



Vol. 7 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 Malaysia, India, Poland, Pakistan and Indonesia. Financial inclusion, business stability, marketing aspects of social media absorption, complexity area in management, marketing communication, financial performance & competitiveness of SMEs and business blogging 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

Editor In Chief

Dileep Kumar, M., Ph. D., University Utara Malaysia, Malaysia

Members

Ari Warokka, Ph. D., University Utara Malaysia, Malaysia

Susantha Herath, Ph. D, St. Cloud State University, USA

Dong Hwa Kim, Ph. D., Hanbat National University, Daejeon, Republic of Korea

Eric Bentzen, Copenhagen Business School, Denmark

Gurmeet Singh Bhabra, Ph. D, University of Otago, New Zealand

Nazli Akman, Ph. D., Bilkent University, Turkey

Hoonandara R Goonatilake, Ph D, Texas A&M University, USA

Ketna Mehta, Ph. D, Welinkar Education, India

Khorshed Chowdhury, Ph. D, University of Wollongong, Australia

Elena Garcia Ruiz, Ph. D, Universidad de Cantabria, Spain

Samsudin Wahab, Ph. D., MARA University of Technology, Malaysia

Ayhan Kapusuzoglu, Ph. D, Yildirim Beyazit University, Turkey

Johan de Jager, Ph. D., Tshwane University of Technology, South Africa

Lew Tek Yew, Ph. D, Curtin University Sarawak, Malaysia

Rishidaw Balkaran, Ph. D., Durban University of Technology, South Africa

Rohitha Goonatilake, Ph. D, Texas A&M Int. University, USA

Hai-Chin YU, Ph. D, Chung Yuan University, Chungli, Taiwan

Chandana Prasad Withana, Ph. D., Charles Sturt University, Sydney, Australia

Table of Contents

Description	Pages
Title	1
Editorial	2
Editorial Board	3
Table of Contents	4
Papers	5
Financial Inclusion in India: An Empirical Study of Unorganized Sector in Gujarat Manoj Kumar Sahoo, Mudra Gomkale	6
Using the Social Network for Business Sustainability: Examining Start-up SME Firms in Malaysia Ehsan Fansuree Surin, Ismail Ab. Wahab, Mohd. Hazman Fitri Hussin, Mohd. Najib Saad, Mior Harris Mior Harun	18
Marketing Aspects of Social Media Absorption in the Clothing Industry in the Light of Own Research Łukasz Sułkowski, Dominika Kaczorowska – Spsychalska	27
Perception of Complexity Area in Management—an Exploratory Study in Poland Iwona Gorzeń-Mitka, Małgorzata Okręglicka	36
A Qualitative Approach to Analyze Marketing Communication Based on AIDA Model Fazal ur Rehman, Farwida Javed, Shabir Hyder, Sadaqat Ali	44
Businesses Blogging and the Effects of Non-Compliance Duryana Binti Mohamed	55
Internal and External Factors Influencing Financial Performance in Improving Competitiveness of Small and Medium Enterprises in Jayapura City Mugiati	64

PAPERS

Financial Inclusion in India: An Empirical Study of Unorganized Sector in Gujarat

Manoj Kumar Sahoo, Mudra Gomkale
Pandit Deendayal Petroleum University, Gandhinagar, Gujarat, India
sahoomanoj1@rediffmail.com

Abstract: The Indian economy being one of the emerging economies among the twenty global traders with annual growth rate projected at 7.4% for the year 2014-15 as compared to 6.9% growth in the fiscal year 2013-14. With second largest population in world and third largest purchasing power parity India suffers from socio cultural issues such as poverty and unemployment. The major question here is on sustainable growth of the nation. An easy and affordable access to financial and banking services accounts for the financial inclusion particularly for the lower and vulnerable sections of the society. More the people earn more they invest and save more. In order to address the state of inequality it is essential to give major priority for achieving 100 per cent or near to 100% Financial Inclusion. Gujarat being a rapidly growing state contributing 10% to India's GDP despite efficient growth it lags behind in Financial Inclusion. The paper on Financial Inclusion in India: An empirical study of unorganized sector aims to do an in depth research in order to reason out for the unaccounted un-organized sector of the state. Unorganized sector refers to the people who drive their economic activities on daily basis by unregistered business firms or self employment. Dealing with primary data on Different parameters of Financial Inclusion pertaining to unorganized sector of Gujarat state and a regression model namely Logit Model is estimated to examine the relationship of Financial Inclusion parameter on various determining variables. Research work is on-going; we expect that Gujarat government has to focus on more spread of awareness among people of Gujarat who are not able to avail economic growth benefits equally despite an excellent performance in HDI, per capita GNI and other economic development parameters.

Keywords: *Financial Inclusion, Unorganized sector in India, Gross State Domestic Product, Sustainable development, Inclusive growth*

1. Introduction

For the seventh largest nation in the world having second highest population, major challenge is to cater to the needs of the people. Like drinking water, clothing and food are basic necessities for survival; access to financial services and products too becomes basic amenities for development and growth of human potential. India has focused on poverty reduction as a long term development policy goal since the time of independence in 1947. But along with it, India has remained at the forefront of designing strategies to eradicate poverty and develop an environment based on inclusive growth and for that matter; the focus on Financial Inclusion was laid back in 1969. From 2000's it has been an area of prime focus for the Government of India and the Reserve Bank of India. Designing several programs and schemes in order to improve financial inclusion and to bring in more and more people under financial ambit has been the main objective under it. The shift in the focus from poverty alleviation to financial inclusion summarizes the mixed results India has had in the last five decades of development planning strategies. Over the decades that's why the focus from target specific development approaches to high growth achievement got shifted for 'trickle down effect' to take place on those segment of the population who are at the bottom of the pyramid. But the planned development exercises by the successive five year plans failed to include a sizable part of that population under the mainstream development fold. And for that reason, off late Indian government's policy has been centered on inclusive growth and financial inclusion. Indian policy makers have invariably meant inclusive growth by broad-based and shared benefits of economic development to all sections of people where people become part of the process of development, rather than simply the target of it. And for this to be achieved, financial inclusion becomes the complementary condition whereby a comprehensive and holistic process of easy access to financial services and credit to the marginalized and vulnerable sections of the population is ensured. So the process of including the excluded into the financial services mainstream assumes the possibility of expansion of economic opportunities available to the unserved and underserved segments of the society. In this respect however, expansion of the formal financial sector like banking, postal, micro-finance etc. ensuring reach to this segment becomes crucial requirement of financial inclusion.

Overview of Financial Inclusion in India and Gujarat: Despite broad international consensus regarding the importance of access to finance as a crucial poverty alleviation tool, it is estimated that globally over two billion people are currently excluded from access to financial services. The situation is worse in most of the least developed countries (LDCs), where more than 90 per cent of the population is excluded from access to the formal financial system (United Nations, 2006).¹ India has made several efforts to enlarge the reach of formal financial sector over the years, in particular, banking sector in India has grown both in terms of bank penetration, expansion of financial services and technological innovations i.e. use of ATMs and use of smart cards or plastic money such as credit cards, debit cards and others likewise. However, this expansion has not been able to cover all the part of workforce. As per NSSO data 45.9 million farmer households in the country (51.4%), out of a total of 89.3 million households does not access credit, either from institutional or non-institutional sources. Rangarajan Committee Report, (2008) despite the vast network of bank branches, only 27 per cent of total farm households are indebted to formal sources, of which one-third also take credit from informal sources (Ray & Rout, 2014). So, this leads to the implication that most financially excluded especially are those which come under the informal sector. For those in the formal sector, access and usage of bank services is mandatory given to the norms and conditions of the companies registered under government. While those of the informal sector- i.e. marginal farmers, farm labor, daily wage earners, which account for 60% of the working population is less accounted.

Figure: India's Position in Financial Inclusion Compared to Other Countries
 (Per 0.1 Million Adults) (As per cent of GDP)

Sr. No.	Country	No. of Branches	No. of ATMs	Bank Credit	Bank Deposit
1	India	10.91	5.44	43.62	50.11
2	Austria	11.81	48.16	35.26	32.57
3	Brazil	13.76	120.62	29.04	47.51
4	France	43.11	110.07	56.03	39.15
5	Mexico	15.22	47.28	16.19	20.91
6	UK	25.51	64.58	467.97	427.49
7	USA	35.74	173.75	46.04	53.14
8	Korea	18.63	250.29	84.17	74.59
9	Philippines	7.65	44.88	27.57	53.02

Source: World Bank, Financial Access Survey (2010).

As India is developing and is rapidly evolving at global level it becomes crucial for the nation to meet the supreme most challenge of Financial Inclusion as it is linked to sustainable growth, and development of the nation. Moreover, massive problems of black money flow can be regulated and diminished over a period of time by enlarging the network of formal financial services to the unserved segment. Though bank services have evolved and expanded over the years not all are able to gain fruits from these facilities. There are several reasons for such low level of financial inclusion such as lack of financial literacy, low levels of income, preference to follow traditional way of saving and borrowing money when required among others. As a result Indian economy is deviating from achieving sustainable economic and social growth. RBI and Government of India in 2005 had taken series of efforts in order to achieve financial inclusion such as increase in number of SHG-bank linkages, spread of business correspondents (BCs)/business facilitators, easing KYC (Know Your Customer) norms, electronic transfer benefits, separate plans for rural and urban financial inclusion and so on. Financial Inclusion aims to provide easy access to finance at affordable costs to the poor and vulnerable sections of society. Financial Inclusion also encompasses the broadening of financial services to those who do not have access to formal sources of finance, the deepening of financial services to those who have minimal access, and greater financial literacy and consumer protection so that those who are offered products can make appropriate choices (Rajan, 2014). "The RBI's approach to financial inclusion has been structured, planned, and integrated focusing on supply side constraints" (Shamaka & Gakhar, 2015). So far as India's position in financial inclusion vis-à-vis the major developing and developed countries is concerned, the extent of financial inclusion in India is found to be comparatively lower. Figure shows that India had 10.91 bank

¹ As quoted in Meher, 2014.

branches and 5.44 ATMs per 0.1 million adults, which was lower than most developed countries and emerging economies like UK, US, France, Brazil, Mexico etc. No. of ATMs per 0.1 million population had improved to 8.90 in India by 2011. (IMF, financial Access Survey, 2011) However, availability of bank credit and deposit were 43.6 per cent and 50.1 per cent respectively, which were lower than developed countries like US, UK etc but better than emerging economies like Mexico and Brazil.

Although the number of banks have increased over the years, further after the Prime Minister's Jan Dhan Yojana basic savings accounts have raised too right from 7.5 Crore to 10 Crore bank accounts in January 2015. Banks are encouraged to promote banking services considering it as business opportunities rather than charity by leveraging technology to drive financial inclusion. The major question lies whether these bank accounts are used or accessed at regular basis. This scheme has made tremendous progress in terms of creating bank account holders and accessibility. Of all 29 states in India, Gujarat is located in the western part of India also known as Jewel of India. It is also known for its textile production and also the region has a strong hold on agricultural and industrial segment. Cash crop such as cotton, groundnut, castor, tobacco and other crops are grown extensively. Moreover, industries in jewellery segment especially the diamond and silver industries along with automobile and petrochemicals have well flourished. Gross State Domestic Product (GSDP) of Gujarat is marked at Rs.7, 65,638 crore for year 2013-14 and Rs. 867,643 crore for the year 2014-15. Accounting for 5% of country's population the state contributes more than 7% of Indian GDP and in particular, 13% of Manufacturing and 11% of Primary sector output of the country. Annual average GSDP growth rate of 9.1% during 2008-11 was well above the national growth rate of 8.2% during the same period. Despite having outstanding growth in economy it ranks moderately low in Financial Inclusion. As per CRISIL Inclusix Index 2011 for financial inclusion, Gujarat was in the Below Average category in financial inclusiveness (with score between 25.0 and 40.0) on three parameters like- bank penetration, credit penetration and deposit penetration. Whereas overall India's Inclusix 2011 score was just at the entry level of above average category with a 40.1 score between 40.1 to 55.0 scores on a overall score of 100. (CRISIL Inclusix 2013) India's overall progress in financial inclusion can be viewed from the fact that during 2009-2011 India's Inclusix score had improved from a low level of 35.4 in 2009 to 37.6 in 2010 and to 40.1 in 2011 and further to 42.8 in 2012. The improvement in India's overall Inclusix score in 2011 was largely driven by gains across all three dimension, particularly in deposit penetration (DP). (CRISIL Inclusix 2013)

However Gujarat has slipped its ranking from the 17th position in 2009 to 18th position in 2011 and further to 19th position in 2012 in terms of Inclusix score. The state's Inclusix score in 2012 was 40.6 which are 2.2 points below the national average of 42.8 in 2012. So Gujarat entered into above average category in terms of financial inclusion (CRISIL Inclusix, 2014). Various studies have confirmed similar results across financial inclusion status in different states in India. By taking three parameters like Availability Index, Access Index and Usage Index when overall Financial Inclusion Index was constructed (on a scale of 0-1 on a methodology similar to UNDP's HDI construction) for 18 states of India, it was found that by Aug 2011, Gujarat was in the low financial inclusion category (with a score of 0.210 within 0 to 0.3) whereas states like Maharashtra, Tamil Nadu and Karnataka were in high financial inclusion category, with top 3 ranks respectively. Gujarat's rank was 11 out of 18 states (Meher, 2014). The present study envisages examining the level of financial inclusion in the informal sector of Gujarat by conducting primary survey in Gandhinagar district.

2. Literature Review

Various studies on unorganized and informal sectors in different parts of India and other studies have been conducted to study the level of financial inclusion at the bottom of the population pyramid. There is difference in level of Financial inclusion level in Urban and Rural areas, nationwide it is 36%, while in rural areas it is 32%, urban account for 45% (RBI 2013, CRISIL 2013), thus a majority of urban area is also excluded and as urban population expands the priority to make financial inclusion accessible to all becomes important (ADB Institute, 2014). Encouraging different means to spread Financial Inclusion among daily wage workers of Tenali region, Andhra Pradesh, India such as utilization of smart cards, engagement with Business correspondents, awareness drive by banks in private and public sector were noted (Divya, 2013). Importance of utilization of India post as means to cover financially excluded in the rural areas, use of business correspondents and business facilitators in the semi-urban areas, and agency banking micro finance institutions are essential part in financial expansion (Paramsivan and Ganeshkumar, 2013). Internal

remittances the largest and the only source of income for the rural poor. A large number of India's domestic migrants are excluded from the formal finance. "Migrants are often from low income groups and work on daily basis finding it difficult to send money back home due to lack of means, thus they depend on money lenders and correspondents which charge high interests" (Thorat, 2007).

In spread of Financial Inclusion by using mobile banking technology and other innovative means, still India is far from being adequate. Only 2.2% use mobile banking technology to number of mobile phone connections, this shows lack of awareness among people. It is alarming that only 6.9% of the Indian population uses cheques to make payments, while 2% of population uses electronic cards to make payments. Savings in financial institutions is around 11.6% in India as compared to 32% in China (Memdani & Rajyalakshmi, 2013). Financial Inclusion through Micro finance has several advantages for rural development and inclusive growth of the poor (Sahoo and Behera, 2014). Developing technology that is user friendly, affordable and accessible to all is need of hour. For instance, banks could develop micro credit products for individuals (Mckinsey, 2010). The state of Gujarat has achieved considerable level of Financial Inclusion but it still scores low on financial Inclusion index. Banks have adopted BC models for delivery of financial services to uncovered villages, 614 out of total 622 are covered through BC Model. "SHG bank linkage programmer and government schemes have seen tremendous progress in financial inclusion of the state. Significant progress was made in the year 2011" (Raman, 2012). In another study of Gandhinagar district, it was observed that after declaration of "No-Frill Accounts" by RBI, in 70 per cent of the households had bank accounts remaining 12.7 per cent did not have means to any financial services. 87.3 per cent of individuals were covered under the financial inclusion drive by banks of which only 70 per cent could open bank account (so coverage only 70%). Thus the report showed the reality differed from the predicted state of 100 per cent financial inclusion. Only 84.1 per cent respondents were acquainted with bank facilities, which was limited to only three major facilities namely loan facility (63.7%), money transactions (40.6%), and saving scheme (25.3%). People from BPL and small land owners were not covered under Financial Inclusion and the spread of bank services is not even (MGLI, 2009).

The Present Study: The present study aims to study the state of Financial Inclusion in Gujarat, with special reference to Gandhinagar district. There remains research gap of studies of financial inclusion in unorganized and informal sector of Gujarat. To explore and explain low to moderate level of Financial Inclusion in Gujarat, that to examine the state of financial inclusion in informal sector where the reach of financial inclusion may be very low and may come at rather slow pace, a primary survey is conducted by taking a sample size of 100 individuals (natives of Gujarat) working in the unorganized sector in Gandhinagar district. In the study both male and female workers from both rural areas (4 villages-i.e. Raysan, Koba, Valat, Bhaatgam) and urban and semi-urban areas (Gandhinagar city and Chandkheda) were included. Convenient sampling method with structured questionnaire was used and data was collected during Mar-April 2015. Further to examine the possible causes of ownership of deposit accounts, binary logistic regression model is estimated, which may guide us in identifying the major important variables. On the basis of above findings possible solutions may be identified in order to improve the state of Financial Inclusion in Gujarat.

3. Analysis of Primary Survey and Data Interpretation

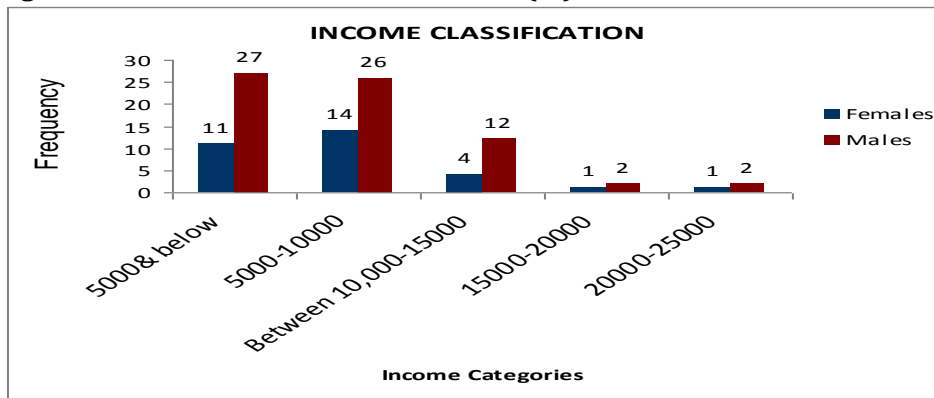
The findings are interpreted as follows:

Gender, Age and Family-size Classification: Out of 100 respondents, 31 were Females and 69 were Males. Respondents were from 3 age groups: youth (18-25 years), middle age (26-46years) and upper age (47-55 years). Age distribution shows highest number of people were in 26-46 age group (68%) belonging to Middle age; whereas youth were of 17% and upper aged people were of 15%. Family- size break-up of the respondents reveals that maximum percentage of males (47%) and females (22%) belonged to the family size 4 to 6, which combined form 69% of the respondents. Only 16% respondents had smallest family size of 3 or less, which included 10% males and 6% females. 15% respondents had bigger families ranging between 7 to 15.

Occupation and Income Classification: Respondents were engaged in various occupations like, institutional services (19%) like housekeeping, security guards, gardener, deliveryman etc; household services (17%) like domestic helpers, sweepers, laundrymen, cook; small shop ownership & menial services (11%) like

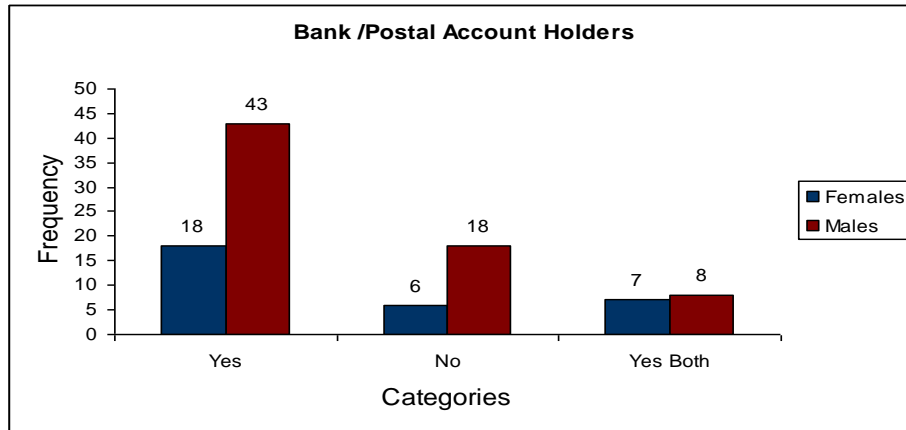
shopkeepers, tailor, barber, cobbler etc; transport service providers (11%) auto-rickshaw driver, conductor, cab driver etc; street vending (10%) fast food vendors, vegetable vendors, fruit sellers, newspaper vendor etc; daily wage labor (10%) like shop assistants, restaurant assistant, construction site workers etc; agricultural and allied activities (7%) like farmers, shepherds etc; industrial services (6%) like plumber, electrician, welder, mechanic, machine operator etc; and others. Respondents' revealed monthly income ranged from Rs.2000 to 22,000. Respondents were divided in 5 income groups based on their revealed monthly incomes viz. (i) Rs. 5000 & below, (ii) Rs. 5000-10000, (iii) Rs. 10000-15000, (iv) Rs. 15000-20000, (v) Rs. 20000-25000. Income distribution of the respondents reveals that maximum percentage of people were from income category of Rs. 5000-10,000 (40%) and closely followed by income category of Rs. 5000 & below (38%) (Figure 1). 16% respondents were from income category of Rs. 10000-15000, whereas minimum 3% each of respondents were from Rs. 15000-20000 and Rs. 20000-25000 categories. Gender break up in income revealed that maximum percentage of males were having lowest income of Rs. 5000 & below (27%); and minimum in 15000-20000 and 20000 to 25000 income category. Likewise, maximum percentage of females had monthly income of Rs. 5000 to 10000; and minimum in category Rs.15000 to 20000 and Rs.20000 to 25000 category (Figure 1).

Figure 1: Gender-wise Income Distribution (%)



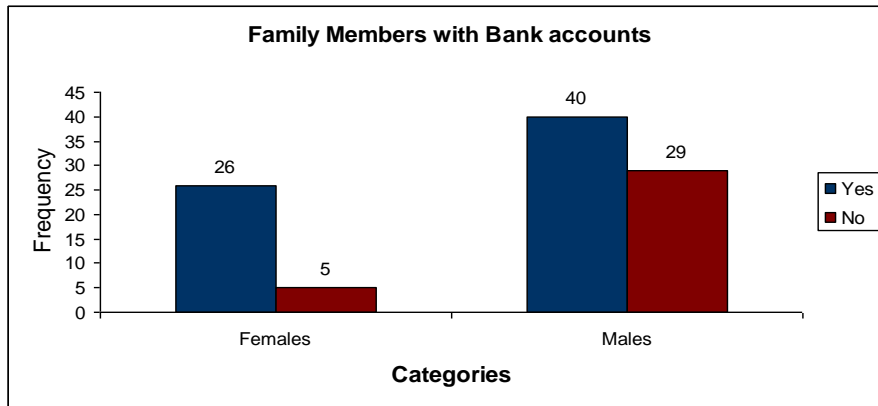
Access to Financial Services: Ownership of bank or postal deposit account (savings or current) is the first indicator of financial inclusiveness. It was revealed that 76% of respondents were having at least a deposit account whether in a bank or a post office and 24% didn't possess a deposit account (Figure 2). That means a significant proportion of respondents were out of the coverage of financial services. This revelation becomes further important as the current study was conducted after the implementation of Pradhan Mantri Jan Dhan Yojana (PMJDY) on August 28, 2014 by the government of India, which aims to provide maximum coverage to the excluded people in terms of zero balance no-frills bank accounts. Moreover, 15% respondents owned both a bank account and postal account. That means Indian postal system had contributed only 15% deposit account ownership in the sample, which is comparative very low, despite India having a very vast network of post offices, with over 1, 55,000 branches which is twice as large as the outreach of all commercial banks in India put together (Report of Expert Committee on Harnessing the India Post Network for Financial Inclusion, 2010). Gender-wise access to financial services reveals that out of total account holders about 67% were males (i.e.51% of total sample) and 33% were females (i.e. 25% of total sample), who had a bank or postal deposit account. That further shows gender biasness against the females in terms of access to financial services despite numerous efforts by Government of India and RBI. Likewise, among the non-holders of accounts 25% were females (i.e. 6% of total) and 75 % (i.e.18% of total) were males. The study also revealed that the most common reason for not having formal bank account was lack of enough income and savings. A larger gap between males and females on ownership of formal bank account can be due to lack of women empowerment and employment opportunities as the sample respondents belong to the informal sector.

Figure 2: Individual Deposit Account Ownership (%) in Banks/Post Offices



Apart from individual ownership of deposit account, household ownership i.e. ownership of deposit account by any of the respondents' family members may also reflect accessibility of financial services at the household level. As expected, an increasingly higher proportion of females reported about any of their family members having a deposit account. 26 out of 31 females (i.e. 83.87%), revealed members of their family having bank accounts, while in case of males only 57.97% had their family members with bank accounts.

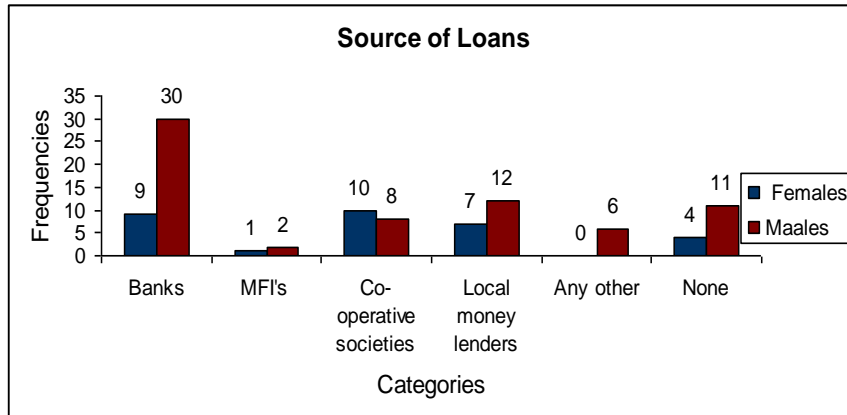
Figure 3: Deposit Account Ownership by Any Family Member



Credit plays a major role in providing crucial financial services to people. That's why owning a bank/postal account is not a sufficient criterion of financial inclusiveness, though it is a necessary condition. So far as credit accounts are concerned, study reveals that 60% respondents had taken credit from formal sources of finance that is they had credit accounts either with banks, micro-finance institutions or co-operative societies. A significant proportion i.e. 25% respondents had taken credit from informal sources like local money lenders, relatives, family friends etc. (Figure 4) 15% reported not having taken any loan from any sources. Banks were the highest providers of credit (39% of total respondents), followed by local money lenders (19%) and Cooperative Societies (18%). A significantly small dependence was on the MFIs i.e. only 3%. This shows a significant high proportion of respondents are still dependent on local money lenders. This may be due to the fact that there is insufficient penetration of banks' and MFIs credit services to the sampled people. Out of those who had taken credit from formal sources one-third i.e. 33.3% were females and 66.7% were males, which again suggests less access of credit for the women. Likewise, out of those who had taken credit from informal sources, 28% were females and 72% were males, which shows access to credit for women in the informal sources is also low. Here MFIs and co-operative societies can play major role. In case of Cooperative societies female respondents depend on small cooperative groups as means to get credit, which comes to 32.25% of total females, that is 55.5% of total number of credits from co-operatives. Likewise male respondents' dependence amounts to 11.59% of total males. Out of total number of bank credit holders,

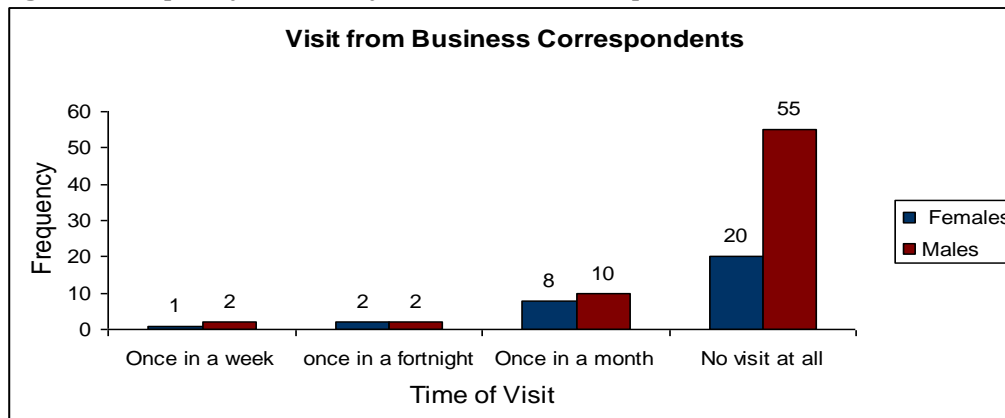
23.1% were females and 76.9% were males, that itself shows banks have failed to provide enough credit facilities to the women.

Figure 4: Sources of Credit taken by the Respondents



Availability of Financial Services: For mapping the availability of financial services availability of banking services is taken as indicator. Availability of Banks refers to banks penetration in particular area. If banks are available it would make it easier for individuals to access bank services. A significantly high proportion i.e. 87% of respondents revealed that banking service was easily available in their area of residence. Both Males and Females have significantly better results in segment of availability (85.5% of males and 90.3% of females). Proximity of banks is another dimension of availability of financial services, which shows how close or far are banks located from individuals' residence. The study revealed that banks were located in the nearby proximity for most respondents (75% of total) and for both males and females within 2 to 5 kilometers distance. For a low percentage (11%) of people bank availability was at more than 10 km distance.

Figure 5: Frequency of Visits by the Business Correspondents from Banks



As discussed above, in places where there is no bank branches, visits by Business Correspondents (BC's) are provided by banks, which is an important component of financial inclusiveness. As the state of Gujarat depends on BC model for expansion of financial inclusion it becomes crucial to examine whether group of individuals have come across BC's. The study reveals that a whopping 75% respondents reported of no visit by the BCs. Only 25% respondents had come across BCs' visiting their areas once in a week to once in a month frequency (Figure 5). So this suggests that for further expansion of banking services to the excluded segments frequency of BCs' visit should be increased by the banks.

Usage of Financial Services: From the study it was observed that 45% of the total respondents deposit money on regular basis in the banks. Out of total regular depositors, females account for 37.77% while males

were about 62.22%. While non-regular depositors account to 49%. Out of non-regular depositors, females account for 26.53% while males were of 73.46%. This shows the proportion regular users of bank account were lower than the non-regular ones, but more proportion of females deposited regularly than the non-regular females. This reveals females may be more willing to use financial services if given opportunity and included financially. The study further revealed that respondents were mostly dependent on public sector banks (97%) such as SBI, Dena Bank, Bank of Baroda, Oriental Bank of Commerce. After PM's Jan Dhan Yojana these banks have aggressively covered large number of customers. Share of private sector banks among the respondents was low, only 3%. Further study shows usage of bank services apart from depositing or borrowing money has not broaden to great extent. Here performance of both males and females is poor in using services such as transfer payments, insurances, tax payment and like-wise which are provided by banks are not availed (Figure 6).

Figure 6: Usage of Bank Services Apart From Depositing

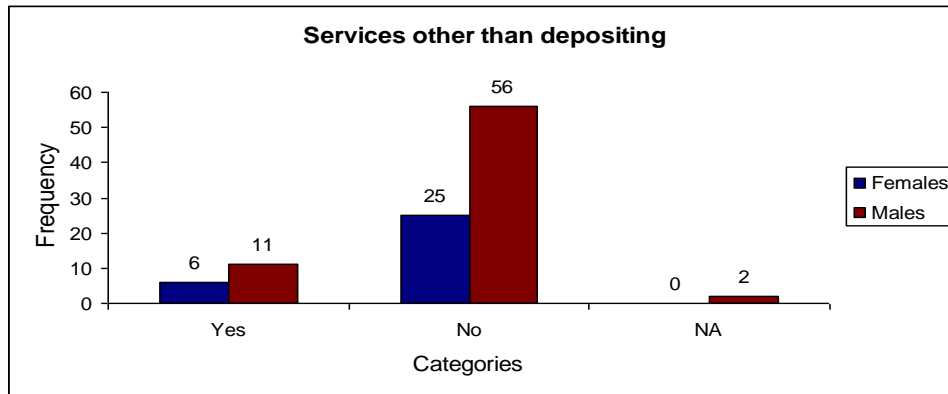


Figure 7: Number of Years of using Bank Accounts

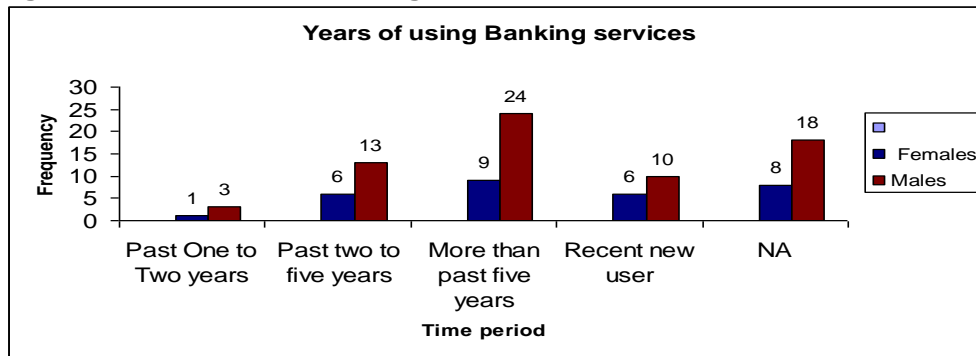
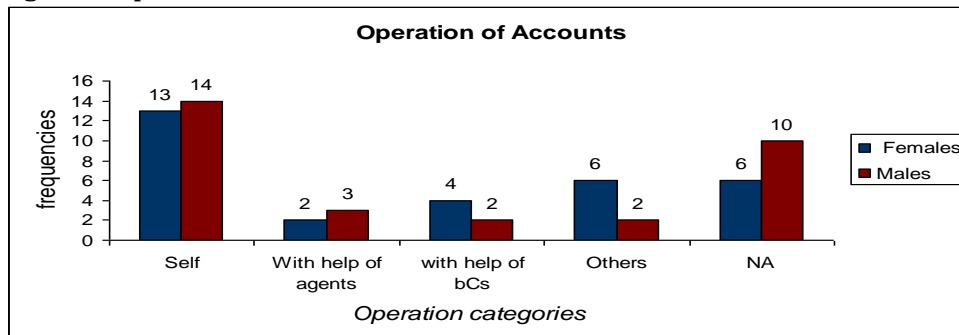
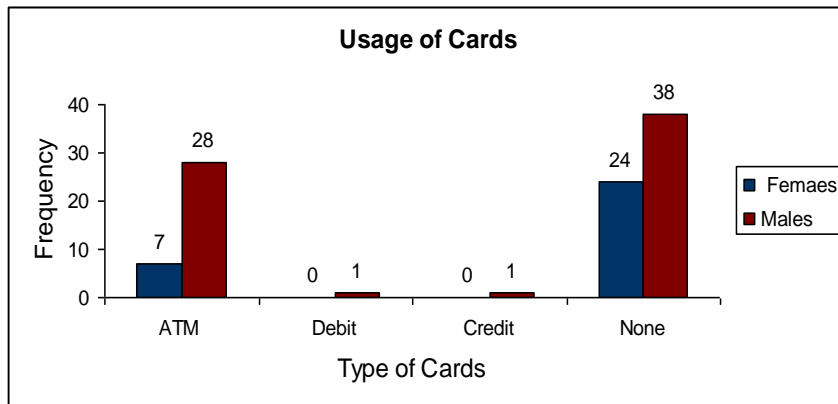


Figure 8: Operation Bank Accounts



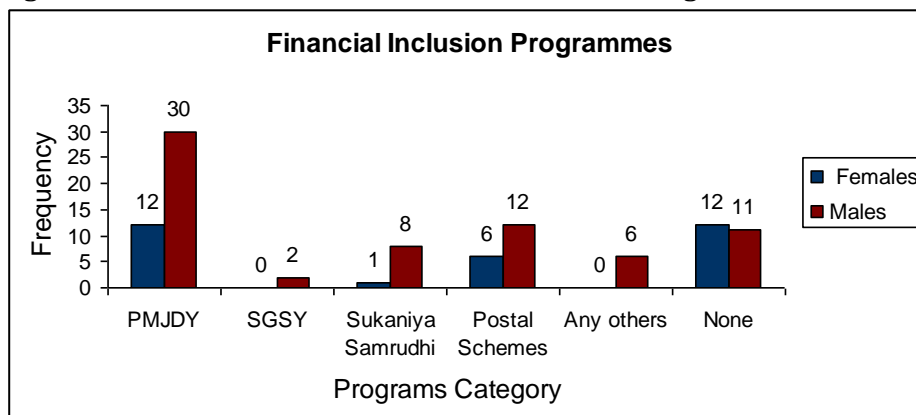
Above chart shows the number of years since when individuals have been using Bank accounts. As observed Males have outperformed Females in this particular segment of usage. (Figure 7) Given to the Male dominance in the Indian society this can be the possible reason. In understanding processes of banking processes, females lag behind in terms of comprehension as compared to males; hence there is a need to impart basic knowledge in terms of understanding bank processes in general. Figure 8 shows Operation of Bank Accounts showing larger number of individuals prefers operating bank accounts on their own. Individuals do rely on BC's and agents. In case of awareness of various financial services provided by India Post, it was very low in both Males (12%) and Female (6%). Unawareness of financial services by India Post amounts to about 82 % of total respondents. Online facilities, use of Information, Communication and technology can help expand financial inclusion. Still a majority of individuals do not avail online Banking facilities i.e. only 15% respondents in the study were using online banking facilities.

Figure 9: Usage of Various Smart Cards



To promote financial inclusion use of smart cards such as ATM's, Debit, Credit cards becomes important. After Jan Dhan Yojana the number of ATM card users, have risen though rise is not significant in terms of usage and holding. 62% respondents didn't have any smart card. Further Individuals revealed that they had ATM cards but do not know how to operate. (Figure 9)

Figure 10: Awareness of Various Financial Inclusion Programs



Since 2000's several programs to expand financial inclusion in India have been established but the response to the program is not adequate, hence in 2005 and 2008 and again in 2014 several reforms and new programs have been launched. Prime Minister's Jan Dhan Yojana launched in August 2014 is the fastest growing government scheme in the world. As per study observation, the awareness for PMJDY is highest among the males followed by postal schemes. Also among Females the awareness for PMJDY is the highest. There are cases wherein individuals are unaware of the Financial Inclusion programs. Hence, awareness towards such financial programs must be advanced (Figure 10)

Regression Model: Second part of the analysis deals with explaining the deposit account ownership among the respondents. For this regression analysis has been conducted and binary logistic or logit model has been estimated for the study.

A logistic function is defined as,

$$L_i = P (y=1 | x) = \text{Log} [P_i/(1-P_i)] = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$$

Where, $P_i/(1-P_i)$ = odds ratio of probability of success to probability of failure, where,
 P_i = probability of success or probability of presence of a trait and,
 $1-P_i$ = probability of failure or probability of absence of trait

In fact, in logit model, the odds ratio $[P_i/(1-P_i)] = \exp(\beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon)$ i.e. it is an exponential function of the X variables), which then leads to linearization by taking logarithm of odds ratio i.e.

$$\text{log}[P_i/(1-P_i)] = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$$

Above function is known as logit or logistic function which is estimated in cases where the dependent variable is binary having to possibilities of occurrence. That means, $P (y=1 | x)$ denotes probability that y takes value 1 (success) and hence 0 otherwise (failure).

Thus, following logit model is estimated and binary logistic regression is run:

$$P (\text{Bankacc}=1 | x) = \text{Log} [P_i/(1-P_i)] = \beta_0 + \beta_1\text{Income} + \beta_2\text{Education} + \beta_3\text{Female} + \beta_4\text{Bankavail} + \varepsilon$$

Where, y is a binary variable i.e.

y=Bankacc=1 if a person has a bank/postal account;

=0 otherwise

X1= Income i.e. monthly income of the individual

X2= Education i.e. number of years of schooling of the individual

X3= Female (dummy) =1 if the person is female or 0 otherwise

X4= Bankavail (dummy) =1 if bank /postal service is available near to the residence, or 0 otherwise

Regression Output

Classification Table^{a,b}

Observed		Predicted		
		Do You have Bank account or postal account or account in both ?		Percentage Correct
		No	Yes	
Step 0	Do You have Bank account or postal account or account in both? No	0	25	.0
	Yes	0	75	100.0
Overall Percentage				75.0

a. Constant is included in the model.

b. The cut value is .500

Model Summary

Step	-2 Log likelihood	Cox & Snell Square	Nagelkerke R Square	R
1	105.027 ^a	.072	.106	

a. Estimation terminated at iteration number 5 because parameter estimates changed by less than .001.

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)	95% C.I.for EXP(B)	
								Lower	Upper
Step 1 ^a	Income	.000	.000	2.822	1	.093	1.000	1.000	1.000
	Education	.055	.056	.968	1	.325	1.056	.947	1.179
	Female	.128	.541	.056	1	.813	1.137	.393	3.284
	Bankavail	.497	.590	.709	1	.400	1.643	.517	5.220
	Constant	-.667	.728	.839	1	.360	.513		

a. Variable(s) entered on step 1: Income, Education, Female, Bankavail.

Interpretation of Regression Analysis: Out of the four variables, only Income explains the probability of having a bank account, which has positive relationship with the dependent variable as expected, which is also significant at within 10% significance level. That is when monthly income of individuals increases by one Rupee the chances of owning a bank account also increase by about one time as shown by exp (B) values. Level of education and bank/postal availability in the nearby areas though show positive relationship with the odds of owning a bank account, but they are not significant even at 10 per cent level, though they show increase in the odds of bank account ownership by more than one times when schooling increases by one year and if a bank/post office is present in nearby area. Being female also does not explain a significant relationship with owning a bank account. So, what important implication one derive is that participation in income generating activity is what has significantly related with ownership of a bank account, rather than level of education or availability of banking services in nearby areas. A possible reason for this may be that the formal education is not sufficient for financial literacy, and hence even if a bank is available in nearby area due to lack of awareness about usage of financial products and processes, it may not lead to effective conversion into ownership of bank account.

4. Conclusion

The study revealed that in Gandhinagar district, majority, but not all, of respondents were having at least a deposit account whether in a bank or a post office and 24% didn't possess a deposit account. That means a significant proportion of respondents were out of the coverage of financial services. Indian postal system had contributed only 15% deposit account ownership in the sample, which is comparative very low, despite India having a very vast network of post offices. Gender-wise access to financial services reveals that out of total account holders about 67% were males (i.e.51% of total sample) and 33% were females (i.e. 25% of total sample), who had a bank or postal deposit account. That further shows gender biasness against the females in terms of access to financial services despite numerous efforts by Government of India and RBI. Likewise, among the non-holders of accounts 25% were females (i.e. 6% of total) and 75 % (i.e.18% of total) were males. The study also revealed that the most common reason for not having formal bank account was lack of enough income and savings. A larger gap between males and females on ownership of formal bank account can be due to lack of women empowerment and employment opportunities as the sample respondents belong to the informal sector.

Further study reveals that 60% respondents had taken credit from formal sources of finance. A significant proportion i.e. 25% respondents had taken credit from informal sources like local money lenders, relatives, family friends etc. 15% reported not having taken any loan from any sources. Banks were the highest providers of credit (39% of total respondents), followed by local money lenders (19%) and Cooperative Societies (18%). A significantly small dependence was on the MFIs i.e. only 3%, so the role of MFIs is still left to be filled up. The study revealed that a whopping 75% respondents reported of no visit by the BCs. Only 25% respondents had come across BCs' visiting their areas once in a week to once in a month frequency. So scope for BCs visit still remains to be increased for financial expansion. The proportion of regular users of bank account was lower than the non-regular ones, but more proportion of females deposited regularly than the non-regular females. This reveals females may be more willing to use financial services if given opportunity and included financially. Lastly, income generating activity is what has significantly related with ownership of a bank account, rather than level of education or availability of banking services in nearby

areas. A possible reason for this may be that the formal education is not sufficient for financial literacy, and hence even if a bank is available in nearby area due to lack of awareness about usage of financial products and processes, it may not lead to effective conversion into ownership of bank account. So beyond penetration of banks, government has to put serious thought on increasing financial literacy and awareness about using banking services and easiness of understanding of banking processes.

References

- CRISIL Inclusix. (2013). An Index to Measure India's Progress on Financial Inclusion, CRISIL, June.
- Divya, K. H. (2013). A Study On Impact of Financial Inclusion With Reference To Daily Wage Earners. *Journal of Business Management & Social Sciences*, 2(6).
- Financial Access Survey. (2010). World Bank, Washington D.C.
- Meher, S. (2014). Financial Inclusion in India: An Inter-State Analysis, in Mishra, P. et al ed. Financial Inclusion, Inclusive Growth and The Poor, 2014, New Century Publication, New Delhi.
- Memdani, L. & Rajyalakshmi, K. (2013). Financial Inclusion In India. *International Journal of Applied Research and Studies*, 2(8).
- MGLI. (2009). Evaluation of 100 per cent Financial Inclusion in Gandhinagar District of Gujarat, Mahatma Gandhi Labor Institute, Ahmadabad.
- Paramsivan, C. & Ganeshkumar, V. (2013). An Overview of Financial inclusion in India. *International Journal of Management and Development Studies*, 3(1).
- Mckinsey. (2010). Global report on Financial Inclusion
- Raman, A. (2012). Financial inclusion and Growth of Indian Banking System. *International Journal of Business and Management*, 1(3).
- Ray, D. & Rout, H. (2014). Financial Inclusion Models in India', in Mishra, P. et al ed. Financial Inclusion, Inclusive Growth and The Poor, 2014, New Century Publication, New Delhi.
- Report of The Expert Committee on Harnessing The India Post Network for Financial Inclusion. (2010). Department of Post, Ministry of It and Communication, GoI, New Delhi, June.
- Report of The Committee on Financial Inclusion. (2008). RBI, at www.rbi.org.in
- Sahoo, P. & Behera, A. (2014). Financial Inclusion Through Microfinance, in Mishra, P. et al ed. Financial Inclusion, Inclusive Growth and The Poor, 2014, New Century Publication, New Delhi.
- Shamaka, R. & Gakhar, S. (2015). Advancing Financial inclusion Beyond the Jan Dhan Yojana', Brookings India Impact Series, Development and Governance January, Brookings Institution India Centre, New Delhi.
- Thorat, U. (2007). Deputy governor's speech, RBI, at www.rbi.org.in
- United Nations. (2006). Building Inclusive Financial Sectors for Development, United Nations, New York

Using the Social Network for Business Sustainability: Examining Start-up SME Firms in Malaysia

Ehsan Fansuree Surin, Ismail Ab. Wahab, Mohd. Hazman Fitri Hussin,
Mohd. Najib Saad, Mior Harris Mior Harun
Universiti Teknologi MARA, Selangor, Malaysia
efansuree@salam.uitm.edu.my

Abstract: The purpose of this paper is to examine social network among SME firms in Malaysia. Specifically, this paper aims to investigate the usage of social network among Malay ethnic entrepreneurs in the start-up phase of SME firms in manufacturing sectors. Secondly, this paper aims to investigate the relationship between social network and business performance of the start-up manufacturing SME firms in Malaysia. The research data were collected through self-administered and mail questionnaire with a stratified random sample of 83 SME firms around Malaysia. The hierarchical regression was used for hypothesis testing. The result shows that Malay entrepreneurs used extensively business contact in their social network. For the hypothesis testing, the hierarchical regression shows that social network has significantly positive relationship with business performance. This paper contributes to the body of knowledge especially to the social network theme in Malaysia which is considered to be in the infant stage still. The discussions of the results, the contribution to the body of knowledge as well as limitations of the study are also discussed.

Keyword: *Social network, Start-up phase, SMEs, Malay entrepreneurs, Malaysia*

1. Introduction

Social network is defined as the interrelationship between the entrepreneurs (ego) and their contacts (alter/s) for business development purposes (Formbrun, 1982). The concept of network and its focus lies on the person who has the relationship with ego and thus, social network research utilises the relationship either directly or indirectly between the ego and their alter(s). Alters comprise family members, friends, relatives and business contacts (Birley, 1985; Brown and Butler, 1995; Das and Teng, 1997; Premaratne, 2001). The need for social network was cited by the scholars to secure important resources from the alters especially for the start-up firms (Witt, 2004; Witt, Schroeder and Merz, 2008). Even though the research on social network theme was done extensively, there is a limited understanding on the role of social network especially in the developing country like Malaysia (Minai, Ibrahim and Kheng, 2012; Surin and Wahab, 2013). Majority of the researches were done in the western countries for example in the Scandinavia (eg. Greve, 1995; Nybakk, Lunnan, Jenssen and Crespell, 2013; Nybakk, Vennesland, Hansen and Lunnan, 2008), in the United Kingdom (eg. Cromie and Birley, 1992; Kenny and Fahy, 2011; Ostgaard and Birley, 1996) and in the United State of America (eg. Martinez and Aldrich, 2011; Quan and Motoyama, 2010; Zimmerman, Barsky and Brouthers, 2009). Thus, this paper was carried out to examine social network among manufacturing SMEs in Malaysia during their start-up phase. Specifically, this study attempts to examine; (1) the usage of social network of Malay manufacturing SME firms, (2) the relationship between social network and business performance of Malay manufacturing SME firms. Malay entrepreneurs are included in the analysis as this ethnic constitutes as one of the major ethnic players in the entrepreneurship field in Malaysia. The remainder of this paper is organized as follows. We introduce social network theory and the development of the hypothesis in Section 2. The research methodology comprises of sample and data collection method as well as operationalisation of variables used in this study is presented in Section 3. In Section 4, we present the research findings including descriptive analyses, reliability test, mean, standard deviation and correlation and also the hypothesis testing. In the discussion section (Section 5), we present the adoption of the alters in the entrepreneurs' social network and discuss how finding reflects on prior investigation. We also put forward the contributions and limitations of the study in Section 6.

2. Literature Review

Social Network Theory: The social network theory was popularized in the middle of the 1980s by Birley (1985) and sought to explain the capability of the network to help the entrepreneur access resources. A social network is made up of persons to whom the individual primarily relates to on a social level. This network

functions largely on trust (Porras, Clegg and Crawford, 2004). Firms' survival in the business is dependent on the resources obtained by the entrepreneurs. The core argument of this theory is entrepreneurs will fulfill their firm's demands through alters due to the lack of certain resources. Due to the resource constraint, the entrepreneurs have searching for the alters to obtain an assistance through social network (Starr and MacMillan, 1990). The resources mentioned could take the form of information, motivational resources and material resources (Jenssen and Koenig, 2002). Social network adopted the structuralist perspective when operationalising and measuring network and try to connect the theme with organizational outcomes (Borgatti and Foster, 2003; Hoang and Antoncic, 2003). Structuralist perspectives explain the configuration of network ties of the social network. The network is structured within which the entrepreneurs and the alters interact. It also provides an understanding of the role of network structures in influencing entrepreneurial outcomes. The perspectives included in this study are network density and network centrality. Network density can be defined as alters that are connected and know each other in the network of the ego (Hansen, 1995). The density of a network forms part of the network characteristic and also identifies the number of ties that link the ego to the alters (Rowley, 1997; Frazier, 2000). Ibarra (1995) introduced the term homophily in social network that refers to the tendency of individuals to bond with others who are similar. For example, Ibarra found that a group of people bonded as they shared a similarity in terms of sex. Some of the barriers faced in a dense network are communication problems where different languages are spoken, a lack of familiarity between the alters and the uncertain purpose of participating in the group. People who share a common understanding maybe included in the dense network. From the ego's perspective, a dense network that functions on trust will enable them to acquire resources easily. Previous studies discovered the network density positively affects firm's business performance (Liedka, 1991). Reese (1992) also concluded that network density may contribute to the business performance.

On the other hand, network centrality refers to the position of the ego in the group from which the flow of information is spread (Frazier, 2000). In business, an ego that is central to communication will have early access to information and thus control the spread of information to the alters. Centrality is key to controlling the flow of information from multiple sources (Rowley, 1997) and also essential in controlling the distribution of resources (Boje and Whetten, 1981). However, in large network, not all information will be transferred evenly to the alters. Therefore, it is necessary to place oneself centrally in the network in order to access information and control the transfer of information. Individuals can still be associated with others even though they are not in the same area or field (Perry-Smith, 2006). Centrality is beneficial to motivate the individual's innovation effort (Ibarra, 1993), allow learning and knowledge transfer (Cantner and Joel, 2011), business unit's innovation enhancement (Tsai, 2001) and also beneficial to the ego as they are able to influence resource transactions among the social network members (Perry-Smith, 2006). In this paper, we propose positive relationship between social network and business performance as suggested by social network theory (Hoang and Antoncic, 2003). The positive relationship was developed to indicate the direction for the hypothesis testing. It had been adopted by prior researchers (Brown and Butler, 1995; Bruderl and Preisendorfer, 1998; Greve, 1995; Quan and Motoyama, 2010). Therefore, the hypothesis is;

H₁ There is a positive and significant relationship between social network and business performance

3. Methodology

Sample and data collection method: Our unit of analysis is organization; therefore the data were collected from the SMEs owner-managers. In Malaysia, the entrepreneur can be viewed simply as an owner-manager because both these roles are significant to the business (Ndubisi and Kahraman, 2005). A total of 306 firms were selected by using stratified random sampling (the firms were categorised according to their geographical zones; North, South, East, Central and West). The listing was obtained from Companies Commission of Malaysia (SSM) based on the criteria of being a manufacturing SME; which have either of the following; (1) more than 5 and fewer than 150 full-time employees and (2) an annual sales turnover between RM250,000 and less than RM25 million. Additional criteria were also used in sample selection; (1) the full name of the owner has been stated in the directory, (2) the firm must been operating not more than three years, and (3) the firm is not a franchise-based. This is due to the lack of control over their business and tailored to the requirement of their parent company. This study utilized mailed questionnaire and self administered questionnaire to obtain data from the sample firms in Malaysia. Questionnaire is found to be

predominant research method used in social network-based research (Greve, 1995; Greve and Salaff, 2003; Marsden, 1990). 83 completed questionnaires were received, yielding a response rate of 8.3 percent (1000 questionnaires sent). Another 5 responses were considered inappropriate as they did not meet the SMEs criteria and provided incomplete information for the name generator. The questionnaires sent out especially to food and beverage entrepreneurs were attached with official receipts and packaging of the entrepreneurs' brands to demonstrate researcher support. The initiative was conducted in order to increase the response rate.

Operationalisation of Variables: In order to determine social network, the entrepreneurs were asked to list down five names of alters they had been in contact with over the last month. In general, respondents are usually required to name five important alters that they interact with whilst running the business (Greve, 1995; Hansen, 1995; Marsden, 1990). Based on the name listed by entrepreneurs, they are then asked to rate how familiar each alter is with other members in the network (network density). The respondents were then asked to rate the items using 5 points Likert scale where 1 point meant that they strongly disagreed whilst 5 points signified that they strongly agreed. These answers would thus uncover strong links where alters knew each other well and weak links where alters were mere acquaintances. For another measure, network centrality was measured by using six items using a 5 points Likert scale. 1 point meant that they strongly disagreed whilst 5 points signified that they strongly agreed. For the business performance measure, the modified non-financial business performance items were adopted from Lee and Lee (2007) and Lee, Lee and Wu (2010). The items were rated using the 5 points Likert scale. In this scale, 5 points signify strong agreement whilst 1 point shows that the entrepreneurs strongly disagreed. This study employed non-financial measure to analyze business performance. Procuring financial data directly from the SME entrepreneurs may lead to false information due to the sensitive nature of the data (Mahmood and Hanafi, 2013; Wahab, 1996). Therefore, utilising subjective measures are acceptable when the nature of the data is sensitive which may lead to inaccurate reporting by entrepreneurs (Ahmad, 2007). Lastly, we controlled the potential bias towards business performance. The control variables include firm size, firm age and parental business history.

4. Findings

Descriptive Statistics: The findings showed that the majority of the respondents were male accounting for 51.8 percent of the sample, whereas females accounted for 48.2 percent of respondents. The age of the respondents showed that most of them were 46 years old and above (39.8%). Only 7.2 percent 26 to 30 years of age, meanwhile no respondent comes from 25 years and below. In terms of educational level, the majority of the respondents obtained the SPM (31.3%). This is followed by diploma holders (25.3%), undergraduate degree (22.9%), STPM (4.8%), master's degree (3.6%), and Ph.D (1.2%). Approximately 7 percent of respondents reported no formal educational. The majority of respondents (37.3%) possessed 11 to 15 years of work experience. This is followed by 31.1 percent of respondents who had 16 to 20 years of work experience and 26.5 percent with 5 to 10 years of work experience. A small number of respondents represented the maximum years of work experience with 4.8 percent having more than 20 years of working experience. No respondents indicated less than 5 years of working experience. In terms of firm's profile, the majority of businesses (54) came from the food and beverage sector, wood-based product (11), textiles, apparel and leather (5), electric and electronics (3), plastic-based products (2) and rubber-based products (1) and approximately 7 of the respondents indicated their firms were in other sectors, representing a combination of businesses in wood, iron and metal-based sectors. As regards business types, sole-proprietorship firms accounted for 48.2 percent of enterprises, and 27.7 of enterprises reported sole-proprietorship while another 24.1 percent of enterprises were private-limited firms. In terms of firm's location, most of the firms operated in Western region (29), followed by Southern region (26), Northern region (15), Central region (11) and Eastern region (2). Through the name generator method, majority of the respondents indicates that business contacts are the main player in their social network which constitutes 156 persons. This is followed by family members (135) and friends (89). Only a small number of relatives (35) were included in the entrepreneurs' social network.

Reliability Test: For this study, the reliability test was conducted on each variable to ensure their reliability and internal consistency. The Cronbach's alpha value were considered good since all the reliability values

were above 0.70, which concur with Nunnally's (1978) minimum threshold of 0.70. The results of reliability test are presented in Table 1.

Table 1: Cronbach alpha values for variables

Study variables	Items	Cronbach alpha
1. Social network		
- Network density	3	0.750
- Network centrality	6	0.749
2. Business performance	6	0.771

Mean, Standard Deviation and Correlation: Table 2 illustrates mean, standard deviation and correlations of the studied variables. The results revealed that the correlation between social network and business performance was significant ($r = 0.283, p < 0.01$).

Table 2: Means, standard deviations and correlations for the variables

Study variables	Mean	Std. deviation	Correlation	
			1	2
1. Social network	3.84	0.5		.283**
2. Business performance	3.78	0.48	.283**	

* $p < 0.05$

** $p < 0.01$

Table 3: Hierarchical regression analysis

Study variables	Standardised Beta	Standardised Beta
	First step	Second step
Control variable		
Parental history	-.218*	-.178*
Independent variable		
Social network		.256*
R	.218	.333
R ²	.047	.111
R ² change	.047	.064
F value	4.029	5.005
Significant F change	.048	.019

Hypothesis Testing: Table 3 summarises the result of the hierarchical regression analysis. In the first step, the model shows the $R^2 = .047$, R^2 change = .047, F value = 4.029 and a significant F change of .048 which indicated that the model is significant. For the second step, the model was improved with $R^2 = .111$, R^2 change = .064, F value = 5.005 and a significant F change = .019 which means that the model is also significant. Control variables were examined and parental history was included in the model as it achieved a valid significance level in both the first ($\beta = -.218, p < .05$) and second step ($\beta = -.178, p < .01$). However, the finding is inversely associated with business performance and against the view of previous research (Che Rose, Kumar and Yen, 2006). Meanwhile, the regression analysis revealed that social network was positively and significantly related with business performance ($\beta = .256, p < 0.05$). Therefore, hypotheses 1 was supported.

Discussion: The challenges facing by SME firms have led to a growing interest by scholars in entrepreneurship field including social network theme. Despite of the importance of social network, however there are limited studies done on social network especially for Malaysian SMEs scenario. Social network is important to SME firms as an important part of the firms' effectiveness and broadly accepted as a tool for securing resources from alters (Laere and Heene, 2003; Sengupta, 2011). This study revealed that business contact constitutes a big number in the Malay respondents' social network through name generator technique. This is followed by family members, friends and the least number is relatives. Previous literatures have widely discussed the important roles of business contact in enhancing entrepreneurs' business

performance. For example, supplier plays a crucial role in supplying market and competitor information to the entrepreneur (Fortner, 2006; Idris, 2008). Millington, Eberhardt and Wilkinson (2006) also discussed the finding of foreign firms operating in China relied on their suppliers to provide information on the activities of their competitors. The information gleaned from the suppliers would be of purchasing activities of their competitors. If competitors cease to purchase certain items, this would be a reason to follow suit in their own business. The reason for these actions will be sought from other firms. In Malaysia, Hamed (1995) stated that Malay entrepreneurs depended on the information gleaned from their suppliers.

More than half of the successful manufacturing firms in Malaysia built social network consisting of family members and embraced the moral support, information and benefits gained (Osman and Hashim, 2003; Sulaiman and Mohd Saukani, 2007). This is supported by Birley (1985) whose study identified family members as an important player in the social network. Family members play an integral role in the success of entrepreneurs as these relationships are often close knit (Bratkovic and Antoncic, 2009). For the involvement of friends in the social network, the present study found that friends were at the third place. Ahmad (2005) found that some owner-managers in Malaysia depend heavily on friends for morale support and advice. Hamed (1995) also discovered that friends also provide funding to the entrepreneurs. Even though there is a lack of in-depth discussion of the roles of relatives in the social network, some studies have found that relatives provide great support to entrepreneurs (Bogren, Friedrichs, Rennemo and Widding, 2011; Copp and Ivy, 2001). Relatives comprise of a wider family network and also include the family of the spouses (Hamed, 1995). In this study, there is relatively small attention given to incorporate relatives in the social network. However, previous scholar for example Wahab (1996) discovered that the financial advisors of small business entrepreneurs in Malaysia comprised of relatives. Ahmad (2005) found that entrepreneurs in the tourism industry included relatives in their social network while Ibrahim (1998) also revealed that small-sized firms relied greatly on their relatives for financing since formal financing was often inaccessible. Among the reasons for sourcing financial aid from these informal channels are the ease of access, the urgency of financial need, the lack of formal procedures in obtaining funds and the flexibility in loan repayment.

Indeed, relying on social network alters are crucial to the SME entrepreneurs to gain important resources. Even though the government through their agencies provides the financial assistance for the SMEs' development, however, not all applicants are successful in securing the assistance. Omar (2006) brought forth the issue of the applicants' personalities in the selection process that could lead to bias especially for entrepreneurs who are not well or fully established. Abu Bakar (2008) reported that accessibility to financial aid is still very limited despite the government's efforts to promote the various aids programs. The author noted that graft and bureaucracy problems are among the significant factors that prevent certain entrepreneurs from getting assistance. This view is supported by Mohamed (2001) who noted that bureaucracy, slow decision making and grafting are synonymous with government agencies. Mohd. Jan, Wahab, Salleh, Abdul Kadir and Osman (2010) also found that bureaucracy is one of the factors that contributed to the failure of SMEs in Malaysia. In addition, Wahab (1996) also provided evidence that unreasonable levels of collateral and higher interest rates are among the barriers faced by small firms trying to gain access to financing. Another studies found that the collateral is taken into consideration by the financial institution prior to approving a loan to entrepreneurs (Mohd Harif, Hoe and Md. Zali, 2011; Zairani and Zaimah, 2013).

For the hypothesis testing, the hierarchical regression analysis was conducted to examine the relationship between social network and business performance. The result shows that social network is positively and significantly related to business performance. This finding supports past studies (Kristiansen, 2004; Ostgaard and Birley, 1996; Premaratne, 2001; Surin and Wahab, 2013; Thrikawala, 2011) on the importance of the alters to enhance business performance. Two new findings appear in this study regarding the relationship between social network and business performance that have not discovered in the literature so far. Firstly, the result of this study found that social network affect business performance where the business performance was measured by non-financial indicator. Prior studies tend to use financial data in measuring business performance. However due to constraint in gathering the financial data, the subjective measures were deemed appropriate especially for SMEs in Malaysia (Ahmad, 2007; Mahmood and Hanafi, 2013; Wahab, 1996). Secondly, social network affects business performance for Malay manufacturing start-up firms in Malaysia.

5. Conclusion

This study examined Malay manufacturing start-up firms in Malaysia with emphasis on the social network of these firms. It empirically tested the relationship between social networks with business performance while the business performance was measured by using non-financial indicator. Prior researchers have concentrated the social network research in the Western context; given the opportunities to carry out the research for this theme in the developing country like Malaysia. Besides, this paper also examined the roles of four types of alters in the entrepreneurs' social network; family members, friends, relatives and business contacts using the name generator technique. The result contributes to the growing body of knowledge especially on SME firm's use of social network in Malaysia. The finding shows that the social network is positively related to business performance. This study lies on the ties between entrepreneurs and their family members, friends, relatives and business contacts, making it a unique contribution to the literature centered on the social network theme. Previous literature on social network has focused on these ties but mainly in relation to the transferring of resources. Moreover, previous literature has been criticized as it overlooked the role of family members, friends, relatives and business contacts in social network and placed more focus on formal network. Lastly, previous research on SMEs in Malaysia have limited their scope to certain regions only (Muhammad, Ahmad and Shahnon, 2011; Zainol and Wan Daud, 2011). This study, however, includes all the regions in Malaysia and aims to generalize the findings to the whole manufacturing sector population.

It should be noted that this study has several limitations. The sectoral biases that are of concern in this study arise from the investigation concentrating SME manufacturing firms. The current study attempts to examine the social network for the following sectors; (1) textiles, apparels and leather (2) food and beverage (3) wood-based products (4) plastic-based products (5) rubber-based products and (6) electric and electronics. Therefore, the results produced might differ from that of other sectors. This study also focuses on start-up SME firms and as such, the results cannot be generalized to the manufacturing firms that are operating in the later phases. Lastly, the sample chosen is drawn from each region in Peninsular Malaysia and Borneo. To reach out to these respondents that are based over a wide area, a suitable data collection method, i.e. the postal questionnaire was adopted. This method is deemed suitable as opposed to the personal interview which involves higher cost and is time consuming. However, it is impossible to ensure that the selected respondents from each region are represented in the sample. To rectify this problem, the researcher sent reminder letters to the respondents four weeks after the original questionnaire was posted.

References

- Abu Bakar, M. R. (2008). Tahap Kesampaian Bantuan Kewangan dan Kredit Kerajaan (BKKK) Terhadap Prestasi Perusahaan Kecil dan Sederhana (PKS) di Kedah. Unpublished Master's Dissertation. Universiti Sains Malaysia, Penang.
- Ahmad, G. (2005). Small firm owner-managers' networks in tourism and hospitality. *International Journal of Business and Society*, 6(2), 37-54.
- Ahmad, N. H. (2007). A Cross Cultural Study on Entrepreneurial Competencies and Entrepreneurial Success in SMEs in Australia and Malaysia. Doctoral Dissertation, University of Adelaide, Australia.
- Birley, S. (1985). The Role of Networks in the Entrepreneurial Process. *Journal of Business Venturing*, 1(1), 107-117.
- Bogren, M., Friedrichs, Y. V., Rennemo, O. & Widding, O. (2011). Networking Women Entrepreneurs-a Fruitful Base for Business Growth? Proceeding in International Council for Small Business (ICSB), Washington.
- Boje, D. M. & Whetten, D. A. (1981). Effects of Organizational Strategies and Contextual Constraints on Centrality and Attributions of Influence in Interorganizational Networks. *Administrative Science Quarterly*, 26(3), 378-395.
- Borgatti, S. P. & Foster, P. C. (2003). The Network Paradigm in Organizational Research: A Review and Typology. *Journal of Management*, 29(6), 991-1013.
- Bratkovic, T. & Antoncic, B. (2009). Networking of Copreneurs and Small Firm Growth: Personal Sub-networks Analysis. *Zagreb International Review of Economics & Business*, 12(2), 33-56.

- Brown, B. & Butler, J. E. (1995). Competitors as Allies: A Study of Entrepreneurial Networks in the U.S. Wine Industry. *Journal of Small Business Management*, 33(3), 57-66.
- Bruderl, J. & Preisendorfer, P. (1998). Network Support and the Success of Newly Founded Business. *Small Business Economics*, 10(3), 213-225.
- Cantner, U. & Joel, K. (2011). Network Position, Absorptive Capacity and Firm Success. *IUP Journal of Knowledge Management*, 9(1), 57-83.
- Che Rose, R., Kumar, N. & Yen, L. L. (2006). Entrepreneurs success factors and escalation of small and medium-sized enterprises in Malaysia. *Journal of Social Sciences*, 2(3), 74-80.
- Copp, C. B. & Ivy, R. L. (2001). Networking trends of small tourism businesses in post-socialist Slovakia. *Journal of Small Business Management*, 39(4), 345-353.
- Cromie, S. & Birley, S. (1992). Networking by female business owners in Northern Ireland. *Journal of Business Venturing*, 7(3), 237-251.
- Das, T. K. & Teng, B. S. (1997). Time and Entrepreneurial Risk Behavior. *Entrepreneurship: Theory & Practice*, 22(2), 69-88.
- Fortner, M. L. (2006). Entrepreneurs and their Social Networks: Motivations, Expectations and Outcomes. Doctoral Dissertation, the George Washington University, United States.
- Formbrun, C. J. (1982). Strategies for Network Research in Organizations. *Academy of Management Review*, 7(2), 280-291.
- Frazier, B. J. (2000). The Influence of Network Characteristics on Information Access, Marketing Competence and Perceptions of Performance in Small Rural Businesses. Doctoral Dissertation, Michigan State University.
- Greve, A. (1995). Networks and Entrepreneurship - An Analysis of Social Relations, Occupational Background, and Use of Contacts during the Establishment Process. *Scandinavian Journal of Management*, 11(1), 1-24.
- Greve, A. & Salaff, J. W. (2003). Social networks and Entrepreneurship. *Entrepreneurship: Theory & Practice*, 28(1), 1-22.
- Hamed, A. B. (1995). The Personal Networks of Small Firm Entrepreneurs in Malaysia: An Exploratory Study. Doctoral Thesis, University of Glasgow.
- Hansen, E. L. (1995). Entrepreneurial Networks and New Organization Growth. *Entrepreneurship: Theory & Practice*, 19(4), 7-19.
- Hoang, H. & Antoncic, B. (2003). Network-based Research in Entrepreneurship: A Critical Review. *Journal of Business Venturing*, 18(2), 165-187.
- Ibarra, H. (1993). Network Centrality, Power, and Innovation Involvement: Determinants of Technical and Administrative roles. *Academy of Management Journal*, 36(3), 471-501.
- Ibarra, H. (1995). Race, Opportunity, and Diversity of Social Circles in Managerial Networks. *Academy of Management Journal*, 38(3), 673-703.
- Ibrahim, M. D. (1998). Adoption of Project Appraisal Practice and Accessibility of Finance: An Empirical Analysis on Selected Small and Medium-sized Manufacturing Companies in Malaysia. Doctoral Thesis, University of Stirling.
- Idris, A. (2008). Cultivating Innovation through Female Leadership: The Malaysian Perspective. *Asian Social Science*, 4(6), 1-10.
- Jenssen, J. I. & Koenig, H. F. (2002). The Effect of Social Networks on Resource Access and Business Start-ups. *European Planning Studies*, 10(8), 1039-1046.
- Kenny, B. & Fahy, J. (2011). Network Resources and International Performance of High Tech SMEs. *Journal of Small Business and Enterprise Development*, 18(3), 529-555.
- Kristiansen, S. (2004). Social Networks and Business Success. *American Journal of Economics & Sociology*, 63(5), 1149-1171.
- Laere, K. V. & Heene, A. (2003). Social Networks as a Source of Competitive Advantage for the Firm. *Journal of Workplace Learning*, 15(6), 248-258.
- Lee, F. H. & Lee, F. Z. (2007). The Relationships between HRM Practices, Leadership Style, Competitive Strategy and Business Performance in Taiwanese Steel Industry. Proceedings of the 13th Asia Pacific Management Conference, Melbourne.
- Lee, F. H., Lee, F. Z. & Wu, W. Y. (2010). The Relationship between Human Resource Management Practices, Business Strategy and Firm Performance: Evidence from Steel Industry in Taiwan. *The International Journal of Human Resource Management*, 21(9), 1351-1372.

- Liedka, R. V. (1991). Who do you know in the Group? Location of Organizations in Interpersonal Networks. *Social Forces*, 70(2), 455-474.
- Mahmood, R. & Hanafi, N. (2013). Learning Orientation and Business Performance of Women-owned SMEs in Malaysia: The Mediating Effect of Competitive Advantage. *British Journal of Arts and Social Sciences*, 11(II), 150-161.
- Marsden, P. V. (1990). Network Data and Measurement. *Annual Review of Sociology*, 16, 435-463.
- Martinez, M. A. & Aldrich, H. E. (2011). Networking Strategies for Entrepreneurs: Balancing Cohesion and Diversity. *International Journal of Entrepreneurial Behaviour & Research in Organizational Behavior*, 17(1), 7-38.
- Millington, A., Eberhardt, M. & Wilkinson, B. (2006). Guanxi and Supplier Search Mechanism in China. *Human Relations*, 59(4), 505-531.
- Minai, M. S., Ibrahim, Y. & Kheng, L. K. (2012). Entrepreneurial Network in Malaysia: Are there any Differences across Ethnic Groups? *Journal of Business and Policy Research*, 7(1), 178 – 192.
- Mohd. Harif, M. A. A., Hoe, C. H. & Md. Zali, S. K. (2011). Business financing for Malaysian SMEs: What are the banks' determining factors? *World Review of Business Research*, 1(3), 78-101.
- Mohd. Jan, N., Wahab, I. A., Salleh, Z., Abdul Kadir, M. A. B. & Osman, C. A. (2010). Study on Factors which Contribute to the Success and Failure of SMEs. Proceeding on National Conference on Entrepreneurship (NiCE), Shah Alam Convention Centre, Shah Alam, Selangor.
- Muhammad, J., Ahmad, Z. & Shahnon, S. (2011). SME Lending of the Northern Corridor Economic Region: Access and Needs. *World Review of Business Research*, 1(4), 18-32.
- Ndubisi, N. O. & Kahraman, C. (2005). Malaysian Women Entrepreneurs: Understanding the ICT Usage Behaviors and Drivers. *Journal of Enterprise Information Management*, 18(5/6), 721-739.
- Nunnally, J. C. (1978). *Psychometric Theory*, New York: McGraw-Hill.
- Nybakk, E., Lunnan, A., Jenssen, J. I. & Crespel, P. (2013). The Importance of Social Networks in the Norwegian Firewood Industry. *Biomass and Bioenergy*, 57, 48-56.
- Nybakk, E., Vennesland, B., Hansen, E. & Lunnan, A. (2008). Networking, Innovation, and Performance in Norwegian Nature-based Tourism. *Journal of Forest Products Business Research*, 5(4), 1-26.
- Omar, S. (2006). *Malay Business. Revivalism through Entrepreneurship*, Selangor: Pelanduk Publication.
- Osman, I. & Hashim, M. K. (2003). An Evaluation of the Business Practices in Malaysian SMEs. *Malaysian Management Review*, 38(2), 1-8.
- Ostgaard, T. A. & Birley, S. (1996). New Venture Growth and Personal Networks. *Journal of Business Research*, 36(1), 37-50.
- Perry-Smith, J. E. (2006). Social Yet Creative: The Role of Social Relationships in Facilitating Individual Creativity. *Academy of Management Journal*, 49(1), 85-101.
- Porras, S. T., Clegg, S. & Crawford, J. (2004). Trust as Networking Knowledge: Precedents from Australia. *Asia Pacific Journal of Management*, 21(3), 345-363.
- Premaratne, S. P. (2001). Networks, Resources, and Small Business Growth: The Experience in Sri Lanka. *Journal of Small Business Management*, 39(4), 363-371.
- Quan, X. & Motoyama, Y. (2010). Empirical Disaggregation of Social Networks: A Study of Ethnic Professional Associations and Entrepreneurship in Silicon Valley. *Journal of Small Business and Entrepreneurship*, 23(4), 509-526.
- Reese, P. R. (1992). *Entrepreneurial Networks and Resource Acquisition: Does Gender make a Difference?* Doctoral Dissertation, The University of North Carolina.
- Rowley, T. J. (1997). Moving beyond dyadic ties: A network theory of stakeholder influences. *The Academy of Management Review*, 22(4), 887-910.
- Sengupta, A. (2011). Network Strategy and Access to Business Finance: Indian Entrepreneurs in the Information and Communication Technology Industry. *Journal of Entrepreneurship*, 20(1), 103-126.
- Starr, J. A. & MacMillan, I. C. (1990). Resource Cooptation via Social Contracting: Resource Acquisition Strategies for New Ventures. *Strategic Management Journal*, 11, 79-92.
- Sulaiman, N. & Mohd. Saukani, M. N. (2007). Modal Sosial dalam Mempertingkat Daya Saing Firma Perusahaan Kecil dan Sederhana (PKS). *International Journal of Management Studies*, 14(2), 93-111.
- Surin, E. F. & Wahab, I. A. (2013). The Effect of Social Network on Business Performance in Established Manufacturing Small and Medium Enterprises (SMEs) in Malaysia. Proceeding in 4th International Conference on Business, Economics and Tourism Management 2013, South Korea.

- Thrikawala, S. S. (2011). Impact of Strategic Networks for the Success of SMEs in Sri Lanka. *World Journal of Social Sciences*, 1(2), 108 - 119.
- Tsai, W. (2001). Knowledge Transfer in Intraorganizational Networks: Effects of Network Position and Absorptive Capacity on Business Unit Innovation and Performance. *Academy of Management Journal*, 44(5), 996-1004.
- Wahab, I. A. (1996). Financing the Growth of Small Manufacturing Firms in Developed and Developing countries: A Comparative Study of United Kingdom and Malaysia. Doctoral Thesis, Loughborough University, Leicester.
- Witt, P. (2004). Entrepreneurs' Networks and the Success of Start-ups. *Entrepreneurship & Regional Development*, 16(5), 391-412.
- Witt, P., Schroeter, A. & Merz, C. (2008). Entrepreneurial Resource Acquisition via Personal Networks: an Empirical Study of German Start-ups. *Service Industries Journal*, 28(7/8), 953-971.
- Zainol, F. A. & Wan Daud, W. N. (2011). Indigenous ("Bumiputera") Malay Entrepreneurs in Malaysia: Government Supports, Entrepreneurial Orientation and Firms Performances. *International Business and Management*, 2(1), 86-99.
- Zairani, Z. & Zaimah, Z. A. (2013). Difficulties in Securing Funding from Bank: Success Factors for Small and Medium Enterprises (SMEs). *Journal of Advance Management Science*, 1(4), 354-357.
- Zimmerman, M., Barsky, D. & Brouthers, K. (2009). Networks, SMEs, and International Diversification. *Multinational Business Review*, 17(4), 143-162.

Marketing Aspects of Social Media Absorption in the Clothing Industry in the Light of Own Research

Łukasz Sułkowski, Dominika Kaczorowska – Spsychalska
University of Social Sciences, Poland (Lodz)
lsulkowski@spoleczna.pl

Abstract: The process of exchange has been an integral part of life since the dawn of civilization, which means that marketing understood in a wide context as a contact between a seller and a market i.e. someone that is willing to buy something – is exactly as old as a notion of exchange (Otto, 2004). Subsequent stages in the process of its evolution have led to its atomization and a need for exploration of optimal tools and working methods. The era of IT technology and related dynamic development of mobile devices and applications have contributed to an extensive development of social media that to an increasingly greater extent determine marketing activity of contemporary enterprises. Clothing industry is present virtually in every country and it is one of the most important sectors of the global economy. In case of some regions, both in a global and national perspective, it can be a factor that determines their development and further directions of evolution. The Łódź region that is the subject of the discussion presented below is a perfect example of that trend. The aim of the article is to identify the most popular methods and tools of social media marketing used by the main clothing enterprises from the Łódź region while taking into account indications for their further diffusion.

Keywords: *Social media, marketing, e-community, consumer, clothing market*

1. Introduction

The 21st century is an era of information technology and dynamic development of electronics which have become an integral part of contemporary economics and business. It forces entrepreneurs to be flexible, open to new ideas, to accept unconventional solutions as well as to undertake competition in the global market” (Wieczorek, 2003). Nowadays technology is a driving force for changes at the most basic level – it moves borders of possibilities and raises the level of customers’ expectations: digitalization, networks of mutual contacts, combination of technologies cooperating in many spheres of life – from communication to entertainment, fast developing structures, short product lifecycles, mutual imitation, interactions (Fisk, 2009). The internet can be used for various applications: for e-mail and communication, for educational and scientific purposes, for business, for leisure, for banking or for e-commerce (de Mooij, 2005). This is a subsequent stage in the process of technological evolution – social age – where IT technology modifies conditions of functioning of modern enterprises while forcing a need for adaptation and/or exploration of methods and tools of influencing the market. Its key element is a client who demands greater and greater integration of available technologies, applications and devices while expecting not only products but, first of all, extraordinary experiences and related emotions. Hypermedia space offers unlimited opportunities to create this and allows enterprises to multiply achieved results. Clothing market is undoubtedly one of the core areas of contemporary economy. Simultaneously, it is a very complex, multidimensional and demanding market. So implemented marketing activities have to consider e.g. seasonality, growing demands of customers, both relating to quality as well as to pricing policy, rationalization of purchasing decisions related to it, strong competition, etc. As a result, a systematic increase of a number of brand name outlets, a volume of online sales and intensification of marketing activities conducted through social media can be widely observed. The aim of the article is to identify and analyze methods and tools used in social media marketing by key clothing enterprises in the Łódź region

2. Literature Review

For the last fifty years the leading brands have included brands made by efficient factories and promoted by effective marketing. [...] all of a sudden, it turns out that these are not the oldest brands that develop at the fastest pace, as today we want novelties, a style, and first of all, something spectacular (Godin, 2010). Such opportunities are generated by social media, usually defined as a group of applications based on online solutions which rely on ideological and technological grounds of Web 2.0, which enable to create and

exchange contents generated by users (Ludkowski, 2012). They include social networking sites, contents communities, discussion for a, blogs and vlogs, virtual game worlds or virtual social worlds. Social networking sites are used by more than a billion people all over the world. Every minute there appear more than 700 thousand new statuses and 0.5 million comments on Facebook. At the same time 25 hours of new video materials are added to YouTube and 100 thousand entries to twitter (Sadowski, 2013). Among different social media, Facebook with its more than 1 billion users is the most popular social networking platform not only among consumers but also among e-tailers. It is favored by the e-tailers over other social media, because it is a popular marketing channel that permits direct interaction with potential consumers and provides an unparalleled platform for consumers to publicly share evaluations of products (Nadeem, Andreini, Salo & Laukkanen, 2015). Facebook is an extremely effective tool of global communications that claims to be a catalogue of the whole world population, or at least this part of our planet that has access to the Internet and that enables to establish connections with any people (Kirkpatrick, 2011). Obviously, it is not only Facebook, but also Twitter, LinkedIn, MySpace, Renren in China, Mixi in Japan, Odnoklassniki in Russia and hundreds of other networks (Shih, 2012). In the future they will provide tools to discover relations connecting them with other people and manifested by means of common behavior and interests (Kirkpatrick, 2011).

A systematic exploration of social media creates a chance to use their potential in diverse marketing activities of contemporary enterprises. That is why they are more and more often perceived not only through the prism of an eclectic definition but through specific ventures, tools, technological applications that meet specific functions and business objectives (Mazurek, 2012). They definitely revolutionized a way of communication between brands and customers while introducing an „all to all” discussion model. A key to success in this area is attractive, interesting and original content (Maciorowski, 2013). They are a new dimension of marketing communication that is based on Web 2.0 idea – the second generation of the Internet. Yet, the change does not concern only transformation of a monologue into a dialogue. This is a multilog – a much more complex level, where companies can talk to customers and customers to companies, but customers can also communicate with other customers – potential buyers and in a broader sense, to the whole society (Falls & Deckers, 2013). As a result social media cease to be an instrument that serves only to build a brand image. They have a direct impact on sales. On average 30% of customers makes a purchase under the influence of recommendation or information obtained from social media. In case of recipients representing Generation Y – it is up to 50% (Skażyński, 2014). Thanks to them it is possible to go beyond customers’ expectations and to create a new, interactive reality where a customer is an active participant.

Companies that started to use social media in the period between 2007-2009, learned to use available tools and achieved stabilization of productivity. They became able to process information and use it in a practical and rational way. They just discovered that social marketing is real, can be relied on and its results can be measured (Falls & Deckers, 2013). New online tools that are used in marketing are characterized by a short lifespan. Online reality, which changes continually, imposes very fast replacement of current methods and ways of conducting actions through new solutions while offering more and more advanced strategies of marketing tasks (Kaznowski, 2013). It results from intensification of competitors’ activity as well as from increasing expectations of customers who demand more and more attractive and sophisticated experiences. They are critical and demanding toward applied solutions and they determine a natural process of social media evolution. Consequently, a role of video casts and mobile that are strictly connected with social media increases, and they let increase attractiveness of transmitted contents and effectiveness of conducted processes. New media users decide themselves when, where and what materials they want to obtain, what offers they want to use and how they want to intensify their experiences related to a company/brand. As a result contemporary marketing has become, both for companies/brands and for their clients, a philosophy of action whose driving force is IT technology. It is a peculiar multi-paradigm combining element of experiential marketing, relationship marketing, content marketing and e-marketing. It responds to a human desire of self-expression, interpersonal bonds and a sense of belonging which are particularly important on the web (Shih, 2012).

Social media marketing is then a multidimensional set of informative actions conducted in order to satisfy individual and collective needs in the space of electronic market by means of information technology in order to gain, even a momentary competitive advantage and to achieve additional profits by organizations active not only in a virtual market (Chmielarz, 2005). This evolutionary approach to online space and its present

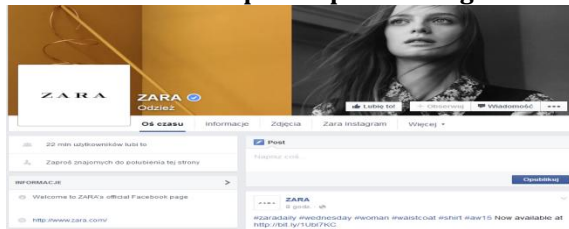
users – creating such online environments where not only a gathering of Internet users occurs but also virtual communities that are based on knowledge, are built and modified as well as development of websites according to preferences of internauts (content personalization) (Dejnaka, 2013). Its main pillars include: information, interaction and visualization which enable it to become a part of online marketing activities which complement traditional promotion strategies used on the web. This is a form of viral marketing passed from mouth to mouth by Internet users and based on informing acquaintances about media, services or products that this person either loves or hates (Barefoot & Szabo, 2011). Social media marketing enables enterprises to have constant informational presence on the web, endorse their identity, promote a corporate brand and a portfolio of product brands, to build a group of friendly people towards a product, accepting its „personality” and sharing a system of expressed values, presenting and explaining their market activities, taking a standpoint concerning important social and economic problems (Wiktor, 2013). It enables to improve the quality of customer service, test new products, reverse product placement or at last to conduct marketing research and other studies. It allows companies to reach a bigger number of people and implement, at a larger scale, a number of relations while increasing their productivity and effectiveness. In the process of its absorption a key role is assigned to an optimal correlation of its tools with individual phases of a purchase process. Before making a purchase a client looks for specific information that will facilitate to make a choice and make a right decision. The fundamental need in the pre-transaction level is a need to provide for trust in the product or firm (Walden, 2000). These can be contents transferred directly by the same company/brand as well as other users of the same product who want to share their opinions. Their reliability and usefulness are of crucial importance. While making a decision a client often rejects a so-called traditional model of purchase funnel, changing choices over and over and frequently coming to previously rejected variants. It is not restricted to elimination of subsequent alternatives that allow to satisfy needs but in a real time, they add or reject next options up to the moment of a final purchase. As a result, a client can look for information in social networking sites, corporate blogs, blogs and external vlogs or discussion fora. Content communities and virtual game worlds can also prove useful. In the after-sales phase the most important tools are such that let companies build relations with a client, verify a level of satisfaction with a purchase, conduct marketing research or look for innovations. Social networking sites and corporate blogs also prove very useful in this area. However, in case of social media marketing these objectives can be also achieved at each phase of a purchase process.

Communication between internauts is not a new phenomenon, however, the Web 2.0 technology made it possible for every person with access to the Internet to become a member of the international online community. The Web 2.0 technology has transformed passive Internet users into its co-designers (Barefoot & Szabo, 2011). More and more often they become e-customers: buy more intensively on the Internet, spend more time online, they get in touch with friends and acquaintances on the net (Świerczyńska – Kaczor, 2012). They establish multisided relations and bonds while becoming a part of virtual communities. By means of the Internet and in real life customers find one another in global or local networks but it is Web 2.0, online applications that stimulate creativity of users and interactions between people, which create new bonds in the mainstream of human activity. [...] There are no physical barriers, no strange customers that ignore one another (Fisk, 2009). An important contribution of online social networks is that they have expanded the definition of community, which was once exclusively based on geographical, political or religious similarity to be based on any set similar of interests, products and brands (Cao, Knotts, Xu & Chau, 2009). As a result e-community is created and it is understood as a community of the Internet users who actively use this communication platform to exchange information and messages connected with their common interests, beliefs and attitudes (Gustowski, 2012). They become a source of social life, a sense of belonging and social identity; these are groups of people who create social interaction, recognize the same norms of behavior or specific practices in the cyberspace (Sznajder, 2014). They are formed when a sufficient number of people continue public discussions for such a long time and with such emotional involvement so that networks of personal relations are created (Rheingold, 2000). They enable to do the same things that we do in real life – they enable to express oneself, make friends, and ask questions, share ideas. [...] There is some space on the Internet where people feel safe, needed and where they willingly return (Gustowski, 2012).

They are a kind of equivalent of primeval tribes where belonging was a reflection of a social status, let us survive, conditioned our behavior and attitudes. A tribe is a group of related people who are committed to a certain idea and one leader. It is necessary to have common interests and a way of communication” (Godin,

2010). Thanks to IT technology and mobile devices, possibilities to communicate in spatio-temporal context are unlimited and passions, hobbies, companies/brands or products offered by them become a reflection of motivation that decides on willingness to belong to a given e-community. As far as the development of social marketing is concerned the most important communities are those whose functioning is moderated by a company and that are related to consumption, a product or a brand. These communities become an increasingly crucial part of enterprise marketing strategies as they are a crucial channel of after-sales or promotional actions (Świerczyńska – Kaczor, 2012). No brand can exist without loyal customers who return and are willing to trust a company/brand again. Because of strong competition in e-commerce it is ineffective to treat all customers in the same way. Every customer is different, buying motives are different that is why a proper preparation of a good strategy and a plan of communication with customers requires to understand their intentions, current and future behavior, fears and inspirations (Piwowarczyk, 2014). There is more and more evidence that customers are driven by emotions. What get more important for them are experiences and incidents which will generate emotions. What one customer perceives through one's own perception model influences the image of a certain company/brand. A lot of information and events remain in the memory, they are not forgotten, and the only problem to solve is only a way of reaching these events, in other words, using a computer language to find an access path (Falkowski & Tyszka, 2006). Having a general knowledge of a customer profile, their behavior and a decision-making process, it is necessary to understand premises for their presence in specific social media and expectations from them. It offers an opportunity for a thorough behavioral analysis while giving a free choice of optimal methods and tools that could increase the level of customers' involvement, build their relations and the level of awareness of a given brand. The strategy of social marketing built on their basis should be directed at, on the one hand, strengthening customer behavior desired by a company/brand through the increase of intensity and variety of used instruments. On the other hand, it should concern elimination and/or potential change of unwanted or troublesome habits. It regards both information materials and elements of interaction connected with entertainment and escapism while taking into account specificity of individual social media. It stimulates its own consumer e-community gathered around a company/brand while providing it with an added value and building their market advantage on the basis of it, because customer profitability is principally determined not by the costs of the product that the customer buys, but by the cost of managing customer relationship (Ryals, 2008).

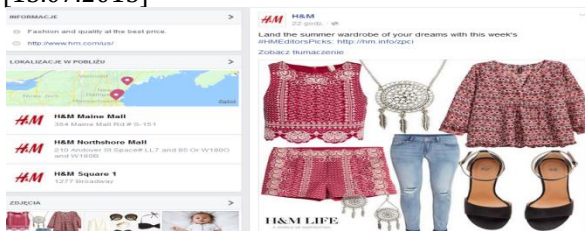
Illustration 1: Examples of profiles of global fashion brands on Facebook



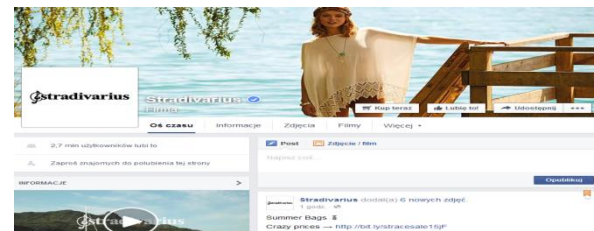
<https://www.facebook.com/Zara> [15.07.2015]
[15.07.2015]



<https://www.facebook.com/adidas>



<https://www.facebook.com/hmtheus?brand> [15.07.2015]
[15.07.2015]



<https://www.facebook.com/stradivarius>

Participation in the life of online communities does not boil down to creating a website, putting a blog entry, asking questions or tweet publication. There is a widespread discussion about their prominent potential but it should not be generally believed that they are easy and fast (Evans, 2011). They are a much broader notion and require to adopt it at every single stage of implemented strategy of enterprise management. Social

business is not only business that uses social media. Actually, it is a new era of cooperation conducted inside and outside a company, sharing knowledge about customers and constant implementation of changes based on that knowledge (Sadowski, 2013). Social media are a way of thinking and perceiving surrounding reality. However, these are the people who decide on their usefulness and possibilities of application to the process of building a market advantage. The Titanic effect that is frequently observed and that „consists in a situation when a company or a brand due to unswerving certainty of managers in their routine, superficial thinking about customers as if an old paradigm was enough to understand a market as well as quick adaptation to market conditions (Zaltman, 2008), becomes a barrier to enterprise development. Lack of openness to new concepts and abilities of holistic thinking, reluctance to adopt new solutions, ignoring what a customer expects on the level of a contact with a company/brand or, at last, lack of knowledge concerning evaluation of level of effectiveness of conducted activities, hinder optimal usage of opportunities that are currently generated by social media. As a result, it leads to disappointment, especially in case of excessive entrepreneurs' expectations of still a new technology. However, ignoring social media and pretending that they are only a manifestation of a fad, not necessarily adjusted to our possibilities, may soon prove a wrong decision. Clothing industry has not remained indifferent to challenges of new technologies and it intensively implements methods and tools of social media marketing. The observation of popular brands such as Zara, Stradivarius, H&M, Carry, Reserved, Gap, Nike, Adidas, etc. shows that they are aware not only of benefits that social media bring, but also of threats related to their web presence.

In majority of cases well-known recognizable fashion brands treat social media as a platform of activities aimed at optimization of a communication process. They enable to promote a desired brand image among real and potential customers as well as to create multisided relations. They undertake more and more sophisticated strategies of social media marketing in order to increase brand awareness, website traffic and online sale. The key elements of this process include, first of all, social networking sites, internal blogs and external bloggers and vloggers that perform a function of trendsetters. The role of YouTube is also significantly growing as it allows to present a collection and outfit sets in an interactive way. However, the role of online fora in creating fashion and popularizing specific trends has decreased. Nowadays their function boils down to exchanging opinions between users of specific products about their quality, functional qualities and profitability of purchase. Such a choice of social media tools results first of all, from the fact that fashion and related clothing market are conditioned by emotions arising from dealing with individual brands and products offered by them. The purchase of specific products is a manifestation of our social status and a tool of creating and showing one's own, unique personality. Thanks to conducted non-standard promotional actions, numerous competitions, discussions, the involvement of social media users increases and they want to become a part of e-community connected with a specific fashion brand. The process of social media absorption by brands of clothing market resembles a model where every subsequent phase shows a higher level of involvement, both, of a company/brand and its clients, eventually leading to the growth of effectiveness and efficiency of an implemented strategy. It is a reflection of the model of "Five stages of the development of fashion e-tail web sites"

Diagram 1: Five stages of the fashion development in social media

STAGE FIVE: High experience, knowledge to maximize on- and offline business
STAGE FOUR: Integration of skills, processes and technology connected with social media
STAGE THREE: Develop value integration and creative e-community
STAGE TWO: Develop information competence in social media
STAGE ONE: Develop a social media presence

Hines T., Bruce M., Fashion Marketing, Elsevier Ltd., Oxford, 2007, p 265

Such an approach enables to recognize a role of social media in a marketing strategy of clothing enterprises in a systemic way. It also allows companies/brands to systematically develop knowledge and competence related to hypermedia environment. The starting point is identification of methods and tools that enable effective presentation of a brand in social media. These include, first of all, multimedia elements and competitions that facilitate interaction and draw attention of a potential customer. Yet, they have to be systematically complemented with information that must be translated into customers' knowledge and

growth of their interest in a certain brand. They can include, e.g. elements concerning the brand history, its products, practical aspects connected with using its products. As a result, a client is a subject of a specific education process, which is often reflected in a purchase process. This leads to the next stage that concentrates on integration of own e-community and development of a related market. A brand must become a part of its clients' life while sharing their values and approving of their inspirations. The last two stages of a discussed model refer, first of all, to the process of integration within a certain organization so that social media could become an element of organizational culture and a manifestation of its way of perceiving a contemporary market. Thanks to this the conducted activities within social media marketing are getting increasingly advanced, sophisticated and provide spectacular experiences and emotions while at the same time they let clothing companies/brands maximize profits.

3. Methodology

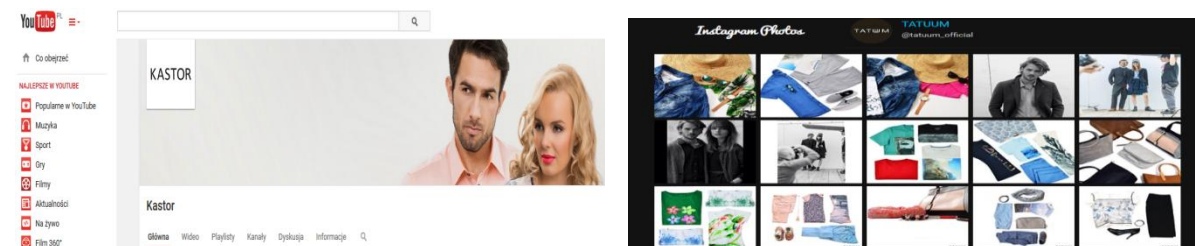
The analysis of the level of social media absorption in implemented marketing activities in clothing industry enterprises in the Łódź province has been conducted both, by quantitative research (online survey) and qualitative research (interviews, observation). It was due to the complexity of a discussed topic and difficulties connected with an explicit definition of indications deciding about the level of using social media marketing, its dimensions of development in an analyzed market sector and possibilities of further diffusion. The first element of conducted study was the identification of clothing enterprises from Łódź with a significant market position and a comparative analysis of their case studies. The evaluation concerned mainly:

- a choice of social media that were used by analyzed companies;
- methods and tools of conducted image-building activities;
- methods and tools aimed at building relations;
- the level of direct usage of social media in the after-sales process (social shopping);
- the range of using social media in the process of marketing research;

The conducted analysis was of explorative character and its aim was to understand the specific character of social media marketing in the analyzed market as well as the identification of factors determining a choice of individual social methods and tools. What significantly determines decisions concerning using social media in a marketing strategy are: a huge diversity of enterprises active in the market, both in terms of their size, financial potential, strategic objectives and technological capabilities, target market, etc.

4. Results and Discussion

Illustration 2: Selected fashion brands from Łódź region in social networking sites.



<https://www.youtube.com/channel/UCPmkBLTTrkWP2znXI9v-q0Q>
[http://www.iphoneogram.com/u/597735964\[11.07.2015\]](http://www.iphoneogram.com/u/597735964[11.07.2015])

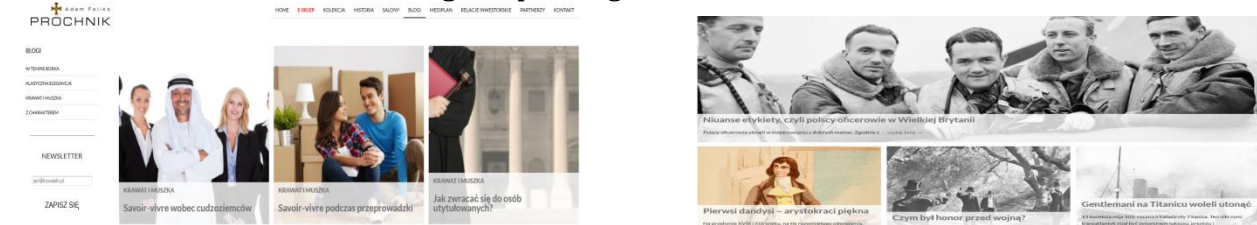
The clothing market in Łódź region is an area with a great number of fashion enterprises that are active not only locally but also on an international and global scale. However, the conducted comparative analysis comprised only the companies with premises and factories in the Łódź province and the companies whose brand is recognizable, at least in the domestic market. Selected companies offer high quality products, a wide product range (multitude of available models, diverse colors, variety of sizes, offer for men and women, clothes and accessories). They have also a positive brand image and high quality of customer service, both in offline and online market. The comparative analysis included the following brands: Atelier Teresa Kopias, Gatta, Hexline, Kanz, Kastor, Makalu, Monnari, Próchnik, Tatum, Tup Tup. The process of segmentation and a choice of target market show that some of these brands belong to luxurious brands and their products are targeted at very demanding customers. Conducted analysis indicated that all of these brands use social media in their marketing activities. They all have profiles in social networking sites. The only difference was a number and a choice of social media they are present in. All of them have a Facebook profile, which results from its dominant position in the Polish market. Some of them are also present in such portals as Twitter, Pinterest or Instagram. It can result from their growing popularity and willingness to reach a broader group of recipients as well as from the character of their users (e.g. Twitter in Poland is first of all, used by politicians, journalists, celebrities), which can positively influence the image of a certain brand.

Activities implemented by means of social networking sites generally boil down to information about new products, promotions and special offers. Competitions were also very common and they usually concerned visualization of selected models from a collection and sets proposed by its authors. This is definitely one of the most often applied tools of interaction that are directed at an increase of traffic in brand profile and evoking interest in it. Generally, brands enabled access to their profiles in social media through their own websites or online shops. In case of one brand access was also possible from the level of every subpage that was devoted to individual products, which allowed clients to personalize a conducted discussion in the context of specific models of offered clothes. Marketing activities that were implemented by means of various social portals in analyzed companies were of complementary nature. Brands did not confine themselves only to imitating contents presented before in individual social networking websites. Presented materials (text, photographs, films) dealt with new aspects and issues connected with a brand and its products. Thus a client was able to have access to various contents, both in terms of substance and elements related to fun and escapism. This is definitely a result of knowledge of individual brands about profiles of their customers and their expectations of social media. It must be noted that by means of social media brands referred to events that actually happen e.g. holidays (Easter, Christmas, Mother's Day). They referred also to important problems for a given community, such as ecology or help for specific foundations while stressing their usefulness for e-community integrated around them. They are also tools that enable to show that a brand is present in client's everyday life and participates in what matters to them. It consequently facilitates to build mutual relations and image-building activities.

However, none of the analyzed brands did not use social media in marketing research, research studies or reverse product placement. Customers' questions concerning individual models and their availability that were identified on a profile were often unanswered. It could be a result of lack of sufficient knowledge in this area, inability to moderate a discussion on a brand profile effectively as well as it can result from negligence in the process of customer service. In three cases brands ran their own company blog. Its main objective was to show a brand as an expert in clothing market and to build a competitive advantage through educating e-community related to it. Brands informed about their activities, participation in events in a fashion market and plans for the future. They referred to a fashion market and current trends as well as to everything that might interest a customer. What plays a crucial role here is a layout of presented contents. Moreover, two of the analyzed brands undertook cooperation with external bloggers. They were top bloggers of the Polish blogosphere. Their choice was not accidental; it was influenced by topics discussed in a blog that were strictly connected with a brand profile. What was also of crucial importance was that these bloggers are popular and are trusted by their readers although they are not top bloggers. Cooperation with them is continuous and is not restricted only to banner advertising or advertorials. Bloggers systematically put their posts that indirectly refer to brands cooperating with them. There is no information about seasonal sales or promotions.

A brand is present thanks to posts concerning the history of clothing market, specific fabrics, rules of outfit composition, notions characteristic only for that market. Thus brands contribute to promoting knowledge concerning a clothing market while providing customers with an added value in a form of systematic, intriguing and unique knowledge.

Illustration 3: Selected external blogs cooperating with Łódź fashion brands.



<http://prochnik.pl/blogi/z-charakterem/> [11.07.2015]

It was quite common for analyzed brands to take advantage of presenting their video materials on YouTube channel. They were mainly advertising spots, announcements of collections and shows, speeches by fashion experts concerning a given brand and presentations of new shops' openings. Undoubtedly, visual elements raised cognitive and esthetic values concerning a brand and/or presented products while evoking willingness to buy them. Thus YouTube allows fashion brands to achieve both, image-building and sales objectives. None of the analyzed brands used virtual community worlds or game worlds. One can assume that it results from the fact that they are not directly associated with this market sector. However, together with an increasing popularity and diversity of smart clothes and so-called wearable's i.e. devices that can be worn, interest in these social media tools in a clothing market will definitely increase in the near future.

5. Conclusion

The advent and strong popularization of social ideas observed recently should be considered an important event that changes a way organizations communicate with clients online and create a value of their brands. Due to strong visibility of social issues and articulation of benefits that can be achieved thanks to communities, more and more companies attempt to seize potential of online customers who discuss and create a unique information value that is impossible to achieve in any other way (Mazurek, 2008). The conducted comparative analysis and observation indicated in particular that clothing sector enterprises in the Łódź region do not fully use the marketing potential of social media. The most popular methods and tools of social media marketing are directed at image-building activities. Clothing companies/brands to a lesser extent engage in activities aimed at intensification of direct sales. It seems that the level and range of absorption of social media in this market depend on current experience in conducted strategies of social media marketing and related knowledge and competence as well as on the conviction of their effectiveness. Cooperation of clothing companies/brands with social media requires understanding of the essence and role of these media as well as their relevance for contemporary marketing. It is necessary to introduce some changes at the level of company management and to understand that social media are not only manifestation of new technologies but also an element of a new way of business thinking and implementation of market activities. The factors that become important include a size of a company, target market, or a specificity of offered clothes. They condition the level and range of used instruments of social media marketing. It should be supposed that in the near future the level and range of using social media marketing in clothing market will increase and move towards more and more innovative solutions, and towards engaging their recipients to a bigger extent. Today's communities are open to a deeper than before interaction with brands. Yet, one important condition must be met: a brand must offer a sufficient added value in return for devoted time – show understanding of needs, really help, give valuable answers (Jurkiewicz, Majewska & Sołtysińska, 2012).

References

- Barefoot, D. & Szabo, J. (2011). *Znajomi na wagę złota*. Oficyna Wolters Kluwer, Warszawa
Cao, J., Knotts, T., Xu, J. & Chau, M. (2009). *Word of Mouth Marketing through Online Social Networks*. AMCIS

- Chmielarz, W. (2005). Środowisko wirtualnego klienta, Wyd. Akademii Ekonomicznej, im O. Langego. Wrocław
- Dejnaka, A. (2013). E-marketing, W: M. Dutko (red.), Biblia e-biznesu, Helion
- Evans, L. (2011). Social Media Marketing, Helion, Gliwice
- Falkowski, A. & Tyszka, T. (2006). Psychologia zachowań konsumenckich. Gdańskie Wydawnictwo psychologiczne, Gdańsk
- Falls, J. & Deckers, E. (2013). Media społecznościowe bez ściemy. Helion. Gliwice
- Fisk, P. (2009). Geniusz konsumenta. Oficyna Wolters Kluwer Business. Warszawa
- Godin, S. (2010). Plemiona 2.0 - We Need You to Lead Us. Helion. Gliwice
- Gustowski, W. (2012). Komunikacja w mediach społecznościowych, Novae Res
- Hines, T. & Bruce, M. (2007). Fashion Marketing, Elsevier Ltd. Oxford. p. 265
- Kaplan, A. & Haenlajn, M. (2010). Users of the world unit! The challenges and opportunities of social media. *Business Horizons*, 53, 59-68
- Kaznowski, A. (2013). Social media – społeczny wymiar Internetu, w: J. Królewski, P. Sala, e-marketing, PWN, Warszawa
- Kirkpatrick, D. (2011). Efekt Facebooka. Oficyna Wolters Kluwer Business, Warszawa
- Ludkowski, Ł. (2012). Social media po polsku, w: K. Budek (red.), Raport Social media w biznesie, Warszawa
- Maciorowski, A. (2013). e-Marketing w praktyce. Wyd. Samo Sedno. Warszawa
- Mazurek, G. (2008). Blogi i wirtualne społeczności – wykorzystanie w marketingu. Oficyna Wolters Kluwer Business. Warszawa
- Mazurek, G. (2012). Znaczenie wirtualizacji marketingu w sieciowym kreowaniu wartości. Wyd. Poltext. Warszawa
- de Mooij, M. (2005). Global Marketing and Advertising. Sage Publication. California
- Nadeem, W., Andreini, D., Salo, J. & Laukkanen T. (2015). Engaging consumers online through websites and social media. *International Journal of Information Management*, 35, 432
- Otto, J. (2004). Marketing relacji – koncepcja i stosowanie. C.H.Beck. Warszawa
- Piwowarczyk, M. (2014). Komunikacja marki. w: E-commerce manager t.II Zygodlewicz A. wyd. Fundacja Polak 2.0. Poznań
- Rheingold, H. (2000). The Virtual Community. Homesteading on the Electronic Frontier, Cambridge Massachusetts, Introduction.
- Ryals, L. (2008). Determining the indirect value of the customer, *Journal of Marketing Management*, 24, 847-864
- Sadowski, M. (2013). Rewolucja social media. Helion. Gliwice
- Shih, C. (2012). Era Facebooka. Helion. Gliwice
- Skarżyński, P. (2014). Customer Support: Dzisiaj i jutro, w: E-commerce manager t. II Zygodlewicz A. wyd. Fundacja Polak 2.0. Poznań
- Sznajder, A. (2014). Technologie mobilne w marketingu. Oficyna Wolters Kluwer Business. Warszawa
- Świerczyńska – Kaczor, U. (2012). e-Marketing, przedsiębiorstwa w społeczności wirtualnej. Difin. Warszawa
- Walden, E. (2000), Some value proposition of online communities, *Electronic Markets*, 10(4), 2
- Wieczorek, T. (2003). e – biznes: sieci komputerowe i technologie informacyjne. t. II. Wyższa Szkoła Biznesu w Dąbrowie Górniczej
- Wiktor, J. W. (2013). Komunikacja marketingowa. PWN. Warszawa
- Zaltman, G. (2008). Jak myślą klienci. Harvard Business Press. Dom Wydawniczy Rebis. Poznań

Perception of Complexity Area in Management—an Exploratory Study in Poland

Iwona Gorzeń-Mitka, Małgorzata Okręglika
Czestochowa University of Technology, Poland
iwona.mitka@zim.pcz.pl

Abstract: The purpose of this article is presentation theoretical and empirical analysis about complexity perception in organization. We propose following thesis: "perception of complexity in company is possible by separating complexity levels of particular areas of company activity". Taking into account the general aspect of perception and complexity perception in management to the understanding this concept we use the Cynefin model. We accept the assumption that the recognition complexity levels in selected areas create value in decision making processes. Theoretical considerations are supplemented by results of the study in 157 Polish SMEs. The study was conducted in May 2015.

Keywords: *Perception, complexity, complexity levels, SME, Cynefin model*

1. Introduction

The issue of complexity from years is extensively discussed on the international level - nowadays also in the management literature. Academic literature and practice research indicate complexity approaches in many different areas e.g. computer science, psychology, projects and other. The difficulty stems from defining and consequently the understanding of complexity. Complexity can be understood in different ways, not only in different fields but also has different connotations within the same field. But how indicate authors in yours earlier work, we observe in management literature the duality of the perception of contemporary organizations: on one side – the quest for clarity, certainty, predictability and control, on the other – the unavoidably ambiguous and paradoxical, uncertain, unpredictable and complex dynamics of organizations (Gorzeń-Mitka et al., 2015). One of most universal approach to decision making in complexity view is Cynefin model. The Cynefin model shows a new perspective of looking at a decision making system in organizations. In academic literature we can find many areas which used this approach. According to McLeod & Childs (2013) the ease of using this model, together with its innovativeness, makes it „a kind of guidance for managers on their thoughts and actions”. The model shows a new perspective of looking at various situations and indicates what actions should be taken as response to various situations. For that reason, it is more and more often and willingly used in business practice (analysis of G.W.Bush administration's policy (O'Neill, 2004), analysis of the supply chain (Shepherd et al., 2006) and qualitative data (McLeod and Childs, 2013). Detailed discussion about Cynefin model is presented by authors in “Improving Decision Making in Complexity Environment” (Gorzeń-Mitka & Okręglika, 2014).

Based on Cynefin model we propose following thesis: "perception of complexity in company is possible by separating complexity levels of particular areas of company activity". We accept the assumption that the recognition complexity levels in selected areas create value in decision making processes. The article is structured as follow. The next section provides the theoretical background about a few aspects of complexity perception understanding in academic management literature. Next will be presented basic assumption of complexity model – Cynefin and explain the development of the hypothesis. The next section of the paper provides some empirical evidence on complexity perception in the light Cynefin model (we discussed in this section data and methodology including a detailed description of the measures used in the empirical analysis). The “Results” section presents the empirical findings, and the final section concludes.

2. Literature Review

Perception of Complexity: Perception is being defined as the act or faculty of apprehending by means of the senses or of the mind. Accordingly, it is associated with understanding or cognition (Wieczorek-Kosmala, Gorzeń-Mitka, 2013). With regard to this definition, the perception of complexity is two-dimensional. The first dimension addresses the understanding of complexity, while the second one – the cognition of complexity embodied in the entity's ability to analyze complexity. Complexity derives from the Latin com:

together, plectere: to weave. The adjective 'not easily analyzed was first recorded in 1715. Thus, from its first usage, complexity was synonymous with the ease of understanding something. The essence of complexity is interdependence. Interdependence implies that reduction by decomposition can't work because the behavior of each component depends on the behaviors of the others. Complexity is accompanying many type of the business decisions increasingly. Complexity is also in focus as a subject of theoretical and empirical academic studies often. Researchers recommends for business entities to take actions including complexity with the purpose to enhance the value creation process (Lemańska-Majdzik, 2009). Complexity has been widely researched in the science literature, nowadays also in the management literature. Complexity and the way to deal with its increasing in the company itself and its environment has become a key competitive factor.

Complexity has turned out to be very difficult to define. The debate regarding complexity is complicated even more because some authors claim their own definition of complexity. Different authors have different perceptions on how they define different synonyms word of complexity. In increasingly discussion on complexity management important view is shown for example by Faisal et al. (2012). In their view complexity management is a business approach encompassing investigation, evaluation and optimization of complexity within organizations. Because complexity has an impact on the value chains within the business processes, it is important for management to have a holistic approach to complexity in the organization. SME is the category of companies particularly exposed to the impact of risk factors and complexity of the environment. The diagnosis of their awareness of the factors determining the efficiency of activities in the field of complexity perception and management seems to be a legitimate (Sipa, 2013; Skibiński, 2014). This paper aims at supporting the thesis, that complexity on the business entities' can be perceived through the different levels of complexity as an element of management complexity process. In particular, it aims at discussing some theoretical and practical aspects that allow a better understanding of complexity perception.

Complexity in Management According Cynefin Model: One of models that explains and supports complex decision making processes in the choice of a strategy for action is Cynefin. How Snowden (2002), the Cynefin framework indicate advocates the use of narrative for understanding complexity and emphasizes the social aspects of sense making while taking into account various environmental circumstances. This framework suggests four basic approaches to strategic decision-making, depending on the level of contextual uncertainty. Additionally, it indicates good practices which, according to the idea of Cynefin, should be tailored to the individual specificity of the situation in which a given organization finds itself. In practice, the model can be used as a tool supporting project, team and organization management, and even for analyzing international problems (Snowden, 2010). The Cynefin model consists of five areas (domains) (Kurtz & Snowden, 2003). The areas are:

- Simple – the relationship between cause and effect is obvious for everyone. The proposed action scheme: sense-categorize-respond. When taking the actions we can apply the best practices.
- Complicated – the relationship between cause and effect requires analysis or a different form of investigation and/or the application of expert knowledge. The proposed action scheme: sense-analyze-respond. When taking the actions we can apply the good practices.
- Complex – the relationship between cause and effect can be noticed only in retrospect; it cannot be predicted in advance. The proposed action scheme: probe-sense-respond. The effect of the actions taken can be a discovery of emergent practice.
- Chaotic – there is no relationship between cause and effect at systems level. The proposed action scheme: act-sense-respond. We can discover novel practice.
- Disorder – placed in the middle of the framework. D.SnowdeniM.E.Boone describes it as follows:

“The very nature of the fifth context—disorder—makes it particularly difficult to recognize when one is in it. Here, multiple perspectives jostle for prominence, factional leaders argue with one another, and cacophony rules. The way out of this realm is to break down the situation into constituent parts and assign each to one of the other four realms. Leaders can then make decisions and intervene in contextually appropriate ways” (Snowden & Boone, 2007, p.73). The Cynefin model shows a new perspective of looking at a decision making system in organizations. Our research based on this concept.

This part of paper is prepared on earlier author's studies, where you can find more detailed discussion about Cynefin model (Gorzeń-Mitka & Okręglička, 2014).

3. Methodology

Identification of perception of complexity in enterprise management processes was performed during the study which aimed to analyze complexity of business processes in small, medium and large enterprises in Poland. Purposive sample was used for the study. The study was conducted in the April and May of 2015 on a sample of 157 companies categorized, according to the number of employees, as small, medium and large enterprises. The survey questionnaire was addressed to both manufacturing, trade and service enterprises. The sample was not fully representative, thus the study should be regarded as a pilot project, to further explore the subject, and facilitate future research on representative samples. The main characteristics of the study sample are presented in Tables 1-3.

Table1: Cross table: Main area of activity * Company size

		Company size				Total
		Small (10-49)	Medium (50-249)	Large (> 250)		
Main area of activity	production	N	15	3	5	23
		%	9.6%	1.9%	3.2%	14.6%
	trade	N	76	6	6	88
		%	48.4%	3.8%	3.8%	56.1%
	services	N	38	4	0	42
		%	24.2%	2.5%	.0%	26.8%
	other	N	1	3	0	4
		%	.6%	1.9%	.0%	2.5%
Total	N	130	16	11	157	
	%	82.8%	10.2%	7.0%	100.0%	

Source: own study

Small businesses employing between 10 and 49 workers dominated the sample, accounting for 82, 8% of all surveyed companies. The second-largest group consisted of medium-sized enterprises, employing between 50 and 249 people, which accounted for 10, 2% of all respondents. The largest group of companies, at 56, 1%, have been operating in trade market, 26, 8% - in service market and 14, 6% - in production (Table 1).

Table 2: Cross table: Main area of activity * Number of years of operation in the market

		Number of years of operation in the market				Total
		<1 year	1 - 5 years	5 - 10 years	> 10 years	
Main area of activity	production	N	1	3	5	14
		%	.6%	1.9%	3.2%	8.9%
	Trade	N	3	28	28	29
		%	1.9%	17.8%	17.8%	18.5%
	Services	N	2	11	12	17
		%	1.3%	7.0%	7.6%	10.8%
	Other	N	0	0	0	4
		%	.0%	.0%	.0%	2.5%
Total	N	6	42	45	64	
	%	3.8%	26.8%	28.7%	40.8%	

Source: own study

Table 3: Cross table: Main area of activity * Respondent's position

		Respondent's position						Total	
		owner	senior manager	analyst	director	manager	other		
Main area of activity	production	N	14	1	0	2	6	0	23
		%	8.9%	.6%	.0%	1.3%	3.8%	.0%	14.6%
	trade	N	59	3	1	13	8	4	88
		%	37.6%	1.9%	.6%	8.3%	5.1%	2.5%	56.1%
	services	N	22	3	0	7	6	4	42
		%	14.0%	1.9%	.0%	4.5%	3.8%	2.5%	26.8%
other	N	2	0	0	0	1	1	4	
	%	1.3%	.0%	.0%	.0%	.6%	.6%	2.5%	
Total	N	97	7	1	22	21	9	157	
	%	61.8%	4.5%	.6%	14.0%	13.4%	5.7%	100.0%	

Source: own study

The largest group of companies, at 40.8%, has been operating in the market for more than 10 years, 28.7% of the businesses have been active for 5 to 10 years, and 26.8% of the businesses have been active for 1 to 5 years, with the rest of the respondents operating up to 1 years (Table 2). The following research problems were proposed, with the main aim of the project in mind:

P1 - How SMEs assess management complexity in their businesses?

P2 - Whether and how the complexity perception depends on company size or main business area?

P3 - What complexity level characterized by selected activity areas in company?

Statistical analysis of the survey results has allowed for a full or partial verification of the hypotheses. In this study is two control variables adopted. There is company size by number of employees and main field of activity. Based on received data, correlation coefficients have been calculated. For examining the level of complexity perception in selected areas of company activity Kendall tau rank correlation coefficients were used. Test probability $p < 0.05$ was considered as significant. The results were analyzed using the statistical application IBM SPSS ver. 19.

4. Results

This paper examines SMEs behavior by testing research problems related to SMEs complexity perception. These problems examine whether firm characteristics (size, main field of activity) that differ due complexity perception by levels. In testing these hypotheses we find several activity areas that are significantly related to obtaining a complexity perception in SMEs. This evidence is important for future research examining the firm's decision to influence complexity perception to decision making. The analysis of the complexity perception in SMEs began with the assessment of the level of knowledge of the respondents with respect to the complexity management (Table 4).

Table 4: Complexity perception due to company size and main area of activity (%)

Decryption		We try to manage complexity actively	toComplexity should separately manage	We becomplextiy but take action	We noticenotice the processes the complexity	don'tWe thatthink bycomplexity of the company	don't about	Total
Company size	Small	N	42	43	11	14	20	130
		%	26.8%	27.4%	7.0%	8.9%	12.7%	82.8%
	Medium	N	8	7	0	1	0	16
		%	5.1%	4.5%	.0%	.6%	.0%	10.2%
	Large	N	8	1	1	1	0	11
		%	5.1%	.6%	.6%	.6%	.0%	7.0%
Total	N	58	51	12	16	20	157	
	%	36.9%	32.5%	7.6%	10.2%	12.7%	100.0%	
Main area of activity	Production	N	10	9	1	2	1	23

n	%	6.4%	5.7%	.6%	1.3%	.6%	14.6%
Trade	N	28	26	9	13	12	88
	%	17.8%	16.6%	5.7%	8.3%	7.6%	56.1%
Service	N	19	14	2	1	6	42
	%	12.1%	8.9%	1.3%	.6%	3.8%	26.8%
Other	N	1	2	0	0	1	4
	%	.6%	1.3%	.0%	.0%	.6%	2.5%
Total	N	58	51	12	16	20	157
	%	36.9%	32.5%	7.6%	10.2%	12.7%	100.0%

Source: own study

Respondents evaluated the perception of complexity in five categories (see Table 4). Analysis of the data presented in Table 4 allows drawing the following conclusions. Almost 40% of them reported a proactive approach to manage complexity. The leading group consisted of traders employing up to 50 employees. In their opinion complexity should be a separate management process. At the same time almost a quarter of respondents do not see the need to take action or thinking about the complexity of the processes undertaken by it in operational activities. Another area of analysis was the diagnosis of the respondents' knowledge on the complexity perception in selected particular areas of company activity (the study distinguishes between 14 processes). The results are shown in the table 5.

Table 5: Complexity perception by company characteristics N=157

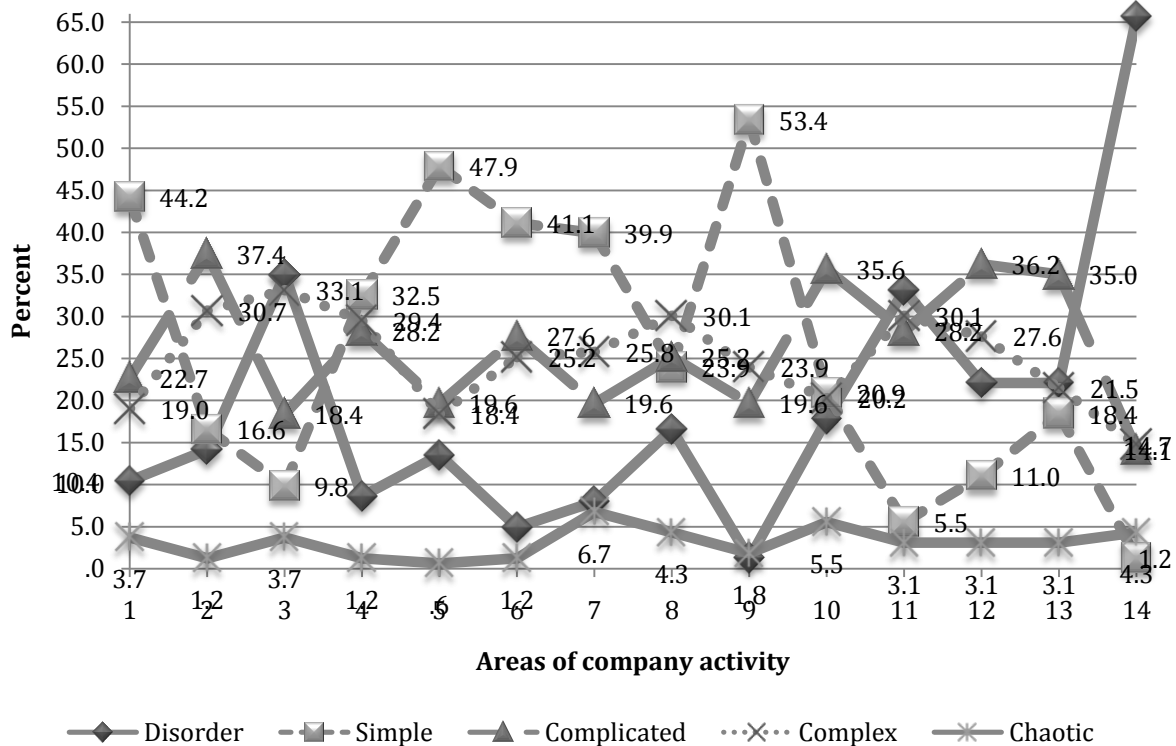
Description		Company size by number of employees	Main field of activity
searching for new customers and new markets	tau	-0,097	0,032
	1-p	0,095	0,328
increasing investment in promotion and advertising	tau	-0,107	0,157
	1-p	0,070	0,013
creating new products and services	tau	-0,009	-0,101
	1-p	0,448	0,074
co-operation with business organizations	tau	-0,014	0,088
	1-p	0,423	0,104
improvement of existing products and services	tau	-0,030	-0,099
	1-p	0,341	0,079
purchase of new machines and devices	tau	0,078	-0,184
	1-p	0,142	0,005
improvement of quality of products, services and manufacturing	tau	0,014	-0,099
	1-p	0,422	0,081
employment of newworkers	tau	-0,135	0,048
	1-p	0,030	0,246
introducing IT to manage the company	tau	0,119	0,028
	1-p	0,047	0,340
upgrading skills and qualifications of employees	tau	-0,071	0,121
	1-p	0,169	0,046
market research	tau	-0,002	-0,021
	1-p	0,488	0,381
understanding and connecting with other entities	tau	0,071	0,084
	1-p	0,163	0,116
searching for investors and business partners	tau	-0,028	0,122
	1-p	0,350	0,040
acquisition of EU funds	tau	0,040	0,012
	1-p	0,286	0,433
changes in the scope of business or sector	tau	0,103	0,074
	1-p	0,084	0,153

*Correlation is significant at the 0.05 level (one-sided).

Source: own study

The survey shows how respondents assess their complexity perception in relation to company size. Two of the selected activities of the superior were found out to be statistically significant ($p < 0.05$). One of them (employment of new workers) is negatively correlated with the period of company size. Statistically significant ($p < 0.05$) and positively correlated is the characteristic: "introducing IT to manage the company". The survey shows also how respondents assess complexity perception in relation to main field of activity. Four of the selected activities of the superior were found out to be statistically significant ($p < 0.05$). One of them (purchase of new machines and devices) is negatively correlated with the period of main field of activity. Statistically significant ($p < 0.05$) and positively correlated is the following characteristic: 1. increasing investment in promotion and advertising, 2. upgrading skills and qualifications of employees and 3. Searching for investors and business partners" (table 5). Further analysis took into account complexity profiles based on Cynefin model. The results are shown in the figure 1.

Figure 1: Perception of complexity in areas of company activity according complexity levels.



Legend:

1. Searching for new customers and new markets; 2. increasing investment in promotion and advertising; 3. creating new products and services; 4. co-operation with business organizations; 5. improvement of existing products and services; 6. purchase of new machines and devices; 7. improvement of quality of products, services and manufacturing; 8. employment of new workers; 9. introducing IT to manage the company; 10. upgrading skills and qualifications of employees; 11. market research; 12. understanding and connecting with other entities; 13. searching for investors and business partners; 14. changes in the scope of business or sector.

Source: own study

Based on 5 complexity levels distinguished in Cynefin model respondents evaluated 14 areas of company. Their indication of allow to formulate the following conclusions. The domain "simple" as areas, where the relationship between cause and effect is for everyone in the organization obvious. They are directly connected, and the processes are predictable and repeatable considered. For main areas in this domain, respondents indicated: introducing IT to manage the company (indicated by more than half of respondents - 53,4 %); improvement of existing products and services (47,9%), searching for new customers and new markets (44,2%), purchase of new machines and devices (41,1%) and improvement of quality of products,

services and manufacturing (39,9%). Featured areas are the most common actions in companies, and the processes associated with them usually have standard operating procedures. Second domain "complicated" represent areas, where the relationship between cause and effect requires analysis or other forms of research by experts. The expertise is often needed to understand the relationship between cause and effect and requires investigation. Decision-makers must rely and trust their judgment. For main areas in this domain, respondents indicated: increasing investment in promotion and advertising (37, 4%), understanding and connecting with other entities (36, 2%), upgrading skills and qualifications of employees (35, 6%) and searching for investors and business partners (35,0%).

Third domain "complex" represent areas, where cause and effect are not repeated and are detectable only in retrospect. Small changes in the system at the beginning can result in disproportionately large effects. Can be observe patterns of phenomena, but cannot predict their effect. These patterns depend on the interaction between components. For main areas in this domain, respondents indicated: creating new products and services (33,1%) and employment of new workers (30,1%). Next domain "chaotic" as areas, where the relationship between cause and effect is completely unpredictable. Processes are often sudden, unexpected course. Accompanied by a high-voltage atmosphere. The aim is to transform the chaotic situation at the complex. Indications of respondents in this domain wouldn't exceed 7 percent. For main area in this domain, respondents indicated improvement of quality of products, services and manufacturing (6,7%). Last domain "disorder" as areas, where lack of information and understanding of the situation impossible to decide on their classification into one of the other domains. For such areas respondents considered: changes in the scope of business or sector (indicated by 2/3 respondents - 65,6%), creating new products and services (35%) and market research (33,1%).

5. Conclusion

Complexity is a unique problem facing modern companies. Although complexity is a characteristic of modern organization management which obviously influences important decisions, complexity as such is often taken intuitively or from previous experiences. Managing increasing complexity in SMEs is absolutely necessary to companies to compete better in global market. In order to manage complexity effectively and efficiently, it is recommended that complexity has to be defined, measured, analyzed, reduced and avoided. But the first step must be to recognize the complexity of the processes undertaken in the company. This study presents an attempt to identify of complexity levels of business areas by Cynefin model assumptions.

References

- Faisal, A., Rub, A. & Ayman, I. A. (2012). A business process modeling-based approach to investigate complex processes: Software development case study. *Business Process Management Journal*, 18(1), 122- 137.
- Gorzeń-Mitka, I., Okręglicka, M. & Lemańska-Majdzik, A. (2015). Complexity management in enterprise – sample reflection on interpretation, MEKON 2015. The CD of Participants' Reviewed Papers from 17th International Conference MEKON 2015, Faculty of Economics, VŠB – Technical University of Ostrava, s.652-660.
- Gorzeń-Mitka, I. & Okręglicka, M. (2014). Improving Decision Making in Complexity Environment. *Procedia Economics and Finance*, 16, 402–409. ISSN 2212-5671
- Kurtz, C. F. & Snowden, D. J. (2003).The new dynamics of strategy: Sense-making in a complex and complicated world. *IBM Systems Journal*, 42(3).
- Lemańska-Majdzik, A. (2009). Czynniki sukcesu firm powstałych w wyniku samozatrudnienia, Sekcja Wydawnictwa Wydziału Zarządzania Politechniki Częstochowskiej, Częstochowa, 2009. ISBN 978-83-61118-13-8
- McLeod, J. & Childs, S. (2013). The Cynefin framework: A tool for analyzing qualitative data in information science? *Library & Information Science Research*, 35, 299–309.
- O'Neill, L. J. (2004). Faith and decision-making in the Bush presidency: The God elephant in the middle of America's living room. *Emergence: Complexity and Organization*, 6(1/2), 149–156 Available at http://mergentpublications.com/eco/ECO_other/Issue_6_1-2_20_FM.pdf.

- Shepherd, R., Barker, G., French, S., Hart, A., Maule, J. & Cassidy, A. (2006). Managing Food Chain Risks: Integrating Technical and Stakeholder Perspectives on Uncertainty. *Journal of Agricultural Economics*, 57(2), 313–327.
- Sipa, M. (2013). Wyzwania globalne i lokalne a proces umiędzynarodowienia małych i średnich przedsiębiorstw [in:] Wyzwania globalne i lokalne zarządzania podmiotami gospodarczymi, (ed.) M.Sipa, Sekcja Wydawnicza WZ Politechniki Częstochowskiej, Częstochowa, 2013. ISBN 978-83-7193-571-8.
- Skibiński, A. (2014). Edukacja jako czynnik determinujący aktywność ekonomiczną ludności a procesy demograficzne na przykładzie województwa śląskiego [in:] Rynek pracy i polityka społeczna w XXI wieku. Aktualne problemy. [Ed.]. Lucyna Machol-Zajda, Cecylia Sadowska-Snarska. Wyd. Instytut Pracy i Spraw Socjalnych w Warszawie; Wydział Ekonomii i Zarządzania Uniwersytetu w Białymstoku 2014, pp. 36-46.
- Snowden, D. (2002). Complex Acts of Knowing: Paradox and Descriptive Self Awareness. *Journal of Knowledge Management*, 6(2), 100-111.
- Snowden, D. (2010). The origins of Cynefin, Part 1-7 Available at <http://cognitive-edge.com/blog/entry/3505/part-one-origins-of-cynefin>.
- Snowden, D. & Boone, M. E. (2007). A Leader's Framework for Decision Making, *Harvard Business Review*, November 2007, pp. 69-76.
- Wieczorek-Kosmala, M. & Gorzeń-Mitka, I. (2013). Some Remarks on the Proper Understanding of Risk Perception, *Studia Ekonomiczne. Zeszyty Naukowe Wydziałowe Uniwersytetu Ekonomicznego w Katowicach*, 127, 9-22.

A Qualitative Approach to Analyze Marketing Communication Based on AIDA Model

¹Fazal ur Rehman*, ¹Farwida Javed, ¹Shabir Hyder, ²Sadaqat Ali
¹COMSATS Institute of Information Technology, Attock Campus, Pakistan
²University of Science & Technology Bannu, Pakistan
*Fazal_marwatpk@yahoo.com

Abstract: In present spirited business environment, marketers and advertisers are facing trouble in the selection of viable marketing channels. Obviously, mobile phone and electronic mail are the two interesting communication sources. This study aims to emphasize on the effectiveness of mobile and email marketing channels using AIDA model. The study applied qualitative approach to collect data through semi-structured interviews from the registered customers of a retailer and whole sales company “Metro-Habib Cash & Carry Pakistan (MHCCP)”. The collected data were analyzed through matrix structure by defining themes and color codes. The sub-rows and columns were re-arranged with the help of iterative approach to properly manage the data. The study clarified that mobile marketing channel creates better market attention, interest, desire and purchase action as compared to email marketing channel.

Keywords: *Mobile Marketing, Email Marketing, Qualitative Approach, Matrix Structure, AIDA Model*

1. Introduction

The mode of marketing communication has altered due to advancement in information and communication technology and the distances among businesses and their customer's has minimized. Now it has become easy for a business to interact its customer's at lower cost and in shorter period of time around the globe. Mobile and email are the examples of advanced communication in today business environment. Mobile marketing is the use of mobile as a mean of marketing communication. This idea has defined by Shankar and Balasubramanian's (2009) that mobile marketing is “*the two-way or multi-way communication and promotion of an offer between a firm and its customers using a mobile medium, device*”. Researchers highlighted another aspect of mobile marketing that it is an efficient source to get positive response from customer's (Barwise & Strong, 2002). Mobile marketing is primarily interactive in nature and includes mobile advertising, promotion, customer support, and other relationship building activities. Therefore, mobile phone is facilitating new channel for reaching and interacting with consumers (Trappey & Woodside, 2005).

Businesses are adopting mobile marketing as a regular communication channel for customer services, promotional updates and tracking customer's orders. Various international business organizations like Estee Lauder a personal care product company is using SMS coupons for the promotion of its products, McDonald's is offering quizzes and competitions via SMS to raise its sales and brand awareness and Nike a leading multinational company of sports goods is using mobile marketing to facilitate consumers in their choices (Shankar & Balasubramanian, 2009). Similarly, electronic mail (E-mail) is also widely used marketing channels around the world. It defined as “*Email marketing is the business practice of sending an email to people on a list in the hopes of selling them a product or service* (Gardner, 2012)”. It is an important medium of marketing communication especially for companies seeking to build and maintain closer relationships with customers (Fiona & Neil, 2011).

However, advertisers are using mobile and email as a marketing communication tool to draw attention of customers to their ads by means of a variety of advertising techniques. The theory of hierarchy of effects is often used by researchers in testing the effects of advertisement. Hierarchy of effects model was initially introduced to assess the immediate and media- specific effects of campaigns (Cavill & Bauman, 2004). It is a linear theory of marketing and advertising which presumes that the consumers must go through a rational and sequential series of steps that ends up in e.g. attention, interest, desire and purchase decision (Grover & Vriens, 2006). Hierarchy of effect is the theoretical background and AIDA is the efficient and appropriate model of the study. Therefore, the aim of the study is to assess mobile phone and email as communication channels for conveying the message of a business to its customers. The study will assess the significance of mobile and email as effective marketing tools and will compare these two marketing channels to identify

preferable one. This study is unique in the sense that comparison between both the channels based on AIDA model and will analyze data through matrix structure.

2. Literature Review

Hierarchy of effects Theory: Advertisers are applying a variety of techniques to draw attention to their ads and apply hierarchy of effect theory to assess the influence of advertisements. Initially hierarchy of effect model was developed in 1898 by St. Elmo Lewis (attention, interest and desire) known as AID and then (Strong & Edward, 1922) described that how sales people had to attract attention, maintain interest and create desire (AID) in order to be successful and creating long term relationship. Shortly thereafter, Lewis added a fourth step “get action” to his original model. This model came’s to be known as AIDA and is still one of the referred models in the advertising and personal selling literature, concerning how people behave in responding to sales and advertising presentations of a business (Barry, 1987).

Lavidge and Steiner (1961) introduced the idea that consumers do not go automatically to the purchase decision without taking interest in other steps of advertisement. They go through a series of seven steps to that threshold of purchase: Unawareness, Awareness, Knowledge, Liking, Preference, Conviction, and Purchase but the unawareness is not a necessary step of the series. Lavidge and Steiner (1961) also felt that it is also possible that some consumers develop a negative attitude towards these steps. Therefore, some of the steps has to be removed and the model was modified to three steps; Cognition (awareness or learning), Affect (feeling, interest or desire) and Behavior or conation (action). Lavidge and Steiner (1961), model is also known as the hierarchy of effects model. According to Smith, Chen and Yang (2008), with the passage of time, marketers and researchers described the different stages, different steps and sequences of hierarchy of effects model but always has been a generalized form as a sequence of Cognition (attention), Affect (interest or desire) and in the end Conation (purchase).

Mobile Marketing: Today the environment of doing business has totally changed due to complexity and antagonism created by globalization and improvement in communication technology (Kotler, 1999). *“Advances in information and communication technologies are not only offering new marketing channels for companies but also significantly influencing the ways in which companies conduct their businesses and marketing activities”* (Barutcu, 2008). Due to the reason, businesses are turning towards digital technology to improve their marketing channels and to reach efficiently to their target audience. For instance, businesses have adopted mobile phone as a marketing channel to cope with the major challenges e.g. time and attention from customers. Mobile phone users have positive perceptions towards mobile marketing as it saves consumer’s time, money and providing useful information (Standing et al., 2005). Mobile marketing is a source to reach unlimited customers in seconds (Haig, 2002; Richardson, 2010). This idea is further supported by (Barwise & Strong, 2002), that mobile marketing is the efficient source get positive response from target audience. Consumers show a positive attitude towards advertising message through mobile marketing (Haghirian et al., 2005). Further, mobile marketing is the fastest source for delivering marketing messages to target audience (Scharl et al., 2005). Therefore, marketers and advertisers are spending a huge amount of money in their marketing activities on mobile channel around the globe. Marketers are investing to use mobile phone as an advertising channel with new features as compared to traditional media (Karjaluoto et al., 2004). World leading brands like Pepsi, Coca Cola, Adidas, Mazda, MacDonald’s, Nike, Disney, MTV, Volvo, and many other are using mobile advertisement from last several years (Sultan & Roham, 2005; Bauer et al., 2005). Businesses are adopting mobile marketing as a regular communication channel for customer services, promotional updates and tracking customer’s orders.

Email Marketing: Email marketing is a type of direct communication where a business sends its commercial message to an individual or a group of people who are using email. Electronic mail (E-mail) is one of the widely used marketing channels around the world. In a broad sense, all types of email like ads, business request, and brand awareness would be considered as email marketing (US Interactive Marketing Forecast, 2013). It is defined by a study as *“Email marketing is the use of email as a direct marketing channel”* (Brassington & Pettitt, 2003). According to another definition *“Email marketing is the business practice of sending an email to people on a list in the hope of selling them a product or service”* (Gardner, 2012). Email marketing enable businesses to reach million people and receiving their replies around the globe in seconds

(Kinnard, 2002). It enables businesses to convey on time information that enhances personalization (Nussey, 2004). It enables marketers to track the actions of targeted customers through analyzing results on actual time (Blumberg et al., 2005). Transactional email and direct email are the important types of email marketing.

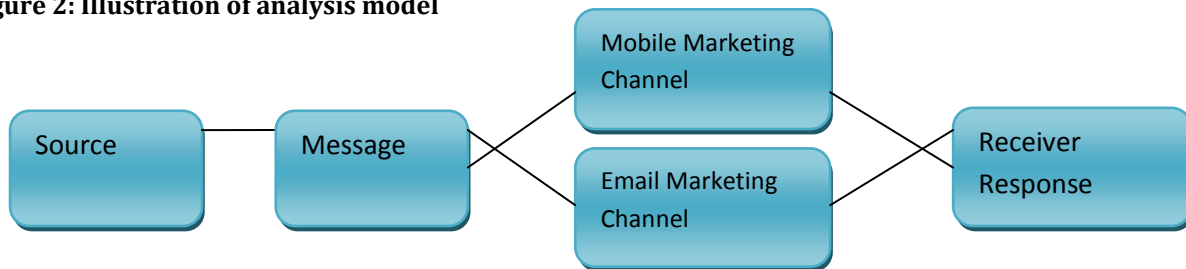
Analysis Model of Marketing Communication: In common senses, marketing communication is the coordinated promotions of a business where it delivers messages to their audience through one or several communication channels. Marketing communication is the promotional part of the marketing mix and is the process of sending, encoding, transmission medium, decoding and receiver. Therefore, a classical model of marketing communication is described by Duncan and Mariarty (1998) and is illustrated as follows:

Figure 1: Illustration of Communication based Marketing Model - Duncan & Mariarty (1998)



The problem of the study is to examine the mobile and email communication channels that how these channels can affect the responses of consumers. In this illustration noise is not considered as it is not measured by analyzing process. Here, through this analysis model the study have to investigate and determine the effective marketing channel when sending a marketing message through different communication channels i.e. mobile and email marketing channel.

Figure 2: Illustration of analysis model



3. Methodology

Qualitative approach is the choice of the study and semi structured interview is the data collection tool along with deductive approach. Qualitative approach is inductive while generating a new theory but is considered deductive when a study tries an existing theory (Bryman & Bell, 2005; Hyde, 2000). The study collected primary data from the registered customers of MHCCP 'which is a famous retailer and whole sales consumer products company in Islamabad' through convenient approach. Hierarchy of effect is the theoretical background and AIDA is the appropriate model of the study. All the registered customers of MHCCP in Islamabad and Rawalpindi are the population and a small portion of the whole population is the sample of the study. The study used a stratified probability sampling approach where the sample is divided into homogenous non overlapping groups. Two stratum (Mobile & Email) are chosen for the study with a random sample of 24 registered customers (12 for each stratum).

Connection with theory & Literature: The study operationalized the theory and derived some questionnaires from it to collect data through semi-structured interviews. These questionnaires are connected to the theoretical background of the study.

Method of Data Analysis: The study applied Matrix structure to analyze the collected data. Generating categories or designing an appropriate matrix structure for the placement of collected data into its cells is used for data analysis (Dey, 1993; Miles & Huberman, 1994; Yin, 1994). The study applied the recommended matrix structure and pattern of Philipson (2011) for data analyses.

Figure 3: Analysis Method – Philipson (2011)

	Respondent	1	2	3	Etc.
Q 1 View of innovation	Differentiation through innovation	to provide outstanding services and value	everyone offers the same core product. The only way for UPS to be unique	Innovation is the only way for us to come out of commoditisation	
	Innovation necessary to stay competitive	offer something different from our competitors	continuous innovation is a responsibility – innovation is a key to position your company		

Themes of interviews: The study thoroughly and carefully checked the interviews chart to improve the validity and identified some keywords or themes from interviews data for making comparison. The key words are developed on the basis of similarities and differences in the respondent’s answers. Themes are produced on the basis of similarities and differences in the respondent’s views (Ryan & Bernard, 2003).

Developing color codes for answers: Analyzing qualitative data is slight difficult than quantitative, therefore, it is mandatory to code the interviews answers for both the channels by color in the designed matrix structure. The study applied sky blue color for mobile marketing channel and red color for email marketing channel. Relevant cells are coded in matrix structure.

Re-arrangement of matrix sub-rows and column: The study used a systematic approach for the re-arrangement of matrix sub-rows and columns. This re-arrangement for sub-rows is done by heading some generic keywords. Sub-rows with the highest number of colored cells were placed first then sub-rows with the second highest number of colored cells on the second position and so on. Similarly, for the re-arrangement of columns, the study arranged the respondents who provided similar information and next to each other with the help of iterative approach.

4. Results Analysis

Analyzing results for Mobile Marketing

Q.No	Themes / Key words	R # 11	R # 12	R # 1	R # 8	R # 2	R # 4	R # 5	R # 6	R # 7	R # 3	R # 9	R # 10
1	Have you received any offer from metro Pakistan?	Yes	Promotional SMS										
	Through which channel you received the offer?	No	Mobile										
2	What was your response to the offer?	SMS	Email										
	Can you explain the details of this offer?	Positive	No response										
	What was your experience about getting this offer through mobile / email?	Professionally	Appreciated										
3	Can you explain the details of this offer?	Discount	Guaranty										
	What was your experience about getting this offer through mobile / email?	Business	Concerned										
	Can you explain the details of this offer?	Seasonal Sales	Good										
	What was your experience about getting this offer through mobile / email?	User friendly	Purchasing										
4	Can you explain the details of this offer?	Feedback	Online Marketing										
	What was your experience about getting this offer through mobile / email?												
	Can you explain the details of this offer?												

		Motivated						
		Varieties in Products						
6	What were your feelings when you read the metro offer?	Positive						
		Neutral						
		Negative						
		Personal Business						
		Strategic Relationship						
7	Did you become a part of this offer?	Yes						
		No						
		Purchased but not due to offer						
		Cash						
		Credit Card						
8	Why did / didn't you become a part of this offer?	A good offer (Prices)						
		No need of any things						
		Quality Product						
		Special discount						
		Bulk purchasing						
		Motivated environment						

The above matrix structure shows the complete depiction of mobile interviews of MHCCP registered customers. In the developed structure the colored cells indicate the customer's perceptions and answers about the asked questions. The study asked the first question from 12 registered customers of MHCCP to note their views about mobile marketing in the sense to create attention. In these 12 registered customers only 8 respondents answered that they have received the offers on their mobile from the company but did not clear the style of the offer (i.e. SMS or Call). Two respondents cleared that they have received a promotional SMS on their mobile. Two respondents told that they never received any offer from the company on their mobiles. So the answers of all the respondents are placed in concerned cells (8 in yes cells, 2 in promotional SMS and 2 in no cells). The second question was about the source of channels where 8 respondents answered that they have received this offer on their mobile (i.e. Mobile channel). Two respondents answered that they have received the offer on their mobile and further cleared that it was in SMS form. The two remaining respondents did not provide any further information. Therefore, all the respondents' answers are placed in the concerned cells of the structure.

The study asked third question from the respondents to know about their feelings toward the company offers. Six respondents answered that they feel the offer positively and showed interest in the offers. Two respondents replied that they ignored the offers and did not provide further information's. One participant answered that he responded professionally and one respondent appreciated their offer. The answers of six respondents are placed in the cells that are headed by "positive" key word, another two in the cells which are headed by "No response" and remaining two in their concerned cells. The next question is about the details of the offers where seven respondents cleared that it was about the discount of the product prices. One participant answered that he observed it about the discount of the products and its guarantee as well. One respondent noted that it was concerned with his business and one respondent told that the promotional offer of MHCCP was about seasonal sales, while, two respondents did not provide any data. Fifth question is about the deep involvement of the offers (means desire). The study asked the question to know the respondents' views about the offer involvement. Three respondents answered that it was good and friendly user which show the deep involvement in the offer. Three respondents answered that MHCCP offer was good and two answered that it was user friendly. One respondent answered that mobile marketing made it possible to give

feedback about previous purchasing and got experience about online marketing. One respondent said that mobile marketing motivated him towards purchasing, where as some respondents did not reply. The next question was about the inner feelings of the respondents. Here it was try to know the respondents' feelings about the offers. To this particular question five respondents answered that they feel positive, two respondents remained neutral and only one respondent show negative attitude. One respondent answered that their offer was concerned with his personal business and one told that MHCCP is trying to develop strategic relationship with a market through mobile marketing.

Seventh question is about the actual action of purchasing where it was seek to know about the real sales of the company due to mobile advertising. Six respondents answered that they purchased the products due to offer, one respondent told that he did not become a part of the offer. One respondent answered that he is purchasing from the company but not due to any offer. One respondent answered that he purchased there directly in cash and one told that he purchased through credit card. In the final question, five respondents purchased due to a very good offer, two respondents did not purchase because of no needs and one respondent purchased because of quality products and a good offer. One respondent answered that he purchased there because of special discount on bulk purchasing and one told that he purchased from MHCCP because of highly motivated business environment.

Analyzing results for email marketing:

Q.No	Themes / Key words	R	R	R	R #	R #	R	R	R	R	R	R	R	
		#	#	#	10	11	#	#	#	#	#	#	#	
		9	1	2			3	12	4	5	6	7	8	
1	Have you received any offer from metro Pakistan?	Yes	[Red bar]											
		No	[Red bar]											
		Promotional mail Pdf file	[Red bar]		[Red bar]									
		Colored Picture Different items	[Red bar]			[Red bar]								
2	Through which channel you received the offer?	Mobile	[Red bar]											
		Email	[Red bar]											
		Yahoo			[Red bar]			[Red bar]						
3	What was your response to the offer?	Positive		[Red bar]				[Red bar]						
		Not remember	[Red bar]			[Red bar]		[Red bar]						
		Professionally				[Red bar]								
		On time				[Red bar]								
4	Can you explain the details of this offer?	Liked						[Red bar]						
		Discount	[Red bar]	[Red bar]										
		Seasonal Sales	[Red bar]						[Red bar]					
		Quality Product					[Red bar]							
		Business Concerned					[Red bar]							
5	What was your experience about getting this offer through mobile / email?	Other						[Red bar]						
		Good	[Red bar]	[Red bar]										
		Online Marketing					[Red bar]		[Red bar]					
		Easy to understand		[Red bar]	[Red bar]									
		Choice at home	[Red bar]											
6	What were your feelings when you read the metro offer?	Feedback				[Red bar]								
		User friendly				[Red bar]								
		Positive		[Red bar]	[Red bar]			[Red bar]						
		Neutral						[Red bar]						
	Personal message	[Red bar]												

	Business relation				
	Personal relations				
7	Did you become a part of this offer?	Yes			
	No				
	Credit card				
	Cash				
8	Why did / didn't you become a part of this offer?	A good offer			
	Discount				
	Not interested				
	Availability of varieties				
	No need				

The study enquired first question from 12 customers of MHCCP to know their views about email marketing. From the 12 customers of the MHCCP, 8 respondents answered that they have received promotional messages from the company in their email Inbox. Respondent 10 further cleared that it was a promotional mail and respondent 09 told that he received a promotional mail in Pdf file with colored picture of different products. Four respondents told that they never received any promotional email from the company. So the answers of all the respondents are placed in concerned cells (8 in yes cells, 4 in No cells and other information in the related cells). The second question of the interview was about the source of channels where 8 respondents answered that they have received the promotional emails from the company (i.e. Email channel). Two respondents further cleared that they received this email on their yahoo mail ID. The other remaining respondents did not provide any further information. Therefore, all the information's are placed in the concerned cells. The study interviewed the next question from the respondents to know about their feelings toward the company offers. Two respondents replied that they feel the offer positively and showed interest in it. Other two participants answered that they responded professionally, one respondent cleared that he responded to their mail on actual time. One respondent liked their promotional mail and one of them replied that he has forgotten about the offer. The remaining five respondents did not provide any further information's.

The fourth question is about the details of the offers where two respondents answered that it was about the discount of the product prices, two respondents answered that the MHCCP email was about seasonal sales and one respondent told that their mails are concerned with quality products. One respondent answered that their emails are relevant with their business. One respondent answered that he has no idea about the offer and the remaining five respondents did not provide any further information's. Next question is about the deep involvement of the offers (means desire). The study interviewed the question to know the respondents' views about the offer involvement. Respondent 09 answered that the promotional email of MHCCP was good because he was able to make choices at home. Respondent 01 answered that their mail was good and easy to understand. Respondent 10 answered that he was able to send them a feedback email. One respondent answered that their promotional offer is like online marketing. Respondent 03 told that their mail was very good and one respondent answered that MHCCP is adopting online marketing to serve their customers which show the deep involvement in the offer. Other remaining respondents did not show their views about this question. In question sixth, the study asked about the inner feelings of the respondents. Here interviewer tried to know the respondents' feelings about the offers. To this particular question three respondents answered that they feel positive, one respondent remained neutral and one respondent answered that MHCCP have sent him a personal message. One respondent said that MHCCP is trying to adopt business relations while the other answered that they are creating personal relations with their customers.

Seventh question is about the actual purchasing where the study tried to know about the real sales of the company due to email advertisement. Four respondents answered that they purchased the products due to offer. One participant further told that he purchased there on cash and one through credit card. Three respondents told that they did not become a part of the offer and other remaining respondents did not become the part of the question. The final question is about the reasons of purchasing where researcher tried to know the real causes of purchasing. Two respondents answered that they purchased due to a very good

offer which they received from the company. Two respondents answered that it was a good and discounted offers and two respondents said that they were not interested in the offer. One respondent told that he purchased there because of the different varieties of items available with them. One respondent answered that he did not purchase there because he had no need.

Analyzing results with Theory

Response percentage of AIDA Model: For the clarification of respondent’s views it was considered necessary to know about their percentage ratios that are as follow:

Table 1: Percentage illustration of responses with respect to AIDA model

Marketing Channel	Attention	Interest	Desire	Action
Mobile response	83.3 %	67%	83.3%	67%
Email response	67%	50%	58.3%	33.3%

Attention: The interviews data reflects that 83.3 percent of the mobile respondents have received an offer from MHCCP. These respondents confirmed that they have received a promotional SMS and calls from MHCCP but 20 percent respondent did not receive any offer from the company. Likewise, 67 percent email respondents confirmed that they have received a promotional email from the MHCCP and 33 percent respondents told that they did not receive any offer. 83.3 percent of mobile and 67 percent of email respondents confirmed that they have received an offer from MHCCP and confirmed about the first step of hierarchy of effects, i.e. Attention. One participant also confirmed during his interview that MHCCP has main focus on mobile marketing channel rather than email marketing channel.

“Company is focusing on the mobile marketing channel to create market attention rather than email because customers giving preferences to mobile marketing channel”.

On the basis of results and other arguments it is assumed that mobile creates greater market attention than email.

Interest: The Interview data indicates that 67 percent of the mobile respondents had shown positive feeling about the promotional offer, 17 percent did not respond and 16 percent did not receive any offer from the company. Here the mobile respondents involved in the promotional offer and moved from the attention stage to the interest stage of hierarchy of effects model. Similarly, from the email sample, the data shows that only 50 percent of the respondents had shown interest in the promotional offer, 8.3 percent said that they have no idea, 8.3 percent did not provide any information and 33 percent respondents did not receive any promotional email. It is noted that MHCCP is providing updated information’s about its seasonal sales, special discount, guaranteed products, varieties and many more. Sometimes, customers are perceiving that they are being treated as personally and shows greater interest in their offers. Through mobile device MHCCP is trying to build personal and business relations with targeted customers. At the same time, MHCCP is sending promotional mails to provide updated information’s about seasonal sales, quality products and so on, along with colored pictures. Email marketing is providing the opportunity to make choice at home for creating greater business interest.

According to a respondent views:

“Mobile is the more interesting marketing channel than email because mobile is an advanced communication channel and its usage is higher than email”.

On the basis of study results and respondents suggestions, it is assumed that mobile marketing channel is creating greater business interest than email. In this stage respondents moved from the attention to the interest step of the hierarchy of effects model.

Desire: The interviews data indicates that 67 percent mobile respondents have showed interest in the promotional offers and 83.3 percent showed desire about it. Similarly, 58.3 percent of the email respondents showed desire about the promotional offer but 8.3 percent developed some neutral feeling about it. Here in this stage the respondents automatically moved from interest to desire step of the hierarchy of effects model. It is noted that varieties of product and accurate mobile information’s are motivating customers to show a deep involvement in business offer. Similarly, email offers are easy to understand because of colored pictures

along with a price structure. However, the study results indicate that the mobile channel is creating a greater desire than email marketing channel.

Action: The interview data indicates that 67 percent of the mobile respondents took action on the promotional offer and purchased from MHCCP. These respondents enjoyed the complete process of promotional offer and passed through a sequential series of steps. These customers passed through all the steps of a hierarchy of effects model i.e. attention, interest, desire and action. Similarly, 33 percent of the email respondents became a part of the offer. They purchased the products of MHCCP. These customers involved in the complete process of promotional offer and passed through all the steps of the hierarchy of effects model. However, the study results lead to the conclusion that mobile marketing channel creates greater purchase action than email marketing channel.

Figure 4: Graphical illustration of customers purchasing process in percentage



The above graphical picture illustrates that mobile marketing channel is preferable marketing channel than email marketing channel. The graph shows that mobile marketing channel creates greater attention, interest, desire, and purchase action than an email. The study further suggested that the hierarchy of effects model is the precise concept to be applied in mobile and email marketing channels. It is also assumed that mobile marketing has greater association with hierarchy of effects model as compared to Email.

5. Conclusion

The study assessed comparatively the effectiveness of mobile and email marketing channels to identify preferable marketing channel. The study applied qualitative approach to collect data through semi-structured interviews from the registered customers of MHCCP for both the channels. Further, the study used matrix structure for data analysis. The information's provided by respondents lead to the conclusion that mobile and email are the two important marketing channels to create market attention, interest, desire and purchase action. It is also cleared that mobile marketing channel is preferable then email marketing channel and hierarchy of effects is the precise concept to be apply for the analysis of communication channels. The study has important marketing implications by adding existing knowledge that AIDA model can be applied in qualitative study to analyze marketing communications. The managerial approach of the study was to assess the effectiveness of mobile and email marketing channels in qualitative way and assumed that mobile and email marketing channels can be analyzed through qualitative approach. This study is unique in the sense to apply qualitative approach for the analysis of communication channels with the application of AIDA model. However, while interpreting results, it is necessary to keep in views that the data collected from only one mega store and from limited number of respondents. Therefore, readers of the study should be cautious in generalizing results. To further enhance the analysis, we therefore recommend to future researchers to include other marketing channel like TV, Print media etc. Additionally, the study was only limited to consumer industry and future studies can include other sectors like services, manufacturing etc.

References

- Barry, T. F. (1987). The development of the hierarchy of effects: An historical perspective. *Current Issues and Research in Advertising*, 10(1-2), 251-295.
- Barwise, P. & Strong C. (2002). Permission-based mobile advertising. *Journal of interactive Marketing*, 16(1), 14-24.
- Barutcu, S. (2008). Consumers' attitudes towards mobile marketing and mobile commerce. *In Business*, 8(1), 15-32.
- Bauer, H. H., Barnes, S. J., Reichardt, T. & Neumann, M. M. (2005). Driving consumer acceptance of mobile marketing: A theoretical framework and empirical study. *Journal of Electronic Commerce Research*, 6(3), 181-192.
- Blumberg, M., Forman, T. & Miller, S. (2005). Sign Me Up! Lincoln, NE. iUniverse.
- Bryman, A. & Bell, E. (2005). *Business Research Methods*. Oxford University Press. Oxford
- Brassington, F. & Pettitt, S. (2003). *Principles of Marketing* 3rd. Pearson Education Limited. Essex.
- Cavill, N. & Bauman, A. (2004). Changing the way people think about health enhancing physical activity: do mass media campaigns have a role? *J Sports Sci.*, 22, 771-90.
- Dey, I. (1993). *Qualitative Data Analysis*. London, Routledge.
- Duncan, T. & Mariarty, E. (1998). A Communication-Based Marketing Model for Managing Relationships. *Journal of marketing*, 62(2), 1- 13.
- Fiona, E. C. & Neil, F. D. (2011). Web advertising: The role of e-mail marketing. *Journal of Business Research*, 65(6), 843-848.
- Gardner, B. (2012). What is Email Marketing and Why You Should be Doing It. Retrieved from: <http://www.briangardner.com/email-marketing/> accessed on 15-1-2013.
- Grover, R. & Vriens, M. (2006). *The Handbook of Marketing Research*. Sage Publication Ltd. Thousand Oaks.
- Haghirian, P., Madlberger, M. & Tanuskova, A. (2005). Increasing Advertising Value of Mobile Marketing – An Empirical Study of Antecedents. Proceedings of the 38th Hawaii International Conference on System Sciences. <http://csdl.computer.org/comp/proceedings/hicss/2005/2268/01/22680032c.pdf>. accessed on 22 / 11/ 2012.
- Haig, M. (2002). *Mobile marketing: the message revolution*, Kogan Page, London.
- Karjaluoto, H., Leppdiniemi, M. & Salo, J. (2004). The role of mobile marketing in companies' promotion mix: Empirical evidence from Finland. *Journal of International Business and Economics*, 2(1), 111-116.
- Kinnard, S. (2002). *Marketing With E-mail*. Canada: Maximum Press.
- Kotler, P. (1999). *Principles of marketing*. European ed. London: Prentice Hall Europe.
- Kenneth, F. H. (2000). Recognizing deductive processes in qualitative research. *Qualitative Market Research: An International Journal*, 3(2), 82 - 90.
- Lavidge, R. C. & Steiner, K. (1961). A Model for Predictive Measurements of Advertising Effectiveness. *Journal of Marketing*, 25, 59-62.
- Miles, M. B. & Huberman, A. M. (1994). *Qualitative data analysis* (2ndedn), Thousand Oaks, CA, Sage.
- Nussey, B. (2004). *The Quiet Revolution in Email Marketing*. Lincoln, NE: iUniverse, Inc.
- Philipson, S. (2011). Pattern – Finding in qualitative data – A suggested method of making data analyzable. Working Paper. Accepted for Presentation at the ICAM Conference, Nassau, July18-21, 2012.
- Richardson, N. (2010). *Quick start guide to mobile marketing create a dynamic campaign and improve your competitive advantage*. Kogen Page Ltd, London.
- Ryan, G. W. & Bernard, H. R. (2003). Techniques to identify themes. *Field methods*, 15(1), 85-109.
- Scharl, A., Dickinger, A. & Murphy, J. (2005). Diffusion and success factors of mobile marketing. *Electronic Commerce Research and Applications*, 4(2), 159-173.
- Shankar, V. & Balasubramanian, S. (2009). Mobile marketing: a synthesis and prognosis. *Journal of Interactive Marketing*, 23(2), 118-129.
- Smith, R. E., Chen, J. & Yang, X. (2008). The impact of advertising creativity on the hierarchy of effects. *Journal of Advertising*, 37(4), 47-62.
- Standing, C., Benson, S. & Karjaluoto, H. (2005). Consumer Perspectives On Mobile Advertising And Marketing. ANZMAC Conference: Electronic Marketing, 135 - 141.
- Strong, L. & Edward, K. (1922). *The Psychology of Selling Life Insurance*. New York: Harper & Brothers Publishers,

- Sultan, F. & Rohm, A. (2005). The Coming Era of “Brand in the Hand” Marketing. *MIT Sloan Management Review*, 47(1), 82–91.
- Trappey, R. J. & Woodside, A. G. (2005). Consumer responses to interactive advertising campaigns coupling short-message-service direct marketing and TV commercials. *Journal of Advertising Research*, 45(4), 382-401.
- US Interactive Marketing Forecast. (2013). Email marketing. Retrieved from: http://en.wikipedia.org/wiki/Email_marketing accessed on 22 / 11 / 2012.
- Yin, R. K. (1994). *Case Study Research: Design and Method* (2nd), Thousand Oaks, CA, Sage.

Businesses Blogging and the Effects of Non-Compliance

Duryana Binti Mohamed
International Islamic University Malaysia (IIUM), Malaysia
mduryana@iium.edu.my

Abstract: Presently, business blogging is gaining increasing on-line popularity. Some bloggers or business owners engage in this form of business for limited periods to test the marketability of their products, while others rely on it as the primary medium for marketing their products and services. Given that commerce is being conducted via blogs, some exploit this medium for fraudulent purposes. In Malaysia, there are legal rules and regulations governing online transactions or electronic commerce. However, to date these have not been updated to include specific provisions for business blogging. The legal issues that arise are whether owners of such commercial blogs should comply with the existing legal framework governing online transactions or electronic commerce and are thus liable to consumers under consumer laws. This paper discusses the above issues by examining the application of existing laws on business blogging and the effects of non-compliance.

Keywords: *Business blogging, online, laws, non-compliance, liability*

1. Introduction

There are various definitions of the term 'Business Blogging'. Many authors who wrote on the subject have associated their discussions with online business, e-business, or e-commerce. This situation implies that business blogging is part of online business and e-commerce. As it involves online buying and selling between parties, there is the possibility that the product information or services offered are inaccurate due to the irresponsible acts of the sellers. This situation can be controlled if owners of the blogs can be traced and identified based on their registered business address or place of residence. However, legal issues may arise if their registered business address is not mentioned and untraceable. In civil action, the registered business address or last known address of the defendant is very important in order to ensure effective service of court documents. The address must also be genuine. The question is should registration of a business address be made compulsory to all blog businesses? If the business is of small scale and on an ad-hoc basis, should they abide by e-commerce laws? What is the effect of non-compliance of the laws to such parties? If the owner of commercial blog commits illegal acts such as internet scam, under which law should he/she be liable? This paper discusses these issues by referring to the e-commerce laws, rules, and regulations available in Malaysia and other jurisdictions.

2. Literature Review

Blogging started in the US and then spread globally (Strother et al., 2009). Beginning from 1999, many authors wrote blogs offering their unique perspectives on issues. There are many books, articles, and websites relating to the benefits and risks of business blogging. Among them are books by Schaefer & Stanford (2013) and Gardner & Shane (2012) that wrote on blogging but overlooked the inclusion of regulations pertaining to business blogging. However, Holtz & Ted (2006) provided a comprehensive discussion in his book "Blogging for business". He discusses business blogging and legal considerations such as disclosure, defamation, intellectual property, and rights to privacy. This book highlights the effects of non-compliance of the laws on business blogs. Newson et al. (2009) discussed blogging and the role of law in social media. He defined the word 'blog', its categories, and the benefits of business blogging. Many have written on e-commerce, e-business, and internet laws. Among them are Saunders (2001) and Singleton (2006) who wrote on internet laws for business, and Bernstein et al. (1996) wrote on issues related to internet security and its policy, and the importance of securing user's services and business services. Terry Bernstein & others also discussed e-commerce, and legal and social issues in workplace. Awad (2007) wrote on e-commerce and mentioned the relevant legal issues. Cheeseman (2010) wrote on business and online commerce including business ethics and international issues and Hedley & Tanya (2008) edited a book that consists of all laws on IT and e-commerce. Their views and laws are based on either the laws in the United

States or English laws. All these books are relevant because they provide a discussion on internet commerce, which includes business blogs. Apart from books, there are useful sources from websites provided by Lawyers.com, out-law.com, and Digital business from the Australian government on business blogs and e-commerce. The article written by Strother et al. (2009) is very useful because she discusses the legal and ethical issues of corporate blogging.

In Malaysia, many have discussed e-commerce, intellectual property rights, and consumer protections but there have been no specific discussion on business blogs. Ding (1999) specifically discussed e-commerce laws, practice, and legislation on computer crime. Jayabalan (2012) focused on the importance of legislative measures in e-commerce and consumer protection but not on business blogs. Ida Madieha (2004) discussed trademark laws, infringement of trademarks, and solutions available to the owners of trade marks. Bant & Singh (2009) offered his views on the enforcement of intellectual property rights from a practical point of view. Rafidah's (2006) unpublished master thesis on e-commerce discussed the factors that influence the adoption and application of e-commerce in Small Medium Enterprises (SME) in Malaysia from economic perspectives, and Ranee (2001) discussed Malaysian SMIs in e-commerce. Mazlan's (2014) writing is more relevant to business blogs because he focuses on the requirement to register business blogs in Malaysia, setting up business blogs, and taxation of online businesses or e-commerce.

3. Methodology

This research is primarily based on library and online search. Books, journals, articles in newspapers, and periodicals are important sources of references. Online research is conducted on websites to find the latest information about blogging in business, its benefits, risks, and challenges. Unpublished materials such as conference papers and theses are also referred to. Discussions and surveys are conducted with the relevant persons especially with those who own business blogs. However, not all information is mentioned in this paper because this research is still in progress.

4. Results and Discussion

Blog is a term derived from web log. A blog is a website where information is displayed in date order, with the most recent information at the top of the page (Newson et al., 2009). 'Blogosphere' refers to "the set of all weblogs on the internet" and implies a globalised social community (The American Heritage Dictionary; Strother et al., 2009). There are many categories of blogs, which among others include business and professional, academic, entertainment, financial, and technology. For legal blogs, the writers are academics, law firm blogs, or personal blogs (Newson et al., 2009). This paper focuses on business blogs. Blogging for business has various benefits. Some of the main benefits include the blog owner can be his own publisher, inexpensive, he/she can interact with clients and industry, he/she can always keep in touch with their clients and the technology used by those around him/her, and he/she can earn a profit (Newson et al., 2009). In addition, business blogs are easy, effective, and time saving. For small businesses, they help to establish relationships with potential and new customers and connect people to their brand. There are various tips available online on how to setup and run the website as well as how to be successful in this business (Mc Comb, 1998; Pin, 2010). However, there are risks of using blogs for business. Issues on security threat and internet attacks must be taken into consideration. Apart from that, owners of business blogs must have knowledge on specific legal issues most likely to occur in internet business or business blogs.

The position of business blogs in Malaysia: Registration of a business plays a very important role in ascertaining the status of one's business. In Malaysia, the position of business blogs is still obscure, particularly for small businesses. There is no specific provision that requires them to register their online business. Although there are Registration of Business Act (RBA) 1956 and the Companies Act 1965, the RBA only provides for any registration of a Small Medium Enterprise (SME) and depends on the business structure and liability of the company. If the business blog is considered an SME, then they have to register under RBA. If they are not categorised as SMEs, registration is not compulsory. In fact, registration is confined to certain types of businesses. A business will be deemed an SME if it meets either one of the two specified criteria, namely sales turnover or full-time employees whichever is lower. This means, the business blog will be categorised as an SME if its business involves manufacturing products where its sales turnover is RM50

million or less OR if it has 200 full-time employees or less. If less than that, they are not SMEs and thus are not required to register their business. The issue of registration was raised when 400 online businesses were charged for not registering their business with the Companies Commission of Malaysia (CCM). Nevertheless, the issue was resolved when the Malaysian Communication and Multimedia Commission (MCMC) confirmed that only online businesses related to the telecommunication industry such as selling networking services need to register with the MCMC (Mazlan, 2014). The CCM confirmed that all online businesses (whether on full time basis or part time basis) need to register with CCM based on the rationale that in so long as there is income, you need to register. However, CCM officers suggested that the blogger may register as a sole proprietor because it is cheaper (Mazlan, 2014). Once the business is registered, the owner has to comply with CCM's rules and is responsible to declare his/her income to the Inland Revenue Board of Malaysia (IRBM) for tax purposes.

Legal responsibility of blog business owners: Business bloggers must have some knowledge about the laws governing online business. If they fail to comply with the said laws or fail to follow certain rules, they may either be sued for wrongful acts or be ordered to stop from continuing their business. For instance, if it is proven that the seller has provided false information regarding their products, the buyer may sue the seller for breach of sales and purchase agreement or misrepresentation or even fraud under contract law. In business blogs or corporate blogging, liabilities of business blog owners or corporate bloggers can be established if the lawyers for the plaintiff/consumer can prove on the balance of probabilities that the defendant/seller (an individual or a company) has committed an unlawful or illegal act. To avoid this legal implication or legal risks, some corporations reserve the right to edit or omit blog postings if they are off-point, off-colour, or otherwise inappropriate (Strother et al., 2009).

Legal risks in corporate blogging: When a blog or website for a business is setup, the owner/blogger must be prepared to face any legal risks or legal problems that may arise from imprudent blog posts created by employees about the company. Not all blog owners know about the laws but they must at least be prepared and if possible, consult legal experts before starting the business. Goldman (2006), Strother et al. (2009), Awad (2007), and Holtz & Ted (2006) mentioned the legal risks in corporate blogging.

According to Goldman, the legal risks of corporate blogging are admissions-adverse evidence that may be introduced in litigation, trade libel-disparaging comments about competitors' products and disclosure of non-public information, trade secrets, patentable information and information that could manipulate stock price (securities fraud) (Goldman, 2006; Strother et al., 2009). Holtz & Ted highlighted primary legal issues in business blogs such as disclosure policies that should be made specific in the blog, the violations of trademark and copyright laws, defamatory comments posted by somebody else to your blog, violation of an individual's privacy, and termination of employees for making disparaging remarks about their boss (Holtz & Ted, 2006). Regarding the employees, this issue will not arise if the blog is operated and owned by an individual who owns a small-scale business. Other legal risks include damage to an individual or company's reputation, liability for infringement of intellectual property rights (by making copies from the content of one's blog post without permission), liability for defamation or illegal content (the opinion given may become defamation), and leaking confidential information (www.out-law.com). These risks are taken from the perspectives of an employer who may face legal suits due to comments or opinions made by employees in the company's blog or website. This is also known as internal blogging. Hence, it is important for business bloggers to know the laws, rules, and regulations related to online business. Below are the relevant laws on online business or blog business.

Laws regulating online business: In Malaysia, online businesses are categorised as e-commerce (Ding, 1999; Mohamed, 2011; Mazlan, 2014). Hence, the most appropriate laws should be e-commerce laws. These laws are relevant because the transaction involves the use of internet and network facilities. Among the e-commerce laws are the Electronic Commerce Act 2006 (ECA), Communication and Multimedia Act 1998 (CMA), Consumer Protection Act 2006 (CPA), Trade Marks Act 1976 (TMA), Trade Marks (Amendment) Act 2000, Copyright Protection Act 1997 (CPA), Personal Data Protection Act (PDPA), Trade Description Act 2011 (TDA), and Sales of Goods Act 1957 (SOGA). The objectives of these laws vary. The CMA deals with issues of blog content, the TMA is for protecting the trademarks, the CPA is for protection copyright, PDPA is meant for protection of individual privacy and personal data, while CPA deals with issues on fraudulent acts and

consumer protection. Each of these laws will be explained later. In cases related to business blogs, the CMA can be considered the most relevant law because it governs the use of a network facility or facilities and provides legal liabilities on those who fail to comply with the Act. Nevertheless, there is no specific provision on blogs, bloggers, and bloggers' liability in online businesses. Apart from these laws, conventional laws are still relevant. They include the Registration of Business Act (RBA) 1956, Companies Act 1965, Contracts Act 1950, the Defamation Act 1957, and Evidence Act 1950.

The consequences of non-compliance of e-commerce laws: Issues of non-compliance of the laws should be taken seriously especially for those who own a business. In business, there are laws that govern businesses such as laws on electronic commerce and credit cards and intellectual property (Pheng et al., 2014). The following discussions focus on e-commerce laws that govern the blog business and what the owners of the blogs (bloggers) should and should not do. If the bloggers fails to comply with the requirements provided in the Acts, they will face the consequences of their non-compliance. The following are the laws and effects of non-compliance to the said laws.

a) The Communication and Multimedia Act 1998: The CMA 1998 gives powers to the Malaysian Communication and Multimedia Commission (MCMC) to enforce its rights including monitoring internet content. Cyber Security Malaysia also assists the CMCM and they work together with the Royal Malaysian Police in detecting those who misuse the internet and network facilities. The owners of business blogs should know the implications of violating the Act. The Act provides a regulatory framework for the communication and multimedia industry in support of national policies. CMA deals specifically with the obligation to apply for a licence and compliance with the licence conditions as directed by the Commission (s.51). If anyone fails to comply with the direction of the Commission, they shall on conviction be liable to a fine not exceeding three hundred thousand ringgit (RM 300, 000) or to imprisonment for a term not exceeding three years or both (s.53). A person must provide information as required by the Commission and if they fail to comply with that instruction or direction, they shall on conviction be liable to a fine not exceeding twenty thousand ringgit (RM20, 000) or to imprisonment for a term not exceeding six months or both (s.74). The Act requires a person to provide correct information. If they give false or misleading information or evidence in response to the direction by the Commission, they shall be liable to a fine not exceeding twenty thousand ringgit (RM20, 000) (s.75). Other sections that provide a penalty for non-compliance are s.100 and s.109. It is important to adhere to the content code. Section 211 of the Act emphasises on the duty of the service provider not to provide products or services that are indecent, obscene, false, menacing, or offensive in character. Anyone who violates this section shall on conviction be liable to a fine not exceeding fifty thousand ringgit or to imprisonment for a term not exceeding one year or to both and shall also be liable to a further fine of one thousand ringgit for every day or part of a day during which the offence is continued after conviction. Internet scams violate the CMA. According to MyCert, there are twelve internet scams and those relating to business include sending bulk emails to internet users about business opportunities available online (Internet scam). In 2014, US officials said that Malaysia is a global hub for internet scams, especially love scams (Campbell, 2014) and Malaysia has become the new epicentre for online crime (Grudgings, 2014). Business bloggers should avoid doing this in marketing their business because it is against the law. In cases of counterfeiting, legal action may be taken against the suspect if there is proof of damage. The authorised officer (AO) or any officer appointed by the Commission has the power to investigate the case. If the offence falls within CMA, the AO may investigate the case based on the provisions mentioned in the CMA and Criminal Procedure Code (CPC). These include the power to intercept and power to require evidence from suspects and witnesses (s.255 and s. 256 CMA). If proven guilty, the person may be charged under the Act.

b) Personal Data Protection Act 2010 (PDPA): This Act applies to data users or business owners who obtain personal data from their clients (or data subjects) in commercial transactions. According to the Act, any business or data users intending to use the personal data of clients shall register their business with the Commissioner and get the certificate of registration. If they process personal data without a certificate of registration they shall, on conviction, be liable to a fine not exceeding five hundred thousand ringgit or to imprisonment for a term not exceeding three years or to both (s.16). If the registration has been revoked by the Commissioner but they continue to process the personal data they shall, on conviction, be liable to a fine not exceeding five hundred thousand ringgit or to imprisonment for a term not exceeding three years or to both (s.18). They must surrender the certificate to the Commissioner within seven days. Otherwise, they

shall, on conviction, be liable to a fine not exceeding two hundred thousand ringgit or to imprisonment for a term not exceeding two years or to both (s.19). Hence, certificate of registration is very important to every data users. Apart from that, data users must also comply with the Codes of Practice issued by the Commissioner. If they fail to comply with any provision of the code of practice they shall on conviction, be liable to a fine not exceeding one hundred thousand ringgit or to imprisonment for a term not exceeding one year or to both (s.29). Although data users are not allowed to disclose the personal data of data subjects, they are allowed to do so in certain cases as prescribed by the Act.

c) The Trade Description Act 2011: This Act provides better protection to the consumers. It prevents the bloggers from providing false trade descriptions and false or misleading statements, conduct and practices in relation to the supply of goods and services online. The 'goods' include ships, aircrafts, vehicles, animals, plants and crops and all kind of immovable property. The scope and meaning of trade description is mentioned in ss.6 and 7 of the Act. According to the Act, false or misstatements include a false price of goods or misstatement as to services and misstatement in advertisement. PART 11 (ss.5 to 12) of the Act provides on prohibition of false trade description. While PART 111 (ss. 13 to 21) provides provisions relating to misstatements other than false trade descriptions. A person is said to have committed an offence under TDA if they provide false descriptions to any goods and supplies or offer to supply any goods to which a false trade description is applied or in his possession, custody, or control for supply any goods to which a false trade description is applied. According to s.5 of the Act, if a person is found liable under the Act they will be fined for the amount of RM100, 000 or to imprisonment for a term not exceeding three years or to both and for second or subsequent offence the fine to be paid is not exceeding RM250, 000 or to an imprisonment for a term not exceeding five years or to both. For body corporate, the punishment is payment of fine amounting to RM250, 000 for first offence and for a second or subsequent offence the corporation has to pay a fine of RM500, 000.00. However, Part IV (ss.22-25) of the Act provides defences to a person or corporation charged for offences committed under Part 11 or Part 111. For example, section 23 of the Act provides defence of personal use for an individual or owner of a business blog charged under the Act. However, the corporation cannot use this defence of personal use when it is clear that the company has violated the Act.

d) The Electronic Commerce Act 2006 (ECA): ECA 2006 was enacted in 2006 with the intention to govern e-commerce activities. Section 3 of the Act clearly states that the Act shall apply to any commercial transactions conducted by electronic means. It also recognises the use of electronic message and electronic signature under Digital Signature Act 1997 in e-commerce. However, there is no specific provision on business blogs. Nevertheless, the Act is still relevant because in business blogs the internet is used as the main medium of communication including email messages. There is also no provision on penalty in the event of failure to follow the Act.

e) Sale of Goods Act 1957 (SOGA): Generally, sellers and buyers are subjected to SOGA and the Contracts Act 1950. If both parties entered into a contract to sell and deliver goods, it is the duty of the sellers to comply with the contractual terms. If the seller fails to comply with the contract, the buyer can sue him for breach of contract and claim for remedies provided by the Acts. SOGA and Contracts Act 1950 are both applicable to online sales and blog business.

f) The Copyright Act 1987 and the Copyright (Amendment) Act 2012: Copyright is one of the most popular issues in e-commerce and online business. Copyright is defined as the exclusive right given to the owner of a copyright for a specific period. Under the Copyright Act 1987, 'original' works owned by the real owner are protected and no one is allowed to infringe the copyright. There are works eligible for protection under the Act namely literary works; musical works; artistic works; films and sound recordings. However, to get the copyright protection to the above works, the owner must fulfil certain conditions such as sufficient effort has been expected to make the work original in character and the work has been written down, recorded, or reduced to a material form. The author should be a qualified person or the work is made in Malaysia or the work is first published in Malaysia. The Act was amended in 2012 and came into force on March 1, 2012. According to sections 26A and 26B of the Act 2012, owners of copyright shall voluntarily notify and register their copyright work with the Controller who will then register the copyright works under Register of Copyright. By complying with this requirement, anyone may examine the Register of Copyright as determined by the Minister. For evidential purposes, the owners may produce the certified extracts of the

Register of Copyright in court and the extracts shall be admissible as prima facie evidence. The new section 36A was inserted for the purpose of circumvention of technological protection measure while section 36B provides information, which identifies the works or author of the works. No person shall alter or remove any electronic rights information management without authority. Section 37 allows the owner of the works to take legal action for any infringement of copyright works and prohibited acts provided in the above two sections. However, for innocent infringement the plaintiff or copyright owners shall not be entitled for damages although the plaintiff will be entitled to statutory damages of not more than RM25, 000 for each work, and an account of profits (Ying and Sonia, 2012). In short, the amendment provides limitation of liability for service providers who provide services relating to, or provide connections for, the access, transmission or routing of data, or those who provide facilities for online services or network access. In cases of infringement by their users, the service providers are now afforded a safe harbour (Ying and Sonia, 2012). Thus, owners of copyrights works in business blog should comply with the above Act particularly section 41 of CA 1987 that provides on the criminal liability for copyright infringement.

i) Consumer Protection Act 1999 (CPA) & Consumer (Amendment) Act 2010 & Consumer Protection (Electronic Trade Transactions) Regulations 2012: Consumers buy online at greater risk compared to conventional methods of buying. The goods shown in the internet may not be of merchantable quality and personal details of consumers may be abused or tampered (Jayabalan, 2012). Thus, the online consumers deserve protection from such unethical sellers. The sellers in online businesses should not take advantage of the buyers by making false description of the products or goods and then provide the exemption clause or unfair contract terms. This is because the terms benefit the sellers. In Malaysia, the CPA was introduced in 1999 in order to protect the interest of the consumers. The 1999 Act was then amended in 2010 by adopting certain principle on unfair contract term from India (Amin, 2013). The CPA (Amendment) 2010 has given more chances to the consumers to claim under unfair contract terms, which has been used by the sellers in consumer contracts. Part IIIA of the 2010 deals specifically with unfair contract terms. In addition, the Government has introduced the National Consumer Policy and established the Tribunal for Consumer Claims Malaysia (TCMM) to deal with consumer related cases. Apart from the CPA 1999, there are few consumer related legislations in Malaysia namely, Hire Purchase Act 1967, Price Control and Anti Profiteering Act 2011, Control of Supplies Act 1961, Trade Descriptions Act 2011, Weight and Measures Act 1972, Direct Sales and Anti-Pyramid Scheme Act 1993, SOGA 1957, CMA 1998, PDPA 2010 and few other legislations (Sabri, 2014).

In 2012, Consumer Protection (Electronic Trade Transactions) Regulations 2012 was introduced to further protect the consumers who deal with online sellers. The 2012 Regulations were issued under s.150 of the 1999 Act. The 2012 Regulations imposed on all online business suppliers and online market operators to provide certain details about their business such as names of business, email address, their business registration number, method of payment and terms and conditions of sale (Yen, 2013). For offences and penalties, online traders should know that it is an offence if they fail to comply with the regulations. Any person will, on conviction, be liable to a fine of up to RM50, 000 or to imprisonment up to three years or both, and for a second or subsequent offence the person will be liable to a fine of up to RM100, 000 or to imprisonment up to five years or both. If a company commits the offence, it will, on conviction, be liable to a fine of up to RM100, 000, and for a second or subsequent offence a fine of up to RM200, 000. An additional fine of up to RM1, 000 will be imposed on any person or company for each day for which the offence continues after the conviction. Besides the criminal penalties, an aggrieved consumer may also lodge a claim with the Tribunal for Consumer Complaints for civil remedies against errant online traders (Yen, 2013). The claims can also be forwarded to Small Claims Court and Financial Mediation Bureau. These are some of the efforts taken by the Malaysian government to protect the rights of the consumers. However, for the sake of brevity, this paper covers certain Acts only.

g) The Trade Marks Act 1976 (TMA) and Trade Marks Regulations 1997 (TMR) & Trade Marks (Amendment) Act 2000: In Malaysia, the TMA came into force on 1st September 1983. According to s.3 of TMA, a mark is defined to include 'a device, brand, heading, label, ticket, name, signature, word, letter, numeral or any combination thereof' (s.3 (1)). The trademark distinguishes one brand from another. In an effort to protect their businesses, the owners of trademark can register their trademark with the relevant authority. This will ensure that they may claim their rights in case of online infringement of trade mark (ss10 & 12). Online infringement of trademark may occur if the owners of blog business use other person

trademark, symbol, or logo in his blog and claim that mark to be his. In this situation, the owners of the infringed trademark may sue the infringer in court and apply for an injunction or monetary damages or both (Ida Madieha, 2004). It is an infringement to use an identical trade mark in relation to similar goods and services, and a similar trade mark in relation to identical or similar services provided, where in each of these two cases, there exist a "likelihood of confusion" (Outlaw.com). In the context of blogging, your blog name, as well as any logo used in the blog, could be used as trade mark (Schreyer, 2014).

h) Goods and Services Tax Act 2014 (GSTA) or Value Added Tax (VAT): This Act came into force on 1st April 2015. It is considered an indirect payment of taxes from the consumers to the government through the sellers (Rashid & Norbaya, 2014). This Act imposes 6% tax on goods and services supplied in Malaysia and imported into Malaysia. The Royal Customs Department has been given the power to administer and enforce the Act. According to the Act 'business' includes any trade, commerce, profession, vocation or any other similar activity, whether or not it is for a pecuniary profit (s.3). This implies that GSTA is applicable to online business so long as the business fulfils the requirement mentioned in the Act. The Act also defines the meaning of 'owner', 'services', 'supply' and 'electronic service'. Section 9 of the Act explains the imposition of tax on any goods and services made and supplied in Malaysia and importation of goods into Malaysia. While 'data' in this Act includes any computer programme or part of computer programmes (s.89). This definition is mentioned under fraud offences. Part XI of the Act provides on offences and penalties to business owners. They include penalties for those who evade paying tax or have committed fraud or have provided incorrect return of the tax. In some cases, they may be prevented from leaving the country for failure to pay tax, penalty, or surcharge imposed on them (s.49). In serious cases, the business owner can be put in prison for non-payment of fine. In term of enforcement, a senior officer of a goods and services tax shall have all the powers as police officer as provided under the Criminal Procedure Code. (s.80). Thus, whoever violates the Act may be detained and arrested without warrant. Although this Act received many criticisms there are certain exemptions provided in the Act. Nonetheless, the effectiveness of this tax in Malaysia is yet to be known.

How to avoid legal suits? The owners of business blogs or corporate blogging may avoid legal actions, if they have a blogging policy or corporate blog policy in their companies. This policy will restrict the use of blogs and prevent their employees from committing copyright infringement or breach of confidential information or trade secrets (outlaw.com; Holtz & Ted, 2006). Apart from that, the owner should establish a clear moderation policy and understand the marketing campaigns and spam (Digitalbusiness). This includes understanding the CAN-SPAM law for e-marketing (lawyers.com). The domain name of your business blog should be registered because it is your property (lawyers.com). Then, choose the right e-commerce software especially for small business owners because they need to ensure online security and the importance of protecting their business from internet attacks and security threat (Bernstein et al., 1996; Awad, 2007). One of the top three software programmes in e-commerce is Volusion which offers advanced security and back-room tools, and integrates with Amazon.com to help boost sales or can go through third party providers such as eBay (Brooks, 2014). It was also suggested that the owner should provide a disclaimer policy in order to avoid being liable (Meddows, 2014; Strother et al., 2009) and monitor damaging blogs that contain damaging posts or nasty comments by an employee targeting certain people or business. Usually, dissatisfied employees or consumers against the employers or companies made these damaging remarks. Small businesses with one sole proprietor may also adopt self-regulations by complying with the proper ethics of business. However, the blogger or business owners should be aware that in some countries there is different internet policy and rules. For example, in China corporate bloggers including foreign businesses should comply with its censorship policy (Holtz & Ted, 2006). Survey results released by the European Union Chamber of Commerce in China shows that the onerous system of censorship known as the Great Firewall has affected companies based in the European Union but have offices in China (Wong, 2015). Although this incident occurred in China and involved big companies, the same policy shall apply to small business that uses the internet to engage in business blogging.

5. Conclusion

Business blogs offer many benefits and advantages to the owners of blog businesses or weblogs. However, there are disadvantages and certain legal risks that owners or bloggers must take into consideration before venturing into online business. The potential of being sued and possibility of internet attacks are always there if owners do not comply with e-commerce laws and do not take good security measures to protect the online business. Thus, the owners of business blogs should have some legal knowledge or consult their legal team in order to understand the e-commerce laws and the effects of non-compliance of those laws. They should be prepared to pay tax according to taxation law, the e-payment methods, the application of electronic signatures, the delivery liability issue, and the internet laws applicable in some countries. Their knowledge about the laws and other issues related to online businesses will at least prevent them from possible legal actions that may be taken against them by the buyer or those affected. In short, compliance with the laws, rules, and regulations including the internet policy of different countries are recommended before embarking on business blogging.

Recommendations: We recommend that there should be greater research on legal issues in business blogging and how to ensure the bloggers (business owners) comply with online laws, rules, and regulations. A list of registered business blogs, their types of business, address and the governing laws related to blogging in business should be made publically available online. For small businesses owned by one or two individuals, we suggest that they should also be listed in the website, so that people will know the numbers of business blogs operating in Malaysia and their types of business.

References

- Amin, N. (2013). Protecting consumers against unfair contract terms in Malaysia: The Consumer Protection (Amendment) Act 2010, MLJ 1, lxxxix.
- Awad, E. M. (2007). *Electronic Commerce: from vision to fulfilment*, 3rd edition. United States: Pearson Prentice Hall.
- Bant, S. & Singh, J. (2009). Practical approach to the enforcement of intellectual property rights. Malaysia: Sweet & Maxwell Asia.
- Bernstein, T., Bhimani, A. B., Schultz, E. & Siegel, C. A. (1996). Internet security for business. United States: John Wiley & Sons
- Brooks, C. (2014). E-commerce websites: How to start an online business, Business News Daily at <http://www.businessnewsdaily.com/4707-ecommerce-website-guide.html>
- Campbell, C. (2014). Malaysia is becoming a global hub for internet scams preying on the lovelorn at <http://time.com/2968765/malaysia-is-becoming-a-global-hub-for-internet-scams-preying-on-the-lovelorn/>
- Cheeseman, H. R. (2010). *The legal environment of business and online commerce*, 6th edition, United States: Pearson Hall.
- Digitalbusiness at www.digitalbusiness.gov.au/security
- Ding, J. (1999). E-commerce: Law & practice. Malaysia: Sweet & Maxwell Asia
- Gardner, S. & Birley, S. (2012). *Blogging for dummies*. 4th edition. USA: John Wiley & Sons
- Goldman. (2006) Technology and marketing law blog: Employee blogging risks at <http://blog.ericgoldman.org/>
- Good and Services Tax Act 2014 at www.gst.customs.gov.my
- Grudgings, S. (2014). Nigerian scammers have made Malaysia the new epicentre of online crime at www.businesinsider.com
- Guideline for SME Definition: October 2013 at http://www.smecorp.gov.my/vn2/sites/default/files/Guideline_for_New_SME_Definition_7Jan2014.pdf.
- Guidelines on taxation of electronic commerce at www.hasil.gov.my
- Gunelius, Susan. Legal issues bloggers must understand at <http://weblogs.about.com/od/bloggingethics/tp/Legal-Issues-Bloggers-Must-Understand.htm> retrieved 21 April 2015.
- Hedley, S. & Tanya, A. (2008). *Blackstone's statutes on IT and e-commerce*, 4th edition, United Kingdom: Oxford University Press.
- Holtz, S. & Ted, D. (2006). Blogging for business, United States of America: Kaplan Publishing.

- Ida Madieha, A. G. A. (2004). Trademarks law in Malaysia: Cases and Commentary, Malaysia: Sweet & Maxwell Asia.
- Internet scams at <http://www.mycert.org.my/en/>
- Jayabalan, S. (2012). E-commerce and consumer protection: The importance of legislative measures, 16 JUUM, 93-101 at www.ukm.my/juum.
- Legal risks of corporate blogging and user-generated content (2007) at www.out-law.com
- Legal tips. (2013) at <http://www.digitalbusiness.gov.au/security-and-legal/legal-tips/retrieved> 22 April 2015.
- Mazlan. (2014). How to start an online business in Malaysia at greatstuff.hubpages.com
- Mc Comb, G. (1998). Web commerce cook book. USA: John Wiley & Sons, Inc.
- Meddows, J. (2014). Blogging and the law: Five issues you need to know at <https://litreactor.com/columns/blogging-and-the-law-five-issues-you-need-to-know>
- Mohamed, D. (2011). Chapter 10: E-commerce and its practice in Malaysia: An overview in Law and Commerce: The Malaysian Perspective, edited by Mohammad Naqib Ishan Jan, Kuala Lumpur: IIUM Press
- Newson, A., Houghton, D. & Patten, J. (2009). Blogging and other social media: Exploiting the technology and protecting the enterprise. England: Gower Publishing Limited.
- Online scams at www.scam.watch.gov.my.
- Personal Data Protection Act 2010 at www.mda.org.my/ and www.kkmm.gov.my
- Pheng, L. M. & Detta, I. J. (2014). *Business law in Malaysia. 2nd edition*. Kuala Lumpur: Oxford University Press
- Pin, L. E. (2010). Guide to online business: Confessions of a web developer. Malaysia: Leeds Publications (M) Sdn. Bhd
- Predators on the net 18February 2013, NST at http://www.cybersecurity.my/en/knowledge_bank/news/2013/main/detail/2268/index.html
- Rafidah, M. N. (2006). A study on the factors that influence the adoption of e-commerce among Malaysian small and medium enterprises, (Unpublished) Master thesis. IIUM
- Ranee, A. A. (2006). Malaysian SMIs in e-commerce, (Unpublished) Master Thesis, IIUM.
- Rashid, M. & Norbaya, S. (2014). Study on the possible impact of GST towards Malaysia using selected economic indicator: Case of Singapore, Thailand and Indonesia as model countries, 5th International Conference on Business & Economic Research (5th ICBER 2014) proceeding, 24-25 March 2014, Kuching, Sarawak, Malaysia.
- Sabri, M. F. (2014). The Development of Consumer Protection Policies in Malaysia. *International Journal of Business and Social Research (IJBSR)*, 4(6), 98-108
- Saunders, K. M. (2001). Practical Internet law for business. United States: Artech House, Inc.
- Schaefer, M. W. & Stanford, S. A. (2013). Born to Blog: Building your blog for personal and business success. United States: McGraw- Hill
- Schreyer, A. (2014). There are legal issues in blogging? At www.mom2summit.com
- Singleton, S. (2006). Business, the Internet and the law. Great Britain: Tottel Publishing
- Small businesses may be exempt from some regulations at <http://www.lawyers.com>
- Strother, J. B., Fazal, Z. & Millsap, M. (2009). Legal and ethical issues of the corporate blogosphere. *IEEE Transactions on Professional Communication*, 52(3), September 2009.
- Wong, E. (2015). China's Internet restrictions are hampering business, foreign companies say, The New York Times at <http://www.bits.blogs.nytimes.com>.
- Yen, J. T. C. (2013). New rules for safer electronic transactions at http://www.malaysianbar.org.my/members_opinions_and_comments/new_rules_for
- Ying, C. K. & Sonia, O. (2012). Amendments to the Malaysian Copyright Act, World Intellectual Property Review at www.worldpreview.com.
- Zulkefli, A. A. (2009). Trade mark protection in Malaysia- a basic guide at www.biotechcorp.com.my.
- 10 top bloggers from Malaysia at <http://aseanup.com/10-top-bloggers-malaysia/> & Malaysian Blog Directory at <http://www.mycen.com.my/malaysia/blog.html> retrieved 20 April 2015
- <http://fitsmallbusiness.com/small-business-blogs/> and <http://www.socialmediaexaminer.com/10-top-business-blogs-and-why-they-are-successful/>
- <http://blog.hubspot.com/marketing/the-benefits-of-business-blogging-ht>.
- <http://www.myipo.gov.my/web/guest/hakcipta-umum>.
- <http://www.openvine.com/small-business-internet-blog/5-benefits-of-blogging-for-your-small-business>.

Internal and External Factors Influencing Financial Performance in Improving Competitiveness of Small and Medium Enterprises in Jayapura City

Mugiati

University of Science and Technology Jayapura, Indonesia
a.mugiati@yahoo.com

Abstract: This study aims to identify and analyze the direct influence of internal factors (consisting of: Human Resource Management, Production, Marketing, Working Capital, Organization) and External Factors (which are Government Policy and competitors) on Financial Performance of Small and Medium Enterprises in Jayapura city. Data collecting method data are observation, interviews, and questionnaire. Data were analyzed using analysis of SEM (Structural Equation Modeling), with Amos Software. Results show that internal factor like human resource management does not affect the financial performance of Small and Medium Enterprises in Jayapura city, while the internal factors of production, marketing, working capital, organizational influence the financial performance of Small and Medium Enterprises in Jayapura city. The analysis also showed that the internal factors of human resource management, production, marketing, working capital and organizational influence on the competitiveness of Small and Medium Enterprises in the city of Jayapura. External factors which consist of: government policies and competitors affect the financial performance and competitiveness of small and medium enterprises businesses in the city of Jayapura. Financial performance affects the competitiveness of Small and Medium Enterprises in Jayapura city.

Keyword: *Financial Performance, Factor Internal, External Factors, Power Competitiveness, Small and Medium Enterprises*

1. Introduction

Economists argue that the small business sector has a durability that has been tested on a variety of economic conditions and able to withstand the various conditions of the competition with great effort (Sasono, 2002: 157). The reality has shown that most of the small business sector has not received serious attention for example, has not received capital assistance, although with a relatively small capital itself. With great effort made by the actual owner of the production process can still run, only thus relatively slow progress due to various limitations associated with management factors, capital and technology. Tambunan (2002: 19) also mentions that the performance of Small and Medium Enterprises in Indonesia is still low. This is due to the weakness of management, marketing, capital, technology and human resources are owned by small businesses. While some opinion states that the factors causing the lack of success of small businesses is the inability of management, weaknesses in decision making, inexperienced, weak financial supervision and weak in marketing (Scarborough et al., 1993: 38). In a state that is growing, small businesses need to be supported by a number of funds and financial resources as needed. Conversely, when the business is not yet in need of funds, because the business turnover is low, then the capital provided should be less. If the business turnover is high, capital should be sufficient to meet the needs of the business or there must be agreement in strategic financial decisions. The existence of conformity on these aspects requires a financial planning or business skill levels are quite focused.

In addition, the course of business through which small companies has not separated from the policies and programs of government aid. But the Government's policy has indirectly resulted in conditions that encourage growing larger. This can be evidenced by the many large companies who do affiliate with small businesses, especially small industrial goods so that small businesses can move more efficiently. In the current competitive situation like this, an entrepreneur must be able to formulate internal strengths in business strategy by performing a combination of opportunities and threats external environment. Until now this appears to conditions in small firms still have weaknesses in determining strategic and tactical business (Stifung, 1991: 88). With the rapid economic growth and current business developments, as well as the situation of the opening of the free market. With the increasing number of goods on offer and the increasingly intense competition, sued the company more innovative in improving the management and policies of production and financial structure, than the government took measures to open up opportunities for

businesses in certain circumstances it can also be an opportunity or instead can be a threat to small companies.

Research directed at small businesses will always be relevant, because the construction sector has been focused on areas with a populist economic linkage between industry and agriculture. The main priorities were developed among others by structuring the industry that lead to the strengthening and deepening the industrial structure that is supported by high-tech capabilities. Industrial development should be improved in order to become a major driver of economic efficiency and high competitiveness. Such companies will have a more solid structure with evolving patterns of production, of goods which rely on productive labor and abundant natural resources, into quality goods of high added value and have a competitive advantage. Seeing the importance of small businesses assess this, it is necessary to know the level of performance of the company through strategic perspective approach. By knowing the level of performance of the company, it can be used as a guide for those who will participate in supporting small businesses. This can be seen the internal capability of each group company and the magnitude of the role of aid that has been given (by the condition of each internal-owned), so that it can be seen picture of internal factors and external What are the most dominant in the handling of small business development, especially in the city of Jayapura.

2. Literature Review

Collis and Montgomery in a journal entitled "Competing in the Resources Strategy Era of the 90s" with a report titled: "How do you create and maintain a profitable strategy", they concluded that: Towards the end of the 90s, several large companies have to struggling to maintain their existence Resource Based View Of The Firm (RBV) combines the company's internal analysis by external analysis of the industry and competitive environment. KBV be identifies on technology management. Dengfan approach to RBV, the company will be able to identify objectively determinant in keunggulan competing. The similarities with the research by the authors are equally related to the quality and competitiveness. Satyagraha in a report of his research entitled: "Competitive Advantage and Redefinition SWOT," he concludes that: "The quality of human resources of competitive advantage, has two privilege, (1) special skills - skills) and (2) special resources (superior resources). Kwon and Shin (2003) examines About Cointegration and Causality between Macroeconomic Variables and Stock Market Return. The results showed the capital market in Korea reflects the macroeconomic variables such as the production index, exchange rate, trade balance and the money supply. Pakpahan argues, written by Daulay, Hotmatua and Mulyanto (2001: 80), defines competitiveness as measured by dalam competitive production costs. The lower the production cost per unit of a product that is said to be competitive against products produced. A society is said to pick the high competitiveness if it is able to produce a product which beat products produced by other communities. A product can outperform other products when the products have characteristics better than rival products at the same price or more lace

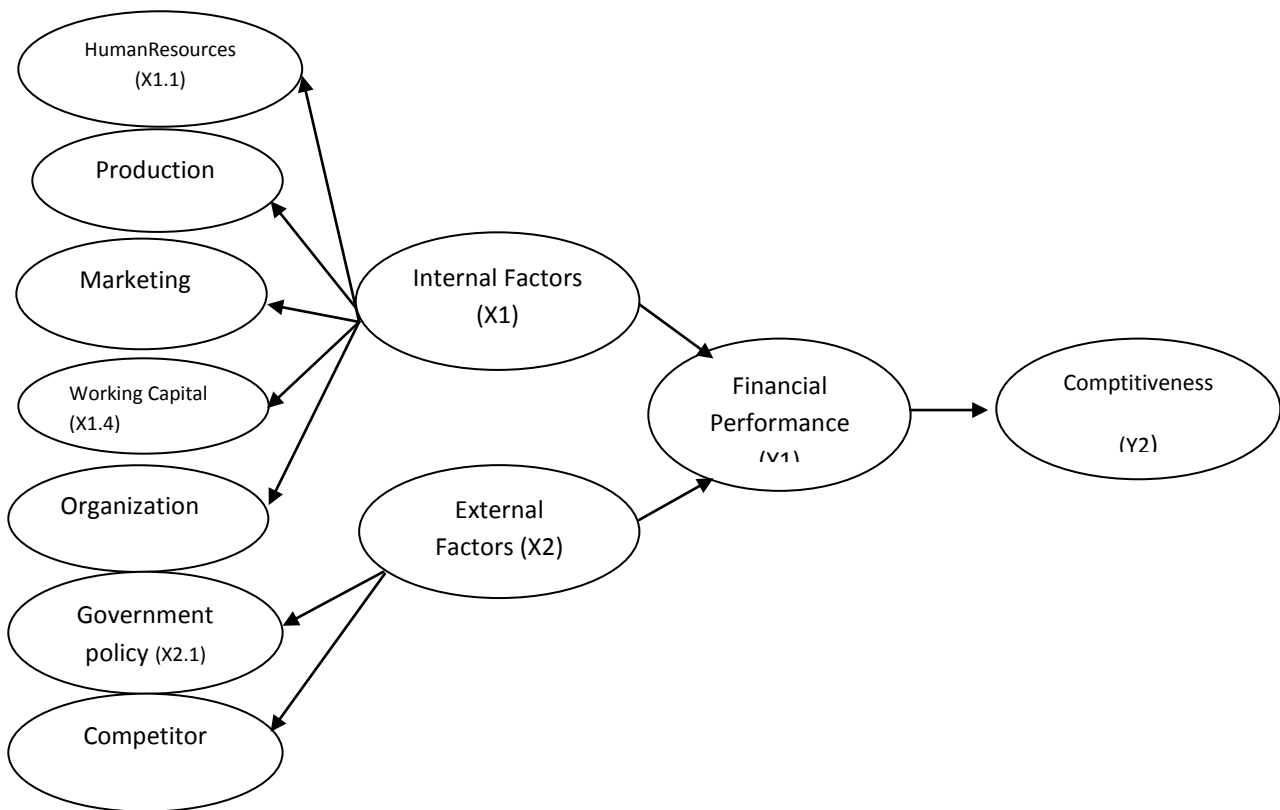
Fernandez Pablo, 2003, the divide valuation method companies into (1) a method based on the balance of the method of assessment at book value, the book value adjusted, the value liquidize and value substantially (2) a method based on the income statement that is a multiple or a relative valuation , PER, sales and Price / EBITDA. (3) a method which is based on the goodwill that classical methods, methods of the European Union, methods of expert akuntans in the European Union, the indirect method, the method Anglo Saxon or direct method, method of annual profit purchase and methods of risk-bearing and risk free rate (Russo and Fouts, 1997). In this section, we discuss physical assets and technologies, human resources and organizational capabilities, and intangible resources in turn, arguing that industry context in general, and the growth within an industry in particular, moderate the influence of social performance on economic performance. Performance measurement mechanism that is often used is the financial ratio to look at the effectiveness and efficiency of capital use and according Ruru (1995: 15) ROI (Return on Investment) is one of the effective management tool in evaluating the business value and at the same time the ratio of performance-management. Ratio Return on assets (ROA) and return on equity (ROE), both the instruments give different results, because the ROA reflect the efficiency and effectiveness of the use of total assets / wealth of the company to generate profits, while ROE illustrate the ability to create profits by using the entire capital own. Based on the results of these underlying differences in doing research are that separates the measuring instrument ROA and ROE in researching the company's performance of the company.

Kuncoro (2002) mentions that small businesses and home businesses in Indonesia have played an important role in absorbing labor force increase the number of business units and support household income. Baronet and St-pierre (2004), states a positive relationship, Several Researchers have looked at the relation between innovation and performance and its impact on competitive advantage (Verhees and Meulenberg, 2004) Some researchers concentrated on the relationship between innovation and performance and its impact on competitive advantage

3. Methodology

Conceptual framework: Jayapura is one of the cities in the province of Papua, which has distinctive characteristics compared to other cities in Indonesia, cultural diversity and natural resource potential to encourage all parties to visit the city. This potential needs to be introduced to a wide range of diversity of products that can be produced both goods and services which have a value of its own. To realize these expectations, it takes a creative business through populist effort as small businesses that can meet the needs of the community. This study tried to examine the effect of mutual relationship between internal factors consisting of: human resource management, production, marketing, working capital, and organizations, as well as external factors consist of government policy and a competitor to the financial performance in enhancing the competitiveness of Small and Medium Enterprises in the city of Jayapura. And Images of conceptual framework are as follows:

Figure 1: Conceptual Framework



Based on the research described in the conceptual framework, then the following will formulate hypotheses:

- Internal factors comprising for human resource management, production, marketing, working capital, and organizational influence on the financial performance of Small and Medium Enterprises in Jayapura city.

- Internal factors comprising for human resource management, production, marketing working capital, and organizational impact on the competitiveness of Small and Medium Enterprises in Jayapura city.
- External factors that consists of government policies and the effect on competitors the financial performance of small and medium-sized enterprises in Jayapura city.
- External factors that consists of government policies and the effect on competitors the competitiveness of small and medium enterprises in Jayapura city.
- Financial performance effect on the competitiveness of small and medium enterprises in city.

4. Results

Hypothesis testing

Table 1: Critical Ratio and Probability

Regression Weights			Estimate	S.E.	C.R.	P	Label
KK	<--	Organi	-0,011	0,079	-0,136	0,892	par-20
KK	<--	Pmh	-0,125	0,062	-2	0,046	par-21
KK	<--	Psg	0,14	0,092	1,514	0,130	par-22
KK	<--	Prod	0,138	0,064	2,147	0,032	par-24
KK	<--	Uang	2,336	0,246	9,492	0,000	par-25
KK	<--	Pasar	0,035	0,068	0,506	0,613	par-26
KK	<--	Msdm	0,084	0,067	1,253	0,210	par-27
Ds	<--	Pasar	0,184	0,075	2,449	0,014	par-14
Ds	<--	Prod	0,393	0,074	5,326	0,000	par-15
Ds	<--	Msdm	0,298	0,074	4,006	0,000	par-16
Ds	<--	Organi	-0,234	0,087	-2,697	0,007	par-17
Ds	<--	Pmh	-0,24	0,069	-3,468	0,001	par-18
Ds	<--	Psg	0,514	0,109	4,73	0,000	par-19
Ds	<--	Uang	0,06	0,314	0,191	0,849	par-23
Ds	<--	KP	0,244	0,069	3,509	0,000	par-28
Po	<--	Organi	1				
Rk	<--	Organi	0,833	0,077	10,755	0,000	par-1
Bo	<--	Organi	0,711	0,073	9,671	0,000	par-2
Kk	<--	Msdm	1				
Ku	<--	Msdm	0,843	0,052	16,226	0,000	par-3
Hka	<--	Msdm	0,815	0,052	15,695	0,000	par-4
Se	<--	Prod	1				
Tp	<--	Prod	0,8	0,064	12,479	0,000	par-5
Bb	<--	Prod	0,834	0,061	13,752	0,000	par-6
Pt	<--	Pasar	1				
Pl	<--	Pasar	0,971	0,059	16,499	0,000	par-7
Pr	<--	Pasar	0,933	0,055	17,033	0,000	par-8
Pp	<--	Pmh	1				
Bt	<--	Pmh	0,913	0,069	13,287	0,000	par-9
Ri	<--	Pmh	0,869	0,066	13,138	0,000	par-10
Hmp	<--	Psg	1				
Ipd	<--	Psg	1,101	0,111	9,901	0,000	par-11
Ipl	<--	Psg	1,272	0,128	9,938	0,000	par-12
Kg	<--	Ds	1				
Rg	<--	Ds	0,972	0,053	18,367	0,000	par-13

Nr	<-- Ds	0,915	0,052	17,665	0,000	par-49
----	--------	-------	-------	--------	-------	--------

Sumber: hasil hasil olahan data

Hypothesis testing is done by comparing the t (proxy critical limit ratio) with t table. Or look at a significant level. This section will test five hypotheses. The first hypothesis states that internal factors that consists of human resource management, production, marketing, working capital and organizational influence on the financial performance of Small and Medium Enterprises in the city of Jayapura result is:

Human resource management (X1.1) does not affect the performance small and medium Enterprises in Jayapura. Results of the analysis showed that t for 1,253 .To by 186 degrees of freedom and a significant level of $\alpha / 2$ or 5% / 2 or 0.025. Then t table is 1.960. Therefore t (1.253 <1.960), the hypothesis is not proven. This can be seen in the well at a rate (the probability or significance or error rate), which amounted to 0.210 (21%). Production (X1.2) effect on the financial performance of furniture and printing of small businesses in the city of Jayapura. Results of the analysis showed that t amounted to 2,147. For degrees of freedom for 186 and a significant level of $\alpha / 2$ or 5% / 2 or 0.025. Then t table is 1.960. Therefore t (2,147> 1,960), the hypothesis is accepted or proven. This can be seen in the well at a rate (the probability or significance or error rate), which amounted to 0.032 (3.2%). Marketing (X1.3) effect on the financial performance of small businesses in the city of Jayapura. Results of the analysis showed that t by 0506. For degrees of freedom for 186 and a significant level of $\alpha / 2$ or 5% / 2 or 0.025. Then t table is 1.960. Therefore t (0506 <1960) then the hypothesis is not proven. This can be seen in the well at a rate (the probability or significance or error rate), which amounted to 0613 (61.3%). Working capital (X1.4) effect on the financial performance of small businesses in the city of Jayapura. Results of the analysis showed that t by 9492. For degrees of freedom for 186 and a significant level of $\alpha / 2$ or 5% / 2 or 0.025. Then t table is 1.960. Therefore t (9492> 1960) then the hypothesis is accepted or proven. This can be seen in the well at a rate (the probability or significance or error rate) were 0.000 (0%).

Organization (x1.5) effect on the financial performance of Small and Medium Enterprises in the city of Jayapura. Results of the analysis showed that t at -0136. For degrees of freedom for 186 and a significant level of $\alpha / 2$ or 5% / 2 or 0.025. Then t table is -1960 (testing the left side of the normal curve). Therefore t (-0136> 1960) hypothesis is not proven. This can be seen in the well at a rate (the probability or significance or error rate), which amounted to 0892 (89.2%). The second hypothesis states that internal factors that consists of human resource management, production, marketing, working capital, and organizational impact on the competitiveness of Small and Medium Enterprises in the city of Jayapura result is: Human resource management (X1.1) effect on the competitiveness of Small and Medium Enterprises in the city of Jayapura. Results of the analysis showed that t by 4006. For degrees of freedom for 186 and a significant level of $\alpha / 2$ or 5% / 2 or 0.025. Then t table is 1.960. Therefore t (4006> 1960) then the hypothesis is accepted or proven. This can be seen in the well at a rate (the probability or significance or error rate) were 0.000 (0%). Production (X1.2) effect on the competitiveness of small and medium enterprises in the city of Jayapura. Results of the analysis showed that t by 5326. For degrees of freedom for 186 and a significant level of $\alpha / 2$ or 5% / 2 or 0.025. Then t table is 1.960. Therefore t (5,326> 1,960) then the hypothesis is accepted or proven. This can be seen in the well at a rate (the probability or significance or error rate) were 0.000 (0%). Marketing (X1.3) effect on the competitiveness of small and medium enterprises in Jayapura. Results of the analysis showed that t by 2449. For degrees of freedom for 186 and a significant level of $\alpha / 2$ or 5% / 2 or 0.025. Then t table is 1.960. Therefore t (2,449> 1,960) then the hypothesis is accepted or proven. It can be seen also on the rate (the probability or significance or error rate) that for 0014 (1.4%).

Working capital (X1.4) effect on the competitiveness of Small and Medium Enterprises in the city of Jayapura. Results of the analysis showed that t by 0191. For degrees of freedom for 186 and a significant level of $\alpha / 2$ or 5% / 2 or 0.025. Then t table is 1.960. Therefore t (0191 <1960) then the hypothesis is not proven. This can be seen in the well at a rate (the probability or significance or error rate), which amounted to 0849 (84.9%). Organization (x1.5) effect on the competitiveness of small and medium in the city of Jayapura. Results of the analysis showed that t at -2697. For degrees of freedom for 186 and a significant level of $\alpha / 2$ or 5% / 2 or 0.025. Then t table is -1960 (testing the left side of the normal curve). Therefore thitung (-2697 <-1960) then the hypothesis is accepted or proven. This can be seen in the well at a rate (the probability or significance or error rate), which amounted to 0.007 (0.7%). The third hypothesis states that external factors

consisting of government policy and competitors affect the financial performance of Small and Medium Enterprises in the city of Jayapura result is: Government policies affect the financial performance of small and medium in the city of Jayapura. Results of the analysis showed that t at -2000 For the degrees of freedom for 186 and a significant level of $\alpha / 2$ or $5\% / 2$ or 0.025. Then t table is -1960 (testing the left side of the normal curve). Therefore $t (-2000 < -1960)$ then the hypothesis is accepted or proven. This can be seen in the well at a rate (the probability or significance or error rate), which amounted to 0.046 (4.6%).

Competitors effect on the financial performance of furniture and printing of small businesses in the city of Jayapura. Results of the analysis showed that t amounted to 1,514. For degrees of freedom for 186 and a significant level of $\alpha / 2$ or $5\% / 2$ or 0.025. Then t table is 1.960. Therefore $t (1,514 < 1,960)$, the hypothesis is not proven. This can be seen in the well at a rate (the probability or significance or error rate), which amounted to 0.130 (13%). Fourth hypothesis states that external factors consisting of government policy and competitors affect the competitiveness of Small and Medium Enterprises in the city of Jayapura result is: Government policies affect the competitiveness of Small and Medium Enterprises in the city of Jayapura. Results of the analysis showed that t at -3468 . For degrees of freedom for 186 and a significant level of $\alpha / 2$ or $5\% / 2$ or 0.025. Then t table is -1960 (testing the left side of the normal curve). Therefore $t (-3468 < -1960)$ then the hypothesis is accepted or proven. This can be seen in the well at a rate (the probability or significance or error rate) that of 0001 (0.1%). Competitors effect on the competitiveness of Small and Medium Enterprises in the city of Jayapura. Results of the analysis showed that t amounted to 4,730. For degrees of freedom for 186 and a significant level of $\alpha / 2$ or $5\% / 2$ or 0.025. Then t table is 1.960. Therefore $t (4,730 > 1,960)$ then the hypothesis is accepted or proven. This can be seen in the well at a rate (the probability or significance or error rate) were 0.000 (0%). Fifth hypothesis states that the financial performance factors affect the competitiveness of Small and Medium Enterprises in the city of Jayapura. Results of the analysis showed that t by 3509. For degrees of freedom for 186 and a significant level of $\alpha / 2$ or $5\% / 2$ or 0.025. Then t table is 1.960. Therefore $t (3,509 > 1,960)$ then the hypothesis is accepted or proven. This can be seen in the well at a rate (the probability or significance or error rate) were 0.000 (0%).

Discussion

Effect of Internal Factors against Financial Performance

Human resource management is measured using three indicators that employee commitment is a high awareness of employees to always work properly in accordance with the job description, the feasibility of wages that the fit between the remuneration given to the work load, as well as employee relations with superiors, namely harmonious relationship between employees with superiors at work. The results showed that human resource management has no effect on the financial performance of Small and Medium Enterprises in the city of Jayapura. Many arguments can be put forward to explain this. One is that in a small business, the quality of human resources is not really a thing that affects financial performance. Typically, for workers, many of whom have long been working. So that the commitment, wage and its relationship with the boss did not significantly affect the performance of keuangan. Argument second is that the management of human resources, in the short term, it will not have an impact on financial performance. Since the development of human resources in small business is not very developed. But in the long term human resource management will have an impact on competitiveness.

Production is measured by three indicators of the economic scale is the low idle on production equipment, production technology that is the desire of owners to adopt the technology in the production process, then the availability of raw materials is the availability of raw materials to support a smooth production process. The results showed that the production of an effect on the financial performance of Small and Medium Enterprises in the city of Jayapura, the production capability has a significant influence on business performance, better use of ROA and ROE. Companies that enter more financial distress as a result of weakening economic management rather than as a result of production distress. Kemampuan of demonstrating competence in managing the company's production activities ranging from purchasing and management of raw materials and auxiliary materials, preparation and maintenance of machinery and equipment, management during the process production to products produced production capability will

directly affect financial performance. Since most small businesses based on consumer demand, the production capacity will be a direct impact on financial performance.

Marketing is measured by three indicators, namely product is compatibility between the qualities of the product provided the company with the quality that consumers expect, Place of ease in obtaining the product, and then the third indicator Price is the degree of correspondence between price and quality provided by the company's products. Based on these three indicators of the results showed that the marketing factor does not affect the financial performance of Small and Medium Enterprises in the city of Jayapura. The results showed that his path coefficient -0.166 with p -value 0.339 . Thus the hypothesis is rejected; partially marketing capabilities have a significant influence on the performance business. Berdasarkan observation of marketing capabilities and performance indicators of the business, then there are some possibilities that cause marketing capabilities partially no significant effect on business performance. First, success in marketing the results cannot be seen directly accounting profit in the same period. Promotional activity, sacrifice to ensure image and brand companies to consumers are examples of indicators relative profitability has not been able to produce directly. Second, the relative financial performance cannot measure the impact of marketing capabilities partially. ,

Working capital is measured by four indicators, namely the management of working capital is the amount of working capital divided by total assets, new investment, additional new investments on average per year, then the indicators third capital structure is debt divided by assets, and a fourth indicator composition of short-term debt is short-term debt divided by total debt. Based on the four indicators, the results showed that the working capital impact on the financial performance of small and medium enterprises in Jayapura. This result indicates that if the financial capacity of improving the business performance will also increase, and vice versa if the increasingly ineffective financial management of the business performance will decrease.

Organization is measured using three indicators that control the range of effective leadership is the ability to control their employees, then the learning organization that is the desire of organizations to always learn from failures, and the third indicator is the adoption of the company's organizational culture to the values of a quality oriented. The indicator is based on the results of the research showed that the organization has no effect on the financial performance of small and medium enterprises in the city of Jayapura. These results indicate that the range of control, organizational learning and organizational culture does not have an impact on financial performance. Small businesses basically just have a bit of control ranges for small and medium business coverage. Small and medium businesses also have an organizational culture that is not well developed so it does not impact on the financial performance directly. However affect the competitiveness of enterprises.

Affect of Internal Factors againts Competitiveness

Human resource management affect the competitiveness of small and medium enterprises in the city of Jayapura. Competitive advantage and performance can be achieved by combining the primary activities and support activities in a company (Porter, 1991: 36-37). Primary activities include the logistics of materials and finished products, pruduk processing, marketing and sales, and services. Variables supporters include infrastructure, human resources, technology, and purchasing. Factors Human resource management, in the long run, will have an impact on competitiveness through quality work. Good quality of work will have an impact on the outcome of the work or the products that will improve the competitiveness of small businesses. Barney and Wright (1997), value, rareness, limitability and organization framework to examine the role of the human resources function plays in developing a sustainable competitive advantage. (Skeletons value, infrequency, limitations and organizations can determine the role of the function of human resources in building excellence besaing continuous) .Some of the arguments supporting Politian results.

Production effect on the competitiveness of Small and Medium Enterprises in the city of Jayapura. Competence will take into account the production company to produce a wide range of products, including items that are specific and high quality, to build a reputation in the industry and lower operating costs, which are key factors for the success of the competition. So production will certainly increase the competitiveness of small businesses. Villalonga (1999), intangible (such as a particular technology, corporate culture) pay an

effective role in sustaining a competitive advantage firms. (Asset cannot be seen (technology and corporate culture) will provide an effective role in the company's competitive advantage memeprtahankan) .Argument supports the findings.

Marketing affect the competitiveness of Small and Medium Enterprises in the city Jayapura. Pengembangan new products, and continuous improvement can quickly anticipate the market demands and satisfy customers, which in turn will affect the competitiveness perusahaan. Sepertiyang we know that the factors of competitive strategy and strategy marketing, as well as elements of the marketing mix are the factors of competitive advantage. Marketing capabilities will enhance the image and product innovation in the long term will have an impact on the competitiveness of enterprises.

Working capital does not affect the competitiveness of Small and Medium Enterprises in the city of Jayapura. This could be due to the small businesses; working capital factor is not the deciding factor for competitiveness. Most small businesses have a need for funding that is not much. So that no significant impact on working capital, new investments and financial structure of small businesses. This is one argument why capital has no impact on the competitiveness of enterprises. Control over the use of credit from small businesses is very low. Often long-term loans used to finance working capital and short-term loan used to finance investments.

Organization affect the competitiveness of small and medium in the city of Jayapura. The ability of the organization, in the long run will affect competitiveness. Regular and systematic organization that will enhance the competitiveness of small businesses.

Effect External Factors Against Financial Performance

The government's policy is measured by three indicators of regulation is the number of rules in favor of SMEs, and technical assistance that is often entrepreneurs receive technical assistance from the government, the third indicator is the frequent coaching and training entrepreneurs receive coaching and training of government. Based on these three indicators of the results showed that government policies affect the financial performance of Small and Medium Enterprises in the city of Jayapura. However it has a negative coefficient. This means that the increase in the role of the government will make the company's financial performance to decrease. The high role of government will make small businesses become lulled because too hopes on the government rather than on internal capabilities. If this condition occurs, the role of government in the form of assistance will degrade performance. O'connor (2004) Business Development Program, which direct federal contracts to small businesses and operated by socially and economically disadvantage individuals. (Business development programs carried out directly by the federal government for small businesses that is not economically beneficial).

Competitors were measured by three indicators of the intensity of local competition is the high competition faced by entrepreneurs in the city of Jayapura, the second indicator is the intensity of competition domestically is high competition faced by entrepreneurs between regions in Indonesia, then the indicators third is the barrier to entry of competitors in the high barriers to entry for competitors new to the industry. Based on the three indicators are the results showed that the competitor does not affect the financial performance of small businesses in the city of Jayapura? Competitors for small businesses in the short term will not affect existing financial performance. This is due to the small business units each have a different consumer and capabilities are relatively the same so that incoming competitors will not affect financial performance.

Effect of External Factors against Competitiveness: Government policies affect the competitiveness of small businesses and percetkan furniture in the city of Jayapura. However, the coefficient is negative. This means that the government's role will increase the competitiveness of the company to decrease. The results showed that the role of governments will make small businesses become lulled because too hopes on the government rather than on internal capabilities. If this condition occurs, the role of government in the form of assistance will reduce the competitiveness. Competitors effect on the competitiveness of Small and Medium Enterprises in the city of Jayapura. In the long term, the entry of competitors will have an impact on the

competitiveness of enterprises. This is consistent with the model of Porter's competitive advantage; it states that the entry of new competitors and the low barriers to entry into the industry will have an impact on competitive advantage or competitiveness.

Effect of Financial Performance against Competitiveness: Factors financial performance is measured by four indicators, namely ROA, ROE, profit margin and current ratio while competitiveness factors ditukur with cognitive measures are competency-led individually in managing the business, then the second indicator normative that the ability of the leadership in managing the organization well, the indicators third namely regulative competitiveness is the ability of the leadership to try to determine the position as the best company in the industry level. Based on these indicators the results showed that its effect on the competitiveness of Small and Medium Enterprises in the city of Jayapura. High financial performance will improve business competitiveness. This means that businesses that have high performance will make an effort would be easier to survive and exist. He will also be able to survive and thrive while many competitors are entering. High financial performance makes the company financially sound and thus will improve the competitiveness of enterprises.

5. Conclusion

A. Internal factors of human resource management has no effect on the financial performance of furniture and printing of small businesses in the city of Jayapura. Many arguments can be put forward to explain this. One is that in a small business, the quality of human resources is not really a thing that affects financial performance. Typically, for workers, many of whom have long been working. So the commitment, wage and its relationship with the boss did not significantly affect the financial performance. However berdasar kan penilitian results indicate that human resource management affect the competitiveness of small businesses in the city of Jayapura. Management of human resources, in the long run, will have an impact on competitiveness through quality work. Good quality of work will have an impact on the outcome of the work or the products that will improve the competitiveness of Small and Medium Enterprises. Internal factors of production affect the financial performance and production factors also affect the competitiveness of Small and Medium Enterprises in the internal Jayapura. Factor city marketing based on research results indicate that marketing factors do not affect the financial performance of Small and Medium Enterprises in the city of Jayapura. Based on the observations of the marketing and indicator, then there are several possible causes partial marketing factors had no significant effect on the financial performance. First, success in marketing the results cannot be seen directly accounting profit in the same period. Promotional activity, sacrifice to ensure image and brand companies to consumers are examples of indicators relative profitability has not been able to produce directly. Second, the relative financial performance cannot measure the impact of marketing capabilities partially. And the results showed that the marketing effect on the competitiveness of Small and Medium Enterprises in the city of Jayapura. Marketing capabilities will enhance the image and product innovation in the long term will have an impact on the competitiveness of the internal perusahaan. Factor working capital based on the results of the study showed that working capital effect on the financial performance of Small and Medium Enterprises in the city of Jayapura. Although working capital effect on financial performance, but the results showed that working capital had no effect on the competitiveness of Small and Medium Enterprises in the city of Jayapura. This could be due to the small businesses; working capital factor is not the deciding factor for competitiveness.

Most small businesses have a need for funding that is not much. So that no significant impact on working capital management, new investment and financial structure of the Small and Medium Enterprises. Internal factors Based Organization research results show that the organization has no effect on the financial performance of Small and Medium Enterprises in the city of Jayapura. These results indicate that the range of control, organizational learning and organizational culture does not have an impact on financial performance. This is because the Small and Medium Enterprises are basically only has a range of control that a little bit because of the small business coverage. Small and Medium Enterprises also has an organizational culture that is not well developed so it does not impact on the financial performance directly, but affects the competitiveness perusahaan. Research result shows that the organization affect the competitiveness of Small and Medium Enterprises in the city of Jayapura. The ability of the organization, in the long run will have an

impact on competitiveness. Regular and systematic organization that will enhance the competitiveness of Small and Medium Enterprises.

B. External Factor policy is based on the results of the research show that government policies affect the financial performance of Small and Medium Enterprises in the city of Jayapura. However it has a negative coefficient. This means that the increase in the role of the government will make the company's financial performance to decrease. The high role of government will make small businesses become lulled because too hopes on the government rather than on internal capabilities. If this condition occurs, the role of government in the form of assistance will degrade performance. The results showed that government policies affect the competitiveness of Small and Medium Enterprises in the city of Jayapura. However, the coefficient is negative. This means that the government's role will increase the competitiveness of the company to decrease. The results showed that the role of governments will make small businesses become lulled because too hopes on the government rather than on internal capabilities. If this condition occurs, the role of government in the form of assistance will reduce the power of the External saying. Factor competitors based on three indicators were the results showed that the competitor does not affect the financial performance of Small and Medium Enterprises in the city of Jayapura. Competitors for small businesses in the short term will not affect existing financial performance. This is due to the small business units each have a different consumer and capabilities are relatively the same so that incoming competitors will not affect the performance of keuangan. Result shows that competitors affect the competitiveness of Small and Medium Enterprises in the city of Jayapura. In the long term, the entry of competitors will have an impact on the competitiveness of enterprises. This is consistent with the model of Porter's competitive advantage; it states that the entry of new competitors and the low barriers to entry into the industry will have an impact on competitive advantage or competitiveness.

C. Factors financial performance based on the results of the study showed that the company's effect on the competitiveness of Small and Medium Enterprises in the city of Jayapura. High financial performance will improve business competitiveness. This means that businesses that have high performance will make an effort would be easier to survive and exist. He will also be able to survive and thrive while many competitors are entering. High financial performance makes the company financially sound and thus will improve the competitiveness of enterprises.

Suggestions

A. Expected Jayapura city government is able to do with the growth of new entrepreneurs toward the target offenders who nurtured and developed, so that the growth of new entrepreneurs will be able to add to the workforce and will reduce pengangguran. Program aid in the form of training provided Jayapura city government should be planned carefully consider the needs training in the field without hunting for quantity but rather the quality of the training it sendiri. Diharapkan Jayapura city government also makes it easy for small and medium enterprises in obtaining capital structure is used so that the performance of small businesses in the city of Jayapura will be superior and able to thrive, because it has a capital structure stronger.

B. Small and Medium Businesses must constantly improve their own management capabilities, along with the growth of its business, should mature in planning Roling industry positions for the avoidance of doubt, it should be good at adapting to suit the various stages of their business growth.

C. Once proven based on the results of internal and external factors that have an influence on the financial performance of small and medium enterprises should pay more attention to these factors on the financial performance. For factors that negatively influence government policy factors in order to be studied further, thus avoiding the impact on the company.

References

- Villalonga, B. (1999). Intangible Resources and Sustainability of Competitive Advantage, Strategy and Organization Anderson Graduate School of Management University of California, Los Angeles, PP 1-39.
- Baronet, J. & St-Pierre, G. (2004). Innovation in SMEs: Who? What Kind? With What Effect? Preliminary Result of An Exploratory Study, University de Sherbrooke, Canada, 1-12

- Daulay, P., Hotmatua, L. & Lyanto, M. (2001). The ability to Compete is measured by the cost of Hotmatua, Daulay, and Mulyanto, 2001.
- Barney, J. B. & Wright, P. M. (1997). On Becoming a Strategic partner: The Role of Human Resources in Gaining Competitive Advantage, Working Paper, pp. 1-26.
- O'Connor, J. (2004). Significance of Government Procurement to Small Business, 1-32.
- Kuncoro, M. (2002b). A Quest for Industrial Districts: An Empirical Study of Manufacturing Industries in Java." Paper presented at a workshop Economic Growth and Institutional Change in Indonesia during the 19th and 20th Centuries, Amsterdam February 25 to 26.
- Kwon, S. C. & Shin, T. S. (2003). Cointegration and Causality between Macroeconomic Variables and Stock Market Return.
- Porter, M. E. (1991). America's green strategy. *Scientific American*, 264(4), 168.
- Pakpahan as in Daulay, Hotmatua and mouth lyanto (2001: 80), the ability to Compete is measured by the cost of Hotmatua, Daulay, and Mulyanto, 2001.
- Russo, K. & Fouts, P. A. (1997). A Resource-Based Perspective on Corporate Environmental Performance and Profitability. *Academy of Management Journal*, 40(3), 534-559.
- Ruru, B. (1995). SOE policy direction Facing Era of AFTA in 2003 and EPEC 2020. *Magazine of Management and Entrepreneurship*, 9, 34-35. 55
- Sasono, A. (2002). Effects of Globalization on the Economy of Indonesia (Small Business Perspective Menengah FE Airlangga University, June 10, 2002, Surabaya.
- Scarborough, N. M., Thomas, D. & Zimmerer, W. (1993). *Effective Small Business Management*. New York: Macmillan Publishing Company.
- Stifung, S. R. S. (1991). Research Training Needs for Small Industries in Bandung. Un-published Research Report. Publisher ubuntu, Bandung.
- Verhees, F. J. H. M. & Meulemberg, M. T. G. (2004). Market orientation, innovativeness, product innovation, and performance in small firm. *Small Business Management*, 42, 134-154.