



# Middle-East JOURNAL OF BUSINESS

**January 2015**  
**Volume 10, Issue 1**

**ISSN 1834-8777**

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## From the Editor

### At what cost?



I was genuinely horrified to see the figures on modern day slavery that came onto my desk this month by way of a press release and deeply ashamed to be a human.

A minimum of 1 in every 200 humans is enslaved. I put these shocking figures to humanitarian and NGO colleagues who say this is far more likely to be much higher if you take into account indentured labour, inherited lifetime debts, domestic servitude, mortgages and similar life constraints.

Children, the most defenceless of all are being preyed on the worst and if they die or try to escape others are enslaved in their place – this is our collective “humanity” and apparently the situation is far worse than the days when slavery of humans was legal/acceptable. We have been collectively abused, tortured, raped, and murdered as part of our enslavement to someone else, since the dawn of human-kind.

Childhood is defined by culturally set boundaries which have changed throughout human history and with geographical location, with the acceptable age to work still depending on the local culture. Forced child labour is part of the history of all human cultures, countries and races and slavery is obviously the worst form of child labour that exists and is unacceptable at any age in any country. If we cannot or will not protect our young then how can we call what we live in, civilisation?

Among the enslaved there are millions of children trafficked around the world today and forced into lives of depravity and despair. Worst of all is trafficking not for labour but purely for vicious bodily assault on enslaved humans for the ‘entertainment’ of other evil humans in the ‘global sex trade’ - more aptly called the ‘global rape and torture trade.’

Slave owners don’t survive commercially without customers however, so the shame falls upon every one of us while we allow these primitive and evil practices to exist.

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# Russian Business Leadership: A Study of Managers Working within MNCs

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## Abstract

Along with 'Globalization' and global competition, has arisen the need for culturally 'literate' managers and business practices for successfully operating with, or within, foreign markets. This research focused on Russian managers working within multinational corporations (MNCs), furthers the limited knowledge and understanding of Russian managers' leadership styles, competencies, and Emotional Intelligence. Major findings of this investigation include: identifying a clear leadership style, and further support of the literature suggesting significant relationships between cognitive, emotional, and managerial competencies.

## Introduction

Increasingly, the Russian Federation is capturing the attention of the world, with its controversial leadership and economic challenges. A country, at times, described as being 'the wealthiest nation in natural resources', and spanning nine time zones, has been the subject of debate for decades, if not centuries.

This comparative-cultural investigation was designed to extend Dulewicz and Higgs' (UK) scholarship in the areas of leadership styles, Emotional Intelligence (EI; EQ), and leadership competencies, by applying their Leadership Dimensions Questionnaire (LDQ) within the Russian Federation. Thus enabling the findings of this study to be made with Dulewicz and Higgs' (2003; 2004) UK norms, similarities and differences between the two cultures might be identified further contributing to the literature on comparative - cultural management studies.

## The Russian Context

Western academic research on leadership development in Russia is extremely limited (Shekshnia, 1998; Puffer et al., 2007), and the available data gathered during the 1990s are grossly outdated. Indeed, leadership development programs were first brought to Russia by Western companies such as McDonalds and Otis Elevator, but failed to establish a trend within the business community until some 15 years later (Puffer et al., 2007). More importantly, until recently, large Russian firms neglected to invest in the development of organizational leaders (Puffer et al, 2007).

Nevertheless, since 2000 there has been considerable demand for up-to-date Russia-specific leadership development technologies by both foreign MNCs and large Russian companies operating within the Russian Federation. This recent focus on developing organizational leaders is largely a result of the recent changes in the political and economic environments in Russia, following the country's recovery and stabilization from its financial crisis of 1998 (Puffer et al, 2007).

This change in mindset has largely been driven by Russian senior executives reacting to the increasingly competitive Russian marketplace; namely, the high level of demand for trained executives within Russia's booming economy, and the current high "price tag" associated with "headhunting" successful Russian managers from other firms (Puffer et al, 2007). Nonetheless, few organizations (including Western MNCs) are utilizing leadership programs adapted to their needs; i.e., most Russian corporate development initiatives are either conducted from the organization's global and/or European headquarters, or they consist of the fixed-term importation of Western trainers applying outdated Western management concepts (Puffer et al., 2007).

A study sponsored by Columbia University, the University of Chicago and others (CPC/Rand Corporation Report, March 1994), found practitioners and academics alike generally agreeing that successful work performance within MNCs primarily depends on the following factors:

- i). general cognitive skills [IQ];
- ii). social skills [EQ]; and
- iii). personal (professional) traits [MQ].

Yet another major research initiative involving 10,000 senior executives in North America, Europe, and Asia asked 'what the successful organization would look like in the year 2000 and beyond?' Overwhelmingly, the executives responded: 'management's handling of diversity in a global business environment' (Mackiewicz and Daniels, 2000). Such evidence further supports the need for comparative cultural investigations into leaders/leadership within MNCs and the global workplace.

## Literature Summary

Dulewicz and Higgs' leadership model is built around a personality-based EQ instrument, grounded in trait, style, and contingency theories (Dulewicz and Higgs, 2003). The "leadership dimensions" (as measured by the LDQ), are represented within a competency framework. Dulewicz and Higgs' central 'formula', is that 'effective leadership = IQ + EQ + MQ' (cognitive, Emotional Intelligence, and managerial competencies). This extends the perspective of Goleman (1998) that leadership success is a result of a threshold of cognition, and high levels of Emotional Intelligence.

Western man's inquiry into the nature of leadership can be traced back to the ponderings of the ancient Greek philosophers. Until recent times, the prevailing concept of leadership was that leaders had special innate characteristics enabling them to excel at leading, thus distinguishing them from others. Such trait-based approaches remained popular well into modern times. During the early part of the 20th century, scholars sought to understand leaders and leadership through the application of various models representing

distinctively differing philosophies concerning the nature of leadership and how best to study and understand it. Such models included:

**i). Style theory** - leadership effectiveness may be explained and developed by identifying appropriate styles and behaviors; Key references include: Fleishman (1953); Katz et al. (1950); Katz and Kahn (1952); Blake and Mouton (1964).

**ii). Contingency theory** - leadership occurs in a context. Leadership style must be exercised depending on each situation; Key references include: Fiedler (1964; 1967).

With the birth of the "New School", researchers focused on symbolic and emotional aspects of leadership in an attempt to understand how leaders might influence subordinates to elevate themselves above their own personal interests, in favor of supporting the missions and visions of their organizations. The Charismatic/Neocharismatic [Key references include: Weber (1947); House (1977); Conger and Kanungo (1987); Shamir (1995)] and Transformational leadership models [key references include: Burns (1978); Bass (1985; 1999)]; Bass and Avolio (1990)], both at the heart of the New School, have much in common, but also diverged in significant respects. Most notably, charismatic and transformational leaders differ as to the role of "charisma", and the leader-follower relationships/processes utilized to motivate change and 'followership'.

However, as popular as the Transformational model has been, Bass was not without his critics. Alimo-Metcalfe (1995) pointed out the male and cultural biases (largely US and Western European) of the collective Transformational research, further noting a heavy emphasis on studies involving senior level management, leaving a deficit of data concerning middle-management, lower-management, and across-level comparisons. Perhaps it was the critical recognition of the inherently differing roles and responsibilities of managers versus leaders (e.g., Zaleznik, 1977; Kotter, 1996) that further spurred interest in leadership/leadership studies at the end of the 20th century. With thousands of books being published yearly, one might predict that new and improved methods in research scholarship would emerge.

One such model was that of 'competency measurement' as a preferred approach to assessing job performance; this was proposed by McClelland and associates (1973), and later extended by Boyatzis (1982) in 'the most comprehensive study-to-date of managers' competencies' within the public and private sectors'. The competency-based approach to developing individuals within organizations has firmly established itself. That said, McClelland and Boyatzis were not the only researchers to contribute to our current understanding of leadership through updating and upgrading trait-based approaches; e.g., Salovey and Mayer (1990) consolidated much work from the mind science disciplines into their concept of "Emotional Intelligence".

Goleman adapted Salovey and Mayer's concept - redefining it within a competency framework - thus creating the "personality-based" (EQ) approach. During the 1990s, globalization and other variables within the business environment inspired yet another change in focus for leadership studies. Kotter (1996), argued for the importance of identifying "What leaders do", and moreover, advocated the necessity of defining leadership within the context of 'change'. Kotter (1996) further argued for the necessity of leading change from within an organization, so as to better combat the ever-increasing competitive nature of the 'globalizing' business world.

## Need For Current Russian Comparative-Cultural Studies

Hofstede's study laid the groundwork for further inquiry into comparative-cultural studies, within the context of societal cultures. That said, Hofstede's research has been duly criticized for its many limitations; e.g. outdated data/inferences, the use of only one organization within the study (IBM), significant country values published "were estimated based on imperfect replications or personal impressions [all of the values for Russia are included within this admission]" (Hofstede, 1993, p. 90).

The GLOBE project set out to create a universal theory based on seminal comparative-cultural scholarship. Regrettably, well-established experts have criticised the GLOBE researchers for falling foul of their own stated misgivings concerning earlier comparative-cultural research. In relation to GLOBE's core questionnaire, questionable practices included:

- i). translation short-cuts (one-way 'back translations' from English into the local language);
- ii). most questions were biased with "social desirability" (what I want people to think of my country);
- iii). three sections asked for locals to stereotype themselves

(i.e., section 1; How would you like to be seen by outside nationals?; sections 2 & 4; How would you like outside nationals to think of your outstanding leaders?; section 3; How would you like outside nationals to view your culture? (Graen, 2006).

Gratchev (2001) points out that:

*[the] Ethnic composition of the sample was very diverse: Russians 69%; nearly a third of the respondents were not Russians. (Gratchev, 2001)*

Whilst Graen (2006) maintains that:

*Research on international leadership is at a crossroads...one bridge offers easy surface-level approaches, but a questionable methodology [referring to GLOBE]. The alternative offers deep-level answers and rigorous methodology [noting the need for future research]. (p. 100)*

Cross-cultural inquiry generally takes one of two forms: culture-specific (emic) or comparative (etic), with the latter supporting the approach taken by this study.

## Research Hypotheses

Hypothesis 1 was designed for the purpose of exploring possible statistically significant relationships between the variables.

**H1.** The intellectual (IQ), Emotional Intelligence (EQ), and managerial (MQ), competencies of the Russian managers will demonstrate statistically significant relationships with one another.

Hypothesis 2a/b maintains that:

**H5a.** The Russian manager-sample will recognize their business environment as being transformational.

**H5b.** The Russian manager-sample will demonstrate a transformational style of leadership.

Hypothesis 3 compares industry sector, asserting that:

**H6.** Russian managers working within the private sector will demonstrate (statistically significant) higher levels of "achieving", "influencing", "motivation", and "emotional resilience", than their public sector counterparts.

## Methodology

The original self-report version of the Leadership Dimensions Questionnaire (LDQ), developed for the specific task of testing Dulewicz and Higgs' leadership model (Dulewicz and Higgs, 2003; 2004) was utilized for this investigation; as one must consistently apply a standardized measurement instrument to all cultures within an etic study (Den Hartog et al., 1999). Therefore, the author was obliged to apply the same self-report LDQ as was used within the earlier UK studies.

The LDQ contains 189 questions based on 15 competency scales within three main constructs (see Table 1 - next page); cognitive abilities (IQ), Emotional Intelligence (EQ), and managerial competencies (MQ).

The report produced by the LDQ assesses the respondent's dominant leadership style, in accordance with the following three distinctive leadership styles identified by Dulewicz and Higgs (2003; 2004):

**I).** Engaging Leadership (Transformational)

**II).** Involving Leadership (Participative)

**III).** Goal Leadership (Transactional)

The version of the LDQ employed for this study subsumes scales for measuring "follower commitment" and "leadership performance". Dulewicz and Higgs (2003) built on the

**Table 1 LDQ Competencies by Category**

1. Critical Analysis and Judgment (IQ)	1. Self - awareness (EQ)	1. Resource Management (MQ)
2. Vision and Imagination	2. Emotional Resilience	2. Engaging Communication
3. Strategic Perspective	3. Intuitiveness	3. Empowering
	4. Interpersonal Sensitivity	4. Developing
	5. Influence	5. Achieving
	6. Motivation	
	7. Conscientiousness	

**Table 2: Foreign Organizations Represented**

American Express	Nestle Foods	Price Waterhouse Coopers	Citigroup
Coca-Cola	AC Nielsen	Ford Motor Company	Sumitec
Caterpillar	Alcatel	CSC Pharmaceuticals	Radisson/SAS
ABN Amro	Philips	Siemens	Mars
British-American Tobacco	Boston Consulting	AIG	SunGroup

attitudinal/affective findings of Bass (1990). The 'OC' scale contains five items designed to assess the degree of commitment that followers show to the organization (for details refer to Dulewicz and Higgs, 2004).

### Data Analysis and Results

Table 4 summarizes the results of the hypotheses testing, followed by a discussion of the findings.

Both Skewness and Kurtosis were found to be well within acceptable ranges e.g., Skewness (+1 to -1) and Kurtosis (+3 to -3); (Hair et al., 2003). A conservative confidence "cut-off" value of 95% (sig = .05). Value inflation factors and tolerance were in line with acceptable norms precluding the possibility of inaccurate results due to multicollinearity between variables i.e., VIF < +5 and tolerance > .10.

With the exception of "intuitiveness," the three constructs (IQ), (EQ), and (MQ) were highly correlated with one another for the Russian manager-sample; hypothesis 1. The result for testing hypothesis 2a was not supported by this study. Moreover, Russian managers did not clearly demonstrate the "Transformational" style of leadership, as tested with hypothesis 2b. Russian managers working within the private and public sectors, respectively, showed no statistically significant differences on any of the LDQ dimensions.

Finally, earlier assertions that significant differences exist between the competencies of private and public sector managers were not supported by the data. The hypotheses testing has added considerable statistical support for several of the hypotheses (if only partially), in addition to revealing inference for the overall research applying Western leadership theory to a Russian manager-sample.

**Table 3: Characteristics of Respondents**

<b>Positions</b>	140 respondents described their positions as managers, with 6 in technical support, 4 in administration, and 2 in business education (although all met the criterion of having direct reports, and as such met the definition of “manager” as employed for this study).
<b>Function</b>	The distribution of respondents according to functional area was: Marketing/Sales 33%, Finance & Administration 28%, General Management 13%, HR/Training 8%, Technical/IT 6%, Manufacturing/Operations 4%, R&D 2%, Other 6%.
<b>Company Type/Sector</b>	30% of the respondents worked for Russian companies (8 firms; 70% foreign, 20 firms). Approximately 10% of the respondents indicated they were working for a not-for-profit, whilst nearly 20% worked within the public sector, 65% within the private sector; the remainder made no indication.
<b>Gender</b>	The gender breakdown was 44% male and 56% female).
<b>Age</b>	The mean age of the sample was 32, with a standard deviation of 7.074 (age range was 19 to 56).
<b>Education</b>	66% of respondents reported to hold higher degrees, 20% with professional qualifications, 12% held first degrees, and 2% had not pursued higher education.
<b>Response Rate</b>	There was an overall response rate of 90.5%. LDQs collected in-house had an 84% response rate, whilst those distributed by the author through business schools had a response rate of 97%. 3.9% were removed for lack of data.

## Discussion and Conclusions

The practical motivation for this study was to offer organizations, operating within the Russian Federation, leadership development expertise to fill the growing void identified by practitioners and scholars alike. By applying Western leadership theory, by way of an established instrument (the Leadership Dimensions' Questionnaire or LDQ), the researcher intended to reveal initial characteristics of Russian managers' leadership styles, their perceptions of their 'modus operandi', and possible differences in the competencies of managers working between the public and private sectors (see hypotheses; Research Hypotheses). The 'formula' embedded within the LDQ supports the ever-growing literature advocating the need for managers to have sufficient levels of cognitive, emotional, and managerial competencies, thus creating the

initial hypothesis of this exploratory investigation, that “the intellectual (IQ), Emotional Intelligence (EQ), and managerial (MQ), competencies of the Russian managers will demonstrate statistically significant relationships with one another”.

Goleman brought the concept of Emotional Intelligence into the mainstream literature with his books *Emotional Intelligence* (1995) and *Working with Emotional Intelligence* (1998). Goleman asserted that leadership success required a threshold level of cognition (IQ) and high levels of Emotional Intelligence. Dulewicz and Higgs (2003), having reviewed the seminal literature, proposed that “successful leadership required cognitive (IQ), emotional (EQ), and managerial (MQ) competencies.

**Table 4: Summary of Hypotheses Testing**

<b>H1:</b> The intellectual (IQ), Emotional Intelligence (EQ), and managerial (MQ), competencies of the Russian managers will demonstrate statistically significant relationships with one another. <b>Statistical technique(s) applied:</b> Correlation analysis	<b>Largely Supported</b>
<b>H2a:</b> The Russian manager-sample will recognize their business environment as being transformational. <b>Statistical technique(s) applied:</b> Frequency analysis; context scores	<b>Partially Supported</b>
<b>H2b:</b> The Russian manager-sample will demonstrate a “Transformational” style of leadership. <b>Statistical technique(s) applied:</b> Frequency scores; leadership styles	<b>Partially Supported</b>
<b>H3:</b> Russian managers working within the private sector will demonstrate (statistically significantly) higher levels of “achieving”, “influencing”, “motivation”, and “emotional resilience”, than their public sector counterparts. <b>Statistical technique(s) applied:</b> t-Test on all 15 dimensions (Public viz Private)	<b>Not Supported</b>

**Table 5: Highly-Correlated LDQ Competencies by Category**

1. Critical Analysis and Judgment (IQ)	1. Self awareness (EQ)	1. Resource Management (MQ)
2. Vision and Imagination	2. Emotional Resilience	2. Engaging Communication
3. Strategic Perspective	3. Interpersonal Sensitivity	3. Empowering
	4. Influence	4. Developing
	5. Motivation	5. Achieving
	6. Conscientiousness	

Within this study of Russian managers (i.e., hypothesis1), Dulewicz and Higgs’ proposition found further support. With the exception of intuitiveness, the three constructs of IQ, EQ, and MQ were highly correlated.

The context score within the LDQ allows managers to determine their perceived levels of the business environment within which the organization operates, thus enabling enterprises to assess the appropriateness of a manager’s perception of the external environment, the appropriateness of the leadership style employed by the manager; given the level of

change, in addition to the ability to compare both with the organization’s corporate strategy e.g., orientation to growth and change (Dulewicz and Higgs, 2003).

Hypothesis 2a/ b of this investigation proposed that the Russian manager-sample would be astute at recognizing their transformational modus operandi, and moreover, would show preference to a leadership style of the same. This hypothesis supports earlier findings that Russian managers were highly attuned to their highly transitional business environment,

**Table 6a: Organizational Context (Business Environment)**

	Frequency	Percentage
1. Stable Environment	51	33.5
2. Moderate Level of Change (but significant)	67	44.1
3. High Levels of Change (Transitional)	34	22.4
	152	100%

**Table 6b: Leadership Style Profiles**

	Frequency	Percentage
1. Goal Oriented (Transactional)	11	7.2
2. Involving (Participative)	139	91.5
3. Engaging (Transformational)	2	1.3
	152	100%

(Holt et al., 1994; Luthans; 1998; House et al., 2001; Javidan, 2006; Van Genderen, 2006), and as such, would favor the 'Transformational' leadership style (Den Hartog, 1999; House et al., 2001; Javidan, et al., 2006).

That said, the results of this study did not fully support these propositions; Tables 6a and b highlight the results for hypothesis 2a/b.

Although the Russian managers did not, as a group, clearly perceive their operational environment as being at a high level of transition (i.e., only 22.4%), more than two-thirds of the respondents recognized at least a significant level of transition ( $22.4 + 44.1 = 66.5\%$ ), supporting a conclusion that they are not completely "unaware" as to their volatile surroundings.

Furthermore, their self-reported approach to leadership - overwhelmingly (91.5%) - falls within the 'Involving' style (i.e.; Participative). Moreover, more managers demonstrated a 'Transactional' style than the requisite 'Transformational' style (7.2% vs. 1.3%).

It has been noted within previous research that the most prominent style of leadership exhibited during the Soviet times was a 'Transactional' authoritative one (Blazycy, 1987; Aage, 1991; Laszlo, 1992; Elenkov, 2002), which was highlighted by studies conducted directly after the fall of the Soviet Union, at which time, managers and employees - alike - recognized their highly transitional environment (Holt et al, 1994). Gorbachev set the stage for change with the introduction of "Perestroika," (English translation: "rebuild") in the late 1980s, which allowed for a limited amount of business to be conducted, as well as other social freedoms, including the availability of products and printed materials from the West.

Half the sample for this comparative-cultural investigation was born between 1975 and 1986, with a further 25% born between 1970 and 1975. Therefore, approximately 75% of the respondents have been living in a highly changing environment since childhood. Given this fact, it would seem understandable for the Russian managers to identify what others term a transformational environment - as being one characterized by merely a significant level of change. It comes down to perception. Perhaps what is most important is the managers' ability to recognize significant change within their business environment.

Hypothesis 3 proposed that the managers representing the private and public sectors will demonstrate significantly different levels of competency in the areas of 'achieving', 'influencing', 'motivation', and 'emotional resilience'. Within the public sector group, the author has included respondents from international non-profit organizations (development organizations e.g., the UN, World Bank Group, etc...). As they are not based on competition and maintaining profitability, but rather are supported by government funding and donations, the clustering seems to be appropriate.

Boyatzis' (1982) comprehensive investigation found significant differences in the competencies demonstrated by private and public sector managers. This study found no difference between the competencies of Russian managers based on their industry sector (i.e., public or private). The competencies identified for hypothesis 3 represent the closest to those found by Boyatzis in his research, whilst at the same time having corresponding dimensions assessed by the LDQ. Although the findings of this study failed to support Boyatzis' conclusions from 1982, more recent research by Dulewicz and Higgs (2003) found no statistically significant differences demonstrated by UK managers based on sector. It is very possible that over the past two decades plus, public sector and international development agencies have been

forced to become more competitive, closing the gap between the public and private sectors in terms of leadership competencies.

## Further Research and Conclusions

Arguably the wealthiest nation on the planet in terms of natural resources, it is confounding that such limited up-to-date research on Russian business leadership is available. Project GLOBE, whilst attracting a high-level of financing and interest given its breadth, had many constraints (see 'Literature Summary'), did not involve MNCs in Russia, and is no longer contemporary. On the other hand, Hofstede's groundbreaking work (1980) involved only one multinational corporation (IBM), with its conclusions based on data that is going on 40 years old. At the time of Hofstede's study, the Russian Federation did not exist, nor did capitalism - on an official basis.

During the 1990s, the period when GLOBE collected its data, the Russian economy was a mere 'fetus', surrounded by a turbulent environment of privatization, economic volatility, and change.

Broadly speaking, possibly the most valuable contribution of this study is its 'exploratory' nature, creating a theoretical platform for further research. Correlation studies between other measurement instruments and the LDQ could prove to be extremely useful to both academe and industry; as might further inquiry involving a translated version of the LDQ could offer greater degrees of flexibility in assessing Russian managers, regardless of their linguistic backgrounds. Such inquiry might include organizational culture instruments such as the Spony Profiling Model (SPN), developed at Cranfield School of Management, measuring the impact of organizational culture on managers' perspectives and behaviors. Rigorous research comparing organizations operating within Russia's public and private sectors, respectively, would seem to be a logical path forward, as this investigation's contribution within this area is somewhat limited. Boyatzis (1982) identified rather significant competency differences displayed by managers in these sectors. A closer look into such possibilities in Russia is warranted. Russia is the largest country in the world; as measured by physical mass, and it has been suggested that critical variations in culture prevail between regions within the Russian Federation (Elenkov, 2002). Additionally, subcultures and other demographic divisions might reveal interesting insights into the diverse peoples living within the Russian Federation.

Women have played critical roles in Russian society, including the rebuilding of the Soviet Union after World War II. Since Gorbachev introduced "Perestroika", at the end of the Soviet era, there has been a sharp increase in the number of women joining the workforce at management levels. Specific studies focusing on women as leaders, managers, and entrepreneurs are greatly needed to fill a void within the Russian cross-cultural literature. Moreover, with the establishment of Western business education in general, and MBA degree courses specifically, women are expected to play an increasingly important role at all levels of management in Russia, not to

mention their potential for growth in the area of entrepreneurship.

One important aspect this research did not address is that of leader performance and follower commitment in regards to the LDQ's leadership style fit construct. This could prove to be a valuable investigation to both practitioners and theorists alike, in that organizations generally aim to operate at their peak performance, and rely heavily on the strategic decisions and overall effectiveness of their leaders (Kouzes and Posner, 1998; Goffee and Jones, 2000; Young, 2004), which more-often-than-not is significantly improved by high levels of commitment by followers. Few companies can sustain profitability in this globally competitive environment without strong leadership (and motivated followers). Therefore, any light that can be shed on possible relationships between exhibited leadership styles, leader performance, and follower commitment within the Russian context, would be a welcome contribution to both the literature and industry.

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# The Impact of Corporate Governance on the Efficiency and Financial Performance of GCC National Banks

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## Abstract

This paper investigates the impact of corporate governance on the efficiency and financial performance of 57 publicly listed national banks in the Gulf Cooperation Council (GCC) countries. A translog cost function is used to derive the efficiency score for each bank in the sample. Five corporate governance variables have been identified from the literature as having possible impacts on corporate efficiency and financial performance. Two accounting-based measures are used as proxies for firm performance. Multiple regression analysis is then employed to determine which corporate governance variables affect the efficiency and financial performance of the sampled banks. Regression results indicate that the number of board committees is a significant variable affecting efficiency while board size, block shareholding, and type of banks (Islamic versus conventional) are significant factors affecting financial performance.

**Key words:** Corporate governance, efficiency, financial performance, GCC National Banks

## Introduction

This paper investigates the impact of corporate governance on the efficiency and financial performance of 57 publicly listed national banks in the Gulf Cooperation Council (GCC) countries. GCC has six member states: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE).

Good corporate governance promotes efficient use of resources within the firm and a fair return for investors. Good corporate governance also brings better management and prudent allocation of the firm's resources, and enhances corporate performance and efficiency.

## Literature Review

The impacts of corporate governance on firm efficiency and performance have been widely studied in the literature. Numerous studies have examined a number of corporate governance variables and their impacts on corporate performance and efficiency. Board size is one of the variables that has been extensively researched. A larger board may improve the quality of strategic decisions as more directors can bring their diverse knowledge and expertise to the board. However, there is mixed evidence in the literature linking board size to corporate performance. Jensen (1993) argued that having a larger board of directors may lead to an ineffectively functioned board. Supporting Jensen's theory, Yermack (1996) found that there exists a negative association between board size and the firm value measured by Tobin's Q. Consistent with Yermack's findings, Eisenberg, Sundgren, and Wells (1998) found an inverse relationship between board size and firm profitability measured by industry-adjusted return on asset. On the other hand, Dalton, Daily, Ellstrand, and Johnson (1998); Huang, Lai, McNamara, and Wang (2001); and Belkhir (2009) found a positive relationship between board size and efficiency.

The second corporate governance variable that has been widely studied is independent and non-executive director. Boards with a higher proportion of outside directors are positively linked with firm performance. Since they are expected to be effective monitors of the executive members, a higher proportion of non-executive directors in the board will facilitate independent decision-making, and therefore better performance. Chung, Wright, and Kedia (2003) and Hutchinson and Gul (2003) argued that higher proportion of non-executive directors in the board helps to reduce agency cost. However, Coles, McWilliams, and Sen (2001) and Weir, Laing, and McKnight (2002) found no significant relationship between non-executive directors' representation and performance.

The fourth corporate governance variable that has been studied is the number of board committees. Board committees are an important mechanism of the board structure providing independent professional oversight of corporate activities to protect shareholders' interests. Board committees include audit committees, remuneration committees, and nomination committees. Audit committees oversee the accounting procedures and external audits, remuneration committees decide the pay of corporate executives, and nomination committees nominate directors and officers to the board. Laing and Weir (1999) found that firms with audit and remuneration committees performed better, and Dalton et al. (1998) also reported inclusion of remuneration committees resulted in better performance.

The role of large shareholder in corporate governance mechanism has been extensively researched as well. The monitoring function provided by the large shareholders helps to alleviate the agency problems. However, ownership concentration may also create other agency problems (Jensen and Meckling, 1976; Morck, Shleifer, and Vishny, 1989; Shleifer and Vishny, 1997). For instance, large shareholders have the incentive to expropriate the interests of minority shareholders, other investors, as well as employees and managers through various means while they use the control rights to benefit themselves (Shleifer and Vishny, 1997). Huang et al. (2001) also found a negative relationship between the percentage of ownership of block shareholders and efficiency.

## Methodology

The objective of this study is to determine if corporate governance affects the efficiency and financial performance of GCC national banks. The following is a description of the independent and dependent variables used.

### Corporate Governance Variables

**Board size.** Board size is a corporate governance variable that can affect firm efficiency and financial performance. Since a larger board may lead to better firm effectiveness, it is hypothesized that board size is positively related to firm efficiency and performance.

**Board composition.** As outside directors are regarded as more independent than inside directors, they can monitor managerial performance and efficiency more effectively. Therefore, it is hypothesized that the proportion of non-executive directors in the board is positively related to firm efficiency and performance.

**Board meetings.** Like board size, more frequent board meetings may lead to better firm effectiveness. It is hypothesized that the number of board meetings is positively related to firm efficiency and performance.

**Board committees.** Board committees provide independent professional oversight of corporate activities. It is hypothesized that the number of board committees is positively related to firm efficiency and performance.

**Block shareholding.** In this study, block shareholding is defined as the percentage of shares held by shareholders who have at least 5% of shares of the firm. Since large shareholders have the incentive to expropriate the interests of minority shareholders as well as other stakeholders, it is hypothesized that block shareholding is negatively related to firm efficiency and performance.

### Efficiency Variable

The efficiency variable used in this study is the efficiency score of each bank. The distribution-free approach (DFA) is employed to determine the efficiency score. Using a fixed-effects model, inefficiency is estimated from the value of a bank-specific dummy variable. The following translog cost function is estimated for all the banks in the sample:

$$\ln TC = \alpha_0 + \alpha_1 \ln y + \frac{1}{2} \alpha_2 (\ln y)^2 + \sum_{j=1}^3 \beta_j \ln w_j + \sum_{j=1}^3 \sum_{k=1}^3 \beta_{jk} \ln w_j \ln w_k + \sum_{j=1}^3 \gamma_j \ln y \ln w_j + \varepsilon$$

The above translog cost function has one output (loans,  $y$ ) and three input prices (labor, physical capital, and borrowed funds). The price of labor is measured by the ratio of personnel expenses to total assets ( $w_1$ ). The price of physical capital is defined as the expenses for physical capital to fixed assets ( $w_2$ ). The price of borrowed funds is defined as the ratio of interest expense to borrowed funds ( $w_3$ ).

The DFA approach is applied and it is assumed that the difference in the actual and predicted cost for a given cross-sectional period is a combination of persistent inefficiency component and a random component (Berger, 1993). It is possible to obtain the persistent inefficiency component by averaging out these differences over time. Following Hunter and Timme (1995), the error term bank  $i$  in time  $t$  can be expressed as:

$$\varepsilon_{it} = \ln(v_{it}) + \ln(u_i),$$

where  $\ln(v_{it})$  is a random error component that varies with time and is distributed with a zero mean over time, and  $\ln(u_i)$  is the core efficiency or average efficiency for each bank which is time-independent while random error tends to average out over time. In order to be consistent with this error term specification, the cost function can then be expressed with a residual in the multiplicative form

$$\text{Cost}_{it} = C_t(Q_{it}, P_{it}) v_{it} u_i$$

where  $C_t$  is a cost function and  $Q_{it}$  and  $P_{it}$  are output and input prices, respectively. This cost function in logarithm is:

$$\ln \text{Cost}_{it} = \ln C_t(Q_{it}, P_{it}) + \ln(v_{it}) + \ln(u_i).$$

The next step is to average the estimated cost function, error term  $\varepsilon_{i,t}$  for each bank over  $n$  years in order to obtain an estimate of  $\ln(u_i)$ , that is  $\ln(u_i) = \sum_t \varepsilon_{i,t} / n$ . For each bank then the percentage efficiency measure can be expressed as:

$$EFF_i = \exp[\ln(u_{\min}) - \ln(u_i)],$$

where  $\ln(u_{\min})$  is the minimum value of  $\ln(u_i)$ . From this formulation an efficiency value of 1 corresponds to the most efficient bank while all other banks have values between 1 and 0.

### Financial Performance Variables

The literature on corporate governance practices has used bank efficiency as well as accounting-based performance measures, such as return on assets (ROA) and return on equity (ROE), as proxies for firm performance.

**Return on Assets (ROA).** Return on assets (ROA) is an accounting-based performance measure widely used in the corporate governance literature. It is a measure which assesses the efficiency of assets employed by the firm and shows the earnings the firm has generated from its investment in capital assets. ROA is calculated as net income divided by total assets.

**Return on Equity (ROE).** Return on equity (ROE) is another accounting-based performance measure widely used in corporate governance research. It is a measure that shows the profit generated from the money invested by the shareholders. ROE is calculated by dividing net income by common equity.

### Control Variable

Since larger banks might have enjoyed scale or scope economies that had positive effects on their financial performance, the size of banks in terms of total assets (scale) is used to control for bank size.

### Other Variable

Since the sample consists of conventional and Islamic banks, it would be interesting to see if there is a difference between the effects of these two types of banks on their efficiency and financial performance. Accordingly, a dummy variable (0 for Islamic banks and 1 for conventional banks) is used.

### Regression Models

To investigate whether corporate governance affects efficiency and bank performance, the following two multiple regression models are used:

$$PERF = b_0 + b_1 BSIZE + b_2 BCOMP + b_3 BMTG + b_4 BCOM + b_5 BKSHG + b_6 FSIZE + b_7 DUM + \varepsilon$$

where

PERF =	ROA, ROE, or efficiency score
BSIZE =	number of board directors
BCOMP =	proportion of non-executive directors on the board
BCOMP =	number of board meetings
BCOM =	number of board committees
BKSHG =	block shareholding
FSIZE =	natural logarithm of total assets
DUM =	a dummy variable (0 for Islamic banks and 1 for conventional banks)
$\varepsilon$ =	error term

### Data

The sample consists of 57 GCC publicly listed national banks between 2011 and 2013. All the required data are extracted from the annual reports of the sampled banks.

### Empirical Findings

Descriptive statistics were calculated for corporate governance variables and firm performance variables in this study. Descriptive statistics describe the characteristics of board structure prevalent among publicly traded national banks in the GCC and the variables used to measure firm efficiency and performance. A summary of the descriptive statistics are presented in Table 1 (top of next page).

Before running the regression, a multicollinearity test is used to examine the degree of correlation among the explanatory variables. Table 2 (next page) shows the pairwise correlations. As the highest correlation is only 0.43, the explanatory variables are not multicollinear.

Table 3 displays the results of the regression model using efficiency score as the dependent variable. Only one variable, the number of board committees, significantly affects bank efficiency. The number of board committees is negatively related to bank efficiency.

Table 4 shows the results of the two regression models using return on average assets (ROA) and return on average equity (ROE) as the dependent variable. When ROA is used as the dependent variable, board size, block shareholding, and type of bank (conventional or Islamic) are significant variables affecting ROA. Board size positively influences firm performance (measured by ROA) while block shareholding negatively affects ROA. Conventional banks performed better than Islamic banks. On the other hand, when ROE is used as the dependent variable, only the type of bank is a significant factor affecting firm performance. Conventional banks outperformed Islamic banks.

Table 1: Descriptive Statistics of Dependent and Independent Variables

Variable	Mean	Standard Deviation	Minimum	Maximum
Efficiency (0-1)	0.39	0.17	0.03	1.00
ROA (%)	1.30	1.38	-4.35	3.16
ROE (%)	9.63	11.47	-51.88	21.55
BSIZE	9.39	1.41	7	11
BCOMP (%)	83.51	24.44	30.00	100.00
BMTG	7.16	2.80	4	15
BCOM	4.03	1.03	2	6
BKSHG (%)	52.08	26.17	10.67	89.56
FSIZE (USD000)	13,525,908	16,832,247	226,737	81,840,231

Table 2: Correlation Coefficients of Explanatory Variables

	BSIZE	BCOMP	BMTG	BCOM	BKSHG	FSIZE
BSIZE	1.00	-0.17	-0.24	-0.08	0.14	0.12
BCOMP		1.00	0.29	0.21	0.07	-0.36
BMTG			1.00	0.26	0.43	0.17
BCOM				1.00	0.00	0.35
BKSHG					1.00	-0.08
FSIZE						1.00

Table 3: Regression Results - Corporate Governance and Efficiency

	Efficiency
BSIZE	-0.0011 (-0.05)
BCOMP	0.0007 (0.46)
BMTG	0.0013 (0.09)
BCOM	-0.0555* (-1.70)
BKSHG	0.0007 (0.52)
FSIZE	0.0124 (0.40)
DUM	0.0471 (0.48)
R <sup>2</sup>	0.1184

\* Significant at 10% level.

Table 4: Regression Results - Corporate Governance and Firm Performance

	ROA	ROE
BSIZE	0.2506* (1.82)	0.9663 (0.75)
BCOMP	-0.0028 (-0.32)	0.0264 (0.32)
BMTG	0.0805 (0.97)	0.2132 (0.27)
BCOM	-0.0404 (-0.20)	-0.5477 (-0.29)
BKSHG	-0.0183** (-2.22)	-0.0956 (-1.24)
FSIZE	0.2355 (1.24)	2.1706 (1.22)
DUM	1.5218** (2.56)	12.5428** (2.26)
R <sup>2</sup>	0.5213	0.3910

\* Significant at 10% level.

\*\* Significant at 5% level.

## Conclusion

In this study, we used a sample of 57 publicly listed GCC national banks to examine the impacts of corporate governance on the efficiency and financial performance of the GCC banking sector. Regression results indicate that the number of board committees is a significant variable affecting efficiency, while board size, block shareholding, and type of banks (Islamic versus conventional) are significant factors affecting financial performance. The number of board committees is negatively related to firm efficiency. Board size positively influences firm performance (measured by ROA) while block shareholding negatively affects ROA. The managerial implication of our findings is that in order for GCC banks to increase their efficiency, they need to reduce the number of board committees. On the other hand, to improve financial performance these banks should increase board size but reduce block shareholding.

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# Audit quality influencing factors: Comparative study between Islamic and Conventional banks in Malaysia

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## Abstract

Corporate scandals and fraud have, without any doubt, a direct relation to the level of audit quality provided by the audit firm. Therefore, it is important that the highest possible level of audit quality is maintained, especially in banks as they are fundamental to the strength and stability of a country's economy. Although audit quality in banks is crucial, accounting research tends to focus on disclosure practices or performance measures of these banks. Thus research on audit quality of banks is lacking, particularly in relation to Islamic banks. Research on audit quality may be restricted by the fact that it is difficult to measure, especially for the stakeholders of these banks as they are not part of the audit firm. Nevertheless, there are indicators of audit quality, which are termed as Audit Quality Influencing Factors (AQIF) in this study, and used to obtain an indication of audit quality in Malaysian banks. Also, since Islamic institutions accord all their activities to the principle of Islamic accountability, and have to be accountable to more stakeholders, and ultimately God, this study expects that the level of audit quality in Islamic banks will be higher than conventional ones. Therefore, this study investigates the difference between AQIF of Islamic and conventional banks in Malaysia. This study analyzes a sample of 33 banks, composed of Islamic and conventional, listed on Bursa Malaysia, to meet its objectives. The results of this study found that conventional banks' AQIF are better than Islamic banks' indicators.

**Key words:** Audit quality, Islamic banks, Conventional banks, Malaysia

## 1. Introduction

The auditing profession, as any other profession is a very sensitive occupation in the sense that auditors' services can affect a large category of stakeholders. The significance of the auditing profession was clearly obvious to the public after the scandals of Enron, and WorldCom because the auditors' opinion in these cases had serious consequences on company's stakeholders; e.g. investors may lose their entire wealth. For this reason, many regulatory bodies and academic researchers have put a lot of scrutiny on how to improve auditing quality whether by adding more restricting standards by authoritative bodies (Nagy, and Cenker 2007; Jackson, Moldrich, and Roebuck, 2008), or by empirical studies that investigated audit quality influencing factors (Deangelo, 1981; Jeong, and Rho; 2004; Carlin, Finch, and Laili, 2009).

Several previous studies have investigated the factors that determine audit quality by giving more attention to client companies' specific characteristics that may lead to better auditing quality (Lam, and Chang, 1994; Lee, Stokes, Taylor, and Walter, 2003; Chen, Lin, and Zhou, 2005; Jain, and Martin, 2005). In addition, they examined determinants that are outside the auditing and clients firms' control, such as the rules imposed by regulatory bodies (Jackson, Moldrich, and Roebuck, 2008; Boon, McKinnon, and Ross, 2008; Kim, and Yi, 2009).

On the other hand, many studies have been done on the field of Islamic banks in terms of their efficiency, like Sufian (2007) who has compared the competence of domestic, foreign, and Islamic banks operations in Malaysia, whereas, Dusuki, and Abdullah (2007) have investigated the major factors that encourage customers to deal with Islamic banks mostly in a double banking environment like the Malaysian one. On other hand, Satkunasingam, and Shanmugam, (2004) have examined the current state of corporate governance and disclosure of Islamic banks in Malaysia. However, from all the above mentioned studies it seems that till the moment there is no study that covered the issue of audit quality in Islamic banks, specifically in the Malaysian environment.

However, audit quality in Islamic banks has not been studied because of difficulties that accompanied its measurement, unless the researcher has access to internal audit information. Nonetheless, indicators of audit quality may be used to measure its level. In this study they are known as AQIF which can be defined as a set of factors that may direct influence on audit quality level improvement like audit firms' size, corporate governance, Audit tenure, client firm size, etc, as stated by (Hoitash, Markelevich, and

Barragato, 2007; Lai, 2009; Wahab, Zain, James, and Haron, 2009).

As a result, the aim of this paper is to investigate if the level of audit quality of Islamic banks in Malaysia in the year 2009 is comparable to conventional banks. In achieving this aim, this paper is divided into six parts as follows; the next section of this paper includes a simple overview on auditing in Malaysia. The third section reviews the literature about issues related to audit quality. The fourth section contains hypotheses development. The fifth section will show research methodology and study's results. The last section concludes with the study's limitation and some suggestions for future research in this area.

## 2. Auditing in Malaysia

Wahab et al. (2009) stated that auditors in Malaysia are restricted by auditing standards and requirements as in many other countries in the world. However, the 1965 Malaysian companies act scrutinized auditors' independence, gave auditors authority to attend client company meetings, and offered auditors sufficient accessibility to the company accounting records and information (Ali, Haniffa, and Hudaib, 2006). Additionally, Ali et al. (2006) argued that the current Malaysian auditing profession and practices came as result of satisfying legal requirements and providing an attractive economical environment for international investors. Nonetheless, Wahab et al. (2009) mentioned that 30% of the Malaysian auditing market is controlled by big auditing firms.

## 3. Prior studies on audit quality

Auditing quality has been defined as; auditor' capability of finding out any probable client violations in the accounting system, and its ability to declare the discovered violation in the auditing report (DeAngelo, 1981). Elitzur and Falk (1996) have described audit quality as the total of standardized units of audit verifications collected by an independent auditor. However, an audit failure takes place when an independent auditor fails to discover a material error. Additionally, Titman and Trueman (1986), mentioned that auditor quality is defined in terms of the information accurateness that they provides to investors; the information provided by a higher-quality auditor permits investors to do a more accurate approximation of the firm's value. However, it seems from all the above definitions that achieving audit quality is related to the auditors' ability to detect material error.

Some of the mentioned studies have studied the issue of audit quality from the angle of audit firm size. In this essence, the results of these studies were incompatible in the extent that some studies have proven that audit quality is not linked to the presence of big auditing firms (Carlin, Finch, and Laili, 2009; Boone, Khurana, and Raman, 2010). While, other studies have found that the presence of a big auditing firm is a very effective factor in terms of determining audit quality (Deangelo, 1981; Hussainey, 2009; Lai, 2009)

However other studies have looked into a variety of factors that can determine audit quality like audit fees (Hoitash, Markelevich, and Barragato, 2007), time pressure, such as (Leventis, and Caramanis, 2005; Gundry, and Liyanarachchi, 2007), regulation (Nagy, and Cenker 2007), the impact of an obligatory audit firm rotation on audit quality (Jackson, Moldrich, and Roebuck, 2008), earnings management (Chen, Lin, and Zhou, 2005), and corporate governance (Ballesta, and Meca, 2005).

Additionally, the studies that have been conducted in Malaysia (Ismail, Iskandar, and Rahmat, 2008; Abdullah, Ismail, and Jamaluddin, 2008) have found a significant relationship between some components of corporate governance and audit quality in listed companies, while, Ismail, Haron, Ibrahim, and Isa (2006) examined audit quality determinates on public listed companies in terms of firm client specific characteristics. Other researchers have examined audit quality level depending on the characteristics of the audit firms, such as audit firm size (Carlin, Finch, and Laili, 2009), and auditors' behaviours (Paino, Ismail, and Smith 2010).

With this respect, it seems that most of the prior studies have used indicators of audit quality in order to measure its level in the companies which are under these previous studies' scope since audit quality level is hard to measure like (Ballesta, and Meca, 2005) who have used corporate governance as a proxy of audit quality, while, other studies have used other indicators like audit tenure, audit firm size, audit client size, and auditor specialization as proxies of audit quality (Thomas, Davis, and Seaman, 1998; Ghosh and Moon, 2005; Francis and Yu, 2009). Thus, this study will depend on audit quality influencing factors to measure the level of differences of audit quality in Malaysian Islamic and conventional banks.

However, audit quality in Islamic and conventional banks in the Malaysian context has not been studied because of difficulties that accompanied its measurement unless the researcher had access to internal audit information. Nonetheless, indicators of audit quality may be used to measure its level. In this study they are known as AQIF which can be defined as set of factors that may direct influence on audit quality level improvement like audit firm's size, corporate governance, Audit tenure, client firm size, etc as stated by (Hoitash, Markelevich, and Barragato, 2007; Lai, 2009; Wahab, Zain, James, and Haron, 2009).

## 4. Hypothesis development

This study's objective is to compare between two bank categories which are Islamic and conventional banks. These two types of institutions have one main divergence which is represented by the concept of Islamic accountability in the essence that this concept is considered as the main reason for establishing Islamic banks and most of its principals stem from it. Therefore, this study will start its hypothesis development by defining this concept.

From the western perspective accountability has been clarified by Gray (2001, p. 11) as "identifying what one is responsible for and then providing information about that responsibility to those who have rights to that information". Additionally, Abdul Rahman (1998: 57) argues that accountability is viewed as "a relationship involving the giving and demanding of reasons for conduct. It assumes that some individual, small group or organization has a certain "right" to make demands of another and to seek reasons for action taken".

The concept of accountability from an Islamic point of view has been defined by many researchers including Lewis (2001: 144) who defined Islamic accountability "as being first and foremost, accountability to God through making information available to all. Truthful and relevant information is important in all aspects of Islamic life". Further, Abdul Rahman (1998: 60) explained that "Islam has developed its own concept of accountability. The concept of Taklif (accountability) means everyone is accountable for his actions or inaction on the Day of Judgment. Taklif is clearly differentiated from its non-Islamic counterparts by insisting that each person is responsible for his own deeds. Accountability in Islam also means as well as the benefits of any ownership or responsibility".

Maali, Casson, and Napier (2006: 271) have clarified this concept from an Islamic point of view by stating that the supposed relationship of individuals and firms with God, shapes the concept of accountability. This has sourced mainly from the fundamental Islamic concept of Tawhid (the unity of God) which considers that the creator is one and everything came from him. As a result, everything created on this earth are elements of a single set and this implies total submission to God's will and following the religious requirements in all aspects of life. Each Muslim is thus responsible to God for everything that he or she does.

From the previous definitions, many researchers (Abdul Rahman, 1998; Baydoun and Willet, 2000; Lewis, 2001, Maali, Casson, and Napier, 2006) argued that the concept of Islamic accountability is broader than the Western one, since the latter is more concerned with the self interest of the individual through the capitalistic ideology. On the other hand, Islamic accountability takes the whole community or stakeholder interest as the primary priority of an individual who is involved in any business activity.

Since Islamic banks are the focus of this research, it is important to relate the concept of Islamic accountability and expected founded Islamic values in Islamic banks to audit quality, in order to provide more explanation and clarification of audit quality practices in Islamic banks compared to their counterparts, conventional banks. Nevertheless, to the best of my knowledge it appears that there is no study that relates this concept to audit quality or even studied audit quality in an Islamic environment like Islamic banks.

Based on the above discussion it could be useful to look to the environment where Islamic accountability is applicable and try to connect it to audit quality. For this reason, one of the most critical issues that is influencing or reducing audit quality is managers' rationality or earnings management (Jensen, and Payne, 2005; Maijoor, and Vanstraelen, 2006; Juhl, Jubb, and Houghton, 2007; Tendeloo, and Vanstraelen, 2008; Abdullah, Ismail, and Jamaluddin, 2008; Wahab, Zain, James, and Haron, 2009).

However, in Islamic institutions because a manager is working under god's trust given to him/ her, the manager is entrusted by the principal, stakeholders, the community, and ultimately Allah SWT to manage. Therefore, based on this trust the manager should do everything possible to fulfill this trust, and trust is similar with other employees of the Islamic banks. Thus, this is considered as a sphere of employees, providing guidance, vision, and care for subordinates to maximize their outputs, and preserve the values and obligations of religion ( Baydoun, and Willet, 2000).

Moreover, Hassan and Christopher (2005) argued that Islamic banks could be very careful regarding appointing their board members and managers in terms of explicit qualification requirements. Additionally, Kasim, Ibrahim, and Maliah (2009) argue that managers of Islamic financial institutions give the impression to be held accountable not only for the way they allocate the funds, but also for the competence in how they use those funds as well. Further, managers should be working in line with the broad scope of the Shariah in all aspects of their duties.

Abed Alkarim (1990) argued that religious incentives are more influential than self interest incentive in terms of minimizing managers incentive to manipulate accounts or be involved in fraud. In addition to that, he argued that Shariah supervisory board has a very important role of controlling managers in terms of their commitment to Islamic obligation which may decrease unethical behaviours. Furthermore, Abdull Rahim (1998) documented that an individual well aware about God will not dare to undertake an action for their self interest only without putting in consideration on its impact on other stakeholders because Islam emphasizes truthfulness and justice.

In addition to that, these kinds of firms contain a Shariah supervisory board as an important function in their internal audit element which has a very important role of controlling managers in terms of their commitment to Islamic obligation which may decrease unethical behaviours (Abed Alkarim, 1990). As a result, it seems that audit quality in such kind of environment will be higher since auditors will conduct their audit with the full cooperation of Islamic bank's management and employees.

On the other hand, Ahmad and Mansor (2009) argued that Chinese controlled companies in Malaysia may have different levels of agency practices than their Bumputra counterpart

and are associated with a higher level of auditor risk. From this point it seems that ethnicity has a certain influence on audit quality since ethnic behaviour emerges from a certain concept of life that is consistent with the ethnic group beliefs.

Based on the discussion, since the managers and employees of Islamic banks are more accountable and have society in mind, they will be more demanding on themselves and their appointed board members. Therefore, they will ensure that not only their boards of directors are qualified and regularly fulfil their duties and responsibilities effectively, they will also ensure that their audit committee members are also qualified and diligent (Abed Alkarim, 1990; Hassan and Christopher, 2005). These Islamic banks will also appoint more experienced and qualified auditors to be assured that their obligations to the community are discharged properly (Abdull Rahim, 1998; Hassan and Christopher, 2005; Kasim, Ibrahim, and Maliah, 2009). All these above dimensions would lead to higher audit quality, however since this study cannot specifically measure audit quality, these dimensions or AQIF are tested instead.

Thus, this study takes a different approach that is consistent with Islamic accountability i.e., examining the differences between Islamic and conventional banks regarding audit quality influencing factors. The suggested hypothesis is as follows:

**H1: There are no differences between Islamic and conventional banks regarding audit quality influencing factors.**

## 5. Study's Methodology and results

### 5.1 Audit quality influencing factors measurements

This part discusses how to measure the selected variables in this study which are AQIF variables.

#### 5.1.1 Auditor specialization

Thomas, Davis, and Seaman (1998) pointed out that the firms that have been audited by the big auditing firms with previous experience in specific firm characteristics (e.g. secured loan, non shareholders owners) have received better auditing quality than other companies. Lowensohn, Johnson, Elder, and Davies (2007) and Carcello and Nagy (2004) found that specialization is positively correlated to audit quality level.

Wright and Wright (1997) noted that specialized auditors are better in terms of finding out material errors in the financial statements along with clients inside their industry specialization than outside their specialization. In addition, specialized auditors are more expected to be in compliance with auditing standards than non specialists auditors. Davidson, and Neu (1993) pointed out that specialist auditors are more expected to invest in technologies, personnel, and organization control systems that improve the level of audit quality in clients' firms.

Industry-specialist audit firms also hold industry detailed information and abilities that they can rely on powerfully to help clients in enhancing certain industry disclosure plans.

Consistent with these studies (Thomas, Davis, and Seaman, 1998; Lowensohn, Johnson, Elder, and Davies, 2007; Carcello and Nagy, 2004) this study will use auditor market share as proxy for auditor specialization by taking any auditor with a market share of 20 percent or more as a specialist and auditor specialization in this study will be dichotomous variable with the value of "1" if the auditor is specialized and "0" otherwise.

#### 5.1.2 Auditing firm size

Previous studies propose that Big auditing firms are accompanied by higher audit quality and suggesting a lower occurrence of fraud when a company maintains a big auditing firm (De Angelo, 1981; Lai, 2009; Hussainey, 2009). Francis and Yu (2009) argued that bigger auditing offices have better proficiency in finding out material errors in the client's financial statements. As a result, auditors in smaller auditing offices have lesser experience, resulting in insufficient proficiency in detecting such errors. Their results indicate that Big six auditing firms perform as a competent element in minimizing earnings management of their clients, which in turn will enhance the auditing quality level. Finally, Big 4 firms offer greater audit quality as their size can preserve more effective training programs and more opportunities for appropriate partner evaluations (Lawrence, Meza, and Zhang, 2011).

Taking the mentioned above in consideration, this study measures auditor size by using a dummy variable (1 for Big four firms (1); 0 for others).

#### 5.1.3 Audit client size:

Keasey, Watson, and Wynarczyk (1988) mentioned that larger companies seek regularly to get higher level of audit quality because these kinds of firms have a higher level of scrutiny from the public. Ballesta and Meca (2005) stated that large companies seem less probable to be unsuccessful, and auditors may hesitate to issue a qualified opinion due to anxiety about losing an important share of auditing fees provided by large clients. Furthermore, Carcello and Nagy (2004) stated that auditor's capability in constraining any potential financial fraud has a direct interaction with client firm size and industry specialization. Lai (2009) found that companies with high investment opportunities are more probable to be discretionary and are more exposed to earning management manipulation but this relationship is lesser when they hire big auditing firms because the former are more expected by many clients to have experience and capabilities to minimize effectively managers' manipulation than smaller auditing firms. Also, this study will use total asset as proxy of client size as it was used by Carcello and Nagy (2004).

### 5.1.4 Corporate governance

Studies that have used corporate governance as an affecting variable in measuring audit quality, by focusing on audit committee, ownership structure, and CEO duality as proxies for an effective corporate governance that results in higher audit quality include Adeyemi, and Fagbemi, 2001; Ismail et al. 2008; Abdullah, Ismail, and Jamaluddin, 2008; Ismail et al. 2008. In this essence, Adeyemi, and Fagbemi (2001) found evidence that ownership by non executive directors may have the possibility of achieving a higher level of audit quality. Ismail et al. (2008) stated as well that audit quality level is higher in companies with multiple directorship and better reporting quality compared to companies with poor reporting quality and without multiple directorships.

Goodwin, and Seow (2002) argued that auditors place higher confidence on the internal audit occupation as a way of recognizing weak points in the client firm controls and to prevent fraudulent practices; this can be viewed from two views. First, auditors are familiar with the occupation and that internal audit is capable of limiting audit risk. Second, auditors have a preference of offering their services with an internal audit function to develop the internal controls in their clients' company.

This study will use audit committee function to measure corporate governance by using the factor utilized by Ismail et al. (2008). These elements are represented as follows: Financial literacy of audit committee members measured by whether one of audit committee members holds any financial qualification, frequency of audit committee meeting that will be measured by number of meetings held per year, and number of audit committee members.

### 5.1.5 Audit tenure

Ghosh & Moon (2005) found that audited financial statements, specifically reported earnings, seem to be more trustworthy for firms with longer auditor tenure. Solomon, Shields and Whittington (1999) argued that when the auditor spends more time with clients he/she will be less dependent on managers as he/she will be specialized in the firm's specific characteristics and this allows him/her to also know all the problems that may affect his/her capability of misstatement detection in the financial statements.

In addition, George (2009) stated that since the long auditor-client relationship is seen as a helping factor in developing an economic connection between auditor and his client this may create a very good and broader view of the company financial working process of the auditor. Myers, Myers, and Omer (2003) suggested that long period auditors' association with the clients may decrease auditors' independence from managers which can restrict a managers' ability in generating future manipulated earnings.

Consequently, this study will utilize dummy variables with a value of 1 if auditor tenure is more than three years, 0 otherwise as a proxy of auditor tenure as used by Knechel & Vanstraelen, 2007.

## 5.2 Sample and Data Collection

Since the objective of the study is to compare between AQIF both conventional and Islamic banks, this study will use annual report of the year 2009 as the selected period which contains many banks of the two banks' categories, which may help in generalizing the results of this study in such kinds of institutions. Only Financial institutions; commercial banks and financial companies listed in the Bursa Malaysia Berhad (BMB), have been selected as samples for the current study.

This paper has generated its data source from annual reports of banks listed on Bursa Malaysia because many previous studies in the field of audit quality have depended on annual reports as the main source of data specifically those which have used audit quality influencing factors. This has been the reason that annual reports contain proxies that could be used as accurate measures for these indicating factors (Ballesta and Meca, 2005; Abdullah, Ismail, and Jamaluddin, 2008; Lai, 2009; Paino, Ismail, and Smith, 2010). As a result, this study will use annual reports only as source of data since AQIF proxies have been proved by prior studies to be significantly available on annual reports (Lam, and Chang, 1994; Lee, et al. 2003; Lowensohn et al. 2007; Jackson et al. 2008; Hussainey, 2009).

A total of 33 banks were selected as the sample representing two bank categories; Islamic and conventional banks listed both on BMB in the year 2009. Table 1 summarizes the distribution of sample according to bank type.

**Table 1: Distribution of sample according to bank type**

Year/bank type	Islamic bank	Percentage	Conventional banks	Percentage
Year 2009	15	45.45%	18	54.55%
Total banks	33			

### 5.3 Results

#### 5.3.1 Descriptive statistics:

Table 2: Descriptive statistics of Dichotomous variables for Islamic and conventional banks

Year/variables	Islamic banks			Conventional banks		
	Total banks	Frequency	Percentage	Total banks	Frequency	Percentage
Auditor size						
Big 4	15	1	6.7%	18	18	100%
Non- Big 4		14	93.3%		0	0.00%
Auditor specialization						
Specialized	15	10	66.7%	18	9	50.0%
Non-specialized		5	33.3%		9	50.0%
Audit tenure						
One year	15	0	0%	18	0	0%
Two years		1	6.7%		1	5.6%
Three years		3	20.0%		3	16.7%
Four years		11	73.3%		14	77.8%

Table 3: descriptive statistics of continuous variables for Islamic and conventional banks

Bank type	Islamic banks		Conventional banks	
Variable name	No	%	No	%
Audit committee members	=3	33.33%	=3	44.44%
	4-5	60.00%	4-5	50.00%
	>5	6.67%	>5	5.66%
	Mean	3.64	Mean	3.61
Financial literacy of audit committee members	< 2	53.33%	<2	50.00%
	2-3	40.00%	2-3	50.00%
	>3	6.67%	>3	0.00%
	Mean	1.66	Mean	1.55
Number of Board of directors members	<6	13.33%	<6	11.11%
	6-10	86.67%	6-10	77.78%
	>11	0.00%	>11	11.11%
	Mean	7.00	Mean	8.00
Frequency of audit committee members	0-10	60 %	0-10	61.11%
	10-20	30 %	10-20	16.66 %
	>20	10 %	>20	16.66%
	Mean	10.80	Mean	10.72
Client size (total assets)	Mean	RM 152,242	Mean	RM 406,980

Table 2 shows descriptive statistics of dichotomous AQIF for Islamic and conventional banks which are; audit firm size, auditor specialization, and audit tenure. The results of the first indicator show no significant difference between both banks categories since 100 % of the conventional banks are audited by big 4. While 93.3% of the Islamic banks are audited by big 4 only 6.7 % are audited by non big and this former ratio is representing only one bank from total Islamic banks.

With respect to auditor specialization, the results show that Islamic banks are better than conventional banks. Almost 66.7 % of the Islamic banks are audited by specialized auditing firm compared to 50 % for conventional banks, while the other 33.3 % of the Islamic banks are audited by non specialized firms as opposed to 50 % for conventional banks.

In terms of audit tenure, the results show that both bank's categories are equal in terms of fulfilling this indicator since all the banks have not changed their auditors. For the other banks that have been audited less than four years, this was as a result of these banks starting their activities or issuing their annual reports after 2006, not a result of changing the auditor.

Table 3 shows the mean of continuous indicators of both bank categories which are Islamic and conventional banks. The results show that about 60 % of Islamic banks have between four to five audit committee members as opposed to 50 % for conventional banks. A majority of conventional banks (i.e. 44.44%) have audit committee members equal to three members compared to 33.33% for Islamic banks. On the other hand, the results point out as well that 6.67% of the Islamic banks in comparison to 5.66% of the conventional banks have more than five members in this board. Finally, the mean indicates that there is no significant difference between both bank categories in terms of number of audit committee members (3.643.61).

In terms of board of directors, the results show that the majority of both banks' categories have come from six to ten members; this was indicated by a ratio of 86.6% from the total of the Islamic banks as compared to 77.78% from the total sample of the conventional banks, whereas, 11.11% of the conventional banks and 13.33 % of the Islamic banks have less than 6 members. On the other hand, the remaining 11.11 % of conventional banks have more than ten members, while, none of the Islamic banks have more than 10 members. This indicates that conventional banks are better than conventional banks in terms of board of directors' members, and this was supported by the mean results which show that the mean (8.00) of conventional banks is higher than Islamic banks' mean (7.00).

The table shows as well that about 50 % of conventional, compared to 40 % of the Islamic banks, have from two to three qualified members from the total number of audit committee members. The results show also that most of the Islamic banks have one qualified member which is mentioned by 53.33% of these banks compared to 50.00 % of the total conventional banks. On the other hand, only 6.7 % of the Islamic banks have

more than three qualified members in contrast to 0.00 % for conventional banks. However, the mean results point out that there is no significant difference between Islamic and conventional banks in fulfilling the criteria of audit committee members' financial literacy (1.551.66).

With respect to frequency of audit committee meetings, the table shows that Islamic banks meet more often than conventional banks since 30% of the former handle an average of ten meetings and less per year as opposed to 16.66% for conventional banks. For the Islamic banks group a ratio of 60 % and 10 % shows that this bank's category met more than 5 and 14 times accordingly per year, compared to 61.11% and 16.66 % for conventional banks. As a result, by looking to the mean results and the later analysis this table shows that Islamic banks are approximately equal to conventional banks in terms of the number of meetings per year.

Regarding client size, the results show that conventional banks have a higher size than Islamic banks with a mean of RM 406,980 as opposed to Islamic banks which have a mean of RM 152,242. This difference can be interpreted in the essence that the total number of conventional banks in Malaysia is more than Islamic banks which means higher total assets. In addition, this former bank category starts its activities in the financial Malaysian market before Islamic banks which could be a good reason for affording it more time for conventional banks to develop their assets than Islamic banks.

### 5.3.2 Hypothesis test

In order to test this study's hypothesis, this paper uses two different types of tests for its two kinds of indicators; dichotomous and continuous. It uses Mann-Whitney U test which is equivalent to a Chi-Square test distribution in the essence that this test is the most commonly used method for comparing between two proportions (Fink, 2003). Therefore, this test will be useful for dichotomous indicators which are audit firm size, auditor's specialization, and audit tenure. The results of this test are summarized in Table 4.

However, this study uses independent sample t-test to evaluate whether there is any difference between the two bank types (i.e. Islamic and conventional banks) in terms of continuous indicators. This kind of test is chosen because it is more appropriate in comparing between two different categories (Ismail et al., 2008). The results of the analysis are summarized in Table 5.

Both tables (4) and (5) show that there is no significant difference between AQIF of both Islamic and conventional banks at  $p > .10$  (at .10 alpha level two tails) for the following indicators; audit firm size, audit tenure, number of board of directors, number of audit committee members, frequency of audit committee meetings, financial literacy of audit committee members, client firm size. These results were consistent with descriptive results shown before in both tables two and three which show some of these indicators are approximately

**Table 4: Results of Mann-Whitney U test**

AQIF	Asym. Sig. (2 tailed)
Audit firm size	.273
Auditor's specialization	.066
Audit tenure	.378

**Table 5: Results of Independent Samples t-tests**

AQIF	Mean difference	Df	Sig. (2-tailed)
Number of board of directors	-.66667	30.876	.356
Number of audit committee members	.26667	28.005	.367
Frequency of audit committee meetings	.07778	29.312	.976
Financial literacy of audit committee members	.11111	24.043	.689
Client firm size	-255884	21.571	.521

equal in the mean, like audit committee members, frequency of audit committee meetings, Financial literacy of audit committee members.

However, the descriptive statistics in Table 3 show that there is no huge significant difference in AQIF of Islamic and conventional banks in terms of number board of directors' members and client firm size which is consistent with results of Table 5 that indicates a slight difference at  $p=.365$  and  $p=.521$  ( $p>.10$ ) in both former indicators respectively. Therefore, this non significant difference is represented by a higher number of board of directors and client size for conventional banks compared to Islamic ones.

With regard to auditors specialization, Table 4 shows that Islamic banks are better than conventional banks at  $p=0.066$ . This can be supported from the results shown in Table 2 which indicates that more about 66.7 % of the Islamic banks are audited by specialized auditing firms which is more than conventional banks where 50 % of this bank group are audited by specialized auditing firms.

In conclusion, since conventional banks have two indicators which are client size and number of board of directors members, they seem better than Islamic banks, while, Islamic banks are better than conventional banks in terms of auditor specialization indicator. However, both bank categories are equal or approximately equal in the other indicators.

Therefore, conventional banks are better than Islamic banks in terms of audit quality since the latter are better than Islamic banks by only one indicator. This result rejects this study hypothesis since conventional banks are better than Islamic banks in terms of audit quality level.

## 6. Conclusion

The aim of this paper was empirically to examine if there is any difference in the level of audit quality between Islamic and conventional banks. Since audit quality is something which is hard to measure this study has used some audit quality indicators which are believed to have some kind of relationship with audit quality, to indicate the level of audit quality in both bank categories. The included indicators in this study were audit firm size, auditor specialization, audit tenure, number of audit committee members, financial literacy of audit committee, frequency of audit committee, number of board of directors' members, and client size. Based on these indicators this study tested its hypotheses.

The result of this paper indicates that conventional banks are better than Islamic banks in term of audit quality. This is because conventional banks have two indicators that are better than Islamic bank indicators which are number of board of director members and client size, while Islamic banks have only one better indicator than conventional banks which is auditor specialization. Further, Islamic banks and conventional banks were quite equal in the other study's variables especially audit committee indicators. This can be interpreted that both bank categories are focusing more on how to fulfil Bursa Malaysia code of corporate governance since all the listed banks should meet a certain minimum level of necessities to be in compliance with listing requirements.

Therefore, as audit quality is considered as one of the means to enhance the quality of financial statements that would be targeted to a large category of stakeholders (Ismail et al., 2008). This may indicate that this study result could be considered as contradictory with the concept of Islamic accountability that is expected to be in the primary principals and considerations of Islamic banks.

This research contributes to regulators and stakeholders in determining the level of audit quality in Malaysian banks and it allows banks in Malaysia to improve their audit quality since most of the AQIF are under the bank's control.

This study is subject to several limitations. Firstly, the scope of this study is limited to the banking industry in Malaysia. Secondly, a limited number of factors influencing audit quality were used in this study. Finally, this study focuses only on analyzing annual reports for its RM, and excludes other methods like (interview, questionnaires) that may reveal more influencing factors. Consequently, these limitations can be a starting point of future research to extend the results of this study by studying (Sharia'h and non Sharia'h approved companies). Further, for more reliable, comprehensive, and accurate results future studies may analyze reports and use questionnaires at the same time in order to obtain more influencing factors on audit quality.

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# MH17: Did safety come first?

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## Abstract

Malaysian Airlines Flight MH17 was a passenger aircraft that was scheduled on 17th July 2014 to fly from Amsterdam to Kuala Lumpur. Unfortunately, it crashed over a territory in eastern Ukraine killing all 298 people on-board. This was devastating news for Malaysian Airlines particularly after the mysterious incident of MH370, their still missing Boeing 777 aircraft. After the mysterious disappearance of MH370, Malaysian Airlines was faced with the huge burden of ongoing financial expenses required for the search. The basic purpose of this study is to find out who holds the lion's share of accountability for the MH17 incident: Malaysian Airlines (the airlines financial burden) or Ukrainian (denial of any conflict)? For this purpose an online survey, newspaper articles and investigations were used. Data was gathered from 21,002 people including males and females from different nationalities in various organizations. Data was analyzed through qualitative and quantitative analysis. The findings of the study strongly indicate that Malaysian Airlines' financial losses as a result of the MH370 search costs and prior financial deficiencies led them to cut the costs of flight routes.

## Introduction

Malaysian Airlines is the first airline in history to have experienced two 'catastrophic incidents' in one year with one of them being MH17. MH17 was a passenger aircraft with a planned route from Amsterdam to Kuala Lumpur, which crashed on 17th July 2014. It was alleged that pro-Russian separatists shot down the aircraft using a surface-to-air missile as it was flying over a potential war zone in eastern Ukraine. The Federal Aviation Administration (FAA), United States' national aviation authority, issued a Special Federal Aviation Regulation and Warning on the 23rd of April 2014 cautioning airlines against taking a direct flight path over certain areas in Ukraine as a result of it being a potential war zone. They also recommended flying at 33,000 feet or above (banning U.S. airline flights below that) in Ukrainian airspace would be considered a safe flight level to operate at (FAA, 2014).

Despite warnings issued from the FAA a number of airlines chose to ignore such warnings and accepted the risk of flying over Ukrainian Airspace; resulting in the loss of MH17, which was "carrying 298 people" (Kwong, 2014), all of whom died. The debate of the causes for the MH17 disaster raised questions as to why the aircraft was flying over a potential war zone in the first place, especially after the FAA's warning. "There was speculation that the doomed Flight MH17 had taken a short-cut across the disputed region of eastern Ukraine to save fuel" (Boyle 2014).

Looking into Malaysian Airlines, we note that they have been experiencing deficiencies in finances since 2011. According to a BBC news article (2012), Malaysian Airlines' 2011 shares fell by 5.6% and profits margin was reduced by 21% due to increased fuel costs. In general Malaysian Airlines were suffering due to an ambiguous global economic environment and unstable fuel prices. In addition to this, the loss of MH370 and ongoing search costs requiring millions of dollars added a huge financial burden on the airline. According to The Age National (Allard, McNeillage 2014), "Taking the known costs and the estimate of the airborne search, it amounts to \$53 million." Many countries such as Australia, United States of America, and China have contributed to financing the search cost along with Malaysia. The search is ongoing for MH370 and to date no concrete evidence has been found to explain what happened to the aircraft. It is vital to note that after the loss of MH370 a shocking statement was made from the company management stating, "Further efforts need to be made to manage fuel costs which increased 14% despite a decrease in jet fuel price" (BBC, 2014). Did this also mean to include that "efforts need to be made to" find shorter flight paths to maximize cost cutting? This is what will be discovered in the subsequent sections of this research.

2014 has been a trying year for Malaysian Airlines with losing two modern Boeing 777 aircraft and all 537 passengers and crew: These tragedies dramatically left the airlines' reputation in tatters, which had one of the best safety records in the world. Furthermore, some relatives have been left angry and frustrated with Malaysian Airlines and are blaming them for the loss of their loved ones. Many people have expressed greater concern regarding their security and safety being compromised whilst flying.

In this paper, we aim find answers for the main influential cause of the MH17 incident; whether Malaysian Airlines' financial burden or Ukraine's denial of the existence of a warzone holds the most accountability and the extent to which Malaysian Airline's reputation has been affected.

### Hypothesis

For this research we would like to test the following hypotheses related to the Malaysian Airline MH17 incident. These are:

**H1a:** Did Malaysian Airlines' financial situation lead the airline to adhering to minimum safety regulations in the case of MH17?

**H1b:** Did the financial situation lead the flight dispatchers to maximize on cost cutting?

**H2:** How much accountability can be appointed to the Ukraine for not declaring their territory a war zone?

**H3:** How much does the MH17 incident impact the airlines reputation with passengers?

We have chosen to research MH17 because it highlights an important aspect of the aviation industry: Safety. When competition is fierce such as in aviation, does safety really come above finances and come first?

Throughout our study, the safety of passengers has been at the forefront, regardless of the party concerned or responsible for ensuring it. Most of us have travelled by air at some stage of our lives and will have a valid opinion of these recent events. Therefore, it is essential to use the general public and see if they think that the financial situation of Malaysian Airlines or the Ukraine not declaring a war zone was the major cause of the MH17 incident. Furthermore, we will be looking into the aftermath of the accident and the impact it has made to the airlines' reputation and try to gauge the willingness of passengers to fly and feel safe when travelling with Malaysian Airlines.

### Methodology

In this research, we have chosen online survey as a primary resource and newspaper articles, magazines and investigation reports as secondary resources. The online survey consisted of 100 questions covering a wide range of aspects of the two Malaysian Airlines' incidents. The sample size for this random survey was 21002 participants including males and females.

The secondary resources were mainly used to provide a more in-depth insight into the research topic and are as follows; news reports, newspapers, magazines, company's financial report, and investigation reports. Examples of these include: FAA, BBC, ABC, NBC, CBC, NTSB, NY Times, Sydney Morning Herald Magazine, New Republic Magazine, Fortune Magazine, Malaysian Airlines, Business Insider, The Guardian and The Age.

The loss of MH17 was a prominent and shocking aviation incident to this day, so media all over the world very comprehensively covered the whole incident with all political, economical and demographical backgrounds. Therefore, vast amounts of information was obtained from different news sites and sites associated with the aviation industry. Malaysian Airlines' financial situation prior to the MH17 incident was extracted from the airline's financial report.

All of these resources assisted with forming a conclusion based upon the financial situation and the surveys further enhanced our understanding of this situation from a consumers' perspective.

### Data Analysis

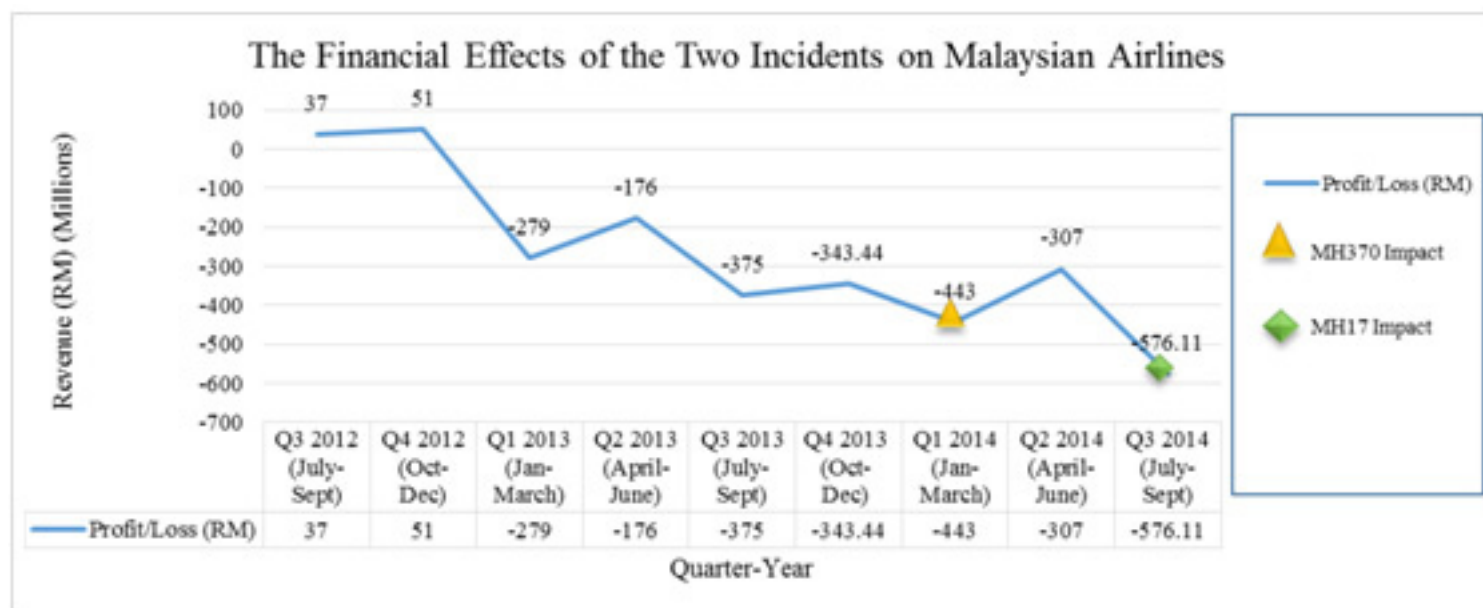
First, we will examine the financial situation of Malaysian Airlines prior and after the MH17 incident.

According to BBC (2012), Malaysian Airlines "reported a net loss of 2.5 billion Malaysian Ringgit for the year ending 31 December 2011".

Since 2011, Malaysian Airlines were in a financial down turn and losing money for three consecutive years prior to the loss of MH370 and MH17. Financially, Malaysian Airlines made the minimum necessary to keep operating. They stated that their losses were due to the uncertain global economic environment and volatile fuel prices. Therefore, necessary measurements were being undertaken to recover from those losses such as reviewed flight paths and thus leading to fuel savings.

According to Malaysian Airlines (2014) financial report, "a net loss of MYR443 million for the three months ended 31 March 2014 compared to a loss of RM279 million a year ago".

This further illustrates that the financial situation of Malaysian Airlines did not improve at all. In fact, it has been worsening year after year. Also, the two incidents of MH370 and MH17 added a further unplanned cost burden to the airline. The bleeding kept going although the airline was attempting major marketing in order to improve financial figures. They tried offering low price tickets compared to rivals, increased baggage allowances etc however their efforts didn't assist in improving their financial situation.



**Figure 1: The financial effects of the two losses on Malaysian Airlines.**

Source: <http://www.malaysiaairlines.com/>

	1st Quarter 2013	2nd Quarter 2013	3rd Quarter 2013	1st Quarter 2014	2nd Quarter 2014	3rd Quarter 2014
Operating Revenue	3, 388, 946	3, 594, 343	3, 872, 730	3, 531, 230	3, 337, 192	3, 325, 389
Operating Expenses	(3, 507, 051)	(3, 553, 132)	3, 853, 874	(3, 701, 887)	(3, 622, 964)	(3, 551, 186)
Other Operating Income	148, 312	186, 613	123, 579	69, 448	252, 890	56, 250
Earnings before Interests, Taxation, Deprecation, and Amortisation	30, 207	227, 824	52, 435	(101, 209)	(32, 882)	(169, 547)

**Figure 2: EBITDA of the Malaysian Airlines between the first and the second quarters of 2013 and 2014**

Source: <http://www.malaysiaairlines.com/>

Figures 1 and two clearly show the pattern of losses from 2013 until 2014 and the large loss between Q1 and Q3 of 2014 can clearly be associated with the loss of MH370 and MH17. Such losses would be difficult for any airline to manage and it could be assumed that administrators and flight dispatchers would desperately cut cost on anything in the aim of bringing the airline back to profitability.

“Our analysis alludes that MAS financials are very weak in their current form. With a cash burn rate of MYR5 (\$1.6 million) a day, MAS could exhaust its entire free cash resources by the end of 2015 (Verrender, 2014).

Clearly those outside of Malaysian Airlines were well aware that the continuous financial deficiencies will cause a collapse of the airline in this highly competitive industry. Therefore, the question must be asked: How can Malaysian Airlines deal with this situation?

Second, we will examine the possibility that Malaysian Airlines were applying a minimum level of safety regulations whilst they were attempting to resolve their financial situation.

According to Mohny (2014), “The U.S. Federal Aviation Administration issued a warning on April 23 that prohibited U.S. flight operations to fly over the contested Crimean region of Ukraine and additional portions adjacent to the Black Sea and the Sea of Azov.”

In addition to the FAA warning, the Eurocontrol and the International Civil Aviation Organization had also issued similar warnings concerned with the same airspace zone over eastern Ukraine. Even though the FAA and ICAO were not directly concerned with Asian Airline operations, most airlines of the world respect and adhere to any guidance and policy issued by these bodies. The warnings issued however were only cautionary in nature, only advised avoidance and therefore adherence was not mandatory. Various news reports stated this was due to the fact that neither Ukraine nor Russia would admit there was a conflict and so no mandatory aviation avoidance advisory was issued. The caution advised aircraft to fly over the area above 33,000 feet (which was understood to be a safe altitude and above the range of any missile thought to be available in the hands of the separatists in Ukraine). Many airlines treated the caution as avoidance and took the warnings into consideration, forwarding them to flight



Figure 3: Comparing Altitudes; Source: Global Research, 2014

for review. It would appear that Malaysian Airlines had miscalculated the risk associated with taking the direct flight path over a potential warzone.

This may be interpreted as an indication of adhering to a minimum standard of safety regulations in a desperate attempt to provide a more direct flight path that would use less fuel.

A Notice To Airmen (NOTAM) was “issued by Ukraine on July 1st barred flying below 8,000 metres (26,000 feet) in the east of the country” (The Economist, 2014).

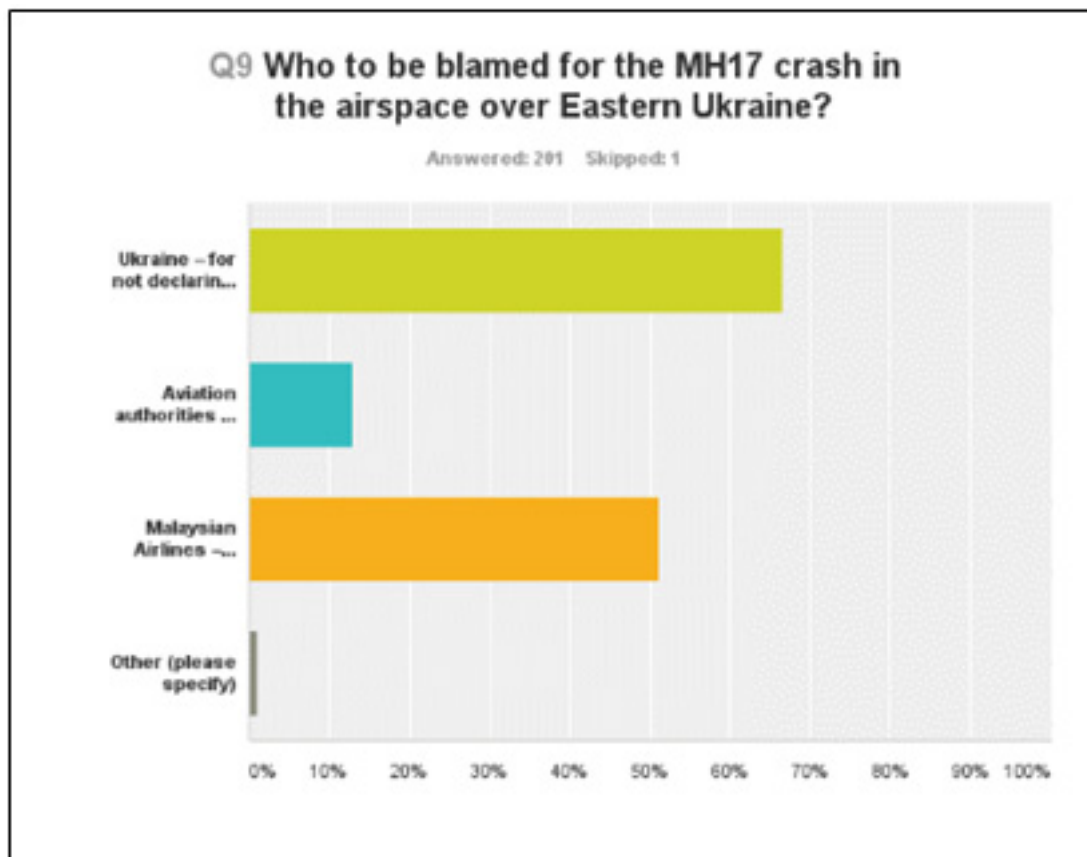
This NOTAM from the Ukrainian government is another clear indicator that there were potential issues, not just on the ground but also for the airspace above. Just two weeks later, the exclusion zone was extended to 9,750 metres (32,000 feet). Yet, Malaysian Airlines flew at 10,000 meters (33,000 feet), which was just 250 metres (approximately 1000 feet) above the minimum. Malaysian Airline Management, MH17 Flight Crew and Flight Dispatchers could have demonstrated greater awareness and understanding of the warnings issued from the various authorities around the world. In hindsight Malaysian Airlines’ failure to act on the various warnings (whether cautionary or not) is quite remarkable, as the issuing of those warnings would not have been taken lightly; they were highlighting a serious potential hazard to safe aviation. The question could be raised; Does an operator adhere to the minimum requirements or use more caution in making decisions where aviation safety is concerned? Jacques Astre, a pilot and FAA inspector shared his experience of flying over the same airspace before the MH17 crash saying “To be

honest with you, I was feeling insecure because I knew what was going on down there. There was no guarantee that such weaponry wouldn’t go above 32,000 feet. There’s no shield that would protect you at 32,000 feet” (as stated in Schulberg & Kovensky, 2014).

*“It emerged that airlines had more than twice been warned about the risk of flying over an area where two Ukrainian military aircraft had already been shot down that week”* (Boyle, 2014).

Surely aircraft being shot down is a rather large indicator that Ukrainian airspace (warzone or area mandatory avoidance advisory or not) was neither stable nor safe! As Boyle (2014) mentioned, two military aircraft were shot down just a few days before the MH17 crash. Also, as Cartalucci (2014) mentioned ‘for several months in eastern Ukraine there have been targeted attacks and destruction of Ukrainian military helicopters, warplanes, and military transport aircraft’. Therefore, flying over such an area presents a huge risk to an airline operator and its passengers where little facts are known about weaponry and an established history of airborne targets being hit.

Figure 4 shows that more than half of our participants in the online survey hold Malaysian Airlines responsible for ignoring the warnings. The warnings issued should have been taken into consideration and acted on, rather than ignoring the risks associated, as it would appear Malaysian Airlines did. In the opinion of those surveyed, this highlights a large portion of negligence on the part of Malaysian Airlines.



**Figure 4: Who is to be blamed for MH17 crash?** Source: Online survey, 2014

Third, we will examine the cost-cutting strategy Malaysian Airline implemented due to their financial situation.

"Many carriers continued to use the route because it was shorter and therefore cheaper and not officially illegal. It is understood the Malaysian Airline jet used the Ukrainian route to save fuel as diverting north or south would have taken longer" (Boyle, 2014). "One aviation expert revealed: Malaysian Airlines like a number of other carriers, have been continuing to use it because it is a shorter route, which means less fuel and therefore less money".

By choosing a cost effective more direct flight path, saving fuel and therefore money, some airlines accepted the risks regardless of the warnings, adhering to what could be considered a minimum level of safety, jeopardized the safety of the aircraft and those on board; and yet no laws were broken.

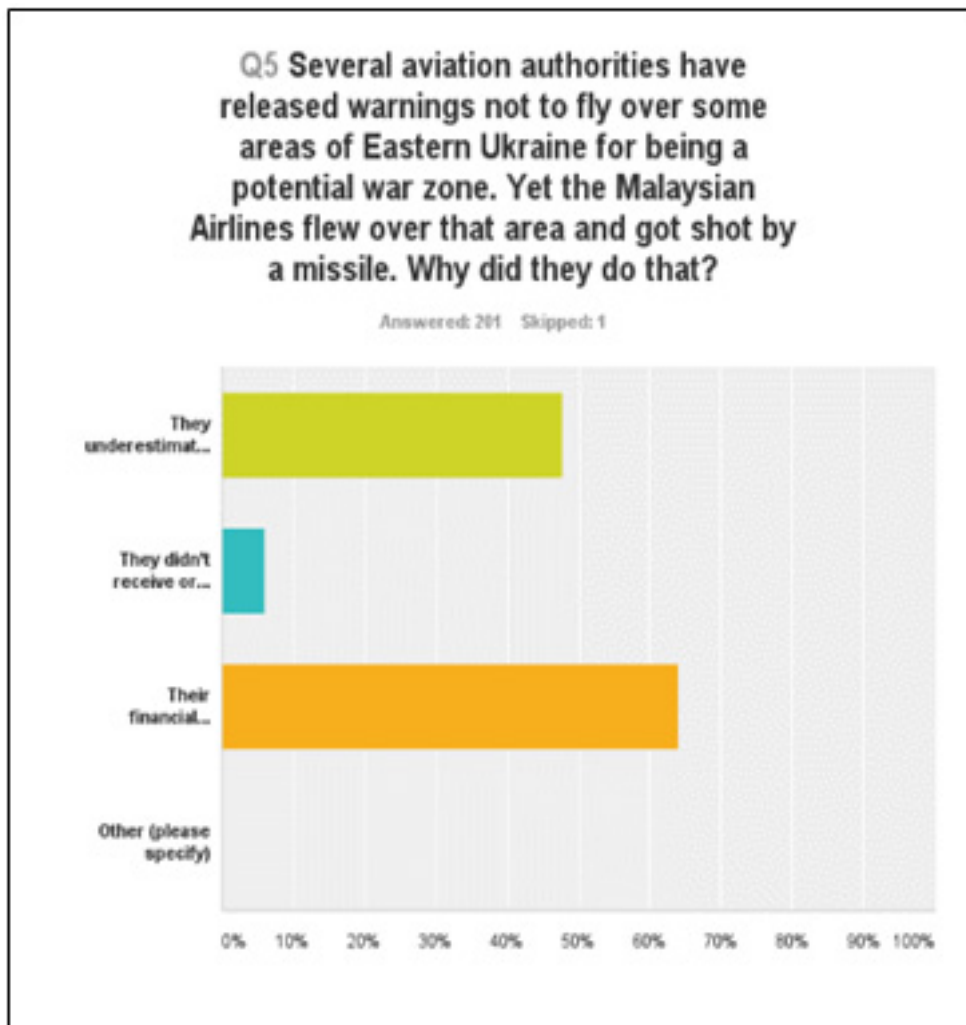
Diverting around Ukraine, would take longer and require more fuel, adding to Malaysian Airlines' fuel costs and theoretically no risk of being shot down.

It is reasonable to assume Malaysian Airlines' financial strategy was to choose the shortest and more direct flight paths as the cost-effective choice leading to potential future profitability.

According to the International Aviation Security Association acting regional director Captain Des Ross, "Malaysia Airlines chose the quickest route. All airlines are conscious of cost these days, the cost of fuel. You want to fly as quickly as possible between your two points but the risk assessment unfortunately was incorrect" (as stated in Corcoran, 2014).

The flight dispatchers who plan flight paths with senior management approvals usually look for the most fuel-efficient routing for a flight. The flight path MH17 took was a popular one among most airlines; with local traffic as well as long-haul flights linking the two points of Northern Europe to major cities in Asia. There is no question that flight dispatchers are highly concerned with designing a flight route, which would effectively save fuel and generate more profits. Yet, they miscalculated the risks associated with that quick, cost effective flight path which resulted in the loss of hundreds of innocent lives and precious profit.

*"Airlines run on a real tight profit margin and one of the biggest factors is fuel," Cooper said. "You go around things, you make your travel longer, you burn more fuel, you lose more money, and sometimes, saving money is the name of the game"* (Kwong, 2014).



**Figure 5: Reasons for MH17 flight path over potential war zone**

Source: Online survey, 2014

Furthermore, this quote illustrates the true reality of business thinking after all in the lessons of aviation management. At the end of the day, profit is what they seek.

The figure below shows that approximately 64% of the participants thought that MH17's flight path over a potential war zone was influenced by Malaysian Airlines' financial situation.

Figure 6 shows the majority of our participants, 81%, thought that the financial situation of Malaysian Airlines impacted the flight dispatchers' choice over flight paths. We believe that the consumers are aware of the cost-effectiveness measures taken in business regardless of the industry. Therefore, it is expected that flight dispatchers who plan the flight path take in to account fuel consumption as it is a major driving cost for aviation industry. However, rational and objective justification must be paired with cost-effectiveness so that disasters such as MH17 do not happen again.

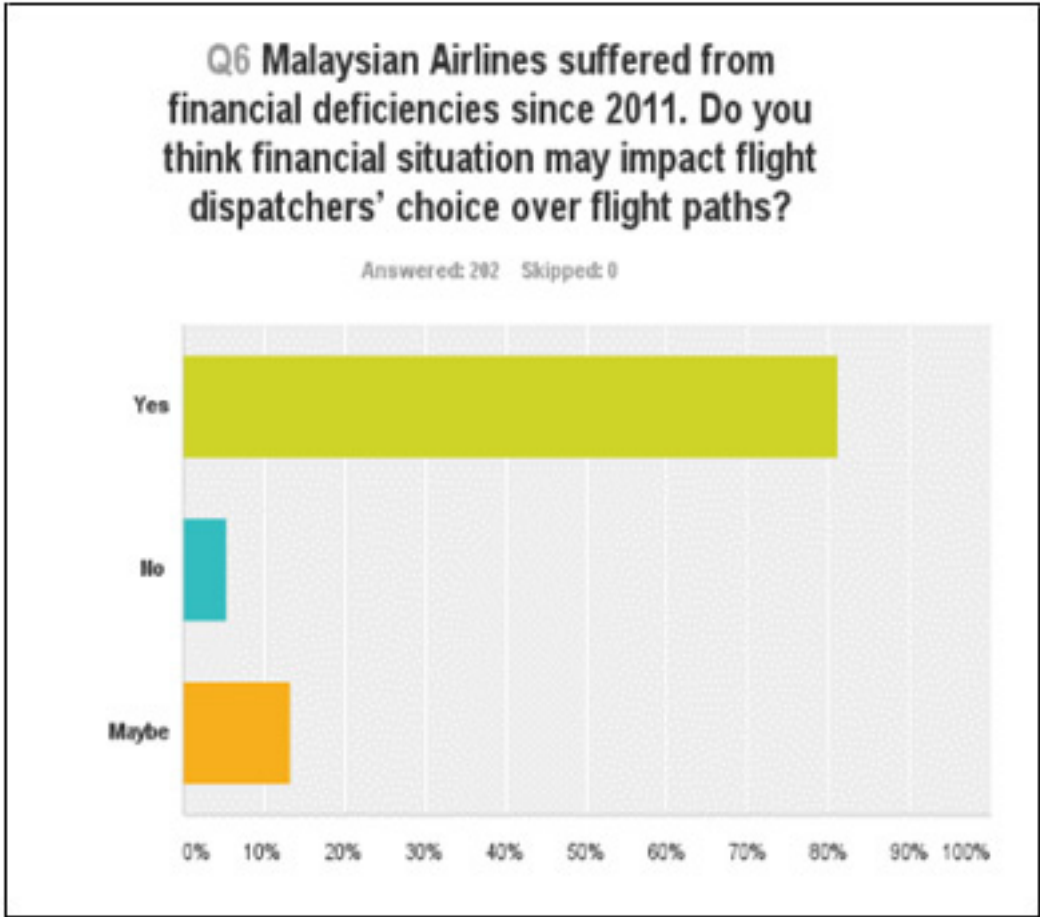
Figure 7 (next page) shows that 79% of our participants thought that MH17 flight dispatchers were influenced by Malaysian Airlines' financial situation and thus planned a direct flight path over a potential war zone. They did so to save fuel and maximise on cost cutting. Very few participants thought there was no influence. However, it's remarkable to see how people realised the strong influence of financial figures on businesses operations. Even though Malaysian Airlines tried hopelessly to convince people that safety is their top priority and no question to be a matter of influence, the survey results suggest the opposite.

Fourth, we will examine the degree of accountability Ukraine holds for not declaring their territory as a war zone.

As Elmar Giumulla, Professor of aviation law stated, "Each state is responsible for the security of its airspace. If it is not able to do (so) temporarily, it must close its air space. As that did not happen, Ukraine is liable for the damage" (RT, 2014).

Clearly Elmar Giumulla is declaring the Ukraine as negligent with all the warning signs of the conflict between them and Russia and leaving airspace open: In doing so leading to the disastrous loss of MH17 and potentially any other airline that flew over that zone. The tensions between Ukraine and Russia had been escalating each day prior to the loss of MH17 and yet the Ukraine didn't make any attempt to close their air-space. Thus, the Ukrainian authorities held the responsibility of managing and securing their airspace to provide safe passage for commercial air operations above 33,000 feet. It can also be argued that Ukraine should have been more aware, proactive and conscious of the weaponry involved in their dispute with Russia such as the Bulk missile system, which has been suspected to be involved in the MH17 incident. The questions might be: Should the shooting down of civilian aircraft be tolerated or go without punishment?

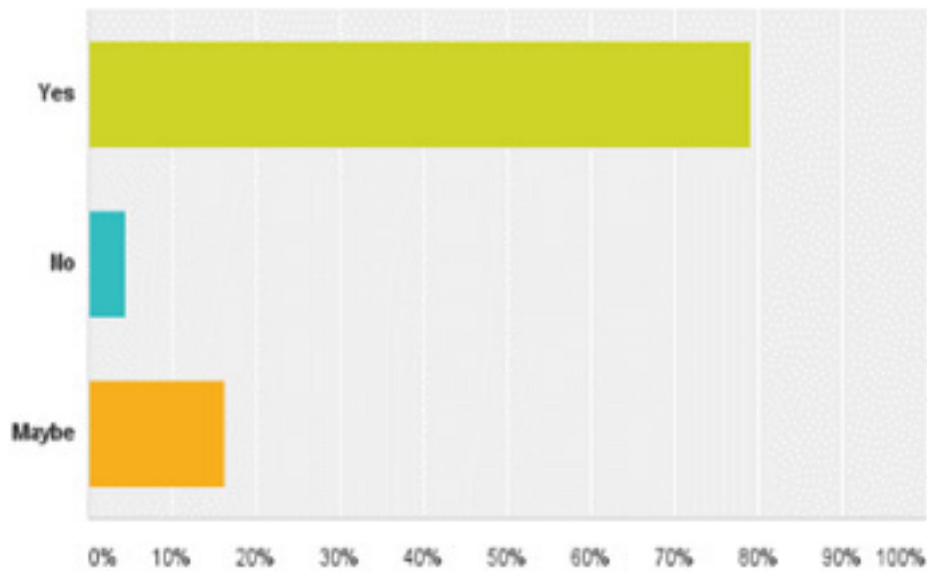
*"The pilots of MH17 filed a flight plan asking to fly at 35,000 feet throughout Ukrainian airspace, the airline said in a statement Friday. However, upon entering Ukrainian airspace, MH17 was instructed by Ukrainian air traffic controllers to fly at 33,000ft" (Jamieson, 2014).*



**Figure 6: Financial situation impact on flight dispatchers choice of flight path**  
Source: Online survey, 2014

**Q7 Do you think MH17 flight dispatchers designed a direct route path to save fuel and maximize on cost cutting?**

Answered: 202 Skipped: 0

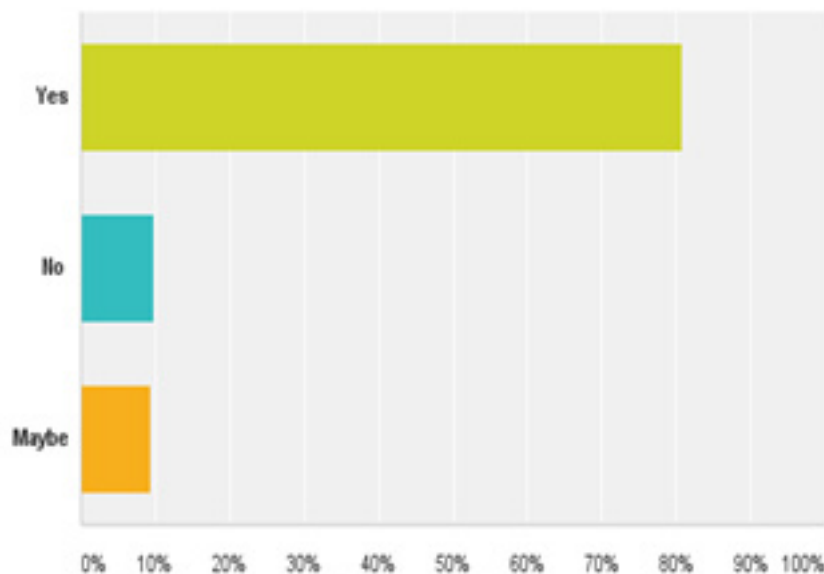


**Figure 7: Did MH17 flight dispatchers design a direct route to save fuel and maximize cost cutting?**

Source: Online survey, 2014

**Q8 Do you think Ukraine is to be blamed for keeping their airspace open knowing that they are at war with Russia?**

Answered: 282 Skipped: 0



**Figure 8: Extent of blame on Ukraine**

Source: Online survey, 2014

This highlights the extreme lack of action, and perhaps lack of awareness, on the part of those controlling the airspace above Ukraine regarding the severity of the conflict within the country. There is no justification as to why the Ukrainian Air Traffic Services asked the pilot of MH17 to fly at 33,000 feet, lower than planned. Could they have wanted the pro-Russian rebels to intentionally shoot down a plane so as to point the blame to them?

Surprisingly, the majority of our participants, 81%, think that Ukraine is also to blame for keeping their airspace open when they knowingly were at war with Russia.

“Dutch investigators have been trying to recover the wreckage from MH17. The vast crash site was left unsecured, and international investigators struggled to reach the areas as fighting raged” (Mullen, 2014)

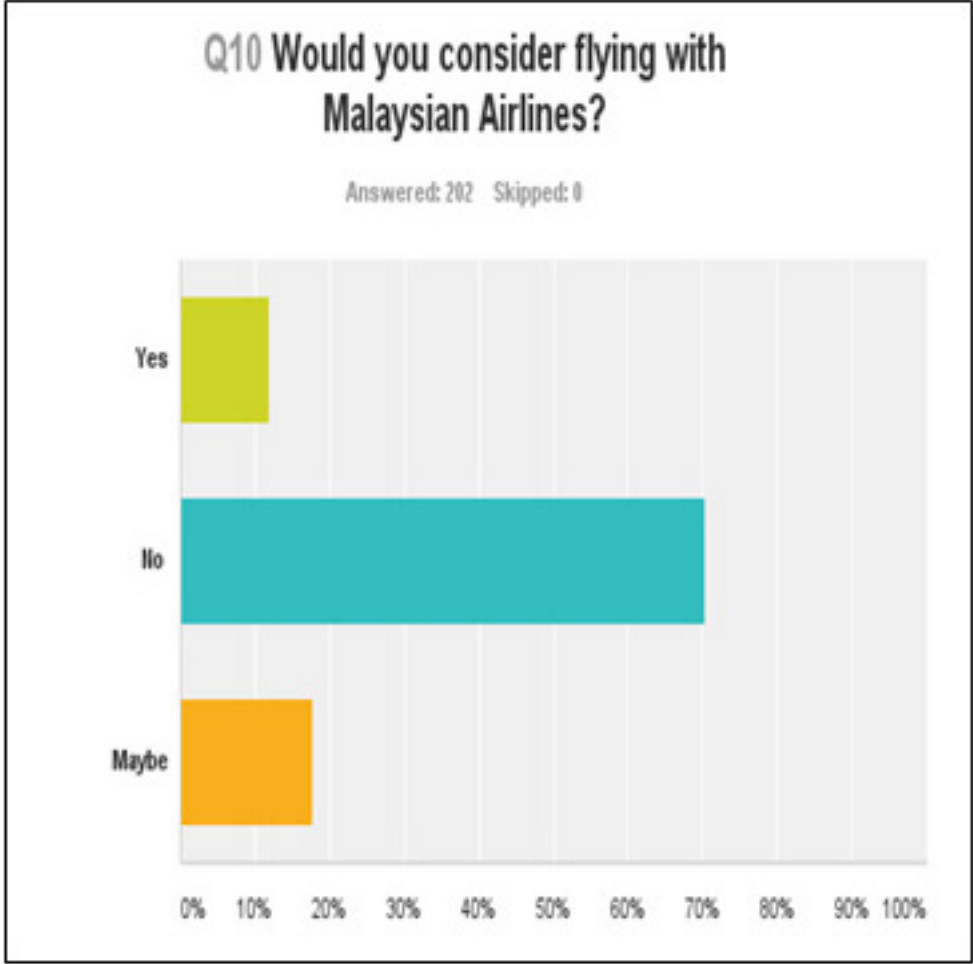
The aftermath of the MH17 in eastern Ukraine raised the issue of security for investigators wishing to examine the crash site. The rebels were accused by the international investigators and authorities of raiding the site, and stopping investigators from examining the wreckage. There was a lengthy delay, which prevented several countries to take an initial step of removing the bodies of the victims from the area and transporting them out of the Ukraine. Thus, the Ukrainian authorities could have insisted on a cease-fire with the Russians to enable the recovery of the victims and investigation of the aircraft incident.

Fifth, we will examine the impact of the two major incidents on Malaysian Airline’s reputation with its passengers.

According to analysts, “The carrier is set to suffer a decline in passenger traffic and will likely be forced (to) pour cash into a public relations campaign to salvage its image” (Harjani, 2014).

The aftermath of two major accidents, which occurred in less than 4 months of each other, had a severe impact on Malaysian Airline’s reputation with passengers. Many of the passengers had fear and doubt as to whether the airline would be safe to fly with in the future. However, administrators at Malaysian Airline repeatedly mentioned via media several times that passenger safety is their top priority regardless of everything. Several attempts have been made to regain Malaysian Airlines’ regular customer base by offering tempting fares and extra baggage allowances. However, those efforts barely made any change to the financial status of the Airline. Figures show they lost most of their customers to competitors: Singapore Airlines and Air Asia.

Furthermore, this illustrates the impact of both incidents that occurred over a very short span of time. Passenger bookings declined and those who had booked earlier tried to cancel and refund their tickets. Such actions didn’t help improve the financial situation of Malaysian Airlines: In fact, it sped up the collapse of the organization as a whole.



**Figure 9: Consumers’ willingness to fly with Malaysian Airlines**

Source: Online survey, 2014

Figure 9 clearly shows that 70% of our participants said that they would not consider flying with Malaysian Airlines. Their reasons could vary, however; it's a shocking percentage and not positive for the future existence of Malaysian Airlines. The company can't survive without a strong customer base, especially in the highly competitive aviation industry.

## Results

The results of this study show that the Malaysian Airlines' financial situation could have played a major role when selecting the flight path for MH17. Also, those surveyed appointed a large portion of accountability with Ukraine for not declaring their territory as a conflict/war zone. On the basis of these results, we can say that our hypotheses were proved correct.

### **H1a: Did Malaysian Airlines' financial situation lead the airline to adhering to minimum safety regulations in the case of MH17?**

Yes, I think we can fairly argue that the financial situation (before and after MH370) lead Malaysian Airlines to strategically select the shortest routes to save on fuel and only adhere to the minimum safety because as mentioned earlier from BBC (2012) Malaysian Airlines were suffering from financial deficiencies for several years. To be in a competitive environment and a less than desirable financial situation is also proven to cause major distraction and could have taken the company focus away from passengers' safety. Our analysis showed that Malaysian Airlines' financial figures didn't improve at all especially after the two major incidents. As mentioned previously Malaysian Airline didn't follow the advice and warnings of the FAA and ICAO. In addition, MH17 was flying just 250 metres over the risk level altitude: A possible contributing factor with this incident. Unfortunately, through a combination of carelessness and self-interest, the lives of innocent passengers onboard MH17 paid the ultimate price. Thus, we agree 90% with this hypothesis.

### **H1b: Did the financial situation lead the flight dispatchers to maximize on cost cutting?**

With Malaysian Airlines facing the problem of a cash and profit shortage, an effective method of getting back in the black was to take shorter and more cost-effective flight paths to save on fuel. Therefore, the flight dispatchers appear to have underestimated the risk and planned a flight path that flew over an active conflict area in an effort to save fuel and to lower its operating costs. Therefore, we agree 95% with this hypothesis.

### **H2: How much blame does Ukraine have for not declaring their territory as a war zone?**

According to our survey analysis, the public believe Malaysian Airlines hold 80% of the blame for the MH17 incident and Ukraine holds 20%. As mentioned previously, the Ukrainian government did issue a NOTAM with an altitude restriction,

but it appears that Malaysian Airlines did not take this as a clear indication of the conflict raging in Ukraine. In doing so Malaysian Airlines accepted a large risk by operating at a minimal altitude above this conflict zone. According to Boyle (2014) the two military airplanes that were shot down just days before MH17, should have been a sufficient signal for any airline that the conflict could have escalated to the airspace above Ukraine. On the other hand, we also put 20% of the blame on Ukraine for not declaring their territory as a war/conflict zone and closing their airspace. If they make their airspace open then they should take the responsibility of ensuring safety and security for all commercial aircraft flying over their territory. However, they were in denial about their war status and the weaponry involved in the war, which could and was a threat to the commercial airlines. Prevention is always better than cure and in this case Ukraine also had the ability to prevent the MH17 disaster by simply taking responsibility for their airspace. They might have delayed their airspace closing due to it being a popular and busy route, linking Europe to many parts of Asia. However, they should have taken appropriate measures and been more aware of the weaponry involved in their country that went beyond the airspace limits that were set.

### **H3: How much does the MH17 incident impact the airlines reputation with passengers?**

Bad news and gossip can spread like wildfire. After the two incidents, it would seem natural that customers would have had many concerns regarding passenger safety and the priority of it for Malaysian Airlines. As mentioned earlier, many ticket cancellations occurred after the MH17 incident. It was estimated that after the first incident (MH370) they lost around 40% of customers, however, the second incident would have more than double the impact (RT, 2014). Therefore, we estimate that both incidents made around 85% impact to the reputation of Malaysian Airlines. "Malaysian Airlines on Thursday reported a 75 percent wider loss in second-quarter earnings as passenger bookings continued to fall in response to the loss of two aircraft in separate disasters this year. The airline also warned of poor second half-earnings, saying that average weekly bookings had declined 33 percent with numerous flight cancellations immediately after the shooting down of flight MH17 over Ukraine in July" (Reuters, 2014)

## Conclusion

The incident of MH17 over the territory of Ukraine was the final nail in the coffin for Malaysian Airlines, which has been financially in the red since 2011. In addition to the tragic and still mysterious disappearance of MH370 just a few months earlier, the loss of MH17 provided a powerful final blow. All these scenarios have escalated the downfall of Malaysian Airlines, which is now struggling for its survival. Although the MH17 incident could arguably be a simple matter of being in the wrong place at the wrong time, in fact it can just as easily, even more convincingly so, be directly connected with the financial situation of Malaysian Airlines. We have concluded from our online surveys and the entire data analysis that the

Malaysian Airline was in the quest of cost cutting to improve its financial situation. This cost cutting exercise gave Malaysian Airlines an unforgettable lesson in the form of MH17, now they are arguably at the brink of extinction. Malaysian Airlines has been facing financial difficulties since 2011 due to uncertainty in the global economic market and increasing fuel prices. This forced Malaysian Airlines to adopt a cost cutting strategy, which largely depended upon fuel saving by choosing direct and shorter routes. This strategy appears to have made them more lenient towards accepting and analyzing routine warnings by the international commercial flight regulators like FAA and ICAO.

The tragic loss of MH370 caused immense strain on Malaysian Airlines and also increased their financial burden because they had to use their resources for the ongoing search and rescue operations. In the pressure of increasing cost saving activities, Malaysian Airlines chose to save fuel costs by planning direct and short flight paths. As they did with flying from Amsterdam to Kuala Lumpur, they chose to fly over a potential war/conflict zone in eastern Ukraine, even though, the FAA issued a warning to avoid flying over this area almost three months before the incident. Malaysian Airlines ignored the clear warnings of the FAA and they paid the price by the loss of 283 passengers and 15 crew members which destroyed not only one of their aircraft but also their reputation. As Malaysian Airlines is Malaysia's national carrier, the reputation was extended to Malaysia, its government and the Al Khazanah, the Malaysian sovereign wealth fund, which was a key shareholder to the company. The current reputation of Malaysian Airlines has crippled Malaysian pride and it appears the entire Asian region, which in the future could have tragic effects on their trade, investment, and tourism.

Ukraine had not declared their airspace a war zone and this was a clear mistake on their part but they did release a warning which did hint at problems and for airlines to avoid war torn areas and this is one of the reasons more responsibility and accountability is with the airline for the MH17 incident. Also MH17 was not flying at sufficient altitude to avoid the surface to air missiles. This whole situation contains a number of lessons to be learned, not only for Malaysian Airlines but also for the entire aviation industry. In fact a number of questions can be raised: Should there be a standardised authoritative body for the aviation industry that would take the responsibility for reviewing and calculating risks of airspaces over conflict zones? Should all airlines have to adhere to such warnings, not only certain carriers? If this were possible, such a body could then release cautions and warnings to the entire airline industry rather than certain regions or continents. How can countries with unstable situations and conflicts that are in denial be held responsible? The sharing of information openly and honesty whenever a threat against commercial aircraft is present should not be region specific.

Insurance companies could consider making amendments to their airline policies with regards to the extent of coverage in cases of accidents which would persuade them to meet safety recommendations. They should clearly mention in their policies that they would not insure the coverage of passen-

gers if the airplane got into an accident as a result of flying over territory where warnings had been issued. Such a policy would assist with the balance between the business thinking of profit-making and passengers safety.

We shall observe with interest the industry changes that come from the lessons learnt by Malaysian Airlines and the loss of both MH370 and MH17.

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# Social Marketing, Education and the Female Workforce: A Comparison of United Arab Emirates and Kingdom of Saudi Arabia

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## Abstract

The religious, socioeconomic, and political status are fundamental principles that form the values of women's lifestyles in the Muslim World and especially in the GCC. It varies largely from nation to nation depending on how globalization has managed to affect the society in line with the lifestyles of modern living.

The World Economic Forum report (WEF, 2014) shows that the UAE focuses on transforming the country into a diversified self-sustaining market-driven economy. The economic prosperity and presence in the world affairs is mainly due to the leadership's decision to form a free market economy. The open economy, attractive business platform and ease of life have encouraged expatriates to work and live in the UAE forcing its social values to open up. This has had a direct effect on the lifestyles of Emirati society, and women in particular.

On the other hand, the exclusion of Saudi women from public life is no doubt a heated debate in the international scene. The government of Saudi Arabia has been strictly persistent in applying its cultural values in most macro-economic aspects such as education, technology ( ), and policy.

The research findings prove, based on the statistical approach, that government intervention has played a vital role in increasing the contribution of women in the workforce in both countries, the UAE and KSA, by supporting the required legal and official reforms. The substantial investment in education, of both governments, has proved to be one of the most important drives to increase the women workforce.

Despite the different levels of contribution in the social media platforms, the survey conducted under the context of this research revealed that social media played a positive role in motivating women to work in both countries.

**Key words:** female workforce, UAE, KSA

1. Camera held phones were banned by supreme religious authority until Dec 2014 due to "Spreading Obscenity" (NBC NEWS, 2014)

## Introduction

United Arab Emirates (UAE) and Kingdom of Saudi Arabia (KSA) are two countries in the Middle East region that are undergoing rapid development starting from the Oil discovery era. KSA has a larger land area, population, labor force and economy in terms of GDP. UAE on the other hand is more developed which can be seen with higher Internet user penetration, longer life expectancy or GDP per capita (World Bank Data, 2014). Although the two countries are significantly different to each other the development trends are very similar with one or the other country leading or following with the 5, 10 or 20 years difference between each other depending on the KPI, (refer to World Bank data charts in Appendix 2).

The contribution of women in the workforce is a relatively new phenomenon in the UAE and KSA equally, and continues to be associated with many continuing challenges (Boundless Learning, 2014). As the GCC economies have seen sharp growth in the last forty years, supported by rising oil prices and political stability, women workforce were one of the tendencies and considerations in the socio-economic model of these countries.

In its World Economic Outlook released Oct 9th 2014, the IMF said growth in the six-nation Gulf Cooperation Council (GCC) states is projected to be at an average of 4.5 per cent in 2014 and 2015. The UAE's growth was revised upward to 4.8% while KSA's growth is expected at 4.6%. It is recognized that sustaining such economic growth and social prosperity will depend on the full utilization of the skills and contributions of all citizens involved in the workforce including women (Talwar et al 2009). As stated: "When women are not [fully] involved in the workforce, only part of the able workforce is being utilized and, thus, economic resources are wasted. Gender equality allows for an increase of women in the working sector, thereby, leading to an expansion of the labor force and an increase in economic productivity." (Talwar et al, 2009). Lofstrom conducted many studies to relate gender equality to GDP and concluded that if women were to participate equally in the workforce, the EU GDP would increase by 30%. (Lofstrom, 2009).

The research paper will explore the aspects by specially hypothesizing in the roles social media and education played in affecting the women workforce in a comparative study between UAE and KSA.

## Hypothesis

Before discussing the hypothesis, below is a comparison of the demographics of the targeted groups we are researching, Emirati and Saudi females.

As the world population currently grows at 1.14 % yearly (World Population Clock, 2014), Saudi's population growth is at 1.49% and UAE's growth is at 2.71%. Saudi's birth rate has just recently begun slowing down which brings the Saudi new couples to produce smaller families in line with the world

trend. Comparing the two groups, we also can relate to other interesting analysis:

1. In KSA, 1.2 males exists for every 1 female where as in UAE 2.2 male for every 1 female (Saudi Arabia vs United Arab Emirates) as figure 1 demonstrates. The male dominance in UAE is clear in terms of jobs, but that isn't due to inequality, rather a natural result for male population outnumbering Emirati females.
2. Unemployment is at 10.9% and 2.4% in KSA and UAE respectively (Saudi Arabia vs United Arab Emirates).
3. In 2013, the UAE has a female labor participation rate at 44% being the highest in the GCC with Saudi at 18%, a record high for the country but lowest in the GCC (Bqdotha, 2013).

Linking the above demographics to our project title "Success of the Female Workforce in UAE vs KSA", our first hypothesis investigates the relationship between the internet social marketing wonders, to the productivity and confidence of our targeted group, Emirati and Saudi females.

Therefore we hypothesize:

**H1a- Social Marketing has impacted the role of women in Saudi Arabia and UAE to be more confident and productive**

**H1b- Social Marketing has impacted the role of women in Saudi Arabia and UAE to be less confident and productive**

To begin with, we conducted an independent survey in Abu Dhabi that covered close to 1000 females, Results showed that:

1. 63% of correspondents believed that using the Internet affected their overall motivation to work harder.
2. Over 70% of the correspondents agreed that internet has played a role in boosting their belief in themselves and aiding realization of their career goals.
3. 7.5% of the correspondents agreed that Internet didn't really play a role in realizing their career goal.
4. 18.5% of the correspondents are not sure whether the internet had played a role in effecting their realization in career goals

## Social Media's Role in Women's Productivity at Work

Social Media has played a role in changing lives of women with special respect to 3rd world countries where women were considered secondary in society. The power of social media was visible in the Arab Spring which initiated in 2010 stretching from North Africa to the Arabian Peninsula, initially as a tool for women in the uprising to reflect their opinion

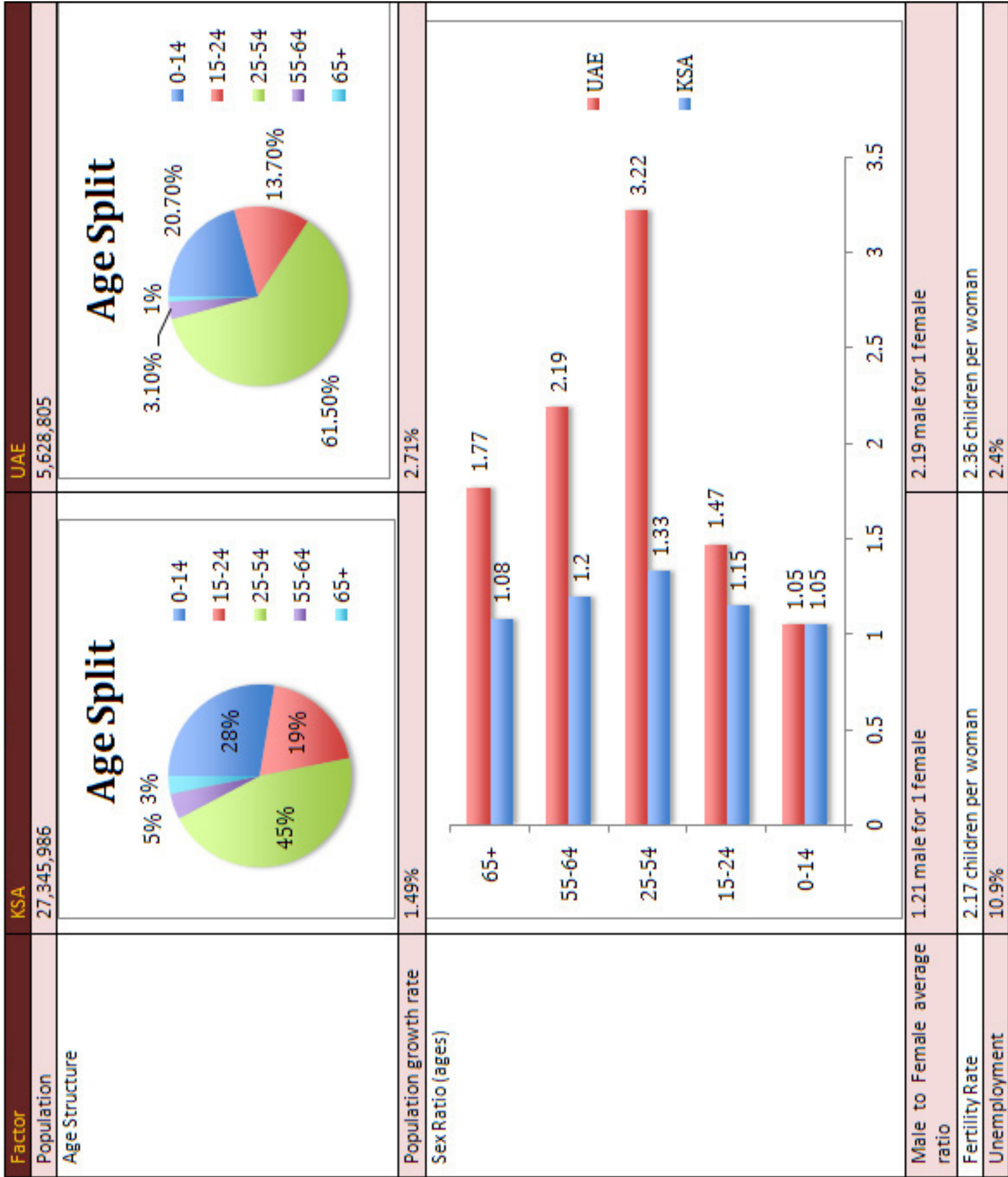


Figure 1: Demographic mix (2013)

openly for the very first time. A Nobel Peace award was awarded to the Yemeni activist Tawakul Karman in 2012 for inspiring the World by her online activeness<sup>(2)</sup> and opened the eyes of women in the region providing them with hope and opportunity when they haven't had a smallest glimpse of hope. Social Media is argued to have provided willpower, and confidence, to become more productive in themselves and thus, their ability to perform and achieve. (Arab Social Media Report, 2011)

Looking deeper into the Emirati and Saudi involvement in Social Media, the table below presents the total Emirati and Saudi female users in 2014 of the most popular three social marketing platforms:

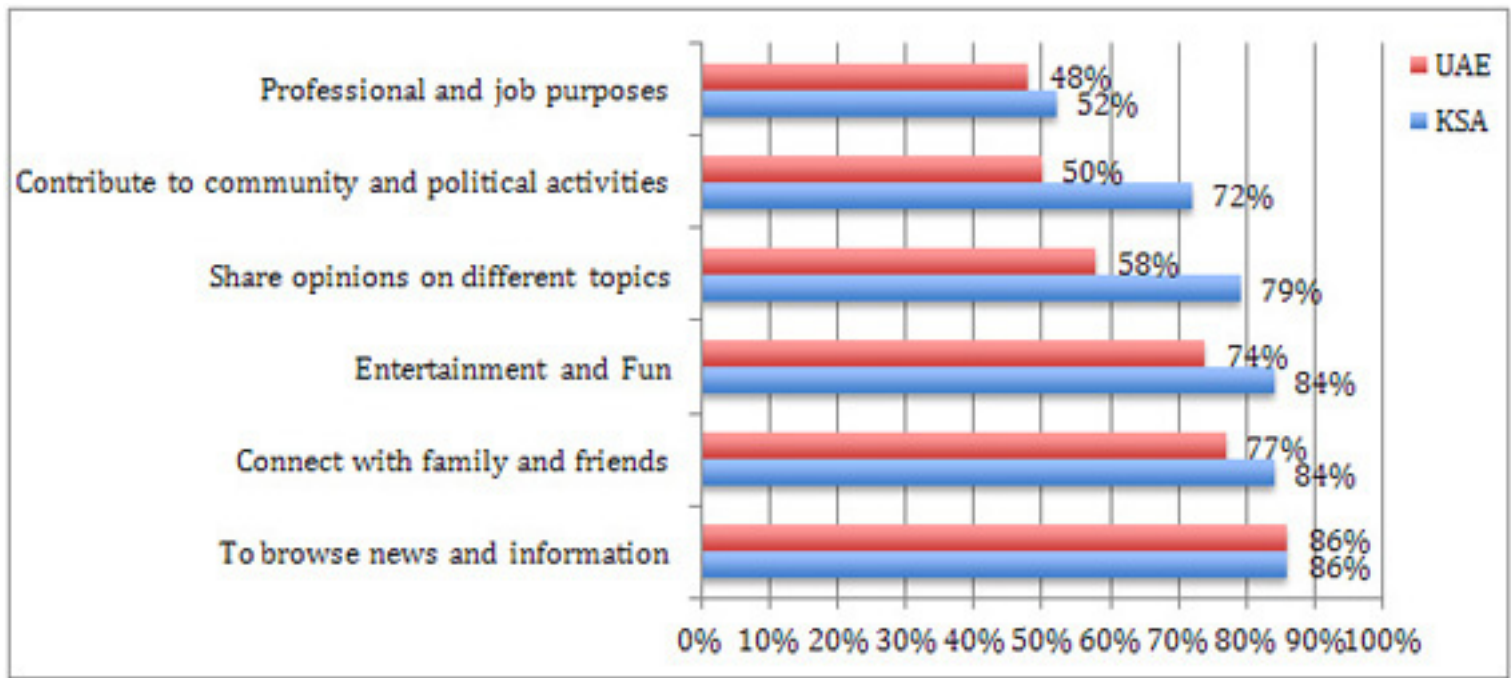
Figure 2: Indication of Gross users of social marketing in Saudi and UAE in 2014.

Platform	UAE	Saudi
Facebook	42%	18%
Twitter	0.4 M users	1.9 M users
Linked In	16%	3%

(Kippreport magazine, 2014)

Below is another survey, extracted from one of the most recent successful journals prepared on this topic. The Journal was prepared by the Dubai School of Government under the title "The Role of Social Media in Arab Women's Empowerment" in 2011 where 469 correspondents were surveyed from the UAE and KSA aged between 15 and 40 years old:

Figure 3: "What do you use social media for?"



(The Role of Social Media in Arab Women Empowerment, 2011)

Based on this survey, it is observed that Emirati and Saudi women mostly share the same thoughts with regards to social media. We observed almost perfect resemblances in two areas where 50% of total users use the internet for professional services such as recruitment, whereas 86% of total correspondents use social media to casually surf the internet. On the other side, we also observed interesting differences between the two countries. To highlight the main variances, only 50% of Emirati women participate in community and political activities whereas in Saudi, 72% of women would participate. The other big differentiation was the frequency of opinion sharing where 79% of Saudis females were comfortably using social media to confront their opinions where only 58% of Emiratis felt comfortable to do this.

Reading across the journal, it was observed that another survey conducted within the journal showed possibilities that social marketing could have a negative impact on women's inner confidence and ability to express opinions freely; this feedback was summarized as follows:

2. Karman played a major role in the Arab Spring uprising. The award is to date the only prestigious Nobel Peace Prize, ever won by an Arab.

1. 32% of Emirati Women and 31% of Saudi women feel they shouldn't use social media for the authorities could hold them responsible for what they say.
2. 19% of Emirati women and 17% of Saudi women feel their participation could alienate them from family and friends.
3. 22% Emirati women and 21% of Saudi women feel that expressing their opinions will result in them being "stereotyped".
4. 6% of Emirati women and 5% of Saudi women feel their involvement in social media will be received negatively by males simply for being a woman.
5. 15% of Emirati Women and 17% Saudi Women don't see any negative outcomes.

Although the participation of women in Facebook in KSA and UAE averaged at 34% in 2011, an incline in the number is clear as Twitter figures indicate that Saudi, Egypt and the UAE top the regions highest female participation with average of two tweets a day (The Role of Social Media in Arab Women's Empowerment, 2011).

Our second hypothesis that may impact women's productivity at their workplace, is based on education. Education should set a strong platform for women's foundation of capabilities in the workforce, especially in a society where man is dominant. Therefore, we hypothesize the role of education to women being successfully confident and productive in their workplace as follows:

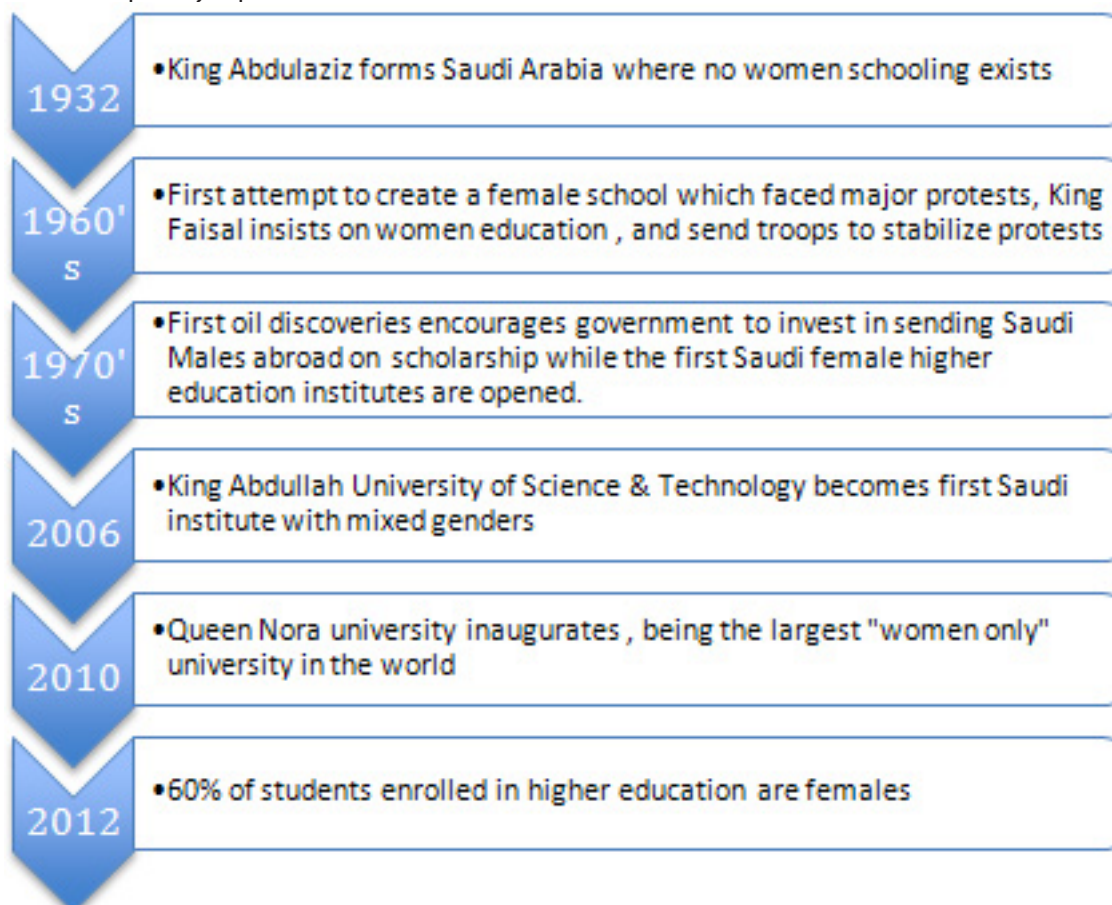
**H2a- Education had a direct contribution for a more effective women workforce in KSA and UAE.**

**H2b- Education had no direct contribution for an effective women workforce in KSA and UAE.**

### Education on the rise

Saudi's turning point in female education was in 2009 when King Abdullah had appointed Norah Al Faiz, a former US educated teacher, as deputy minister for education, which wasn't just the highest post attained by a woman in the government but also lead to remarkable changes in the way Saudi females received their education resulting in more females joining the workforce. (The Economist Magazine, 2014)

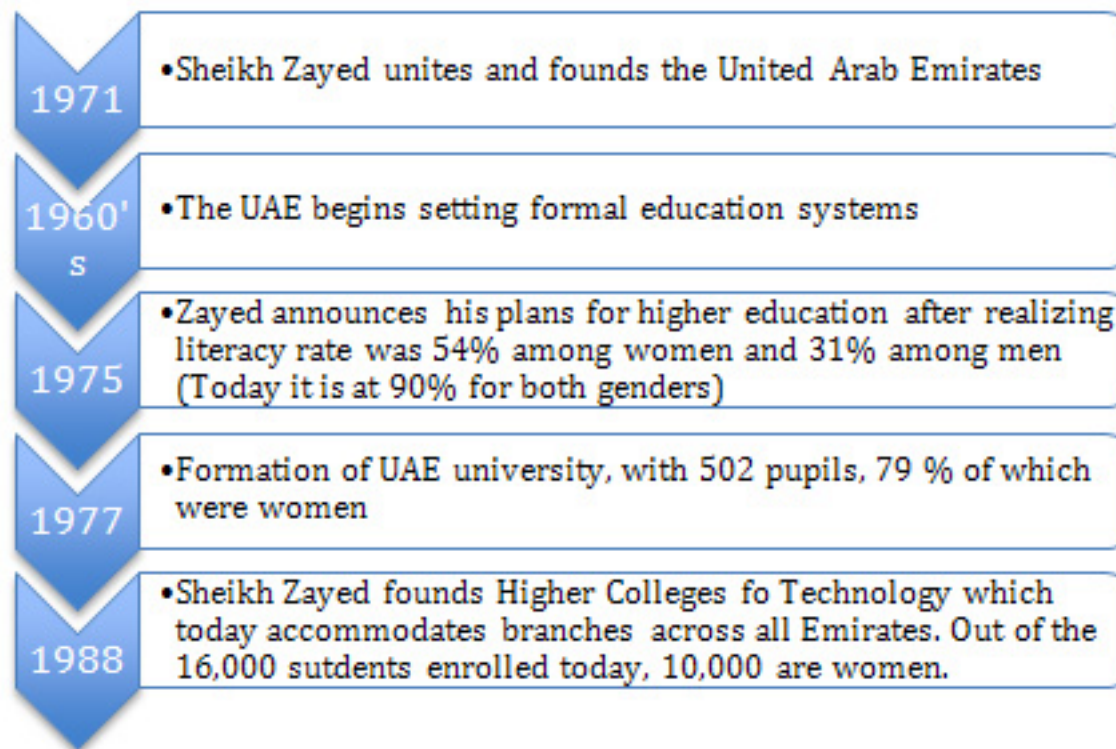
Below is a quick synopsis of the milestones in women education in Saudi Arabia:



(Royal Embassy of Saudi Arabia, 2014)

The previous figure demonstrates the battle between the willpower of Saudi females for education and the conservative public fighting the idea. To demonstrate this internal struggle, in 2012, 60% of the enrolled students in higher education were females, but only 21% of the workforce were females (World Bank Report, 2012).

Moving to the UAE's milestones in Education, we observe a slightly quicker absorption and acceptance by the government and society in adopting and supporting women education:



(Embassy of the United Arab Emirates, 2014)

### The involvement of government in education

The Saudi government efforts in providing support for women education can be widely attributed to King Abdullah, who had been the game changer for women's overall position in Saudi Arabia since assuming presidency in 2005, launching several educational programs to fill the education flaws to produce a more effective and sustainable workforce, the most popular being:

**1.** King Abdullah Scholarship program (KASP) has been widely successful and its current 9th batch is due in 2014. Since its launch in 2005, more than 140,000 students out of which 30% are currently women have been sent to selected institutes worldwide; women contributed only 15% when the scholarship was first launched in 2005.

(Arab news, 2012)

**2.** King Abdullah Project for General Education development with a budget of AED 9 Billion, specially designed to create skilled future workforce focused on different industries. (KSA, Ministry of Education, 2013)

**3.** Tatweer Program with a budget of AED 7.5 Billion launches, which focuses on introducing new teachings away from the traditional Saudi methods of memorization towards encouraging a problem-solving system as well as a more secular, vocationally based system. (KSA, Ministry of Education, 2013)

As to the UAE on the other hand, Dr Lamyia Fawwaz, the executive director of public affairs at Abu Dhabi's Masdar Institutes of Science and Technology, discussed UAE's support for women in the United Nations Commission for status of women. She highlighted "Strong support from the UAE government was probably the biggest driver in women's increased participation in Stem professions in the country". Dr Lamyia also added "Starting from scholarships that provided advanced education, to internships at innovative companies, to the constitutional rights to equal pay and maternity leave, the leadership has done everything possible to make education and profession easy for women." The UAE government had been consciously supportive of equally supporting UAE males and females in terms of education through different initiatives, to name some major initiatives:

1. Abu Dhabi Education Council (ADEC) allocated a budget of AED 197 for Abu Dhabi school graduates, scholarships over 5 years which is equally split between the two genders. (TheNational news, 2013)

2. UAE Education ministry emphasized on the need to equalize male and female population in higher education throughout private and public academic institutes since the majority of students in private colleges were males. As a result, most education institutes offer attractive discounts to UAE females. For instance, London Business School in Dubai offers 50% discount on its tuition fee for Emirati females who qualify to enroll in their programs. (London Business School, 2014)

3. 2020 vision for Education: The initiative includes balancing the number of genders in all fields of education and improvement of English syllabus to be the main language of education through all institutes across the country. (GulfNews, 2014)

Based on our own group survey conducted, the target group was asked if they were able to achieve their higher education degree personally, without governmental support.

Over 50% of the responses agree that they wouldn't be able to pursue their higher education goals, if the government hadn't provided the means for building quality and affordable educational options and providing full or partial scholarships. This resulted in more females being educated and able to join the workforce.

## Results - H1

According to the Journal published by Dubai School of leadership "The Role of Social Media in Arab Women Empowerment", below summarizes the view of Emirati and Saudi women with relation to social media which was based on a survey.

Based on the feedback received, it seems that Saudi Women are impacted by social media more than Emirati women with the exception of Political Empowerment. The survey generates the observations below:

1. 77% of Saudi women and 63% of Emirati women believe that Social Media has enabled Women to bring gender equality into the political landscape.
2. 79% of Saudi women and 68% of Emirati women believe it had played a role to improve and advance women rights.
3. 85% of Saudi women and 75% of Emirati women believe social media can empower women to be role models for social change.
4. 83% of Saudi women and 78% of Emirati women believe that Social media made civil participation in society easier.
5. 93% of Saudi women and 76% of Emirati women believe social media have helped their ability to communicate their opinions easier in public.

These results show us that Saudi women have gained advantage from social marketing mainly for the ability to have a more effective role in society. Looking at politics in the survey, Saudi women specially strive to be involved in decision making processes. It is believed social marketing has played a great role since the Saudi's king has asked for the Shoura council(3) to incorporate female members starting 2015 onwards where 30 out of the voted 150 members will be females. (CBC news, 2011)

Whereas in the UAE, as of today, four women hold ministerial positions, 18% of the elected FNC (Federal National Council) is comprised of women, with three female UAE ambassadors and four judges recently appointed. (UAEinteract, 2013)

Based on figure 3, we can observe a trend where 86% Saudi and Emirati females use internet for casual use (Surfing, Email, etc.) but a large increasing portion have been involved in expressing their personal opinions with regards to different topics most of which are heated topics, which before rise of social marketing, was difficult to express. It has boosted moral and confidence in women which reflected positively in productivity. In supporting hypothesis "H1a", it seems that women in Saudi and UAE found a safe platform to spread awareness of their struggles and challenges. As cultural and societal limitations decrease, social media is progressively playing a more important role to bring change, raise hope to women who have always felt as being secondary to male dominance in their own country.

There also seems to be hidden disadvantages for the use of social media for a society like KSA and UAE that opened to social media suddenly after women have been suppressed from active roles in society for decades. According to Gulf News, reports claim there are as much as 25,000 accounts in Saudi alone for promoting homosexuality and prostitution, mainly on twitter.

Weighing the positive and negative impacts of social media on women's confidence and productivity to their workforce, the hypothesis of social media's positive impacts in "H1a" outweighs the negative impacts represented in "H1b", while there seems to be little solid evidence that could possibly prove "H1b".

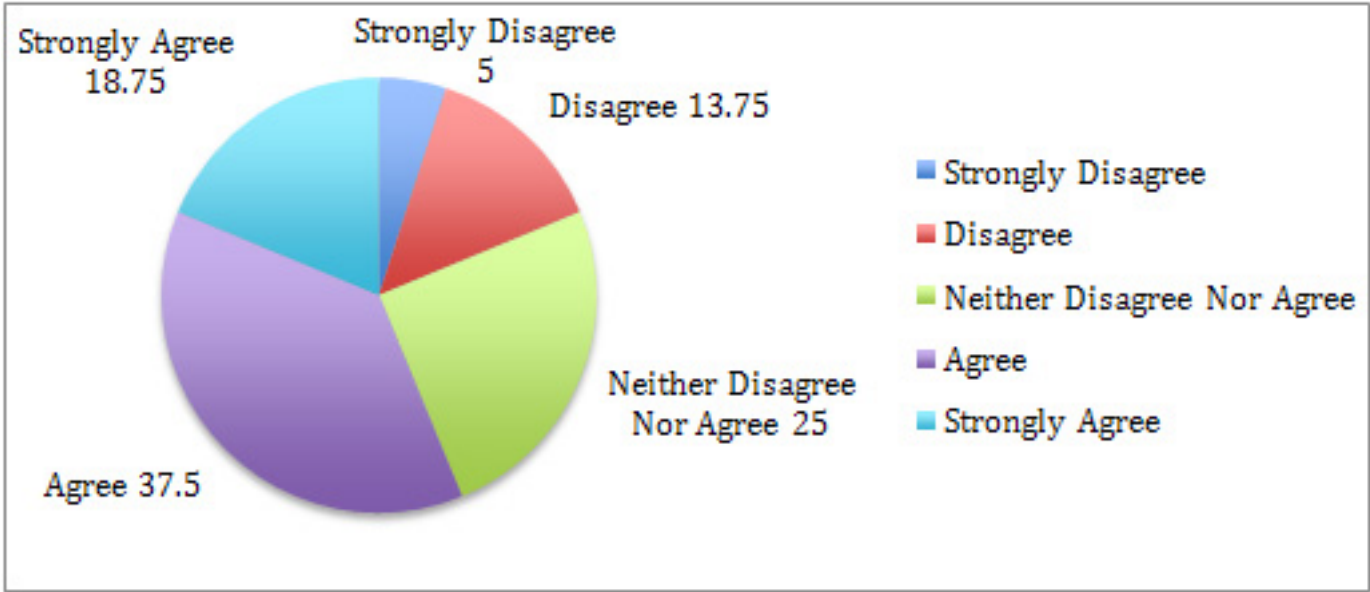
## Results - H2

Several connections between education and a productive workforce were observed in our research. These were; the need to be self-independent, the quality of education, the government's expenditure in education and the government's role in sponsorships.

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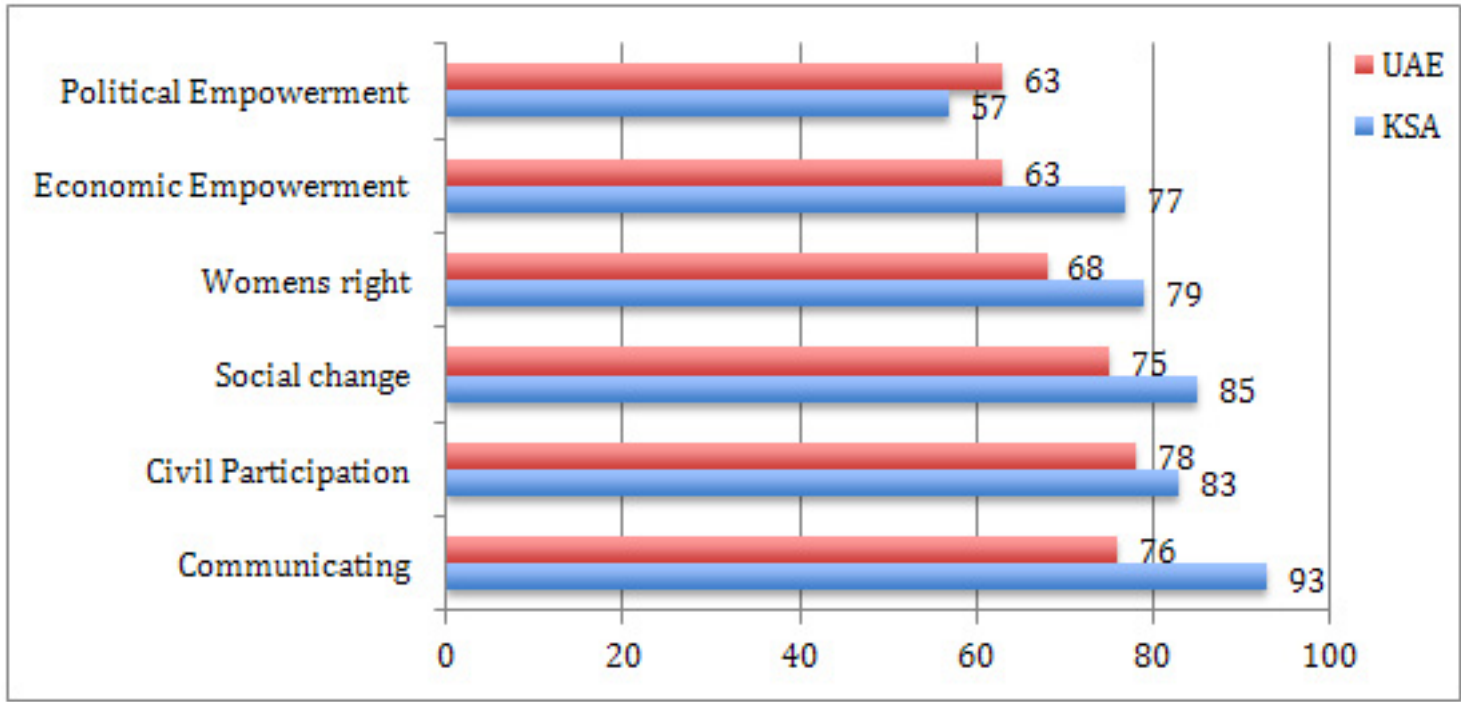
(3) Elected members in society which represent and voice public opinions to support and influence government decisions. Since 2006, women have been advisors to the council, not members yet. (Shura, 2014)

Figure 4: Percentages of women who give credit to their government for making education available to them.



(own survey)

Figure 5: "To what extent do you agree with the following statements regarding women and social media?"



(The Role of Social Media in Arab Women Empowerment, 2011)

**The need to be independent**

A big portion of Saudi and Emirati females are living marital challenges which raises awareness for women to work harder to be self dependent to afford life's rising living expenses (Arabian Business, 2010), as divorce rates reached 20% and 25% in the UAE and KSA respectively in 2009.

As Maslow's Hierarchy of Needs justifies, the "Physiological" and "safety" factors form necessities for any individuals needs. This generations of females feel the need to be independent in order to provide for themselves and in some cases their

children with shelter, increasing the willingness to pursue higher education for a better job, for their ultimate goal to have more independent lifestyles.

**Quality of education**

The quality of education females are receiving seems to have a reflection in the productivity of women in the workforce. There are many reasons that will support "H2a" aiding the hypothesis that education in UAE had contributed to a more effective workforce in regards to quality of education:

1. Unlike males, 70% of Emirati female students are educated by Emirati women while it has been proven in studies that instructors with the same background and gender as students tend to be able to raise students' interest for education. Male dropouts in the UAE form 10% of total students whereas just 2% of women have dropped out, which could be caused by the level of interest by students. (gulfnews, 2014)

2. In the recent years, many male students in UAE and KSA have been enrolled in low skilled jobs by police and military. To demonstrate, the UAE Army hired up to 56% of the entire Emirati Male graduates in 2009 (The Emirati Workforce report, 2009) giving females the opportunity to approach specialized and administrative jobs. Here, females have entered industries such as Media, Medicine, Dentistry, among others, which is helpful for the economy as the UAE and KSA are transforming into a knowledge based economy with increased dependency on white collar jobs (gulfnews, 2011). The growing ability of specialized Saudi females is evident. To illustrate by a unique example, the first GCC movie Oscar entry "Wadjda"<sup>(4)</sup> occurred in 2014 and was a heated debate for being produced by a Saudi young movie producer (Wadjda, 2013)

Based on our survey conducted to prepare this report, we asked females if they believed the quality of their education has helped them improve their work productivity at their workplace as figure 6 below shows:

#### Investing in Education

The different forms of initiatives analyzed in this report shows the multiple initiatives by both the Saudi and UAE govern-

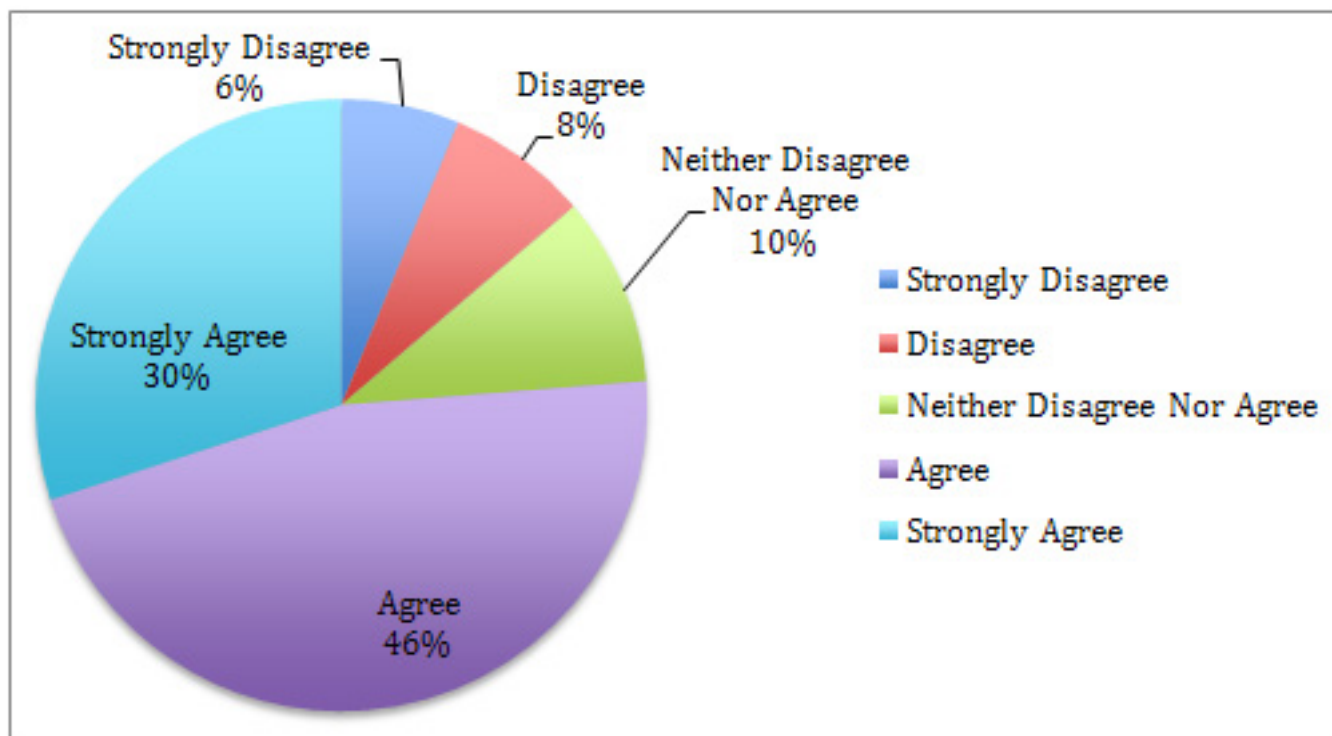
ments to invest in order to provide better quality of education, as the government realizes the requirement to invest reflects in a better performing female workforce.

According to a recent report by the UAE's national qualification authority, the UAE government spent 23% of its total expenditure in education in 1999 where the budget stayed constant at 23% a decade later in 2009, whereas in Saudi Arabia, the government had spent 26% of its total expenditure in 1999 opposed to 19% in 2009. However, comparing these statistics, the high Saudi governments expenditure in 1999 can be attributed to developing institutes and facilities for women education which were in shortage, whereas the investments by the UAE government was shared equally between male and females mainly since the facilities are shared by both genders since the formation of the country. However, the biggest portion of government expenditure for education remains to be in sponsorships (NQA Report, 2013) .

#### Sponsorships

As of 2014, 43% of the funded Saudi female students overseas with scholarships are women. As a result, we can expect the workforce in Saudi to radically change soon in terms of quantity and quality - the figure used to be 15% in 2005 when the funding first started (Hausheer, 2014). Therefore, although only 15% of workforce are women, it seemed that these figures prove that the percentage is about to increase as the graduates return home. The U.S Department of commerce predicted in 2011 that \$22.7 billion of their economy is generated from Saudi student enrollment (Hausheer, 2014).

**Figure 6: Survey results on "Quality of education has provided Emirati and Saudi women with the right tools to be more productive at our jobs"**



The above chart symbolizes a strong correlation that supports "H2a" showing that education provided one of the direct reasons for UAE and Saudi women to perform better at their jobs.

(4) It was produced by a Saudi producer and revolved around the life, suppression, and challenges of a typical young Saudi girl. (Wadjda, 2013)

It seems that women in UAE and Saudi both have reached positions in the government and convinced officials for further expenditure in education supporting hypothesis "H2a". In the UAE, the female population have been sustainably joining the workforce with the same expectations throughout time, providing a balanced workforce among genders and among females in terms of general work perception and even in women's roles in society and their strong inner belief and in their place in society which all contributed to a more productive female workforce. Whereas in Saudi Arabia, this report seems to show that Saudi's growing female workforce can be labeled as two groups: the conservative pro Saudi ideology group, and the more modernized Generation Y females, which both contribute to productivity but can create a cultural war in the long run.

## Conclusion

While appreciating that so much has been done in both KSA and UAE to increase the contribution of females in the workforce, driven by the government's belief of the vital role women can play in the economy, further success will require more robust efforts. Sharing almost a common ground in the religious, social, traditional and economic challenges, the achievements of integrating women in the labor workforce in both countries is worth acknowledgement, however, major educational and legislative reforms in KSA are needed to sustain growth and catch up with the figures the UAE has achieved (17% vs 42%) (Saudi Arabian Monetary Agency, 2009).

While we appreciate the employment of women offers more than a steady income as this research suggests, it is rather an expression of modern lifestyle in which women in the region are to prove, and a new mode of expressing opinions and maturing in society as a valuable contributor to society to equate to the role of males. It can also be safely assumed, comparative to world average that high income in both countries could be a catalyst for low productivity of women workforce, as they tend to be financially stable and are not in need of additional income. A researcher needs to be careful in comparing the status of both countries to the developed world as the socio-economic and time factors will not offer a justifiable comparison, as the highest GCC achievement in terms of women enrollment in the workforce is Kuwait (51%) which is still at least 20% behind the average in the west. (Saudi Arabian Monetary Agency, 2009)

The increasing spread of contribution to the different social media platforms in both countries offered channels of promoting knowledge that assisted in increasing the contribution of women in the work force. The proposition that women's success in the workforce can be attributed to the government support and rise of social marketing in the region are both positive propositions as proved.

The particularity of the GCC communities in the way women workforce is seen, has seen dramatic changes in the last 40 years. However yet to allow women to have the right to drive cars in KSA, the fact that a female pilot can fly a fighter plane

and lead a team of male fighters in a warfare action did happen in UAE and made the world headlines in 2014 (CNN, 2014). Change is imminent and the current gap between female and male workforce in both countries will continue to diminish at a higher rate considering the facts included in the context of this research as a result of a growing, sustainable female nation.

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# Customer progression and perception about premium men's apparel brands: A case of Indian male professionals

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## Abstract

A major challenge before companies today is to understand the hybrid behavior of the customer. On one side customers are becoming price sensitive for bargains and on the other they want to enjoy world class brands and luxury goods. Literature also shows that in recent time there is a considerably huge economic rise of disposable income within the middle class which is leading to consumption of branded products in masses. Today luxury brand have changed to affordable luxury brand and will change to premium brands in the near future. This study explores the variables influencing consumer progression and perception towards premium brands. This study also explores the relationship between demographics and the brand preference. To accomplish this task a questionnaire was prepared and a total of 190 respondents who have earned a professional degree like engineering or management or some higher educations like Ph.D were interviewed. We have considered those respondents who are employed in private or government sectors only. It was found that most consumers associated greater accessibility of premium brands in the Indian market with better quality, though at higher price as they evaluate them higher on quality, status and esteem. This paper tries to segment the market on the basis of different clusters and also tries to find factors affecting the perception of customers for the buying of apparel.

**Key words:** Customer perception, men's apparel brands, Indian professionals

## Introduction

With every passing year, intensity of competition is becoming fiercer due to globalization. Competition is rising not only in differentiating one product and service from another but also in logistics, access to information and so on. Now-a-days customers are becoming more hybrid as they are not only better informed but also they have wider choices of less distinguishable products due to easy access to internet and online shopping trend. Across the world customers are aware of their increasing power due to which there is a sharp increase in customers' expectations from the companies in terms of their basket of offerings has been noticed. After New Economy Policy 1991, the Indian economy noticed a remarkable increase in the investment by MNC's which in turn increases the living standard of Indians, especially the middle class who have the highest marginal propensity to consume. Due to all this in India high end luxury, high value services, high information access and high technology are increasing. India is moving fast in each spectrum be it retail, services, real estate, hospitality on the consumer front or value added B2B services or even our capabilities in out sourcing at company front. All these have given a sharp increase in both income and mindset of the middle class income group, for them luxury is now a life style not only a fashion statement. Luxury items may be automobiles to clothing, accessories, perfumes, all are beating sales target in India.

## 2. Research Purpose

Now in India with the advent of MNC's and subsequent rise in white collar jobs, the apparel industry, especially in the men's segment, is increasing. The young generation, especially in management positions, are cognitively orienting towards brands and trying to find psychological identity by grooming personality and self concept. So in this paper we try to find the factors affecting perception for buying the premium brands and we also try to segment the market for branded apparels.

## 3. Literature Review

Alden, D.I., Steenkamp, J.B. and Batra, R., (1999), proposed, operationalized and tested a new construct, GCCP-Global Consumer Culture Position. This construct associates the brand with a widely understood and recognized set of symbols believed to constitute emerging global consumer culture. Holt, D.B., Quelech, J.A., and Taylor, E.L. (2004) argued that global branding should not be interpreted as a call to rid traditional brands of their national brands of their national heritage, the two reasons. Firstly, while globalness has become a stronger quality signal than nation of origin, consumers still prefer brands that hail from countries that are considered to have particular expertise : Switzerland in chocolates, Italy for clothing, France in cosmetic, Germany in cars, Japan in electronics, for example.

More important, consumers expect global brands to tell their myths from the particular places that are associated with the brand. For Nestle to spin a credible myth about food, the myth must be set in the Swiss mountains, because that is where people imagine the brand hails from. As per Holt, D.B.(1995) there are four types of consuming as experience -- subjective, emotional reactions to consumption objects, consuming as integration -- consumer's acquire and manipulate object meanings, consuming as classification -- consumed objects are used to classify consumers, consuming as play -- how consumption objects are used to play.

It is impossible to predict the culture profile from the income position and vice versa. There is an influence of income and culture over the consumption of luxury products. Income induces consumers to acquire luxury goods. The penetration of luxury goods is at a maximum between the "wealth on trend" (Doubois B and Duquesne, P (1993). (Cesare Amatulli, Gianluigi Guido, 2010) Consumers buy luxury fashion goods mainly to match their lifestyle, thus satisfying their inner drives. The hierarchical value map resulting from the data collection and elaboration demonstrates that self-confidence and self-fulfillment are the main hidden final values when buying and consuming luxury goods. Implications for marketers are related to tailoring products, brand values and communication messages to the subjective, self-rewarding and "internalized" consumption sought after by consumers. In their analysis Eng Tech-Young, Bogaert Julie (2010) suggest that luxury consumption conveys certain identity through matching symbolic meaning of luxury and consumption. This identity is concerned with personal values of wealth, status and socio economic success derived from luxury consumption. In this regard consumers' perceptions of luxury are susceptible to the reference group. In turn, reference groups influence predilection for luxury as part of extended self, but with perceived uniqueness from combining traditional Indian styles with the possession of western luxury products. In their result results Zhongqi Jin and Bal Chan-sarkar, N.M. Kondap, (2006) demonstrated that most consumers can recognize the brand origin correctly but the power of recognition decreases when the brand has a long history of "localization." Distinguished trajectories of consumer perceptions' of foreign brands and domestic brands were projected, and this allowed one to extend existing country of origin (CO) research to brand of origin research. In their research Mandel, N., Petrova, P.K. and Craldini, R.B.(2006) provides a necessary examination of how consumers' purchasing habits are influenced by comparisons with individuals who are wealthier and more successful than themselves. The consumption of luxury goods involves purchasing a product that represents value to both the individual and their reference group. Referring to personal and interpersonal oriented perceptions of luxury, it is expected that different sets of consumers would have different perceptions of the luxury value for the same brands, and that the overall luxury value of a brand would integrate these perceptions from different perspectives. Even if the overall luxury value level of a certain product or brand may be perceived equally across national borders, a differentiated measurement may reveal that the overall luxury value perception is a combination of different evaluations with regard to the sub-dimensions. Furthermore, this differentiated perception of luxury

value may be dependent on the cultural context and the people concerned (Wiedmann, K.P., Hennigs N, Siebils A, 2007).

## 4. Research Methodology

### Objectives:

The main objectives of the study are:

1. To evaluate the customer's perception towards the purchase of premium segment apparels.
2. To know whether the demographic variables of respondent have influence on selecting a premium brand.
3. To know the important variables that influences the respondents in purchasing a premium apparel brands.

### Types of Research Methods Used

**Phase 1:** Premium segments are relatively new in India. Luxury brand from a recent past are considered as premium brands today. There is little empirical evidence to help marketers fully understand what constitute progression and perception towards these brands. Therefore, the imperative of the exploratory study is to gain much needed background of information pertaining to customer perception towards premium apparel brands. This exploratory study helped us in descriptive research by developing the scales for the survey instruments.

**Phase 2:** The purpose of the descriptive research is to evaluate the customer perception towards premium brands, to know the important variable that influences the respondent in purchasing a premium apparel brand and influence of demographic behavior. For this we have used the followings:

#### • Factor Analysis

#### • Cluster Analysis

These are used to analyse and evaluate customer progression and perception towards premium brands.

### Sampling:

As our research is mainly for the men's section, they are also those at management level positions and those who have earned some higher degree and are coming into high income brackets, we have used convenient sampling. While doing the pilot study we came across one problem in our demographic segment of questionnaire. We asked the respondents about their qualifications and we gave them options like engineering, management study or some higher study like PhD. In our pilot study of 10 respondents there was one respondent who had done his engineering after that MBA and also PhD. So to avoid confusing we have considered only the higher education of the respondents. So in the initial stage of conducting the research we took the sample size of 300 respondents in order to collect relevant data and all participants were made aware of research intention and design by an introduction. As time was limited for the study, out of 300 distributed we got 192 fully filled questionnaires and out of 192 for the convenience of research we discarded 2 questionnaires. So this study was done with 190 respondents.

## 5. Discussion on results

### Demographic segmentation of respondents:

As our survey was related to men's apparel all our respondents were men only, but we had to be very careful in choosing the sample. Almost 66% of respondents are from age group 25 to 35 and the rest, 34 % are 35 years and above. Out of 190 respondents almost 56% of respondents have done a Masters in management, and then almost 36% of respondents' highest qualification was engineering. In the income group almost 45% of respondents were in income group 50000-70000 INR and almost 38% for income group 30000- 50000 INR and 17% were above 70000 INR. Almost 76% of respondents were in private jobs and the rest in government jobs.

**Table 1: Demographic Characteristics of Respondents**

Reno.	Characteristics	Category	Frequency	%
1	Age	25-30	62	32.63
		31-35	64	33.68
		36-40	48	25.26
		40 and above	16	8.42
2	Education	Engineering	69	36.31
		Master in Management	106	55.78
		Higher degree (PhD)	15	7.89
3	Income	30000-50000	72	37.89
		50000-70000	86	45.26
		70000 and above	32	16.84
4	Job	Government Job	46	24.21
		Private Job	144	75.78

### Factor Analysis to identify important factors:

Factor analysis attends to identify underlying variables or factors that explain the pattern of correlation within a set of observed variables. Factor analysis is often used in data reduction, by identifying a smaller number of factors which explains most of the variant observed in a much larger number of variables.

### Sample Adequacy

A set of fourteen variables are considered to be important to know the customer shopping behavior for premium apparel brands. These were subjected to principal component analysis, using varimax rotation with Kaiser Normalization in order to reduce the multiplicity of variable into selected factor. First of all, let us observe the values of Bartlett's Test of sphericity and Kaiser-Meyor-Olkin(KMO) measure of sampling adequacy.

**Table 2: KMO and Bartlett's Test**

<b>KMO and Bartlett's Test</b>		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.725
Bartlett's Test of Sphericity	Approx. Chi-Square	411.502
	df	66
	Sig.	.000

As depicted in Table 2 the KMO measure of sampling adequacy for this sample was 0.725, which is greater than 0.5 and suggests that data is adequate for factor analysis.

#### Interpretation of factors:

After this, factor analysis using Varimax rotation and Kaiser Normalization was conducted. As a result, four factors were obtained. A rotated component matrix along with factor is given in the table below:

**Table 3: Rotated Component Matrix**

<b>Rotated Component Matrix<sup>a</sup></b>				
	Component			
	1	2	3	4
I usually buy only the sets of clothing I need	.073	-.040	.006	.954
I like a lot of luxury in my life	.187	.656	-.224	-.256
I find shopping for fashion clothing stimulating	.436	.718	-.259	.068
Shopping for fashion clothing makes me feel like I am in my own universe	.719	.426	-.240	.096
I go shopping for fashion clothing to feel good	.761	.240	-.307	.079
Shopping for branded clothes is a best treat to myself	.800	.082	-.120	.064
I shop for branded clothes during sale and discounts	-.189	-.367	.616	.239
I go shopping for fashion clothes with my friends/family	.056	.185	.887	-.095
I go shopping to keep up with the trends	.367	.571	-.059	-.179
An important part of my life and activities is "dressing smartly"	-.132	.870	.118	.153
I prefer fashion over comfort	.208	.382	-.590	-.008
"Made in" label (country of origin) affect my purchase decision	.672	-.030	.276	-.149
Extraction Method: Principal Component Analysis.				
Rotation Method: Varimax with Kaiser Normalization.				
a. Rotation converged in 6 iterations.				

### Factor C1: Shopping Stimulus

As shown in Table 4, all loadings of item in factor C1 are significantly high. Four variables with positive loading are extracted in factor C 1. The positive loading indicates that these four variables share most of their variances between them and thereby co-vary with each other. This factor exhibits that the customer finds shopping very stimulating, which gives them a very happy feeling and is a treat to them. In addition to this, respondents prefer fashion over comfort and dressing smartly is an important activity in their life.

**Table 4: Factor loadings of Factor 1**

Item	Statement	Factor loading
Item 1	Shopping for fashion clothing makes me feel like I am in my own universe	.719
Item 2	I go shopping for fashion clothing to feel good.	.761
Item 3	Shopping for branded clothes is a best treat to myself	.800
Item 4	"made in" labels (country of origin) affects my purchase decision	.672

### Factor C2: Brand Pullers

As depicted in Table 5, high positive loading has been observed on some variables. This variable shows that customers give importance to their self-actualization and Self-esteem needs.

**Table 5: Factor loadings of Factor 2**

Item	Statement	Factor loading
Item 1	I like a lot of luxury in my life	.656
Item 2	I find shopping for fashion clothing stimulating	.718
Item 3	I go shopping to keep up with the trends	.571
Item 4	an important part of my life and activities is "dressing smartly"	.870

### Factor C3: Shopping Delight

As depicted in Table 6, high positive loading have been observed on the variable - Buying branded clothes give me a lot of pleasure. This variable shows that customers give importance to brands they buy which in return give them pleasure

**Table 6: Factor loadings of Factor 3**

Item	Statement	Factor loading
Item 1	I shop for branded clothes during sale and discounts	.616
Item 2	I go shopping for fashion clothes with my friends/family	.887
Item 3	I prefer fashion over comfort	-0.570

### Factor C4: Self satisfied buyers

As depicted in Table 7, high positive loading have been observed on the variable- They enjoy the clothes what they have and are very satisfied with what they possess. This variable shows that respondents hesitate to spend money on premium brands.

**Table 7: Factor loadings of Factor 4**

Item	Statement	Factor loading
Item 1	I usually buy only the sets of clothing I need	.954

## Cluster Analysis for market segmentation:

Factor analysis, multidimensional scaling and cluster analysis all are interdependence techniques and no distinction between dependent and independent variables is made. Both factor analysis and cluster analysis are data reduction techniques but the major difference is that factor analysis is done by grouping variables where as cluster analysis is by reducing observations in a smaller number of observations. So in order to identify the market segment for different apparel brands by grouping them in same cluster we have performed cluster analysis by using (K means) in Table 8.

**Table 8: Cluster Analysis (K Means)**

Number of cases in each clusters		
Clusters	1	75
	2	48
	3	67
	Valid	190
	Missing	00

### Interpretation of Cluster1: Premium Brands Diehards

On the basis of the opinion of the population towards the premium brands, people belonging to this group are highly influence by premium brands. They consider premium brands as durable and high quality. They strongly believe that premium brands reflect their personality and they do not mind paying a high price for them. They enjoy spending times in these stores as it offers them a good shopping environment. They believe that premium brands help them gain face.

**Profile:** Premium brands diehards are the customers with positive notions about a brand, and are loyal customers of these segments of apparels.

### Interpretation of Cluster 2: Non Fascinated Customer

On the basis of the opinion of the population towards premium brands, people belonging to this group agree with the fact that premium brands demonstrate success and social status. But this set of population believes premium brands do not help to gain face and are unbiased on the quality and durability of the products. They strongly believe that premium brands apparel is highly priced.

**Profile:** As the name suggests non fascinated customer are unenthusiastic about premium brands and do not show a very high interest in purchasing them.

### Interpretation of Cluster 3: Consumer on the Fence

On the basis of the preference and the choice of premium brands, the population of this set is in agreement that premium brands are durable and are of high quality. They do not strongly agree that premium brands reflect one's personality and social status but are giving consent to the statement. More emphasis should be given to this set of consumers as they are highly switchable and constitute the major chunk of the same population.

**Profile:** Consumers on the fence are highly switchable and can be turned to loyal customers if taken care off.

## 6. Finding and Conclusions

Indian consumer demonstrate unique purchasing behavior due to the diversity of the population, as we find all age groups, income groups and educational qualification people are using home made products to most branded products. It is very important to understand the perception in such a vast and growing market where the male population is also becoming more brand conscious and are constantly looking out for global premium brand as they give them a status, confidence and pleasure of shopping. Research shows consumers between the ages of 20-35 years have been the prime market for premium brands.

If we conclude the answer of the respondent, we can say that they perceived premium brands as quality products. This perception can often serve as a rationale for premium brands to charge high prices. Consumers also believe that these transnational companies compete by trying to develop new products and are very dynamic, always upgrading themselves with respect to the fashion and global trend.

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# Hazards to environmental health of Rawal watershed due to rapid urbanization and deforestation

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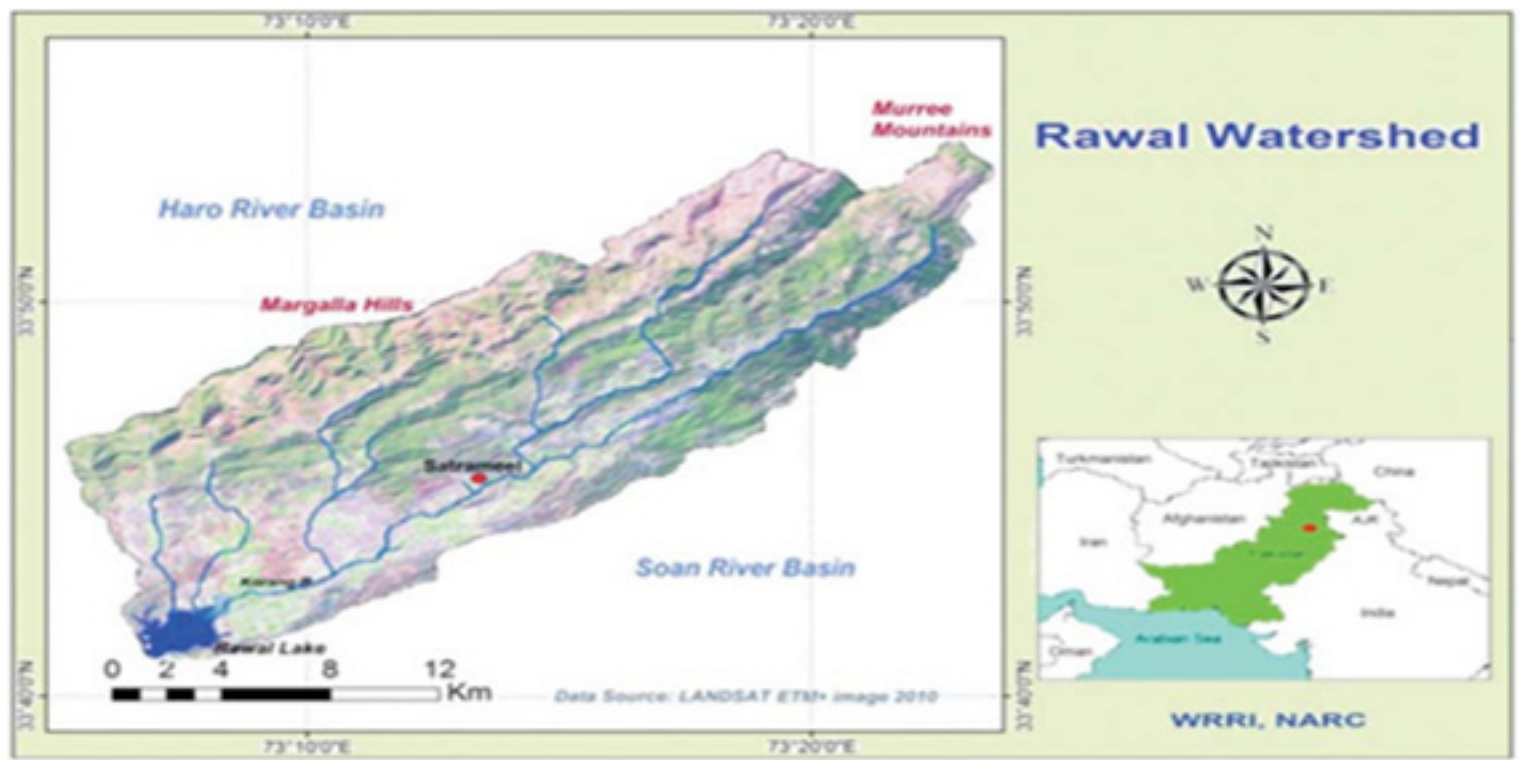
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**Figure 1: Location map of the study area**



(Source: Saeed et al., 2011)

## Introduction

The Rawal Dam Lake is an artificial reservoir that provides for the water needs of Rawalpindi and Islamabad. It was constructed in 1960. The area around the lake has been planted with flowering trees and laid out with gardens, picnic spots, and secluded paths. The terraced garden and the lake are used for picnics, fishing and boating. The highest point in the garden offers a panoramic view of the lake, Murree hills, Rawalpindi and Islamabad. It is a good place for bird watching, as the majority of birds of Islamabad are found here. Boating, sailing, water skating and diving facilities have been organized by private clubs.

## Importance of Rawal lake

Rawal watershed is Rawalpindi's main source of water supply (Figure 1). It generates almost 33,995 hectares feet of water in an average rainfall/year and 83 million liters/day to fulfill drinking and other household needs (IUCN, 2005). It also provides water for irrigation to the downstream areas.

## Biodiversity of Rawal lake:

The reservoir is of considerable importance for wintering waterfowl, especially *Anas platyrhynchos*. Resident mammals include the common fox, pangolin, porcupine, jungle cat, jackal, wild bear and yellow-throated marten. Reptiles include Indian Cobra and Russell's Viper. There are 15 fish species belonging to 11 genera in Rawal Lake. The fish species in Rawal lake and its tributaries include: Doula (*Channa channa*), Rahu (*Labeorohita*), Thaila (*Catla catla*), Mori (*Cirrhinus mrigala*), Carp fish (*Cyprinus carpio*) and Talapia (*Tilapia mossambica*).

## Hazards to environmental health of Rawal watershed:

Certain natural and anthropogenic factors are contributing to the rapidly declining health of this watershed, as well as spatial and temporal land use shift being observed in it (Aftab, 2010). These changes undergone by the watershed have not only altered the environmental conditions significantly but also have considerable impacts on several socio-economic factors. The connected environmental changes are resulting in accelerated land degradation, deforestation, and landslides (Saeed et al, 2011).

These changes ultimately influence the livelihood of the inhabitants of the area. The rate of deposition of untreated household and municipal waste into the streams increases as the number of settlements in and around the watersheds' area increase, because these streams ultimately end up in the catchment area. As the watershed supplies water to over a dozen small and large communities, all of these are likely to be affected by the dumping of waste. Along with municipal waste, spoils of road construction are also dumped along the water channels in many areas (IUCN, 2005; Butt, 2013).

The activities like illegal and intensive cuttings for high market value (timber) and household use (fuel wood), forest disease and ineffective forest management etc. are accelerating

the deforestation rate in the watershed area. This leads to the reduction of water holding capacity of the soil (thus promoting erosion), destruction of aquatic habitat and a reduction of water quality. The removal of a forest cover from steep slopes further leads to dramatically increased frequency of land sliding and surface runoff (Ashraf, 2013).

The number of farmlands and pasturelands in the watershed area has increased over a period of time due to easy accessibility of water leading to extensive cattle grazing and fuel wood cutting. These activities have deformed the plants to bushes. The watershed is further facing toxic pollution due to excessive use of pesticides and herbicides in agriculture. Furthermore the agricultural pollutants such as sediments, pesticides and fertilizers residue, grease, oils, bacteria and solvents that are carried to the water via runoff result in elevated levels of suspended solids, phosphorus and nitrogen, heavy metals and synthetic organic chemicals (bio-accumulative and toxic in nature) in the receiving waters. Studies conducted on water quality of Rawal lake/watershed reveal elevated levels of faecal coliforms and other contaminants leading to degradation of public health in the surrounding areas (Ghumman, 2010).

Many recreational pursuits e.g. Lake view point, Chatter and Valley parks etc. and housing schemes have been developed in the watershed. The construction of roads, pavements and other structures reduce the infiltration area that ultimately affects the recharging of the aquifer of the twin cities. Due to increasing sedimentation generated from natural and anthropogenic factors in the catchment area of the watershed, the storage capacity of the Lake is reduced almost 34 percent since it was developed in 1960 (which was 47,230 acre-ft) (Ashraf, 2013).

## Conclusion

Recent land use/land cover changes have brought substantial impacts on sedimentation, water flows and threat to eco-hydrology of the watershed area. The rapid and unplanned urban development has increased the demand for land for development purposes. Additionally intensive agricultural practices are contributing significantly to soil erosion, toxic pollution and consequently forest and water resources are coming under enormous pressure. The rise in global warming accompanied with high variability in precipitation further projects extreme changes in water balance and ultimately deterioration of the land quality. This increase in agriculture and built-up areas in the valleys has reduced the recharge source of ground water and increased sedimentation has led to reduced storage capacity.

## How to address this situation :

1. Groundwater recharge source needs to be protected through controlling unplanned growth of urbanization as it is essential to regulate the urban development properly.
2. Affordable substitute-fuels should be made available for household use.
3. A community based extensive reforestation program should be undertaken to improve the fragile eco-system of the region

**4.** An integrated adaptation strategy at national and regional levels needs to be developed to cope with future implications of hydrological changes through focusing on key policy areas.

**5.** Campaigns should be initiated for improvement of adaptive capacities of the communities at risk.

**6.** Existing knowledge and data gaps need to be filled by systematic observations and enhanced capacities for research since these will be fundamental for developing climate change adaptation and mitigation programs for the watershed in future.

**7.** The poor water quality of Rawal Lake can be effectively rectified by appropriate implementation of environmental legislation, efficient lake environmental supervision and development of community based watershed management programs.

**8.** In the northwest corner of Rawal Lake establishment of a strict nature reserve could provide disturbance-free areas for waterfowl (Butt, 2013). It will also provide an ideal opportunity for the development of a nature reserve and conservation education centre with sophisticated facilities for the general public (DES, 2011).

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# How to select a relevant journal to submit and publish your manuscript

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## Abstract

For young scientists and sometimes for seasoned ones it can be very difficult to find the best possible journal to submit their manuscript to. It is evident that finding the most relevant and suitable journal for submitting an article would greatly increase the likelihood of its publication. The aim of the present article is to provide some practical advice on how to select a relevant journal to submit to and publish a manuscript.

**Key words:** Manuscript publication, journal selection

## Introduction

For young scientists and sometimes for seasoned ones it can be very difficult to find the best possible journal to submit their manuscript to. Whilst it is evident that finding the most relevant and suitable journal for submitting an article would greatly increase the likelihood of its publication, in this article I will try to provide the readers with some practical advice on how to select a relevant journal to submit your manuscript to.

## Practical advice

1. The best possible way to find a relevant journal for submission of your latest manuscript is by looking at your list of references. Remember that you have used previous literature to write different parts of your manuscript including Introduction, Discussion and even Methods. Therefore, by looking at your list of references you should be able to identify some relevant and suitable journals and arrange them in a list.

2. At this stage you should select the first best possible choice from your list. Bear in mind that choosing a journal from your list depends on a number of issues. However, three most important issues that you should consider include: A. the name of which journals are repeated more in your references. B. what are the impact factors and/or the H Index of those journals? and C. what is the level of your manuscript?

3. Putting all three previous points together implies that you should shortlist your potential target journals based on their scopes, their impact factors and/or the H Index and the quality of your manuscript. As a result you should be able to choose the first best possible target journal which has published similar articles to your manuscript and that better matches the level and quality of your manuscript. What I would like to communicate is that never submit your manuscript to a high prestigious journal unless it deserves it, otherwise you should prepare yourself for receiving a fast rejection notice.

4. As soon as you find the first best possible target journal through taking the previous steps, read its instructions for authors very carefully. Evidence suggests one of the most important reasons behind the rejection of a manuscript is that the author(s) did not follow and comply with the instructions for authors.

5. If you follow the previous steps carefully you might rarely receive a fast rejection notice. However, you should also not expect to receive a fast acceptance letter either. In reality you might receive a minor or major revision letter.

6. Receiving a revision letter by no means guarantees the publication of your manuscript. Therefore, you should cautiously follow the comments of editors and/or reviewers to revise your manuscript. You should also prepare a letter to highlight how the comments have been incorporated into your manuscript. Never ignore any comments. You should tell the editor why you have found that a comment is not relevant.

7. Submit your revised version plus your letter to your target journal and wait for a reply. In such a situation and if you follow the previous step carefully you might receive an acceptance letter in due course. However, having a second revision letter or even a rejection letter could also be possible.

8. In the case of having a second revision letter follow step six accordingly. Nevertheless, if you receive a rejection letter do not be disappointed. Remember that many published articles have a history of rejection. Therefore, under such circumstances get back to your shortlist of potential target journals and select the second most relevant journal.

9. Think very watchfully on why the first journal has rejected your manuscript and revise it accordingly. Then follow the step four and submit your manuscript to the newly selected journal. If your manuscript has a new message which adds something new to existing knowledge be sure that it will finally be published.

## Conclusion

Finding the best possible journal to submit a manuscript to will greatly increase the likelihood of its publication. In this article nine practical points have been provided which would help to select a relevant journal to submit and publish a manuscript.

## Further reading

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# Information Security Aligned To Enterprise Management

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## **Introduction**

Nowadays, the important of information security in enterprise environment has a huge impact. Information security has become more crucial by most organizations for risk mitigation action. The activity of protecting business must be the first and foremost of achievement in any security program. This view has been supported by the security profession, security approaches and government processes used. The information security vocation grew out of the review profession, compliance and regulatory groups, and public security agencies, which has the profession as the risk-centric of security. Due to some issues several enterprises have not made it a core competency. This is because the limitation of organization must open the realization for some organization as to the importance of their security in order to achieve business goals as vital and actively engage business stakeholders in the security issue. As a result it has become an untied program, sluggish and largely unsuccessful. Therefore, there are many organization that need to struggle to accomplish a crucial alignment. Aligning security programs with an enterprise needs a sturdy understanding of the technical area like how the diverse computing technologies are positioned across the enterprise and their business significance, in addition, as to how the specific protection supports precise business strategy objectives. Accordingly, it has a new approach to security governance which can make the transformation from information security risk function to a business aligned competence and help to see how security is viewed and subsidized within the enterprise. The effort to enhance focus on a business aligned approach will uplift security from a purely mitigation action to a tactical business enabler for the enterprise.

## **Abstract**

This paper illustrates business aligned security approach as a key element of an enterprises's overall business strategy. Business information security is a crucial concern in enterprise management for risk handling operation. The modern era of technology security for businesses is increasingly recognized especially in business strategies. Disconnection of information security procedures and commercial strategic business objectives effects to control security spending and their risk, incidents and losses. Operational enterprise system requires aligning security practices through embedding information security risk management into the organization, however it faces major challenges to support and enable the business. Alignment security in business process is one of the biggest challenges in good organization as it needs support resources and time management and ways to align security to overcome business objectives. Thus, an information security management role is important as a guideline to execute Business Information Security. In addition, the systematic security management introduces a business model for critical information infrastructure protection. Organization design and strategy, people, process and technology are the elements of the model which play an effective role in information security but it requires a balance among them.

**Key words:** business aligned security, enterprises overall business strategy, business information security, information security risk management, information security management (ISM).

## **Project Background**

The nature of business information technology is at a crossroads. The pressure to enforce good corporate governance, secure sensitive information and meet compliance mandates would seem to demand ever-tighter controls. On the other hand, the need to respond to new business opportunities, to collaborate with a greater number of partners more closely, and the emergence of new technologies are placing unprecedented strain on existing security processes and practices. But main highlighting factor is to elevate security from a purely risk mitigation activity to a strategic business enabler for enterprise management system. The aim of the business aligned security approach is to shape a security strategy that supports and enhances the operational efficiencies of business. There is no single tactic or strategy that guarantees success in improving business alignment of security. It is mandatory to understand the business needs and leverage the security program to increase operational efficiency, safeguard users and information, make the most of return on technology investment and contain costs. Business aligned security helps to protect business from relevant threats and reduce risk, and

demonstrate a proactive posture to safeguard critical assets and elevate security from a tactical function to a strategic business enabler.

The enterprise system aligned secure business strategy may improve internal process efficiencies, raise service quality of enterprise management system and reduce enterprise operational risk threats. The business aligned security approach assists risk tolerance in the main crucial part of the enterprise system for instance business operations, reputations, information security and legal and regulatory risk. To successfully execute the business strategy, information security plays a key role in ensuring that strategic capabilities are securely planned, developed, and implemented. Strategic capabilities can include an enhanced collaboration capability, a virtual global office capability, or a cloud computing capability.

### Project Objective

This paper aims to understand why information security must be aligned with business strategy. Besides, this study is to illustrate information security as a platform for protecting information availability, integrity and privacy. So, it is crucial to study the elementary process and to identify the business aligned security strategy and technology used.

### Information Security Aligned To Enterprise Management

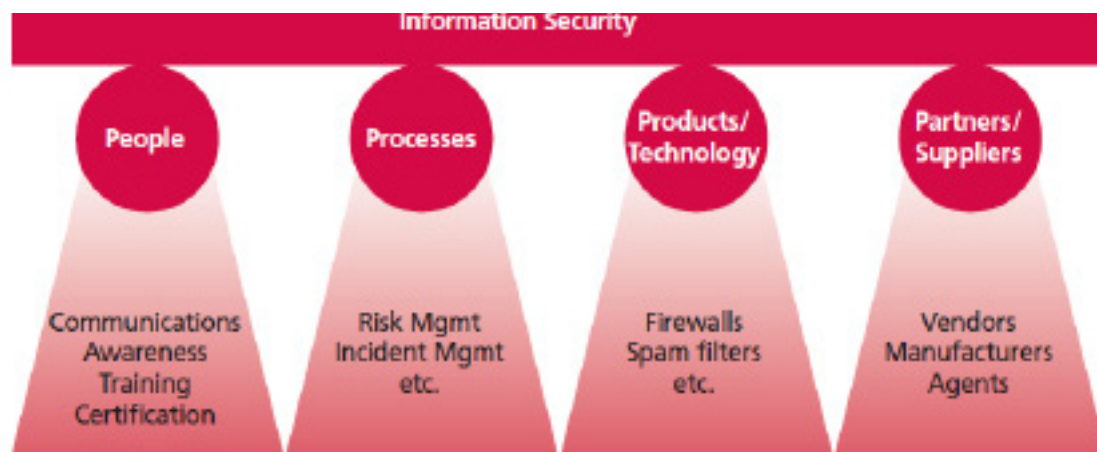
#### • The necessary of information security aligned with business strategy

Business Aligned Security to enterprise is using strategic activity to implement business strategy and capabilities in a secure manner. It is interesting to note that, most of the organization uses a risk centric approach to drive security activities and investment. Mostly, the risk could be occur through vulnerabilities, threat and related risks. Absolutely, The Business Aligned Security strategy produces improved outcomes compared to a risk-centric by using an approach. Cultivating the current set of mitigating controls that a risk-

centric method entails, focuses on an important purpose but it is an operational activity. The importance of the information technology is as a significant business function to achieve benefits to the business prospects and enable improvement of company performance to reduce costs, standardize processes, boost productivity, improve risk control mechanism, implement new business strategies and gain competitive advantage by exploiting new technology.

#### • Information security management approach

The best practice approach to utilize can have a major impact on how security is perceived by technology users. The advancement technology to protect t security from vulnerabilities, threats and related risk is using technology well to guide and manage IT services such as ITIL v3 and depends on how security controls are technically integrated with IT services. To do this, the growth of information technology is provides several critical conduits as business information is not to be compromised and business managers expect the IT department to achieve the new vulnerabilities created. However, there is a boundary to what protection the IT department can offer without the entire business approach -the best firewall in the world will not stop employees from sending critical data out of the organization. Therefore, the role of ISM (Information Security Management) is taking into consideration the support and management of business activities. For example, business analysis gives maintenance the information security risk analysis. A sound knowledge of the enterprise is essential to support the customization of the greatest exercise guidance in a suitable and effective execution that will 'take' in that particular environment, culture, business and organizational structure. Information Security Managers need to be conscious of the lifecycle of organizational information assets and future plans and business risk needs to be measured in order to certify the risks are evaluated and properly mitigated for every stage of the lifecycle. The more successfully it is done, the more likely the ISM function will be accepted as lawful for delivering value to the enterprise. In addition, the ISM policy and ISMS (Information Security Management System) should be developed to ensure the data is protected for all stages.



**Figure 1: Achieving effective Information Security Management through the four Ps**

(Clinch, 2009)

A useful perspective of ITIL's four Ps of service design is shown to explain that the internal security risk may come readily to mind and it is likely to underestimate the security risk arising from organizational or personal information held, used or conveyed by partners. Conversely, the partners only as an entity in the value network, such as customers, as well as information accessed by partners on the organization on IT system must be safeguarded.

To reach a clear and effective set of ISM practices, an organization should follow these steps:

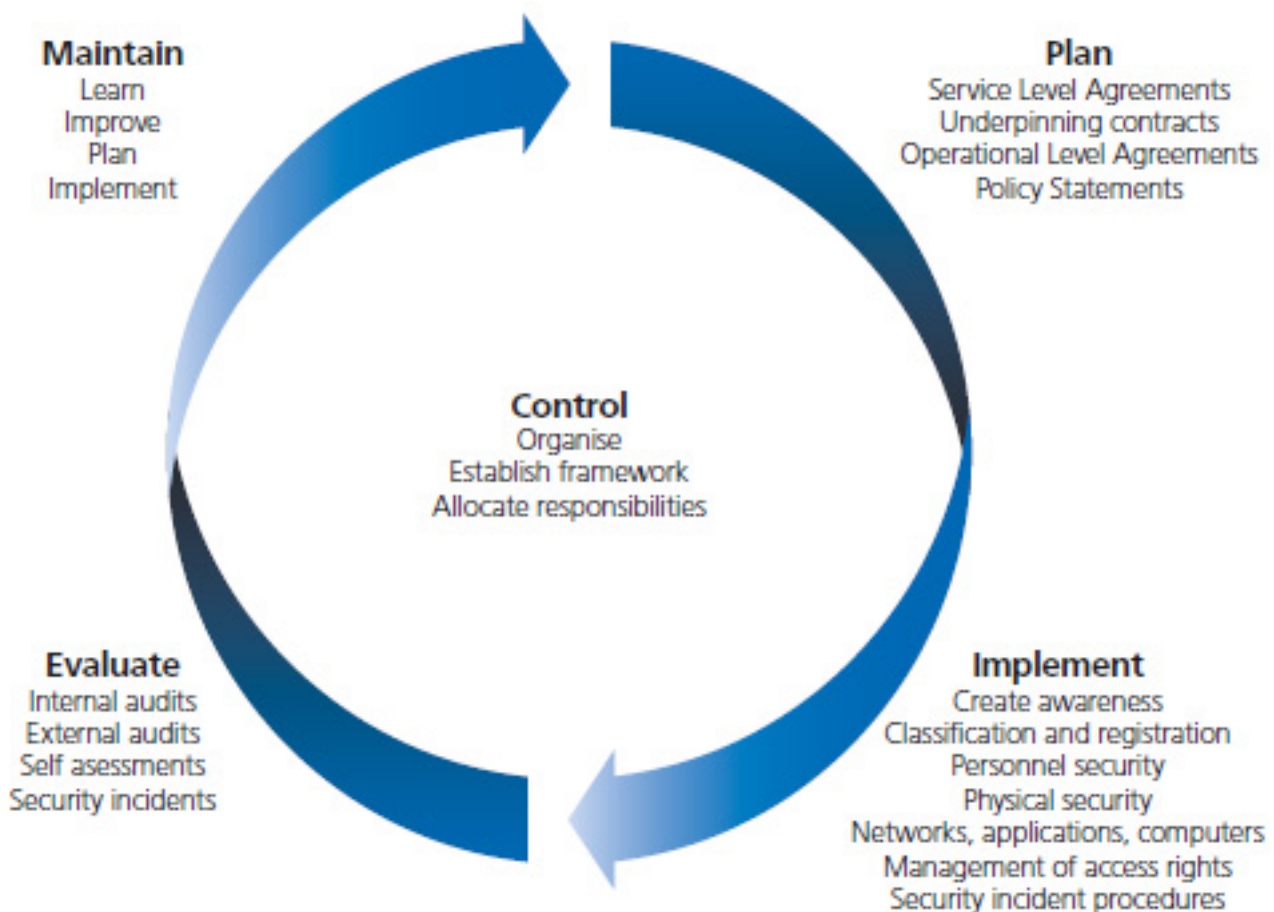
- Create, maintain, distribute and implement an Information Security Policy, supported by specific policies
- Recognize the business security policy and plans
- Understand current and future business security requirements
- Implement security controls that support the Information Security Policy and manage risks associated with access to services, information and systems
- Document all security controls and their operation, maintenance and associated risks
- Manage suppliers and contracts in respects of access to

systems and services, in conjunction with the supplier management function

- Manage all security breaches and occurrences
- Proactively improve security controls and security risk management
- Ensure security aspects are integrated into all other ITSM processes.

In order to improve the plan element, good service level in planned, better organization of the responsibilities, well evaluated and implemented. There is framework which provides five elements to ensure the creation of an effective ISM following the Plan-Do-Check-Act cycle. In this case, ITIL describes a cycle with the following steps: Control, P. The framework is shown below;

- Manage suppliers and contracts in respects of access to systems and services, in conjunction with the supplier management function
- Manage all security breaches and occurrences
- Proactively improve security controls and security risk management
- Ensure security aspects are integrated into all other ITSM processes.



(Clinch, ITIL V3 and Information Security, 2009)

- Chart the technology road map: priorities, time line, and optimize the change agenda.
- Plan the work program: translate the technology roadmap into business unit plans.
- Populate the distribution framework: the overall program of work for sending information technology to support business operation.
- Accomplish the business advantages: implement the delivery framework.

#### • The alignment process

- Recognize the type of business: classify the whole document for the business process either formally or informally to realize the both formal and informal and preferred outcome from several factors such as capturing, processing, storing and distributing information or data.
- Acknowledge the culture: evaluate the structure, attitude and nature of the organization.
- Identify the IT state: recognize all the IT assets, application and distribution channel, with a realistic understanding of the nature and culture in the organization.
- Realize the value chain: find and document the relationship or related points between the business and IT estate.
- Understand the context: Gather and collate intelligence about essential factors internal and external.

#### • Define the change agenda: examine the context, the business strategy and powerful factors, recognize impact and application for the IT estate.

#### • Advantages of a Business Aligned Security Strategy

- o Security strategy remarkably aligned with the business strategy
- o Adjoining alignment between funded corporate initiatives and security initiatives
- o Forward-looking security strategy
- o Fewer point solutions / more strategic security initiatives
- o Good explanation for finance security initiatives
- o The view of security is raised to being a strategic enabler

The crucial impact of aligning security and enterprise are essential to achieve success for organizations that employ technology. In addition, the company also should understand the nature of several challenges to address such as it must understand the current business operation like organizational culture, Knowledge of the IT estate resources as well as the value chain, Good awareness of future business context and influential factors and a clear vision as to where the organization is going and how to achieve the target and business goals.

## Literature Review

Information technology is a platform or method for supporting the organization in achieving its goals and objectives. However, the technology project may face potential failure to achieve its requirements or goals to influence the risk of business failure against threats. Thus, the implementation of business information security in enterprise management is an ideal method for operation success. "The main goal of information security (IS) is to secure the business against threats and ensure success in daily operations, and aid the businesses in reaching the desired level of reliability and productivity through ensuring integrity, availability and confidentiality". This means to keep information secure; information security is a platform for protecting information availability, integrity, and privacy. The article of "Business Aligned Security" by Don Elledge and Roin Nance (2009), discusses how information security works within the enterprise. They figure out the strategy of Business Aligned Security and risk-based strategies are not mutually exclusive. In managing overall risk profile, an organization has to continue in handling it but it is not confronting current business opportunities. In contrast, the security organization plays an important role to communicate the security value of business and its impact. To simplify, implement Business Aligned Security approach is interrelating the way an organization perform its business activities with information security.

According to "An Executive Field Manual" by Michael Fey, Brian Kenyon, Kevin Reardon, Bradon Rogers and Charles Ross (2012) to explain the strategic plan refers to required action that should be taken, and the impact and the process towards implementing the action. To simplify, it is an instrument for measuring and managing the direction to be in alignment towards the defined plan. To expound the Business Model for Information Security began life as a model for systemic security management. The model was created by Dr. Laree Kiely and Terry Benzel at the USC Marshall School of Business Institute for Critical Information Infrastructure Protection. There are four elements of the model. The first is Organization Design and Strategy. An organization refers to the interaction between an intercommunication of people, assets and processes to define roles and undertake a common goal. The goals to be accomplished are specified by the enterprise's strategy. Each part of the strategy is defined by the people as the second element of the model to implement it. Next to get things done, both formal and informal mechanisms process is included and provides a vital link to all of the dynamic interconnections. In implementing the operational part of the organization element, the strategy derives progressions to recognize, measure, manage and control risk, availability, integrity and confidentiality as well as to ensure accountability. To make processes more effective, the technology element is composed of all of the tools, applications and infrastructure. Technology has its own dynamic risks as it experiences frequent changes. Given the typical enterprise's dependence on technology, technology constitutes a core part of the enterprise's infrastructure and a critical component in accomplishing its mission.

The article "Managing for Enterprise Security" by Richard A. Caralli (2004) discusses misaligning business information security in an enterprise with strategic drivers bringing undesirable organization elasticity. This is a fundamental fact that having large resources not aimed at affording the organization's strategic drivers may not recover the organization's resiliency. The authors have come up with evidence their field work has witnessed continuous failure of organizations to report improvements in grasping or understanding clearly the security goals even as the organizations acquire and execute advance security technologies. For example, a new firewall device is introduced but still results in increase in risk assessment activity in organizations. The assessment of organizational risk as believed by many organizations, should be performed by IT personnel considering their responsibility for security. However, the authors express their disappointment on the observation with the CERT® Operationally Critical Threat, Asset, and Vulnerability Evaluation SM (OCTAVE®) method as they found out that the IT personnel who are among students participating in the OCTAVE training were unable to give final decisions on security requirement of their organizations' important assets unlike the owner of the asset which is the business personnel.

## Conclusion

The advancement of technology plays an effective role in enterprises to maintain profitable, as information security has become more of a business enabler than ever thought possible. The main goal of information security (IS) is to secure the business against threats and aid the businesses in reaching the desired level of reliability and productivity through ensuring integrity, availability and confidentiality. The business needs approaches have been identified as a holistic approach which examines the system as a complete functioning unit and the other approaches are to examine the whole organization. The specification of security requirement is to recognize organizations' requirement with respect to security. The effectiveness of business information security should be aligned with business strategy through a well defined element process. The strategy requires the process element to identify, measure, manage and handle risk, availability, integrity and privacy as well as to ensure accountability. Next, the technology element is composed of all the tools, applications and infrastructure for process efficiency.

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