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"Managing Effectively in the International Environment"

ISM Journal of International Business

The ISM Journal of International Business

In the 21st century, companies have to excel in their business practices in order to compete in global markets. Business excellence is the application of quality management strategies, techniques and tools to achieve world-class performance. The primary goal of *The ISM Journal of International Business* is to highlight those international business practices which sustain business excellence. It is a double blind, peer reviewed, refereed, multidisciplinary journal for bridging the latest advances in international business and systems research.

With the business environment becoming global, complex and rapidly changing; organizations and companies need new business models, strategies, and systems to compete effectively and efficiently in their respective field. This *Journal* provides an international forum for presenting authoritative references, academically rigorous research, and case studies. It publishes well-written and academically validated manuscripts in both theoretical development and application research.

Encouraging business excellence in an international environment, *The Journal* explores the thinking that the best performance in business can be realized by identifying suitable performance measures and metrics, systematically measuring the performance, comparing the performance with the best-in-class performing companies and then eventually determining the best practices and their effective implementation framework.

The Journal showcases outstanding practices in managing an organization and achieving results; based on a set of concepts such as results orientation, customer focus, leadership and consistency of purpose, management by processes and facts, people development and involvement, continuous learning, innovation and improvement, partnership development, and public responsibility.

Aim and Objectives: The objectives of *The ISM Journal of International Business* are to establish an effective channel of communication between policy makers, government agencies, academic and research institutions and persons concerned with the complex role of business and globalization. The international dimension is emphasized in order to overcome cultural and national barriers and to meet the needs of accelerating technological and ecological change and changes in the global economy.

It also aims to promote academic discussion and strategic thrust for practitioners on managing global competition in products and services for all sectors including agricultural, industrial, pharmaceuticals and services within the taxonomy of markets through original research that contributes ground-breaking knowledge and understanding to the field of competitive dynamics and international business studies.

Publishing high-quality conceptual and empirical papers that advance knowledge in the areas of competitiveness and robust business leadership in the international business environment; *The ISM Journal of International Business* highlights systems thinking and business modeling issues. This perspective envisages the growth conduit of business firms influenced by globalization and growing competition.

In addition, it fosters research that incorporates the concept of the inter-relationship of structures and processes in managing competition-led challenges and provides a global medium for applied research papers, case studies, short communications and reviews on contemporary business practices with reference to the competitive strategies, core competencies, tactical approaches, and behavioral dynamics of markets, decision metrics and sustainability of firms.

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Managing Effectively in the International Environment

Social Network Driven Innovation

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Abstract: This paper explains how the increasingly popular social network driven ideation works for some companies, and how this can be expanded to encompass the complete crowdsourcing innovation process (beyond simple ideation). In a contemporary context, businesses that are unable to keep up with innovations are simply overrun by those who are more efficient at this. This results in the dilemma that confronts all innovating companies in the 21st century: while innovation is critical for survival of a company, internal R&D is an inefficient approach to innovation. As a result of this dilemma, today's innovative companies generally conduct little or no basic research on their own. They mostly innovate using the research discoveries of others. Some of these companies promote ideation forums on social networks to gain 'memes' for innovative ideas. This first step in the crowdsourcing innovation process can be expanded to include all the remaining steps of the innovation process, up to marketing and selling the product or service, as these all originate from 'crowdsourcing ideation'.

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Introduction

Online social networking is a technological revolution that is changing the way companies relate to their stakeholders. In particular, this paper demonstrates how this form of social networking is changing the way open innovation is being used by companies.

This is the fourth technological revolution to strongly impact how companies do business. All these revolutions were made possible by the invention of the transistor, the basic element of modern electronics; the introduction of mainframe computing (in the 70s) led to the invention of the personal computer (in the 80s) and the internet (in the 90s), and finally to the present technological revolution of online social networking.

Online social networking (also called Web 2.0, social media, or social networking) is made possible through the creation of web-based applications, which are used to create and easily transmit content in various forms (such as words, pictures, videos, and audio). These applications are called social network services, and focus on communicating content or building online communities of people who share interests, or who are interested in exploring the interest of others.

There are many types of social networking services. *Blogs* for instance provide individuals with a way to express their voices by publishing quickly and easily under their name. *Online communities* are formed around category divisions such as classmates, colleagues, friends, or common interests, and provide ways to connect to friends and a recommendation system. Popular services (such as Facebook, MySpace, Twitter, LinkedIn, and Orkut) combine many of these features.

Innovative companies are finding ways to harness online social networks to source ideas for improving existing products or services, and to develop new ones. This paper describes how this is done and how this process can be improved to encompass the entire innovation process of companies. Prior to examining this, however, it is useful to examine the reasons that open innovation has become so important for today's companies.

Innovate or die

The continuous introduction of new or improved products, services, methods and processes keeps businesses functioning. Those who are not able to keep up are simply overrun by those that are more efficient at innovating; or put simply, companies that don't innovate die. There is no escape from Schumpeter's (1942) 'creative destruction' by which more expensive or less performing products or services are made obsolete by less expensive or more efficiently performing ones. Schumpeter (1942) has called entrepreneurs the 'agents of creative destruction' in a market economy, and suggests that they were the main reason for the success of Western capitalism over the socialist planned economies of the Communist Block (where entrepreneurship was not encouraged).

The idea that companies need to innovate to survive was reinforced by the observation that during most of the 20th century companies that invested more in research and development (R&D) were the most successful. However, by the end of the last century this began to change, and many leading companies failed to obtain the expected return in innovation from their R&D investments. Chesbrough (2006, p. XVIII) has shown this using the example of the innovation dispute between Lucent and Cisco in the telecommunication equipment market. Lucent (the giant telecommunication equipment company created in the breakup of AT&T) inherited the majority of Bell Laboratories, and based on their research and technology Lucent launched successful new products. Cisco nevertheless consistently managed to keep up with Lucent in terms of new product launches (and occasionally surpassed them), despite their inferior research capability. This was possible because Cisco scanned the world for start-up companies with new technologies to invest in or to simply partner with. Some of these were started by technical entrepreneurs who had left competitors (like Lucent, AT&T, and Nortel) to start their own businesses, and if they were successful Cisco would acquire them. With this strategy Cisco was able to compete successfully with Lucent's Bell Labs (recognized as one of the finest research organizations in the world), despite engaging in little research of their own.

Open innovation

Chesbrough (2006) has outlined a dilemma, whereby although innovation is critical for survival of a company, internal R&D is too slow to keep up with innovation in the market. In the past, R&D was a strategic asset and a barrier to entry for many industries. Only large companies could afford proper R&D and remain competitive. In contrast, today's innovative companies generally conduct little or no basic research on their own. They innovate mostly using the research discoveries of others. Hence, companies use external ideas as well as internal ideas, and internal and external paths to market innovations.

Figure 1: P&G 'Connect + Develop' web site invites external innovations from scientists and offers its own to others companies (from https://www.pgconnectdevelop.com/pg-connection-portal/ctx/noauth/PortalHome.do).

One interesting example of the use of external ideas to promote innovation is the case of Procter & Gamble (P&G), a participant in the non-high-tech consumer package goods industry. This case was cited by Chesbrough (2006, p. XXVII) to explain what he termed 'open innovation'. In 1999, P&G decided to change its approach to innovation by creating an initiative called 'connect and develop' (P&G, 2009; website shown on Figure 1). The company's rationale was very simple: although P&G has more than 8,600 scientists advancing the industrial knowledge to enable new offerings, there are 1.5 million scientists outside this company; *so why try to invent everything internally?* Conversely, P&G tried to move its own ideas further, so that the ideas that P&G generates in its labs that were not picked up by its internal businesses are available to other firms (even direct competitors) after three years.
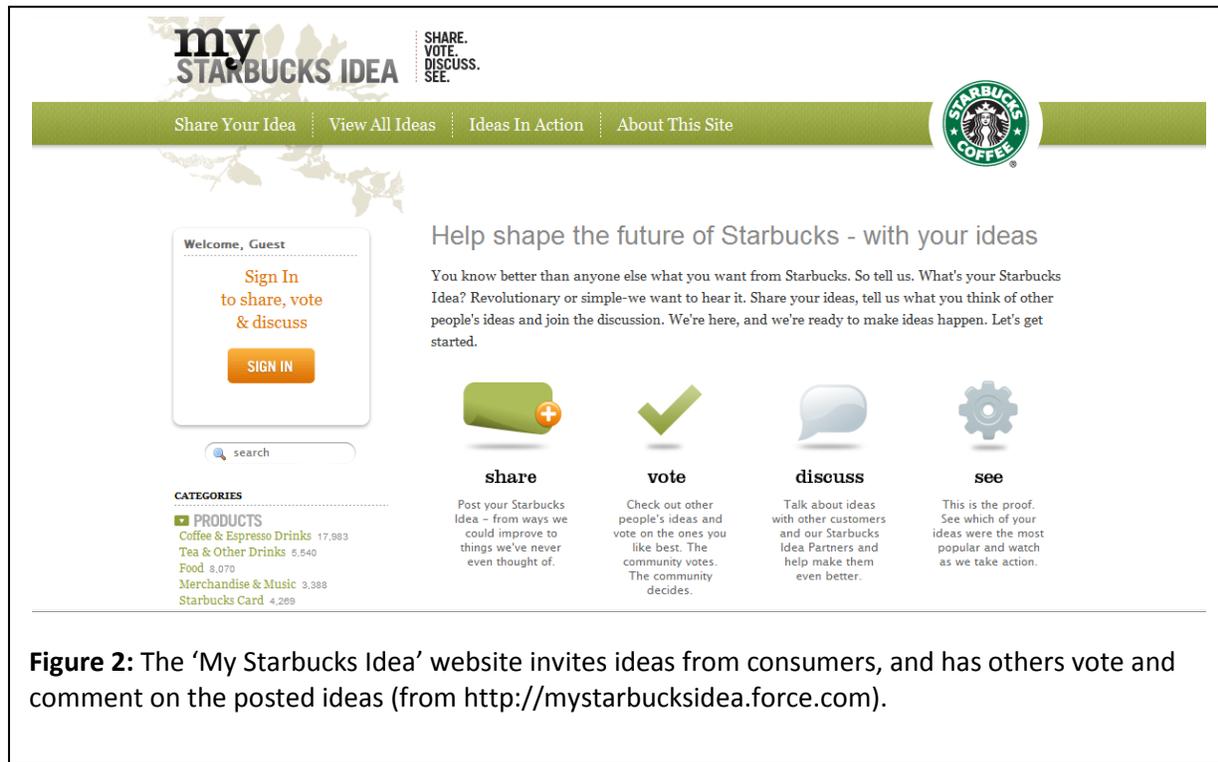
Figure 2: The 'My Starbucks Idea' website invites ideas from consumers, and has others vote and comment on the posted ideas (from http://mystarbucksidea.force.com).

Another example of innovation taken from outside an organization is the approach of Starbucks (2009), who asked for innovations from its consumers over the website 'My Starbucks Idea' (shown in Figure 2). According to Shih (2009, p. 112), the social network community managers for Starbucks do not simply ask for ideas from customers; they have structured categories to classify client ideas, and encourage others to vote and comment on these existing ideas. They also ask that consumers only to post truly unique ideas (ideas that don't already exist on the website). Both Starbucks and P&G track these networks and provide incentives to people posting on their websites, thereby creating specific virtual communities to suit their purpose.

The Dell Computer (2009) website 'Ideastorm' (Figure 3) is another example of a website where ideas from consumers are invited by category. This website also invites comments on the company's own ideas and advertising.
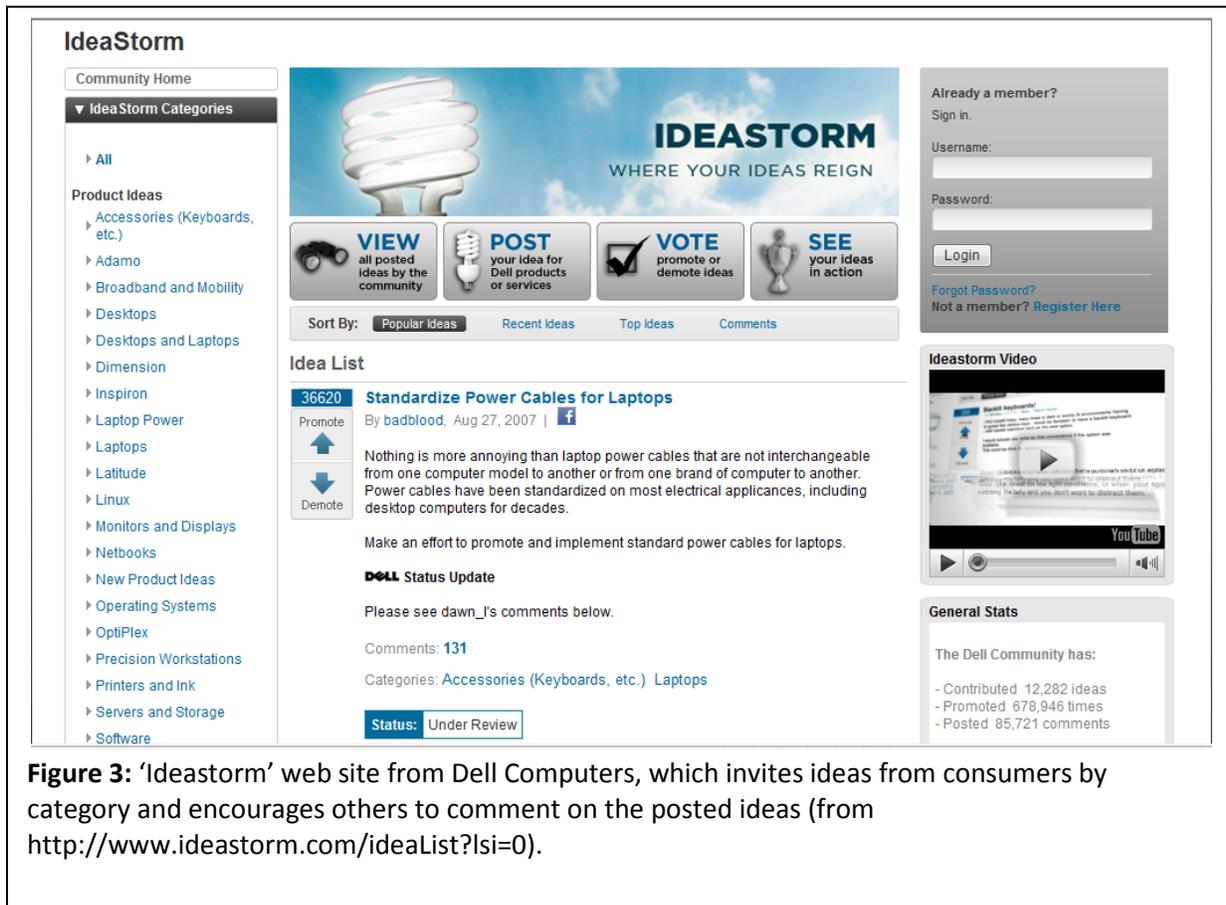
Figure 3: 'Ideastorm' web site from Dell Computers, which invites ideas from consumers by category and encourages others to comment on the posted ideas (from http://www.ideastorm.com/ideaList?lsi=0).

'Sustained' and 'disruptive' innovation

Christensen (1997, p. XVIII) has noted that most innovation fosters product or service performance, and he has given this the term 'sustained innovation'. Some sustained innovations are incremental in nature, while others can be discontinuous or radical in character. The sustained incremental innovations are the most common today, and are responsible for small incremental gains in product or service performance. The sustained radical innovations are rare, and are responsible for larger jumps in performance. What all sustained innovations have in common is that they improve the performance of established products or services along the dimensions of performance valued by their mainstream customers. Most of the innovation advances in a given industry fall into the sustained category. An important finding by Christensen (1997) has indicated that rarely have even the most radically sustained innovations precipitated the decline of leading companies.

Christensen (1997, p. XVIII) has also noted innovations that he has termed 'disruptive innovations', which have precipitated the decline of leading companies. Disruptive innovations

bring to a market a very different value proposition than previously, and many of the new products or services that emerge from disruptive innovations have poorer performance (at least in the short-term). Generally, disruptive innovations underperform established products and services in mainstream markets, but they have other features that fringe customers and new customers value. Products based on disruptive technologies are typically cheaper, simpler, smaller or more convenient to use.

Social network driven innovation process

To bring a sustainable or disruptive innovation to a market, companies generally follow eight steps (or some variation of these steps appropriate to their particular business). These steps (shown in Figure 4) are:

1. idea generation
2. idea screening
3. concept development
4. concept testing
5. business analysis
6. beta testing and market testing
7. technical implementation
8. commercialization and continuous improvements.

Every step of the innovation process is an intensely social interaction between company collaborators (technicians, marketers, salespeople, financial analysts, executives, distributers, present customers, potential customers, opinion leaders and others), and hard analytical work. Although the steps are represented as an orderly sequence with checkpoints and feedback loops, the process does not have to be so orderly. In fact, in a vast number of cases the sequence is shortened by a creative insight that jumpstarts some of these steps. Nevertheless, even with these short-cuts, the majority of companies that pursue R&D projects more or less follow this general innovation
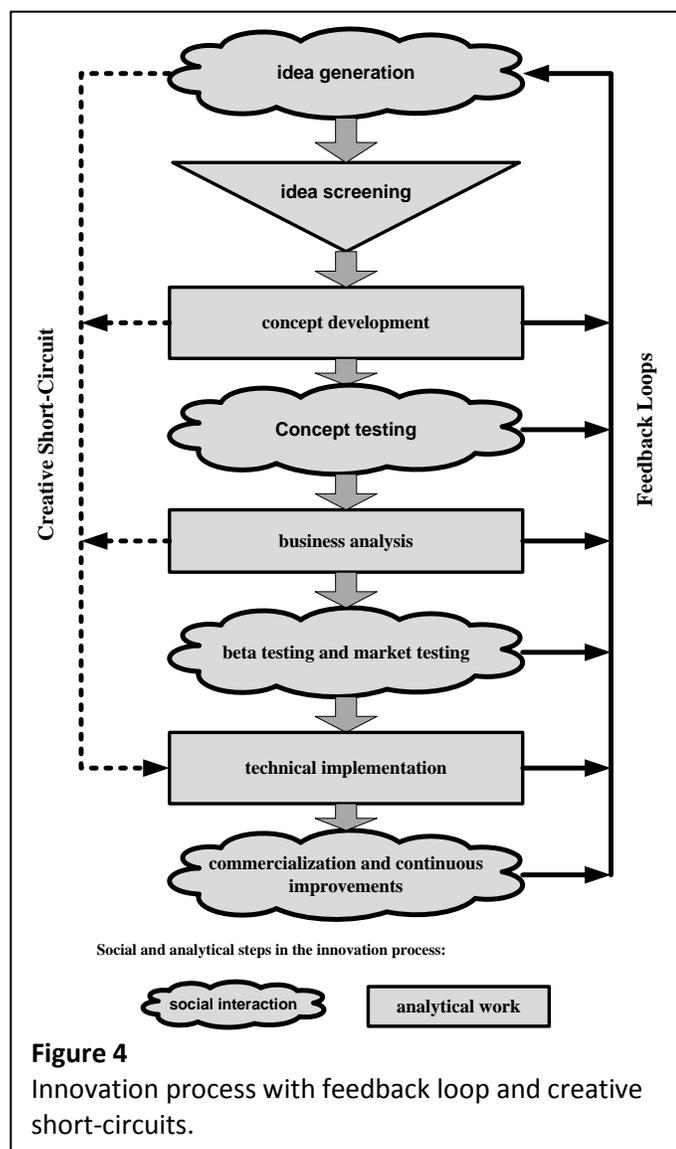
Figure 4
Innovation process with feedback loop and creative short-circuits.

process.

The clouds on Figure 4 represent open social interactions with customers, potential customers, non customers, distributers, opinion leaders and all levels of company collaborators. Social networks such as Facebook, Twitter, MySpace and others with similar characteristics are ideal for promoting this type of open social interaction. Many companies are already using these online communities for this purpose, in combination with their webpages and specific blogs.

The rectangles represent closed social interactions between the new product development team. These internal innovation development teams follow (in general) the pattern of the Skunk Works teams developed by Kelly Johnson at Lockheed Martin Corporation in 1943 (Lockheed Martin Corporation, 2009). They consist typically of a small and loosely structured group of people in the company who research and develop a project primarily for the sake of innovation. To enhance the interaction between the innovation team members, and to make them more productive when interchanging ideas on the projects that they are working on, some companies have started using internal social networks such as Yammer (Safko & Brake, 2009, p. 276). This information sharing network is similar to Twitter, and is particularly useful for businesses, as it can operate exclusively in the company's own domain.

Memes to inspire ideas

Ideation is the capacity or act of forming, developing and communicating ideas, where 'idea' is understood as a basic element of thought that can be either visual, concrete or abstract. Ideas are in turn inspired by inspirational flashes. Richard Dawkins (1976) describes these as 'memes' (the cultural equivalent of genes), a term used to explain the spread of ideas and cultural phenomena. Memes are postulated as the elementary units of cultural information, and these are transmitted from one mind to another through speech, writing, sketches, gestures, rituals, or other imitable means. The term is derived from the Greek *mimema*, meaning 'something imitated', and can be understood as a piece of thought sent from person to person. The transmitted meme can contain memes inside it, or form part of a larger meme. It can consist of a single word, or an entire speech, and can mean different things to different people. They can be meaningless to some people while igniting a revolutionary idea in others. Ideas are sparked by one meme, part of a meme, or combinations of memes.

Innovation teams use memes to develop ideas for the creation of new products and services. They search for these within direct contact with clients and non clients (distributers, experts and, opinion leaders, for example) as well as in trade shows, qualitative interviews and focus groups. However, all these traditional search methods for ideas are relatively cumbersome when compared with the potential of today's social networks. Social networks allow for sustaining rapport with clients and with all 'functional sources of innovation' (von Hippel, 1988, p. 3). Von Hippel (1988) coined the term 'functional source of innovation' to categorize companies and individuals in terms of the functional relationship through which they derive

benefit from a given product, process, or service innovation. He also noted that 'innovation is being democratized' (von Hippel, 2005, p. 1), that is, that users of products and services (both companies and individuals) are increasingly able to innovate for themselves. Again, social networks of users are the most effective and powerful way to tap this source for memes on innovation.

Crowdsourcing ideation

A recent trend that is becoming increasingly popular with the fast growth of social networks, is 'crowdsourcing ideation'. 'Crowdsourcing' is a [neologism](#) coined by Howe (2006, 2008), used to describe the process of taking tasks that were traditionally performed inside the company and outsourcing them to an undefined (generally large) group of people or community in the form of an open call for responses. In the case of ideation, the public may be invited to develop a new technology or product, carry out a design task, or refine a product or service.

The company that wishes to begin using 'crowdsourcing ideation' (such as P&G, Starbucks, or Dell Computers) must follow some key steps, as described by Shih (2009, p. 111).

- *Ideation forum*: the first step involves establishing an 'ideation forum' on a social network with adequately prepared community managers to solicit, generate, and collect memes.
- *Seeding the conversation*: for the second step, the community manager must 'seed the conversation' to generate interest. This may involve posting some initial ideas or asking open-ended questions to encourage community response. Eventually, this may involve the launching of a contest for user-generated ideas to improve the response.
- *Encouraging participants to interact*: for the third step, the community managers 'encourage participants to interact', as many of the best ideas come from the interaction between participants, and with the company's innovation team.
- *Act on the results*: for the fourth step, the community managers must 'act on the results' of good ideas, which may include asking the community to refine an interesting concept or to develop further good ideas. If the business concept is sufficiently developed, and the business analysis is positive, this idea is then taken to prototyping, beta testing, and market testing.
- *Reaching out to key contributors:* for the fifth step, the community managers must 'reach out to key contributors'. These are the people that in the social network community are the most active with their ideas and opinions. These are, in most cases, the 'mavens' (Gladwell, 2000, p. 30-88), that is, the people who are intense gatherers of information and impressions, and so are often the first to pick up on new or nascent trends. The word 'maven' comes from contemporary Hebrew (via Yiddish), and means 'one who understands, based on an accumulation of knowledge'.

Mavens, Connectors and Salesmen

Gladwell (2002, p. 30-88) has suggested that mavens may act most effectively when in collaboration with 'connectors'. He explains that 'connectors' are people that have a wide network of casual acquaintances by whom they are trusted, often a network that crosses many social boundaries and groups. They are natural networkers, who will appear to know everyone as they maintain an inordinately large number of relationships.

Gladwell has also designated a third group, 'salesmen' (or 'influencers'), that have a certain ability to win over others to their point of view. These people intensively use social networks sites such as Twitter and Facebook to propagate their opinion and so influence their audience. Thus, connectors and salesmen can easily and widely distribute the advice or insights of mavens. Hunt (2009) has explained that people who have a wide social network (such as Gladwell's 'connectors') can be described as having a large amount of social capital, as represented by their followers in this social network (whom she terms 'whuffie').This social capital can be used to promote ideas, products or a business. Hunt borrowed the general idea of 'whuffie' from a science fiction novel by Doctorow (2003), where the term represented an ephemeral reputation-based currency.

When the company's community managers skillfully manage Gladwell's connectors, mavens and salesmen, this guarantees the effectiveness of the social network forums, and of the whole social network driven innovation process. Particularly important is their ability to attract mavens to social network forums, and to promote their interaction with other mavens and other 'functional sources of innovation'.

Madness or wisdom of crowds

The idea of crowdsourcing seems to go against the conventional wisdom that large crowds of people without leadership or governance will make bad decisions. This paradigm was strongly reinforced by Charles Mackay (2003) in his epic book *extraordinary popular delusions and the madness of crowds* (originally published in 1841). Mackay presents his case using three chronicles of mass mania and collective folly: John Law's Mississippi Scheme, the South Sea Bubble, and Tulipomania.

Nevertheless, recent research conducted by James Surowieski (2005) has convincingly contradicted Mackay's paradigm. Surowieski has described numerous cases in which large groups of people collectively made wiser choices that individual experts within the groups would have made alone. One of his primary statistical examples is the popular show *who wants to be a millionaire* (2005, p. 3-4). In this show, the contestants who were unsure of the answer can call an expert over the phone or ask the audience for help. Surowieski highlights that during the life of the show the 'experts' were right almost 65 percent of the time, and the crowd visiting the TV studio picked the right answer 91 percent of the time.

On the other hand, groups of people can also make colossal mistakes, and Paul Gillin (2009, p. 16) explains that a tendency of groups is to follow others without considering alternatives. He uses the example of panicked people who run through the same door trampling each other without considering other means of escape, or a restaurant selected according to the number of patrons, assuming that they have made the best choice. He asserts that this is true for groups without rules of supervision. Certainly, although maintaining connection between two people takes little effort, as groups grow the effort to maintain any type of connection between its participants becomes unsustainable, and without a simple agreement or overarching organization, the behavior of crowds becomes unpredictable and will arguably collapse into chaos (Shirky, 2008, p. 28).

As the behavior of groups in social media (and in particular crowdsourcing) is critical if a particular outcome is desired from the group or crowd, it is essential to determine how this nextwork can be managed. Gillin (2009, p. 17) has posited this as a question:

> *Which way will the blogosphere go? Will an army of individuals follow the Surowiecki model and achieve a higher level of intelligence as a group? Or will the group inevitably become so big that it collapses into chaos, as Shirky suggested?*

Figure 5: Standards of quality and accuracy in social media (from http://www.kcnn.org/principles/)

Gillin (2009, p.17-28) has explained that efforts to avoid chaos and organize the blogosphere are proceeding in multiple directions. He has cited the example of Dan Gilmore (2006), a leading proponent of 'citizen journalism'. Gilmore is a strong advocate of standards of quality and accuracy in social media to rival those of commercial news outlets. Some of these standards can be seen on the site of the 'Knight Citizen News Network' (2009), a self-help portal that guides both ordinary citizens and traditional journalists in launching and responsibly operating community news and information sites. This portal seeks to impart an understanding of the qualities that make for responsible and credible journalism (see Figure 5).

This type of 'citizen journalism' is intensively used by CNN to complement its news coverage at a negligible cost (compared with the cost of the multitude of correspondents needed to obtain similar coverage). CNN has a blog entitled *iReport unedited unfiltered news* (CNN, 2009), where users can upload their stories and pictures (see Figure 6). CNN reporters perform an ongoing scan of the blog for news, which they then vet for posting on the CNN news site. These vetted articles are marked in the iReport blog as "On CNN". This is one of the largest and most cost

effective 'crowdsourcing' news operations, with almost 370 thousand volunteer contributors worldwide.
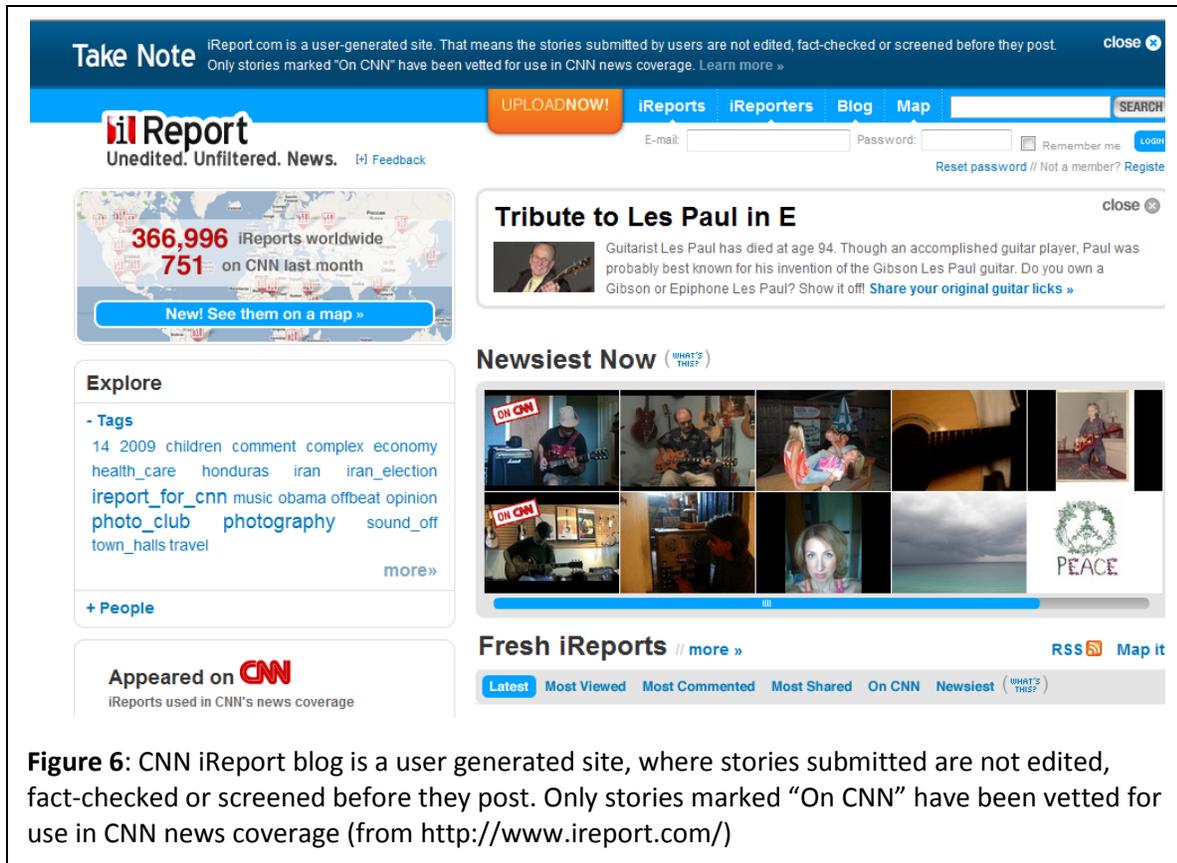
Figure 6: CNN iReport blog is a user generated site, where stories submitted are not edited, fact-checked or screened before they post. Only stories marked "On CNN" have been vetted for use in CNN news coverage (from http://www.ireport.com/)

Another example of a viable form of self-governance in social media (also cited by Gillin) is Wikipedia (2009), the online encyclopedia where entries are open to users for editing (see Figure 7). Self-governance is exercised by a loose group of several hundred unpaid contributors (called administrators) who maintain order by screening out vandalism and removing miscreants from the site (see Figure 6). Gillin (2009, p. 18) cites a 2006 study by the journal *Nature* that concluded that Wikipedia rivaled the venerable *Encyclopedia Britannica* in accuracy, while providing four times more content.

It is evident that to provide such a comprehensive encyclopedia online, financed only by voluntary contributions, is only possible if the production costs are very low. This low cost is obtained by harnessing hundreds of unpaid collaborators and administrators using a social network.

Figure 7: Wikipedia relies on editors called administrators that voluntarily edit, protect, delete, block other editors, and undo actions.

Sharing: cooperation and collective action

The almost instantaneous news coverage by CNN and the free online encyclopedia of Wikipedia are only possible because the tasks and managerial costs to get them done are very low. Clay Shirky (2008, p. 45) has noted that in the past the cost of the managerial oversight needed to coordinate the work of the large groups of volunteers would outweigh the benefit of the instantaneous new or of the free encyclopedia, and these would simply remain outside the realm of possibility. Shirky (2008, p. 45) has outlined this:

> *Our basic human desires and talents for group effort are stymied by the complexity of group actions at every turn. Coordination, organization, even communication in groups is hard and gets harder as the groups grow.*

Shirky (2009, p. 48-49) goes on to explain that the new social media tools offer new ways of organizing group efforts (such as CNN's iReport and Wikipedia's encyclopedia) without resorting to the traditional and costly methods of managing these. He points out that the new communication tools and the increasingly social patterns that make use of these tools are a better fit for the native desire and talents of people for group efforts:

You can think of group undertaking as a kind of ladder of activities, activities that are enabled or improved by social tools. The rungs on the ladder, in order of difficulty, are sharing, cooperation, and collective action.

The first 'rung', group sharing, creates the fewest demands on the participant. Currently, many sharing platforms exist, including:

- iReport (http://www.ireport.com/)
- YouTube (http://www.youtube.com)
- Flickr (http://www.flickr.com)
- Facebook (http://www.facebook.com)
- RePEc (http://ideas.repec.org/) for academic work

Knowingly sharing work with others is the simplest way to take advantage of social media.

The next rung on Shirky's ladder, group cooperation, is more difficult than simply sharing, because it involves changing behavior to synchronize with people who are changing in turn changing their behavior to remain in sync. Group cooperation (such as the contributors and administrators of Wikipedia) creates a group identity, and is a more involved form of cooperation, which Shirky calls 'collaborative production'. The key point in 'collaborative production' is that no one person can take credit for what gets created, and that at least some collective decisions have to be made.

Group collective action, the third rung, is the most difficult form of group effort. This requires that a group of people commit themselves to undertaking a particular effort together, and in a way that makes the decision of the group binding on the individual members (Shirky, 2009, p. 49-51).

Flash mobs, nanostories and viral culture

Group collective action seems to thrive on what has become known as 'flash mobs'. Bill Wasik (2009) was the provocateur behind the 'great flash mob craze' of 2003 (Arndorfer, 2009, August 5) and proved how quickly stories can flare up in the 'wired world', are fanned by the media, and then rapidly fade. He called these 'nanostories', explaining that these have an impact on culture, art, politics, and marketing:

If there has been a single most important trend in marketing during the first decade of the 21st century, it has been corporate America's slavering over viral culture, its hunger to create and own just the sort of contagious explosions that flash mobs represented.

Wasik (2009, p. 16) has described 'flash mobbing' as a frivilous summer craze that he initiated due to boredom. In relation to this phenomenon, Richard Tomkins (2005, July 26) has written in the Financial times:

> *Do you remember flash mobbing? It was a silly summer craze that broke out a couple of years ago. Crowds of strangers in their 20s and 30s were mobilized by e-mails or text messages, and would converge on a public place and engage in a seemingly spontaneous act of absurdity such as waving bananas in the air or speaking without the use of the letter "O". It would be hard to imagine anything more pointless. But perhaps that was just the point.*

> *I thought the craze had long since faded. But I have just heard about another series of flash mobbing events, this time featuring a series of free performances by rock and hip-hop music artists across the US. Details of the venues are kept secret until the last minute and are revealed only to those who register at the Flash Fusion Concerts website.*

> *In this instance, however, the flash mobbing is anything but anarchic. It turns out that the concerts are being staged by Ford Motor with Sony Pictures Digital to promote the launch of the new Ford Fusion car, which Ford wants to portray as cool.*

An example of this absurdity of the flash mob craze was the 'Worldwide Pillow Fight Day' (or 'International Pillow Fight Day') that took place on March 22, 2008 (International pillow fight day, 2008). Over 25 cities around the globe participated in the first international flash mob, which has been the world's largest flash mob to date (Fitzgerald, 2009). According to *The Wall Street Journal*, more than 5,000 participated in New York, outranking London's 2006 Silent Disco gathering as the largest recorded flash mob (Athavaley, 2008). Word was spread via social networking sites (including Facebook, MySpace, private blogs, public forums and personal websites), as well as by word of mouth, text messaging, and email (see Figure 7).

More recently, flash mobs have been motivated by politics. A protest in Moldova, during early April of 2009, was coordinated by enlisting protesters using text-messaging, Facebook and Twitter. The flash mob of more than 10,000 young Moldovans materialized to protest against Moldova's communist leadership, ransacking government buildings and clashing with the police (Barry, 2009). During June of 2009 the Iranians protesters found a new outlet in Twitter, Facebook and other social media, using these to protest, mobilize and take action in relation to the presidential election (Nasr, 2009).

Figure 8: The example of absurdity of the flash mob craze was the 'Worldwide Pillow Fight Day' (from http://www.pillowfightday.com/2008.php)

In a recent article commenting on Bill Wasik's book *And then there's this*, Simon Dumenco (2009, August 12) has written:

The flash mob is a metaphor for the pile-on media culture we now live in… you know, the idea that everybody piles on something and then everybody disperses from it, and you repeat the process, and that's the media culture that we now live in − and the internet has only tightened the cycles and made that more pronounced…

So, while on the one hand Wasik makes a compelling case for a 'perverse kind of market democracy' − the internet as one great, erratic, decentralized grass-roots phenomenon − time and again it turns out that the levers manipulating our collective mind share are controlled by a rather small circle of usual-suspect media moguls and their minions...

Wasik, in conversation: "It is really interesting that the lack of a reliable business model on the internet for creating content has basically been a problem since the dot-com boom... When the phrase the 'Attention Economy' was coined, I think people were imagining that attention would translate into money in some way. But the funny thing is that even though that hasn't really happened for almost anybody, predictably and rationally, the fact is that you still have people rushing into creating content, and then it becomes about all of the cheesy things that people say about the internet − that it is really about human connection and people finding more people that are like themselves. We are social animals, and the internet plays to that − it plays to that urge to try to get

attention and to try to make connections and to try to get on board with the interesting new thing as it's happening and to feel in that way like we are at the very heart of the culture."

Flash mobs, nanostories and today's viral culture are successfully used by marketers to promote the launching of new products or services. Well known examples include the introduction of the iPhone by Apple and the opening sales of J.K. Rowling's *Harry Potter* books; both events attracted crowds to the stores before the opening sales through the use of these techniques. Apple used nanostories from influencers on the new features of its new cell phone to create its flash mobs, and the publishers of Harry Potter's books used nanostories from influencers on the surprises in the book. Who these influencers are, and how they are able to exercise their influence over the social media, will be described in the next section.

Influencers help consumers decide

The idea of 'influencers' (or Gladwell's 'salesmen') emerged as it was realized that to communicate marketing messages to audiences in markets where buying decisions were of high-risk involved technologically complex approaches. McKenna (1985) introduced the idea that traditional forms of advertising and promotion were ineffective. As consumers were finding it difficult to understand all the issues involved in buying decisions, they tended to rely on the opinion of their 'influencers' to decide. For this reason, companies needed to identify the influencers or opinion leaders of their target consumers, and develop specific programs to influence them. Anderson (2006) has identified that the shift to small markets made possible by the internet has made it critical for marketers to identify the influencers or opinion leaders and the specific interest around which these small groups or social networks are organized. A clear understanding of these groups allows marketers to tailor their communication to the group's specific interest.

The influencers or opinion leaders described by McKenna are in essence Gladwell's salesmen, who have the ability to influence others or pass on messages on social networks. These salesmen are in turn called by Gillin (2009) the 'new influencers', in the social media. Generally these new influencers are enthusiasts about their specific interest, and this involves almost everything imaginable.

Finding enthusiasts

The site BlogPulse (Nielsen BuzzMetrics, 2009) uses keywords sourced from blogs on any desired subject. In this way, BlogPulse (Figure9) is more than just a search engine to find blogs, it acts as a buzz-tracking tool that applies machine-learning and natural-language processing techniques to discover trends in the highly dynamic world of blogs. It is also conversation tracker that follows and captures the discussion or conversations that emanate from and spread throughout individual blogs or individual blog posts.
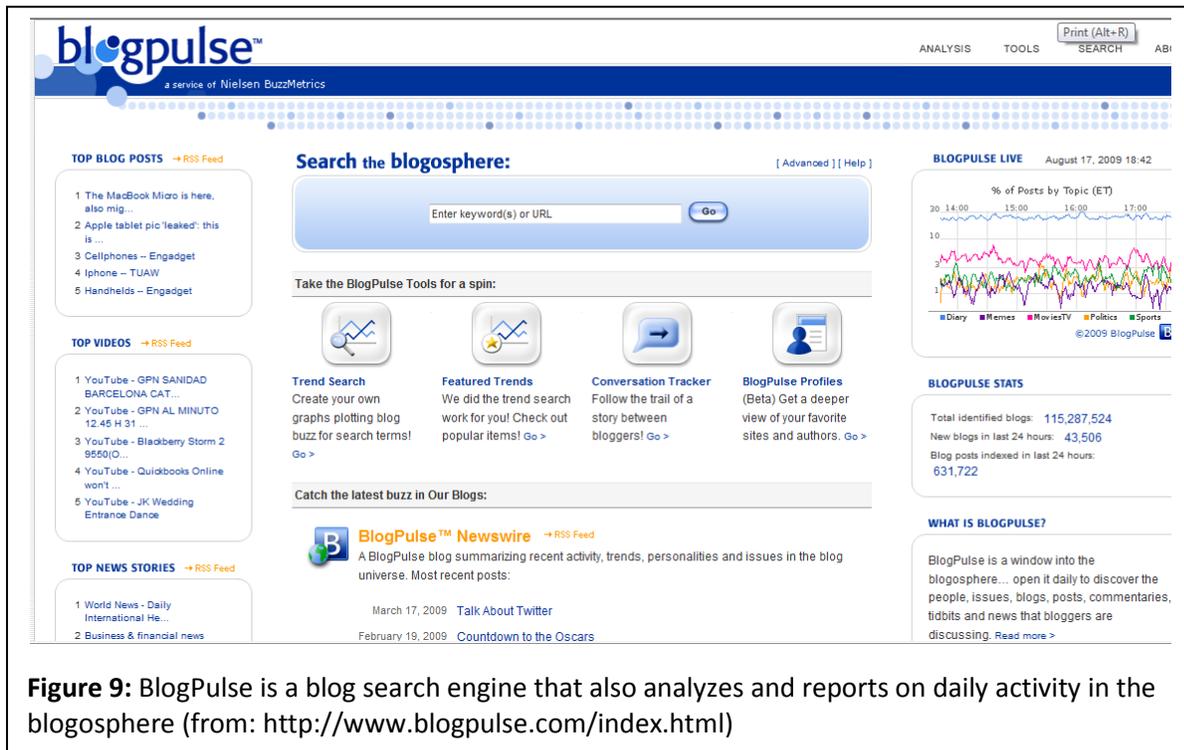
Figure 9: BlogPulse is a blog search engine that also analyzes and reports on daily activity in the blogosphere (from: http://www.blogpulse.com/index.html)

Understanding enthusiasts

Bloggers produce a stunning volume of output on a myriad of different subjects. They are passionate about their particular subjects, and their motivations are often driven more by the desire to share than to influence markets or make money. They are a rich source of information for marketers on products, services, consumer preferences, problems, and new trends. They generally represent the company's most enthusiastic customers or are advocates for the dissatisfied. However, as Gillin (2009, p. 35) emphasizes, they are also a difficult group to assess:

> *This is a group whose motivations can't be assumed. Unlike journalists, they don't write because they have to and they don't have "the man" looking over their shoulder. In my interviews, I also found surprisingly little competitive drive. In fact, enthusiasts were more likely to compliment their competitors than dismiss them. Contrast this to the intensively competitive environment in which newsrooms operate. Offering a blogger a "scoop" may have little effect.*

> *But enthusiasts share one characteristic pretty universally: they know a lot. These people who blog about a product, particularly if they do so regularly, are more likely to be knowledgeable and engaged than other customers. They are also more likely to influence other people around them, whether by word of mouth or through the medium of blogging.*

The metrics used to measure influence in social media are links. Linking to a site is a form feedback for the 'blogosphere', and is used by bloggers to show appreciation and recognition (Gillin 2009, p. 67). Gillin (2009) has identified successful bloggers as 'link freaks', and has argued that to a large extent links are treated by bloggers as a responsibility to their communities. From a marketing perspective, the more links an enthusiast has, the greater his or her ability to be an influencer or salesman.

Methods of Crowdsourcing

This analysis suggests that, ideally (given the financial ability), companies using crowdsourcing ideation would work on two fronts, using a distinctive innovation development team for each front. One team could then concentrate on 'sustained innovation' and the other on 'disruptive innovation'. The team crowdsourcing ideation for the former can identify influencers among the pool of their existing customers, competitor's customers, employees, suppliers and distributors. The team crowdsourcing ideation for the latter can search for influencers among the non-consumers. Both teams would use the concept of 'job to be done' (Christensen and Raynor, 2003; see below for a description of this term) to initiate their ideation forums on social media: the sustained innovation team with the existing lead customers and its value chain, and the disruptive innovation team with the non-consumers.

Identifying the 'jobs to be done'

The concept of 'jobs to be done' is described by Christensen and Raynor (2003, p.). This concept uses the simple presupposition that rather than buying products, customers hire them to get jobs done. Based on this, the objective is to find 'memes' to develop new ideas for the creation of new products and services by shifting focus from the solutions that customer use to the fundamental problems they want to solve.

The jobs-based view of the market does bear a strong similarity to a needs-based view (which identifies customers' fundamental needs and desires). However, the jobs-based view focuses on circumstances, whereas a needs-based view focuses on the customer as the unit of analysis. Some needs-based analyses also fail to ask the fundamental "why" question; it has been noted by Christensen & Raynor (2003, p.) that without an understanding of the root cause of a need, there is a risk of targeting the wrong problem.

This job-based view is basically the modernization of the classical concept of marketing myopia created by Theodore Levitt (2004) in 1960, to explain the failure of the railroad industry. He wrote in his historical article that the reason that railroads were in trouble in the 60s was not because the need for passenger transportation had declined, or even because cars, airplanes, and other modes of transport had filled that need; rather, the industry was failing because those behind it assumed they were in the railroad business rather than the transportation business. Christensen and Raynor (2003) have used a similar example to explain their job-based view, by describing the dispute between the corporations Coca-Cola and Pepsi. While Coca-Cola

was measuring itself against other cola drinks, Pepsi was focused on 'share of stomach'. Due to their job-based view, Pepsi moved aggressively into water and other emerging beverages and Coca-Cola had to then race to fill gaps in its product portfolio.

A two team approach would help forestall examples such as those above. In essence, this approach follows Derek Abell's (1993) concept, which clearly distinguishes between the planning of present business and planning for the future. He has argued that planning for the future requires a vision of how the firm must operate in the present, given its unique competencies and resources (these would be the basis for the 'sustained innovation' team's efforts to increase the satisfaction of existing customers). Preparing for the future, on the other hand, requires the understanding of full range of activities industry-wide and anticipating changes in technology, buyer/seller behavior, and product life cycles (thus, the 'disruptive innovation' team must search for new ideas outside the company's customer base, and so address the real the change that has a vital influence on the future of the company).

Ideation and concept testing forums

Both innovation teams would follow the social innovation process shown on Figure 4. The 'sustained innovation' begins with the creation of an ideation forum with customers, and the 'disruptive innovation' team with ideation forums for non-customers. The ideation forums for customers are group sharing initiatives like the 'Ideastorm' web site from Dell Computers (2009; shown in Figure 3), and group sharing and collaboration like 'My Starbucks Idea' web site from Starbucks (2009; shown in Figure 2.) The ideation forums for non-customers are group sharing initiatives centered on the 'job to be done' approach (such as the 'best idea for a transportation service' from city A to city B, using the example from Levitt, or 'the best drink to quench your thirst' using the example of Coca-Cola and Pepsi). An interesting example of group collective action is the Oscar (2009) project. This was initiated to develop a simple car using crowdsourcing (also called open-sourcing) as shown in Figure 10.

Memes from the ideation forums are transformed into comprehensive ideas after an internal screening by the innovation teams. In many cases, the ideas are then reposted for evaluation and voting by the participants of group collaboration ideation forums (as was the case for the 'My Starbucks idea' website in Figure 2). After passing the screening process, ideas are transformed into products or service concepts. These concepts are in turn tested on group sharing or 'cooperation concept testing forums' (as well as on social networks) to obtain the reactions and evaluations of potential customers.

Figure 10: Ideation forum for developing a simple car (from

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An Examination of the Relationship Between Fundraising Income and Media Hits at the Institute of Cancer Research, London UK

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Abstract: This paper examines the relationships between fundraising income and media hits for the Institute of Cancer Research ("The Institute" or "ICR"). The time period for the data used in this paper is May 1, 2008 through October 31, 2008. The data drawn for this paper comes directly from the Institute's database.

Biographical Notes: Seth Feldman holds a Bachelor of Arts and a Masters Degree in Political Science, as well as a JD degree and is a Ph.D. Candidate in International Business. His research focuses on the impact of public relations on various forms of fundraising throughout the non-profit field.

He is currently a Director at the Sandler Family Foundation where he runs their asthma initiative called the American Asthma Foundation (AAF). He is directly charged with managing the Foundation's $80 million research portfolio, raising $10 million annually, staffing the international Board of Directors and all legal/intellectual property and regulatory issues

Motivation for this study

As a senior fundraising manager who has recently hired several staff, I had occasion to look at our industries leading source of advertisements for candidates. Many of these ads stated that fundraising professionals should have experience in both face to face solicitations and public relations. With my two decades of fundraising experience and as the newly appointed head of the Institute of Cancer Research's, (London, UK) Department of Fundraising, Marketing and Public Relations, I began to question the role of public relations in fundraising. This questioning process led me to think about the following:

Does increasing public relations correlate to an increase in donations or is public relations a distraction to our work? Or, worse yet, is a lack of public relations used as an excuse by institutional stakeholders to not actively participate in fundraising activities?

This question is exceptionally important to me as I reconfigure the advancement activities at the Institute of Cancer Research. Many of the excuses that I have heard regarding our lack of fundraising prowess are around our perceived lack of public relations success. Prominent senior leaders, both lay and professional, have lamented in the past about the lack of media coverage and how that affects our current ability to ask donors to participate in campaigns and make donations. Faculty, staff, trustees, and other senior managers noted this lack of media coverage. Therefore the staff in that area was substantially increased from two professionals to six and one-half public relations professionals over the last 12 months. A focus of this study is the impact of increased public relations success of the past year on fundraising revenue.

By studying the effects of public relations on fundraising, management can examine issues such as how to allocate departmental time and efforts so that organizational objectives are met. If public relations do indeed increase donation revenue, then there needs to be a shift in how much time is allocated by the Institute's Board Chairman, CEO, General Secretary, Dean, Director of Science, Vice President of Advancement and other key members of staff.

This simple case study will examine any relationship or correlation between increased public relations and fundraising at the Institute of Cancer Research during the six-month period of May 1, 2008 through October 31, 2008. If there is a correlation between fundraising results and donations then staff time will be realigned to help enhance public relation efforts.

Currently, the Institute's Institutional Advancement department includes 42 positions, of which 15% or six and one-half people are dedicated solely to public relations. These professionals are evaluated by the number of news stories they get placed in the media, not on the impact these stories have on fundraising, admissions or faculty recruitment. Should there be a positive effect between fundraising and public relations then management might want to consider if the staff should be rewarded for helping to advance the organizational goals and not solely on the outputs they produce. Public relations personnel are currently told that their placements help to drive fundraising revenue, and that media placements are vital to the Institute's fundraising

success. This small study will examine if this is indeed a viable premise by which they should be conducting their roles. If there is a positive correlation, then potential further changes to job evaluations with an emphasis on adding value and impact will be considered by me and other senior leaders.

Literature Review

In searching for articles, books, or presentations examining the impact of, or correlation between, increased public relations by a non-profit and its fundraising results, I found no such articles or other resources that addressed this issue. Therefore, I contacted Professor Kathleen Kelly, a prominent author on both public relations and fundraising, for guidance. Dr. Kelly is a faculty member at The University of Florida's School of Journalism and Communication and a Fellow of the Public Relations Society of America. In an email reply she stated she knew of no such study and she would be interested in my results and methodology (Kelly, 2009). Should this study prove to be valuable, it may be used to help fill in the gap that exists in the research.

Despite having no simple study on this topic, there is a substantial body of work on the topic of fundraising's encroachment into the management of public relations, public relations as an extension of fundraising, and public relations as a separate function of a sales organization (Kelly, Fund Raising and Public Relations A Critical Analysis, 1991). In her next article, Dr. Kelly wrote extensively about the topic of fundraising encroachment into the management of public relations. She studied the trend of non-public relations professionals who were now responsible for the area; and how many mass communication programs were now teaching fundraising as part of their curriculum (Kelly, Public Relations and Fund-Raising Encroachment: Losing Control in the Non-Profit Sector, 1993).

One of the key issues on which there is no agreement by academic experts is the definition of public relations and/or fundraising and the delineation between the two. Steven Baer, a communications consultant and Fellow at the Public Relations Society of America (PRSA) writes, "fundraising should be approached as a part of the public relations function of charitable organizations; that the primary purpose of fundraising is not to raise money, but as a part of public relations-to enhance and to protect the freedom of the charitable organization to execute its missions" (Bear, 1992).

Baer is not the lone voice in his belief that fundraising is simply another form of public relations. Some of the first academic authors such as John Price Jones wrote on this topic. Jones firmly believed that fundraising and fundraising campaigns were just an ordinary extension of a good public relations campaign (Jones, 1955). He professed that, "Fundraising IS public relations…as a matter of fact, fundraising is one of the most highly developed types of public relations. It takes better public relations to get a man to give you a dollar than it does to convince him to spend a dollar." Mr. Jones theory suggests that fundraising is nothing more than a specialization of public relations that has been echoed by many other public relations

professionals. Frank Hewens complements this view in his article "Fundraising is Public Relations" with his comment that "Public Relations is the essential educational element required to help fundraisers…." (Hewens, 1966).

In contrast with the many public relations professionals, numerous fundraising practitioners do not mention public relations as an essential element for fundraising success. In Sam Clarke's book The Complete Fundraising Handbook he outlines 10 principles that are necessary for successful fundraising.   Public relations is not among the necessary elements or 'must haves' for successful fundraising.   Clarke mentions some ways to use public relations in fundraising near the end of his book. His suggestions focus primarily on the concept of stewardship, or thanking the donor(s) who participated in the campaign. Some simple suggestions that he proffers include the time-honored check presentation photograph, and having that photograph placed in the newspaper (Clarke, 1992). Clarke does not mention using public relations as a strategy to drive income, influence donors to make gifts, or as a tool to identify prospective donors for an organization.

Finally, there is a body of literature that examines the role of public relations in stewardship, or the process of thanking donors. Debra Worley and Jennifer Little's article "The Critical Role of Stewardship in Fund Raising: the Coaches vs. Cancer Campaign" discussed the role of public relations in thanking donors who participated in the American Cancer Society's Coaches vs. Cancer Campaign. Worley and Little found that in communities were fundraising organizations utilized strong public relations strategies to thank donors and keep the campaign in the communities' forefront, the stated goals of the campaign were eventually met (Little & Worley, 2002). Where there was no public relations strategy, some goals such as brand awareness, fundraising, and community participation were not met (Ibid). In the Coaches vs. Cancer Campaign public relations was used at the end of the campaign, not at the beginning for prospecting or as a primary tool for attracting donations (Ibid). Thus we do not know how public relations affected the acquisition of new donors or the success of subsequent years' campaigns, as Little and Worley did not conduct a follow up study.

Julie O'Neil's paper "The Link between Strong Public Relationships and Donor Support" measured the effects of public relations on existing donors to a large food bank in the southwestern United States. O'Neil found that there was a correlation between public relations and continued giving to the charity; but there was no relationship between public relations and size of donation. She found a link between the stewardship function of fundraising and public relations. As a result of the relationship these donors developed with the charity through the use of public relations, these donors would be more likely to recommend this charity to their friends (O'Neil, 2007). O'Neil does not mention if any new donors gave to the organization as a result of their friends' recommendations nor did she conduct a follow up study to see if these donors actually recommended the charity to their friends.

Research Questions

This study is a small first step in filling the gap that exists in research regarding the relationship between public relations and increased public relations. The general theme of this study is the examination of the correlation between donations (money) and media hits (public relations). In particular, transactional donations such as direct mail gifts, gifts given through a Web site, and unsolicited gifts were chosen as the subjects of this study because it is widely believed by fundraising practitioners that these types of gifts can be greatly influenced by media and strong public relations strategies, and not through a long-term relationship with a professional fundraiser. The null hypotheses to be tested are:

- There is no relationship between transactional-based donations and media hits.
- There is no relationship between web-based donations and press hits.
- There is no relationship between unsolicited donations and media hits.
- There is no relationship between direct mail donations and media hits.

It should be noted that the time period during which this study was conducted was one of some economic upheaval in both the US and UK; the two primary places where fundraising dollars are raised by the Institute. The economic climate may have had an impact on gifts being made to the Institute; it would thus be unfair to those in the field if this factor was not taken into account when evaluating this case study. However, it should be noted that overall, the Institute's income from face to face solicited gifts of major, planned, and foundation grants grew during that time. The reason why I am focused on web, unsolicited and direct mail gifts is that it is widely believed that these "transactional" gifts occur on the spur of the moment, and that the best way to reach these people is through marketing and public relations; this is not so with "relationship" type gifts such as planned, major and foundation gifts.

Methods

The population examined in this study is media hits for the University of London's The Institute of Cancer Research (ICR) and The ICR's transaction-based web, direct mail, in-memoriam, and unsolicited gifts.

The media hits were measured internally and validated externally. Internally, The ICR's public relations staff relies on various media monitoring reports and computerized programs to capture the data. Various computer programs scan thousands of newspapers, journals, magazines, on-line, and other sources of print media. The computer searches for the following words or combination of words: "Institute of Cancer Research," "ICR," "Everyman Cancer Campaign," "Cancer Research Institute London," "Cancer Institute London," "Cancer Research Sutton," "Cancer Institute Sutton," "ICR London," and "ICR Sutton." The computer flags these phrases and sends staff notification of these phrases; articles are also e-mailed to staff where these phrases are found.

When personnel are notified via computer that one of the strings of words has been identified, the staff examines the article to see if it is relevant to the Institute of Cancer Research.   If the media hit is about the Institute, the staff prints out the article and stores a hard copy of the article in a press book. Press books are created by month and year. The press book is audited quarterly by external auditors. This process is important as some of The ICR's grant funding is determined by the proper reporting of this data. Plus, the Institute uses this data to lobby governments in the UK, the European Union and America; medical research councils; and other bodies for funding. Proper accumulation and auditing of this information is crucial to these funding bodies; therefore the data regarding media hits must be accurate and audited.

Gifts such as web-based gifts, unsolicited gifts, direct mail gifts, and memorial gifts are tracked on a daily basis. The finance department is responsible for tracking and reporting of these gifts. Three different parties audit gift reporting six times a year. The audit committee inspects the gift reports on a quarterly basis, and an outside private auditor, hired by The Institute, scrutinizes the report and our files.   In addition, the Higher Education Funding Council of England (HEFCE) audits all gifts on a yearly basis. Any discrepancies in the raw number or gifts, amount of donation, or time of gift must be corrected internally and all of the data must match. Proper accounting of these gifts is essential as the Institute is currently involved in a matching gift scheme administered by HEFCE. The Institute is eligible to have all gifts matched by HEFCE. Proper accounting of these gifts is essential to participate in this matching gift program.

The data regarding gifts is derived directly from the Institute's database. All of the information is closely scrutinized, audited, and regulated for irregularities. The reliability of the data is high. As a public university the Institute has many watchdog groups that are charged with finding issues with the data, all public data must be verified by searching through the hard copy files that must be kept by the finance department.

The time period for the data used in this study is May 1, 2008 through October 31, 2008. This time period was chosen because it represents six months of work, and no special activity such as the rollout of a capital campaign, or the announcement of a new CEO were planned that would skew the results. The media hit data for this time period have been audited, and the donations of May, June, July and August have also been audited and approved by the Board of Trustees.

It should be noted that in July 2008, the Institute received worldwide coverage for a paper published by one of our professors. The paper highlighted the results of a ground breaking clinical trial for the drug Abitaterone, a potential new protocol for treating prostate cancer. The Institute's media coverage spiked dramatically as a result of this paper. This study will produce results that include this outlier data in addition to excluding the outlier data. Each null hypothesis will be tested twice, once with all the data and once excluding the month of July.

There are some limitations of the study that merit discussion; as such this research should be viewed only as a simple case study. In particular, further study should be conducted on what happened in July 2008. The research should be conducted on a day-by-day basis to track the Institute's web site hits and fundraising revenue. Did the increased public relations drive people to The Institute's web site?   Did these people give to The Institute? The ICR typically receives approximately 3,500 hits per day on its web site. On the day the big drug story broke, roughly 10,000 hits were received on The Institute's web site. On the day after the release of the story, the web site received roughly 7,500 hits. On the third day after the release of the story, the web site received roughly 5,000 hits.   Yet, there was no increase in donations over these four days, why? A study examining what happened during these people's visit to our website would be beneficial; it would also be interesting to see if these people started the donation process but stopped mid way through; further study in this area may thus be warranted.

An additional study examining the habits and patterns of those who visited the web site may explain why The ICR did not see an increase in donations in July.

The issues to be examined are the web site's copy to gauge the compelling nature of the text, the web site's layout to gauge if prospective donors are able to find the donation page, and the web site's functionality to gauge if prospective donors attempted to make a gift but could not because the web site did not accept their credit card. This study fails to examine these important issues. More compelling inferences may be drawn from examination in this area. The logical argument that many of The Institute's leaders make that increased public relations adds to fundraising success could actually be borne out by such a study.

This study does not examine donor motivation. A survey of donors may reveal what prompted them to give, providing better insights for the charity. A further study may show these donors were motivated to give because of the media coverage.   The Institute's public relations strategy can be designed to fuel donor acquisition as opposed to producing income.   These two strategies are quite different, and the cost effectiveness of public relations as a donor acquisition strategy might be quite useful to examine.

An additional weakness of this study is the lack of donor classification for those who contributed during the study's time period.   The literature review contains a discussion regarding how media coverage positively affects donors who already have a relationship with an organization, called the stewardship process. My study does not differentiate between new donors and existing donors. There needs to be further study to identify those donors who gave during the studies time period. For example, if public relations were successful in attracting new donors then this would be a cost effective mechanism for attracting these donors. If improved public relations motivates existing donors to give again, then this may be too expensive as a stewardship strategy. A more personal, one-to-one strategy may be better for the organization. By examining the characteristics of the donor who is affected by public

relations it might also help identify the type of 'stories' The Institute should work to place in the media.

The statistical procedure used in each of the tests is a simple regression test, or:

$$Y = mx + c$$

The output variable (or response variable) for each test is money. For each test Y is the type of gifts money (total money, web gifts, direct mail donations, and unsolicited gifts). The predictor or input variable (x) is media hits (media hits include The ICR, Institute of Cancer Research and the Everyman Cancer Campaign—a campaign of The Institute of Cancer Research).

Results

A. Descriptive Statistics

Table 1: All transactional donations versus media hits
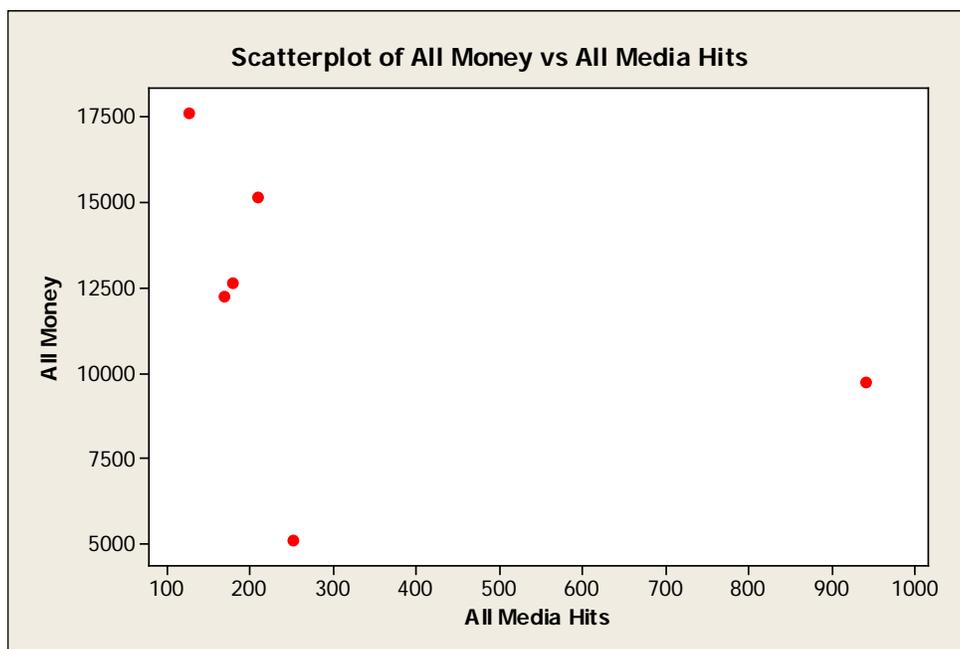
This scatter plot shows the relationship between media hits and all of the ICR's direct mail, web-based, unsolicited, and in-memoriam gifts during the time period of this study, May 1, 2008 through October 31, 2008. A quick examination of this graph shows that there doesn't seem to be a relationship between money received and all media hits. This graph includes the outlier data of July 2008 where media hits were nearly 1,000 for the month. Money for that month did not increase, nor did money for the next few months increase dramatically. It seems logical that 1,000 worldwide media hits in July, specifically where The ICR was on the front page of on-

line portals such as AOL, the Drudgereport, MSNBC, BBC, and FOX.com would have resulted in extra donations. The results do not appear to support this suggestion.

Table 2: All transactional gifts for the ICR and media hits (minus July)
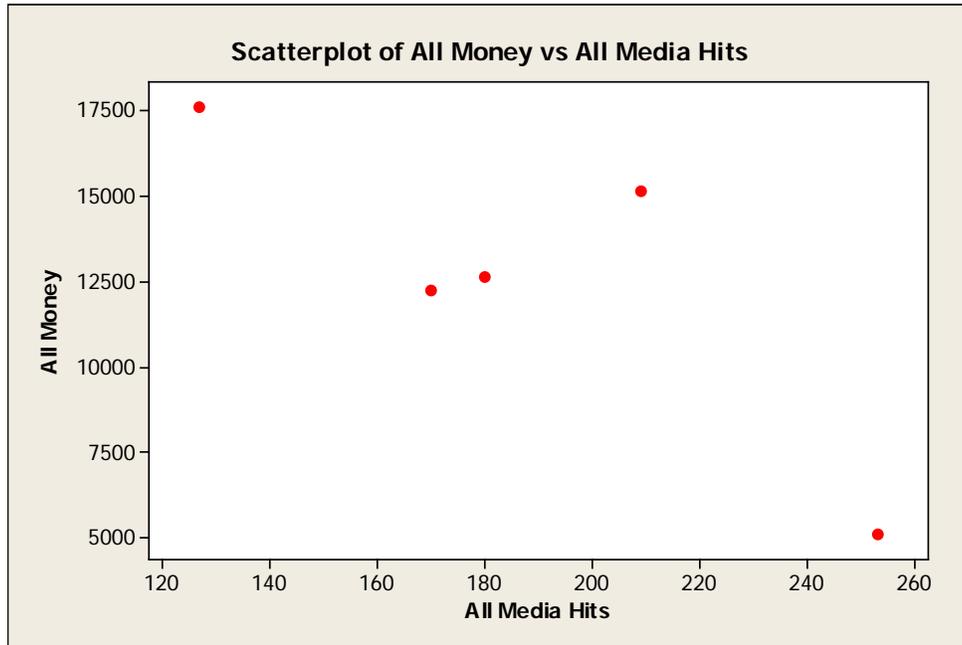
This scatter plot shows the results of media hits and all web, direct mail, unsolicited, and in-memoriam gifts during the time period of this study, May 1, 2008 through October 31, 2008. It excludes the month of July, where the Institute had an enormous amount of media coverage. There is no positive discernable pattern that can be drawn from this graph as the plots are spread across the graph. But there does appear to be an inverse relationship between media hits and money raised. For example, in May The ICR received three times the amount of money than in October, but yet in October The ICR had two times the number of media hits than it had in May.

Table 3: All web-based gifts and media for The ICR
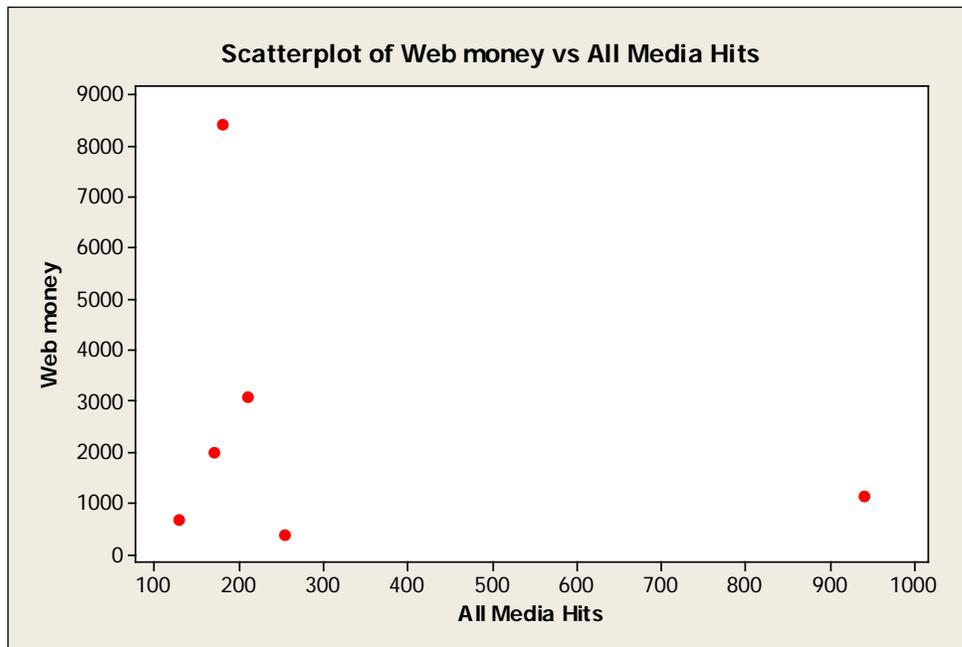
This graph examines the relationship between all media hits and all web-based donations received by The ICR during the time period of this study, May 1, 2008 through October 31, 2008. There seems to be no conclusion to be ascertained by examining this graph alone as no pattern emerges. On the face of it, there is no relationship between these two variables. In fact, two points on this graph August and September show almost the same number of media hits (about 200) but in August the ICR received only £3,000 while in September the ICR received almost £9,000 or three times what they received in August despite having the same number of media hits.

Table 4: All web-based gifts for the ICR and media hits (minus July)
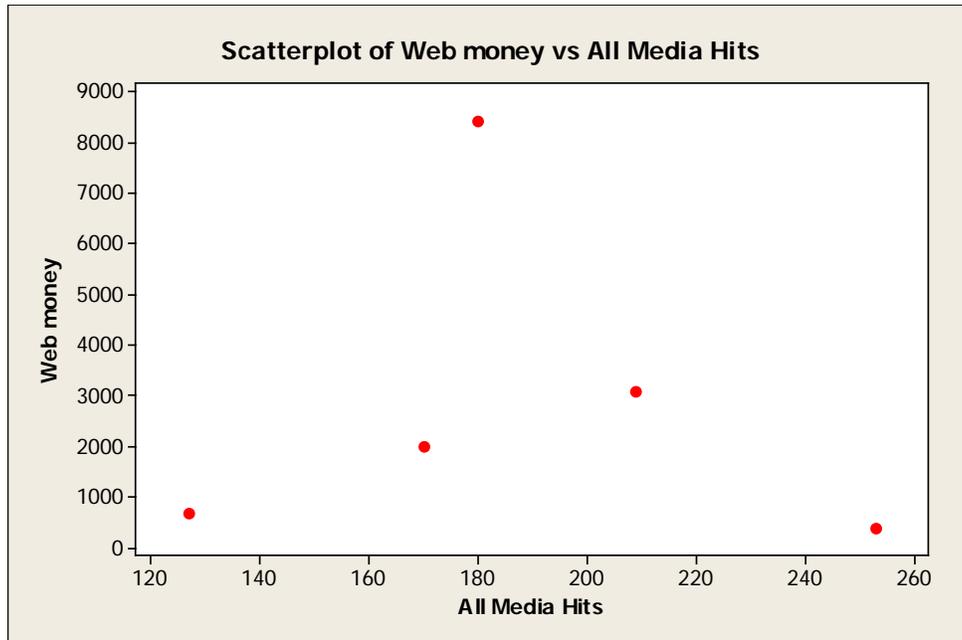
This graph examines the relationship between all media hits and all web-based donations that the ICR received during the time period of this study, May 1, 2008 through October 31, 2008 minus the month of July (unusual observation). There seems to be no positive pattern that can be ascertained by examining this graph but there does seem to be a fairly strong negative pattern between media hits and donations. In May and October, the donations received by The ICR are nearly equal (less than £1,000) but the media hits for October are two times larger than those recorded in May. On the face of it, there is no relationship between these two variables.

Table 5: All unsolicited gifts for The ICR and media hits

Scatterplot of Unsolicited Money vs All Media Hits
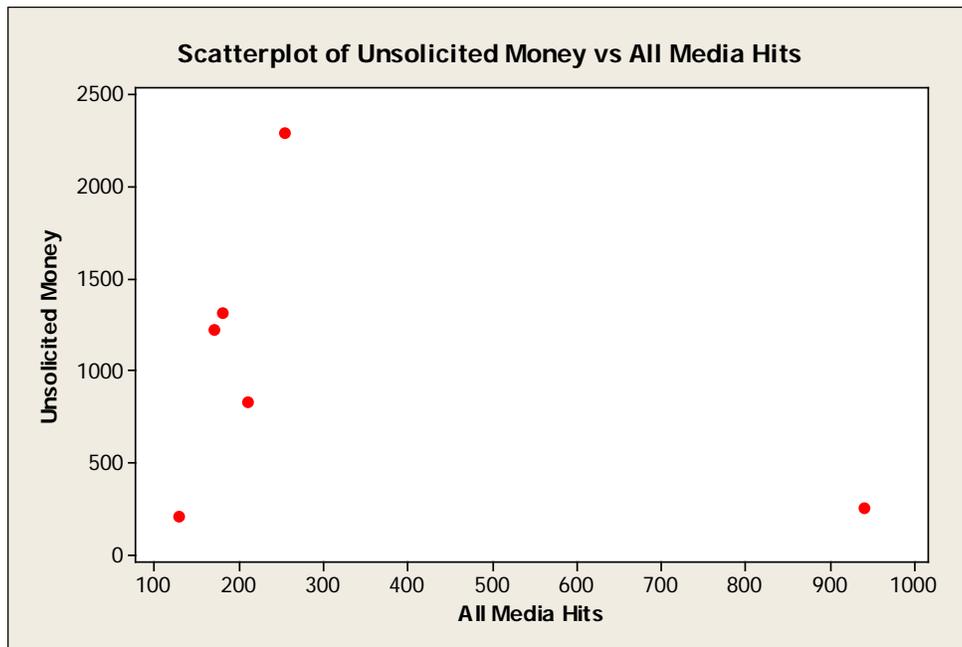
This graph examines the relationship between all unsolicited gifts to The ICR during the time period of this study, May 1, 2008 through October 31, and all media hits during that same time. This graph is meaningful in that it would seem logical for The ICR to receive more unsolicited gifts during this period as media exposure increased by 900%. In May 2008, The ICR had about 125 media hits. In July 2008 The Institute had more than 900 media hits. Yet there is no difference in unsolicited gifts received by The ICR between the two months. This chart is the most surprising because the general theory of many of The ICR's senior leadership is that The ICR needs to increase public relations to raise funds. This chart does not seem to support the senior leadership's theory regarding the relationship between increased public relations and greater fundraising success.

Table 6: All unsolicited gifts for The ICR and media hits (minus July)
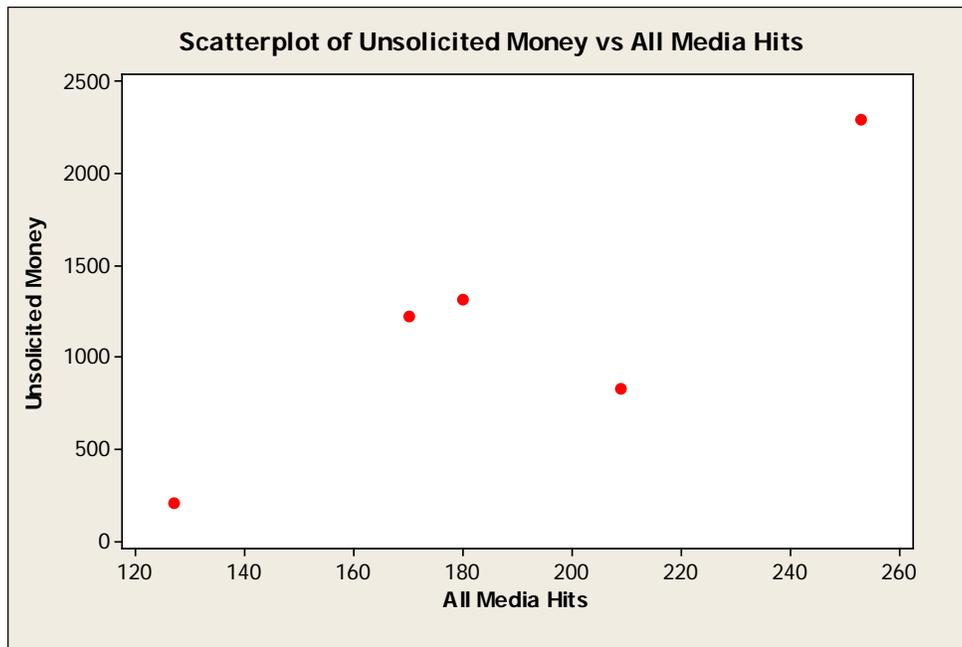
This graph examines the relationship between unsolicited donations and all media hits during the time period of this study, May 1, 2008 through October 31, 2008. The outlier data of July 2008 was excluded. This graph shows that between 170-210 media hits may have produced approximately 1,250 pounds in donations.

October shows some interesting results as unsolicited gifts rose by 1,000 pounds, to just under 2,500 pounds when compared to June and August. The ICR also had approximately 80 extra media hits in October when compared to June and August. By looking at the graph, one can see the upward mobility pattern between these two variables. This is the first graph that indicates there may be a relationship between media hits and income. The regression test for these variables will confirm if there is an actual relationship between these two variables.

Table 7: All direct mail gifts for The ICR and media hits
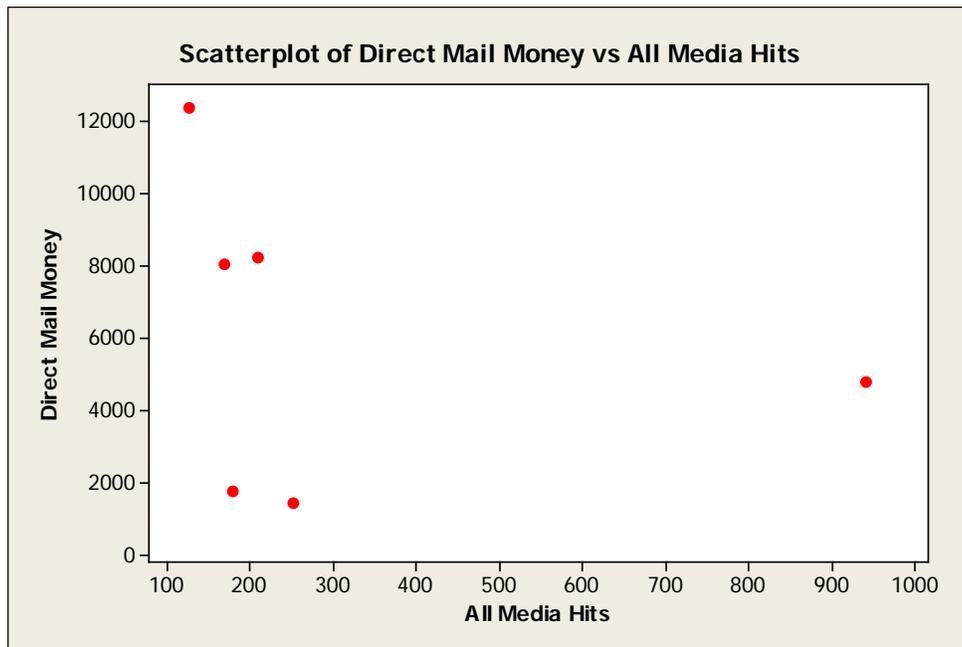
This graph describes the two variables of direct mail donations and media hits during the time period of this study, May 1, 2008 through October 31, 2008. Direct mail gifts are solicited directly by The ICR on a monthly basis from existing donors. This chart shows no relationships between the two variables. In five different months The ICR received 2,000 pounds twice, 8,000 pounds twice and 12,000 pounds once. Yet the media hits vary from about 180 hits to 220 hits, which is not a large degree of variance. For the month of July, The ICR had more than 900 media hits and received circa 5,800 pounds from direct mail donations. No significant increase in donations occurred as a result of extra media coverage. This is important in that direct mail donors are existing stakeholders in The ICR. It would seem that these donors are more willing to give when they read about the success of the organization they support. It would be plausible therefore to hypothesize that an increase in donor contributions are reflected in an increase in media hits. Yet there does not appear to be a correlation between media hits and direct mail donations.

Table 8: All direct mail gifts for The ICR and media hits (minus July)
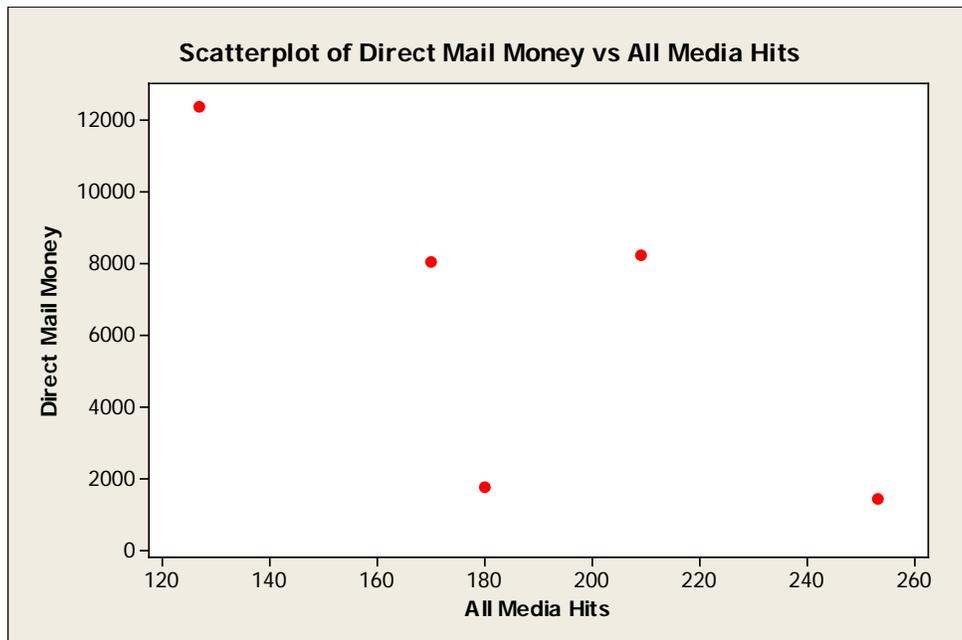
This graph examines the two variables of direct mail donations to The ICR by existing donors and media hits during the time period of this study, May 1, 2008 through October 31, 2008. The outlier data of July 2008 was excluded for this chart. As in earlier charts, there seems to be an inverse relationship between media hits and direct mail donations. In May, The ICR had the fewest media hits but received the highest number of donations among the months studied. In October the ICR received approximately 250 media hits, or more than two times more than those received in May, but raised only 2,000 pounds. The ICR had roughly the same number of media hits in June and August, numbering 180, yet the disparity in donations received in these two months is large given that 8,000 pounds were received in direct mail donations in June versus 2,000 pounds in August.

Statistical Inferences

Each of these hypotheses is tested at a 95% reliability level. Furthermore, all calebder months are included; no data was excluded.

NULL HYPOTHESIS #1: There is no relationship between all the ICR's transaction-based donations (web, mail, unsolicited, memorial and direct mail) and all media hits. The P value for this regression test is .469; thus indicating that there is no relationship between the two variables.

NULL HYPOTHESIS #2: There is no relationship between web-based donations and all media hits. The P value for this regression test is .637; thus indicating that there is no relationship between the two variables.

NULL HYPOTHESIS #3: There is no relationship between unsolicited donations and all media hits. The P value of this regression test is .460; thus indicating that there is no relationship between the two variables.

NULL HYPOTHESIS #4: There is no relationship between direct mail donations and all media hits. The P value of this regression test is .635; thus indicating that there is no relationship between the two variables.

Each of these hypotheses is tested at a 95% reliability level. These tests do NOT include the month of July 2008; that particular month is considered as an outlier due to the fact that the ICR experienced substantially more media hits (900 hits in July) in comparison to the other months.

NULL HYPOTHESIS #5: There is no relationship between web-based donations and all media hits. The P value for this regression test is .893; this indicates that there is no relationship between the two variables.

NULL HYPOTHESIS #6: There is no relationship between unsolicited donations and all media hits. The P value for this regression test is 1.0; indicating that there is no relationship between these two variables.

NULL HYPOTHESIS #7: There is no relationship between direct mail donations and media hits. The P value of this regression test is .443; thus indicating that there is no relationship between these two variables.

NULL HYPOTHESIS #8: There is no relationship between all the ICR's transaction-based donations (web, mail, unsolicited, memorial and direct mail) and all media hits. The P value for this regression test is .025; thus indicating that there is a relationship between the two variables. This is the first hypothesis that shows a positive correlation.

Conclusions

The beginning of this paper lays out several motivations for the study and presents three questions for discussion. The questions are:

1. Do increased public relations correlate to additional fundraising revenues?
2. As the senior manager responsible for both fundraising and public relations, how should I allocate more time and energy so that our department's objectives can be met?
3. How should the department's human and financial capital be allocated?

This study allowed me to examine some of these questions by questioning the relationship between public relations and fundraising. By retesting data at 90% confidence levels, there does seem to be a weak correlation between fundraising and public relations. However, this correlation is not strong enough for me to ask other leaders to spend money, time and talent to

make public relations the cornerstone strategy for fundraising at The Institute of Cancer Research; nor would I stake my career on such a weak inference!

As the manager of the public relations and fundraising teams, it is important to strike a balance between the two functions. Internal stakeholders strongly believe that there is a link between the two functions. They are enthused every time they read about The ICR in the news. But these same stakeholders are also driven by the "bottom line" or the total amount of money delivered to The Institute's mission at the end of every year. The results of this study maintain my focus on the ultimate goal of the department - raising money. Adding public relations staff in the hope of driving revenue is not a sound strategic decision, as supported by the data presented in this paper. A key outcome of this case study is that there is a need for internal stakeholders to be more informed so that they understand that additional public relations or press hits will more than likely *not* result in additional money for cancer research, and that this strategy is probably not a replacement for old-fashioned "annual-fund" or "major-gifts" teams. A new strategy for driving revenue must be identified.

Finally, this study helped me to clarify my allocation of time to public relations activities. It may well be that public relations should be left to the appropriate professionals, as this function is important to internal stakeholders. My time therefore would be better spent helping staff to understand the type of stories needed to make stakeholders feel good about their affiliation with The Institute and on direct fundraising/face to face solicitation.

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Emerging Markets: Closer look at MENA

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Abstract: The objectives of this paper are to provide a closer look at the demographic, political and economic aspects of the Middle East and North Africa (MENA) region; to explore the modernization and diversification initiatives of the economies in the region; and to compare the region to other regions in the emerging markets. This paper covers a high level overview of the main market characteristics of MENA that highlight the basic data points about the region, looks at the demographics, political, economical aspects and closes with a summary section that examines the sustainability of the boom and growth in the Middle East and the enablers for continued economic prosperity.

Biographical Notes: Bashar holds an MBA in Management from the University of Reading, an M.Sc. in Computer Engineering from the University of Surrey in the United Kingdom and a B.Sc. in Electrical Engineering from the University of Jordan, and is currently pursuing doctoral studies.

Mr. Kilani is responsible for the IBM software business in the Middle East based out of Dubai, UAE. In the year 2000, he joined the IBM Middle East operation in the software business and was involved in a number of transformation projects in the Banking, Government, Telecommunication and Manufacturing sectors in the Middle East and North Africa in addition to many growth and strategy initiatives in the software market within the region.

Introduction

The objective of this paper is to provide a closer look at demographic, political, and economic aspects of the Middle East and North Africa (MENA) region and explore the modernization and diversification initiatives of the economies on the region and compare the region to other regions in the emerging market arena. The paper begins with a high level overview of the main market characteristics of MENA that highlight the basic data points about the region.

The second section looks at the demographics of the MENA region and considers the specific challenges and opportunities that exist for investors. The third section gives an insight into the political aspects of the region, its impact on the business outlook for the Middle East and its implications for the rest of the world.

The fourth section focuses on the economic aspects of MENA and discusses the sources of wealth along with the prospects for using oil revenues to create growth opportunities. This section looks at the revenues generated from natural resources, and considers the modernisation and diversification policies of the economies of the region. Attention is also given to the role of sovereign wealth funds in the quest for global market investment opportunities as the region seeks to reduce its dependency on oil revenues and prepares for the post oil era.

The fifth section looks at the emerging markets in general, compares the MENA region to the rest of the emerging markets and assesses the potential role that MENA can play in this arena. It also considers the MENA region's ability to attract investments and drive growth in comparison to other emerging markets.

Finally, we close with a summary section that examines the sustainability of the boom and growth in the Middle East and the triggers for continued economic prosperity.

Market Characteristics and key Data Points

The Middle East & North Africa today is a diverse and fast paced region, building foundations for sustainable prosperity that will reach beyond the energy markets. Nowhere in the world has so much change taken place in such a short period of time. Almost in every country in the region fertility rates are in decline, more people (especially women) are becoming educated, life expectancy has increased by more than 20 years and economies are experiencing unprecedented growth.

Leading consulting firms are currently promoting the changes in the Gulf region and predicting a bright future: *"We believe that the region deserves a fresh look. A new generation of government and business leaders is taking the petrodollars flooding into the gulf and building modern economies that could quickly become globally relevant well beyond energy markets".* (The coming Oil Windfall in the Gulf. (2008). *McKinsey Global Institute)*.

The frame below presents a "fresh" look into the Middle East of today and highlights the most important economic and demographic indicators. The region is very diverse in every aspect; for example Qatar has the highest GDP per capita of 81,900US$ (possibly the highest in the world) as opposed to Yemen which has a GDP per capita of 1,200 US$.
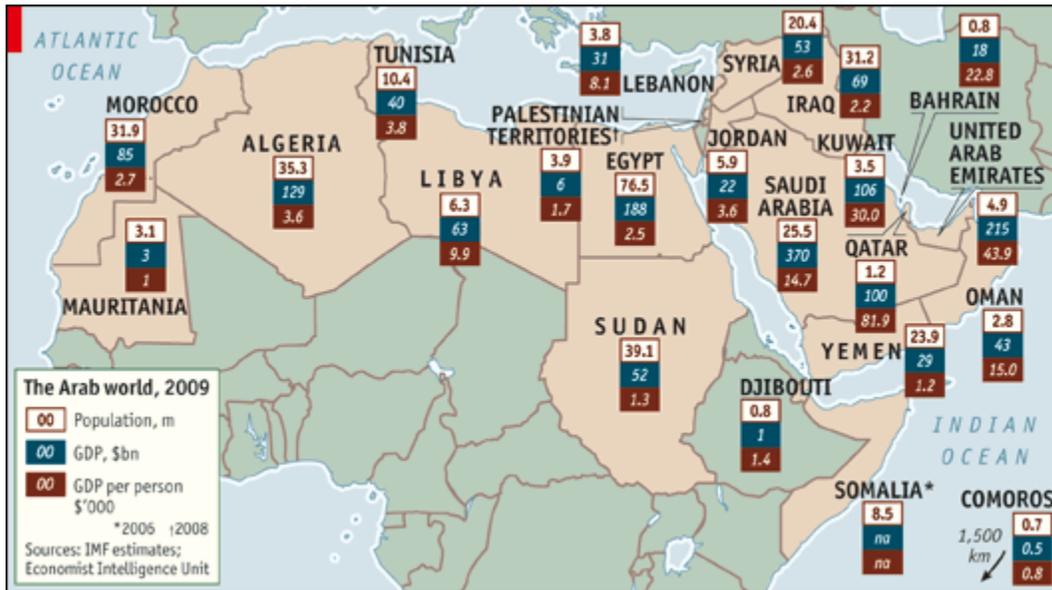
Exhibit 1. The Arab World, *(The World of the Arabs.* **July 23rd, 2009. The Economist***)*

The demographics are also very interesting. Countries such as Egypt have a population of more than 76 million next to countries like Bahrain with just under 1 million. These are all factors that affect and shape development in the Middle East & North Africa. We will take a closer look at the Political, Economical, Sociological macro economical factors that have shaped the recent changes in the Middle East and North Africa.

Demographic Aspects

The Middle East and North African region mainly includes the countries that make up the 22 states of the Arab league, also known as the Arab world, and has a population of more than 350 million. This population is made up of a mixture of ethnic groups such as Arabs, Kurds, Berbers and Africans. The religion is predominantly Islam, but many Arabs are Christians; Greek Orthodox, Roman Orthodox and Catholics (Maronites) in the Levant countries (Jordan, Lebanon, Syria and Palestinian territories), and Coptic Orthodox in Egypt and Sudan.

Although Islam is the dominant religion and provides Arabs with a strong sense of fellowship, it can also be a dividing force. Sunnis and Shias have fought against each others for centuries in religious wars similar to the religious wars that divided Europe in the middle ages. The fighting between Sunnis and Shias continues in Iraq to this day.

The Middle East has a very young population. The average age in many countries is around 20 years. This means that half of the population is under 20 years of age while the other half is over 20 years of age.
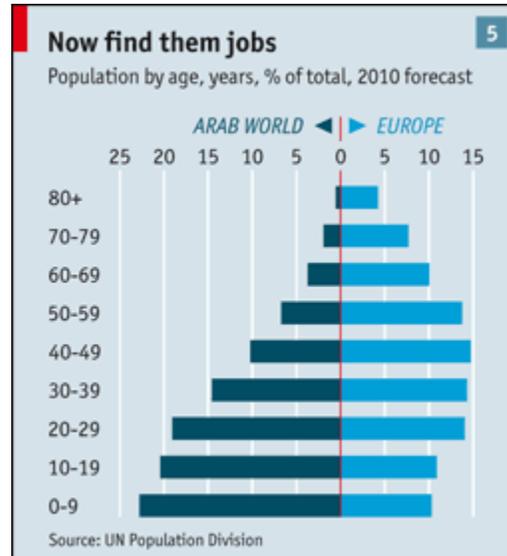
Exhibit 2. Population by age of Arab World compared to Europe. *(*Waking from its sleep – Special report on the Arab World. July 23rd, 2009. *The Economist.)*

The diagram above shows a comparison between the Arab World and Europe and highlights the growth in population among the youth as opposed to the decline in the number of young people in Europe. For many Arabs, living conditions have improved over recent decades with fundamental social indicators such as literacy, poverty and education demonstrating that the Arab countries fare just as well if not better than most other countries with similar income levels. (Marcus Noland and Howard Pack, 2007, Institute for International Economics).

In 2002, *The Economist* noted in a special report on the Gulf States (Saudi Arabia, Kuwait, Qatar, Bahrain, Oman and United Arab Emirates) that literacy levels since 1970 had trebled to 75%, and that there had been an added 20 years to the average life expectancy. They also reported that the region had created a world-class infrastructure by spending a total of $ s trillion. (Special Report on Gulf States, July 2002. *The Economist)*

Most of the migrant workers in the oil rich Gulf states come from Asia, but some also come from the poorer Arab countries such as Egypt, Jordan, Lebanon, Syria and Yemen. These skilled workers send remittances back to their homelands estimated at more than one fifth of the GDP of these countries: all countries in the region thus benefit directly or indirectly from the oil boom and the improving standard of living.

The youth of the Arab population could be a driver for change, growth and prosperity in the region. The level of education of today's youth is much higher than that of previous generations; they also have access to the internet and modern communication technology which allows them to become strong players in a somewhat flat world.

In many instances however, the young population actually pose a serious risk to the stability of many Middle Eastern countries in that governments in the region often struggle to provide jobs and work opportunities for the younger generations. Governments are therefore investing in education and infrastructure in an attempt to create a strong economy that would generate enough jobs to absorb the new graduates which increase in numbers every year. In Saudi Arabia, for example, the government is investing in new economic cities and state of the art technology while in other countries there is a focus on reforming and enhancing the higher education system.

Political Aspects

The Middle East & North Africa has always been a region of great risk, and also, considerable opportunity. The oil boom of the 1970s ended badly for business and the economy. As the oil prices went down, debt and unemployment grew, infrastructure crumbled and tension increased. In Saudi Arabia the GDP per capita in 1981 had reached US levels and yet shrunk to less than 25% of the US levels by 2001. (Pack N, Thorniley, D. 2008). The difficult political environment in the region since the start of the Arab-Israeli conflict in 1948, which caused six major wars in the region and followed in the 1970s by the Lebanese civil war, the Islamic revolution in Iran, the Iran-Iraq war, the Iraqi invasion of Kuwait and then the first Gulf war, affected the overall economic and geopolitical situation in the region and prevented the governments from introducing serious reforms.

Oil Prices (1970 – 2006)
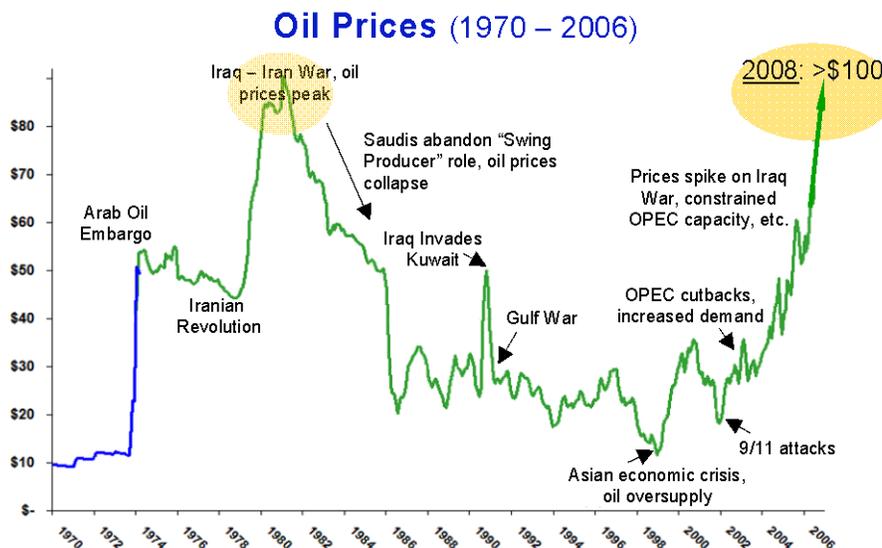
**Exhibit 3. Oil Prices and major political events in the Middle East (The coming
Oil Windfall in the Gulf. (Jan 2008). *McKinsey Global Institute).***

The Middle East today still suffers from continued significant deficiencies in political and economical freedom as well as legal & regulatory risks. The Arab-Israeli conflict is still awaiting a just settlement (wars on Gaza 2009 and in Lebanon 2006), the situation in Iraq is still unstable, the ongoing wars against the Taliban in Afghanistan, and the stand-off with Iran in addition to the conflict in southern Sudan are all alarming situations that could develop into a crisis at any time. As long as the dominate forces in the region have access to the crucial oil supplies of the world, the interests of energy hungry powers will continue to grind against each other in the Middle East.

The disturbing point for the future is that none of the underlying causes of the conflicts mentioned above have disappeared. On the contrary they appear to be developing the characteristic of a chronic condition. Despite the crackdown on Al Qaeda cells, security remains a concern.

On a more positive note, however bloody the wars in the region have been, they have not disrupted ordinary life in the Arab world as thankfully most people have only been touched by violence through their television screens. Many Arab countries can look back over the past two decades and point out progress in rising levels of prosperity and steady expansion of personal freedom. Most Arab countries have parliaments and hold formal elections: in recent years some national constitutions have even been revised. The parliaments however have few powers and elections are often rigged to ensure that the ruler and his party remain in charge. There are, however, some shining points. In May 2009, Kuwait made headlines when for the first time four women were elected to the parliament. In Lebanon, the elections of June 2009, were unrigged, hard-fought and fair.

The main opposition parties in most Arab countries are the Islamic movements which have been allowed to contest, but never to win an election; people have thus started to lose faith in the ability of the system to deliver reforms and a more accountable government. In Egypt and Jordan the Islamic opposition had to go through unpredictable cycles of repression and inclusion as the fears and whims of the regimes changed.

The Arab world is divided into a number of political and economic blocks. The most efficient and well known is the Gulf Cooperation Council (GCC) made up of Saudi Arabia, Kuwait, Bahrain, Qatar, Oman and the United Arab Emirates. This group includes the rich oil-producing countries and is ruled by monarchies. They have fared better in economic development and in the building of infrastructure compared to the rest of the MENA countries. Much of the excess oil wealth however has been invested in the remainder of the Arab world thus helping to boost non-oil exporters also.

Exhibit 4. Gulf Cooperation Council countries, Saudi Arabia, Kuwait, Bahrain, Qatar, Oman and United Arab Emirates.

Egypt being the country with the largest population and strongest influence in the area remains a key player in the regional political scene. After a decade of poor performance, a shift in policy direction and the implementation of political reforms saw things begin to pick up for Egypt in 2004. A number of critical and long standing business problems have been resolved including the issue of foreign exchange shortages, as a result many firms are now reporting healthy growth. The quality of the workforce is high and it is likely that Egypt may follow the booming gulf countries in building up an industrial base. Under President Mubarak's leadership over the last 26 years, Egypt has enjoyed stability; the management of his succession therefore will be an important and crucial factor.

The countries of North Africa; Tunis, Libya, Algeria, Morocco and Mauritania have made less progress in the last decades. Some development has been noted for Morocco and Tunis, however Algeria has struggled with civil unrest and the fight for power, while Libya under Colonel Ghaddafi's rule has only recently returned as a player on the international arena.

The recent oil boom of 2005 is different to that of the 1970s in that it is driven by serious demand for energy from emerging markets like China and India and is likely to be sustainable for the foreseeable future. Oil revenues are being invested at home as investors see more risk in US market and greater opportunity in the domestic markets. Government are thus pushing through economic and structural reforms in order to build a job creating private sector that can cope with the growing population.

The Economics of the Region

Since the days of ancient civilizations in Egypt and Mesopotamia, and the birth of the three monotheistic religions in the holy land, the Middle East has played an important role in world economics through trade and commerce. The main trade routes between Europe and the East went through the Middle East.

Wealth from Natural Resources

Today the main source of wealth in the Middle East comes from oil exports. The total manufacturing exports of the Arab world are recorded as being below those of the Philippines which has a population of less than one third of that of the Arab world. This emphasises the need for diversification by the economies of the region beyond oil & gas in order to prepare for a future without oil.
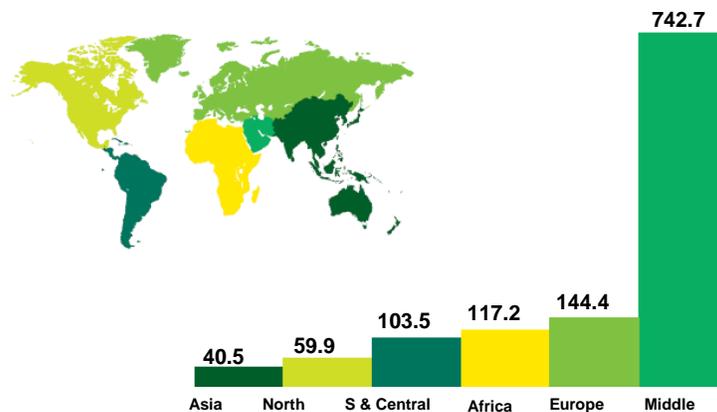
Exhibit 5. Proven 61% of global oil reserves (generating $1.6B / day @ $70 b/day) *.BP statistical Review of World Energy, June 2007*

At the current prices of around 70 US$ per barrel, the Middle East (including Iran) are currently generating 1.6 B$ per day. The region (including Iran) sits on 61% of the world's existing oil reserves.
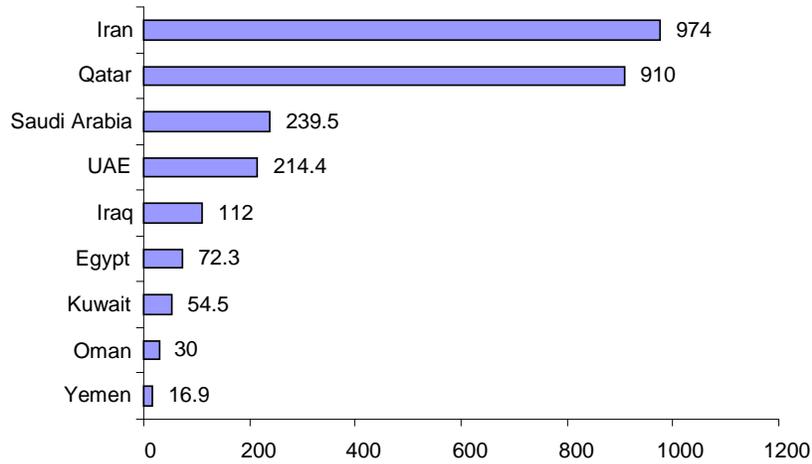
Exhibit 6. Natural Gas Reserves (Trillion Cubic Feet, Jan 07)

The region also controls 41% of the existing reserves of natural gas.

The cost of oil and gas production in the region is significantly less than the cost of oil production in other parts of the world. Furthermore, the quality is one of the best in the world which means that profitability n terms of oil export revenue is high.
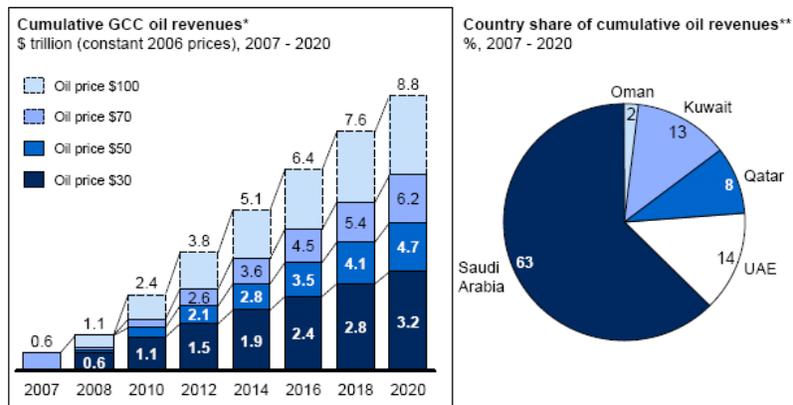
Exhibit 7. Cumulative GCC oil revenues at variable oil scenarios.
(Oil & Gas Journal 2007)

Most GCC governments budget to sell oil on the market at 30-40 US$ per barrel; they therefore generate large surpluses and benefits from prices that are higher than the budgeted prices. Oil

& gas reserves are transforming the GCC countries into major global players, allowing them to have an impact on the world's economy over the coming decades.

Growth is driven in much of the region by public spending on transport and infrastructure and the opening up of power, water, telecommunications and transport sectors to foreign investors. Dubai's emergence as a regional commercial hub for international business is increasing competition and bringing businesses and decision makers closer to the region. Ease of expatriate living, security, and the relative ease of doing business makes Dubai an obvious location for a regional headquarter base. Qatar and Bahrain are cheaper options, but do not possess the critical mass.

Retail trade structures have been modernised and industrial trade has become more co-ordinated in the area. Local companies are moving beyond trade in manufacturing and services and are expanding regionally. The opening of the Middle East markets has been cemented by World Trade Organization (WTO) regulations, which most GCC countries have pledged to join, and the negotiation of US free trade deals with countries such as Jordan.

Economic Diversification and Modernisation

The governments of the GCC countries have launched major initiatives to modernise their economies and reduce their dependency on oil revenue.

Unlike the 1970s, the huge wealth from oil revenues is being leveraged to restructure the economies to rapidly pay down debt, attract FDI & create a strong economic base.
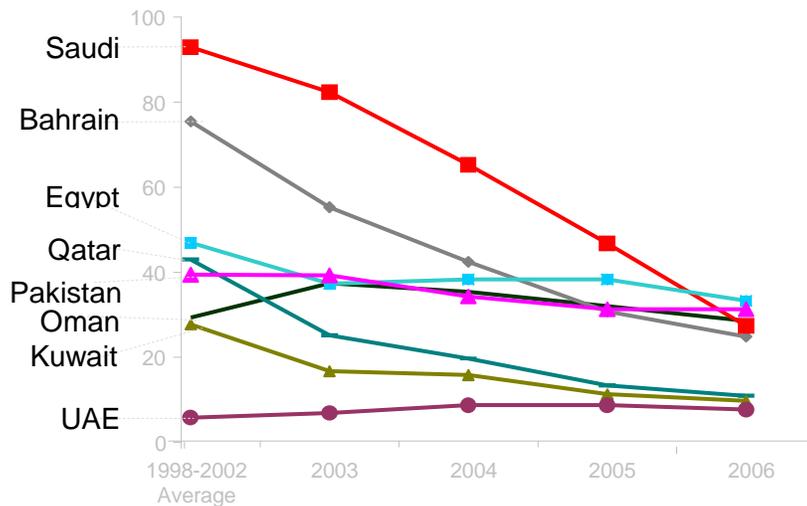
Exhibit 8. Government Debt as a % of GDP (Gulf Business 2006)

During the decade of the 1990s, oil prices were relatively low; this problem was compounded by the cost of the Gulf war which led the governments into huge debt. Paying off that debt has been one of the priorities in recent years as surpluses in government budgets became available.

To modernize & diversify the domestic economies, there is now more than $1trillion of committed infrastructure spending over the next 5 years in the following main sectors.

- **Education Sector**: This is one of the most important investments for governments in the region, driven by the need to educate the large young population and create new job opportunities. The main projects announced are:-

  o Dubai Academic City, ($3.2 bn) with more than 20 universities and colleges in one area.

  o Qatar Education City, Academic campus hosting satellite campuses from leading Universities around the world like Texas M&N, and Carnegie Mellon University in Qatar.

  o Saudi Arabia announced a training and education budget of $28 bn in 2008.

- **Healthcare Sector:** Healthcare is another strategic sector that is key to the development of infrastructure in the Middle East with the following main projects having been announced:-

  o Dubai Healthcare City ($1.8 bn), with partnerships with famous brands such as John Hopkins, Cleveland Clinic in the US, Eppindorf Clinic from Hamburg and many famous medical institutions around the world.

  o King Fahad Medical City.

- **Tourism Sector:** Tourism has become an important diversification strategy for some countries, especially the UAE.

- **Telecommunication Sector:** This is a very active and vibrant sector in the Middle East. The region has been one of the early adopters of mobile GSM technology; as a result the telecom sector has been a major component of the local and regional economies. It is also a good example of diversification in that local telecommunication companies have invested in the regional markets but also invested in markets outside the region. Telecommunications is one of the more mature industries in the region:

- o Every country has two or three service providers and mobile phone penetration is high.

- o Etisalat (the UAE Telco provider) has invested in Saudi Arabia, Egypt, North Africa and Pakistan.

- o MTN from Kuwait has expanded to Lebanon, Jordan and many countries in Africa.

- o Orascom (Egypt) has made investments in Pakistan, Algeria and Italy (wind).

- **Aviation and Airports:** The central location of the Middle East between the continents of Africa, Europe and Asia makes it possible to reach 4 billion people within a radius of 8 hours flight time. The region has made significant investment in aviation and airports. Here are the main initiatives:

  - o Emirates Airlines is today one of the fastest growing airlines in the world with more than 150 destinations in all continents. Qatar Airways and Etihad Airways of Abu Dhabi are also becoming world class airlines.

  - o Dubai Airport handled more than 40 million passengers in 2008, which makes it one of the largest airports in the world. New airports have been announced in Qatar, Jeddah, Dubai and Abu Dhabi.

  - o The region today has more than 14 airlines, with three of them amongst the fastest growing in the world, Emirates, Etihad and Qatar Airways. Budget airlines that cover regional and local markets such as Al Jazeera, FlyDubai, Jazeera, Nas and Al Khayyalah are becoming a profitable business sector.

- **Real Estate:** Another vibrant sector in the region is focused on the building and enhancement of infrastructure. The main projects announced are:

  - o Palm Island in Dubai ($ 9.9 bn)

  - o Burj Dubai now Burj `Khalifa, the tallest building in the world. (1 bn).

  - o King Abdullah Economic City in Saudi Arabia, which is 3 times the size of Manhattan. ($ 26.6 bn)

  - o Kuwait City of Silk.

- **Finance Sector:** Governments have also been focused on investment in the financial sector:

  o Dubai International Financial City, which aims to compete with Hong Kong and Singapore in the next 5 years.

  o Bahrain Financial Harbour ($ 1.3 bn), which brings together all the country's banking and financial sectors in an effort to confirm Bahrain as a regional centre for financial services.

  o Qatar Financial Center.

- **IT Sector.** This sector keeps the focus on reform, diversification and employment. Most governments have created special ministries and initiatives in order to harness the move toward IT.

  o Saudi Arabia has announced an $ 800 million program (yesser) to drive 150 e-services and 75% adoption.

  o UAE has invested over $ 200 US$ in eGov initiatives and has an advanced infrastructure with more than 1600 services.

  o Egypt has allocated a budget of $ 80 M to establish collaboration an inter-agency information flow. The eGovernment plan includes: eReadiness: "equal access for all", and eLearning: "nurturing human capital.

Comprehensive Strategic Plans

In an effort to diversify beyond oil, tourism and real estate, last year Qatar published an ambitious economic vision for 2030; at the beginning of this year Abu Dhabi followed with a similar 2030 plan. Dubai was the first to announce such plans for the future in an attempt to build a sustainable economy. The plan gives the vision for Dubai until 2020 and describes a comprehensive strategy for growth and diversification. Below is an extract from the announcement on Dubai 2020:

"Dubai 2020, a new initiative that will explore the emirate's potential to host the World Expo and the Olympic and Paralympic Games in 2020, was launched yesterday by His Highness Sheikh Mohammed bin Rashid Al Maktoum, Vice-President and Prime Minister of the UAE and Ruler of Dubai.

Dubai 2020 will focus on a number of sectors within Dubai and the wider UAE around the common goal of furthering social and economic progress for the region.

Central to this project, a Working Group of government and private sector representatives will explore the potential and possibility of Dubai hosting the global events in 2020. The Games take place every four years. The World Expo takes place every five years. The two events coincide in the same year every 20 years.

Bringing together these two world events in one place – each for the first time in the Middle East – would be a unique proposition, uniting business, science and technology with sport, education and culture.

Speaking about Dubai 2020, Sheikh Mohammed said: "We need to engage our community here in Dubai and the UAE in a discussion about our vision and everyone's role in our future. For this we need a clear, common goal that highlights shared universal human values. The Dubai 2020 initiative will look at how we can shape our environment and society for future generations. It will address, in an integrated way, the building blocks that underpin social and economic progress – sport, education, culture, business, science, technology, health and the environment.

"These two global events – the Olympic Games and World Expo – give us a sense of common purpose and play to our strengths. Dubai is already home to people from different nationalities and cultures who live in friendship and peace. And I believe we can deepen this respect and mutual understanding if we work together to achieve something spectacular and meaningful," said Sheikh Mohammed. "

Sovereign Wealth Funds

Overseas Sovereign Wealth Funds are generally passive, and spread most of their investments across financial, real estate & energy markets. The Gulf states are known to have some of the world's largest sovereign funds that have been investing around the world in an attempt to reduce dependency on oil revenues and limit exposure to local market dynamics triggered by the delicate political situation of the region.
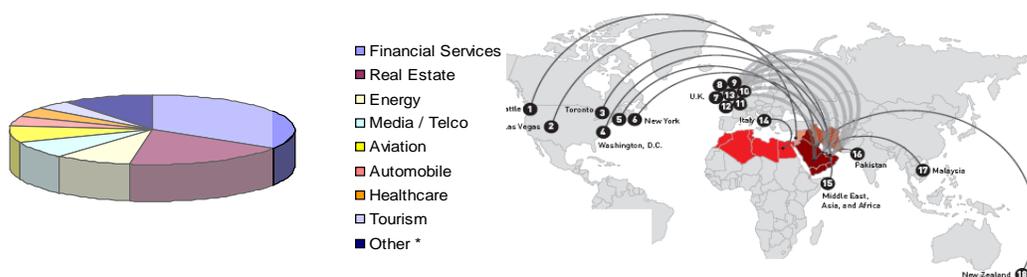
**Exhibit 9. Geographic destinations and Industries if investments for
Sovereign Wealth Funds.** *(Oasis Economies, Jan 2008. Booz Allen)*

The graph above shows the wide geographic spread as well as the diverse industries that sovereign funds are investing in.

Type	Example	Transactions
Traditional SWF (and New Generation Govt Funds)	**Abu Dhabi Investment Authority** ($500-$875bn)	**Citigroup**, $7.5B (4.9%) **Carlyle Group**, $1.35B (7.5%)
	Kuwait Investment Authority (>$400B)	**Daimler**, $8.1B (7.2%) **Merrill Lynch**, $6.6B (11%)
	Abu Dhabi Mubadala (>$10B)	**AMD**, $622M (9%)
	Dubai International Capital ($7B)	**Barneys**, $825M
Govt Controlled Companies	**Dubai Ports World**	**DP World**, 42 terminals and 13 new developments across 27 countries
	Saudi Arabia Basic Industries Corporation (SABIC)	Acquisition of **General Electric Plastics** Unit, $11.6B
High-net worth individuals	**Prince Al Waleed Bin Talal Al Saud** ($29.5bn)	**Citigroup** (3.4% ownership), **Euro Disney** (24% ownership), **Four seasons** (22%), **Swiss group Movenpick** (23 %)
	Naguib Sawiris	**Italian telecom Wind** ($3.6B), Investment in **Iraqna telcom** ($160M) and other Telco companies
Private Companies	**Kuwait Mobile Telecommunications**	Acquisition of **Celtel** (African Mobile Operator),$3.4bn
	National Bank of Kuwait	Acquisition of **Al-Watani Bank** of Egypt in 2007

Exhibit 10. Examples of investments by sovereign funds around the world.

The table above shows the variety of investments made around the world, from Citigroup, Merrill Lynch in the finance area (there were serious discussions about Barclays bank in the UK) to hotel and tourism in Euro Disney (Four Seasons and Momvenpick). Telecommunications and Ports around the world have been key investment targets. In particular there were the well broadcast discussions which took place on the management of 6 US ports after the acquisition of P&O by Dubai Ports. Investment in companies such as AMD, Daimler and General Electric's Plastics units also stand out. Some famous landmarks in the US and Europe such as the Essex House in New York and famous hotels in London have also been part of the real estate investment portfolio.

Comparing the Middle East to other Emerging Markets

In the changing global economic environment of today and in a world that is becoming flatter, smarter and more connected, businesses are looking for growth opportunities around the globe. The GDP growth in emerging markets is significantly higher (almost double) than in major markets and provides significant growth opportunities for businesses around the world. The MENA region is part of the emerging market arena and shares many characteristics with other emerging markets around the world.
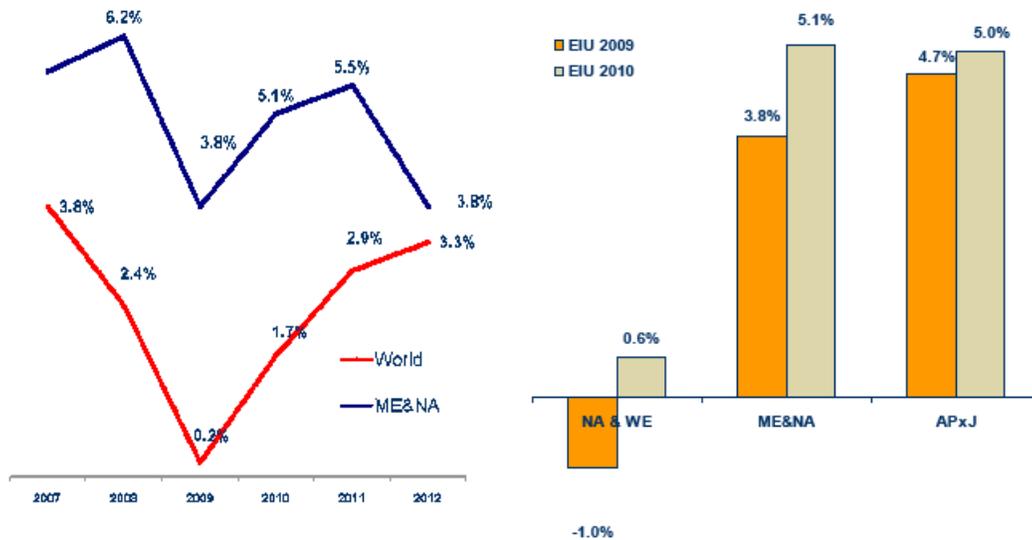
Exhibit 11. Worldwide and Regional GDP forecast. *IMF, Consensus Economist, Inc, EIU.2009*

The opportunities in the emerging market have driven many multi national companies to develop strategies to take advantage of the growth potential. For IBM today, growth in emerging markets is a key component of the company's strategy as it is for many other fortune 500 companies. IBM is one of the companies that has a clear strategy for growth in the emerging markets in general and in MENA in particular.

From a strategic market development perspective, these markets have more similarities than meet the eye, for example:-

- High GDP growth.
- Low IT market penetration.
- Market share and vendor leadership are still being established.
- Limited resources requiring innovative business models.

The successful implementation of business strategy in the emerging market arena depends on having effective management systems that can cope with the social and cultural challenges and in many cases, the availability of skilled and talented leadership. Management systems within IBM were established with the mission to:

- Share and leverage strategies that deliver growth.

- Develop and share talent management models to develop and grow local leadership.
- Strengthen a climate and culture of collaboration and integration.
- Develop and share unique business and investment models.

The world map below shows IBM's definition of emerging markets. It covers the regions in yellow (Central & East Europe, Middle East and Africa), green (Asia Pacific excluding Japan) and red (Latin America), while the major markets are coloured in grey. The emerging markets cover many countries, cultures and include a diverse demographic and ethnic background.
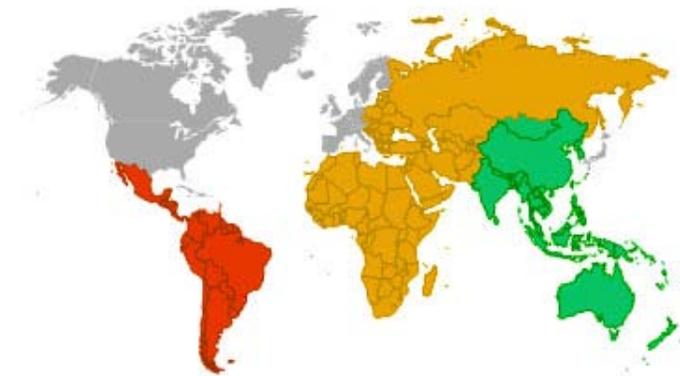
Exhibit 12. IBM's definition of emerging markets.

Within the definitions of emerging markets, the term BRIC (Brazil, Russia, India and China) refers to the largest economies in emerging markets. Most multinational companies have focused on these economies as tier one targets for investments. The size of these economies and impact on the global economy is significant. The population of these countries is around 3 billion and they cover a large part of the world. The forecasted growth rates for BRIC countries have a significant impact on the demand for resources and global growth rates of GDP around the world.

The second tier of emerging countries includes groups of countries such as Latin America, ASEAN (Association of South East Asian Nations) and MENA. Within MENA, the GCC countries (Gulf Cooperation Council) are probably the most attractive investment target. The GCC is on the path of sustained macroeconomic growth and stabilization, however with continued deficiencies in political and economical freedom as well as the significant legal & regulatory risk, there is still a long way to go before the region reaches the level of standards and practices practiced by the developed world. It is however interesting to compare the GCC countries to Russia and look at indicators such as membership of the WTO, Economic Freedom index, Economic Freedom Ranking, Corruption Perception Index and Corruption Index, Political Freedom Index, Civil Liberties in addition to Risk Assessment factors like political risk,

Government risks, security risk, legal and regulatory risk, the labour market, tax, foreign trade risk etc.

The chart below is an analysis conducted by IBM in 2007 on the investment climate of emerging markets and provides a fair indication of the prospects and risks associated with doing business in the GCC countries.

2006 Investment climate comparison GCC		Bahrain	UAE	Kuwait	Oman	Qatar	Saudi Arabia		Russia
Macroeconomic data									
GDP (% real change pa) CAGR 2006	1	7,1	11,5	6,2	7,1	6,7	5,8		6,5
Nominal GDP 2006 (USD, bn)	1	16	176	92	38	44	363		975
GDP per capita (k US$) 2006	1	21	35	31	16	53	15		7
Consumer prices (% change pa; av) 2006	1	2,6	7,7	3,5	3,0	9,0	1,0		9,7
EU Member / Associate to EU/ GCC	2	Y	Y	Y	Y	Y	Y		N
WTO Member	3	Y	Y	Y	Y	Y	Y		N
Current Business Model									
IBM Buiness Model		GSMR	GSMR	GSMR	GSMR	GSMR	GSMR		Subsidiary off shore
Poli.reform & Economic freedom									
Economic Freedom Index 2006 (from 1 to 5)	4	2,23	2,93	2,74	3,01	3,04	2,84		3,5
Economic Freedom Rank (out of 161)	4	25	65	50	74	78	62		122
Corruption perception index (CPI) 2006 (from 10 - 0)	5	5,7	6,2	4,8	5,7	6	3,3		2,5
Corruption Index 2006 (out fo 163)	5	36	31	46	39	32	70		121
Political Freedom index (Political rights) 2006 (from 1-7)	6	5	6	4	6	6	7		6
Civil liberties 2006 (from 1-7)	6	5	6	5	5	5	6		5
Blended sovereign rating (Moody`s/S&P/Fitch)	7	3	3	3	3	4	3		3
IBM Rating		3	2	2	3	2	2		3
Risk Assessment									
Overall assessment	8	B	B	C	B	B	C		C
Security risk	8	B	A	C	A	A	C		C
Political stability risk	8	D	C	C	C	C	C		C
Government effectiveness risk	8	C	C	D	C	C	D		E
Legal & regulatory risk	8	C	C	C	C	C	C		D
Macroeconomic risk	8	A	A	A	B	B	B		B
Foreign trade & payments risk	8	B	A	A	A	B	B		C
Tax policy risk	8	A	A	D	A	C	C		D
Labour market risk	8	B	B	C	C	B	C		C
Financial risk	8	B	C	B	B	C	B		C
Infrastructure risk	8	B	B	B	B	A	C		C

Exhibit 13. Macroeconomic data, Political and economic freedom, Risk Assessments indicators for GCC and Russia [1]

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[1] *Sources: IMF, EU/GCC, WTO, heritage.org (1-1.99 Free, 2-2.99 mostly free, 3-3.99 Mostly unfree, 4-5 un-free), transparency.org (range between 10 (highly clean) and 0 (highly corrupt), freedomhouse.org (1 best, 7 worst), Ftich, The Economist.*

The table above demonstrates that the GCC countries have better indicators or at least as good as those for Russia in terms of attracting business. The results of this analysis encouraged senior management of the IBM team to invest in the GCC. The GCC countries also have the advantage that their currencies are stable and are pegged to the US dollar (except Kuwait), which eliminates the risk of currency fluctuations and inflation.

It is also worth choosing a bigger segment and making the comparison with larger emerging markets such as India, China, Brazil, ASEAN and also the USA. The ME region (here including North Africa and Iran) produces figures on Real GDP and Real GDP growth rates that are compatible to those of India, Brazil and the ASEAN region as shown in the table below.

	ME	Brazil	Russia	China	India	ASEAN	USA
Population Size (2006, M)	448	190	141	1,300	1,100	490	301
Real GDP (2007,$T)	1.5	0.9	0.9	3.0	1.0	1.0	14.1
Real GDP CAGR (2009-11)	6.2%	6.2%	8.5%	10.7%	10.5%	5.5%	5.3%
IT Market Size (2008, $B)	4.3	15.1	6.6	23.5	9.2	10.6	896.2
IT Market CAGR (2009-11)	9.3%	9%	16%	12%	19%	9%	5%

Exhibit 14. Population, Real GDP and GDP Growth Rates for major emerging markets and the USA. *Ttransparency International (www.transparency.org)*

Another important factor to consider when comparing emerging markets is to look at the Transparency International "Corruption Perception Index". This gives a good indication of the risk associated with doing business in different countries. The table below shows that most of the GCC countries including Jordan rank higher than Turkey, India, China, Brazil, while almost all MENA countries ranked higher than Russia.

Transparency International 'Corruption Perception Index' - Ranking 2007 of 180 Countries									
2007	Country	2007	Country	2007	Country	2007	Country	2007	Country
17	Japan	46	Bahrain	60	Kuwait	79	Saudi Arabia	111	Vietnam
32	Qatar	53	Oman	64	Turkey	99	Lebanon	138	Pakistan
34	UAE	53	Jordan	72,	India, China, Brazil	105	Egypt	143	Russia

Exhibit 15. Transparency International "Corruption Perception Index" for selected countries.

Amongst the emerging markets, the MENA region is unique in that it offers a diverse opportunity for investment. On the one hand the GCC have more advanced markets with great wealth from oil & gas returns and are trying to diversify their economies; on the other hand, there are less developed states in the region with countries like Egypt, Jordan, Lebanon, Syria and the North African countries which have huge human resources and strong growth potential. These factors should be considered when making the strategic choice as to which emerging market to enter.

Comparing with Russia

Comparisons with Russia are significant in that it is in the same time zone as MENA; also, for many reasons the regions of Central and Eastern Europe and the Middle East have been clubbed together in what is known as the CEEMEA region. There has always been an element of competition within CEEMEA in attracting investment. Central Europe and Russia are considered closer from a cultural perspective to Western Europe while the Middle East has always had the disadvantage of being perceived as culturally remote and politically unstable.

More companies are taking these facts into consideration when considering the Middle East for their investment and expansion plans. IBM, for example, moved the regional headquarters for its Central Eastern Europe, Middle East and Africa (CEEMEA) operations from Vienna to Dubai; so too did CISCO. Many other companies are considering a similar move.

Summary and Conclusion

Now that the world views the emerging markets as key players in the new world economics, the Middle East is well positioned to play a significant role. The region has one of the fastest growing populations in the world and at the same time one of the youngest. As the region goes through economic diversification and legal and political reforms, it remains to be seen if the geopolitical situation will allow the region the opportunity to experience the stability it needs in order to focus on improving living conditions and drive growth.

The windfall from oil revenues allowed the region to make significant improvements in infrastructure, healthcare and education; this allowed the region to compete for investment and growth opportunities with other emerging markets. This paper demonstrated how the MENA region compares with India, China, Brazil and Russia.

The main questions are whether this growth is sustainable and what is the difference between the economic boom now and that of the 1970s? There are many reasons to believe that this boom is more sustainable as follows:

- The world is flatter and the new generation of reformers in the Middle East are moving their economies away from protectionism. Leaders have learned from the mistakes of the 1970s and are now investing oil revenues in regional and local markets.

- Oil liquidity is invested at home in growth sectors other than oil such as tourism, aviation, manufacturing, telecommunications, etc.

- The boom is now being carried by private sectors and not only government.

In my view, the Middle East has a long way to go in order to achieve the living standards it aspires to. The long process of reform and transformation needs to start in earnest, however the foundations are in place as not many other regions have the human capital and natural resources that are available to the Middle East.

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A New Approach to Business Ethics: Strategic Response, Leadership and Social Responsibility

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Abstract: Well intentioned leaders who want to improve decision making, to better think through risks and evaluate options in a much more robust way than simply the one-dimensional pursuit of money—even as attractive as this pursuit is; need a new approach to assuring good decisions. This paper proposes a new approach that combines the social responsibility of a well designed organization, an eight-point ethics rubric managers can use to evaluate decisions and a new tool of leadership: A Leader's Explicit and Articulated Worldview. These elements combine to yield a new model for the effective strategic response of the organization to the challenges of building wealth for owners and value for stakeholders through the efficient allocation of valuable resources.

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Introduction

Business is a network of processes and transactions to create wealth and value. Normative ethics—those systems that guide individuals in the difference between right and wrong— are applied to particular decisions and actions that yield a desired and ideally positive outcome (Boatright, 2007; DeGeorge, 2006). The one missing element as related to business ethics is an effective "process" by which these applications occur in a business context. This paper builds a unifying structure that offers managers a means to control and assure business processes yield valuable well-reasoned outcomes. It reviews recent literature in the field and advocates for a unification of two concepts of business ethics, wealth creation for owners and value creation for stakeholders into an overarching strategic model in which wealth and value creation do not force a tradeoff between owners and stakeholders. This is accomplished by the leader's thoughtful articulation of a worldview and its application to an eight-point rubric of corporate decision making.

The Major Elements of the Model: Strategic Response, Social Responsibility & Leadership

The vanguard position of *strategic response* in the model is defined as the effective, efficient and ethical utilization of valuable resources. The supporting element of social responsibility in the model is defined as those actions that build wealth for owners and value for stakeholders. It is described by an eight-point rubric which can be used by managers to assure quality control and manage decision-making at any level in the organization. The last element is both an essential enabling resource and a compass for the future: leadership, that pattern and combination of individual and collective values, aspirations, hopes, decisions and actions that build sustained and lasting individual and collective benefit and value (Andrews, 1980).

The core responsibility of the leader is that of the "organization," that reservoir of talent, skills and abilities that are received from the social responsibility of the enterprise to employ qualified people with the right skills to do the work of the business (Collins, 2001). This responsibility for the organization is uniquely the provenance of the leader and is closely aligned with the role of the leader as keeper of the organizational culture, as its guide and mentor. The leader's unique role to set the "tone at the top" mediates the culture, the reach of which is profoundly material, broad and deep and is most closely related to culture as defined by anthropology: "The body of ideas and actions which is held by a people about itself and its environment, both physical and social together with the tools and artifacts through which its members relate to one another and to the outside world" (Pounds, 1994, p. 1).

As organization leader and mentor to the culture, the leader in this model is compelled to face the most rigorous and introspective aspects of life: a personal and fully developed worldview. The significance of reflective, self-aware leaders has been established as a core element of "authentic leadership". George and Sims (2007) suggested a "journey" to authentic leadership through cycles that span personal, developmental periods and are deeply self-reflective and introspective. Ladkin and Taylor (2010) noted that while the precise definition of authentic leadership has been elusive, their review of the literature in the field revealed three themes to be common to the term: knowledge of the "true self"; self-awareness; and, moral leadership. They proposed that the true self was revealed qualitatively in three factors: "self exposure, relating and leaderly choices" (p. 70). They suggested the leader observe somatic clues; relate and engage uncertain situations in a role playing type rehearsal; and, develop an awareness of the organization's perception of a leader's ability to make leadership decisions as ways for the leader to be in touch with the true self (Ladkin et al., 2010). Simola, Barling and Turner (2010) suggested differentiation between transformational leadership and transactional leadership by contrasting the ethics of justice and the ethics of care using formal assessment instruments. The ability of leaders to articulate support for a particular strategy across an organizational hierarchy was found to be predictive of strategic success (O'Reilly, Caldwell, Chatman, Lapis & Self, 2010). Even with these considerable sources, the question remained, how does the leader become self aware at the core of the true self thus releasing the ability to make decisions that do not force the tradeoff between owners and stakeholders in wealth and value creation? The leader's worldview is one possible answer to this core question.

A Unique Feature: The Worldview and its Underpinning

The leader's worldview assumes that decision-making is the principal role that leaders play in an organization: decisions about deployment of people; about allocating resources; and decisions that affect ultimate outcomes. The worldview is described in detail below and requires that three deeply personal and essential processes continually emerge on a perpetual quest for the leaders' self-knowledge: _self-reflection_, that they have a comfort with an inner dialogue; this ongoing dialogue gives rise to _self-awareness_ in various settings and conditions and ranges of emotion; and it is followed by the cumulative understanding of self that reveals honest _self-confidence_ (Wolfe & Kolb, 1991; Buckingham, 2005).

The literature includes extensive discussion of self-awareness as essential to authenticity and by extension to authentic leadership (Ladkin et al., 2010). The process of active reflection creates personal insight by the leader and informs a "living" worldview that changes with the world's changes, with the environmental changes of the business, with the developmental changes of

the leader over time, and with the needs, wants and preferences of the various and diverse stakeholders of the organization or enterprise. The theory of embodied authentic leadership offered by Ladkin et al.,(2010) suggests that a leader's worldview as currently proposed actualizes the three, essential elements of their theory mentioned earlier: "self-exposure, relating, and leaderly choices" (p. 70). The three phases that George et al., (2007) proposed of "preparing for leadership, leading, and giving back" (p. 16) are also informed by the articulation of a worldview. The worldview proposed here is a method of achieving these thresholds toward authentic leadership and its corresponding likelihood of good moral choices, wealth, and value creation. The leader's journey of reflection, awareness, and confidence stimulates change because each reflection creates a new awareness and yields added or challenged confidence, experimentation in a bold and confident way (Wolfe et al., 1991).

The Components of the Model: Strategic Response & Loyalty, Social Responsibility and Leadership

Strategic Response

The strategic response of an organization to its environment and its opportunity to differentiate itself in the quality, speed and efficiency of its decisions and the deployment of valuable resources depend upon social responsibility and leadership. The overarching objective of an organization's ability to respond strategically to its environment and opportunities continuously is a ubiquitous and sustained quest for loyalty from its essential stakeholders.

Figure 1—Strategic Business Ethics Model
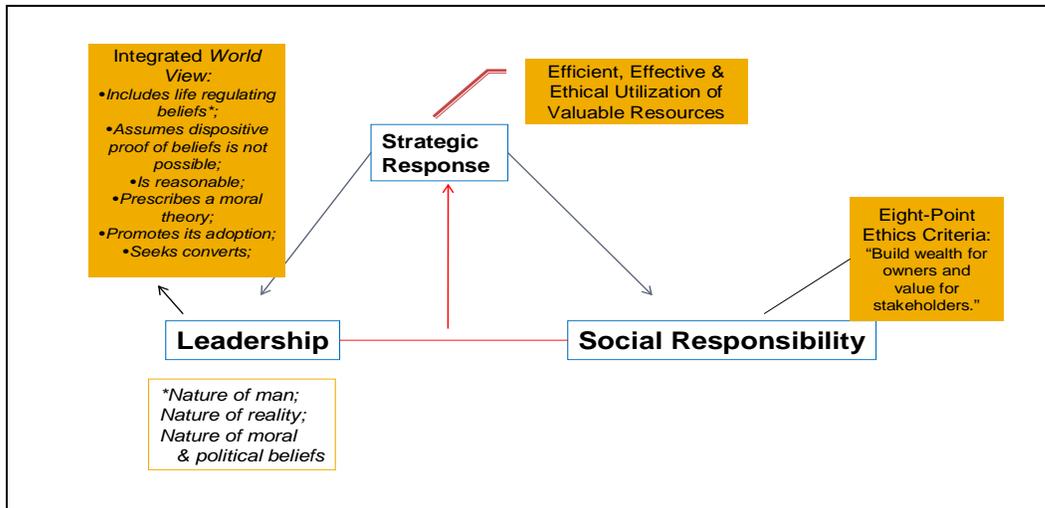
Loyalty implies the measures of business success—profitability and cash flow—and loyalty sustains them in such a way that reduces costs and broadens reach by the viral nature of referral and positive reputation that loyalty creates. Hart and Thompson (2007) suggested that loyalty is a psychological contract and an individual phenomenon of "perceived reciprocal obligation" (p. 297). Thus, loyalty becomes a core goal that is measurable and quantifiable. Loyalty positively affects the employees and their use of their skills, abilities and ambition to improve and do well. Simola et al., (2010) noted that a care orientation seeks "creative ways of simultaneously fulfilling competing responsibilities to others" (p. 181). In a similar vein to loyalty, Chiu and Tsai (2007) argued that "organizational citizenship behavior" (p. 1098) was positively affected by incentives such as profit sharing programs that use the currency of the company's common stock as opposed to cash as the vehicle of profit sharing. This suggests the degree of discrimination that employees make, for example, in aligning their own interests with those of the company for mutual gain. If a loyal environment exists, one of mutual interest in care and concern, then the employees in this environment will see themselves as beneficiaries of the collective good of the organization, rather than pursuing their individual good at the expense of the enterprise. This core concept is the principle of "agency" and is at the heart of the debate about productivity and has a direct linkage to the discussion of employee loyalty and business ethics. As Jensen (1994) noted in his response to Brennan's (1994) criticism of agency theory: "The central proposition of agency theory is that rational, self-interested people always

have incentives to reduce or control conflicts of interest so as to reduce the losses resulting from them. The gains can then be shared by some or all of the parties" (p. 45).

Social Responsibility: Eight Elements of the Business Ethics Rubric

If loyalty is the ultimate prize due to the value that it carries presently and implies for the future, then the "social responsibility" of the organization is to attract and retain the people with the skills and abilities that the organization needs to build value and sustain loyalty (Collins, 2001). In this context, social responsibility is the core objective of the manager to employ capable, confident people in positions for which they are qualified and from which they can earn full and fair compensation. Yet, the composite of skills and abilities of the people in the organization, their cares and concerns, are dynamic and need a structure in which to manage their own uncertainties and respond to their own "strategic" (self-interested) issues. They need a mechanism beyond a bi-weekly paycheck or a trade-union card to feel a part of something bigger and major in their lives. O'Reilly et al., (2010) observed directly the risk to strategy implementation of uncommitted subordinate leaders. In addition, the organization itself needs a structure of decision-making and standards of business practice that reinforce and reward ethical and valuable decisions. This structure channels the substantial goodwill that employees release when their interests are aligned with those of the organization. Hart et al., (2007), Chiu et al., (2007) and Jensen, (1994) offered evidence of the essential role of an organizational structure necessary to focus the interests of employees and by extension other stakeholders. This reinforcing structure is embodied in the eight-point "Business Ethics Rubric" in Figure 2.

This Business Ethics Rubric is a screen of interdependent standards which focus on a material aspect of the business. The model allows for the freedom of managers and leaders to make decisions and develop unique visions that differentiate their enterprise and its products; it requires only that the eight-point rubric be used to screen decisions. The rubric is described more fully below:

Figure 2: Business Ethics Rubric

Standard	Exceeds	Meets	Does Not Meet
Duty of Care	Provides and seeks relevant information in all decisions; decisions are right.	Provides & seeks information most of the time; decisions are mostly right.	Information is inconsistent, inaccurate, decisions unpredictable.
Duty of Loyalty	Avoids conflicts all of the time; disclosures are complete and unambiguous.	Conflicts are rare, but sometimes arise; disclosures are rarely criticized.	Conflicts are discovered by regulatory diligence; ambiguous filings.
Duty of Obedience	All laws and regulatory rules are followed all of the time.	Material legal issues and regulatory issues are rare; they are easily explained.	Legal issues are a frequent distraction; many regulatory issues.
Good Faith & Fair Dealing	All constituencies' rights are respected and basic respect is rarely challenged.	The rights of constituencies are mostly respected with only minor discrepancies.	Difficulties with basic rights of individuals are frequent; basic rights are challenged.
Maximize Owner Wealth	Consistently total return and market performance exceed peers.	Mostly returns and market performance meet peer and trade performance.	Inconsistent performance against peers and trade is frequent.
Maximize Stakeholder Value	Consistently benefits and relationships with stakeholders are positive against peers and trade.	Mostly, benefits and relationships are positive compared with peers and trade.	Frequent and consistent challenges occur in relationships.
Achieves Stakeholder Understanding of Enterprise Purpose	Consistently & Accurately.	Most of the Time.	Inconsistently.
Compensates Employees Fairly and Justly	Consistent application of the standards of distributive justice of benefits and compensation.	Mostly consistent application of distributive justice; some inconsistency in top positions.	Wide disparity in the alignment and internal consistency of pay for performance.

The Duty of Care.   This standard is the competence and conscience of the individual to perform an essential function using common sense, diligence, attentiveness to the company's needs and attempting to make sound, informed decisions at all times (Kim & Nofsinger, 2007).   Duty of Care is derived from the guidelines of the Model Business Corporation Act (American Bar Association, 2005) and has been primarily targeted at boards of directors and governance of corporations at the fiduciary level.   Used in this rubric, this duty is a method of guiding and evaluating managers' decisions that enhance accountability and responsibility at all levels.   It is particularly relevant when the goal of this duty is the proactive and free supply of relevant information to a decision maker or to a decision-making process; and, the diligent pursuit of information required to make reasoned judgments and decisions by the decision maker (Kim et al., 2007).   This mutually dependent reliance between supplier and recipient forms a compact between and among decision makers and those who have information that informs good decisions; it forms a bond of mutual benefit among those who know the facts and those who must use the facts and perspectives of a situation to make a decision (MacMillan, Money, Downing and Hillenbrand 2004).

The Duty of Loyalty. This term means pursuing the company's sole and best interest at all times rather than those interests of the individual or private groups; and, avoiding all *conflicts of interest* whether conflicts of influence, finance or politics (Kim et al., 2007).   The issue of "agency" in organizations is at the heart of loyalty to a particular organization and its well being over that, or in consort with that of the individual (Jensen, 1994; Hart et al., 2007; Chiu et al., 2007). The interconnection between this criterion of the model and fair and just compensation is direct and obvious: incentives drive behavior, regardless of position in an organization and the alignments of interest are critical to ensuring accountability, fair dealing and ultimately, loyalty itself.

The Duty of Obedience. This duty requires that employees devote themselves to furthering the objectives of the company in compliance with all applicable laws and regulatory standards (Kurtz, 1988).

Good Faith and Fair Dealing. This standard requires that all employees conduct themselves so that the rights and privileges of all people are assured of fair dealing (Boatright, 2007).

Maximize Owners' Wealth.   Wealth maximization means using all possible means to achieve wealth within legal and social boundaries.   This controversial standard seems to be exclusive and the economist, Friedman (1970) defined his view of this term quite narrowly: "In a free-enterprise, private-property system, a corporate executive is an employee of the owners of the

business. He has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom" (p. 65).

Maximize Stakeholder Value. This criterion of stakeholder maximization involves using all possible means to meet the constructive needs of those constituencies affected by the company's operations, products/services and employees. This is a process of analyzing and discriminating between and among stakeholders whose standing in a particular issue, decision or operating environment of an organization is consequentially affected by the decision of an organization, its implications and outcomes. The most active proponents of stakeholder theory argue that the corporation as a fictional entity nonetheless has material and irreversible consequences on individuals and groups (Freeman, 1994). MacMillan et al., (2004) noted that a good reputation among stakeholders led to increased customer loyalty and firm attractiveness, reduced employee turnover, attracted new talent and encouraged favorable terms from suppliers (p. 19).

Achieves Stakeholder Understanding of the Enterprise Purpose. This standard implies that leaders and managers know the purpose of the enterprise themselves; it measures how well the company's core constituencies know the intentions, goals and purposes of the company. This standard is the core basis of effective communication and is founded on the principle of reciprocation such that each party in a relationship knows as far as is practicable and possible the intentions and actions of the other (Hart et al., 2007).

Compensates Employees and Suppliers Fairly & Justly. This standard of compensation and incentives means that benefits should be distributed according to the value of the contribution the individual makes to the task, the group and the company; and, that these benefits are allocated fairly (Boatright, 2007). Two core principles form the basis of this approach to fairness and justice and were promulgated by Rawls (1971) and arise from equal rights of each person to the basic liberties available to all; and, that inequalities disadvantage no one and potentially can affect everyone: "All social values—liberty and opportunity, income and wealth, and the social bases of self respect—are to be distributed equally unless an unequal distribution of any, or all, of these values is to everyone's advantage" (p. 505).

The elements of this rubric can be subdivided into four categories for simplicity and analysis and used as a shorthand way to discuss the criteria conceptually:

Category I: Governance and Assurance

Components: Duty of Care, Duty of Loyalty and Fair Dealing, and the Duty of Obedience;

Category II: Corporate Intentionality

Component: Good Faith;

Category III: Value Creation

Components: Maximize Owner Wealth; Maximize Stakeholder Value;

Category IV: Communication

Components: Achieves Understanding; Fairness and Justice.

Leadership

The leadership aspect of the model engages three core components: the organization, its culture and the leader's integrated worldview as the leader guides and mentors the organization toward its objectives. Assuming the concept of authentic leadership (Ladkin et al., 2010; George, et al., 2007), there is support for a model of ethical decision-making in which leaders are more effective, if they aggregate their attentions toward strategic change across hierarchal levels in an organization (O'Reilly, et al., 2010). The present model proposes just such an implementation given the broad effects the model imposes on the organization. The organization, composed of people and skills, is configured in such an intentional or unintentional way to achieve its current results (Hanna, 1988). If leaders need to change the results, among the options are to change the configuration, or organizational design. The right people who have the right skills for the organization and its needs are important (Collins, 2001); however, the "organization" element of the model engages how the people and their skills are deployed as a unit to achieve the strategic response that sustains the corporation and its loyalties. It is for the leader to determine, based upon personal reflection and reflection on the needs, goals and aspirations of the organization, what the best configuration of these skills and abilities is. O'Reilly et al., (2010) noted several studies in which leaders' actions create meaning for employees that subsequently affects strategy implementation. These inferences and perceptions by employees when aggregated shape the organization culture. The close interaction--interdependency--of the organization and the culture are so complementary or contradictory, as to affect the very existence of the organization. O'Reilly et al., (2010) found that when there was disagreement about the strategy or if leaders were perceived as

ineffective, overall organizational performance was lower. The pattern of behavior of an organization that comprises its intentions and outcomes are the very artifacts of culture that were broadly defined earlier (Andrews, 1980). The design of an organization that fits within its culture is the unique provenance and responsibility of the leader and the extent to which the organization achieves its goals or not rests with the design. Observation of this unique pattern of organizational behavior is critical for leaders to understand and to reflect upon, as they guide and work to shape the organization and the culture toward achieving its goals and reinforcing or deemphasizing the loyalties that the organization currently pursues (Schein, 1981; Hanna, 1988; Ladkin et al., 2010).

There is a unique tool available to leaders to assist in their understanding of the patterns of organizational performance; it is the primary tool at the leader's disposal to strengthen the leader's position and that of the organization among its stakeholders: the leader's integrated worldview. The significance of the work that comprises a worldview informs and exposes the leader to the healthy skepticism essential to guide an organization thoughtfully through the uncertainties and the risks—known and unknown—of the "next decision" facing the organization and its culture. This effort is the anxiety-provoking process undertaken by the leader in the journey to lead; the leader's way to construct an image or vision of the world for the organization (Aerts et al., 1994): "It is a symbolic system of representations that allows us to integrate everything we know about the world and ourselves into a global picture, one that illuminates reality as it is presented to us within a certain culture…The main properties of a worldview are 'coherence' and 'fidelity to experience'" (p. 9).

Ladkin et al., (2010) suggested that the actions of a leader revealed the true self, an essential element to leadership that is perceived as authentic by stakeholders. The structure and application of a worldview, one that is influential and valuable to a leader, were investigated in a fall, 2008, executive MBA course at a Midwestern US university of which I was the professor. A colleague, philosopher, and professor of philosophy promulgated the guidelines for the assignment that resulted in 21 papers from the students. My colleague developed an approach to a worldview which was incorporated as an integral part of the Strategic Business Ethics Model (see Figure 3). Twenty-two students were assigned the task of writing a worldview. Each student was a senior or middle manager in a US corporation. The group profile varied by gender, age, and experience in management. Students reported that they had never before engaged the question of a worldview in any setting, although they generally knew the concept of "worldview". None was able to define the term. The results were that 20 of the 21 students used the backdrop of spiritual or religious beliefs as first principles in their worldviews. All saw

their early life experiences of family, parents and siblings as key influences in the formation of their worldviews. Eleven of the 21 students identified specific defining moments (Badaracco, 1997) in their lives as significant influences, i.e., death of a parent, spouse; divorce or loss of professional position; and, military experience. All of the students (21) responded that the exercise was important even though they could not immediately determine an application for the work.

The process of developing a worldview created a practical focus and concrete objective for these students even if it lacked an immediate application: "First, to describe a commitment to a belief, or view, for which *the evidence is not certain or conclusive* (this is sometimes called the cognitive or propositional sense of faith because it involves belief in a truth or truths distinct from the mind)…" (Sweetman, 2008). The approach described in Figure 3, therefore, becomes an essential component of the Strategic Business Ethics Model. The self reflective and introspective nature of this exercise reveals the presuppositions and underpinnings of belief that, as the students reported, didn't have an immediate application; however, they believed was an important exercise. A tentative conclusion is that the development and application of the worldview for the leader becomes a necessary element of the leadership process.

Figure 3: Worldview & Leadership

Worldviews and Modern Culture

1. The importance of the concept of a Worldview: a. the significance of a worldview in one's life. b. Worldviews and reason. c. Worldviews and pluralism.

2. Questions: 1. Are you a reasonable person? 2. What is your worldview? 3. Do you think that the worldview to which you subscribe and by which you largely regulate your life (and perhaps your family's life) is reasonable?   What role can your worldview legitimately play in political debates? In business?

3. The formal structure of a worldview: A worldview contains the following features:
   i) it is a philosophy of life, which is concerned with *three primary areas*: the nature of reality; the nature of human beings; and the nature of moral and political values;
   ii) it contains a number of life-regulating beliefs (relating to the three areas mentioned in 3(i) above);
   iii) not all of the beliefs in a worldview can, even in principle, be fully proven or demonstrated, and so are based on faith, to some extent;
   iv) a worldview is often exemplified by certain rituals, practices and behaviors;
   v) a worldview motivates and promotes certain types of behavior, and discourages and prohibits other types of behavior (i.e., it motivates and promotes a theory of *morality*);
  vi) a worldview has organs and outlets and authorities to promote the worldview, such as spokespersons, advocates, publications, organizations.

vii) Worldviews are engaged in "missionary" work. The adherents of a worldview are often engaged, not just in practicing their worldview, but also in explaining and defending it for the purposes of convincing others to become members of the worldview (in short, worldviews raise money!).

4. Worldviews and Ethics: our moral values are intimately related to our worldview.

5. Worldviews and Leadership: a worldview is developed by thoughtful, self-reflection, which leads to self-awareness, a prerequisite to authentic self-confidence. Self-confidence is at the heart of effective leadership. How do you know if a leader is self-confident or simply displays an air of confidence that masks a defensive position?

Conclusion

This paper integrated considerable research and literature in the fields of leadership, motivation, ethics and decision making into an approach to decision making that envisioned reducing the risk and unintended consequences of poorly thought through decisions. It introduced the tool of a leader's worldview as a method of grounding the organization in purposes and a position and sought to integrate this worldview with an eight-point rubric for application to specific decisions or corporate cultures. Subsequent studies should build on existing literature in leadership, decision-making and ethics mentioned in this paper. Even though much has been formulated regarding authentic leadership (Ladkin et al., 2010; Chan et al., 2005; George et al., 2007) and the alignment of leadership on strategy implementation (O'Reilly, et al., 2010) and transformational leadership and moral orientation (Simola et al., 2010), there remains the issue of how leaders best mentor their organizations and corporate cultures to deliver good decisions that build wealth and value for owners and stakeholders, respectively.

The development and application of an integrated worldview (Aerts et al., 1994; Sweetman, 2008) and its use with the eight-point Business Ethics Rubric are the most challenging elements of this model and its approach to ethical decision making in business settings. They require that managers take time and reflect, understand their views, and develop ways they can convince those who enable success in organizations to follow them energetically and sincerely. The integration of the worldview into the process of building and enriching the organization culture and creating a more robust and beneficial social atmosphere among employees and other stakeholders sharpens the company's strategic response and will help managers build loyalty among all constituencies. Subsequent studies should quantify and qualify more precisely the role of these two tools in the fields of ethics, leadership and decision-making.

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The Efficiency of the National Health Service and the East Surrey Hospital's Primary Care Trust Division for the Period 2003 to 2009

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Abstract: This paper discusses the level of patient satisfaction in the U.K. Primary Care Trust nationally and focuses on developments at East Surrey Hospital for the years from 2003 to 2009 inclusive. The paper highlights the research methods applied by the NHS and the star rating system used in the United Kingdom. The report addresses the central question of why the hospital achieved 'weak' and 'fair' ratings over the seven year period, and considers what actions the hospital should take in order to deliver higher patient satisfaction levels.

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Introduction

The East Surrey Hospital and its sister the Smallfield Hospital, were established in 1979 (Website, East Surrey Hospital, 2007). As part of its development, an Accident and Emergency Department [A&E] was added which is the focal point for providing care for patients with life threatening conditions or those undergoing an operation that requires intensive care. It also houses an in-patient paediatrics department. The hospital Trust entered an agreement with BUPA to set up a committed diagnosis and treatment centre (DTC) for NHS patients using the BUPA Readwood unit that is co-located with East Surrey Hospital. A number of surveys were carried out which demonstrated that patients viewed the trust more positively than seven years previously despite continuous weak ratings. This positive view was largely attributed to older patients who frequently visited the hospital, and thus had more encounters with staff and rules. Some weaknesses were attributed to factors such as cultural and ethnic differences, sensitivity of issues discussed between patient and doctors and nurses, and to poor health. As a result of the survey findings, the East Surrey Hospital should continue to focus on improving its financial affairs as well as developing a better system for discharging patients faster. In addition, while the East Surrey Hospital adheres to the NHS guidelines, it should also re-design the way it manages and executes set goals. Many nurses considered that there were too many managers with minimal direct contact with patients. It was also generally considered that the establishment of a local steering group consisting of patients and senior managers would benefit the Trust.

NHS's Qualitative and Quantitative methodology

a)   Survey Design

In this qualitative example, a Patient Survey (Deaprtment of Health, 2003), was carried out, where the NHS focused on Primary Care Trusts (PCT) in England. The survey focus was to gain a fuller understanding of how Patients view the care they have received from local health services; the survey also provided the Commission for Health Improvement with indicators for the following year's performance ratings.

The methods used to carry out the research are found in the local health service patient survey (Commission for Health Improvement, 2003); the study included adults who had registered with a General Practice within the PCT, and was as follow:

In the first instance**,** the staff at each PCT identified the patients who were eligible for involvement and drew a random sample out of 123,000 registered patients. This followed a standard procedure, which was set-up beforehand by the survey guidance panel.

In the second stage of the survey, the sampled patients were sent a questionnaire with a covering letter; those patients who did not respond to the questionnaire were sent two reminders.

In the final stage, the completed questionnaires were received back from patients. The response rate for the 2003 survey was 49%, after adjusting for some patients who were illegible (i.e. patients covered in the Mental Health Act). The survey revealed that of the returned questionnaires, women aged between 51 and 56 were more likely to respond to the survey.

There was a 'patient satisfaction' section in the Patient survey report (Picker Institute Europe, 01/04/2004), which monitored how patients thought about the care, and treatment they had received. The method used was the same as in the first survey. However, in the second survey the NHS Trust had also included the young patient survey, the mental health service users, and the ambulance surveys. Moreover, the 2004 survey was entirely developed by a third party i.e. the Picker Institute Europe. The questionnaires covered issues that were ranked for patients and were developed and tested in partnership with patients. The prioritization of patients was carried out between the NHS and the Picker Institute Europe, wherein the patients were sent a questionnaire plus two reminders. The response rate varied from 63%, for the adult inpatient survey, to 42% for the mental health survey. The key findings of the survey were that the patients were mostly positive about communication with each doctor, nurse and other clinical staff. The findings from the adult inpatient and PCT surveys pointed out that access to the NHS had improved. Patients admitted to the A&E reported shorter waiting time for a bed; elective patients reported being more satisfied with their waiting time for administration, and more patients reported being able to see a GP within two days. Furthermore, less inpatients rated toilets and bathrooms as very clean, fewer discharged patients had a good explanation of the side effects of medicines, and dental patients were less involved in their care and treatment. On the other hand, the analysis had also found that patients with more complex and ongoing needs had reported a lower level of satisfaction with the services they received. In particular, long-term users of mental health services reported a comparatively negative experience of services.

In 2005, the NHS carried out a postal survey (Healthcare Commission, 2005), which was conducted by each trust. This survey focused on areas, which needed to be addressed and improved. The healthcare Commission requested that the University of Surrey (University of Surrey, September 2004), administer the Surrey Social and Market Research (SSMR) survey. Once again, the research method was qualitative, that is, interviews were conducted with staff involved in the management of the survey and those who worked on it on a day-to-day basis. The evaluation also included an assessment of all the aspects of the patient survey process; to be exact:

- It identified person within the East Surrey Hospital Trust who took accountability for the survey.

- It appointed a survey contractor.

- It had followed the Advise Centre instructions on sampling, data entry, and transfer of data.

- The Trust completed the trust questionnaire.

- Pre-survey publicity – here, they communicated the questionnaire with both staff and patients.

- It distributed the questionnaires and reminders to patients.

- It monitored response rate.

- It checked the data quality.

- It noted the views on the relationship between the East Surrey Hospital and the survey contractor.

- It timetabled the survey.

- It conducted a strategy for distributing the survey results within the trust and externally.

- It considered the views of the patients.

Additionally, in-depth telephone interviews were conducted individually with the survey contractors who dealt with the NHS staff survey. Here, the interviewees were taken in detail through the survey process, and were asked to comment on some additional issues. All interviews were pre-booked as they were scheduled to last for up to an hour and half; the interviewees were given the opportunity to prepare for interviews by allowing them to discuss the details with their colleagues.

In addition, trusts such as the east Surrey Hospital were telephone interviewed, wherein participants were taken through the process of the project in detail, debating each element of the survey. The main problem experienced with the distribution of questionnaires and reminders was the worsening quality of the postal service, in particular the change in treatment of second-class mail. An additional problem was that several contractors were of the opinion that interviewing ethnic minorities could be done 'in person' and therein lead to a better response rate.

Most trusts reported to have used the same method in conducting the survey, irrespective of whether was used delivered in-house, or by employing contractors. The reason for opting for a contractor was mainly due to the quality of reporting, the value for money, and the recommendations that the trust received from earlier users. It is also noticeable that in most trusts, the I.T. department or Information Department selected the sample; in addition, the instruction of sampling from the Advice Centre was clear and easy to follow.

b) Questionnaire

The process of putting together the questionnaire is referred to in the chapter on Evaluation of National NHS Patient Survey (University of Surrey, September 2004), which points out that some trusts thought that they should only use the core questions. Certain trusts believed that they had beene rushed into carrying out the survey, and that they did not have enough resources to add further questions, and that the PCT questionnaire was already too long. In addition, there were a number of problems in carrying out the surveys; these were mainly related to for the PCT questionnaire wherein a few question prompted multi-answers when they should only have been single answers. In addition, some people with learning disabilities could not respond to the questionnaire without being assisted by someone. Moreover, most questionnaires required the use of ID numbers, or barcodes for identification. In order to guarantee patients' anonymity, the trust used methods such as ensuring that the names and addresses of information was stored separately from the resulting data, and that different people sent out and received the questionnaires. The trust additionally, drew up honorary contracts with contractors, which made the contractor staff temporary employees so that information could be released in line with the Data Protection Act. The trust also carried out random checks on every "nth" questionnaire, and used a double entry system. In addition, the ID scanners were used to ensure data quality by checking that the CPA registers were up-to-date. However, there were some concerns over confidentiality in situations where the contractor delivered most of the surveys. It was also considered that future questionnaires should highlight that barcodes or reference numbers be used for administration and not to link responses with people.

Once the questionnaires were labelled, it was necessary to carry out a pilot study; in this pre-survey section a number of contractors ran a series of workshops with their key contacts in trusts in order to tell them about the process. However, they were of the opinion that no one sufficiently senior took an interest until the survey's data had been published. On the other hand, once the responses were collected these were then logged or scanned daily as they arrived. The main problem with response rates involved imputing the correct address details, the length of time allowed for competition and return, and the length of the questionnaire. On top of that, where data entry or transfer was used, some contractors did not use the data template which was provided to them, others outsourced data entry using specific data entry programs and sent the results to the Centre as an SPSS file; however, an Excel spreadsheet file was requested from the trusts. Others, used their own software program for data entry, and produced standard tabulations which converted the results to Excel format for submission to the Advice Centre. Subsequent to that, all data tables were checked and weighted against the raw data.

All contractors used the web site, which was set up by the Advice Centre to help with the questionnaires. The drawback with the web site was the timing of material, which was added to the survey when for instance new versions of the questionnaire were inserted; these materials

were often added late in the setup process without due notice being given to the fact that there was a new version, as well as a guidance note being sent to all contractors. In addition, patients believed that the instructions were too long and complicated. Patients and staff recommended that the instructions themselves should be simplified and if necessary, other information could be offered in the background document. Furthermore, all contractors offered a telephone help line for survey recipients, given that a high number of these recipients was worried about confidentiality.

Several contractors counselled that deliberating on those with a longer period of fieldwork would improve the response rates, as they had received a significant amount of completed questionnaires after the closing date for inclusion. In addition, a number of contractors commented that the current cost of carrying out a survey for a small Trust was around £6000, which was a lot of money for a PCT. All contractors received an Advice Centre Sampling Instruction, where these samples were selected by the Information Department. However, for some trusts, local managers selected the sample from the Care Program Approach (CPA) database; in addition, the number of patients selected from each locality was chosen in accordance with its size. This was as a result of some localities being proportionally larger than others. On the other hand, where the sample was selected in-house, Senior Information Analysts or members of the Clinical Audit or Information Management, and Technology department usually did this. These surveys were published via the team briefing and general cascade process, as well as through the following means: newsletters, staff magazines, bulletin, via the Internet or web site or electronic notice board, via in-house email, letters sent to GP, and dental practices. Additionally, letters were sent to staff groups, wardens or department matrons; posters were used; local media in the form of radio or press were contacted; word of mouth was practised; practice receptions were alerted; Clinical Governance was used, spiritual Leaders approached and literature ditributed. Moreover, some very catchy phrases were employed by the Communication Departments like *"Please take part, it's your voice, please tell us what we should do"* (Healthcare Commission, 2006)*.

Monitoring the response rates in-house was mainly done on a weekly basis via the administrator who forwarded the information to the Chief Executive. In some cases, the trust had drawn up a project plan for the survey which included setting the date of commission, distribution and reminders date, response rate monitoring, and all relevant timelines. The main reasons for low response rates were due to ethnicity and language issues, which led to a lack of understanding of what the questionnaire was and the purpose of the survey.

Once problems had been identified, action plans were developed, either after the trust board or Clinical Governance meetings, or the latest presentation, or alternatively after the results were distributed to the relevant department heads. Several trusts firstly identified key areas that needed

needed improvement, and then developed an action plan with a small group of managers, which thereafter were put into place. Other trusts included patient organizations with one trust keeping a database of local residents. These people were invited to a focus group once a problem arose from the surveys and needed a discussion.

c)   Quantitative Analysis

Once the questionnaires were collected, it was important to carry out a quantitative analysis, to measure the outcomes. The basic elements of quantitative analysis are found in the Variation in the experiences of patients using the NHS services in England report (Healthcare and Inspection, November 2006). In the NHS's version, the questions were used in a multiple logistic regression model as the influence of concerns for each survey. Additionally, several characteristics of patients were identified as independent explanatory variables affecting patient responses. For this analysis the responses were grouped into binary categories based on whether the response was favourable or not. Outcomes monitored the negative responses to each question, and recorded independent variables such as age, gender, ethnicity, disability, and pain. It was thus possible to see how characteristics of patients and their responses differed among the surveys. The surveys used odds ratios and 95% confidence intervals. The reference level for each variable had an odd ratio equal to one. Thus, the 95% confidence interval showed whether the odd ratio was statistically significant.

The following, Table 1: (Healthcare and Inspection, November 2006) list the questions that were analysed for each survey.

Table 1

Survey of patients who use local health services	
Q2	The last time you saw a doctor from your GP surgery did you have to wait for an appointment?
Q5	If you want to make a doctor's appointment three or more working days in advance does your GP surgery allow you to do that?
Q12	Were you given enough time to discuss your health or medical problem with the doctor?

The following, Table 2: (Healthcare and Inspection, November 2006) lists the characteristics of patients who responded to the survey of patients who use outpatient departments.

Table 2

Survey of patients who use outpatient departments			
Variable	Categories	Percentage of respondents	Number of respondents
Gender	Male	41.4	34,898
	Female	58.6	49,372
Ethnicity	White	94.5	77,576
	Mixed	0.6	497
	Asian/Asian British	2.6	2,107
	Black/black British	1.9	1,580
	Chinese/other	0.4	320
Health status	Good	87.5	72,035
	Poor	12.5	10,319
Age at completing full time education	Still in full time education	1.4	1159
	Left when 16 years of age or younger	67.0	54,302
	Left when 17-18 years of age	17.1	13,852
	Left when 19 years of age or older	14.5	11,770
Long standing physical or mental health problem or disability that affects day-to-day activities	No	51.1	41,337
	Yes	48.9	39,535

The following, Table 3: (Healthcare and Inspection, November 2006) show the relationship between the characteristics of people who responded to each survey and the actual questions used in the survey.

Table 3

Survey of patients who use local health services						
Outcome variable	Q2[1]		Q5[2]		Q12[3]	
Characteristic	Odds ratio	95% Confidence interval	Odds ratio	95% Confidence interval	Odds ratio	95% Confidence interval
Age	1.000	0.999-1.001	0.990	0.989-0.991	0.971	0.969-0.974
Male	1.000		1.000		1.000	
Female	0.916	0.885-0.948	1.157	1.117-1.198	1.046	0.969-1.129
White ethnic group	1.000		1.000		1.000	
Mixed	1.051	0.839-1.317	1.080	0.845-1.382	1.228	0.849-1.777
Asian/Asian British	1.273	1.144-1.417	1.451	1.295-1.625	1.224	1.015-1.477
Black/black British	0.917	0.784-1.073	1.057	0.896-1.248	1.033	0.785-1.359
Chinese/other	1.228	0.980-1.538	1.247	0.972-1.601	1.681	1.160-2.435
Good health	1.000		1.000		1.000	
Poor	0.924	0.872-0.978	1.157	1.094-1.224	1.919	1.739-2.117
Still in full time education	1.000		1.000		1.000	
Left when 16 years of age or younger	1.012	0.907-1.130	1.322	1.177-1.485	1.095	0.910-1.318
Left when 17-18 years of age	1.070	0.958-1.196	1.157	1.028-1.301	1.113	0.923-1.342
Left when 19 years of age or older	1.132	1.013-1.265	1.073	0.953-1.207	1.283	1.067-1.542
Not disabled	1.000		1.000		1.000	
Disabled	1.187	1.140-1.235	1.028	0.988-1.070	1.710	1.570-1.862

Additional explanatory notes:

- Q2 (1) The patient waited more than two days for an appointment.
- Q5 (2) The patient was not allowed to make an appointment three or more working day in advance.
- Q12 (3)The patient was not given enough time to discuss their condition

Additional details of statistical methods used in this report

In the statistical report section (Healthcare and Inspection, November 2006), the odds ratios and 95% confidence intervals were presented. The reference level for each variable had an odds ratio equal to one. An odds ratio greater or lower than one indicated an increased or decreased risk respectively for that specific outcome of interest for each variable level relative to its reference value. For example, the odds ratio for women on question five in the survey of people who use mental health services was 1.12 with a 95% confidence interval of 0.97–1.30. The data

suggested that the odds ratio for women was higher. However, the confidence interval goes below one, indicated that the difference between men and women was not statistically significant. The key findings of the report illustrated that gender was not a significant factor in determining the experiences of people in the NHS. Women responded more positively than men to some questions; the reverse is also true.

What is more, in the survey of local health services, the responses given by Asian patients were, however, some positive findings about ethnicity. For example, in the mental health survey, patients from minority ethnic groups responded more favorably than white patients to questions about whether they were listened to, treated with respect and dignity, and given help with finding accommodation. This may reflect growing awareness in the mental health sector of issues that affect patients from black and minority ethnic groups.

In addition, there was some revealing feedback from the research, one participant was unsure how qualitative data should be used suggesting that this was a key area to address in the post analysis stage. This respondent felt the focus was on quantitative research. The survey noted that: "*There's a lot of rich information in the qualitative, but it's up to individual trusts to analyze and use it*" (University of Surrey, September 2004)*.*

Moreover, it was felt that the surveys must be more targeted for the GPs to take it seriously, as many GP's were not aware that any of their patients were included in the sample.

Many of the respondents felt that PCTs regarded the survey as either potentially or extremely useful. However, the information was seen to be methodologically invalid if it could not be used at a practice level. An additional drawback was that the sample size may also invalidate any results, in that the response rate was deemed to be too small for statistical significance.

1.   Standards and the Rating system used by the National Health Service

The National Health Service's standard and rating system has evolved during the past few years, which led to a large national decentralization and cutbacks. The main components to improve patients' safety are found in a reference to a Seven Step Approach (National Patients Safety Agency, 2004). These seven steps were as follow:

- Step one - Build a safety culture.

- Step two - Lead and support your staff.

- Step three - Integrate your risk management activity.

- Step four - Promote reporting.

- Step five - Involve and communicate with patients and the public.

- Step six - Learn and share safety lessons.

- Step seven - Implement solutions to prevent harm.

a) The Rating System

The 2003 rating system was found in the Social Care Standard and Planning Framework (Department of Health, 2005/2006 - 2007/2008), and consisted of four stages as follows:

- A Limited Developmental Progress – received that primary Care Trust (PCT), which did not meet the requirements for "fair" improvement process.

- A Fair Developmental Progress – where the PCT has either met the standards or put into practice action plans with specific end dates, making sure that it has fulfilled it by the end of the year, and or made an advancement by meeting at one criterion described by the statements for "fair" and "good" developmental progress.

- Good Developmental Progress – here, the PCT has either accomplished the core standard needs listed under "fair" development progress, and made improvements by meeting all the standards as has been illustrated by the assurance statements for "fair" and "good" developmental progress.

- Excellent Developmental Progress – where the PCT carried out the requirements listed under "good" developmental progress, and made the advancement by meeting at least one criterion described by the assurance statements for "excellent" developmental progress.

Despite this, the NHS has changed the annual performance rating in 2005 and again in 2007. Instead of summarizing performance in a single score, the NHS gave trusts a rating in two parts based on: (1) quality of care and (2) use of resources.

According to the 2004/2005, and to the 2005/2006 Annual Report (Collins, 05/08/2005), the Health Care Commission awarded the East Surrey Hospital with Zero Stars. This was due to the Trust having delivered the poorest level of performance against key targets. The report allowed the East Surrey Hospital to view their weaknesses in relation to key performance indicators. In consequence, The East Surrey Hospital interpreted the performance rating and the Star Ratings as follow:

1. Pass rating – was awarded where the trust has achieved a high level of performance across the set of key targets.

2. Borderline rating – this trust has on average performed well across the key targets but could improve.

3. Moderate Fail rating - here the trust has not performed well across the key targets.

4. Fail rating – this trust has performed poorly across the set of targets.

An additional development was made to the performance rating system in 2006, with Trusts being placed in one of four categories:

- Three Stars – awarded to the Trust that achieved the highest levels of performance.

- Two Stars – awarded to the Trust, which performed well overall, but has not maintained the same high standards consistently.

- One Star – awarded to the Trust that has shown some progress.

- Zero Stars – were given to the Trust that showed the poorest level of performance set against key targets.

A trust with a zero rating does not mean that a hospital is unsafe. For instance, it may have some very good clinical services, and staff that work hard in difficult circumstances. It does mean however that the performance of the Trust must be improved in some vital areas. By the same token, a trust with a high rating may still have areas where improvements to the care of patients can be made.

The Annual Health Care Commission (Healthcare Commission, 2005/2006), assessed the performance of every trust in the country against a range of standards and targets set by Government.

Key facts of the report were

- All trusts receive a rating made up of two parts – a score for quality of services and a score for use of resources.

- Both parts of the rating are scored on a four-point scale of "excellent", "good", "fair", and "weak".

On top of that, scores on the quality of services were an aggregation of the trust's score when assessed against the Government's (1) core standards, (2) existing national targets and (3) new national targets. Each of these three components was scored on a four-point scale, as indicated by the Annual Health Check, (Healthcare Commission, 28/02/2007), and are also specified in the Criteria for development standards (Commission for Health Audit and Inspection, December 2006) as follow:

(1)   Core standards: "fully met", "almost met", "partly met" and "not met".

(2)   Existing national targets: "fully met", "almost met", "partly met" and "not met".

(3)   New national targets: "excellent", "good", "fair" and "weak".

Consequently, if a trust scored "not met" for either core standards or existing national targets, the trust would automatically receive a score of "weak" for overall quality of services.

b) Other Indicators

The basic elements of other indicators are found in Performance Rating (Healthcare Commission, 2003/2004), where the broader range of indicators made up a balanced scorecard to refine the decision on ratings. This balanced scorecard approach allowed a broad range of areas to be measured within a single method. Thus, to make a high overall rating, the trusts must meet good scores in a rounded set of indicators. These indicators have been grouped into medical, patients and capacity, and ability focus areas. For instance, in the Patients focus area, the rating was concentrated on the following segments: Better hospital food, Missed outpatient appointments, Outpatient booking, Patient complaints, Patients with copies of their own care plan, Privacy and dignity. Conversely, a Service user survey focused on: access and waiting, better information, more choice, building closer relationships, safe, high quality, coordinated care, Transition of care among adult services and older people's mental health services, and on Transition of care between child and adolescent mental health services and adult services. As a result, putting all marked indicators together provided a fuller picture of the Trust's performance.

c) Disadvantages of Performance Ratings

In accordance with the local health service, patients survey (Commission for Health Improvement, 2003); performance ratings do not give an all-inclusive picture of every characteristic of a NHS organization's performance. In particular, in their current form, they do not include many measures of the success of treatment (for instance, whether there are various trusts in the quality of treatment of care for specific conditions). They are therefore, unlikely, on their own to offer the information a patient would need to make choices about his or her treatment.

What is more, a finding in a journal (Batty, 16/07/2003), stated that those trust managers who received three-stars will gain more autonomy from ministers, extra funds and fewer inspections. They too have the chance to become NHS foundation trusts, free to set up private companies, and will have the ability to vary staff pay apart from where nationally agreed terms and conditions apply. Doctors have suggested that it was unfair to compare hospitals in more deprived or elderly communities with those serving more youthful and prosperous areas. On the other hand, managers at the zero star trusts will face closer. Long-serving chief executives will have three months to raise standards. Newly appointed chief executives of no-star trusts will get up to a year to improve performance. Those managers who fail to improve performance will be dismissed and their jobs "franchised" to senior public service's managers, from health and education, or private or voluntary sector experts. The current problem for the patients

visiting a zero star trust is that they have no real choice about where they can get treatment because General Practitioners (GP) decide on hospital referrals.

2.   East Surrey Hospital

The East Surrey Hospital's 2003/2004, NHS surveys offered some more insight into the satisfaction level of patients. These inspections allowed the Hospital and the National Health Service to improve their services and were carried out annually as required by the Department of Health and have contributed to the organization's star rating. The survey was designed to offer an additional view not only to patients but also to staff within each Trust. The East Surrey Hospital included in the survey questions about the respondent's gender, age, ethnic group and dependants. The aim was to collect as much data about the types of patients as possible. In addition, the questionnaire surveyed patient groups, length of stay and satisfaction with the East Surrey Hospital, and included general questions about the facilities, access to the hospital, and pain period. An NHS report (Public Trust Board, 23/05/2003) suggested that a Patients Focus Group (PALS) be established and that it should be required to meet monthly. A list of topics was provided and agreed by the Group for 2003/2004; additionally, four Patients Information Kiosks were set up. The PALS, addressed various patient concerns such as lost property, patients not being able to speak to consultants, etc.

The annual performance rating (Healthcare Commission, 2005/2006), indicated that the East Surrey Hospital was rated weak on both resources and services. This meant that the organization failed to prove that it had adequate arrangements for managing the use of resources. The score for use of resources was based on how well the trust in the NHS managed its finances, including plans and reports on its monetary performance, checking the money it had spent, and whether the services the trust offered to patients represented a good value for money. The scores reflected whether an organization could offer the basic standard of care required by the Government and whether there had been attempts to improve the care and treatment the trust provides for patients. The East surrey Hospital scored "weak" for quality of services, for the following reasons: (1) the trust did not meet the principles in assessment of compliance with core standards, and (2) it did not meet the principles in existing national targets. Surrey and Sussex Healthcare NHS Trust was assessed against 12 of the 13 existing indicators. The Trust under achieved two indicators and failed to meet three indicators. These indicators were measures that captured how a particular aspect of a service should be provided.

In 2006 /2007**,** Annual Health Check Commission (Healthcare Commission, 28/02/2007) conducted a survey on East Surrey Hospital with the focus on (1) performance, (2) quality of services and (3) the use of resources.

Table 4 shows the overall performance rating that the East Surrey trust received for 2006/2007 and for the previous year. This rating consisted of two parts: the score that the Annual Health Checks Commission gave for the quality of a trust's service and the score for its use of resources. The table also shows trusts' performance ratings for 2005/2006.

Table 5: ranked scores for quality of services and for each of the components of these scores for the East Surrey Trust. Table 6: shows the ranked scores for use of resources only. Conversely, Trusts that the Health Care Commission assessed in 2006/2007 were in some cases newly created or had been merged or reconfigured since their 2005/2006 assessment. In these cases, there is no 2005/2006 score shown for comparison with the 2006/2007 score (represented by a dash).

Table 4: 2006/2007 performance rating at a glance (Healthcare Commission, 28/02/2007) Surrey NHS trusts.

Name of NHS Trust	Type of Trust	2006/2007 Overall Resources Score (two parts)		2005/2006 Overall Resources Score (two parts)	
		Quality of Services Score	Use of Resources Score	Quality of Services Score	Use of Resources Score
Surrey and Sussex Healthcare NHS Trust	Acute and Specialist	Weak	Weak	Weak	Weak
Primary Care Trust	Primary Care	Weak	Weak	-	-

Table 5: 2006/2007 performance ratings (Healthcare Commission, 28/02/2007) quality of service scores by type of Surrey NHS trusts.

Name of NHS Trust	Components that combine to form quality of service Score					
	Type of Trust	2006/2007 Quality of Services Score	Core Standards Score	Existing National Targets Score	New National Target Score	2005/2006 Quality of Service Score
Surrey and Sussex Healthcare NHS Trust	Acute and specialist	Weak	Not Met	Almost Met	Weak	Weak
Surrey Primary Care Trust	Primary Care	Weak	Not Met	Almost Met	Weak	-

Table 6: 2006/2007 performance ratings (Healthcare Commission, 28/02/2007) for the use of resource scores by type of Surrey NHS trusts.

Name of the NHS Trust	Type of Trust	2006/2007 Use of resources Score	2005/2006 Use of Resources Score
Surrey and Sussex Health Care NHS Trust	Acute and Specialist	Weak	Weak
Surrey Primary Care Trust	Primary Care	Weak	-

The tables show that, in 2006/2007 despite systematic monitoring and implementations of Government's standards and target, the East Surrey Primary and Acute Trust achieved once again weak scoring in all three categories.

Overall scores are referred to in the (Healthcare Commission, 28/02/2007) as 'excellent', 'good', 'fair' and 'weak' on new national targets, and are calculated by comparing the number of points scored with the maximum number of points available to the trust.

The table below shows the number of points required to score 'excellent', 'good', 'fair' or 'weak' depending on the number of targets that apply.

Primary Care Trust, shown in Table 7: (Healthcare Commission, 28/02/2007) – overall national target scoring allocation - table one.

Table 7

Number of targets that apply	Maximum Points Available	Excellent	Good	Fair	Weak
13	39	>=36	>=32	>=29	<29
12	36	>=33	>=30	>=27	<27
11	33	>=30	>=27	>=24	<24
10	30	>=27	>=24	>=21	<21
9	27	>=25	>=22	>=19	<19
8	24	>=22	>=20	>=17	<17
7	21	>=19	>=17	>=15	<15
6	18	>=17	>=15	>=13	<13
5	15	>=14	>=12	>=11	<11
4	12	>=11	>=10	>=9	<9

When all 13 new national targets apply to a PCT, the scoring is as follows:

1) Excellent >=36 out of 39 points (i.e. tolerance for one failed target only, or three underachieved targets only)

2) Good >=32 out of 39 points (i.e. tolerance for two failed targets and one underachieved target only, or seven underachieved targets only etc)

3) Fair >=29 out of 39 points (i.e. tolerance for three failed targets and one underachieved target only, or 10 underachieved targets only etc)

4) Weak <27 out of 36 points (i.e. greater than three failed targets and one underachieved target, or greater than 10 underachieved targets etc)

An overall performance rating on the East Surrey Trust (Annual Health Check, 2007/2008), focused on the 'quality of financial management', which looked at how effectively a trust

manages its financial resources; and 'quality of services'; this was an aggregated score of performance against national standards, existing commitments and national priorities.

Table 8 below summarizes the four years of the Surrey and Sussex Healthcare NHS Trust (Care Quality Commission, 2008/2009), performance assessment for the period 2005 to 2009.

Table 8

	2008/09	2007/08	2006/07	2005/06
Quality of Services	WEAK **FAIR** GOOD EXCELLENT	● ● ● ● FAIR	● ● ● ● WEAK	● ● ● ● WEAK
Quality of Financial Management	WEAK **FAIR** GOOD EXCELLENT	● ● ● ● FAIR	● ● ● ● WEAK	● ● ● ● WEAK

Table 9: shows components of quality of services (Care Quality Commission, 2008/2009)

Table 9

	2008/09	2007/08	2006/07	2005/06
Meeting core standards	NOT MET PARTLY MET **ALMOST MET** FULLY MET	● ● ● ● PARTLY MET	● ● ● ● NOT MET	● ● ● ● NOT MET
Existing commitments	NOT MET PARTLY MET **ALMOST MET** FULLY MET	● ● ● ● PARTLY MET	● ● ● ● ALMOST MET	● ● ● ● NOT MET
National priorities	WEAK **FAIR** GOOD EXCELLENT	● ● ● ● GOOD	● ● ● ● WEAK	● ● ● ● WEAK

Based on the 2008/2009, performance rating, the quality of service provided by Surrey and Sussex Healthcare NHS Trust was raised from weak to "fair", and the financial management rating was "fair".

   a) The East Surrey NHS Hospital's Present and Future key targets

Important aspects of the East Surrey Hospital's quest to obtain a "fair" rating, are found in the National Standard report (Department of Health, 2005/2006 - 2007/2008). The report drew attention to the following targets for the East Surrey Hospital: the hospital had to decrease the number of queues by mainly redesigning schedules, and optimize the patient flow through service bottlenecks by using process templates. The trust had to make sure that by the end of

2008 no-one waited for more than 18 weeks from GP referral to hospital treatments, and that the participation in the 'drug problem' program was increased by 100%. In addition, the East Surrey Hospital ensured the patients were fully involved in decisions about their health care, including choices of providers, as this was measured by independent validated surveys. Equally important, the government set requirements for each hospital to improve the quality of life and independence of vulnerable older people by offering them support to live in their own homes. In 2008 these requirements involved maintaining the proportional level of those people being supported to live at home to 34% of the total of those being supported either at home or in residential care. Finally, East Surrey Hospital achieved a yearly reduction in the MRSA level, by carrying out mandatory surveillance.

The Annual Health Check Report (Healthcare Commission, 2007) shown in Table 10, highlighted the four most important aspects of healthcare as identified by the public.

Table 10

Patients and Public had identified:	The NHS needs to provide
1. Safety	Monitoring infection rates and other information on performance and following up where there is a cause for concern.
	Carrying out a significant program of unannounced inspection visits from June 2007, both at random and where we consider there to be a risk of non-compliance with the code.
2. Quality of, and access to, services	Carry out two service reviews, one on urgent and emergency care and one on substance misuse.
3. Reducing inequalities in health and promoting health and well being	Carry out risk-based visits at trusts in relation to race equality issues.
	Assess and report on progress by the NHS to meet the Government's targets which measure health improvement and the reduction of inequalities in health.
4. Trust 's use of resources, and whether they offer value for money	Assessment of the management of financial resources, working with the Audit Commission and Monitor.

In 2008/2009 the Health Care Audit and Inspection delivered their service model, which was based on the following key features:

a. Whole systems approach to delivering health and social care support.

b. Optimizing strategic partnerships.

c. A person centered approaches to enable choice.

d. Mainstreaming – ensuring access for all.

e. Integration – creating virtual health and social care teams.

f. Changing professional roles.

Furthermore, the Government had signalled its intention to create a single regulatory body for health and social care, as stated in the Annual Health Check Report (Healthcare Commission, 2007), by merging the Healthcare Commission with the Commission for Social Care Inspection and the Mental Health Act Commission. This new system encouraged trusts to show where improvements were needed in the quality of their services or in their internal processes of assurance or accountability. Additionally, all trusts were required to make a declaration of compliance with the core standards, and had to send a statement of compliance about the hygiene code covering the assessment year. However, in 2007/2008, trusts were not required to make a declaration of their progress against development standards.

b) Future Targets

The Health Care Commission instructed the East Surrey NHS Hospital to continue to administer the Seven Step Approach Model until the end of 2012 in order to develop a safer Healthcare environment for their patients and to use the "Circle of Safety" model. This model consists of: (1) Reporting, (2) Analysis, (3) Solution Development (4) Implementation, (5) Audit and Monitoring, and (6) Feedback.

The Table 11: below is found in a reference to an overview guide for the NHS staff report (National Patients Safety Agency, 2004), which revealed the "Circle of Safety" Model.

Table 11

By the year 2012, the Health Care and Inspection teams are expected to introduce single crisis resolution and home treatment across Surrey, as well as easier access to psychological therapies for patients. The basic element of the Health Care and Inspection team's report is found in a reference to a chapter in the Annual Plan 2008/2009 (Surrey and Borders Partnership, 22/07/2008). In addition, more specialist drug, alcohol, eating disorders, child and adolescent services and less residential care homes, and less "work" and day services will be required, as these will be provided by agencies that are more able to offer choices to the people who use them. Finally, the Health Care and Inspection teams expect there to be more involvement and support for family carers, and more primary and secondary care services.

The Health Care Audit and Inspection team constructed a tactical timeline, shown in Table 12: below (Surrey and Borders Partnership, 22/07/2008), which started in 2005 and will end the year 2012.

Table 12
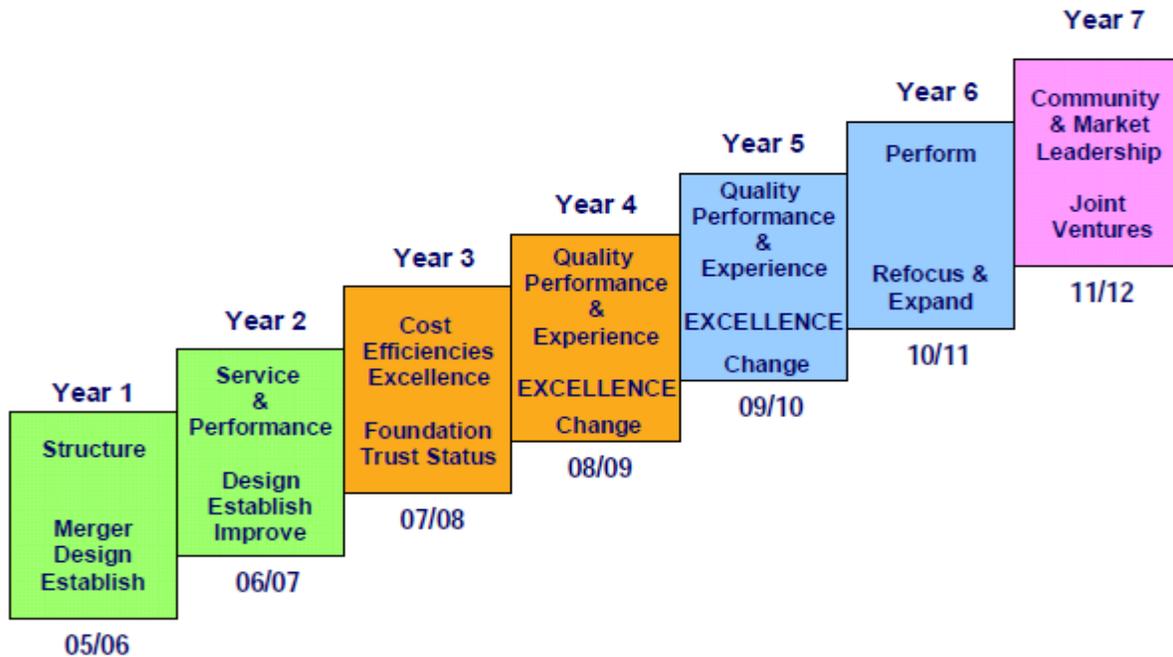
This time line shows that in 2009/2010 the Health Care Audit and Inspection will focus on improvements of quality and performance, as well as building on the information gained from the questionnaires and experiences.

a)   Conclusion

In 2006 a national study was conducted on the experiences of patients using the NHS (Healthcare and Inspection, November 2006); the East Surrey Hospital was a participant in the survey. The report revealed that patients viewed the trust in a more positive light than they had done in previous years. The survey found that older patients were generally more positive in their responses; however there were few examples of the views of younger patients. The survey also raised a number of concerns regarding the treatment of patients from various ethnic backgrounds; it was established that such concerns were mainly due to cultural differences, sensitivities, and the language barrier.

These surveys, which had been carried out over the past seven years, revealed that patients with disability or poor health were more likely to have a negative experience of the healthcare service. Additional research should be conducted in order to find out how to improve treatment

for this particular group of patients. It is important to note that these surveys measured the experiences of patients of health services, as opposed to their level of satisfaction. It was considered that the personal expectations and preferences of patients would have an impact on the experience and satisfaction levels to the extent that patients may have completely different views of exactly the same service. As such a situation could arise where, by increasing expectations over time, a higher level of quality of care may become associated with lower levels of satisfaction. A separate study conducted by researchers from the University of Sheffield (Healthcare Commission, 2003/2004) on patient satisfaction levels concluded that satisfaction is influenced by factors such as age, gender, ethnicity, state of health, level of education, and experiences such as the patients-doctor relationship. Similarly, response rates varied geographically and among subgroups within the population. Some factors not covered in the surveys may also have a significant influence on the way patients relate their experiences. For example, the research revealed that those people who have recently used a service in the NHS tend to report greater satisfaction levels than people who have not. In additional, a "gratitude bias" can influence the survey's result. Such a bias may arise when patients are relieved to be free of a particular illness, or if they view medical staff as beyond criticism.

It is important that a trust uses the most appropriate measures in order to evaluate its activities. Such indicators would include audits, complaint reviews, survey results along with feedback from focus groups and patient representatives. It has been agreed nationally that healthcare trusts benchmark their performance and patient safety procedures against patient mortality levels. This enables them to compare statistics with others at a local or national level.

It is envisaged that the East Surrey Hospital's rating levels could be improved by focusing more on the treatment of patients, paying greater attention to detail, and involving more patients in decisions about their care and treatment. It has also been suggested (University of Surrey, September 2004) that more ethnically relevant questionnaires should be introduced and that trusts should consider having questionnaires and accompanying literature translated into other languages.

*Note: It is important to note, that the Healthcare Commission, Commission for Social Care Inspection and the Mental Health Act Commissioner ceased to exist on 31 March 2009 (Care Quality Commission, 2010). This was replaced with the **Care Quality Commission**, which is the new health and social care regulator for England.

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Private Equity: The Next Bubble

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Abstract: This paper reviews the Private Equity and the potential it has for becoming the next financial bubble. The paper also reviews the global economic crisis and previous financial bubbles. Private Equity is a somewhat obscure business that is integral to developing new business ventures in developed and developing countries. We will examine the potential impacts of this highly lucrative business that operates with even less regulation than the financial giants that collapsed during the 2008 global economic crisis.

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Introduction

As one of the richest men in the world, Warren Buffet is famous for quoting his investment philosophy of "be fearful when others are greedy and be greedy when others are fearful." (CONTRIBUTOR, 2008) Most economists and financial experts agree that the economic crisis of 2008 was twenty-five years in the making. Some would argue that the tipping point was September 15, 2008 when Lehman Brothers, a 158-year-old investment bank behemoth, filed for bankruptcy (Wikipedia, 2009). Prior to September 2008, large financial powerhouses, investment banks, and hedge funds could do no wrong. Needless to say, in the months leading up to September 2008, everything did go wrong. Lehman Brothers was not the only large financial services firm in trouble during the period that some refer to as the perfect financial storm. Bear Sterns was also on the brink of financial collapse, but the Federal Reserve stepped in to bail out the beleaguered financial giant in March 2008. The *Economist* article "What if?" presents a careful analysis of what would have happened if Lehman had been bailed out. The article argues that credible predictions were made as early as one month prior by Kenneth Rogoff (Harvard Economics Professor) that not only would middle-sized banks soon fail, but that it was more than likely that one of the big investment banks would also fail (Economist, What if? If Lehman had not failed, would the crisis have happened anyway, 2009, pp. Sep 09 - pg 82)? The prediction that a financial contagion was brewing and spreading was made much sooner than most would believe. That this catastrophic event and its effects would spread throughout the American and global banks was "on the mark." Kenneth Rogoff made his prediction during a speech at a conference in Singapore just one month prior to Lehman Brothers filing for bankruptcy, when a major financial giant collapsed on the world stage. The truth of the matter is that this is not the first financial crisis since the Great Depression; Barry Eichengreen of the University of California at Berkley and Michael Bordo of Rutgers University have identified 139 financial crises between 1973 and 1977 (Economist, Greed-and fear, 2009).[1]

Firstly, it is important to note that the financial markets did not just appear out of thin air, but moreover became what they are today based on need. The first financial market began as small loans between families and trusted friends. Early financial dealings involved the negotiation of loans between two or more parties, wherein the knowledge of the person borrowing the money, their habits, and individual situation were a known quantity; there was also a large trust factor involved in the transaction. Today, we give money to perfect strangers in the hope that

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[1] The following paragraph was taken from a previous assignment written by Kevin Jones on Financial Markets & Instruments for Matthew Wong. The paragraph was relevant to the body of work and subject matter presented in this assignment. Jones, Kevin (2009, September 27) Zero-Sum Game.

that they will secure our future by delivering a return on our investment based on their level of skills and knowledge.

This position paper reviews the history of private equity, examines the internal structure and its role as an asset class, and attempts to provide a critical analysis of private equity bubbles.

(1980 – 2007) The Golden years

From 1980 to 2007 nothing could go wrong in the American economy. Americans along with many parts of the world had experienced more than twenty-five years of prosperity and fortune. America became addicted to speculating, 'betting the farm' on its predictions, and for the most part winning. The average price of an American home quadrupled in price from 1980 to 2007; even when inflation was taken into consideration, property had still more than doubled in value. To put this in perspective, if you had purchased a home in 1980 for 250 thousand dollars (a very large home in the southern states), by 2007 that home would have been worth over 1 million dollars. The stock-market fared well also; during 1982 the Dow Jones industrial was just over 802 rising to more than 14,165 by 2007 – a 500% gain (Andersen, 2009). The size of the American home increased by half, while the size of the American family actually decreased over the period. The American automobiles became 29% heavier, 89% more powerful and 2% less efficient. To 'put the icing on the cake', Americans gained more body weight. The average American weighs 20 pounds more that they did in 1970, equivalent to almost 1 pound per year of economic growth and prosperity. Although body weight and automobile size cannot be proven to have a direct correlation with the financial crisis in 2008, they still don't seem like habits or characteristics that one could be proud of. Americans watched their homes, cars, 401K's and weight increase for 20 years unfettered and untamed.

Too-big-to-fail became a household catch phrase in 2008. Too-big-to-fail refers to the U.S. policy that suggests that some companies and banks are too big for the state to allow them to fail. Mervyn King, the Governor of the Bank of England, in a speech quoting a famous American economist claimed that "any bank too big to fail is too big." (Treanor, 2009, pp. June 2009, The Guardian)

Private Equity

Private Equity came as an answer to conglomerates in the 1960's. It was believed that as business by nature is cyclical in its behavior, there was a need to protect or shield business investment from downturns or catastrophic loss. In the 1960's the complex financial products and derivatives that are so visible today were not as widely used or simply did not exist. The

commodities markets did however exist, although the practice of hedging that we see today was not considered the norm. Conglomerates were large companies that purchased other companies in non-related fields. Conglomerates became popular in the 1960's because of low interest rates and a bull market. A famous example of a conglomerate was the ITT Corporation. By the 1970's ITT was operating in 38 different industries and ranked eighth in terms of sales turnover among U.S. Corporations. (Richard A. Brealy, 2008) The pros for conglomerates are the reduced investment risk due to the multiple revenue streams and the ability to deliver earnings growth by acquiring other companies. The downside to conglomerates is in large part the lack of focus on a business and the absence of synergy. Although it may look good on paper for a conglomerate to own 38 different companies, it is an extremely difficult task to attempt to understand and leverage all possible synergies of 38 organizations. By the mid 1970's most of the conglomerates were broken apart into separate entities through LBO's, MBO's and Spin Offs. The phrase "private equity fund" is often loosely referred in the same context as LBO's and/or venture capital funds.

Private equity firms are investment managers. Firms typically manage large sums of money given to them by institutional investors with the hope of delivering large returns. Firms are able to liberate large sums of cash by selling assets or reorganizing the firm. This structure is very similar to that of hedge funds.

Private equity funds are structured as partnerships and are not corporations. There are two types of partners in a private equity fund, General Partners and Limited Partners. The General Partners is a team or individual who is responsible for setting up the fund as well as the day to day management. The General Partners carry the brunt of the liability in the organization and are responsible for only 1% of the capital invested to start the fund. The value in being a General Partner are the annual management fees of 1-2% along with the 20% cut of the proceeds from the eventual sale of the investment. The Limited Partners in the fund own the remaining 80% of the investment, representing pension funds, retirement funds, institutions and wealthy individuals. The typical term of the partnership is normally 10 years. The value in investing in private equity is that the returns are generally better than the stock-market. Not all funds are geared to deliver massive returns. Some private equity funds are used by investors to "park" uninvested allocated capital. (Fraser-Sampson, How Do Private Equity Funds Work, 2008)

Private equity funds will typically set their investment horizon for a 2 - 3 year term. This is changing due to the economic crisis of 2008 and the number is being extended to 3 – 5 years. The overall objective is to locate a company that is undercapitalized or undermanaged and invest in or purchase the company. In the process the company will be overhauled in terms of

new management or strategic direction. After the 2 -3 year period the company will be sold or taken public. When a company goes public the general and limited partners receive the proceeds from the sale of stock in the company.

In some cases a company is already a publicly traded company and a private equity fund will assist in taking the company private. All outstanding shares in the company are purchased (at a discount because of the market undervalues the stock) then the equity partners complete a massive restructuring of the business to get it back into shape for resale or a new IPO. It is also worth noting that a fund is not allowed to invest more than 10-15% of its funds in any one single investment. This is also true for pension and retirement funds. This 10 – 15% limit is a subtle attempt at self regulation. (Fraser-Sampson, Investment, 2008)

Typically when a fund decides to invest in a company the General Partners execute a Draw Down notice or Capital Call which gives notice to the Limited Partners. Funds are not allowed to draw down cash just to hold in an account, but may do so in anticipation of a specific transaction. When a Drawdown Notice is sent to the Limited Partners they are given time to review and validate the reasons for the capital call in accordance with the Limited Partnership Agreement in order to ensure that the investment is within the agreed scope. On occasion the actual funds are not distributed. If a company is floated as an IPO, the actual shares of the company are distributed to the Limited Partners. This gives the Limited Partners the decision to sell the shares or continue to hold on to them in the hope of generating a larger profit. In the case of Google, an investor would have fared much better by holding the stock rather than immediately selling the shares in the open market. The difficulties occur when stocks that are distributed are restricted stock and cannot be sold for a period of six – twelve months. (Fraser-Sampson, Investment, 2008)

The opposite of a Drawdown notice is a Distribution notice. When a sale or float is performed, the proceeds are not returned to the fund but are in turn distributed to the partnership as stated in the original agreement. Typically in a mutual fund or stock account the funds are reinvested into the portfolio. (Fraser-Sampson, Investment, 2008)

Private equity has its downsides as well. The private equity is a very illiquid business. Once an investment is made, the assets are tied up until a sale is made. It is necessary to understand where the economy is and where it is going in order to make money. The returns can be quite lucrative; however, losses can also be substantial. Some would argue that private equity has been a contributor to the financial crisis. Private equity funds have been called predatory spenders. Joshua Kosman accuses the private equity industry of employing slash-and-burn

management styles, delivering mediocre investment returns and the reckless use of debt, in his soon to be released book: *THE BUYOUT OF AMERICA: HOW PRIVATE EQUITY WILL CAUSE THE NEXT GREAT CREDIT CRISIS*. History has shown that the periods of private equity boom and bust closely follow low interest rates and access to capital; interestingly, the same holds true for real-estate and equity bubbles.

Private Equity Under Fire

Private equity is a coveted area to work in for ivy-leaguers and young upstarts seeking to make their fortune. In 2007, $297 billion was invested globally by private equity firms; an astonishing $459 billion was raised in 2007. The challenge now is how to create sustainable value in the current economic conditions. The truth of the matter is that investors will not ease their expectations based on the current market, as private equity firms are sitting on cash and available assets. I would argue that investor expectations will become greater, in part due to the global financial crisis. Cash is king and the private equity firms are holding the chips in this case. As Warren Buffett said "now is the time to invest; there is a fire sale for businesses".

The first major venture capital firm with documented success was ARDC. In 1957 ARDC made an investment of $70,000 in Digital Equipment Corporation (DEC). The $70,000 investment would be valued at over $355 million after the company's initial public offering in 1968 (representing a return of over 500 times on its investment). The standard bearer of private equity today is the Blackstone Group, which is a publicly traded fund with $125 billion under management. PWC published a Global Equity Report for 2008 noting that the pace of growth was slowing down for private equity.

Private Equity has come under fire due to the method in which the General Partners profits are taxed. Fund managers generate large sums of money every year from not only the 1% – 2% management fees that are extracted, but also the 20% of profits that are generated from each deal. PE funds are taxed on both income and capital gains. The management fees are taxed as ordinary income at levels of up to 40% depending on which state the PE firm is located in. Meanwhile the 20% profit sharing is taxed as a capital gain at the current U.S. rate of between 15% - 20%. The difference in capital gain and income tax levels equate to millions of dollars in savings for the fund. Fund managers that take their companies public also attempt to treat the income as capital gains taxable income. Oddly enough there appear to be large contributions from hedge funds and private equity firms to political campaign in the US.

The History of Private Equity

The father of venture capitalism was Georges Doriot (former dean of Harvard Business School) who along with Ralph Landers and Karl Compton (former president of MIT) encouraged private sector investment in businesses run by soldiers returning from World War II.

The private equity industry began in 1946. From 1946 – 1981 there were a series of small investments through leveraged buyout deals (LBO's) stemming from both the growth and decoupling of conglomerates. The LBO's were not formally called private equity but, over the span of time, became the foundation of private equity.

LBO's differ from ordinary acquisitions. A leveraged buyout is the process of acquiring a company using borrowed money with the company's assets as the collateral. Simply put, one company can buy another company if it has better credit, cheaper credit and / or access to capital. It is not a matter of whether you know anything about the business you seek to buy, but moreover that you can put up the capital and have turnaround specialists on your team to fix whatever was broken in the present company, or simply make it better.

Private equity is historically characterized by three boom and bust periods. From 1946 through to 1981 PE was effectively a fledgling industry with a relatively small number of transactions. From 1982 through to 1993 there was a private equity boom and a huge surge in leverage buyout transactions that were primarily financed by junk bonds. The culmination of the first boom was the buyout of RJR Nabisco. However, the LBO and private equity business was on the verge of collapse in the late 1980's and early 1990's. The second boom and bust came after the savings and loans crisis and the real estate market collapse during the 90's. Private equity and LBO's became more institutionalized and formal with firms and other banks entering the market. With the dot-com bubble of 1998 – 2000, there was more liquidity in the market as a result of low interest rates; during this time money was literally being thrown at companies with nothing more to offer than a domain name and business plan. The next bubble began to form in the wake of the dot-com era from 2003 – 2007, when once again interest rates were dropped and an over abundance of capital was pushed onto the market.

Private equity was fueled by cheap money and huge returns. During the 1980's a former U.S. Secretary of Treasury (William E. Simon), Ray Chambers and a group of investors formed a company called Wesray Capital Corporation. Wesray Capital Corp. acquired Gibson Greetings (greeting card Company) for $80 million dollars of which Wesray Capital Corporation put up $1 million cash in 1982. By 1983 Gibson had completed a $290 million IPO. Simon made $66

million dollars on the transaction. Widely publicized deals like this excited and ignited the fervor for private equity.

Is there a private equity bubble on the horizon?

Based on current events and the recent economic crisis it would appear that there is a Private Equity bubble on the horizon. It is envisaged that the potential impact of the bubble may not be as adverse as the global economic crisis, however it is expected that pension and investment funds stand to lose up to 10% of their investments if stock markets take a turn for the worse. Private-equity firms are sparking activity in the IPO market, as they sell shares in companies they own in order to repay their increasingly agitated investors. There are also new offerings being brought to the market; Kohlberg Kravis and Roberts & Company recently executed an initial public offering for Dollar General Corporation. The IPO was expected to raise $750m. Half of the proceeds will go to Dollar General and the other half will most likely go to KKR who are also underwriting the IPO. KKR is publicly traded on the Euro Next and the New York Stock Exchange.

It could be argued that the economic collapse of 2008 was set in motion mainly by mortgage back securities and in particular the sub-prime mortgages. The collapse may have been far less traumatic if not for the complex derivatives that were bundled as investment grade securities and sold all over the world.

If it requires a team of financial lawyers, economists, and Ph.D.'s to explain how a financial instrument works then you probably should not invest in it. It begs the question therefore as to how a financial instrument so complex that only a certain few truly understand it, could be assigned a legitimate credit rating?

CDOs (collateralized debt obligations) are not a new financial security; the first CDO was created by Salomon Brothers and First Boston in 1982. The CDOs were tradable securities and a combination of debt pooled from bonds, loans, mortgage-backed securities, and other assets. CDOs proved to be one of the many poison pills of the financial collapse of 2008. These type of securities generated income from the underlying assets for investors when property prices were rising and there were few defaults on mortgages. Indeed when things are going well, a CDO is another creative way to make money.

Until last year, credit-default swaps (CDSs) were hailed as a wonder of modern finance. These derivatives allow sellers to take on new credit exposure while insuring buyers against companies or governments failing to honor their debts. The notional value of outstanding CDSs exploded

from almost nil a decade or two ago to $62 trillion at the end of 2007—though it slipped to $55 trillion in the first half of this year and has since continued to fall. Traded privately, or "over the counter", by banks, it seemed to prove that large, newfangled markets could function perfectly well with minimal regulation (Economist, The great untangling, 2008).

Proponents of CDS's claim that they have lowered the cost of a firms' debt financing; however, they also make it easy for banks to sever ties with their customers. Their incentive to apply some amount of rigor in screening their clients is of no consequence. The bank knows that in a matter of months or even weeks they will be bundling and selling the newly minted security to a larger player (Adam B Ashcraft, 2007).

CDO's and CDS's are much more complex products than simple interest bearing securities or equities. The *Economist* article on the future of finance said it best: "There is a saying on Wall Street that the test of a product is whether clients will buy it" (Economist, In Plato's Cave, 2009).

It appears that private equity is following a similar path of complexity as it extends itself to secondary and third level markets. Until recently private equity was an illiquid market. The creation of the private equity secondary market creates a quasi liquid market for private equity investors. Sellers of Private equity shares can now not only sell their shares in the firm but also their unfunded obligations as well. Everything works well until the second owner is not able to live up to his or her unfunded obligations. If this were to happen on a large scale the private equity firms would become incapable of investing money in new and existing ventures. The result could be catastrophic with a major company going out of business or being bought for pennies on the dollar because of a failed private equity firm. One could argue that this is unlikely to happen as the General Partner is obliged to approve the transfer of the investment to a second owner, however the bankers never thought that the CDO's and CDS's would cause the collapse of the global economic system either.   The secondary market is being driven by investors who want to diversify their private equity exposure. Typical private equity investors have however been restricted with extended lock-up periods, lack of transparency and concentrated holdings of illiquid securities and high investment minimums.

Conclusion

Private equity is an interesting asset class that has been in existence since 1946 in the form of LBO's. With the sophistication of the financial markets there is a need for private equity funds. I would however caution PE firms not to grow too big too soon. Even though the private equity business has been in existence for over sixty-three years it is still wise to be cautious in the approach to investing. As we have seen with the Global Economic Crisis of 2008 when financial

instruments are left unchecked and unregulated the situation can get out of control very quickly. Many people don't know how serious the situation was after the collapse of Lehman Brothers, and AIG. Warren Buffet called the Bank of America's CEO Ken Lewis and unsung hero after he had arranged the approval of the board and ultimate purchase of Meryl Lynch. If Meryl Lynch would have been allowed to go under we would be discussing very different topics.

When asked if there is a chance of a private equity bubble, the answer is yes. However, the total market for private equity is currently less than one trillion dollars, thus limiting its impact on the global markets. Though, if PE were to experience some catastrophic events in the next couple of years its demise could send the markets into a panic similar to that experienced during the great depression of the 1940's. Until it reaches a multi-trillion dollar level we can rest secure of it becoming the catalyst for the next global economic crisis.

I would rather not see heavy regulation in the private equity markets as I believe PE can fuel the IPO markets and become one of the primers for an economic recovery. I would ask though that private equity take a closer look at the compensation practices of fund managers, do some soul searching and come up with the correct conclusions. It would be a shame to have congress or some legislative body intervene and force fund managers to pay back taxes on hundreds of millions of dollars!

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Graphics

Chart 1 Global private equity market

$bn

Legend: Funds raised · Investments

Years: 2000 2001 2002 2003 2004 2005 2006 2007

Source: IFSL estimates based on PEREP_Analytics, AVCJ,
EVCA/Thomson Reuters/PwC, NVCA, Ernst & Young data
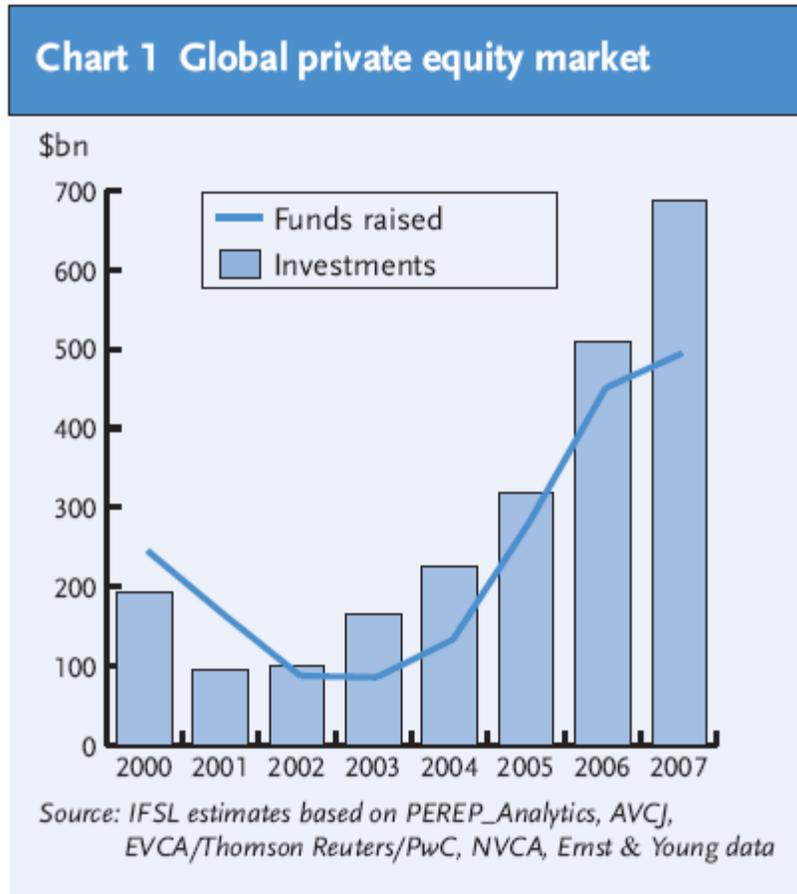
Chart 6 Global private equity secondary market

Total secondary funds raised, $bn

Source: Triago
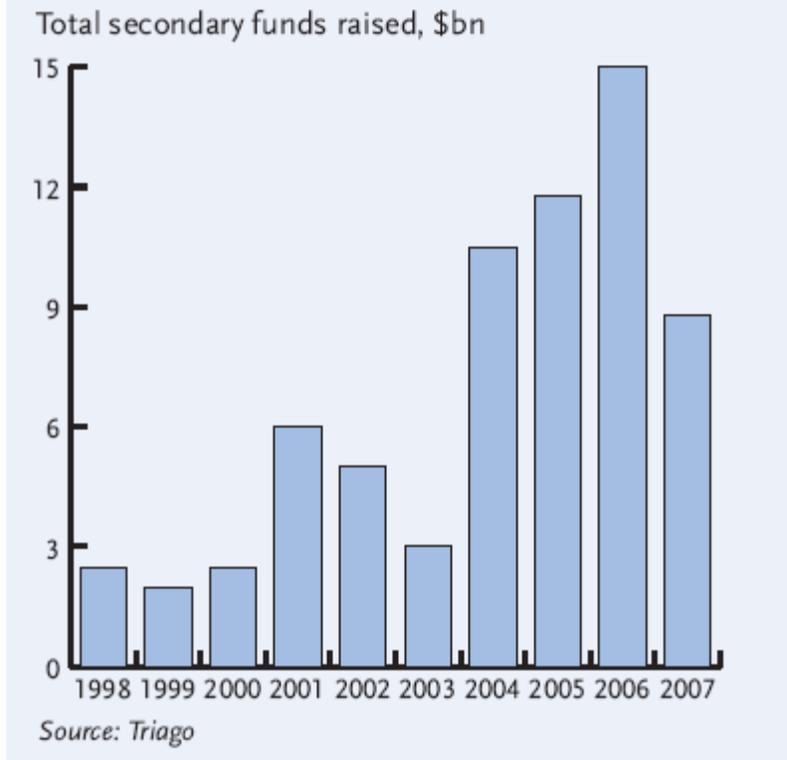
Chart 11 Private equity market

INVESTORS	INTERMEDIARIES	ISSUERS

INVESTORS
- pension funds
- endowments
- foundations
- bank holding companies
- high-net-worth individuals
- insurance companies
- investment banks
- corporations
- sovereign wealth funds
- other investors...

INTERMEDIARIES

Investing in private equity funds

Fund of Funds

Private equity fund

Private equity fund

Private equity fund

Direct Investments

ISSUERS

Seed

Start-up

Expansion

Replacement capital

Special situation

Buyouts

Venture capital

Source: Federal Reserve Bank of Dallas, EVCA/Thomson Reuters/PricewaterhouseCoopers

Table 3 Largest private equity transactions

Announcement year	$bn
TXU (2007)	43.8
Equity Office Prop. Trust (2006)	38.9
Hospital Corp. of Amer. (2006)	32.7
RJR Nabisco (1989)	31.1
Harrah's Entertainment (2006)	27.4
Clear Channel Comm. (2006)	25.7
Kinder Morgan (2006)	21.6
Freescale Semicond. (2006)	17.6
Albertson's (2006)	17.4
Hertz (2005)	15.0

Source: Fortune

Table 1 Top countries for private equity investments

	2006 investment value ($bn)	----------------2007---------------- investment value ($bn)	% share	As % of GDP
US	347.0	485.0	71	3.5
UK	51.4	46.9	7	1.7
France	12.7	16.9	2	0.7
Germany	4.4	10.3	1	0.3
Sweden	5.4	5.8	1	1.3
Netherlands	3.0	5.3	1	0.7
Spain	3.5	4.2	1	0.3
Others	66.3	111.5	16	0.4
Total	**493.7**	**685.8**	**100**	**1.3**

Source: IFSL estimates based on PEREP_Analytics, AVCJ,
    EVCA/Thomson Reuters/PwC, NVCA, Ernst & Young data

Top Ten PE Firms 2008
TPG
Goldman Sachs Principal Investment Area
The Carlyle Group
Kohlberg Kravis Roberts
Apollo Global Management
Bain Capital
CVC Capital Partners
The Blackstone Group
Warburg Pincus
Apax Partners

Innovation challenges: Paradoxes and opportunities in China

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Abstract: Innovation has been pinpointed by the Chinese Government as a springboard for sustainable economic growth. This paper argues that the innovation process requires a global approach that takes into account multiple variables if foreign firms are to succeed with their R&D programs. The study considers the relevant variables and examines how they impact the success of innovation projects. Innovation requires both a maverick type personality and a spirit of adventure, attributes which can be at odds with the Chinese cultural traits of harmony, equilibrium and stability. The paper discusses how foreign organizations should deal with such paradoxes and contradiction and paves the way for future research in this area.

Biographical Notes: Rachid Alami has a Doctorate degree in Business Administration and MBA from Paris Dauphine University in addition to a Master in Sciences from Quebec University in Canada. He has been working as management consultant and teacher in management sciences for 17 years and has worked for international companies in Africa, Switzerland and France as well as research centers in Canada and Morocco. He focuses his consulting practice on building multi-cultural teams, improving organizational performance and implementing strategies to reinforce competitiveness and human resource productivity. He has published several papers and articles in France, Morocco and United States on cultural challenges, innovation and change management.

Introduction

One of the targets set in the National Guidelines for the Medium- and Long-term Plan for Science and Technology Development is to raise the ratio of Research and Development to GDP to 2% by 2010 and to 2.5% or more by 2020 (OECD, 2008).

The economic meltdown has forced companies to direct cash flow to the development of innovative products in order to stay ahead of competition. Firms continue to look for opportunities to take advantage of R&D incentives around the world. Outsourcing, joint-ventures, master franchising and strategic alliances are the most important techniques that are used to enhance revenues and decrease costs. In terms of market, China represents the El Dorado for international firms whose managers seek higher return on investment and better productivity. In the last decade, China has seized the largest part of global foreign investment. In order to encourage investors and companies to bring their money and their know-how and to develop its own innovative capabilities, China has put in place a number of innovation incentives. This paper considers the paradoxes surrounding the introduction of such incentives to Chinese society and their impact on firms. As a Confucius faith orientation, China believes in harmony, cooperation and pragmatism; however innovation can invariably lead to rivalry, competition and uncertainty and thus may have a negative effect on society.

The first section of this paper is a review of opinions from authors and scholars on the nature of the relationship between innovation and competition. Economic theory regarding this relationship can be ambiguous. It is often difficult for a firm to put an appropriate value on their innovations when on the one hand theory predicts that competition leads to a reduction in innovation incentives, whereas on the other hand, theory also indicates that more competition should boost innovation. The empirical evidence also shows mixed results with some cases demonstrating that competition encourages innovation while others conclude that it reduces innovation, depending on the various circumstances and assumptions. This part of the paper examines the existing obstacles to innovation from a western company's perspectives and considers what are the conditions and variables for innovation to emerge.

As China becomes a fertile land of competition and innovation, the second part of this paper presents the main innovation policies that China has implemented. In an effort to understand what the concept of knowledge and innovation actually mean in China, consideration is given to the factors that influence the integration of creative ideas and the application of knowledge based systems. Attention is also given to process of reform undertaken by the Chinese government to promote scientific research and technological development. This section argues that the concept of innovative development presents many obstacles for Chinese society in that it contradicts many of the faiths and beliefs of Chinese traditional culture.

In the third section of this paper, a model framework is used to analyse innovation levels in both Western countries and China. Consideration is given to the hurdles that foreign firms face in

terms of innovation as they seek to break into the Chinese market and what they should do to overcome such obstacles.

Finally, the conditions are explored that would allow firms to do more with less and innovate. This part of the paper demonstrates that on the one hand, innovation needs contextualization, whereas on the other, managers must be prepared to evolve in a paradoxical environment.

How does innovation emerge within a country?

The goal of innovation is to create business value by developing ideas from mind to market (Alter, 2000) but it is, for most companies, tremendously difficult to achieve because the innovation path is full of obstacles which might be, among others, cultural, psychological or institutional (Davenport, 1993). A myriad of obstacles in the idea-to-cash process limit a company's ability to innovate. When firms look for innovative products, they usually seek two main goals: reducing costs and increasing benefits, or creating new market and enhancing sales (Spence, 2008). To the same extent, Alter (2000) argues that innovation is a way to optimize the potential benefits that are embedded in an idea which is new to you. From the organization perspective, authors have reached different conclusion on how innovations emerge and create benefits. Schumpeter (1979) says that big and dominant firms are more likely to innovate than smaller ones that lack market power; he argues also that in high-innovation industries, this market power is ephemeral. Arrow (1983) finds that a pure monopolistic organization has lower incentives to invest in process innovation than firms in a competitive market would have, and advocates that the monopolist already enjoys supra-competitive profit. The author adds that product differentiation can deliver supra-competitive profit in a competitive market, with innovation contributing to incremental benefits. However, Arrow (2001) argues that a high level of benefits may lead to reduced motivation and incentive to develop new products and concludes that competition itself provides better incentives for innovation than monopoly does.

Hippel (2006) stated that if competition is vigorous, the most efficient firm will invest the most in R&D for a new process technology. If competition is weak, though, the least efficient firm will invest the most. Consequently, R&D efforts for new process technologies will tend to preserve the positions of dominant firms in industries with aggressive competition, whereas R&D will cause lagging firms to gain ground on their competitors in industries with weak competition. On the other hand, Carlin, Schaffer and Seabright (2004) examined firm-level performance after the privatization of State-owned enterprises in 24 transitioning countries. They concluded that a certain minimum level of rivalry is important for stimulating innovation. In addition, they argued that firms operating in markets that were exposed to foreign competition innovated more after being privatized. Finally and paradoxically, they proposed that the presence of just a few rivals was more favorable to innovative performance than the presence of many.

How does innovation emerge within organizations?

The conditions required to facilitate innovation within organization (their study mirrors and explains the "Post-it" innovation success), were covered by Akrich, Callon and Latour (1988). Chesbrough (2003) added that innovation emerges when favourable "macro-social" and "micro-social" conditions are set up. These conditions were divided into a number of categories as shown in Table 1 below:

Macro social Dimension	Description
Firm's capacity:	- Recruiting strong competences - Creating partnership with research centers - Identifying and controlling extern information flow (economic intelligence, monitoring technological development) - Grabbing public or private investors and business angles
Firm's quality :	- Managing effectively and setting right conditions - Mobilizing human resources and get them involve deeply - Efficient business processes
Organization's culture:	- Technical culture (IBM) - Interne rules (permissiveness - Apple) - Managers' background and culture (3M) - Hierarchical organization of innovation process (coordination between services and department -) - Innovation lifecycle (may be short or very long – ZARA versus GAP)

The "micro-social" variables that might influence innovation and creativity are presented in the table below:

Micro social Dimension	Description
Creativity	• Think differently, involving use of imagination, thing outside the box
Persistence	• Don't give up, start again
Modesty	• Trail and error, accept to make mistakes
Take risks	• Dare to do new things
Get out of the dominant paradigm	• Innovation requires new ideas, new way of thinking, challenge general believes

Innovation is in equilibrium between organization culture, individual behavior and environment conditions. As previously mentioned, innovation may be driven by the quest for a reduction in costs as in the example of Wal-Mart, or in the pursuit of a market leader position as practiced by Apple over the last decade with their IPhone and IPod products. The latest 3GS IPhone is the perfect example of what innovation can procure for an organization in terms of market leadership, revenues and profits. Innovation helps shape the customer's perception when they make a choice of one product over another (Hanssens, 2007). Product or process innovations provide organizations with potential competitive advantages over competitors. Japan has been leading both the electronic and automobile sectors because of its ability to transform innovation into market value for customers and stakeholders. Many western car makers tried to imitate the innovative Toyota manufacturing processes in the 80's; however, many of these same companies have faced obstacles in their attempt to innovate (Hargagon, 2003). Costs, human resources qualifications, and access to investors are what make innovation an unpredictable path (William, 1999). For such reasons it is often difficult for organizations to succeed in the development of innovation. It should be concluded therefore that innovation is not a simple and straight-forward task but moreover a complex process that requires a high level of risk aversion. The table below explores this idea further.

Obstacles to innovate from the Western perspective

Industries	Obstacles
	• High innovation costs
	• Lake of finances resources
	• Rigid organization structure
	• Lack of people skilled
	• Lack of information on technology
	• Lack of market information
	• Low flexibility in regulations and standards
	• Low customer's reactivity to new products
	• Imitation and fraud

Most western research has shown that the main obstacle to innovation remains the lack of skilled human resources (Landry, 2005). The human resource factor is only one of many issues that result in the slow down of the innovative process. In the current economic meltdown, financial resources have become scarce. Furthermore, today's investors have a lower threshold for risky investments. Moreover, the present business climate with its requirement for shorter delivery cycles has dramatically reduced the available funding needed to drive trend-breaking innovations to the market (EPFL, 2009).

Paradoxically, by focusing on business efficiency and cost-effectiveness over the last decade, organizations have stifled the flow of resources needed to dedicate to the next cutting edge technology (Davenport, 1993). Finally, academic and scholarly research has too often been focused on the disciplinary domain which does not always favour the opportunistic approach of driving ideas to the market. In France for example, only 10% of the total spent on academic research is transformed into market value and generates profits. This lack of cross-fertilization between universities and firms is regularly cited as an obstacle for creating new sources of economic as well as social benefits (Les Echos, 2008).

In order to control the level of risk in the innovation process, it is necessary for a set of favourable conditions to emerge. National culture, organizational culture and individual behaviour are all keys that unlock the door of innovation. Beyond these factors, many countries

have implemented innovation incentives to encourage and attract creators and innovators. China is a prime example of such a country with its incentives for innovation and promotion of a knowledge-based society.

China and the innovation environment

The Chinese government firmly believe that modernization and competitiveness rely on innovation and that new knowledge is an essential component of innovation. Supporting and encouraging enterprises to develop strength in technological innovation is one of the biggest government priorities (Liua, Khalil, 2006). As such, the increase in investment in the sciences and technology, development of regional innovative clusters, and strengthening of platform facilities will help attract foreign investors to China and foster local innovative talents.

The number of research and development centers in China have risen from 30 in 1999 to 750 in 2005 and 800 in 2007 (OECD, 2008). In 2005, hi-tech companies with foreign investment spent 15.26 billion yuan (around 1.9 billion U.S. dollars) on R&D, 19.19 billion yuan (around 2.4 billion U.S. dollars) in new product development. Microsoft are an example of a multinational that recently bought land in Beijing and Shanghai in order to build R&D centers employing more than 3,000 employees. In 2006, its investment in human resources in China reached 150 million US dollars; this figure rose 40% by 2007 (OECD, 2008). Human resource expenditure for science and technology has been increasing rapidly over the past decade; however Research and Development expenditure has grown at a greater pace with China now accounting for the second highest number of researchers worldwide (OECD, 2008).

There are 3 major actors in sciences and technology in China, generally known as "the Key performers". These key players are government research institutes, the higher education sector and the business sector. Each one of them play a crucial role in boosting innovation, improving the market orientation and optimizing the resources allocated to R&D. This paper attempts to measure to what extend each factor actually influences innovation within an organization by asking foreign executive managers for their opinions. The main objective is to identify the criteria most likely to influence and impact the innovation process.

The aim is to highlight the paradoxical aspects of innovation that foreign firms might face when they break into the Chinese market.

Chinese traditional culture professes much respect for knowledge. Lloyd and Sivin (2002) stated that concepts of innovation involve different aspects of life such as the treasuring up of knowledge, exploitation and transmission of scientific knowledge. They argue that concept of innovation and the process of acquiring it is different in China in comparison to Europe and North America. A summary of their research is outlined below:

Western Innovation characteristics	Chinese innovation characteristics
• Focus on nature and elements of nature • Exploring material objects and causes of phenomena • Sought knowledge for fame and livelihood • Contending ideas debated • Few opportunities for practical use	• Focus on cosmic order and principles • Heaven, earth, society and human body interacted in a resonant universe • Chinese intellectuals used knowledge as advisors to rulers • Consensus rather than divergence • Practical application of knowledge

Source: Lloyd and Sivin - *The Way and the Word* (2002)

In contrast, Munro (1996) in his book "*The Imperial Style of Inquiry in Twentieth-Century China*" identified a number of less visible characteristics that might influence the emergence of knowledge and innovation. One of these he called 'totalism" which refers to an ordered structure which integrates everything that exists. This order runs through both human and natural spheres. It provides justification for imperial authority that is responsible for universal harmony. According to Munro, "totalism" provides stability and self-discipline which strengthens the capacity of harmony. There are however weaknesses in such an approach in that it does not lend itself to the recognition of new knowledge outside the established order. McConnell (2003) added that on the one hand innovation involves a break with the past whilst on the other it requires an acceptance of individuals who deviate from the norm.

Although China has witnessed a dramatic increase in the level of innovation, few organizations actually are protected by any form of legal institution such as the IPR (Intellectual Property Rights); obstacles to innovation thus remain strong in China. Baark (2003) provided an overview of the causes delay and slow down of innovation within Chinese organizations as illustrated below:

What influence innovation?	
Tradition	• Lack of "creative destruction" • Dominance of the linear model concept in policy • Deficient integration of research and development activities • Limited flow of knowledge
Environment	• Government interferes too much in innovation process • Financing of innovation weak • Exaggerated reliance on research institutes • Deficient flow of knowledge • Enterprises still not the center of innovation • Innovative potential of small enterprises ignored
Social context	• Way of learning and discovering • Confluence of knowledge and power relations • Focus on exploitation rather than exploration • Harmony versus maverick character • Weigh of rules and norms versus creativity

As discussed previously, China presents a number of contradictions when the time comes for foreign organizations to innovate and think outside of the box. Western companies face other forms of innovation-related issues such as organizational behavior and the lack of skilled human resources. Xie and Li-Hua (2009) argued that in the first instance multinationals seek R&D in close proximity to their production bases in China, and thereafter look to tap China's pool of lower-cost and highly skilled R&D personnel. These R&D centers in China primarily hire local scientists and engineers. This paper seeks to find a generic framework that helps foreign firms invest resources in innovative products in China whilst taking account of both sides of the

innovation equation. This poses the question of "how should foreign organizations deal with such contradictory and paradoxical currents if they want to innovate in China?"

Research Methodology

The first step in this process was to define a set of statistical variables to measure the opinions of foreign firms on the various factors that influence innovation. In order to remain consistent with the existing research covered in the literature review of this paper this new study was constructed on 4 axes. The first axis seeks to measure the impact of obstacles on the innovation process. The second axis attempts to quantify the extent to which the level of human resources affects innovation. The third axis measures to what extent, organizational structure and internal processes are adapted to the Chinese environment in terms of the development of innovation and access to Chinese government incentives for R&D investment. The last axis, named "Environment", examines how much the business environment and social context influence innovation and R&D within organisations. Each axis gathers the relevant information via a series of questions (see Table 1). A 5 point Likert's scale was employed to measure to what extent respondents agreed or disagreed with each question (see table below).

A further challenge was how to measure the success of any innovation project given that each project is different. Some innovation projects need more than 10 years before becoming profitable while others require only 1 or 2 years to deliver positive results; it may also not be easy to compare an IT project with a pharmaceutical one. Moreover, consumer's satisfaction needs to be assessed to make sure that the project is really a success. To address this problem it was necessary to develop a generalist approach for evaluating the benefits of an innovation project from a company perspective. As this study was conducted from outside of China, it was not possible to obtain consumer's feedback; a new variable named Inno_Results was thus designed (see Table 2)

There were many challenges to soliciting information from organizations with business interests in China; respondents were asked to contact their Chinese subsidiaries in an attempt to have questionnaires completed (see Table 3). This was not an easy task with numerous causes for concern. Firstly managers were unwilling to give secret information on their innovation projects. Secondly, innovation and research projects were often a 'work in progress' at the time of managers answering the questionnaire. Indeed, firms preferred to maintain the secrecy of their projects even after completing all research phases. Thirdly, the manager who habitually works in the research centre is not necessarily the one who is responsible for hiring skilled people. As a result, an attempt was made to gather information from at least 2 sources within each company.

Results of the Study

It is widely accepted that Chinese culture regards science and knowledge with respect and high esteem. As part of the research and knowledge development process, innovation will help China to overcome economic issues and become a major player in the field of applied sciences and technology. Foreign companies have a desire to surf on this innovation wave. China is helping and encouraging both investment in innovation and the training of Chinese researchers to develop new products. However, the development of innovation and R&D often requires a maverick type personality with a spirit of adventure; these traits are at odds with the culture of Confucianism.

To deal with this relative paradox, the research provided a number of observations in terms of how foreign organizations should manage their innovation projects in China.

On the first level, the statistical distribution shows that R&D costs are not really an obstacle to innovation. Only 36.4% of respondents claimed that R&D costs might be an issue (see Table 4).

Access to capital was not an issue for 27.3% of respondents (see Table 5), however integration costs and availability of information were both seen as an issue. Indeed, 45.5% of responders claimed that they disagreed with the assessment that both factors facilitate innovation (see Table 6). From a human resource perspective, things were a little bit different. Only 27.3% of managers affirmed that a lack of skilled human resources constituted a major obstacle to innovation; more than 54% have experienced issues in hiring the right candidate to fit with the job requirements. The same percentage of managers argued that resistance to change had a negative impact on the innovation process (see Table 7).

Paradoxically, only 27.3 % of respondents claimed that local norms and rules might be an obstacle to innovation which suggests that on the one hand local human resources might be somehow reluctant to change, whilst on the other, China have implemented rules and incentives in order to facilitate innovation. The conclusion here may be that Chinese workers have not yet assimilated the notion of change and adventure in terms of their beliefs and faith which advocates harmony and peace.

The next phase of this research attempts to find a correlation between the variables. The objective here is to draw from statistical data the influences that one variable may have on another and to examine to what extent the internal structure is related either to the environment or to the way firms manage their skilled human resources (see Table 8)

From these statistical results (see Table 8) it can be assumed that, firstly, Market_2 (R&D Costs and Access to Capital) is strongly correlated with Internal Structure. One explanation for this might be that foreign firms which possess a strong and solid internal R&D structure are able to manage effectively their R&D costs and tend to get access to capital in easier way.

The second significant correlation (see Table 8) is positioned between the environment and innovation achievement (Correlation=0,779 with Sig=0,005). This strong correlation demonstrates that the environment variable (see definition of this variable on table 1) influences strongly the success of innovation projects in China. At the first glance, we can conclude that items like innovation incentives and local norms and rules, which represent the business environment and social context, have been enhanced and facilitate the innovation project. In other words, foreign firms that operate in China have been taking advantage of innovation incentives which China has implemented. As an indirect result, the "Environment" variable helps foreign firms to succeed and make their innovation projects thrive.

The variable that has the greatest influence on the innovation process (see Table 8) is the "human resources" variable (Correlation=0,788 and Sig=0,004). Basically, the less human resources are trained and prepared for change, the less successful the innovation process will be. Therefore, in order to succeed in the Chinese environment, foreign firms would be better to provide some form of change management training for their employees. Managing change remains a big issue for western companies; recent research conducted in this field would suggest that a 'hands-on' approach to change is needed in order to cope effectively with the cultural challenges.

An interesting revelation of the study is that Innovation seems not to be impacted by the "market" variable (see definition on Table C1) or in other words, "R&D costs", "availability of information", and "access to capital", do not appear to influence the success of the innovation project. However, if the organization does not master "R&D costs" and "access to capital" shrinks, as witnessed during the economic meltdown, then the innovation project may end up being shelved. On the other hand, the poor management of R&D costs may reflect weakness in the internal structure of the organization which may impact the success of the innovation process as highlighted previously in this study.

Finally, innovation success in China seems to be impacted by two major variables namely the "environment" and "human resources". However, the survey suggests that "resistance to change" and "the market" (integration of costs and availability of information) need to be managed tightly through the provision of training and the management of change from a human resources perspective. At the same time an organization needs to be in a position to take advantage of what China has to offer in terms of innovation incentives and facilities.

The most significant results of the study are outlined below:
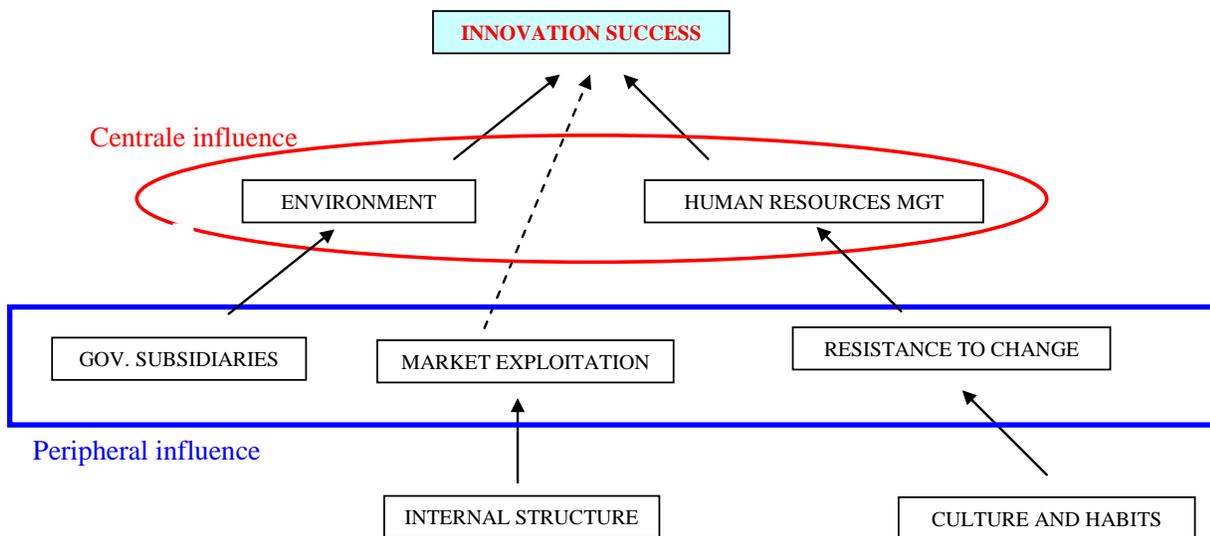
Figure 1: Key factors that influence the most innovation project in China

This figure arranges all the relevant factors into 2 categories called "Central factors" and "Peripheral factors". The "Central factors" or CF are likely to influence directly innovation achievement as statistical results have shown. By mastering these CF, one foreign organization may focus more on "Peripheral factors" or PF which impact indirectly the innovation success.

Discussion

This study is based on a small number of cases. It is difficult to draw comprehensive conclusions without conducting a larger survey; however these statistics can be used as a first stage to a deeper analysis of the strategies used by foreign firms to innovate in China

The social dimension is a determinant factor in the success of innovation projects in emerging countries such as China. Once again, a more sound estimation of the real impact of the social dimension would require a much larger study of foreign firms throughout China.

The use of this form of statistical analysis may also be debated in so far as there are many other statistical techniques such as regression analysis or ANOVA that could be used in the study. In any event, it could be argued that statistics say what we want them to say; moreover it is likely that a field experiment would be the preferred method of data collection for this type of research.

Conclusion

This study shows, as others have previously done, that innovating in China is a very complex process. Finding a successful formula depends on a multiple of factors; there is therefore no one best way to make an innovation project a success in China. Innovation requires a maverick personality and sense of adventure which are inconsistent with the Confucius spirit based on harmony and equilibrium. However, Chinese culture shows a great respect for knowledge and science. In order to have a successful innovation project in the Chinese environment, foreign companies should focus on "Central factors such as the environment or the way human resources are managed, as well as "Peripheral factors" such as resistance to change or the integration of costs.

Managing an innovation project requires a global mindset and a global approach that takes into consideration a multitude of variables in order to meet the cultural challenges. This paper provides a glimpse of what a number of foreign firms are doing in their quest for the development of innovation projects in China. It throws a light on how firms should deal with the paradoxes and contradictions when the time comes to invest in China. Finally, this study paves the way for further and deeper research on the subject.

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Annexes

Table 1 : Definition of variables

Variable	items	Questions
Market Exploitation	• R&D costs • Integration costs • Information availability • Access to capital	1. Do R&D costs facilitate innovation? 2. Do integration costs make easier innovation? 3. Does information availability positively influence innovation? 4. Does access to capital act as a brake on innovation?
Human resources **(HR)**	• Lack of skilled HR • Training issues • Hiring issues • Resistance to change	5. Do you think that local HR skills are sufficiently developed for R&D in your organization? 6. Does your company provide training to enforce HR skills? 7. Does your company face issues In hiring high calibre people? 8. Do you agree with the assessment that Human Resources don't resist change?
Internal structure	• Technical culture • Internal rules • Managers' background • Hierarchical organization Innovation lifecycle	9. Does technical culture influence innovation within your company? 10. Does your company allow idea debates and permissiveness? 11. Does the managers' background encourage innovation? 12. Do you think that coordination between services and departments enhance innovation? 13. Do you agree with the assessment that the innovation lifecycle is short in your organization?
Environment	• Norms and rules • Government subsidies • Availability of equipment and materials • Cooperation with universities and other research centres	14. Do Chinese norms and rules facilitate innovation? 15. Does your company take advantage of innovation incentives? 16. Have you easy access to R&D equipment? 17. Is your company able to cooperate with universities on innovation projects?

Table 2: Definition of Inno_Results

Variable	Items	Questions
Inno_Results	• Timing • Budget • Achievement • Benefits	• In general, did your R&D projects match the timing? • In general, did your R&D projects respect the budget? • In general, did your R&D projects achieve the expected quality and characteristics? • In general, did your R&D projects deliver the expected return on investment?

Table 3 : List of organizations interviewed

Nature of business	Number of Responders
Sport wear and equipment	2
Medicines	1
Information technology	6
Food	2
TOTAL	**11**

Statistical results

Table 4 : Frequency : R&D Costs

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	1	9,1	9,1	9,1
	2	3	27,3	27,3	36,4
	3	2	18,2	18,2	54,5
	4	4	36,4	36,4	90,9
	5	1	9,1	9,1	100,0
	Total	11	100,0	100,0	

Table 5 : Integration Costs

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	2	18,2	18,2	18,2
	2	3	27,3	27,3	45,5
	3	4	36,4	36,4	81,8
	4	2	18,2	18,2	100,0

Table 6 : Information Availability

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	1	9,1	9,1	9,1
	2	4	36,4	36,4	45,5
	3	4	36,4	36,4	81,8
	4	2	18,2	18,2	100,0
	Total	11	100,0	100,0	

Table 7 : Resistance to change

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	3	27,3	27,3	27,3
	2	3	27,3	27,3	54,5
	3	3	27,3	27,3	81,8
	4	1	9,1	9,1	90,9
	5	1	9,1	9,1	100,0
	Total	11	100,0	100,0	

Cronbach's alpha analysis

The consistency of each variable was calculated using SPSS software. As a result, it was possible to put together items that best represent each variable. The first analysed was the "Market"; the "Market" variable is represented by 4 items. SPSS gives us the first result below:

Table C1 : Communalities

	Initial	Extraction
RDCosts	1,000	,765
Integr_Cost	1,000	,789
Infor_Avail	1,000	,838
Access_Capit	1,000	,691

Extraction Method: Principal Component Analysis.

Other than access to capital, the listed items had test scores of more than 75%. In the next table however, there are 2 components that might represent best this variable.

Component

	Component	
	1	2
R&D Costs	-,285	,827
Integr. Costs	,876	,148
Inform. Avail.	,889	-,218
Access Capital	-,417	-,719

Using the rotation method based on Kaiser Normalization, we are able to select correctly the 2 factors that most likely explain the total-score variance of the "Market" variable.

Structure Matrix

	Component	
	1	2
R& D Costs		,817
Integration Costs	**,874**	
Information Availability	**,891**	
Access Capital		,733

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The first factor brings together R&D costs and Access to capital. The second factor brings together Availability of information and costs integration. The Cronbach's alpha technique shows us that only the second factor might be reliable.

Reliability Statistics

Information availability and costs integration

Cronbach's Alpha	N of Items
,782	2

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R&D costs and Access to capital

Cronbach's Alpha(a)	N of Items
,771	2

Finally, the first variable, the "Market", is best represented by 2 factors: "Market 1" and "Market 2". Market 1 will include the "Integration of costs" and "Information availability" and Market 2 will include "R&D costs" and "Access Capital".

Items were grouped together in order to simplify the variables as follows:

Component   **Reliability Statistics**

Variable	Component
HUMAN RESOURCES	1
Lack of HR	**,777**
Hiring issue	**,886**
Change Resistance	**,839**

Cronbach's Alpha	N of Items
,782	3

For the Human resources variable, the most reliable items were the 3 listed above with a Cronbach' alpha score of more than 0,7.

With regards to the Internal structure variable, only the 3 first items of: internal rules, life cycle and manager background were deemed as having reliable test scores (see table below):

Component

First component : Reliability Statistics

Variable Internal structure	Component	
	1	2
Internal rules	**,864**	
Life Cycle	**,769**	
Manager _background	**,867**	
Hierach organization		,864
Technical culture		,866

Cronbach's Alpha	N of Items
,784	3

Second component: **Reliability Statistics**

Cronbach's Alpha	N of Items
,682	2

The last variable, the Environment, delivered the following results:

Component Matrix(a)   **Reliability Statistics**

	Component
	1
Innov. Incentives	**,724**
Avail. Equipment	**,640**
Coop. University	,514
Norms & rules	**,972**

Cronbach's Alpha	N of Items
,718	3

Only 3 items were deemed as reliable test scores: Innovation incentives, availability of R&D Equipment and Norms & Rules

Correlation analysis

Table 8 : Correlation bivariate

		Market_2	Market_1	Environment	Internal Structure	Human Resources	Innovation Results
Market_2	Pearson Correlation	1	-,386	,246	**,641(*)**	-,050	-,045
	Sig. (2-tailed)		,241	,465	**,034**	,885	,896
Market_1	Pearson Correlation		1	-,548	-,184	-,150	-,208
	Sig. (2-tailed)			,081	,588	,659	,540
	N			11	11	11	11
Environment	Pearson Correlation			1	,112	,484	**,779(**)**
	Sig. (2-tailed)				,742	,131	**,005**
Internal Structure	Pearson Correlation				1	-,283	-,086
	Sig. (2-tailed)					,399	,802
Human Resources	Pearson Correlation					1	**,788(**)**
	Sig. (2-tailed)						**,004**
Innovation Results	Pearson Correlation						1
	Sig. (2-tailed)						

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

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

IPOS - If, When, Why and How: Is There an Increasing Demand For IPOS?

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Abstract: Today's turbulent economic climate requires speed and creative thinking to deal with ever-changing business issues. The prosperity and economic growth of yester-year has been replaced by declining asset valuations and frozen credit markets. The subprime issues in the financial services sector have had an impact on nearly every facet of the economy. But in spite of this new economic reality, many financially sound companies continue to leaverage their strengths. For these businesses, the timing may be perfect to acquire competitors and complementary businesses at depressed prices, or gain control of a company by acquiring distressed debt and adding key employees.

Biographical Notes: Mr. Naipaul hold a Bachelor of Arts, an M.B.A. and is currently a D.B.A. candidate. His research focuses on a market-based approach, notable cap-and-trade, is the most efficient solution for halting and even reversing the overheating of the planet cause by greenhouse gas emissions

Mr. Naipaul is the Accounting and Finance Manager for SML (USA), Inc., a world leader in the manufacturing and supply of garment trims to the apparel industry; where his primary responsibilities include leading and managing a team of three senior financial analysts and five accounting managers/division controllers, including selection/hiring, objectives setting, performance management, coaching/development and training.

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Stock Market Optimism Spurring IPO Growth

The severe economic downturn in 2008 sent the worldwide Initial Public Offer (IPO) market plummeting by over 60% in terms of the number of deals completed and also witnessed a 67% decline in funds raised from the 2007 levels (Ernst & Young, 2009). No IPO market was insulated from the financial crisis. From 2008 the capital markets have experienced the lowest market valuations since the 1980s. Consequently, a record number of prospective IPOs were withdrawn or postponed. By stark contrast, in 2007, global IPO activity had soared to an all-time high with 1,979 deals and $287.1 billion in capital raised (Ernst & Young, 2009). In the wake of the financial crisis, the global public markets came to a virtual standstill, bringing a sudden end to the record setting IPO boom years of 2006 and 2007.

Table 1: Global IPO Activity by Year

Source: Ernst & Young, 2009
http://www.de.ey.com/Publication/vwLUAssets/SGM___Global_IPO_Trends_2009/$FILE/Global%20IPO%20Report%202009.pdf
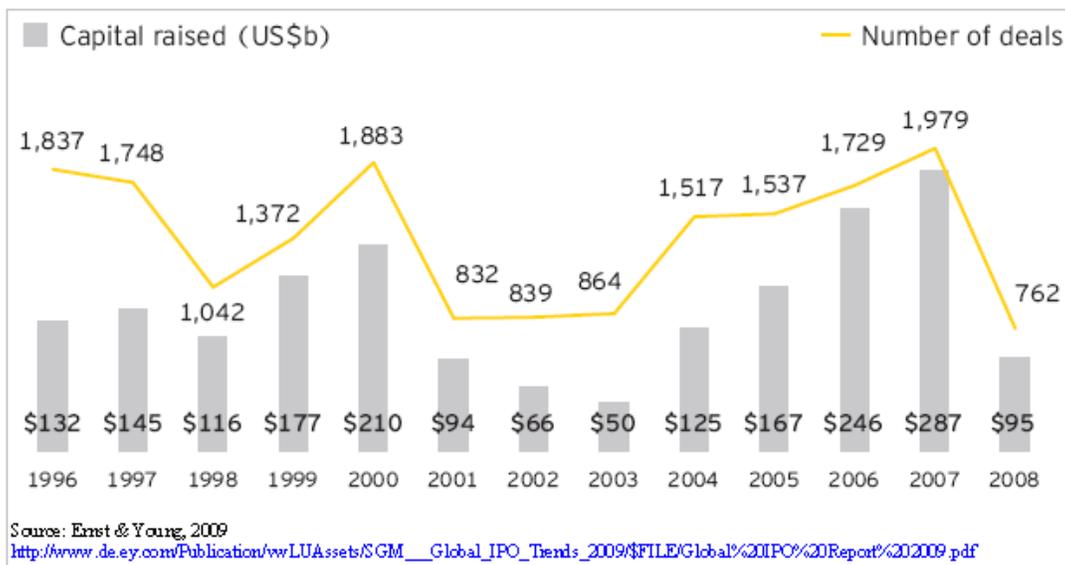
Nonetheless, a few quality companies with strong business models were still able to access the IPO markets with favorable results. Despite faltering economies and the sinking stock markets in 2008, the U.S. and China led in IPO fundraising and deal numbers, respectively, while Saudi Arabia emerged as the third largest IPO market (Ernst & Young, 2009).

Market volatility compounded the already imbedded stress when trying to predict the trends in IPO's activity. However it is forecast that global IPO markets will fully recover when the macroeconomics begin to show signs of stability and confidence. The 2009 IPO pipeline contains many quality companies from both developed and emerging markets, which continue to ready themselves to go public while waiting for market conditions to improve (Ernst & Young, 2009).

The IPO markets in the first quarter of 2009 continued to decline as the volatile worldwide markets made it difficult to price and execute deals. Globally, a total of 51 IPOs in a wide range of sectors raised only $1.4 billion (Ernst & Young, 2009). The largest offering for the quarter was the $828 million carve-out IPO of Mead Johnson Nutrition Co. listed on the New York Stock Exchange (NYSE).

Table 2: Global IPO Activity by Quarter

Source: Ernst & Young, 2009
http://www.de.ey.com/Publication/vwLUAssets/SGM___Global_IPO_Trends_2009/$FILE/Global%20IPO%20Report%202009.pdf
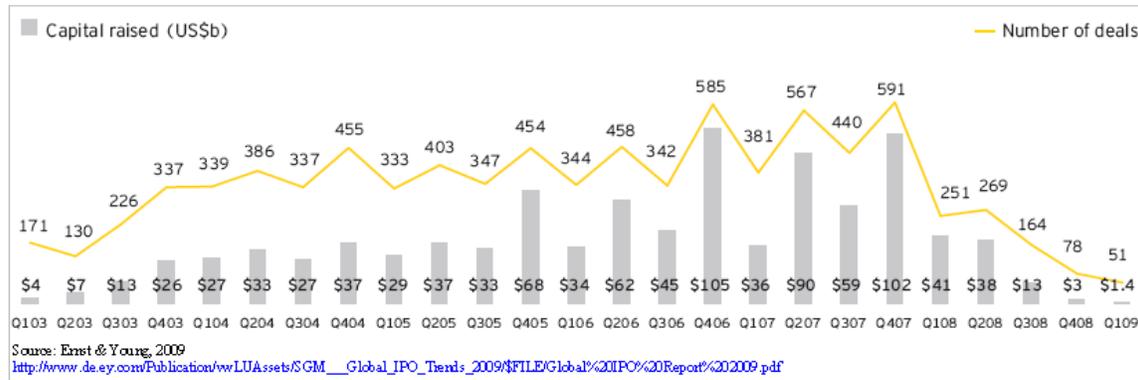
After months without activity, the market for IPOs are picking up, noted Kate O'Sullivan at CFO.com (August, 2009). Twelve IPOs in the second quarter of 2009 provided the first quarter-over-quarter gain since the end of 2007, prompting many observers to hope that the window for IPOs is finally reopening.

Table 3: U.S. IPO Activities: Quarter over Quarter

	Second Quarter 2008	Second Quarter 2009	First Quarter 2009
Total Number	12	12	2
Total Value	$4.1 billion	$1.6 billion	$0.7 billion
Average Value	$337.9 million	$132.0 million	$361.0 million

Source: Hoover.com (2009)
http://www.hoovers.com/business-information/--pageid__4546--/global-ipoc-index.xhtml

In the past, companies that missed the market due to failure to navigate through the IPO registration process are now waiting for an upturn in the market and better valuations. Duoyuan Global Water, a company which provides the basic systems for purifying drinking water, went public on June 23, 2009 on the NYSE, with a first day closing price of $21.87 per share (Renaissance Capital, 2009). The company's 24 million shares were worth approximately $525 million at the close of business on the first day. Compared to previous years, there are

appear to be fewer companies in the U.S. pipeline; however of those that remain, many are quite large and of high quality (Ernst & Young, 2009).

Table 4: U.S. Second Quarter 2009 IPO Listing

CEO/ Equivalent	Company	Total Shares (millions)	Share Price (End of Quarter)	Total Value (millions)
Wenhua Guo	Duoyuan Global Water Inc.	24	$24.28	$583
Tom P. H. Adams	Rosetta Stone Inc.	0.743662	$27.44	$20
Tarek Sherif	Medidata Solutions, Inc.	1.437222	$16.38	$24
Tao Wang	Changyou.com Limited	15	$38.38	$576
Richard J. King	Invesco Mortgage Capital Inc.	0	$19.48	$0
Michael S. Bennett	SolarWinds, Inc.	3.042376	$16.49	$50
Kevin E. Grant	Cypress Sharpridge Investments, Inc.	0.22142	$11.90	$3
Jill D. Smith	DigitalGlobe, Inc.	0.329826	$19.20	$6
Jeffrey (Jeff) Jordan	OpenTable, Inc.	0.925344	$30.17	$28
Barry M. Portnoy	Government Properties Income Trust	9.95	$20.53	$204
Andrew S. Clark	Bridgepoint Education, Inc.	3.113913	$17.00	$53
Jianhua Yang	Chemspec International Limited	22.638	$8.40	$190

Source: Hoovers.com (2009)
http://www.hoovers.com/business-information/--pageid__4549--/global-ipoc-index.xhtml

Lehman Brothers filed for bankruptcy on September 15, 2008. Based on assets, it was the largest bankruptcy filing in U.S. history. The Dow Jones closed down just over 500 points on September 15, 2008, at the time the largest drop by points in a single day since the days following the attacks on September 11, 2001 (CNBC.com, 2009). This drop was subsequently exceeded by an even larger plunge on September 29, 2008. Tom Adams, Rosetta Stone's CEO, observed that the tough environment certainly gave his company pause when it registered its IPO plans with the SEC in September 2008. "There was a lot of nervousness," noted Mr. Adams (RosettaStone.com, 2009). Mr. Adams commented at the time that "the nature of the marketplace is one where the IPO market starts out very company-specific and then as conditions improve, it becomes an asset class" (RosettaStone.com, 2009). Initially, the stock market turmoil raised concerns at Rosetta Stone about the company's IPO timing; however the company was always comfortable with its existing business model.

2008 IPO Market

Investors and issuers avoided the U.S. IPO market in 2008 amidst a slowing economy and tightened credit supply. Volume (number) and value (proceeds) of U.S. IPOs in 2008 decreased by 80.7% and 54.9%, respectively, to 57 IPOs with proceeds of $29.4 billion compared to 296 IPOs with proceeds of $65.1 billion in 2007 (PricewaterhouseCoopers, 2009). The Visa, Inc. offering, which was the largest IPO offering in history, raised $19.7 billion, representing 60.9% of the total capital raised in 2008 in the U.S. and 21.0% globally (Ernst & Young, 2009).

IPO activity for 2008 was the lowest since the late 1970s (Pricewaterhouse Coopers, 2009). America Water Works Company, Inc. was the only other IPO during 2008 that raised more than

a billion dollars as compared to 7 IPOs with more than a billion in proceeds in 2007. According to Ernst & Young (2009), the emerging market countries in 2008 were the source of 15 of the 20 largest IPOs worldwide. These included the following:

❖ Four from China

✓ China Railway Construction Corp. Ltd, a dual listing on the Shanghai and Hong Kong Stock Exchanges, was the second largest IPO offering in 2008.

❖ Brazil had the third largest offering in 2008 and it was the country's biggest, $4.1 billion IPO of oil and gas company OGX on the Sao Paolo Stock Exchange.

❖ Four from Saudi Arabia.

In 2008, the deal threshold required to make the top 20 of the global IPOs fell to $850 million, a 56% decline from 2007 (Ernst & Young, 2009).

An increased number of companies withdrew or postponed their IPOs during 2008. As of December 31 2008, 105 IPOs had been either postponed or withdrawn, compared to 25 that withdrew or postponed for the same period in 2007 (Pricewaterhouse Coopers, 2009). Due to the challenges in raising capital through the equity and debt markets, companies are electing for private placement, where shares are placed privately with institutional shareholders. Even sponsor-backed and special purpose acquisition company IPOs (SPAC) decreased. SPAC IPOs declined from 49 offerings in 2007 to 12 in 2008, and total proceeds fell from $9.9 billion to $3.5 billion, respectively (Ernst & Young, 2009). Financial sponsors backed only 14 IPOs totaling $2.3 billion in 2008, a significant decrease from 163 such IPOs that raised $30.0 billion in 2007 (PricewaterhouseCoopers, 2009). "Such private placements can bridge short to medium funding gaps for corporations while offering reasonably attractive entry points for investors into companies," noted Edward Law, Co-Head of Western Europe Equity Capital Markets, Deutsche Bank.

Private placement can help fund a company until it is ready to conduct a proper IPO; such a funding mechanism however does have its drawbacks. For example, with today's reduced activity, private placements set lower benchmarks for the valuation of a company (Ernst & Young, 2009). In addition, private placement often acts only as a stop-gap to the provision of capital in the short-term. Eventually companies will need more substantial capital, which is best achieved through an IPO (Ernst & Young, 2009).

IPO Market Recovery Pre-Condition

Two types of companies are likely to be the first to go public in the U.S. when markets recover, noted *Global IPO Trends Report 2009,* published by Ernst & Young (2009):

1. The larger, highly liquid, well-known, established brands with stronger revenue base and proven sustainable business models.

2. The unique companies from the emerging markets or "hot" growth sectors such as:

   a. Clean technology.

   b. Biotechnology.

Preconditions to an IPO market recovery consist of the following:

❖ Positive fund flows into equity mutual funds.

❖ Healthier follow-on public offering (FPO) market.

❖ Companies delivering on forecasts of quarterly results.

❖ Analysts raising estimates.

❖ Investors receptive to IPOs.

The astute investors are seeking companies with a leading market position, proven track record, a strong management team, good financial and controls systems, sustainable long-term growth and a leverage-able business model (Ernst & Young, 2009). Investors want results, visibility and certainty.

IPO Pipeline

Matt Toole, a deal analyst at Thomson Reuters, said "for so many weeks there was nothing, but there has been a pretty big uptick in the number of IPO filings", noting that in the month of July 2009, 11 companies filed to go public (CFO.com, August, 2009). As of August 17, 2009, 7 companies filed with the U.S. Securities and Exchange Commission (SEC) to go public.

Table 5: Second Quarter 2009 IPO Filed

No.	File Date	Company	Ticker	Price Range	Shares (mm)	Underwriter
		IPO Filings: Past Quarter Two: 7				
7	6/30/2009	Colony Financial	CLY	$0.00 - $0.00	n/a	Merrill Lynch
6	6/26/2009	CreXus Investment Co	CXS	$0.00 - $0.00	n/a	Deutsche Bank
5	6/12/2009	Western Asset Mortga	WMC	$0.00 - $0.00	n/a	Merrill Lynch
4	6/12/2009	Vitacost.com	VITC	$0.00 - $0.00	n/a	Jefferies
3	6/3/2009	Lihua International	LHA	$0.00 - $0.00	n/a	Maxim Group LLC
2	5/21/2009	Sutherland Asset Man	SLD	$15.00 - $15.00	16.7	UBS Investment Bank
1	4/21/2009	Ellora Energy	LORA	$0.00 - $0.00	n/a	Merrill Lynch

Source: Renaissance Capital (2009)
http://www.renaissancecapital.com/IPOHome/Calendars/Pipe.aspx

Filing Form S-1 to register their securities with the SEC does not necessarily mean that the company will actually go public in the near future. However, the monthly uptick in IPO registrations does show confidence in the market.

Table 6: Quarter to Date IPO Filings (as of 8/17/2009)

No.	File Date	Company	Ticker	Price Range	Shares (mm)	Underwriter
18	8/17/2009	HealthPort	HPRT	$0.00 - $0.00	n/a	Deutsche Bank
17	8/14/2009	Dole Food Company	DOLE	$0.00 - $0.00	n/a	Goldman Sachs
16	8/13/2009	Mirion Technologies	MION	$0.00 - $0.00	n/a	Credit Suisse
15	8/10/2009	Fortinet	FRTN	$0.00 - $0.00	n/a	Morgan Stanley
14	8/10/2009	InfrastruX Group	IFR	$0.00 - $0.00	n/a	Credit Suisse
13	8/5/2009	Hyatt Hotels	H	$0.00 - $0.00	n/a	Goldman Sachs
12	8/3/2009	Ancestry.com	ACOM	$0.00 - $0.00	n/a	Morgan Stanley
11	7/29/2009	Transwestern Realty	TRF	$0.00 - $0.00	n/a	Barclays Capital
10	7/28/2009	Bayview Mortgage Cap	BAY	$0.00 - $0.00	n/a	Deutsche Bank
9	7/28/2009	RailAmerica	RA	$0.00 - $0.00	n/a	J.P. Morgan
8	7/23/2009	Vitamin Shoppe	VSI	$0.00 - $0.00	n/a	J.P. Morgan
7	7/22/2009	JBS USA Holdings	JBS	$0.00 - $0.00	n/a	J.P. Morgan
6	7/17/2009	Addus HomeCare	ADUS	$0.00 - $0.00	n/a	Jefferies
5	7/17/2009	Ladder Capital Realt	LCG	$0.00 - $0.00	n/a	J.P. Morgan
4	7/14/2009	Ellington Financial	EFC	$0.00 - $0.00	n/a	Credit Suisse
3	7/13/2009	AG Financial Investm	AGFI	$0.00 - $0.00	n/a	J.P. Morgan
2	7/10/2009	Apollo Commercial Re	ARI	$0.00 - $0.00	n/a	J.P. Morgan
1	7/9/2009	Foursquare Capital	FSQR	$0.00 - $0.00	n/a	Merrill Lynch

Source: Renaissance Capital (2009)
http://www.renaissancecapital.com/IPOHome/Calendars/Pipe.aspx

Table 7 and 8 below show the sustained stock market's rally since March 2009, which has triggered a rush by companies to put together prospectuses for the launching of an IPO. (CFO.com, August, 2009).

Although unattractive valuations made new issuances difficult in 2008, private equity (PE) backed companies such as Avago Technologies and Dollar General, both owned by the Kohlberg Kravis Roberts & Co., are among those expected to list in the coming months. PE firms may be encouraged to exit investments earlier than they would normally choose and perhaps determine the IPO market to be the best available capital source (Ernst & Young, 2009). Many of the PE deals from 2006 through 2007 had enormous leverage multiples of eight or nine. "Sponsors may want to pursue an IPO to start the monetization process or to deleverage the balance sheet ahead of near-term debt maturities," comments Lisa Carnoy, Global Head of Equity Capital Markets, Bank of America Merrill Lynch" (Ernst & Young, 2009). While current valuations may not be attractive in the equity market, it is still appears to be a better alternative to the debt markets.

Table 7: Dow Jones Industrial Average

Source: Money.cnn.com (2009)
http://money.cnn.com/quote/chart/chart.html?symb=INDU
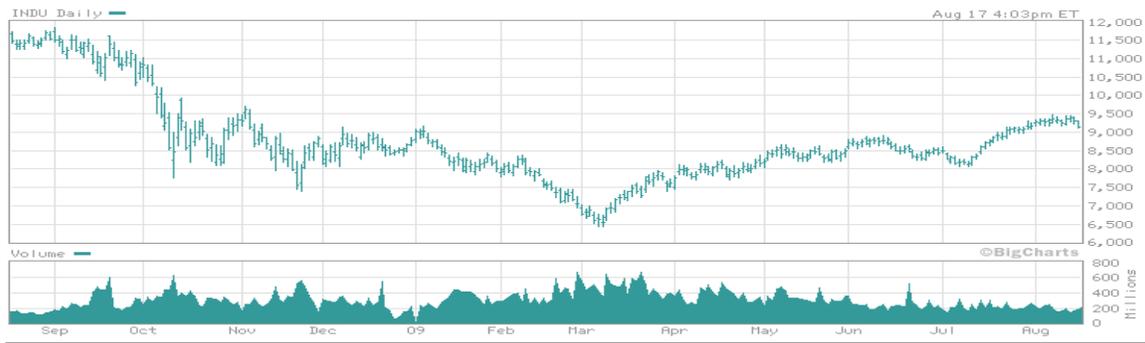
There is pent-up demand for IPOs and not just from investors eager for positive market news. "There is currently the largest number of private companies held up in PE and venture portfolios than there has ever been in history before," says Benjamin Howe, chief executive and co-founder of America's Growth Capital, a boutique investment bank based in Boston (CFO.com, August, 2009).

Table 8: S&P 500 Index

Source: Money.cnn.com (2009)
http://money.cnn.com/quote/chart/chart.html?symb=INDU

As soon as companies can get liquidity at a reasonable valuation, they are going to pursue the public markets. Benjamin Howe, in a CFO.com (August, 2009) article noted:

"Reasonably robust IPO activity in the fall of 2009 resulted in technology, healthcare and clean-tech companies being cited as those most likely to raise equity. The companies that will test the waters will be larger, profitable, growing companies, whose CEO and board members feel there is a very low risk of failure in going the IPO route. One such company is Ancestry.com, a 20 year old business that since 1997 has charged its subscribers to trace their family histories online. This company, which filed its S-1 early in August 2009, saw earnings of $8 million on revenues of $108 million in the first half of the year. Executives at the genealogy site, whose majority owner is PE firm Spectrum Equity Investors, are aiming to raise $75.0 million."

Follow-on Public Securities Offerings

A follow-on offering is an issuance of stock subsequent to the company's initial public offering. A follow-on public offering (FPO) can be either of two types, or a mixture of: dilutive and/or non-dilutive. IPO's differ from FPO's in that an IPO is for companies which have not listed on an exchange and an FPO is for the companies which have already listed on an exchange, but wish to raise additional funds by issuing more equity shares. An FPO is preceded by a release of a prospectus similar to an IPO. For example, Google went public in August 2004 with shares priced at $85 and raised $1.67 billion. Shares have more than tripled in price since then. The following September 2005, Google conducted an FPO with shares priced at $295 and raised over $4.0 billion (CNET.com).

A dilutive offering is when the company's board of directors agrees to increase the share float for the purpose of selling more equity in the company. This new inflow of cash might be used to settle debt or for company expansion. Dilution of the shares is caused when new shares are created and then sold, increasing the number of shares outstanding, adversely diluting earnings on a per share basis (CNBC.com, 2009). Nonetheless, the gain of cash inflow from an FPO is strategic and is considered positive for the longer-term goals of the company and its shareholders. However, some owners of the stock may not view the offering of new shares as favorable over a more short-term valuation horizon (CNBC.com, 2009).

Despite the decreased in IPO's in 2008, the U.S. FPO markets were relatively active, which included many of the largest offerings ever launched. According to the *Global IPO Trends Report 2009* published by Ernst & Young (2009), U.S. FPO deals in 2008 were as follows:

- ❖ Financial Institutions - raised 59% of the funds, seeking capital to repair balance sheets or to finance acquisitions. The largest FPOs by U.S. companies since 1993 were as follows:
  - ✓ Wells Fargo raised $12.7 billion.
  - ✓ JPMorgan Chase raised $11.5 billion.
  - ✓ Bank of America raised $10.0 billion.
- ❖ Energy and Power Institutions - raised 11%.
- ❖ Industrial - raised 10%.
- ❖ Real Estate - raised 8%.

In 2008, 463 FPO deals by U.S. companies raised $163.2 billion (Ernst & Young, 2009). Most of the company's stock prices were down 15% to 20%, but they still completed the FPOs. In most cases the offerings were at a significant discount, compared to their IPO's.

IPO Readiness

Companies must undergo many months of advanced planning, organization and teamwork before they are ready to go public. When the market fundamentals are right, the companies that are fully prepared are the ones to leverage the IPO windows. The auditing firm Ernst & Young named the process of going public, *The IPO Journey*. The journey to public company status must prepare an organization not only for the defining moment of the IPO event, but also for a whole new phase of corporate life as a public company (Ernst & Young, 2009).

Table 9: Ten IPO Readiness Challenges

Today's turbulent economic climate requires speed and creative thinking to deal with ever-changing business issues. The prosperity and economic growth of yester-year has been replaced by declining asset valuations and frozen credit markets. The subprime issues in the financial services sector have had an impact on nearly every facet of the economy. In spite of the new economic reality, many financially sound companies are leveraging their strengths by:

- ❖ Seeking to add market share.
- ❖ Expanding product/service offerings.
- ❖ Recruiting quality people.

For these businesses, the timing may be perfect to acquire competitors and complementary businesses at depressed prices, or gain control of a company by acquiring distressed debt and adding key employees (Ernst & Young, 2009).

In 2008, Ernst & Young conducted a global study called *Measures that Matter*, which analyzed the top ten IPO readiness challenges from the perspective of CEOs and CFOs who have already experienced success in their IPO journey. The key insights from the Ernst & Young 2008 study are as follows:

Planning

❖ Even in a challenging economy, companies which outperform the overall market prepare early for their transformational IPO journey, so that they are ready to launch when markets recover.

❖ Especially in an uncertain market, outperforming companies explore alternative exit strategies to an IPO, although public offerings are generally seen as providing better valuations, access to capital, visibility and credibility.

❖ Outperforming companies usually go public to finance their growth strategy and use their proceeds to fund acquisitions or market growth.

❖ Market outperformers start acting like public companies at least 12 months prior to the IPO by implementing critical changes to their strategic and corporate tax planning, management team, financial accounting, reporting and internal control systems.

❖ Almost three-quarters of outperforming companies surveyed undertook pre-IPO transactions (e.g., debt financing, corporate reorganization and equity financing) to enhance the offering's value.

❖ In hindsight, many executives believed alliances or joint ventures prior to IPO would have added more shareholder value.

❖ Institutional investors based an average of 60% of their IPO investment decisions on financial performance measures – in particular, growth in EPS, EBITDA and profitability.

❖ Institutional investors attribute an average of 40% of their IPO investment decisions to non-financial measures, placing the most weight to management credibility, corporate strategy and brand strength.

❖ The executive's choice of stock exchange depends largely on which exchange offers access to suitable institutional investors who understand their business model, greater stock liquidity and deeper institutional pools.

Execution

- ❖ A strong management team and a highly experienced group of advisors are critical to IPO readiness and execution.

- ❖ A strong infrastructure of people, systems, policies and procedures, which enables accurate financial forecasting and regulatory compliance, needs to be in place before the IPO launch.

- ❖ According to corporate executives, the two major accounting issues are adjusting historical financial statements to comply with local and foreign reporting requirements, and dealing with consolidated subsidiary financial statements.

- ❖ Two key corporate governance challenges are recruitment of qualified independent board members and enhancement of internal controls.

- ❖ High-performing companies delegate key communication responsibilities to their investor relations team, focus on creating a high-quality road show and keep investors informed through regular communications before, during and after the IPO.

Realization

- ❖ Market outperformers deliver shareholder value by demonstrating effective investor relations and finance functions, and most importantly, operational excellence.

IPO: Right Option for your Business?

It is often the dream of entrepreneurs to start a company, grow it and eventually take it public. However, the founder should be aware that an IPO is not the natural progression of a corporation, nor is it the only option. In the event that one's business is growing quickly and there is a need to conquer new markets and develop the brand, one will need to think of ways of accessing capital. Options and decisions to consider are as follows:

Delay IPO:

- ❖ Pursue other means of funding

- ❖ Additional venture capital funding

- ❖ Private placement with institutional investors

❖ Alliances with similar companies

Go Public:

❖ Decide on the lead underwriter

❖ Consider the offer price

❖ Ensure that there are responsible parties on the management team tasked with IPO duties

❖ Focus on the central mission

An entrepreneur must weigh the pros and cons of listing in the light of the company's vision and mission. Early discussions with professionals, such as investment bankers, consultants, lawyers and accountants can provide specific considerations and perspectives.

Table 10: Pros and Cons of an IPO

Pros:	*Cons:*
Access to vast capital	IPO is costly
Free advertising from analyst coverage	Analysts focus only on short-term returns
Liquidity for the founders	Increased scrutiny by the government
Liquidity for investors	Less autonomy
Incentives for employees	Cost of Sarbanes Oxley compliance
Fame for executives and management	Infamy in bad times
Source: Stanford University (2008).	
http://www.stanford.edu/class/e145/2008_fall/protected/handouts/E145_2008_Session15_IPO.pdf	

Every financial transaction has tax implications, be it an IPO, acquisition, restructuring, refinancing or disposal of assets. From the initial due diligence through post-deal implementation, it is crucial to consider the entire transaction lifecycle and how a particular transaction strategy might impact the business objectives (Ernst & Young, 2009). The future market leaders and high performers are those companies that embrace business models that are flexible and agile. Good companies must transform into great ones.

The preparation for an IPO requires total commitment on the part of the founder and his management team. The founder and management must look beyond the glamour of going public and comprehend fully what it means to be listed on the exchange. Before embarking on the road to IPO, the management team must have a fundamental understanding of the issues highlighted below:

Table 11: IPO Spotlight

IPO - Must Know	
Initial public offering (IPO)	Book building
Issuing company	Offer price
Beauty contest or bake-off	At the printer
Lead underwriter	The "pop"
The syndicate	Money left on the table
Prospectus	Flipping the stock
Road show	The quiet period
	The lockup period
Source: Stanford University (2008). http://www.stanford.edu/class/e145/2008_fall/protected/handouts/E145_2008_Session15_IPO.pdf	

The public market is a much better source for raising capital. Raising capital is difficult for a private company because there is no exit strategy for investors, you cannot advertise your offering and you cannot raise capital from investment banks and funds (Tiber Creek Corporation, 1999). On the other hand, a publicly traded company can advertise their stock offering to the general public. Consequently, there are many small publicly traded corporations. A public company thus provides a degree of competitive advantage when seeking to raise capital (Tiber Creek Corporation, 1999).

Picking a Stock Exchange

When the time comes to take your company public, management choice of stock exchange is not necessarily going to be straightforward (Ernst & Young, 2009). While the majority of companies choose to list on their domestic stock exchanges, the globalization of capital has broadened the listing options around the globe to the extent that inter-listing is also an option.

Table 12: Companies Interlisted on NYSE and Euronext (partial list)

COMPANIES INTERLISTED ON NYSE AND EURONEXT 30-Apr-09 (Includes Eurolist only; excludes Trading Facility Stocks)						
Number	Company Name	Country	NYSE Symbol	NYSE List Date	Europe - Listing Place	Europe List Date
1	The Procter & Gamble Company	United States	PG	3/22/1950	Paris	5/15/1962
2	Royal Dutch Shell plc	United Kingdom	RDSA/RDSB	7/20/2005	Amsterdam	7/20/2005
3	International Business Machines Corporation	United States	IBM	11/11/1915	Brussels	3/26/1956
4	General Electric Company	United States	GE	6/23/1892	Paris	7/1/1960
5	BP p.l.c.	United Kingdom	BP	3/23/1970	Paris	11/28/1973

Source: NYSE.com (2009)
http://www.nyse.com/pdfs/cross_%20listed_companies.pdf

Inter-listing is a security that is listed and traded on multiple stock exchanges such as Procter & Gamble who are listed on the New York Stock Exchange (NYSE) and Euronext. The advantage of listing on multiple stock exchanges is that it allows for greater access to more investors and therefore increases a company's liquidity. The main disadvantage for inter-listing is the cost of listing on numerous exchanges and the additional regulatory requirements.

Free-flowing capital, business without borders and new economic growth centers are creating an environment of intensified global competition between the world's stock exchanges (Ernst & Young, 2009). As a result of these pressures, exchanges are actively seeking cross-border mergers, demutualizing and even going public while deploying new technology and service offerings. All of this in an effort to win market share over their competitions.

The most active exchanges are the Australian Stock Exchange, Deutsche Bourse, Euronext, Hong Kong Stock Exchange, London Stock Exchange, NASDAQ, NYSE, Singapore Stock Exchange and Tokyo Stock Exchange. According to Ernst & Young (2009), a company choosing a suitable exchange should consider the following criteria:

> ❖ Stock exchange strategic focus.
>
> ❖ Types of companies listed and IPO activity.
>
> ❖ Standards and fees.
>
> ❖ The process and timeline of going public.
>
> ❖ Regulatory environment.

With information on factors such as valuation, quality of investors and market visibility, management can formulate their decision as to which stock exchange best suits the corporation's long-term needs, vision and mission.

Conclusion

In 2008, the global financial crisis led worldwide IPO activity to plummet by more than half. Companies' willingness to list was severely undermined by depressed markets, a credit freeze and the global banking system collapse. It is a major obstacle to going public when volatility in equity markets and negative investor sentiment is widespread. Seeking to stabilize markets and revive their economies, the world's governments cut interest rates and crafted stimulus packages and industry bailout plans (Ernst & Young, 2009). Due to market turmoil, 2008 global IPO activity fell by 60% in deal numbers and 67% in funds raised (Ernst & Young, 2009). Companies in the emerging market accounted for 15 of the 20 largest IPOs, from China and Saudi Arabia.

"The volatility and performance of the equity markets presented increasing challenges to the IPO market during 2008, with uncertainty around valuations, creating difficulty in pricing deals," commented Scott Gehsmann, a capital markets partner in PricewaterhouseCoopers Transaction Services Group (2009). It was envisaged that investors looking for returns beyond those offered in other investments would help unfreeze the equity markets and therefore, revive the prospects for a recovery of IPO activity in the remainder of 2009. PricewaterhouseCoopers (2009) expected significant IPO activity beginning in the latter part of 2009. Ernst & Young (2009) also noted, larger, quality companies in energy, infrastructure, clean technology and healthcare were expected to be the first to offer IPOs, beginning in the fourth quarter 2009.

Recommendations

Top Performers Act Like Public Companies Early on:

Even when the equity markets are not performing well, it is the opportune time to plan for an IPO. According to Ernst & Young (2009), executives of top performing companies start preparing to list 12 to 24 months before going public so that they are well positioned to take advantage of the re-opening of the IPO window. "Market outperformers start acting like public companies at least 12 months prior to the IPO by implementing critical changes to their strategic and corporate tax planning, management team, financial accounting, reporting and internal control systems," says Gil Forer, Ernst & Young Global Director IPO Initiatives (2009).

The reality is that it is difficult to ascertain which part of the market is going to open first. Will it be the IPO, the merger, or the disposal market? A multi-track readiness approach would therefore reduce the risk without adding additional costs or time as many of the same preparations are necessary for whichever route is chosen. "Ninety five percent of the

preparation process for an IPO involves positioning the business so that it is an attractive proposition for new investors," argues Jackie Kelley, Ernst & Young Americas IPO Leader (2009).

Many Successful Companies Emerge from the Tough Times:

As the market recovers, some of the most promising IPOs will be those companies that can sell themselves on their ability to innovate and to convert these innovations into revenue (Ernst & Young, 2009). Historically, post-recession periods see numerous highly successful IPOs. With new deal structures, new players and new areas of opportunity emerging, 2009 turned out to be a year of adjustment (Ernst & Young, 2009). It will not be surprising to witness established brands losing their market positions and be replaced by a whole new breed of dynamic, fast-growth entrepreneurial companies. As always, top performing companies find ways to turn adversity into opportunity.

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The Effectiveness of the Virtual Learning Environment

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Abstract: This paper deals with effective learning assessment criteria in a virtual environment and attempts to develop an e-learning assessment model. This paper contends that the assessment of this new learning environment is paramount to providing a quality education and may provide insights to effective management of virtual communities in the business world. The paper closes by giving some conclusions and recommendations.

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He believes in the merits and positive effects of globalization, especially in the globalization of education. Global education and multicultural challenges are amongst the main issues he would like to explore in future.

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Introduction

According to Syverson and Slatin (1997), educators need to be able to account for learning that takes novel forms in unpredictable situations with uncertain outcomes. However, this does not mean that they must sit back and simply observe naturally occurring systems and hope learners get something out of them. Rather, it means engaging learners in a wide array of activities in a richly represented environment, inviting them to construct and interact in explorations that will support such learning activities as independent decision-making, considering alternative possibilities for interpretation or action, coordination with others, problem-solving, prediction, and analysis. Stiles (2000) found that using virtual learning environments poses important issues. This paper is all about how to develop tools, both conceptual and technical, to support teachers and learners in interactive learning environments. The tools should be also intended to support the collection of a wide range of data about student learning.

This paper starts by defining what is understood when we deal with the virtual learning environment or VLE, including its genesis, background and content. It develops the challenges, methods of delivery and styles of e-learning, before assessing and evaluating VLE. The discussion around VLE's critics, challenges, shortcomings and advantages demonstrates that it has extraordinary advantages as its popularity is increasing.

**A Preliminary Definition of Virtual Learning Environment (VLE)**

A plethora of names has arisen to describe the software and technologies which are being developed and used (or have been developed and used up to now) for the distributed online and distance learning. Several academics, including Stiles (2000), Tham and Werner (2005), Syverson and Slatin (1997) and Weller (2007) have contributed different definitions of VLE. For the purpose of this paper, we will need to agree on some definitions and terminologies we may find in different texts and in this paper:

A). VLE: Virtual Learning Environment: A Virtual Learning Environment is a software system designed to facilitate teachers in the management of educational courses for their students, especially by helping teachers and learners with course administration. The systems can often track the learners' progress, which can be monitored by both teachers and learners. While often thought of as primarily tools for distance education, the "virtual learning environment" systems are most often used to supplement the face-to-face classroom. In other terms, it is a computer program that facilitates computerized learning or e-learning. While such e-learning systems may have a lot of different names, in fact, it is the education via CMC-Computer-Mediated Communication or Online Education. A more correct term should be a "Virtual Environment for Learning", rather than a "Virtual Learning Environment". Indeed, as Wikipedia explains, this definition would remove any ambiguities and would identify that it is the environment, which is "virtual" and not the learning. The terminology for systems which integrate and manage computer-based learning has changed over the years. It can be traced back even to pre-1940s!

Tham and Werner (2005) say that such systems involve three main elements: technology, students and institution. Thus, a "VLE" is not only the software; it is also the "Virtual Community", which includes "invisible classrooms" and "invisible educators", and management. **(**Figure # 1 below borrowed from Tham & Werner (2005, fig.1)

Tham & Werner (2005, fig.1)

Figure 1: CRITICAL ASPECTS OF ONLINE LEARNING
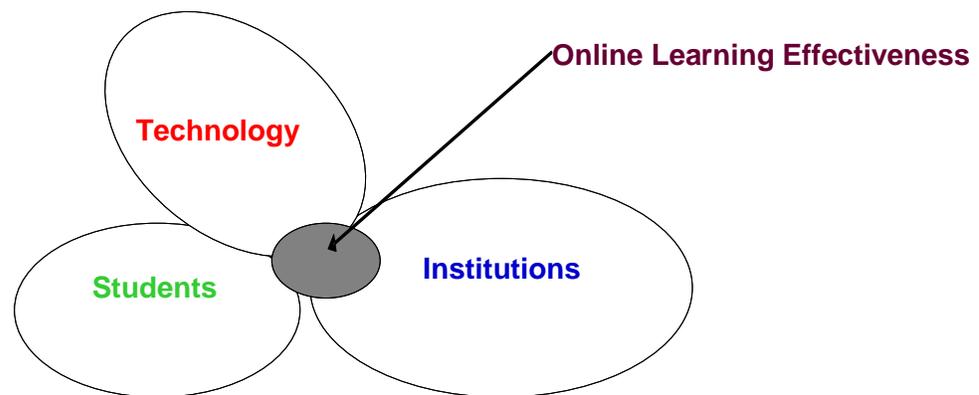
Genesis, Background and Context

Syverson and Slatin (1997) say that new technologies present daunting but, at the same time, interesting challenges for educators. Online learning virtual environments both constrain and enable learning and its evaluation, as do the conventional classrooms. Software has moved rapidly beyond "drill and kill" programs to the interface simulations, hypermedia, and virtual reality explorations.

"Globally", say Lang and Zhao (2000), "institutions of higher education are adopting teaching technologies and infrastructures that use the unique and collaborative capabilities of the Internet".

Dunbar (2004) adds that distance learning, of which online learning is one form, focuses on students who are separated in space from their peers and from the instructor. Wang et al. (2004) insist that since the Web-based learning is considerably different from traditional ways of learning; learners and educators must adjust to new learning strategies and patterns in order to adapt to a different learning environment.

Many academics are concerned with the assessment and evaluation of such learning environments created by the e-learning teaching, instruction and education.

Increasing Popularity

According to available studies (Peltier et al., 2003 and Hazari, 2004), in 2002 it was estimated that half of all United States colleges and universities provided Internet-based educational offerings, serving nearly 2 million students in the United States alone, with growth estimates as high as 5 million by 2006. The explosive growth in the Internet-delivered education can be attributed to a variety of factors, including the increased number of working/nontraditional students seeking degrees, time management flexibilities associated with participating in asynchronous learning environments, the logistical advantages gained through the elimination of the travel to and from education sites, and the important fact that learning via virtual communities results in employees and/or potential new hires who have the ability to interact effectively via technology (Allen 1997, Sullivan 2001, Aron 1999, Carpenter 1998, Donoho 1998; and Phillips 1998, cited in Peltier et al. 2003:260). According to many studies, including those mentioned above, institutions of higher education are increasingly turning to Virtual Learning Environments (as Open University System Support) in order to:

- Economize on the time of teaching staff, especially when they are also involved in research and administration. However, while the extent of the economy over the traditional "talk and chalk" teaching is not yet clear, using a VLE almost certainly absorbs less instructor's time than traditional methods of teaching.
- Provide a service for students who increasingly look to the Internet as the natural medium for finding information and resources.
- Ensure that quality control requirements are met by providing a standard vehicle for collecting the required information.
- Facilitate the integration of distance and campus-based learning; or the integration of learning on different campuses*.*

Hazari (2004) argues that teaching via Internet has become especially popular among educators because of its ubiquitous, global, platform independent nature that supports education through the creation, sharing and distribution of online course materials.

Many business and faculty members have found and realized advantages of using online technology to supplement the face-to-face instruction because of the benefits offered by this medium.

The Internet has quickly evolved from being merely a distribution channel to an interactive environment for the collaborative learning. The technology component is being integrated with almost every functional area of management education.

"Capabilities such as online assessment, simulations, multimedia, course delivery, and access to external resources provide potential advantages over lecture-only classes. Effectiveness of this experiential type of learning has been supported by researchers" (Hazari, 2004, pp.350-351).

Critics

Separately, Peltier et al. (2003), Yohon & Zimmermann (2004), Rahm and Reed (1997), Siegel (1996), Greco (1999) and McCorkle et al. (2001) have observed that although the use of the Internet in higher education and the formation of virtual learning communities are proliferating, critics contend that distance learning and education adversely affect the nature of the "***student-to-instructor***" and "***student-to-student"*** interactions, thereby undermining the quality of the educational experience (Rahm and Reed 1997; Sonner 1999, cited in Peltier et al. 2003:261). Opponents of the online education are bolstered by the fact that the Web-based course instruction often has a higher drop-out rate than that found in the traditional in-class instruction (Aron 1999, Roblyer 1999, cited in Peltier et al. 2003). Several academics (McGrath 1998, McCorkle et al. 2001, Siegel 1996, Greco 1999, and Lee 2002, cited in Peltier et al. 2003:261) argue that although not established empirically, the higher drop-out rate could be due to a variety of other reasons, including a preference for the face-to-face communications over the virtual interaction and the web-based environments may stifle some students who excel in the traditional teaching environments, frustrations students often have with learning and applying new technologies, or the inability of some faculty members to transition from the classic methods to an online and interactive learning environments.

However, despite those and other many critics, many educators, academics, virtual learning and teaching specialists find that virtual learning presents many advantages. Unfortunately, little may be understood on how to best plan, implement, and evaluate interactive web-based courses. Particularly lacking is the research seeking to understand the differential needs and the learning styles of online students in general and marketing students in particular. And, because of the importance of treating students as "customers", a conceptual and empirical research is needed to find ways to enhance the online educational experience (Drago et al. 2002, Haynes & Haunts 2000, cited in Peltier et al. 2003). Academics and web-based teaching and learning specialists recognize clear advantages of the Virtual Learning Environment.

Example: "Whether teaching distance education or on-campus courses, we no longer print assignments, critique and copyedit them with pen and paper, fill out lengthy checklists, write typewritten memos, package assignments and our critiques, and return them to students" say Yohon and Zimmerman (2004)**.**

However, despite advantages, there are also challenges. Let us now consider some that have been highlighted by researchers.

Tham & Werner (2005) have studied critical aspects of the "Invisible Classroom" which they call the "Online Learning Environment" and identified the following three categories or areas of challenges: (a)"Institution", (b) "Students", and (c) "Technology". We will explore each of them in the following text sections.

Institution: Bonk (2000) states that online educators wear many "hats", at least three:

- The Technological Hat: - Using the available technology to enhance the student's learning is not easy for educators/institutions. Therefore, institutions and educators must understand the application software and also the implications of technology for adopting different strategies in teaching.
- The Pedagogical Hat: - Creativity is needed in the design of a course in order to bring students "nearer" in an online learning environment. In the invisible classroom (or virtual classroom), the tools/applications used to monitor or raise the intellectual skills require the educator to adopt the right tools, and not simply use any available tool.
- The Social Hat: -The educator has to establish a credible rapport with students. In the online environment, the technological communication tools should be used to establish a friendly, cohesive and comfortable learning environment.

Bonk (2000) concludes that institutions should provide specific training to faculty, empowering them with the tools and skills to carry out their educational roles properly. Furthermore, faculty must be prepared to tackle the obstacles that may hinder them in imparting knowledge. The motivation, behavioral changes, and increased workload are real concerns that institutions are struggling to balance. However, as Dent & Goldberg (1999) observed, change is frequently resisted.

Students: Tham & Werner (2005) maintain that the student is generally more isolated from other students in the virtual environment. Students do not have the chance to socialize physically with other classmates, except when they are assigned as a group/team as part of the requirements for assignments in a synchronous/real-time environment. With the lack of face-to-face communication, students can/may feel that they are "in the dark", unless they communicate with educators and receive prompt responses.

"This is why it is crucial the educators don the social hat to increase the confidence of the students in the learning process" (Tham & Werner 2005:19).

In particular, the online learning environment can have a significant effect on international students. Given that online learning allows flexibility and ease of learning does not necessarily make it an attractive option for those students who decide to study abroad. Such students often prefer to interact with local classmates and the native population. Therefore, students must question what it is they hope to gain from online-learning as opposed to the traditional seminar environment.

Technology: "Technology is far from perfect" contend Tham & Werner (2005).

It could be argued that technology will never be perfect, since the environment changes as technology advances. The glitches in the technological word remain part and parcel of the "virtual" experience". The effectiveness and efficiency of the infrastructure plays an important role in creating the "ideal" learning environment.

Institutions should therefore do whatever is possible in order to reduce students' fears of technological advances. "The main point is to ensure that online learning objectives are achieved without sacrificing the standards and professionalism of the institution. And, in addressing these questions, institutions can make the online learning environment seem less hostile to faculty and students, and see the learning experience reach high levels" Tham & Werner (2005:21).

Methods of delivery

Tham & Werner (2005) found that the communication in education has often put the emphasis on one-way transmission. Caine et al. (2005) observed that any learning environment whether traditional or online, should be delivered and received within an enriched learning environment. The three main elements of such an enriched environment are: "Relaxed Alertness", "Orchestrated Immersion in Complex Experience" and "Active Processing of Experience".

Student profiles and learning styles

Many academics, including Dillenbourg (2000), Hazari (2004), Tham & Werner (2005) and Wang et al. (2004), agree with Caine at al. (2005) that student profiles and learning styles differ from one learner to another, and that such profiles need to get the attention they deserve if we want to deliver an effective education. Understanding the characteristics of "Invisible Students" is an important aspect of the online learning environment. Only recently has this topic been widely discussed.

One difference among students is in their learning styles. A learning style is the "way in which the learner receives and interacts with instruction and responds to the learning environment" (Billings, 1993, cited in Tham & Werner, 2005:17).

From www.enhancinglearning.ca, we know that learning styles, learning modalities and learning strengths may be classified as sensory, perceptual, cognitive information processing, personality type, personal talent or situational.

"Educators should also remember the connection between national culture and learning styles, i. e., some learning styles are more or less likely to be found among individuals from a particular

culture. And with the increased globalization of learning in higher education, student profiles will continue to be diverse" (Guild, 1994, Altbach, 2000).

Measurement of Learning Style Construct

Wang et al. (2004), Caine & Caine (1994), and Caine et al. (2005) argue that each brain is uniquely organized and that if we want to create enriched learning environments, we must engage the learner's individual style and uniqueness (Caine et al. 2005). This principle is also applicable to the effectiveness of e-learning.

Wang et al. (2004) found that to measure learning styles in the e-learning we need to use two surrogate variables, which represent the basic nature of the learning styles: "the learning situation" and "learning resource usage".

Interpretation of Wang's Research Results

Wang et al. (2004) arrived at the following results: a. "interpreting cluster profiles", b. "academic achievement differences", c. rate of discontinuing schooling differences and "gender & age differences".

A summary of these clusters variables and their measurement definitions are provided in Table 1, next.

Table 1: Learning Styles Constructs

Variables/Constructs	Measuring Unit	Definition	Abbreviation
Learning Style		Both Situation & Resource Usage	
Learning Situation: Attendance Non-instant Interaction Instant Interaction	 Frequency Frequency Frequency	 Number of students attending the class Number of posting bulletins Number of online discussions	 "NoA"=X "NoP"=Y "NoD"=Z
Learning Resource Usage : Time length Amount Ratio	 Second Page Percentage	 Duration of online reading materials Pages of online reading materials Ratio of reading and all materials	 "DoR"=U "PoR"= V "RoR"=W

Borrowed from Wang et al. (2004:114)

Interpreting Cluster Profiles

From 140 cases analyzed and based on Table 2 (next), Wang et al. (2004) labeled clusters as follows:

- Cluster 1: "Aggressive Knowledge-seekers": learners with this profile have a highest attendance and material-reading levels, and a medium level of learning interaction.
- Cluster 2: "Active Participants": they have the greatest interaction and involvement levels on the bulletin-boards posting and the online discussion.
- Cluster 3: "Silent Cultivators": these have a medium reading-material level, but their online attendance and interaction levels are low.
- Cluster 4: "Heavy Sleepers": they have the lowest level on every learning variable.

We see the characteristics of the four learning styles in table # 2 that follows:

Table 2: Characteristics of the Four Learning Styles/Clusters

Activity	Aggressive Knowledge-seeker	Active Participant	Silent Cultivator	Heavy Sleeper
Attendance	"HIGH"	"MIDDLE"	"LOW"	"LOW"
Interaction & involvement	"MIDDLE"	"HIGH"	"LOW"	"LOW"
Material-reading	"HIGH"	"MIDDLE"	"MIDDLE"	"LOW"

Source: (Wang et al., 2004: 118, table 7)

Assessment and Evaluation of VLE

Different recommendations have been formulated by the following academics: Tham & Werner (2005), Yohon & Zimmermann (2004), Dunbar (2004), Hazari (2004) and Graham et al. (2001). Of these recommendations the most common mentioned by almost all academics was that of: *"Integrating the institution, technology and students for effective online learning".*

With the increasing demand for online learning, institutions must consider crucial elements that will ensure their credibility, reputation and survival. Tham & Werner (2005) contend that in accordance with the figures from the National Center for Education Statistics (2002), of the 4130 educational institutions in the US, 56% were offering distance education, with 12% planning such offerings within the next three years. Of those institutions with 10,000 students or more, 95% are currently offering distance learning programs; in addition, 16% of those institutions with less than 3000 students are planning to offer distance education. It was reported in the 12-month (2000-2002) academic year, there were an estimated 3,077,000 enrollments in all 127,400 distance education courses. With such increasing competition of schools and institutions offering or planning to offer distance learning programs around the globe, it is only those organizations that excel in the integration of the three "online-learning environment factors": institutions, students and technology that will survive. Ineffectiveness in any of these three key areas may have an adverse effect on the successful conduct of e-learning and thus lead to failure. However, most researchers, including Tham & Werner (2005), agree on

one fact: "merging these factors is a great challenge for any institution conducting (or planning to conduct) online courses.

Assessment & evaluation goals

Hazari (2004) insists that the goal of assessment is to determine if learning objectives have been accomplished. Formative evaluation using online testing helps students assess their level of knowledge of the course material. In addition, it gives instructors a better idea of what students are understanding as well as the concepts that still need clarification. Graham et al. (2001) have listed seven principles for effective evaluation of online discussions:

1) Instructors should provide clear guidelines for interaction with students;

2) Students should present course projects;

3) Well-designed discussion assignments must facilitate meaningful cooperation among students;

4) Instructors need to provide two types of feedback: information feedback and acknowledgment feedback;

5) Online courses need deadlines (but, these should be done adequately);

6) Challenging tasks, sample cases, and praise for quality work communicate high expectations;

7) Allowing students to choose their project topics incorporates diverse views into online courses.

"The online learning environment where students are motivated and proactive greatly enhances a deeper level of understanding" Hazari (2004:352).

 Many other academics, including Tham and Werner (2005) argue that the benchmarks comprise seven categories of quality measures:

1). Institutional Support. 2). Course Development. 3). Teaching/Learning. 4). Course Structures. 5) Student Support. 6) Faculty Support; and 7).

Evaluation and assessment

The Global Alliance for Transnational Education (Gate) developed ten principles that include: a) goals and objectives, b) standards, c) legal and ethical matters, d) student enrollment and admissions, e) human resources, f) physical and financial resources, g) teaching and learning, h) student support, i) evaluation, and j) third parties.

"The quality of the course design, the use of appropriate tools and the context in which learning takes place are prime factors affecting success in the era of mass higher education and lifelong learning" (Stiles, 2000:1).

Assessment issues

Tham & Werner (2005) argue that test scores alone do not adequately measure the intricacies of e-learning, and should not be equated with the quality of student performance or learning. It therefore becomes critical which methods of evaluation educators adopt to evaluate their learning outcomes. Let us explore some features:

- Feedback: Feedback from students is crucial in assessing these objectives, with most institutions using questionnaires and surveys. "Written feedback is more suitable, but it also takes more time, and does not have quantifiable results that can be as easily used for data analyses. The categories used to gather the data become an important issue in considering what will provide useful data" (Tham & Werner, 2005).
- Institutions: Institutions should design their questionnaires according to course objectives, rather than relying on a general questionnaire for all courses. "Follow-up surveys can help institutions determine the effectiveness of their online classes. Although they may be time-consuming and require great efforts, follow-up surveys deliver clear benefits" (Tham & Werner, 2005).

"Institutions have responsibilities in the quality assurance of online education" Stiles (2004)

- Technology: Since education is the preparation of students to meet the challenges of tomorrow, without an understanding of what alumni are facing in their job, the curriculum can become obsolete, even with the best technology. "Different course designs make use of different aspects of technology. The more accurate and effective the technology used is, the more valuable will be the information gathered for improvement" Syverson (1997)
- Transformational Administrator: "Accomplished educators", write Caine et al (2005), realize that the most powerful learning comes from questions generated by students themselves. Thus, an e-learning administrator should transform a student from active to actor. There must be a transformational administrator and a process for making it real".

Evaluating Online Learning Effectiveness

Yohon & Zimmerman (2004), Dunbar (2004), Peltier et al. (2003), Tham & Werner (2005), Hazari (2004), Wikipedia (2009), and Dillenbourg (2000) insist that there are various ways of evaluating and rating the effectiveness of the virtual learning environment. Some of those ways can be more or less applicable in the traditional classroom setting. In all cases, we need to create enriched learning environments. According to Caine et al (2005), we need to create a climate of

relaxed alertness, orchestrated immersion in complex experience & active processing of experience. Hazari (2004) and Ritchie & Hoffmann (1997) agreed with the Caine et al (2005) principle that:

"Creating an enriched environment for any learning is crucial".

Suggested models for assessing and evaluating VLE

According to the following scholars, Kirkpatrick (1996), Syverson & Slatin (1997), Stiles (2000), Peltier et al. (2003) and Dillenbourg (2000), it is important to evaluate all new online learning technologies.

Evaluating new e-learning technologies

Syverson & Slatin (1997) insist on the importance of the technological VLE systems and software and focus on the problem of evaluating such technologies. They recommend a number of tools to support teachers and students in interactive learning environments such as MUD Object Oriented (MOO) and Multi-User-Dungeon (MUD).

The evaluation model proposed by Syverson and Slatin (1997) includes the following: "portfolio assessment in Virtual Learning Environment, the Learning Record Model, and the Moderation Process".

Of the three, the moderation process is the most interesting in that it focuses on a better way of using records by selecting and sampling some of them for moderation readings. Student records are masked to conceal the student's identity, the teacher's name, and the name of school, as well as the placement of the student on the developmental scales. The procedures are repeated, with pairs of teachers reading and discussing records and recording their decisions about placement.

Five dimensions of e-learning

Syverson and Slatin (1997) highlight five dimensions of e-learning and contend that learning occurs across very complex dimensions which are interrelated and interdependent. These are:

1. Confidence and independence, which are underestimated aspects of learning, primarily because it is difficult to account for them using conventional measures. However, they are essential dimensions for learner development which can be observed and interpreted over time.
2. Skills and strategies, which represent the know-how aspect of learning. These help learners function successfully in given situations.
3. Use of prior and emerging experiences: A crucial but often unrecognized dimension of learning is the ability to make use of prior experience as well as emerging experience in

new situations. Conventional methods are simply incapable of evaluating this kind of learning. It is necessary to observe learners over a period of time while they engage in a variety of activities in order to account for the development of this important capability, which is at the heart of creative thinking and its application.

4. Knowledge and understanding: Knowledge and understanding combine the most familiar dimension, focusing on the know-how aspect of learning.
5. Reflection: when we speak of reflection as a crucial component of learning, we are not using the term in its commonsense meaning. We are referring to the development of the learner's ability to step back and consider a situation critically and analytically, with growing awareness of his/her own learning processes, as a kind of meta-cognition (Syverson and Slatin, 1997:12).

- Learning as cultural activity:

Like many other academics of e-learning, Syverson and Slatin (1997) contend that virtual learning is not simply a matter of individual development; it takes place in and through situated cultural activities and practices.

This concept of e-learning emerged from interaction with the virtual environment, and from interaction between the virtual environment and the external environment in which learners and instructors participate. Thus, it is subject to both internal and external cultures.

- The instructor's role, facilities and equipment and key personnel:

 Syverson and Slatin (1997) insist on the role of the educator, the importance of the technologies used as equipment, the institution's facilities, the responsibilities of administrators and the managerial human resource needed in order to make VLE the most effective possible.

- Recommendation:

"The concern should not be just with whether online learning is conducted successively using available technology, but also whether the institutions did what they set out to do, i.e. deliver an effective learning program to learners" (Tham & Werner, 2005).

VLE Evaluation Effectiveness

Peltier et al. (2003) propose one model of online education effectiveness evaluation, which I call Peltier's model and reproduce here, in Figure 2, next page:

Fig. 2: Peltier's Model
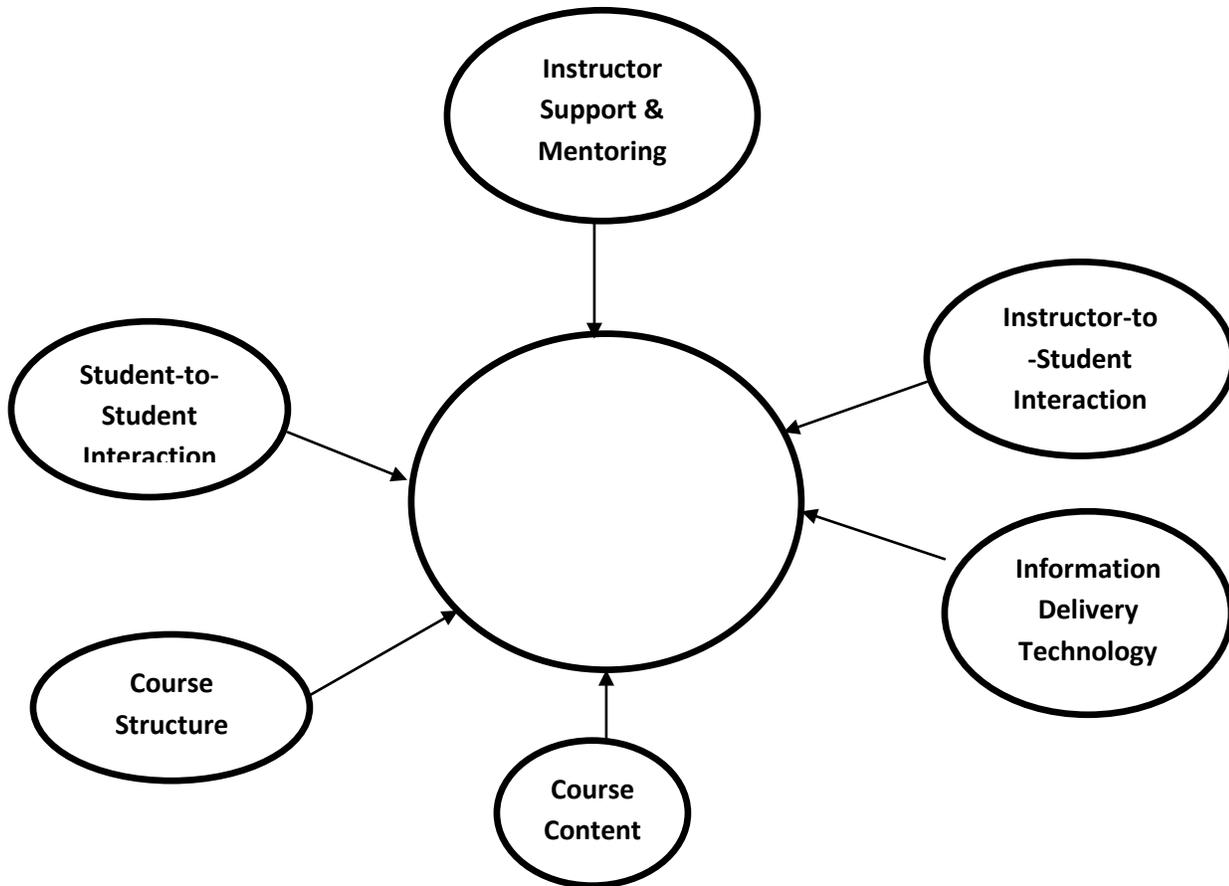
Figure 2: Proposed Model of VLE Effectiveness Evaluation (borrowed from the *Journal of marketing Education, 2003, p. 264, Figure 1)*.

- Instructor Support and Mentoring**:** The instructor in front of the class and students in their seats model of teaching is no longer appropriate for a high-tech virtual learning environment. Instead, online learning requires that the instructor make the transition from the authority figure to one voice amongst many others! (Smith, 1996, and McGrath, 1998)
- Instructor-to-Student Interactions**:** As the designer and manager of the virtual community, the instructor has three types of communication roles: mentoring, supporting, and motivating the community (Benbunan-Fich et al., 2001)
- Information Delivery Technology**:** The primary purpose of the material delivery format is to simulate the classroom experience as close as possible; thus tools, books & materials

sent to students should have real substance and not simply present lectures online (Eastman & Swift, 2001, and Karuppan & Karuppan, 1999).

- Course Content: The perceived value of instructor-delivered content and assigned learning assessment activities is likely to affect student's perceptions of the learning experience (Lang & Zhao 2000, and Atwong & Hugstad, 1997).

- Course Structure: One of the least studied aspects of online education and virtual communities is the structural element of the learning experience (Tham & Werner, 2005). There is a general consensus that online learning has little value unless it is structured in a logical and easy-to-follow manner (Chen & Wells 1999, and Nielsen, 2000).

- Student-to-Student Interactions: Establishing and nurturing relationships with classmates is important in an asynchronous environment (Benbunan-Fich et al. 2000).

- In the Virtual Learning Environment, community members must play a key role. Dillenbourg (2000) advocates that students should not only be active, but also actors. Thus, educators are invited to remember that students will learn more and better if their role of being actors is understood.

- Social Interactions: According to Dillenbourg (2000), the greatest opportunity for virtual learning environments is that they can support social interaction in a variety of forms: synchronous versus asynchronous, textbooks versus audio/video, one-to-one versus one-to-many, etc. "Unfortunately most e-mail conversations are about the management of learning; as such students rarely send spontaneous content-rich e-mail messages" (Dillenbourg, 2000). Let us examine his reasoning:

Virtual places define the conversation context and thereby implicitly convey the communication contract: The social context in which interactions occur has a strong impact on the way students interact, sometimes even stronger than the technological features.

Virtual interactions do not have to imitate face-to-face communication in order to be effective: Virtual space designers do not necessarily try to imitate physical space; they look to create new forms of communication. The most relevant mode of communication is not necessarily the one that imitates face-to-face conversations. In fact, the comparison is not the key issue.

The communication is non-verbal/non-oral: the specificity of virtual learning environments is that, beyond text/voice/video messages, users communicate in other ways: exchanging objects, moving in the space. These are often called "non-verbal' communication, though this term may look slightly inappropriate when the commands are verbal (e.g., users have to type <<move>>, <<smile>>, etc. which are verbs. Dillenbourg adds that researchers on computer-supported co-operative work are exploring the design of such innovative functionalities that do not necessarily exist in face-to-face interaction.

Building virtual communities: "VLE should not become places where students absorb <<the culture>>, but places where students co-construct new cultures or at least find the opportunity to expanding the existing culture" (Dillenbourg, 2000:21). The exploration and evaluation of community building effectiveness is important for two more reasons:

i. Building the teacher community: Teaching has always been an individual practise: teachers do not collaborate a lot; they rarely attend each other's lectures; they do not exchange much teaching material and so forth. "The challenge is to turn teaching into a collective performance" (Dillenbourg 2000:21)

- Collaborative Learning is not a Recipe: VLE contains obvious opportunities for collaborative learning. However, one cannot guarantee that rich interactions will occur, but one can regulate the collaborative process to favor the emergence of these types of interactions. Any model of effectiveness should be evaluated in two ways:

  ➢ Structuring collaboration: The teacher should not simply ask the group to conduct a number of tasks together, but instead outline a scenario that includes several phases and roles.

  ➢ Regulating interactions: "Our main challenge in the VLE is to increase the probability of productive interactions emerging. Designers should create environments which facilitate effective collaboration, otherwise known as "interfaces" argues Dillenbourg (2000).

- "Does it work?" is what matters most: Dillenbourg (2000) contends that the pedagogical effectiveness is an object of investigation for scientists, and a concern for policy makers, but teachers often have a primary concern: "does it work?" This question doesn't only refer to the fact that the software is easy to install and/or to use, and that it is bug free, but also to the following concerns: a). it should work with students; b). students should play the game (i.e., feel engaged in the scenario and have a sustained interest along the software use); c).how long the teacher will be able to keep the floor with the software (a few hours or a few months). (Dillenbourg, 2000:26).

- Virtual Space is a Space for Innovation: Dillenbourg argues that although we cannot predict how VLE will influence learning effectiveness, an important point to consider is that for teachers a virtual space is an open space, a space where they can try new approaches. Pioneers not only contribute to educational change, but, more importantly perhaps, they develop an ownership of change. This is the positive side of the coin; but there is also a negative side: teachers spending a lot of energy and resources, teachers reinventing the wheel, and teachers devoting their energy to technology instead of educational goals.

Addressing e-learning constraints

Main Sources: Peltier et al. (2003), Tham & Werner (2005), Dillenbourg (2000)

Any VLE design should address e-learning constraints if its objectives are to deliver an effective learning/education.

The question is: "can we apply the same standards to all who participate, or should there be different guidance provided to different students"?

The dynamics of learning are different and the demographics of students participating in traditional and/or online programs are very diverse. Below, we discuss four potential constraints that must be assessed and addressed:

- National Culture: We know that organizations and their management are affected by culture and cultural values. So are the learning organizations, whether in classroom or online discussions. Indeed, culture stands behind any effective teaching and learning as it has an impact on different learning styles while it influences at the same time the socialization practices of all ethnic and individual groups. (Tham & Werner 2005) and Dunn & Griggs (1995) indicate that cultural values affect student learning preferences. "The downside would be the mismatching of a diverse cohort in group assignments and projects, resulting in poor performance and hindering learning" conclude Dunn & Griggs (1995).
- Door to Information: According to Tham & Werner (2005), Peltier et al. (2003) and Stiles (2000), online learning and cyberspace give more people an entrance to available information.
- Ethics and Ethical Requirements in Online Learning: Tham & Werner (2005) maintain that with the information highway becoming more accessible, the possibility for both educators and students to be overwhelmed by information increases. The ethical issues facing students thus become a challenge to educators as they evaluate student performance.
- Communication Skills: Online education designing and evaluation should include good communication skills in the list of quality evaluation criteria.

ITham & Werner (1997) conclude that every institution is unique and has its own strengths and weaknesses in conducting online courses; however, as in any other business environment, what works well in one institution may not be applicable to another.

Conclusions and recommendations

Conclusive Summary

This paper explained how distance learning, of which online learning is one form, focuses on students who are separated in space from their peers and from their instructor. We stressed the importance of interaction between teacher and students, between students and the learning environment, and among students themselves. We conclude that the instructor must decide how to provide the course content: either through textbook, web pages or through a combination of both. We suggest that the combination of both should get priority. The quality of course design, the use of appropriate tools and the context in which learning takes place are prime factors affecting success or failure in the era of mass higher education and lifelong learning. The paper has identified that there must be an effective integration of institution (with a specific structure), educator, technology, course content, and student. The paper concludes that each institution should have its own structure and model, as in any other organization.

Recommendations:

- Whatever model of assessment is considered, Syverson and Slatin (1997) suggest that there are important questions to ask about the evaluation methods used in complex e-learning environments. Some examples of the critical questions on evaluation methods (Syverson and Slatin, 1997:8-9) are the following:
- What form of learning is actually taking place in the system? What are the observable signs of this form of learning?
- What is the most reasonable and useful schedule for reporting the results of evaluations?
- What format will best serve specific audiences and purposes?

We conclude our recommendations with the following observations:
The principles and methods cited above allow educators and administrators to account for learning situations which are diverse, complex, and emergent, and to acknowledge the multidimensional nature of learning" Syverson and Slatin (1997). An effective course design should therefore give consideration to the following:

a) Identify learning outcomes by asking and answering the questions:
- What was the point of the course? How has the successful learner benefited? Learning outcomes should make clear to learners "where they will be" at the end of the course. The context of the course, as well as learning activities and assessment criteria should be clear and easily understood, and also related to the learning outcomes.

b) Design learning opportunities:
- What can the learner do which will demonstrate that one or more learning outcomes have been met?
- Any learning opportunity is potentially a formative or summative assessment, and should be clearly related to the learning outcomes of the course.

c) Apply deconstruction:
- Higher level opportunities can be deconstructed into appropriate lower level opportunities for the learner where necessary.

d) Consider whether group or individual:
- Learning opportunities/assessments can be examined for the nature and appropriateness of their collaborative/group working potential.

e) Identify or create resources: There is a need to categorize resources as internal and/or external resources and address pre-requisite learning requirements. (Stiles 2000)

f) Assessment and evaluation are continuous: It is important to recognize that assessment and evaluation activities must be maintained on a regular basis.

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