the market. As a result, the government support and donor participation for increasing coordination among related government institutions and market players towards more competitive Investment climate in Indonesia. On the other word, , if government give more attractive support to new geothermal project, then private companies will be as a major stakeholder to accelerate electrification ratio based on renewable energy.

In future, the increasing of share private companies because business process on geothermal development is more transparent in Indonesia (table 2).The more transparent process indicates that previous business structure model all geothermal working areas (GWA) are exclusive to be managed by National Oil Company (Pertamina) as SOE. Now, GWAs can be managed by private entities through tender process. In other words, the difference between previous and current business structure is tender process to stimulate more transparent on business process. So private companies act as second party not as third party to its steam product to utilities company (PLN). In investment perspective, The geothermal market in Indonesia can be viewed through the interaction of various stakeholders on both the legal and commercial fields or business process (Hermawan, 2015).

Legal framework stage: Periodically, the geothermal business process can be divided in three stages namely i) before year 2003, before year 2014 and after year 2014. These periodically stages can be seen into table 5 bellow.

Table 5: Periodically stages on Geothermal Business Process in Indonesia

No.	Periodically Stages	Legal	**Business** process	Industrial Performance
1.	Before year 2003 "Mining Activities"	Precedential Decree (PD) No. 22/1981, amended and supplemented by PD 45/1991 and PD No. 49/1991	Assignment to Pertamina and private company as third party (investor) and deal with PLN (Public Utility Company)	11 geothermal power projects/ energy sales contracts were concluded for total capacity 3,417 MW, involving approx. USD $ 4 Billion investment
		PD 76/2000 was enacted	the exploratory risk from developer to GOI & to remove the les specialist tax Government	almost no new investment to explore new work areas since issuance of PD 76/2000 & Law No. 27/2003
2.	After year 2003 to Before year 2014 "Mining Activities/ Law No. 27 Year 2003 on Geothermal	FIT (Feet in Tariff) has been launched	Support on exploration, construction and operation.	Indonesia has more than 285 locations along the country, yet only less than 5% of total potential reserves have been utilized with total installed capacity of geothermal energy 1,226 MW
3.	After year 2014 : More "industry-friendly/Law No. 21 Year 2014 on Geothermal	More supportive legal framework has continued to enhance and to intensify cooperation with donors countries.	the distinction between direct utilization activities and indirect utilization activities and the centralization of government authority for indirect utilization activities.	

Source : Juniarto, 2015,and some various publications,2016

In term of fiscal policy, the GoI experience give support on geothermal business process depend upon Ministry of Finance as Chief of Financial officer and Ministry of Mineral and Energy Resources (MEMR), Ministry of State Owned Enterprises (SOE) and Ministry of Home Affair (MOHA) as Chief of Operational Officers). The role of those ministries can be seen on table 6 below.

Table 6: The Main Government Stakeholders on Geothermal Investment in Indonesia

The main government stakeholders	Concerned about	Impact
Ministry of Finance (MoF),/Law No. 17 Year 2000 on Public Finance, Law no, 1 year 2004 on Treasury.	Government support to scale up geothermal development conducted by State Owned Enterprise and private companies based on credible fiscal policy.	To enhance public funding instrument and aware on Risk mitigation. A series regulations on government support have been issued (Dina Irvina,2014)
The Ministry of Energy Mineral Resources (MEMR)/Law No. 30 Year 2009 on Electricity ,	Increasing electrification ratio resulted from Renewable energy especially from geothermal. setting the satisfactory commercial	Geothermal Law and Electricity Law to promote energy security and formulize Feed In Tariff. (Halstead, M., et.al, 2015)

The Ministry of State Owned Enterprises (SOE) /Lawno 19 year2003 on SOE	To assign SOE as Agent of Development especially on geothermal utilization based on business conduct.	Pertamina reluctant to allocate equity capital to PGE when compared to the much higher returns available in Pertamina's oil and gas plays
Local Government/ Law no. 33 year 2004 on Fiscal Balance.	Positive and negative externality.	Net benefit for local people.

Source: Various Publications 2016

In general, table 6 above describe existing role of government to promote climate investment which generate more transparent business process towards sustainable energy resulted from scale up geothermal utilization. Unfortunately, The GoI still face some policy issues to remove barrier in private companies to invest in geothermal project. One of policy issues that still under discussion is government guarantee on a range of unspecific risks including technical (geological) risks, regulatory risks stemming from uncertain government policy, and financial risks arising from the pricing policies determined by the Indonesian Government. The other challenge is structural issues. The structural issue in the Indonesian geothermal sector is the conflicting objectives of the main government stakeholders to attract private intend to invest on geothermal project in feasible rate of return To manage this challenge, the strategic policy is to reform fiscal policy especially to enhance government support and government guarantee. At present, fiscal reform has been launched is to increase fiscal by reducing energy subsidy and miss targeting electricity subsidy beneficiaries. In the sense of MoF as fiscal authority should provide the necessary subsidy especially energy subsidy. On table 6describe the role of MoF should cover the cost production of geothermal based on ensure economic efficiency. Meanwhile MEMR as a sectors supervision must ensure the project will operate effectively. So strategically communication in term of fiscal efficiency and fiscal risk should be conducted based on benefit among stakeholders consistently.

4. Conclusion and Recommendations

Exploration on Global comparative geothermal development indicates some interesting findings such as: i)Total global resources utilizations is only 10 % (11 GW) compare to its potential capacity (113 GW), ii)there are 3 (three) global leading countries namely, USA, Philippine and Indonesia. iii) Indonesia private sector share more than State owned Enterprises and its ranking position is number two in global geothermal development by operator type (figure 1), iv) government and donor support play a key role on geothermal development. In analysis on Indonesia investment perspective, government have attracted private companies since 1991 gradually. Specifically, government have released some legal barriers on business process, harmonized among existing legal frameworks, and supported and guaranteed through fiscal policy included FIT on geothermal energy. As a strategic policy on pricing geothermal energy, government should reformulate FIT based on legal reference and possibly audited professionally and independently. If this strategic policy can be implemented in the future, then the role of private companies will be more important to scale up geothermal energy domestically and globally.

References

Al Gore, L. (2011)> The Climate Project Asia Pacific Summit, http://indonesia.gr/indonesia-can-be-super-power-on-geothermal-energy-al-gore/downloaded on September 27,2016.

Bertani, R. (2016). Geothermal power generation in the world 2010–2014 update report. *Geothermic*, 60, 31–43. Cited on ADB CTF Private Sector Geothermal Program: Indonesia , Philippines.

Bruni, S. (2014). Geothermal Energy: a Sustainable Source of Power, IDB and Energy Innovation Center, 2014.

Campen, B. V. & Rai, K. (2015). Geothermal Policy and Regulation-Cases from Chile, Kenya, New Zealand and the Philippines; Technical Report; University of Auckland Geothermal Institute; International Renewable Energy Agency (IRENA): Auckland, New Zealand; August 2015.

Campen, V. B. & Petursdottir, H. (2016). Geothermal sustainability regulation in Iceland and New Zealand. In Proceedings of the European Geothermal Congress 2016, Strasbourg, France, 19–24 September 2016.

Hayashi, M., Kuge, K., Sato, H. & Tanaka, H. (2015). Cooperation in geothermal development at Great Rift Valley in Africa. In Proceedings of the World Geothermal Congress 2015, Melbourne, Australia, 19–25 April 2015

Hermawan, J. (2015). Geothermal power projects in Indonesia, March 2015.

Ibrahim, R., Fauzi, A. & Suryadarma, I. (2005). The progress of geothermal energy resources activities in Indonesia. In Proceedings of the World Geothermal Congress 2005, Antalya, Turkey, 24–29 April 2005.

Jacques, H. (2014). June 30, 2014, Indonesia: The Slow Boil Geothermal Super Power Nikkei, Asian Review.

Kaneko, M., Kaneko, M. M., Akakura, K., Yamamur, S. & Inoue, Y. (2010). A proposal of fiscal incentives to accelerate geothermal development in Indonesia. *J. Geotherm. Res. Soc.*, 32, 97–108.

Lawless, J. (2013). Business Models for Successful Geothermal Electricity Development, Director: Ram Power, downloaded on September 2016

Nizhizawa, T. (2016). A renewed Wave of Infrastructure Finance, Public Private Partnership, Lecture and discussion at Master of Planning and Public Policy Program, Faculty of Economic and Business, University of Indonesia, November 2016

Rahardjo, S. (2013). Geothermal in Indonesia (Over Views) Operation Director PT pertamina geothermal energy. Mei 2013.

Vernier, R. & Jaudin, F. (2013). EGRIF: A Risk Insurance For Geothermal Projects, Geothermal Energy.

Yong, J. (2016). Mechanism of Fiscal and Taxation Policies in the Geothermal Industry in China, Energies-Open Access Energy Research, Engineering and Policy.