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Review

The evolution of private label strategy: The Italian case

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This work, part of a broader research project on the role of store brand in the competitive development of Large Scale Distribution retailers, proposes an analysis of the current situation of commercial enterprises that implement complex strategies of store brand as a strategic leverage for marketing and synthesis of a corporate philosophy based on a real brand architecture. It aims to achieve increasing levels of competitive differentiation of a horizontal nature. Today, an increasing number of distributors transfer the knowledge and trust built over many years of activity, making it a private label for strategic decisions of the enterprise.

Key words: Store brand, retail marketing, MDD, differentiation, retail management, private label, retailer.

INTRODUCTION

The increasing tendency of some Large Scale Distribution retailers to transfer the assets of the trust and loyalty built up over the years on a private label elevating it to a strategic driver of competitive horizontal differentiation, originates from the evolution of the relationship between store, brand, and customer and from increase of the penetration rate of the store brand.

The implication of these assumptions guides the present contribution to the analysis of the marketing skills of the retailer that takes the declination of the store brand as the lynchpin of the differentiation strategy, with the aim of increasing the level of partnerships with selected suppliers to direct the choices of consumers and to strengthen the ability to generate added value in the trading system.

The first part of the work highlights, through a brief review of the relevant literature, the evolution of the concept of private label in recent decades. Then, on the base of the literature reviewed, it exposes the more intelligible data about the current state of the private label in Italy and the implications that these data have on companies adopting strategies of store branding. The impact of these decisions on the balance of the vertical chain and competition between retailers is high- lighted.

The limitations of the paper are related to a prevalent finding and describing structure of the current situation.

However, it is the source of a research project that will make benchmark between retailers and will analyze the degree of perception of value delivered by customers/consumers through questionnaires and interviews.

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THE DEVELOPMENT OF PRIVATE LABELS: LITERATURE REVIEW AND THEORETICAL IMPLICATIONS

Sharoff B., the president of PLMA (Private Label Manufacturers Association), underlines that the concept of private label is not a "new" concept and is even older than the industrial brands. In fact, more than two centuries ago, retailers developed awareness of the need to sell quality products, and they had to pack them with their name, in order to generate customer loyalty. For this reason, the first case of private label can be considered one of the names that the dealer puts on the card that physically packaged sugar, salt and other products.

The first examples of private labels, as we know it today, date back to some of the initiatives already taken place in the twenties in the United States, where it witnessed the start of a process of modernization in the industrial and commercial markets.

Since 1967, with the help of Myers, the international reference has shown increasing attention to the issue of the store brand, going gradually from one side to justify the increase of the market share developed by private label and the impact that the modern distribution has on upstream and downstream relationships and on the other the motivations that drive consumers to buy branded products distributor.

Myers, in particular, focuses on the relationship between disposable income and level of purchase of private label, resulting in a series of studies in the '70s and '80s investigated the socio-economic variables - *income, age, education, number of family members* - as determinants for purchase.

An important essay in respect of the key variables for the purchase of private label products was given by Bettman (1984); in particular, the author focuses on three aspects: the quality perceived by consumers in respect of private label products, the risk in terms of differential warranty with industrial brands, and familiarity that consumers attach to private label products.

Richardson (1996) summarizes in a single model the contributions previously developed in order to create a single model to interpret the needs and motivations of private label purchase, identifying different classes of variables that may encourage consumers to opt for the products of retailers.

For a long time the reference literature has identified the *"convenience"* as the key factor in the sales of private label: the competitiveness of the private label is mainly due to the low price which is offered to the market, since retailers typically take strategies to streamline production, packaging and communication costs (Cunningham et al., 1982; Baltras, 1997; Putsis and Dhar, 2001).

Therefore, from the point of view of demand, consumers tend to associate a poor quality or a quality still lower than the big industrial brands to low price

(Richardson et al., 1994; Sprott and Shimp, 2004). Through repositioning policies made by retailers, the consumer behaviour is gradually changing and tends more and more to recognize in private label, as well as price advantages, also benefits in terms of expansion of assortment and intensified promotional activity (Pauwels and Srinivasan, 2004).

In this regard, significant essays aimed to investigate the optimal level of private label products (Winningham, 1999; Apelbaum et al., 2003) and the factors that can convince the consumer to purchase it (Shimp Sprott, 2004; De Wulf et al, 2005), in order to the retailers better exploit the potential benefits of private label.

Contrary to what has been thought and said for a long time, Apelbaum et al. (2003) point out in their research work that it is necessary to propose a high level of quality, combined with a lower price than the large industrial brands, in order to increase the level of differentiation and competitiveness of retailers. Not-withstanding the importance of "convenience" to the end users, other authors analyze different tools to support the development of the private label. Among these Ceccacci (2013) stresses the importance of the development of the packaging in order to facilitate the communicative relationship between retailers and consumers, ensure the visibility of the product and improving brand recognition, with effects on the degree of vertical and horizontal differentiation. The packaging has a high communicative value and is an expression of the position chosen by the commercial (Cristini, 1994).

Sprott and Shimp (2004) stress the importance of in-store promotion - *especially the sampling*- to launch and consolidate the brand names, and compensate for the imbalance created by the advertising campaigns, which, for a long time, benefited only the industrial brands. The store itself, in recreational, emotional and social terms, has a strong motivation in encouraging the purchase by the final consumer, and greater interest in the products of the brand name (De Wulf et al., 2005).

In subsequent years, researchers start to give importance to other factors such as perception of promotional offers (Burton et al., 1998) and the role of product categories (Batra and Sinha, 1999). More recently, personality traits of consumers are taken into account and the different reactions to marketing stimuli resulting from them (Dalli and Romani, 2003), as well as ludic and hedonistic aspects related to consumption (Ailawadi et al., 2001).

In this regard, are important essays aimed at analyzing the relationship between the industrial and commercial brands: Quelch and Harding (1996) have a competitive perspective with regard to this report, pointing out that private labels can pose a serious threat to the 'manufacturing industry, due to several factors, including the strategic importance with the increasing quality of private label products; also the development of new

innovative channels - *mass merchandisers and warehouse Clubsable to launch new brands and new product categories potentially conquerable by retailers-* is likewise important.

Based on the growing success of private label brands in terms of market share, it is considered appropriate that the big companies put in place efficient strategies to engage the problem: the first of these is definitely the selling price, variable on which retailers are able to have a greater competitive advantage, because generally support lower cost, by contacting co-packer that need to dispose of excess production capacity, not incurring costs of advertising, can therefore offer the most competitive prices (Kotler, 1994). The progressive increase in the quality of private label products and the continued commitment of retailers to perceive the value of the products pose a serious threat to the major manufacturing industries.

Another area of strong competition is promotional, as commercial enterprises serving mainly the in-store promotions to increase sales of private label products and, consequently, the industrial brands tend to develop more and more such initiatives in order to compete directly and not to lose confidence on the part of consumers (Manzur et al., 2009). In contrast, the manufacturing industry maintains a communicative advantage through advertising, which remains a powerful tool for brand image and brand loyalty at the expense of business competition.

The tool of advertising, however, has a positive effect on the relationship between industry and distribution, with beneficial implications for both parties, as it may be practical to limit the entry of new competitors and to facilitate communication in the industrial distribution channel (Parker and Kim, 1997). In addition, the advertising differentiates a product from the competition, but at the same time draws attention to a specific category, generating indirect benefits on the store and on other brands and generating higher revenues upstream and downstream; so industrial and commercial enterprises have in common the process of co-packing: private label products, however, come from a manufacturing industry, with mutual benefits for the industry and the retailers (Dunne and Narasimhan, 1999) and with the ability to develop a cooperative viewpoint largest, towards forms of real co-marketing (Dioletta and Sansone, 2000).

In order to identify the characteristics of the markets in which it would be introduced private label distributor and the determinants of the different market shares achieved by different retailers in different categories, it may be made reference in search of Raju, Sethuraman and Dhar (1995). These authors show that the traditional idea why the store brand has more success in such price sensitive markets has to be revised, because in that way we can talk about two types of price competition, one between

industrial brands instead on brands as an alternative to commercial producers.

In this regard, Rubio and Yague (2009) propose a synthesis model of the determinants of the market share of the store brand, delineating between the macro-classes variables market structure, the demand characteristics, the financial objectives and competitive strategy.

Other factors affect the choice of the brand's distributor and can be classified in three dimensions: *size qualifying - intrinsic quality, value, safety* - size of consolidation - *perceived quality, diversity, ethics* - dimensions differentiating exclusive -*image, innovation, emotion-* (Cristini, 2014).

Many authors have also analyzed the benefits that the adoption of store branding strategies can bring to retailers. A number of studies have highlighted the contribution to the profitability of retailers and the effect on the relative distribution of power between retailers and producers (Meza, Sudhir, 2003; Harlam, 2004). Others have considered the contribution of the private label to differentiation of signs (Sudhir, Talukdar, 2004) and store loyalty (Corstjens Lal, 2000; Ailawadi et al., 2008).

The evolutionary dynamics of the determinants subject of research for a long time will inevitably have an impact on the very concept of store brands, generating the need to identify the different strategies implemented by commercial distributors as a result of socio-economic motivations changing, of purchase and consumer proposition used in competitive dynamics and, therefore, the different levels of variation of a private label: products that focus on price competition – generic private label and copycat brands - those that compete in terms of quality - premium brand - and ultimately representative products of value and of strategic positioning of the retailers - store brand - (Kumar and Steenkamp, 2007).

The strategic choice of store branding adopted is therefore affected by a combination of different factors - the positioning of the product - resulting in the value defined by the distributor - the integration of the levers of retail marketing and increased reliability and guarantees of quality of retailer's private label (Lugli, 2003; Cristini, 2006).

Confirming the development strategies of store branding, in January 2014 ADM showed the choice of words to replace the term Private Label by Brand Distributor (MDD), with the aim of emphasizing the real value of store brand product, and the ability to compete in this - *both from the point of view of both tangible characteristics in the image* - with the private label industry, in order to strengthen the competitive position of the retailer and to redesign the strategic balance in the supply chain.

The life cycle of private label

Since its origin, the store brand has evolved into several

stages that represent the historical and strategic phases of management of private labels by retailers; in particular the life cycle of the store brand is divided into four generations.

The first phase is characterized by policies of retailers that aim to increase margins and reduce the price competitiveness in the store, through generic brands, primarily in commodity products, focusing then on the lever of the price convenience offered to customers through space large enough but little care in the packaging and packaging.

Over time, the need of commercial enterprises to differentiate their offerings from competitors increases, they did not directly employ the image of the store, but they use brands of fantasy not related to retailers: the second generation of the life cycle of store brand is characterized by an expansion of both categories manned, and the number of products for each category. In general, from the point of view of quality, private label products are better than the first generation of store brand, but the main competitive edge is still the price.

The success and increasing market share of store brand begin to explain to retailers that the products of private label can have a more strategic role beyond that of a mere increase in margins and profit, by acting as a lever to vertical competition useful for increasing the bargaining power and reduce the market share of the big brands: we thus move to the third generation of private label, which provides a direct involvement of the retailers in the products offered and culminates with the using of retailer name. In this phase the quality of products increases, because of the direct involvement of the retailer, but the price is lower than the industrial market leader: this is one of the key success factors of private labels that leads retailers to expand the range of products and to introduce new segments.

At this stage of development of the private label it lacks specific marketing skills of retailers and a conscious branding strategy: for example, the packaging is still not very detailed and the price is not uniform in the various markets served. During the fourth step of private label evolution, retailers acquire marketing skills in order to manage their products as a real industrial brand.

At this stage companies use all the levers of the marketing mix to position and support the products, strategic planning is shared and effective, the quality of the products tends more than that of the market leader, the packaging is accurate in every detail, it also increases the use of advertising.

The knowledge attained by retailers is also evident inside the store, in which they take a lot of promotion –not just price promotion- and much shelf space is reserved for private label products, strategically positioned in the layout of the store: the brand name becomes as drivers of the development of the retailer and competitive differentiator for vertical and horizontal level.

EVOLUTIONARY TRENDS OF STORE BRAND IN ITALY: RESULTS AND DISCUSSION OF SECONDARY DATA ANALYSIS

In order to analyze the marketing skills of retailers and hypothesize possible future scenarios of store branding strategies, it is appropriate to briefly describe the current status of private label in Italy, through the analysis of the main data in this regard.

The general stagnation in consumption, in recent years, facilitates the penetration of private label products that have the name of the retailers: it is now customary to find private label products in the shopping cart of Italian consumer. The trend that for years has been recorded in other countries such as the UK, Spain or Germany, is now developing also in Italy (Symphony IRI): the report "Marca" by AdemLab shows that on average 93% of Italians buy at least one private label product.

Considering the channels Hypermarket and Super-market, the store brand has grown by 0.8% in value market share and now accounts for 18.4% of sales; unit market share grew by 0.5 to 22.4% (Symphony IRI, 2013).

Sales of the main retailers on the Italian market - *Conad, Coop, Esselunga, Carrefour* - *are* overseen by 60% from private label products, that means in terms of units, one out of four of sold products are by private label.

The obvious relevance of these data (Table 1) leads to investigate the reasons why the sales of private label grow despite the general decline in consumption, in 2012 they even managed to buck the trend of total food sales, which remained positive thanks to the development of store brand development (Symphony IRI). One of the main reasons is certainly due to the phenomenon of trading down -*which currently characterizes all categories of products*- and always looking for convenience of consumers, factors that undoubtedly promote private labels.

The increasing sensitivity of consumers to price leverage is an important variable, but it is not enough to justify the above trends, so it has to refer to the totality of what motivates Italian consumers to purchase store brand products. In 2013, the price gap between private label and industrial brand has even reduced: against the increasing of promotional pressure of industrial brands, there was a reduction in the percentage volume of private label discount from 16, 5% to 16.2%.

In Europe, the store brand is on average cheaper by 29.9% compared to the same industrial brand products, with the greater price difference in France and Germany and lowest in the Netherlands, Great Britain and Italy (Symphony IRI).

On the other hand, a growing number of investments by retailers aim to improve product quality and the consumer perception. This is done to expand market share and penetrate more segments; for example the

Table 1. Sales % change from 2006 to 2013 in Italy.

	2006	2013	%
Store brand	12,7	18,7	**+ 6**
Brand leader	29,3	25,5	**- 3,8**
Brand follower	25.8	24	**- 1,8**
Others	32,3	31,9	**- 0,4**

Source: Processing of Nielsen Data.
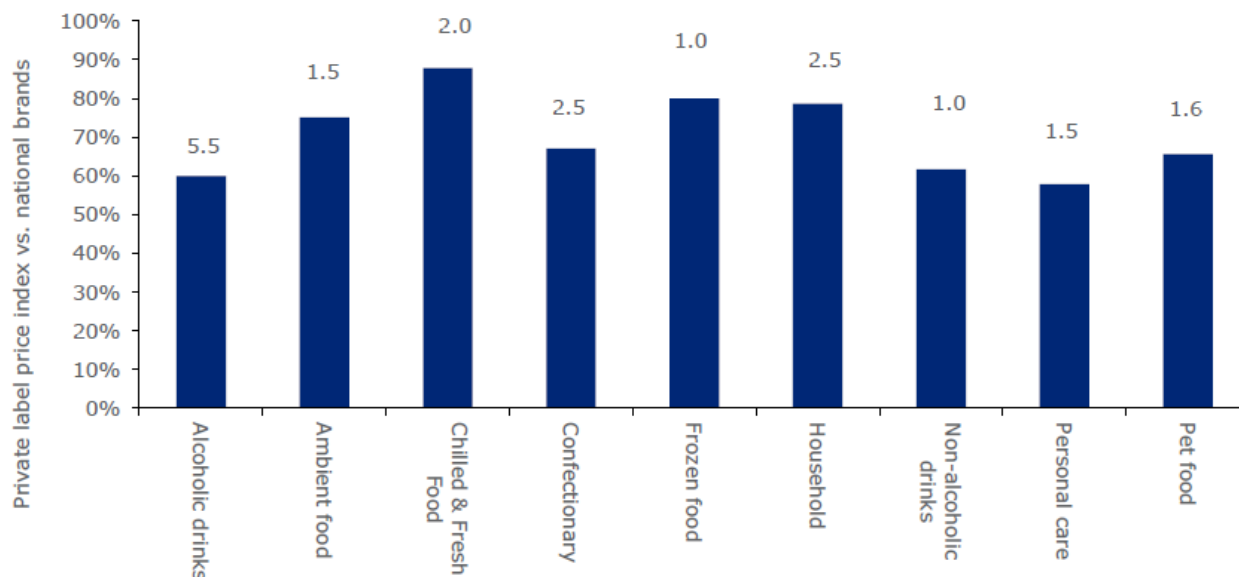
Figure 1. Price trend : private label vs branded products in Italy. Source: La marca commerciale: Un equilibrio fra qualità e valore, Symphony IRI Group (2013)

certification and quality control of private label are increasing (Figure 1).

In particular, the retailers address the business strategies of store branding in six segments: biological / ecological, regional, functional foods, baby products, ready meals and premium products (*Marca* Report July 2014). This trend aims to further reduce the price gap and move the increasingly competitions between industry and distribution on the lever of quality. According to data from Symphony IRI investment by European retailers on premium products has generated retailer's revenue growth of 0.4% and it has contributed to the quality perceived by the consumer.

The initiatives of retailers in terms of extension of lines and references are clearly feedback in consumer behaviour, finding supported by the numbers: the AdemLab Report shows that from 2012 to 2013 the premium brands have registered an increase of 14.7% in value and 13.2% in volume, while the private label biological products grew by 8.9% in volume and 5.9% in value, compared to an average growth of the private label

4% by volume and 1.2% in value; since once again confirms the growing trust of consumers towards private label products.

Therefore, from the analysis of the data it is possible to highlight the growing trend of commercial enterprises to manage strategically the store brand: an approach finalised to have just increasing income through private label is overcome. The new approach of retailer requires increasing marketing skills by retailers.

CONCLUSION AND MANAGERIAL IMPLICATIONS

The store branding strategy is characterized by the use by retailers of brand name in a growing range of products in order to increase its attractiveness in the market and pursue increasing levels of competitive differentiation of a horizontal nature, through processes and levers that influence the horizontal and vertical relationships in the supply chain.

The analysis highlights the new challenges of

organizational and managerial skills and the need of marketing planning that involves all retail management, with the objective to develop, organize and manage an effective strategy for private label. It configures such a device - evolving from the tactical to the strategic level - whose contribution is manifested in a tangible way with the improvement of the competitive potential, with the overall development of a commercial firm, and monetary benefits in terms of profitability. This makes it possible, at this stage of the life cycle of the development of store brand, to verify specific skills of retail management in order to increase the total economic and relational value of retailers.

Conflict of Interests

The author has not declared any conflict of interests

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Review

Designing the strategic marketing mixture model for tourism industry

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Tourism plays an important role in world economy and it is expected that it gets more importance in the next years. Tourism affects occupation rate, payment balance, and economical stability of many countries. This industry is an application one, so that it is a potential to improve occupation situation, especially for low-skilled jobs. In Tajikistan, unemployment rate is focused on in this area. In addition, tourism jobs are more dispersed than the other economical divisions, so they are parallel to decentralization policy of Tajikistan. Tourism marketing mixture elements (services, goods, price, pricing, promotional activities, and distribution channels) are variables that their planning regarding needs of tourists and considering environmental factors, may conclude more success. A sample of 80 active persons in tourism industry in Tajikistan for four years (2008-2010) was selected. Binomial test, Freedman variance analysis test, and correlation test were used to test assumptions. The results show that promotional activities and distribution channels of services and goods of Tajikistan obtained first and second ranks, and tourism services and goods obtained third rank. Regarding ranking of four elements of marketing mixture, the main assumption of this research is confirmed.

Key words: Marketing mixture, tourism industry, strategic.

INTRODUCTION

Despite Tajikistan is a tourism region by its historical, cultural, and geographical situation, however, it was not successful in attraction of tourists for lack of an integral planning and lack of a strategic marketing mixture. Experiments of other parts of the world have shown that development of planned tourism industry may satisfy needs of tourists without creating significant problems (Michael, 1989).

Those countries that stepped without planning, encountered many environmental and social problems. These problems were undesirable for tourists and domestic people and produced marketing problems and decreased economic advantages (Zare et al., 2011). The regions that proceeded without planning for tourism development were not able to compete with the other countries with suitable plans (Gronross, 1982).

Tourism plays an important economical role as one of the invisible export items in many countries. Now, after oil and automobile, tourism is the third export industry of the world (Jefferson and Lickorish, 1991).

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Tourism experts anticipated that tourism industry will become the first export industry of the world in early of 21st century. In spite of progressive growth of tourism and its importance in economy of countries, unfortunately, the share of Tajikistan is low; and its reason is unfamiliarity of tourism organizations of Tajikistan with marketing activities, including designing marketing mixture.

Strategic planning of tourism marketing is an important subset of total strategic tourism planning. In this research, we discuss important elements of tourism marketing mixture and specify its variables by view of related experts (Kotler and Gary, 1993).

The main problem to be solved in this research is that there was no strategic marketing mixture model to develop tourism in Tajikistan. This decreases success despite of many competition advantages of this country in its cultural, geographical, and historical dimensions.

RESEARCH LITERATURE

Marketing management

Before defining "marketing", we define "market". This word has been used in different styles. We always discuss retail markets, wholesale markets, domestic markets, national markets, and planning to supply a product to a market. We can define tourism market as customers that need trips and have enough money to do that. Sometimes, this market is limited to a special zone. For example, a restaurant that works in a region may cover near tourism occasionally. In another situation, a market may include a country (a national chain hotel) or many countries (an international airline) (Keegan, 1999).

Awareness for existence of a market for a product will not simplify marketing word. People often think they have enough information about marketing, because they encounter it in their trips. They have stopped in a gas station with suitable traffic signs; they have resided in road hotels; and they have used restaurants with interesting foods. These are forms of propaganda, but marketing is not propaganda. Brochure of a hotel is propaganda but not marketing (Kotler, 1997).

In this section, we offer some definitions for tourism marketing suggested by valid persons or organizations. England Marketing Institute suggested the following definition (23):

"Marketing is managerial task that organize all commercial activities including evaluation, conversion of customer purchase power to an effective demand for a service or a special good to achieve profit or other goals." American Marketing Association defines marketing as (Salah et al., 1976):

"Marketing is a process to plan and execute concepts

such as pricing, promotion, distribution of goods, services, and ideas to meet the goals of organization and customers."

Philip Catler, the most famous expert in this field, has defined marketing as a human activity to meet needs though transaction.

William Stanton, marketing professor in Colorado University, defined marketing as (1996):

"Marketing is a complete business system that is designed for planning, pricing, promotion, and distribution of high quality products to meet needs of goal market to achieve organizational goals."

Varen Kigan, marketing professor in Pace University of USA, defined marketing as (Keegan, 1999):

"Marketing is the process of concentration of organizational resources and goals on environmental opportunities and needs."

The above definitions may differ apparently, but they share the following points:

1. Marketing is administration of a company by concentration on needs of customers.
2. In marketing concept, meeting needs of customers is very important, and is the main task to achieve profit goals of a company.

Other tasks such as production, human resources, and financial affairs are done regarding marketing direction. From the operational view, marketing is a thinking method that must be noticed by management and must be the dominant idea in an organization. From the organizational view, duty of marketing department is providing marketing techniques and tools for decision-making. Therefore, marketing is a major task of management and a tool to achieve organization's goal (Aurkene et al., 1998).

Tourism marketing management

Marketing as a concept, as is applied for services and goods, is used in tourism industry. Thus, tourism marketing and general marketing are not different (Seyedahmad et al., 2012).
One of the definitions of marketing in tourism industry is:

"Marketing is philosophy of management to meet needs of tourists, and provides highest profit for an organization by researches, anticipation, and selection of suitable goods and services" (Robert and Morrison, 1992).

The above definition shows that firstly, marketing is a thinking method in a situation to balance tourists' needs and tourism organizations' needs. Secondly, this definition

notices tourism researches to select goal markets. Thirdly, situation stabilization and goods life curve concepts are used to ensure supply of services and goods in tourism industry and to design desired marketing strategies and suitable programs.

Krippendorf suggested the following definition in "Tourism Marketing" book:

"Marketing is using systematic policies of tourism institutes and countries in national and international levels to meet needs of a definite group of consumers to achieve suitable profit" (Stephen and Luiz, 1994).

This definition complies with the previous ones for general marketing to meet needs of consumers as the final goal of companies.

Tourism marketing mixture

Marketing mixture is a major concept in the modern marketing. Marketing mixture is a set of controllable marketing tools to do suitable reactions in the goal market (Zare and Shahsavari, 2012).

Marketing mixture includes all efforts and activities of a company to affect demand. Its different features have been classified by marketing experts.

McCarty (1960) described 4 main elements of marketing including product, price, promotion, and place (4P). Most marketing management experts accept "4P" and its elements. However, some researchers added other elements.

Middleton added three other elements of people, physical evidence, and process, so he called it "7P".

Mill and Morrison added elements of people, packaging, partnership, and programming, so they called it "8P".

Gronros added element of interaction (1982). Doswell added element of picture as the fifth element. According to Doswell, general picture of the region is a mental picture including place, nature, and views of people. General picture is produced during time, and history is effective cultural factors, fictions, and epics.

As mentioned above, there is solidarity for four main elements of marketing mixture. In this research, only theoretical fundamentals of marketing mixture principle were noticed and primary data for Tajikistan market were gathered in that regard (Kotler and Armstrong, 1994) (Figure 1).

Research history

By investigations in information media, related researches out of Tajikistan are: Papadopoulos Socrates Ioannou from Bradford University, England, defended his PhD

thesis titled "Economical tourism analysis out of Greece: Study of growth and structure of foreign tourism to Greece for 1960-1984 by a planning model and suggesting proposals for marketing strategies". In this research, he studied limitations of supply (residence needs and primary infrastructures), main sectors of Greece tourism sectors, and growth and structure of foreign tourism for 1960-1984. He concluded that regarding the vital importance of tourism industry in Greece, acceptance of a strategic integrated inter-disciplinary tourism planning process and establishment of a duty unit can improve efficacy and share of tourism of Greece. In addition, some proposals were offered such as establishment of a definite organization for tourism in Greece to cooperate efforts of different sectors toward tourism industry (Del and Donald, 1994). Willemse Janinc from Pretoria University, South Africa, defended his thesis titled "A customer-oriented view for tourism marketing". The researcher pointed to lack of scientific topics and researches in this area. He discussed customer-oriented concept in marketing and its features. This research ends with a case study in Kruger National Park for customer-orientation. This experimental study showed that customer-orientation is not only one of the important prerequisites of service marketing, but also is used in world marketing (William et al., 1996).

Wang Philip Chuang-Ming from Pennsylvania University, USA, defended his PhD thesis titled "Study of expert views for development of regional tourism in Pennsylvania for 2000". His findings showed that commercial experts believed that state budget for promotional activities in different regions must be balanced and government must invest for development of infrastructures. These experts agreed with accumulated marketing. However, these experts had different views about subjects such as promotional activities in state level, regional tourism, future tourism growth in different areas, role of domestic entrepreneurs, and evolution of tourism ideals. At the end, proposals were offered for tourism policy and future studies. In addition, it was proposed that other experts, such as professors and government authorities, be used for future studies (Buttle, 1986).

Chon Key-Sung from Virginia University defended his PhD thesis in 1991 titled "Satisfaction of tourists from destination region view". The primary goal of this research was to study relationship between general view of a tourism region and satisfaction of tourists. This research concentrated on the following criteria for usage of recognition evaluation theory:

1. Operational equivalence between expectations of tourists and their perceptions from operational features of destination region.
2. Value equivalence between self-thinking of tourists and general features of a destination region.
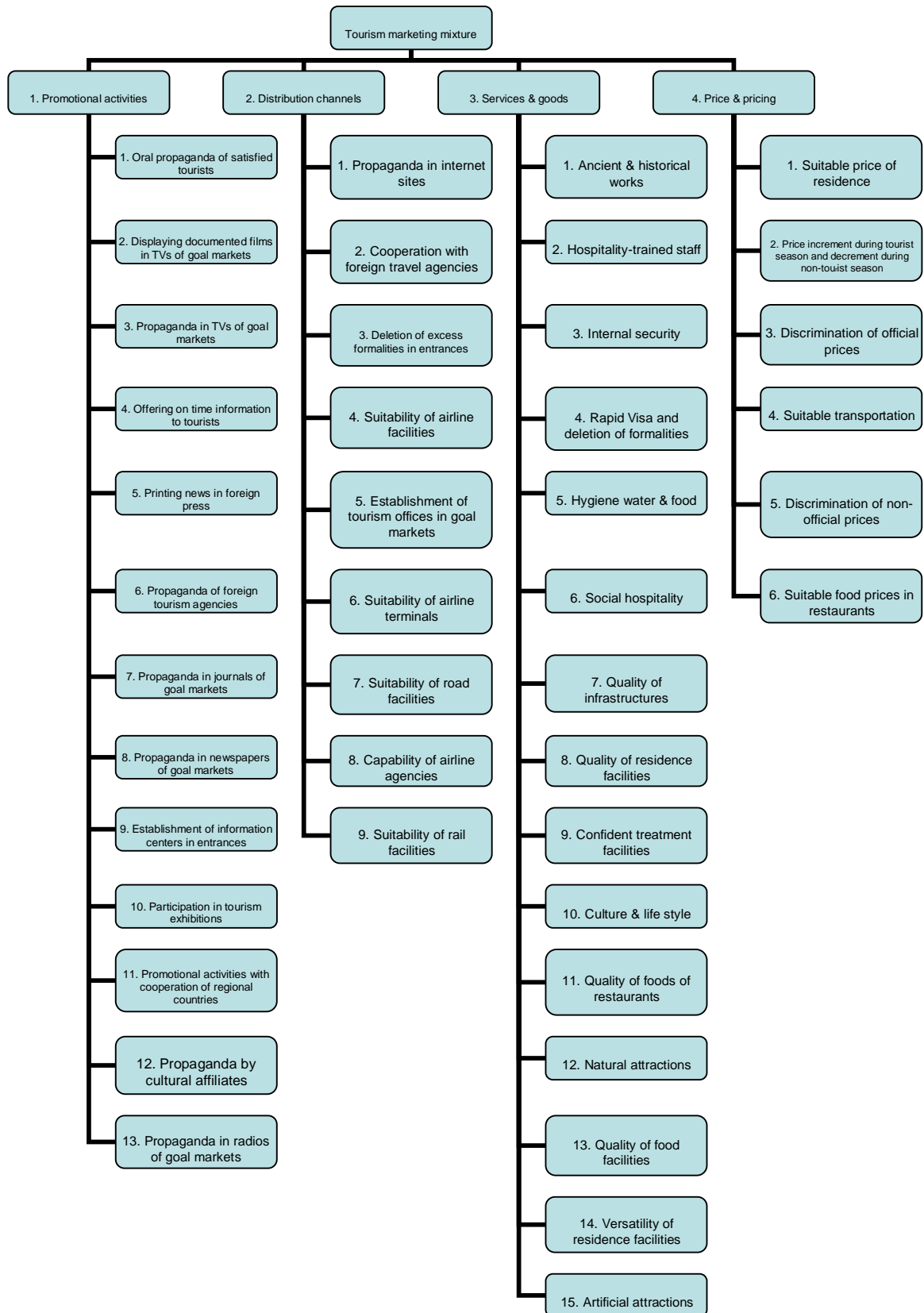
Figure 1. Tourism marketing mix.

3. The degree of emotional engagement of tourists for trip purchases and their effects on their satisfaction.

Findings of this research showed that tourists' satisfaction is related with operational equivalence and value equi-valence. For relative power of operational equivalence and value equivalence to describe dissatisfaction of tourism, it was found that operational equivalence could better determine tourists' satisfaction than value equivalence. In addition, it was found that emotional engagement of tourists in purchase process affected satisfaction of them for a destination region. This research concluded that value equivalence approach affects increment of knowledge of tourism marketing. In addition, this research proposed self-thinking and equivalence of destination region in satisfaction process (Matheson, 1976). Laksitanond Prin from International University, USA, defended his thesis in 1989 titled "A comparison between different aspects of Thailand tourism marketing from the view of tourism managers, propaganda managers, and five different tourist groups". In this research, firstly, domains of different types of tourism propaganda from the view of tourism and propaganda managers were studied. In addition, domain of each type was analyzed. The results showed that there were 9 important propaganda contents by view of tourism and propaganda managers. Thus, world marketing approach can be used for them. There was a difference in one propaganda message between perceptions of two groups (Jefferson and Lickorish, 1991).

Burke James Franklin from Minnesota University in 1986 defended his PhD thesis titled "Designing a computer system for management and evaluation of tourism marketing programs". This research was about development of a tourism computer system with co-operation of a company in Wisconsin State. The studies of Tourism Department of Wisconsin State showed that the number of tourists in this region was decreasing. In this study, they tried to improve management and evaluation of tourism marketing programs by computer technology.

A national survey of tourism organizations showed that evaluation of marketing and management databases could play and important role in general development. In this research, a computer system for management of produced information of tourism marketing sectors and evaluation of efficacy of tourism marketing programs was designed. These two areas are not well noticed in tourism marketing process (Horner and John, 1996).

Research assumptions

Main assumption

Among four marketing mixture elements, promotional

activities and distribution channels are most important factors in attraction of foreign tourists.

Sub-main assumptions

Sub-main assumption 1: Among goods and services variables, historical works, internal security, and **hospitality-trained staff are the most important factors for attraction of foreign tourists.**

Sub-main assumption 2: Among price variables, suitability of residence facilities, increment of prices during tourism season and decrement during non-tourism season, and equal official prices of hotels are the most important factors for attraction of foreign tourists.

Sub-main assumption 3 : Among promotion variables, oral propaganda of satisfied tourists, displaying documented films from tourism attractions of Tajikistan in TVs of goal market, and propaganda in TVs of goal market are the most important factors for attraction of foreign tourists.

Sub-main assumption 4 : Among distribution channels variables, deletion of excess formalities for entrance of tourists, suitability of airline facilities, and establishment of tourism offices in goal markets are the most important factors for attraction of foreign tourists.

EXECUTION METHOD OF RESEARCH

Regarding the questions and goals of this research, three methods of survey, descriptive, and post-event were used.

Survey method

One of the methods of this research is survey method. Questionnaires were used to gather data. Also face to face interviews were done. The questionnaire included 43 closed questions and 4 open questions. A main assumption and four sub-main assumptions were designed. The questions were in four separate groups:

a) 15 closed questions and 1 open question to test sub-main assumption 1
b) 16 closed questions and 1 open question to test assumption 2
c) 13 closed questions and 1 open question to test assumption 3
d) 9 closed questions and 1 open question to test assumption 4

Total questions were used to test the main assumption.

Closed questions were designed by Lickert Spectrum.

Descriptive method

In descriptive method, the researcher seeks "how" question, and he wants to know how is this phenomenon or variable. In other words, this research studies current situation systematically and examines relation between variables (Horner and John, 1996).

Library and field method was used such as questionnaire, interview, and observation.

Post-event method (cause-comparison)

Cause-comparison method is used to test cause and effect relations, instead of trivial method. This method is used in human sciences because a researcher cannot control or manipulate many relations that desire to study them (Bateson, 1995). As other methods, in cause-comparison method, the problems can be expressed as a goal of an assumption. A problem can be expressed as a goal when a researcher could not anticipate difference between variables in different groups.

If a researcher proceed to anticipate nature of difference before data gathering, the problems is expressed as an assumption. If it is possible, a researcher must try to express reverse assumption for the observed differences. Testing reverse assumptions sometimes is called "strong inference". In the cause-comparison method, base of this inference can be used to test variables that measure difference between groups.

Data gathering

The statistical society was used to gather data. The questions of questionnaire are in two groups. Group 1 includes 47 questions (43 closed and 4 open questions) to test main assumption and 4 sub-main assumptions.

Research variables

To measure importance of four elements of marketing mixture (services and goods, price, distribution place, and promotional activities), 43 variables were considered and a question was propounded for each one (Giavelli, 1995). The name of variables and their effects on attraction of foreign tourists are shown in the following table.

Services and goods

1. Ancient and historical works

2. Culture and life style
3. Natural attractions (weather, shores, scenes)
4. Artificial attractions (urban, historical, parks)
5. Internal security (police)
6. Quality of residence facilities
7. Versatility of residence facilities
8. Quality of foods of restaurants
9. Quality of food facilities
10. Rapid visa and deletion of formalities
11. Quality of infrastructures (airport, rail road, road)
12. Hygiene water and food
13. Confident treatment facilities
14. Hospitality culture in the society
15. Hospitality-trained staff

Promotional activities

1. Participation of Tajikistan's tourism agencies in international exhibitions
2. Propaganda in specialized tourism journals of goal markets
3. Printing news in Tajikistan's tourism media
4. Propaganda in TVs of goal markets
5. Propaganda in radios of goal markets
6. Propaganda in newspapers of goal markets
7. Propaganda of travel agencies
8. Oral propaganda of satisfied tourisms
9. Displaying documented films from tourism attractions of Tajikistan in TVs of goal markets
10 Providing on time information for tourists
11. Promotional activities by participation of few regional countries
12. Informing by cultural affiliates of embassies of Tajikistan
13. Providing tourism information centers in entrances

Price and pricing of services and goods

1. Discrimination is official prices
2. Discrimination of non-official prices because of unawareness of sellers
3. Prices of residence facilities
4. Prices of foods of restaurants
5. Prices of internal transportation facilities
6. Increment of prices during tourism season and decrement during non-tourism season

Price (distribution channels)

1. Establishment of tourism offices in goal markets
2. Propaganda in internet sites and covering goal markets
3. Cooperation with foreign travel agencies in goal

markets
4. Capabilities of travel agencies in Tajikistan
5. Suitability of airline facilities to/from Tajikistan
6. Suitability of airline terminals in Tajikistan
7. Suitability of road facilities in Tajikistan
8. Suitability of rail facilities in Tajikistan
9. Deletion of excess formalities in entrances in comparison with other countries

Data analysis methods

Regarding the method of analysis and the goal of this research, the following statistical methods were used for data analysis.

Descriptive statistics

Descriptive method was used for classification, summarization, description, interpretation, and relation of data. The methods used were frequency accumulation, frequency percentage, average, median, mode, variance, and standard deviation.

Inferential statistics

Inferential statistics was used for data analysis of this research.

1. Binomial test for each marketing mixture element and each component
2. Freedman variance analysis test for each marketing mixture element and their variables
3. Kronback's alpha to test of reliability of measurement tool
4. Frequency and percentage and charts of each marketing mixture element
5. Correlation of marketing mixture elements together and separately

Society and the statistical sample

Statistical society of this research includes all persons occupied in tourism industry of Tajikistan that have enough expertise. According to the discussions with Juvenile Affairs, Sport, and Tourism Committee, there were about 400 tourism experts in the country which majority of them were in Doshanbeh.
   In this research, random sampling was used. This method is shown in the sample. To determine the sample by ratios test or binomial test, the following formula was used:

$$N = \frac{Z^2 \, p.q}{\varepsilon^2}$$

In the above formula, regarding confidence level 95% and error of 5%, Z=1.96 by caution method p=q=0.5. By considering similar previous researches, standard deviation is $\varepsilon=0.11$. Thus, the sample number is:

$$N = \frac{(1/96)^2 \times 0/5 \times 0/5}{0/11^2} = 79/3719$$

$$N \geq 80$$

Thus, the sample number is 80. Therefore, 110 question-naire were sent, in which 84 questionnaires were returned and used for analysis.

Data analysis and test of assumptions

Statistical assumption test is a rule to make decision about assumptions. There are two types of errors in statistical assumption test:

Error type 1: Rejection of zero assumption when this assumption is true, which is called "error type 1" and is shown by α. Error type 2: Acceptance of zero assumption when the opposite assumption is true, which is called "error type 2" and is shown by β.

Assumptions are usually written as follows:

$$\begin{cases} H_O : P \geq P_o \\ H_1 : P < P_0 \end{cases}$$

Since in this research, N>30, thus, normal distribution can be used.
The statistic by binomial relation is:

$$Z \approx \frac{p - P_0}{\sqrt{P} \times q/n}$$

in which,

$$P = \frac{X}{N} = \frac{number \ of \ successes}{sample \ volume}$$

$$P_\circ = \text{ratio by zero assumption}$$

Test of tourism marketing mixture

In this section, we show test of four marketing mixture elements, and their variables by binomial and SPSS are:

1. Element 1: Services and goods including 15 questions
2. Element 2: Price of services and goods including 6

Table 1. Test of element 1.

Test result	Error level	Sig. level	Observed probability	Test probability
H_0: accepted	0.05	0.000	0.8662	60%

Table 2. Test of element 2.

Test result	Error level	Sig. level	Observed probability	Test probability
H_0: accepted	0.05	0.000	0.9324	60%

Table 3. Test of element 3.

Test result	Error level	Sig. level	Observed probability	Test probability
H_0: accepted	0.05	0.000	0.9833	60%

questions
3. Element 3: Promotional activities for services and goods including 13 questions
4. Element 4: Distribution channels of services and goods including 9 questions

Test of element 1

By view of experts, suitable strategies for services and goods affect attraction of foreign tourists.

$$H_0: P \geq 60\%$$

By view of experts, suitable strategies for services and goods do not affect attraction of foreign tourists (Table 1).

$$H_1: P < 60\%$$

Decision: With confidence level of 95%, since observed probability is greater than test probability, H_0 is accepted. In other words, with confidence level of 95%, it can be claimed that by view of experts, suitable strategies for services and goods affect attraction of foreign tourists.

Test of element 2

By view of experts, suitable strategies for pricing services and goods affect attraction of foreign tourists.
$$H_0: P \geq 60\%$$

By view of experts, suitable strategies for pricing services and goods do not affect attraction of foreign tourists (Table 2).

$$H_1: P < 60\%$$

Decision: With confidence level of 95%, since observed probability is greater than test probability, H_0 is accepted. In other words, with confidence level of 95%, it can be claimed that by view of experts, suitable strategies for pricing services and goods affect attraction of foreign tourists.

Test of element 3

By view of experts, suitable strategies for promotion of services and goods affect attraction of foreign tourists.

$$H_0: P \geq 60\%$$

By view of experts, suitable strategies for promotion of services and goods do not affect attraction of foreign tourists (Table 3).

$$H_1: P < 60\%$$

Decision: With confidence level of 95%, since observed probability is greater than test probability, H_0 is accepted. In other words, with confidence level of 95%, it can be claimed that by view of experts, suitable strategies for promotion of services and goods affect attraction of foreign tourists.

Test of element 4

By view of experts, suitable strategies for distribution channels affect attraction of foreign tourists (Table 4).

Table 4. Test of element 4.

Test result	Error level	Sig. level	Observed probability	Test probability
H_0: accepted	0.05	0.000	0.9735	60%

Table 5. Correlation between four tourism marketing mixture elements.

	P_1	P_2	P_3	P_4
P_1	C = 1 p = 0.000	C = 0.3449 p = 0.003	C = 0.22 p = 0.056	C = 0.3428 p = 0.003
P_2	C = 0.3449 p = 0.003	C = 1 p = 0.000	C = 0.3284 p = 0.004	C = 0.3678 p = 0.002
P_3	C = 0.22 p = 0.056	C = 0.3284 p = 0.004	C = 1 p = 0.000	C = 0.5868 p = 0.000
P_4	C = 0.3428 p = 0.003	C = 0.3678 p = 0.002	C = 0.5868 p = 0.000	C = 1 p = 0.000

Table 6. Test of main assumption

Test result	Error level	Sig. level	Freedom degree	χ^2
H_0: rejected	0.05	0.000	3	40.8785

$$H_0: P \geq 60\%$$

By view of experts, suitable strategies for distribution channels do not affect attraction of foreign tourists.

$$H_1: P < 60\%$$

Decision: With confidence level of 95%, since observed probability is greater than test probability, H_0 is accepted. In other words, with confidence level of 95%, it can be claimed that by view of experts, suitable strategies for distribution channels affect attraction of foreign tourists.

Correlation test between four tourism marketing mixture elements

The correlation between four tourism marketing mixture elements is shown in Table 5. In this table, error level for all correlation relations between four elements is 0.05 one by one. By the table, we see significance level (ρ) for all relations is less than 0.05 one by one. Thus, by confidence level of 95%, it can be claimed that there is a significant correlation between four elements one by one. Description for the above table is:

P_1 = Services and goods P_2 = Price and pricing   C = Correlation level

P_3=Promotional P_4 = Distribution channels   p = Significance level

activities

Test of main assumption

Ranks of averages of four tourism marketing mixture elements are equal.

H_0:
At least, one pair of ranks of averages of four tourism marketing mixture elements is not equal (Table 6).
H_1:

Decision: With confidence level of 95%, since significance level is less than error level, H_0 is rejected. Table 7 shows average, SD, rank of average, and priority of four tourism marketing mixture elements.

As you see, promotional activities and distribution channels have got the first and second ranks, and services and goods have got third rank. Thus, the main assumption of research is confirmed.

Test of sub-main assumption 1

We use the following statistical assumption:

Ranks of 15 variables of services and goods element are equal.
H_0:

At least, one pair of ranks of 15 variables of services and goods element is significantly different (Table 8).

Table 7. Rank of average and priorities of four tourism marketing mixture elements.

Row	Element	Average	SD	Rank of average	Priority
1	Services and goods	3.98667	0.61197	2.13	3
2	Price and pricing	3.86966	0.64670	1.89	4
3	Promotional activities	4.32308	0.43054	3.17	1
4	Distribution channels	4.2711	0.44228	2.81	2

Table 8. Test of sub-main assumption 1

Test result	Error level	Sig. level	Freedom degree	χ^2
H_0: rejected	0.05	0.000	14	99.0903

Table 9. Rank of average and priorities of variables of services and goods.

Row	Element	Average	SD	Rank of average	Priority
1	Ancient & historical works	4.619	0.619	10.91	1
2	Culture and life style	3.152	0.743	7.44	10
3	Natural attractions	3.619	1.029	6.41	12
4	Artificial attraction	2.940	1.193	4.51	15
5	Internal security	4.277	1.213	9.94	3
6	Quality of residence facilities	3.845	1.303	8.11	8
7	Versatility of residence facilities	3.494	1.141	5.83	14
8	Quality of foods of restaurants	3.675	1.904	6.59	11
9	Quality of food facilities	3.548	1.145	6.03	13
10	Rapid visa	4.386	0.762	9.73	4
11	Quality of infrastructures	4.036	1.046	8.40	7
12	Hygiene water & food	4.262	0.920	9.31	5
13	Confident treatment facilities	3.940	0.986	7.47	9
14	Hospitality culture in the society	4.238	0.816	8.87	6
15	Hospitality-trained staff	4.524	0.799	10.45	2

Table 10. Test of sub-main assumption 2.

Test result	Error level	Sig. level	Freedom degree	χ^2
H_0: rejected	0.05	0.0008	5	21.1628

H_1:

Decision: With confidence level of 95%, since significance level is less than error level, H_0 is rejected. Table 9 shows average, SD, rank of average, and priority of four tourism marketing mixture elements.

Among the sub-main variables of services and goods, suitable combination of ancient and historical works, internal security, and hospitality-trained staff have the most importance in attraction of tourists. As seen in Table 10, ancient and historical work has got the first rank, and hospitality-trained staff and internal security have got the second and third ranks. Thus, the sub-main assumption 1 is confirmed.

Test of sub-main assumption 2

Ranks of 6 variables of price and pricing element are equal.

Table 11. Rank of average and priorities of variables of price and pricing.

Row	Element	Average	SD	Rank of average	Priority
1	Discrimination of official prices of hotels	3.855	0.885	3.51	3
2	Discrimination of non-official sale prices	3.795	0.852	3.26	5
3	Suitability of residence facilities	4.119	0.856	4.10	1
4	Suitability of food prices of restaurants	3.646	0.894	2.94	6
5	Suitability of transportation facilities	3.819	0.846	3.27	4
6	Increment of prices during tourism season and decrement during non-tourism season	4.050	0.884	3.92	2

Table 12. Test of sub-main assumption 2.

Test result	Error level	Sig. level	Freedom degree	χ^2
H_0: rejected	0.05	0.000	12	52.3933

Table 13. Rank of average and priorities of variables of promotional activities.

Row	Element	Average	SD	Rank of average	Priority
1	Participation in tourism exhibitions	4.179	0.809	6.29	10
2	Propaganda in specialized tourism journals	4.310	0.76	7.03	7
3	Printing news and information in foreign press	4.429	0.773	7.51	5
4	Propaganda in TVs of goal markets	4.470	0.687	7.72	3
5	Propaganda in radios of goal markets	4	0.897	5.43	13
6	Propaganda in newspapers of goal markets	4.298	0.773	6.91	8
7	Propaganda of travel agencies	4.357	0.705	7.32	6
8	Oral propaganda of satisfied tourists	4.560	0.665	8.36	1
9	Displaying documented films from tourism attractions of Tajikistan in TVs of goal markets	4.571	0.587	8.32	2
10	Offering on time information to tourists	4.452	0.547	7.59	4
11	Promotional activities with regional countries	4.207	0.680	6.23	11
12	Informing by cultural affiliates	4.133	0.777	5.94	12
13	Establishment of information centers in entrances	4.181	0.814	6.35	9

Table 14. Test of sub-main assumption 4

Test result	Error level	Sig. level	Freedom degree	χ^2
H_0: rejected	0.05	0.000	8	66.8604

H_0:
At least, one pair of ranks of 6 variables of price and pricing element is significantly different (Table 11).
H_1:

Decision: With confidence level of 95%, since significance level is less than error level, H_0 is rejected. Table 12 shows average, SD, rank of average, and priority of four tourism marketing mixture elements. Among the variables of price and pricing element, increment of prices during tourism season and decrement during non-tourism season, suitability of prices of residence facilities, and discrimination of official prices of hotels have got the most importance. As you see, suitability of price of residence facilities has got the first rank, increment of prices during tourism season and

Table 14. Test of sub-main assumption 4

Test result	Error level	Sig. level	Freedom degree	χ^2
H_0: rejected	0.05	0.000	8	66.8604

Table 15. Rank of average and priorities of variables of distribution channels.

Row	Element	Average	SD	Rank of average	Priority
1	Establishment of tourism offices in goal markets	4.338	0.700	5.07	5
2	Propaganda in internet sites and covering goal markets	4.590	0.591	6.05	1
3	Cooperation with foreign travel agencies in goal markets	4.603	0.543	6.01	2
4	Capability of travel agencies of Tajikistan	4.000	0.883	4.30	8
5	Suitability of airline facilities to/from Tajikistan	4.338	0.736	5.19	4
6	Suitability of airline terminals to/from Tajikistan	4.179	0.752	4.64	6
7	Suitability of road facilities	4.143	0.756	4.39	7
8	Suitability of marine facilities	3.731	0.893	3.39	9
9	Deletion of excess formalities in entrances in comparison with similar countries	4.564	0.695	5.97	3

documented films from tourism attractions of Tajikistan in TVs of goal markets and propaganda in TVs of goal markets have got the second and third ranks. Thus, sub-main assumption 3 is confirmed.

Test of sub-main assumption 4

Ranks of 9 variables of distribution channels element are equal.

H_0:
At least, one pair of ranks of 8 variables of distribution channels element is significantly different (Table 15).
H_1:

Decision: With confidence level of 95%, since significance level is less than error level, H_0 is rejected. Table 16 shows average, SD, rank of average, and priority of four tourism marketing mixture elements.
Among the variables of distribution channels, deletion of excess formalities, suitability of airline terminals, and establishment of tourism offices in goal markets have got the most importance for attraction of foreign tourists.
As you see, propaganda in internet sites and covering goal markets has got the first rank, and cooperation with foreign travel agencies and deletion of excess formalities in entrances have got the second and third ranks. Suitability of airline terminals has got the sixth rank, and establishment of tourism offices in goal markets has got the fifth rank. Thus, sub-main assumption 4 is not confirmed.

Conclusion

Sub-main assumption 1: ranks of variables of promotional activities

From the view of tourism experts, promotional activities have the most importance in attraction of foreign tourists. Unfortunately, because of negative and unreal propaganda of media and few political authorities of few countries against Tajikistan, foreign tourism has got an undesirable image.
In this research, 13 variables of promotional activities were designed. The results show that variables of promotional activities have not equal priorities. The ranks of these variables are shown in Table 17. As you see, usage of variables with higher ranks has no cost or has a low cost. So they will be ascertained by a powerful management, training staff, and suitable policies in tourism organizations.

Sub-main assumption 2: ranks of variables of distribution channels

Distribution channels include intermediate companies and institutes and offer tourism services and goods to foreign tourists.
According to the results of Freedman variance test, distribution channels element has got the second rank. Ranking of 9 variables of distribution channels are shown in Table 18.
Distribution channels are very important in tourism industry, because tourists must travel to destinations to

Table 16. Ranks of variables of promotional activities element.

Row	Variable	Rank
1	Oral propaganda of satisfied tourists	1
2	Displaying documented films from tourism attractions of Tajikistan in TVs of goal markets	2
3	Propaganda in TVs of goal markets	3
4	Offering on time information to tourists	4
5	Printing news and information in foreign press	5
6	Propaganda of foreign travel agencies	6
7	Propaganda in specialized tourism journals in goal markets	7
8	Propaganda in newspapers of goal markets	8
9	Establishment of information centers in entrances	9
10	Participation in tourism exhibitions	10
11	Promotional activities with cooperation of regional countries	11
12	Informing by cultural affiliates	12
13	Propaganda in radios of goal markets	13

Table 17. Ranks of variables of distribution channels element.

Row	Variable	Rank
1	Propaganda in internet and covering goal markets	1
2	Cooperation with foreign travel agencies in goal markets	2
3	Deletion of formalities in entrances in comparison with other countries	3
4	Suitability of airline facilities to/from Tajikistan	4
5	Establishment of tourism offices in goal markets	5
6	Suitability of airline terminals	6
7	Suitability of road facilities	7
8	Capability of travel agencies	8
9	Suitability of rail facilities	9

Table 18. Ranks of variables of tourism services and goods element.

Row	Variable	Rank
1	Ancient and historical works	1
2	Hospitality-trained staff	2
3	Internal security	3
4	Rapid visa	4
5	Hygiene water & food	5
6	Hospitality culture in the society	6
7	Quality of infrastructures	7
8	Quality of residence facilities	8
9	Confident treatment facilities	9
10	Culture & life style	10
11	Quality of foods of restaurants	11
12	Natural attractions of Tajikistan	12
13	Quality of food facilities	13
14	Versatility of residence facilities	14
15	Artificial attractions of Tajikistan	15

Table 19. Ranks of variables of price and pricing element.

Row	Variable	Rank
1	Suitability of price of residence facilities	1
2	Increment of prices during tourism season and decrement during non-tourism season	2
3	Discrimination of official prices of hotels	3
4	Suitability of price of internal transportation facilities	4
5	Discrimination of non-official prices	5
6	Suitability of prices of foods of restaurants	6

Table 20. Strategic model of tourism marketing mixture of Tajikistan.

Row	Variable	Rank
1	Promotional activities	1
2	Distribution channels	2
3	Services & goods	3
4	Price & pricing	4

use tourism services and goods and they have no idea about tourism products. Obviously, in this case, information offered by distribution channels is very important. In this section, we analyze 9 variables of tourism distribution channels.

Sub-main assumption 3: ranks of variables of tourism services and goods

Tourism services and goods play an important role in tourism marketing mixture. According to the results of Freedman variance test, this element has got the third rank. Ranking of 15 variables of tourism services and goods is shown in Table 19.

Sub-main assumption 4: ranks of price and pricing element

By view of tourism experts, price and pricing for services and goods has got the last rank between tourism marketing mixture elements. However, this is not a trivial element. Since by exchange parameters, tourism services and goods are cheaper for foreign tourists, this element may be ranked lower. But policy-makers should not ignore this element.

The proposed model for tourism marketing mixture of Tajikistan

Regarding the results of statistical analysis of research

data, the proposed model for tourism marketing mixture of Tajikistan is shown in Table 20. Analyses and variables were offered in the previous sections. Ranking of 6 variables of price and pricing of services and goods is shown in Table 20, by view of tourism experts and the results of Freedman variance analysis.

Conflict of Interests

The authors have not declared any conflict of interests.

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Full Length Research Paper

Trends in real estate appraisal: An emerging context

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This research investigates the residential real estate market in an emergent European country, Romania. Using data from approximately 300 sales transactions and another 300 nationally relevant rent transactions conducted between midyear 2010 and midyear 2011, the real estate market prices and rental prices have been processed using statistical techniques such as the General Linear Model, in order to identify the characteristics of properties with a significant influence over the analyzed context. The results show that heterogeneous real estate location related and physical characteristics such as type of real estate, existence of an elevator, thermal insulation, finishing works and floor area are significant variables that influence real estate prices in Romania. Moreover, the paper offers a database in the form of descriptive statistics for asset pricing, in this case residential single-family properties, the same as for the Gross Income Multiplier. This represents a starting point in developing a statistical basis on which future studies can attempt to explain the pricing differences observed in real estate.

Key words: Emerging market, real estate, appraisal, influential factors.

INTRODUCTION

Real estate market represents the largest market in developed European and worldwide countries, estimated to 30% - 40% of the value of all the underlying physical capital (Fabozzi et al., 2010). In recent years this has also been the case in emergent countries, where the real estate bubble sometimes exceeded the levels attained in developed countries.

Real estate appraisals have been requested in recent years to secure (mortgage) financial debts, assets financial reporting, tax and/or insurance estimations, sales transactions and estate planning situations. Mortgage valuation was one of the privileged objectives of assets appraisal. As a result, we may consider that the real estate market and valuation play a role in assuring banks' well-being and are connected with the economic crisis due to banks' over-exposure to a real estate property boom. Thus, the quality of mortgage valuation is critical; correlated with the possibility of auction sale in case of default and, in a depressed market, it may help in seeking policy solutions to distress the banking industry, as shown for Nigeria in the study of Aluko (2007).

Reliable valuation information represents the foundation of investment management in general and it is of particular concern in real estate valuation. Regardless

of its objective, considering that valuations are all connected to the market, the lack of market price information on the real estate market remains a problem for banks, public institutions, other organizations and individuals. Knowing the real estate selling prices and their influential factors may support investment decision making, both internal and external, by combining the profitability of different industries.

This research is the result of market data collection regarding real estate, which has been statistically processed in order to develop and interpret useful indicators for real estate appraisal. The case study is conducted on Romania, a European, former communist country, currently classified as an emergent market. Usually, emergent markets cover the former socialist countries in Central and Eastern Europe (CEE) and in East Asia, the new independent states of the Soviet Union and the developing countries in South-East Asia, Middle East, Latin America and Africa. In this study, we sometimes make comparisons with other emergent countries, in order to highlight the Romanian specific environment.

The first proposed objective of the research emphasizes the importance of the real estate market in the period between 2010 and 2011 compared to a reference period which presents the impact of the global economic crisis and in relation to the real estate characteristics. The second objective of our study is to obtain, using a fundamental base, market multiples useful for real estate appraisal. Finally, the third objective of the present research determined the manner in which market data regarding real estate appraisal was collected in relation to the logic behind a model meant to identify and measure the intensity of influential factors of real estate selling prices. This step is useful for applying market corrections regarding the relevant elements of the grid to those corrections specific to the sales comparisons method.

The findings of our research could present interest for real estate valuators and other stakeholders in the real estate market, as well as in the academic environment. Our research has the potential to serve real estate practitioners as it provides reference regarding residential real estate prices, the characteristics of real estate that significantly influence the actual market price and the Gross Income Multiplier (GIM). The same results could be useful, even with an educational aim, to price real estate assets through the sales comparisons approach and the adjustment grid method and by using a hedonic model based on the statistical technique General Linear Model (GLM).

The remainder of the paper is organized as follows: Section 2 contains a literature review considering the characteristics of real estate as an element of the valuation process in general, real estate market, valuation approaches and methods specific to real estate, respectively; section 3 presents briefly the elements that define the Romanian real estate market, which represents the case study of our research; section 4 presents the research design; section 5 contains the analysis results; the last section discusses the study contributions and presents the conclusions.

Real estate market and valuation approaches

Real estate market

From a theoretical perspective, real estate assets (and in particular residential real estate) are viewed as a combination of a consumption asset and a leveraged investment (Fabozzi et al., 2009). Real estate appraisal is different from the valuation of other types of assets given the differences in liquidity across their market and in the type of investors (Damodaran, 2002). Archer and Ling (1997) distinguish between three types of markets that determine real estate prices. They show property markets as the markets where asset-specific discount rates, property values, and capitalization rates are determined and they add space markets and capital markets. Space markets represent the markets where local market rents are present (i.e., the market for leasable space).

By combining the property and space market under the notion of real estate market, we could say that this market is less liquid than in the case of other assets, transactions occur less frequently, transaction costs are higher and there are fewer buyers and sellers. Another viewpoint shows that the assets are traded in illiquid, highly segmented and informational inefficient local markets (Clayton et al., 2009). The illiquid state of the real estate market has an impact on the availability of market data, and this problem becomes more severe in emergent contexts. As an exception the real estate market is much more liquid during economic booms or recessions (prices are rising or are depressed). Thus, the real estate market is an imperfect market, as the units offered for sale fail the product homogeneity test and each unit is unique. According to Case and Shiller (1989, 1990) quoted by Fabozzi et al. (2009) the housing market is inefficient due to serial correlation and inertia in housing prices, as well as in the excess returns.

Because the market value of a property is generally reflected in a range rather than a precise point, it is important to consider all factors affecting a property's value (Berger, 2007). Considering the objective of our research, we refer to the sensitivity of the estate investments to local trends. Those local characteristics are critical when hedonic appraisal models are used, which represent one of our methodological issues, including for the case of residential real estate. Hence, local economic, demographic and geographic variables are taken into account (Abraham and Hendershott, 1996; Lamont and Stein, 1999, Ghysels et al., 2007). Berger (2007) offers examples of relevant local characteristic:

demographic changes in the surrounding neighborhoods, the inflation rate, the strength of the local economy, and the amount of money and effort the owner has expended to maintain the property. Also, using the findings of Shiller and Weiss (1999), Fabozzi et al. (2009) show a greater risk for the financial stability of households due to geographic fluctuations in property. Finally, Blackley et al. (1986) offer strong empirical evidence of the heterogeneity of interurban pricing. All this local specificities make the market more localized, with information asymmetric.

The selling prices of real estate are also affected by macroeconomic variables that could make the difference between countries. The rules applied to real estate pricing are characterized by diversity. This is caused by specific institutional frameworks that cover legal aspects (regarding property right and tax system), economic (business cycles of different length), social (specific levels of satisfaction of the demand for real estate) or individual conventions underlying the organization of the company (such as the duration of lease contracts) (Kucharska-Stasiak and Zelazowski, 2006). In what concerns legal aspects we could mention tax laws that have a serious impact on the real estate, mainly because of change in depreciation methods and tax rates on ordinary income and capital gains, change in local laws, respectively (such as zoning requirements, property taxes and rent control) (Damodaran, 2002).

Real estate valuation approaches

Uncertainty associated with the process of assets appraisal has led to the development of several approaches acknowledged by professional associations and legally unrestricted, approaches the valuator judges as a choice. Three approaches have been developed and they became classical due to their intense use, respectively the market, income and cost approaches, from which several valuations methods derived.

Real estate appraisal methods range from the direct sales comparison approach/ method to more complex discounted cash flow models. No consensus exists on what is the best valuation method. Damodaran (2002) supports the approach (method) of comparables. Others such as Sharpe et al. (1999), Brealey and Myers (2000) and Bodie et al. (2005) quoted by Chen et al. (2010), recommend mainly the discounted cash flows supplemented with leverage, tax, and other adjustments. Copeland et al. (2000) and Penman (2003) are in favor of using accounting numbers and analyst forecast of earnings in a framework known as 'residual income valuation' or the 'excess earnings method' (Chen et. al, 2010).

The market approach is widely considered the most appropriate approach for valuing residential real estate in an active market (Woezala et al., 1995). The approach based on market comparison is the most reliable when there is an active market which supplies a sufficient number of real estate sales for comparison, sales that can be independently verified by reliable sources (ASA, 2004). Moreover, this approach is best suited to, and is the most reliable in, the appraisal of single-family homes. The market approach is also known as the sales-comparison approach, market-data approach or direct-market-comparison approach.

The market approach is similar if we consider its theoretical neoclassical microeconomic foundation, with the implicit markets model of Rosen (1974). This is because it relies on market efficiency and the similarity between a specific property and another recently traded asset (Payne and Redman, 2002). It starts from the assumption that there exists a comparable property that is fully let on a very long lease at a rent that is adjusted at the beginning of each year to reflect market conditions (Ward, 1982). According to Berger (2007), the market approach is based on the substitution principle, as the property subject to valuation is compared to comparable properties in a competitive market. Thus, the process of market value estimation is based on actions of real buyers and sellers in a marketplace, not on a hypothetical model.

The most frequently used method derived from the market approach is the sales comparison grid, which is used to justify the real estate value estimate. Between properties there are differences in income production, size, scale, location, age and quality of construction (Damodaran, 2002). Further, given the class prices indexes the issue of finding appropriate comparable arises. All of these have to be accounted for in order to conduct the comparison. Some of these adjustments are simple (for example differences in size) and others are subjective (for example differences in location).

More recently, hedonic pricing (multiple regression) models have also been used to complete the sales comparison method. The literature shows that the prevalent property valuation method, based on the research of Rosen (1974) and Rosen and Topel (1988) and further developed in papers such as DiPasquale and Wheaton (1994) or Mayer and Somerville (2000), is the one based on establishing a hedonic price index for a property with given characteristics. Regression approach as hedonic modeling implies the price as the dependent variable, while the independent variables are the elements causing differences in real estate value, such as vacancy rates, size and capacity to generate income (Damodaran, 2002). Roddewigg et al. (2006) indicate that linear multiple regression analysis has been considered in the last decades a tool to directly predict market prices and to determine adjustment factors when analyzing comparable sales. The same author shows that a fourth approach to value, or an alternative to the three traditional approaches, was taken into consideration although it is not widely used, except for mass appraisal assignments

at most. Different hedonic models are available in the literature based on characteristics of assets which receive value and become similarities measures for real estate prices. A review of the literature on this subject was conducted in the study of Sirmans et al. (2005) which analyzes the hedonic pricing models of 125 empirical studies. The main conclusion of the study is that there are differences between the authors' viewpoints regarding the extent and direction of the effect of certain characteristics of real estate (houses particularly). Some examples of studies conducted on emergent countries in which arises the critical need to find alternative valuation methods are Șipoș and Crivii (2008) for Romania, Moschidis et al. (2008) for Cyprus, Anim-Odame et al. (2009) for Ghana or Kuburic et al. (2012) for Slovenia.

Borderline between the income and the market approach is the usage of a standardized value estimate, of certain multipliers. Such standardized value estimators are the Gross Income Multiplier (GIM) along with the size multiplier. The former represents a ratio tool that can be used in residential properties and can develop an indication of value by dividing the sale price (capital value) by the monthly rent (periodic income). This tool relies on consistency between the extraction and application of the ratio (Rattermann, 2006). GIM incorporates a part of the differences between properties such as scale, construction quality and location. It is determined regardless of the financing conditions, prior to debt repayments. It is based on the premise that in the same location, real estate has very similar growth and risk characteristics, the only remaining differences being related to the capacity to generate income (Damodaran, 2002). There have been attempts to estimate market indexes for classes of real estate investments. Thus, in the case of residential real estate we could mention Case and Shiller[1] who for the period 1970-1989 estimated an index for using actual transaction prices to estimate the value. This is only an example of multiplier established for developed countries. We cannot say the same for emergent countries, where the lack of such useful tools for appraisals is being felt.

The Romanian real estate market

In this paper we focus on residential real estate, at the level of the individual property, within a case study conducted on the Romanian real estate market, a European market. At this point, when the effects of the economic crisis are still being felt, we can state that the European real estate market is not homogeneous. The current and future situation of each member state depends on its initial status (needs, demographical trends, economic fundamentals), recent market correction, the national economy's specific exposure to the crisis and the degree of corrective measures undertaken and their results (Kaklauskas et al., 2010).

Romania is a former communist country, currently classified as an emergent market. In the decades following the end of the Second World War until 1991, Romania was a country with absolute domination, the communist influence being extremely powerful. The role of the state in the society, including in the valuation culture, was significant. The period following 1991 is marked by the fall of the communist regime and the transition from a socialist economy to a market economy. It is the first phase of a transitional economy. The centralized institutional structures of the socialist economy disappeared, the mechanism price was reactivated and spontaneous business activity on the market was permitted. Commercial banks, financial institutions, capital market, trading and communication networks were to be formed and the legal framework have been permanently updated according to the instances and instruments of the new economic environment. In time, after almost ten years, it can be considered that the market economy was formed. After another ten years, it can be considered that the legal environment is consistent with the challenge of turning the economy into a functional market economy. In recent years the economy progressed and real GDP annually had a positive growth rate so that according to the World Bank's Development Indicators Romania reports $179.8 billion for 2011 and it is classified as an upper middle income country. The current population is of 21.39 million people.

With reference to the Romanian real estate market, we could say that there is no central market place and the details of many transactions are not publicly available. Although investors require a common denominator such as property indices for assets valuation and income prediction, such indexes are not to be found in Romania. The information is not consistent and complete across valuators in a low information environment such as the Romanian one. However, there are uniform standards, in the form of International Valuation Standards implemented by all valuators members of the national professional association, ANEVAR, but there are differences regarding information availability in a unitary framework in comparison to developed countries that have various indices published by specific organizations, indices that highlight the performance of the real estate market. The history of the sale and rent transactions is recorded only by real estate agents, such as real estate brokers and appraisal practitioners who compile their personal databases. Aluko and Olaleye (2005) observe a similar situation regarding available market information in the case of Nigeria – another transitional country. Although there is available information on the market trend, the situation is different when it comes to independent transaction prices, which in most cases are confidential. Comprehensive data on property investment performance is difficult and costly to collect. The absence of market data makes appraisals difficult and subjective, thus the need to improve the recording and availability of

transactions data, to compose historical data series (price indices) and a centralized database is justified. Aluko and Olaleye (2005) emphasize the importance of such a database, developed with the contribution of property valuation firms and property companies, designed to allow forecasting at national, regional and local market/city levels by sector. Likewise, Moschidis et al. (2008) show that, despite the real estate sector's importance for the Cypriot economy, there is not an official publication of real estate prices.

If we were to present the evolution of the Romanian real estate market in the last decade we could define three different periods. The first period begins in 2002 and ends in 2007, when prices grew significantly, also due to the fact that Romania was preparing to join the European Union (the accession took place in 2007). Then the prices plunged as a result of the economic crisis. After three years of powerful decline, 2008-2010, in the last part of 2010 the recovery of the real estate market started with positive signs for 2011. The slight recovery of the market is suggested by the growing number of transactions for all types of real estate, even with increasing prices. Furthermore, according to data from specialized reports such as the index price/rent deter-mined by Collier International (Collier, 2012), the value of the index increased from 153 in September 2008 to 163 in May 2010. Another indicator of the real estate market's evolution is provided by the National Statistical Institute (INS) through residential property price indices. At national level, with the exception of the capital, in the fourth quarter compared to 2009 the indices were 91.59 for 2010 and 77.43 for 2011, respectively. The real estate agencies present the following trends compared to the previous year regarding the housing price in values adjusted to the inflation rate: -16.86% in 2009; -9.19% in 2010; -1.05% in 2011. In 2010 compared to 2008 there is a drop of 42% in the prices of real estate (apartments). We can provide some estimates regarding the evolution of apartments' average price considering that there is no official reference at national level. In our estimation we used verified information from several sources. In 2006, before the real estate bubble reached its peak, the apartment price per square meter was approximately 1,350 Euros. In 2008 the price increases to 1,800 Euros but in 2010 it drops to 1,300 Euros and now the price per square meter is approximately 950 Euros. Likewise, the monthly rent for an apartment with 2 rooms sharply decreased from 600 Euros in 2008 to 350 Euros in 2010 and 300 Euros in 2012. This is market information. The interesting fact is the incongruity between these data which suggest a drop of 15-20% of the price and the data provided by INS which show an increase of approximately 8%. The same slight difference in estimation can be noticed for the price of apartments if we compared the same information sources. These findings only come to support the need to develop a national database of selling prices and useful indexes for real estate appraisal.

RESEARCH DESIGN

Analysis model

This research has taken into account items which suggest the factors that reflect the perception of the real estate market participants when making the decision to sell or buy. Having in mind their expectations, we conducted a literature review and the results of this analysis were correlated with observations from the Romanian appraisal practice. These represent the theoretical fundament for applying a multi-criteria model suitable for an empirical investigation. The model is part of the hedonic category, is supported by descriptive statistics and is based on GLM technique.

The theoretical reasoning first allowed us to identify the market approach from the acknowledged valuation methods as the most implemented method in the case of residential real estate appraisals. Thus, after comparing the methods mentioned in the literature and part of the market approach, we focused on the adjustment grid method. Moreover, this is the most familiar method to Romanian valuation professionals. We aim to support this method by providing information regarding the location related and physical influential factors and the value of the corrections applied to the comparables. In addition to the implementation of the adjustment grid method, we are also in favor of appraisals based on market multiples, such as GIM. According to the literature the method is somewhere between the market and the income approach and completes the market analysis in order to estimate the value taking also into account future income expected from the valuated property. Determining GIM differentiated on real estate characteristics represents, along with selling prices, extremely useful reference for the valuation practice.

The literature review continued with the identification of empirical research which focused primarily on identifying real estate characteristics that influence selling prices the most (Fabozzi et al., 2009). In what concerns residential real estate and location related and physical influential factors, which are of interest to our study, earlier literature considered as several influencing factors of the real estate market participants' perception on transactions prices. Zietz et al. (2007) refer to square footage, lot size, bathrooms, floor type, garage, exterior siding, sprinkler system, distance to city center, bedrooms. Other regression models include factors like location, storey, bedrooms, garage, outhouse (auxiliary buildings, facilities), detached, semi- detached, floor, state freehold, landscaping, gross internal floor area, plot size, tenure (Anim-Odame et al., 2009).

The results from this body of literature have been often conflicting as to the impact of a variable on selling price, and the meaning and importance of the significant variables. The interesting aspect is that in emergent countries the influence of all the analyzed elements statistically significant (Şipoş and Crivii, 2008; Anim-Odame et al., 2009). Previously we presented the real estate characteristics analyzed in the study of Anim-Odame et al. (2009), for which statistical significance was determined. The other model we referred to is developed in the study of Şipoş and Crivii (2008) which focuses on the case of a Romanian city - Timişoara, and reviews 164 transactions with apartments that where conducted during the first 8 months of 2008. The explanatory variables considered were: main neighborhoods of the city, number of rooms, net area, improvements made to the property, floor and comfort level. The study ascertains the significant influence of these variables on transactions prices. For these reasons, in the current research we aim to test significant characteristics that determine selling prices in the Romanian real estate market.

The current study analyses apartments with 1 or 2 rooms. The choice was determined by the availability of data, since transactions with these apartments have been more frequent; however, the unanimous opinions in the literature (Sirmans et al., 2005) according to which the number of bedrooms has a positive impact

Table 1. Real estate characteristics as influential factors of selling price.

Characteristics	Analysis elements within the characteristic	Type of variable in the analysis model
Region	Bucharest-Ilfov, North-East, West, North-West	Categorical
Type of real estate	1 or 2 rooms	Scale
Existence of an elevator	Yes or No	Dummy
Thermal insulation	Yes or No	Dummy
Floor	Ground floor/Intermediary/Top floor	Categorical
Garage	Yes or No	Dummy
Partition of the apartment	Rooms with separate entrance/Communicating rooms	Categorical
Technical state	Medium/Good/Very good	Categorical
Finishing work	Unfinished/Modernly finished/Super finished	Categorical
Type of heating	Building boiler/ Apartment boiler/ District heating	Categorical
Area	For intervals determined by square meters	Categorical

on pricing had a major influence as well. As a result we focused on the same type of residential real estate i.e. apartments and we considered the number of rooms the major characteristic that impacts the selling prices. Another argument in favor of this choice is connected to the fact that since real estate is not sold frequently, price indexes are available for classes of assets and risk parameters are estimated for these classes (Damodaran, 2002). This is the reason why our study is focused on residential real estate, more exactly single-family residence such as apartments.

This research aims to identify the influential factors of selling prices, with an emphasis on physical and location related characteristics of real estate. In the hedonic model proposed in this paper we considered firstly the location related characteristics of real estate. Thus, region was the first characteristic, since regional differences are implicitly considered in the hedonic models. In this paper the notion region refers to the county capitals which denote the development degree of the real estate market, being thus conclusive for the whole region. We studied five cities, Bucharest (the capital of Romania), Iasi, Timisoara, Cluj-Napoca and Arad. This hierarchy is based on size, in decreasing order. Thus, we cover 4 regions of the country: Bucharest-Ilfov, North-East, West and North-West[2] . The second location related characteristic is the organization inside the city such as streets, neighborhoods and regions.

Taking into account the suggestions in the literature in correlation with the Romanian appraisal practice, physical characteristics are the factors that affect heavily the decision making about the value of real estate in Romania. Out of these we selected the factors that could aid the quantification of differences between properties. Those are mostly usual standard housing characteristics: property regime (number of floors), age of the building (year of construction), the existence of an elevator, exterior thermal insulation, level (floor), net area without balconies, area of the balconies/ledges, area of the loggia, area of the basement, garage, partition, technical condition of the apartment, finishing work and type of heating installation.

The model for which we collected data contains all the characteristics mentioned above, some of which we will not present in this research either due to lack of information in the data collection, or because of the smaller impact on the purchase and sale decision that we allocated. Thus, in the category untabulated statistics we included elements regarding the transaction date (month, year), location of the transaction (street, neighborhood, area), construction year, area of the balconies/terraces, area of the loggias/semi loggias, area of the basement, and the reliability degree of each transaction such as certainty, high reliability,

medium reliability and doubtful reliability.

For the statistical processing we took into consideration 1 regional characteristic and 10 physical characteristics as presented in Table 1.

Tools and sample

Considering the objectives of our research, we used statistical tools adapted to the types of variables integrated in the proposed model and the relationships between the variables.

Thus, the processing of data in the real estate transactions sample started with univariate analyses that materialized in statistical description of data by elaborating a series of frequencies and determining parameters (mean and median, standard deviation, minimum, maximum, quartiles) and continued with statistical inference, by determining the limits of reliability intervals for the mean and proportion and by applying statistical tests (Buiga, 2001). Firstly, we collected descriptive statistics regarding the selling price in real estate transactions, as well as the rental price, but the latter are not detailed in the present research. Descriptive statistics are presented both in general and specifically, according to the real estate characteristics selected as relevant.

Further, in order to test distribution considering the probability law, from the tests suggested in the literature we selected the parametric concordance test developed by Kolmogorov – Smirnov. This allowed us to study the normal distribution of real estate selling prices.

Finally, we considered relevant and we applied the multivariate analysis which enabled us to develop a model based on the General Linear Model (GLM) technique that led to the simultaneous study of the explanatory variables group related to variations in properties' selling prices (Buiga, 2001). The model improves as the number of influential factors taken into account increases. For our model we considered the 10 physical characteristics of the analyzed residential real estate. The proposed analysis model is similar to hedonic models largely tested in prior research by means of linear multiple regression. We refer to the use of OLS regression and the more recent quartile regression (Zietz et al., 2007). The model we propose has the content of a hedonic model of prices which breaks down the real estate price into separate components that determine the price. Moreover, according to the characteristics of a hedonic model that does not necessarily separate all the factors that could be separated, but only those that affect the usefulness of what is being sold for a buyer, our model focuses on the physical factors of the real estate. The difference between our

Table 2. Descriptive statistics regarding real estate selling prices.

Variable	Mean	Median	Std. Dev.	Min.	Max.	Quartiles		
						25	50	75
Prices (Euros)	43,368	42,500	14,143	11,500	110,000	34,200	42,500	50,000

Table 3. The results of the Kolmogorov-Smirnov test for properties selling price.

Variable	Mean	Std. Dev.	The biggest difference			Kolmogo-rov-Smirnov Z	Asymp. Sig. (2-tailed)
			Absolute	Positive	Negative		
Prices(euro)	43,368	14,143	0.08	0.08	-0.05	1.45	0.03

study and previously mentioned research is that we do not use regression, but GLM.

In order to study the dependency and association relations between transaction prices of real estate we used bivariate analyses considering the type of variables included in our model. Using the GLM technique, relevant influential factors of selling prices were identified and the influence of the identified apartment characteristics was thoroughly analyzed.

In order to prepare the database designed for the aim of our research we collected market information regarding real estate transactions made between midyear 2010 and midyear 2011, based on the developed analysis model. Although appraisals do not have a validity period and the market changes continuously, the results regarding real estate prices determined in our study for this period could be useful for current appraisals. This is also because, as Fabozzi et al. (2009) show, participants' expectations regarding price on the local real estate market are strongly influenced by the most recent series of prices (Fabozzi et al., 2009). Also, our database can be adapted and used for the introduction in the hedonic model of the time of sales as a characteristic of the property and the estimations to be made at a single point in time.

The unit of analysis is represented by one and two room apartments, more exactly 'buildings apartments'. The sample technique used is the non-probability sampling, the transactions being selected based on certain geographical areas, so as to be considered representative at regional level. Our option is consistent with the idea that when we work with case studies, the aim is not statistical generalization but rather theoretical generalization, and the selection doesn't need to be probabilistic (Karlsen et al., 2008). We believe that the sample in our research is representative at a multiregional level as we surveyed four out of the seven development regions in Romania. The population studied contains 307 sales transactions that have been collected by interviewing real estate agents or representatives of real estate consultancy firms. In addition, data regarding 324 rent transactions has been collected and processed, but this data is only tangentially presented in the current research.

ANALYSIS RESULTS

Descriptive statistics regarding real estate selling price

General analysis of real estate selling prices

Table 2 presents the analysis of real estate transactions based on the selling price of properties selected as research object i.e. apartments with 1 and 2 rooms. The values have been adjusted to round numbers.

The average transaction price for the analyzed apartments is 43,368 Euros, as half of the properties were sold at prices smaller than 42,500 Euros. The transaction values started from the minimum of 11,500 Euros and reached the maximum of 110,000 Euros, with a standard deviation of 14,143 Euros.

Taking into account the large variety of transaction prices and the standard deviation slightly over 30% of the mean, we find it useful to test the situation in which transaction prices are equally grouped around the mean in order to observe if there is a reference average value for the real estate market as a tendency situation for the analyzed transactions. Thus, the Kolmogorov-Smirnov test was applied to the set of transactions taken into consideration (Table 3).

The results of the test show that the distribution of transaction prices of properties around the mean is not perfectly balanced (after the test was conducted, the null hypothesis was accepted for a significance threshold of 5% which shows that the standard deviation of properties in relation to selling prices follows the normal distribution law).

As we mentioned in the presentation of the sample, we considered an analysis conducted nationwide, as we selected representative regions in what concerns the development degree and assets as real estate tran-sactions, respectively. Thus, we considered the capital cities for the selected four regions, identified as areas 1-5 (Table 4).

The statistics of transaction prices according to the regions in which they occurred suggest certain similarities between the real estate market in areas 2, 3 and 4 and a clear difference between the previously mentioned areas and the state capital, area 1. Thus, in the three mentioned areas the mean transaction value ranges from 41,894 Euros in area 4 and 42,501 Euros in area 2, while in area 1 the average transaction value is of 52,896 Euros.

Table 4. Descriptive statistics by area (prices are presented in Euros).

Area	Mean	Median	Min.	Max.	Std. Dev.
1	52,896	52,000	25,000	110,000	16,389
2	42,501	40,000	11,500	110,000	15,436
3	42,494	43,000	18,000	60,000	8,813
4	41,894	41,250	18,000	98,000	13,561
5	30,600	28,554	15,000	49,000	9,360
Total	43,368	42,500	11,500	110,000	14,143

Table 5. Descriptive statistics for real estate rental prices.

| Variable | N | Mean | Median | Std. Dev. | Min. | Max. | Quartiles | | |
							25	50	75
Rent(euro)	324	233	215	86	90	500	170	215	270

Also, in what concerns areas 3 and 5 that are part of the same administrative classification as they represent North-West Romania, there is a significant difference between average transaction' prices in area 3 compared to area 5 in the context of a similar standard deviation, which is at the same time different from the other regions. These findings suggest that an analysis of the sub-markets within the development regions could lead to significant differences between different poles of activity (for example counties). This would mean that for more accurate valuations a careful segmentation of the market would be needed according to the characteristics of the valuation object on the real estate market.

Analysis of the Gross Income Multiplier (GIM)

Untabulated statistics provide rental prices for the same periods and real estate characteristics as considered for selling prices in the previous section. Table 5 shows data regarding the average values of rent transactions for the general sample. Untabulated descriptive statistics regarding rental prices according to real estate characteristics followed by their correlation with real estate selling prices allowed us to determine GIM, in general for the whole sample, and then separately for each type of real estate and location related characteristic (Table 6). The values have been adjusted to round numbers.

The average rental price for apartments is 233 Euros and half of the analyzed rent transactions were concluded at prices lower than 215 Euros. Rental prices range from the minimum value of 90 Euros to the maximum value of 500 Euros, with a standard deviation of 86 Euros. Thus, the value range for GIM is a mean of 186, with the minimum of 128 and the maximum of 220. The GIM value for area 4 comes close to the general mean, and areas 3 and 5 represented by cities with smaller population show

the highest value of the multiplier. GIM has a higher value for two room apartments but not much different, in terms of mean, from the value for one room apartments.

Analysis of the influences of real estate characteristics on the selling price

In order to identify the influence of and correlation between different characteristics of real estate and the value of the transaction (in a data series with no numeric values for these characteristics, but only categorical or dummy variables), we used the General Linear Model (GLM). In other words, we aimed to identify those characteristics of real estate that influence the transaction values the most. The applied tests are presented in Table 7, after eliminating the insignificant variables from the model (*Sig.<0.05*).

We notice that the transaction value depends upon the type of real estate, the existence of an elevator, thermal insulation, finishing work and area. Although the descriptive statistics showed a difference in perception of the parties involved in the transaction of apartments with 1 or 2 rooms as regards the floor, the existence of a garage, the partition of the apartment, technical state, type of heating system, these variables did not prove to be statistically significant in what concerns their influence on the transaction price.

The analysis was furthered for the characteristics with the highest statistical significance (*Sig.=0.000*). Two of the characteristics which presented a significant influence over the transaction price (finishing work and area) have been analyzed in correlation. The transaction price was considered a dependent variable differentiated by the number of rooms of the apartment (Figure 1).

The average transaction value estimated for apartments with one room is increasing relatively constantly and

Table 6. GIM value for the sample, location related characteristics and type of real estate.

Variable	Descriptive statistics		
	Mean	Min.	Max.
The sample	186	128	220
Areas			
1	173	132	220
2	162	128	220
3	233	164	240
4	184	164	218
5	211	150	245
Type of real estate			
1 room	177	128	155
2 rooms	189	182	220

Table 7. Test of between-subjects effects.

Explicative Variables[a]	Mean Square	F	Sig.
Corrected Model	3,485,507,338.48	31.52	0.000
Intercept	314,678,053,473.26	2,845.88	0.000
Type of real estate	1,042,007,305.20	9.42	0.002
Existence of an elevator	915,352,115.32	8.279	0.004
Thermal insulation	510,614,277.16	4.62	0.033
Finishing work	1,439,674,752.11	13.02	0.000
Area	2,664,824,281.89	24.10	0.000
Error	110,572,990.57		
Total			
Corrected Total			

[a]Dependent Variable: Transaction selling price (Euros); [b]R Squared = 0.476 (Adjusted R Squared = 0.461)

similar from one floor area range to another, depending on the degree of finishing work. The higher ascending evolution for the last area range (over 52 square meters) is due to the fact that within this range several sub-intervals are included (the explanation is previously detailed in the descriptive statistics regarding the area of the apartment) (Figure 2).

The evolution of the average transaction value for apartments with two rooms is similar with the evolution of the average transaction value for apartments with one room, increasing relatively constantly and similar from one area range to the next, depending on the finishing degree, providing in both cases a justified starting point in the absolute and relative estimation of finishing work value on the considered intervals.

Furthermore, we tested the cumulative influence of other characteristics that have proven to be significant (finishing work, existence of an elevator and external thermal insulation) on transaction prices (Figure 3).

The average transaction value for apartments situated in buildings with no elevator has an upward trend from one degree of finishing work to the next, in the case of the three analyzed levels of finishing work, depending on the existence of exterior thermal insulation. If the apartment building has no elevator there is a difference in the increase of the average transaction value estimated because, as the graph shows, if the apartment has no thermal insulation, there is no elevator, but the apartment is super finished then the line representing the evolution of the average transaction value is smoother than in the case of apartments with thermal insulation. In other words, super finished apartments with no elevator are more sensitive to price change than the other two categories (considering finishing work) depending on the existence of external thermal insulation (Figure 4).

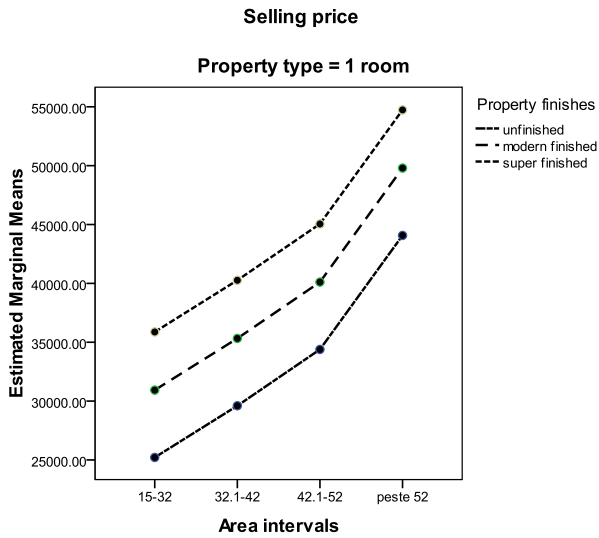The average transaction value for apartments with

Selling price

Property type = 1 room

Figure 1. The influence of finishing work and area of one room apartments on transaction prices.

Selling price

Property type = 2 room

Figure 2. The influence of finishing work and area of 2 room apartments on transaction prices.

Selling price

at Equipped with elevator = no

Figure 3. The influence of finishing work and external thermal insulation of apartments with no elevators on transaction prices.

Selling price

at Equipped with elevator = yes

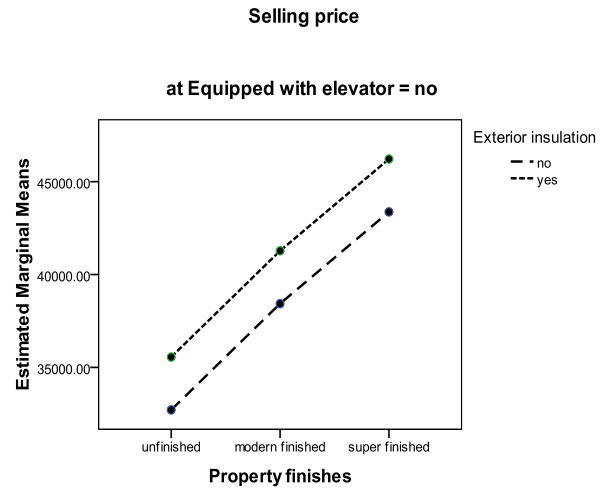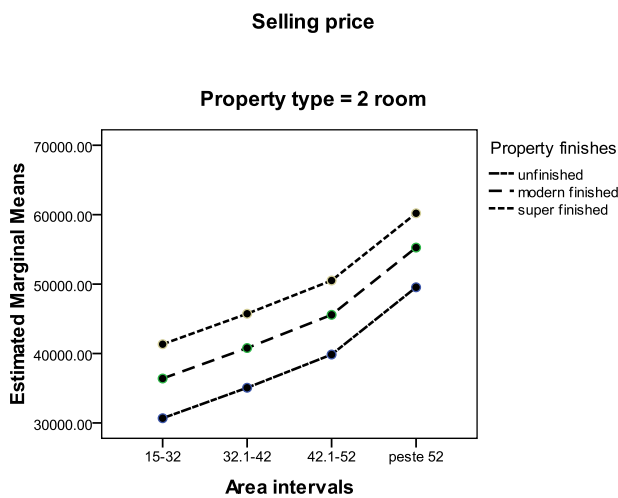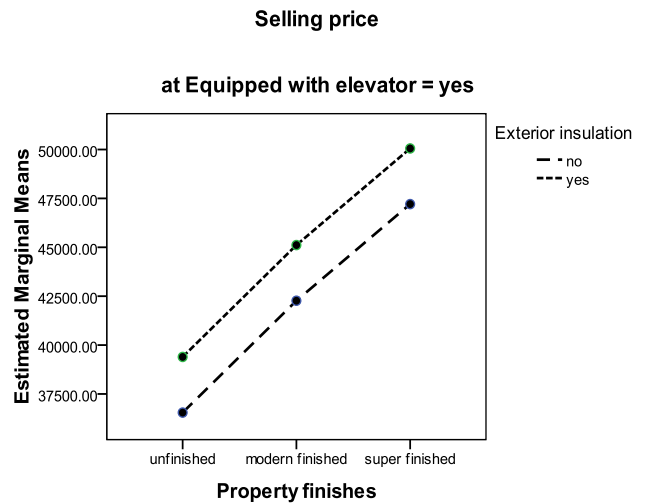**Figure 4.** The influence of finishing work and external thermal insulation of apartments with elevator on transaction prices.

elevators is ascending and somewhat similar across the levels of finishing, in the presence or absence of external thermal insulation (the line showing the evolution of the average transaction value for apartments with elevators is slightly more inclined in the presence of thermal insulation). Super finished apartments with elevators show a surprising evolution considering the existence or absence of thermal insulation. Super finished apartments with elevators but no thermal insulation are estimated to be sold at higher values than apartments with external thermal insulation. This evolution is hard to explain in the

absence of market information and furthermore it is difficult to correlate it with the expected evolution for unfinished and modernly finished apartments. Market information could refer to specific situations of certain types of apartments and/or regions/markets or sub-markets, such as, for example, the apartment buildings developed prior to 1989 (buildings with an average age) and given into use before elevators were installed in buildings – in these situations elevators were installed with the effort of the owners, in certain cases many years after the building was given into use. Because the expenses for elevators to be installed in the buildings

were borne by the owners, their expectations regarding the transfer price could be optimistic, especially if there are similar apartments on the market (possible with higher height classification) in buildings where elevators where not installed.

Conclusion

This research offers empirical evidence regarding average selling prices, GIM and real estate characteristics, for the period between midyear 2010 and midyear 2011 using a representative sample for Romania. From this point of view it can be considered the starting point for developing a statistical database on which future studies can attempt to explain the observed pricing differences for real estate. Thus, the findings are relevant for valuation companies, valuators and authorities. Finally, our paper pleads for the disclosure of real estate prices and other information regarding real estate characteristics in the Romanian market by an official authority. Moreover, the results of our research could be applicable in other emerging economies, especially in CEE countries, if there is a system that records transactions and the market conditions are similar. Also, it can represent a reference for assets valuation based on market approach in an emergent context, as several European studies revealed the difficulty of cross countries comparisons due to different valuation approaches applied (Maestri, 2013).

The present research sub-serves in demonstrating the importance of justifiable corrections. Our research focused on identifying real estate characteristics that could potentially influence the purchase and sales decision and consequently are analysis criteria within the market approach and sales grid method. The study focuses on apartments with 1 and 2 rooms respectively and their location related and physical characteristics. Thus, their influence over prices was identified in order to provide future reference for appraisals. Identifying influential factors of selling prices and arranging them in a hierarchical system according to their statistical significance facilitates legitimate measurement of corrections applied to transaction prices in order to modulate and estimate the value of a given property. This eliminates arbitrary measures and distortion of valuation results. Practitioners and theoreticians alike may follow rigorously the analysis method, especially the test of highest and best use and the selection of comparables; they may determine adjustments acknowledged by the market; they may realize the applicability and limits in the process of estimating corrections; they may find it useful in the process of defining different market segments as value area and market perception; they may provide professional advice regarding the market segment for our analysis object i.e. apartments with 1-2 rooms. The hedonic model used is based on GLM statistical techniques and allows for the systematic application of valuation approaches in order to identify and analyze real estate prices.

Another contribution is that our study supports the empiric substantiation of the Gross Income Multiplier (GIM), a concept considered subjective by real estate valuators. Along with selling prices the results of our research present the net returns for apartments with 1 and 2 rooms as types of real estate, based on data provided by the most important players on the market i.e. real estate agencies and real estate consultancy companies. It provides details regarding GIM values in general for the whole sample and then differentiated according to the type of real estate and location related characteristics. Thus, average values for GIM in an emergent context for the period 2010-2011 could be extrapolated and used in the capitalization approach of residential real estate (apartments) valuation. It is a contribution for a certain segment of the real estate market, and with further investigation the evolution of this important parameter of real estate value could be studied in time.

The results of this research should be interpreted in light of a number of limitations, some of which leading to research perspectives. Firstly, a larger sample of real estate transactions could be useful in order to further our findings. Future research could extend the analysis in relation to macroeconomic and sectorial variables such as economic growth, population income, demographic evolution, cost of utilities, competition specific to real estate market, or infrastructure projects that could influence certain real estate markets or major real estate projects. Also, some limitations of this research are determined by the use of a hedonic model, as it is well known that the methods associated with hedonic indices inherit all the common problems known for multi-criterial analysis, mainly multi-collinearity and model selection. Moreover, we would like to suggest the possibility of investigating other potential influential factors than those analyzed in this paper – location related and physical characteristics. Finally, the investigation was conducted in a single country, narrowing thus the international relevance of its results.

Notes

[1] The S&P/Case-Shiller Home Price Indices are the leading measures for the US residential housing market, tracking changes in the value of residential real estate both nationally as well as in 20 metropolitan regions. Read more at http://www.housingviews.com/

[2] The development regions represent eight statistical measures, with no legal personality, created in 1998 through the Association of County Councils in Romania, in order to coordinate the regional development required for Romania's accession to the European Union.

Conflict of Interests

The authors have not declared any conflict of interests

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Full Length Research Paper

Inhibiting factors in the strategic financial management decision making process: Evidence from South African SMMEs

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The purpose of this article is to uncover the principal obstacles preventing small business owner managers from making sound strategic financial management decisions. These obstacles are generally related to the owner managers' reluctance to follow accepted theoretical norms (steps) in terms of information search and analysis. This reluctance is attributable to the decision makers' significant lack of knowledge and experience. Data gathered with a structured questionnaire was based on a sample of 143 small business owner managers registered with SEDA (Small Enterprise Development Agency) in South Africa. The results point to an absence of a proper theoretical framework for gathering and analysing information necessary for effective decision making. This framework commonly entails elements such as experience and techniques acquired from time spent in business and business intuition. Recommendations are made to assist small business owner managers to improve on their strategic decision making and resource allocation processes.

Key words: Inhibiting factors, small business owner manager, SMME's strategic financial management decisions, South Africa.

INTRODUCTION

South Africa has a relatively high unemployment rate, low economic growth and dismal performance of small businesses (Chimucheka, 2014:403). Governments and local communities worldwide have recognized that entrepreneurs and small businesses are key to building prosperity and to stimulate economic growth (Fatoki, 2014: 100). Globally, entrepreneurs and small businesses are regarded as the economic engine necessary for growth, poverty alleviation, and job creation (Smith and Chimucheka, 2014:160). Orobia et al. (2013:127) agree that small businesses greatly contribute to the economic development of a country, and their contribution can be gauged in terms of job creation, income generation, and poverty reduction.

The main obstacles to growth and survival of SMEs are related to financial decision making (Olawale and Garwe, 2010:729; Fatoki, 2012:179). Effective strategic financial management decision making is thus an important aspect

with which most small business owner managers' battle. The aim of this article is to investigate the issues in this connection.

Problem statement

Jocumsen (2004:669) argues that small businesses do not follow the necessary theoretical steps in terms of information search and analysis, risk and option consideration. This explains why the decision making process in small business is much less complex than suggested by theoretical models (Huang 2009:87). Little has been done in the literature to date to explain this anomalous practice in small business. Many studies tend to focus on the functions within small businesses, explaining or describing the mechanisms by which they arrive at final decisions (Liberman-Yaconi et al., 2010:88).

This study goes beyond this, and tackles the principal reason why most small businesses do not practice the theory. According to Ekanem (2005:307) and Mair and Thompson (2009:401), decision makers tend to focus more on the event than on the process. There is an unconscious motion through the process, without due consideration of the actual steps to the final decision. A number of factors closely associated with this phenomenon emerge, including the small business owner manager age, gender, educational qualification, training and experience.

The objective of the study

The objective of this article is to investigate and describe the main inhibiting factors that detract from effective and efficient financial management decision making in small businesses. These factors tend to centre on the owner manager himself, as the main driver of the business.

LITERATURE REVIEW

Literature on financial management identifies the principal factors that lead to inefficiency in strategic financial management decisions. An analysis of these inefficiencies, carried out by Harif et al. (2010:17), reveals a need for a more in-depth examination of the problem. Broadly, four classes of factors emerge: the human, as the business driver (Agyei-Mensah, 2011: 3781), the business itself (Botha and Esterhuyzen, 2013: 331), the financial management practices (Fatoki, 2012:180), and the relevant surrounding issues (Perks, 2010:229).

Financial management

Literature on financial management of small business

identifies the elements critical to effective strategic decisions making.

Financial management practices

Financial management practices in the SMMEs sector have long attracted the attention of several researchers across the world. Depending on different objectives, researchers emphasize different aspects of financial management practices. Studies by McMahon et al. (1993) and McMahon (1998) summarise their review of financial management practices in Australia, the UK, and the USA. Studies by Agyei – Mensah (2011:3793) and Sunday (2011:271) focus on financial management practices in Africa, whilst those by Netswera (2001:31), Perks (2010:220), Fatoki (2012:179; 2014:104), Smith and Chimucheka (2014:160), Neneh (2012:3365), and Chimucheka (2014:403) emphasize financial management practices in South Africa. Financial management practices include accounting information systems, financial reporting, working capital management, financial structure management, financial planning and control, as well as financial advice and financial management expertise.

Relevant to this article are selected financial management practices related to SMMEs strategic financial management decision making. These include accounting information systems, financial reporting and analysis, working capital management, and financial planning and control.

Financial management decisions

Different types of financial management decisions are encountered in small businesses, three of which are highlighted by Ang (1992:1): (1) investment decisions, (2) financing decisions, and (3) dividend decisions. Whereas McMahon (1995:1) supports this contention of the three main decision types based on a view of the balance sheet, Ross et al. (1999:1) consider, in addition to the financing decision, budgeting and working capital management decisions to be of strategic importance. Anderson and Atkins (2001:311) distinguish between two main categories of strategic decision-making: the programmed problems decisions and the non-programmed.

The programmed problems decisions are those generally made by supervisory or middle management staff in an organization. They tend to be routine and repetitive in nature, occurring in well-structured situations. In contrast, non-programmed problems decisions are unique, non-recurring, and often require the expertise of top-level management. These latter decisions require a custom-made response and need automated decision support systems (DSS). They are called strategic
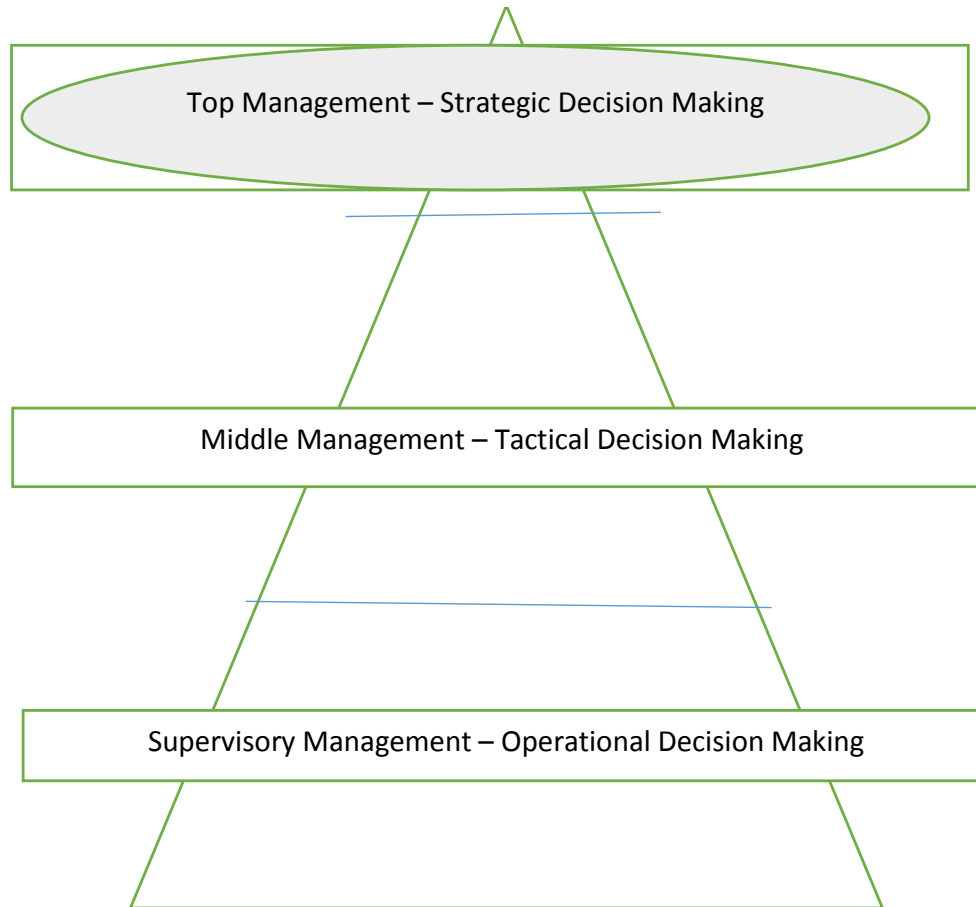
Figure 1. Decision making – levels.

decisions (Figure 1).

Human (decision makers)

It is very important to distinguish between entrepreneur and ordinary business owner manager. Nieman and Pretorius (2004:14) argue that ordinary business managers are not dominant in their fields and are rarely engaged in any innovative and risk taking actions.

On the other hand, entrepreneurs are those who take risk and have profitability and growth set as principal objectives. Nieman and Nieuwenhuizen (2009:13) draw a distinction between entrepreneurial and managerial functions, as well as the difference in expertise and competence required by these individuals. The authors point out that business owner managers are generally those who have planning and market orientation as principal characteristics, whereas entrepreneurs are characterized by an orientation to risk and innovation. Thus, strategic decisions are generally the responsibility of the entrepreneur, who sets strategic objectives in relation to growth targets. Small business owner manager

rarely go beyond survival profit and sales targets (Smith and Chimucheka, 2014:162).

In small businesses, strategic decisions are often made by the owner manager. The owner manager is often not an entrepreneur, and experiences difficulties with sound financial management decisions. According to Fatoki (2012:180), most small business owner managers do not provide for the future, and are clueless regarding the notion of capital maintenance. They focus on the daily decisions, mostly involving survival activities. The analytical model for decision making in small businesses developed for this study indicates that the human (decision maker) is at the centre of the process, and provides an explanation of how strategic financial management decisions are made. According to Jocumsen (2004:659), and to Huang (2009:25), successful strategic decision making in small businesses depends on the human's capacity to search for, and analyse the necessary information, as well as the ability to consider relevant surrounding issues. The outcome of the decisions should be measured with reference to the business objectives and the feedback received from other stakeholders (Figure 2).
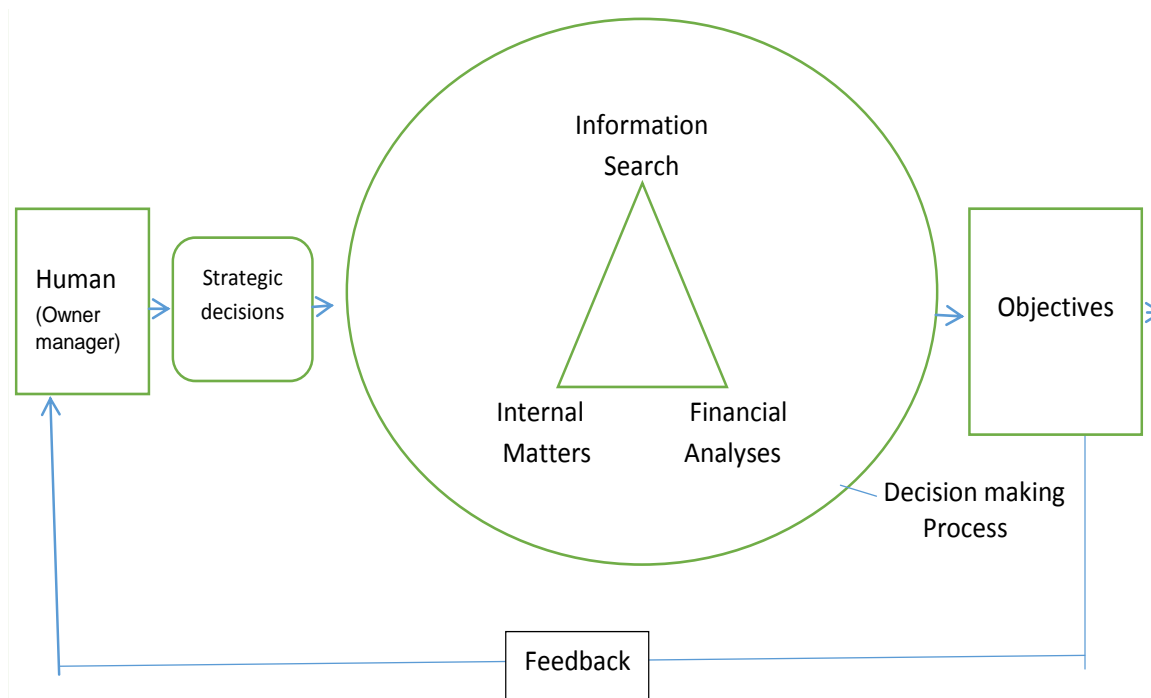
Figure 2. Model of the decision making process in small businesses. Source: Adapted from Jocumsen (2004:659) and Huang (2009:25).

Small business owner managers generally gather information from a variety of sources: trade journals, management journals, meetings, courses, or an internet search. For example, Pineda et al. (1998:773) show that a search for information will depend on the decision area; when making costing related decisions, decision makers need a greater number of information sources upon which they rely more heavily than when making decisions related to employees or technical aspects. These authors reveal several patterns in the use of both internal information sources (personal judgment) and external sources (advice from experts). Further, they distinguish between two categories of information search: the active search and the passive search.

Jocumsen (2004:659) distinguishes between two categories of financial analysis in small businesses: formal analysis and informal analysis. Formal financial analysis is defined as the financial management learning techniques or competencies used in the decision making process. These techniques or tools are generally written, rational, and measurable. Informal analysis involves inherent techniques or competencies, including intuition, long term thinking, and gut feel.

Information search and analysis

Relevant surrounding issues

Although financial criteria serve as the principal success indicators in business, there are often non-financial considerations to be taken into account in the process of decision making. McGee and Sawyer (2003:385), for instance, observe the role played by such personal ambitions on the part of small business owner managers as personal lifestyle, feedback, being own boss, independence and social status. Aspects of social responsibility such as job creation and environmental protection play an often-overlooked role too in the process of taking business decisions.

Feedback, according to Frost (2003:49), serves as a tool to evaluate and control the outcomes of decisions. The on-going nature of the decision making process dictates constant monitoring, evaluation, choosing between alternative courses of action, and following up on choices made. In order for the decision maker to evaluate decisions made, there is a need to gather information, for which a formal information recording system is required. Generally, an evaluating system should provide feedback on how the decision is being implemented, what results are obtained, and what adjustments are necessary to enhance those results. This process is possible only with an information recording system in place in the business.

The small business

This article considers the three categories of small business as defined by SEDA: micro enterprises, small

Table 1. Small business classification.

Business category	Number of employee
Medium	51 -200
Small	21 – 50
Very small	5 – 20
Micro	< 5

Source: SEDA Report (2009).

enterprises, and medium enterprises (SMMEs). The classification is based on the number of employees considered "regularly" employed, as Table 1 shows.

Another source of difficulty in small businesses arises from limited resources. Segbers et al. (2012:63) indicate that a lack of access to finance poses a major hurdle for small businesses, compared to the case with big business. As a result, regular professional consultants are unavailable to small business.

METHODOLOGY

This study employs a survey through which data were collected by means of a structured questionnaire. The questionnaire was self-administered to small business owner managers in the 9 provinces in South Africa. The sample was restricted to those small business owner managers registered with SEDA. The reason for the selection of this business group is the accessibility of the respondents, and the assistance offered by SEDA in channelling the questionnaire to and retrieving the responses from their client back to the researcher afterward. This method of delivery was chosen because the total population of small business owner managers in South Africa is too large for the researcher to have personally covered all owing to time and resource constraints. Convenience sampling was used.

The questionnaires were sent to 250 SMMEs owner managers. Of the 145 questionnaires that were filled up and returned, only 143 were usable, representing a responses rate of 56.8%. The Raosoft sample size calculator was used to determine the sample size, taking into consideration the population size, the margin of error, and the desired confidence level. The SEDA annual report (2009 – 2010:13) indicated that they had some 56054 registered clients (small businesses) at the time, and regularly worked with 23874 of these, of which 11302 were considered active. Given these figures, the Raosoft would have necessitated a sample size of 90. The actual sample size used was thus way in excess of that recommended by the calculator.

Likert scale questions were used except for demographic questions. The choice of the five-point scale enabled respondents to indicate their views on various aspects of strategic financial management decision making in their businesses. The questions themselves were developed for relevance to the African continent, following an extensive review of the literature. The questionnaire was divided into two sections: biographical questions and questions related to strategic decision making. The statistical analysis was mainly descriptive in nature. A pilot study was conducted on the survey instrument used in this research with 10 small business owner managers in order to ensure face and content validity. Small business owner managers were assured of confidentiality with regard to the data collected. In addition, the reliability of the study was ensured by using Cronbach's alpha. The Friedman test was

used to rank the most important strategic financial management decisions according to the methods used. Once the most important of these were known, Fisher's Exact Test was used to determine significance in the relationships between each of these decisions and the owner managers' characteristics.

RESULTS

The results of the survey are grouped into three sections. The first section analyses small business owner manager characteristics; the second is devoted to the analysis of small business characteristics; the third section presents the strategic financial management decision-making process.

Small business owner manager demographic characteristics

Table 2 depicts the biographical information of the respondents. The typical respondents of this study who were mainly involved in the strategic decisions in businesses were composed of owners (27.46%), managers (20.42%), financial managers (2.82%) and human resource, production and technical managers (2.82%). The vast majority of respondent were therefore categorised as owner managers (43.66%). They were self-employed and working full time in businesses. There were also constituted of male and female with the large majority completed at least the Matric. Most of them were black African with more than six years of experience in businesses. The large majority of the typical respondent was between the age group of 35-54 and has completed the financial management training courses. The statistical data identify the principal factors that influence strategic financial management decisions in terms of the methods used. These methods may be broken down into three different competencies: learned, inherent, and networking.

For the learned competencies, Fisher's Exact Test at the 5% level of significance suggests that there is no statistically significant relationship between strategic decisions made (investment decisions) and the owner managers' characteristics, except for the owner managers' years of experience, where the P- value is = 0.0200<0.05.

The respondents were asked, based on their experience in business, to indicate on a rating scale of 1 to 5 if they relied on learned competencies (financial analysis) to make strategic decisions. A rating of 1 to 2 indicated "disagree", a rating of 3 "neutral", and a rating of 4 to 5 indicated "agree". Once the respondents had provided the ratings, the responses were then divided into the following three categories of owner managers' years of experience in business:

1. 1 – 3 years were classified as new entrepreneurs, just

Table 2. Owner manager characteristics in the sample.

		Frequency	Percentage
Respondents' position in the company	Owner	39	27.46
	Manager	29	20.42
	Owner/Manager	62	43.66
	Financial Manager	4	2.82
	Other	8	5.63
	Total	142	100.00
Involvement in strategic decision making			
	Yes	130	90.91
	No	13	9.09
	Total	143	100.00
Self- employer working full time in the business			
	Yes	127	88.81
	No	16	11.19
	Total	143	100.00
Gender			
	Male	80	55.94
	Female	63	44.06
	Total	143	100.00
Higher qualification obtained			
	Up to matric	52	36.36
	Diploma	51	35.66
	Post diploma	40	27.97
	Total	143	100.00
Years of experience			
	1-2	11	8.46
	3	21	16.15
	4-5	36	14.62
	6+	52	47.69
	Total	130	100.00
Population group			
	African	108	75.52
	Asian	13	9.09
	Coloured	12	8.39
	White	10	6.99
Age group (years)	Total	143	100.00
	18-24	8	5.59
	25-34	46	32.17
	35-54	88	61.54
	55+	1	0.70
	Total	143	100.00
Financial management training course completed			
	Yes	84	58.74
	No	57	39.86
	Total	140	100.00

Source: Data analysis for the study.

Table 3. Strategic decisions by learned competencies in terms of respondents' years of experience.

	1 - 3 years	4 – 6 years	7+ years	Total
Disagree	4 (12.90%)	0 (0%)	0 (0%)	4
Neutral	1 (3.23%)	2 (11.76%)	1 (2.27%)	4
Agree	26 (83.87%)	15 (88.24%)	43 (97.73%)	84
Total	31 (33.71%)	17 (18.48%)	44 (47.83%)	92

Source: Own data analysis.

Table 4. Strategic decisions by inherent competencies in terms of training.

	Yes	No	Total
Disagree	5 (6.02%)	6 (10.91%)	11
Neutral	6 (7.23%)	12 (21.82%)	18
Agree	72 (86.75%)	37 (67.27%)	109
Total	83 (60.14%)	55 (39.86%)	138

Source: Own data analysis.

started in business;
2. 4 – 6 years were classified as experienced entrepreneurs;
3. 7+ years as more experienced entrepreneurs.

Table 3 shows that most of the respondents with less than three years of experience (84%) tended to agree that learned competencies (financial analysis techniques) had a significant impact on strategic decisions. The 13% of the respondents with less than three years disagreed, whilst the 12% of the respondents between 4 to 6 years of experience were neutral. A massive 98% of the respondents with more than 7 years of experience agreed with the statement. As might have been expected, those with 7 or more years of experience tended to rely on that experience (learned competencies) rather than on intuition (inherent competencies).

For inherent competencies, Fisher's Exact Test at the 5% level suggests that there is no statistically significant relationship between strategic decisions (e.g. cash flow decisions) and the owner manager's characteristics, except for training, where the P value for Fisher's Exact Test is = 0.0193 < 0.05.

The respondents were asked to answer "yes" or "no" to the statement "Have you completed any financial management training course?". By examining their answers, it was possible to infer on the extent of reliance on inherent competencies. Table 4 reveals that most of the respondents tended to agree (86.75%) with the statement that their gut feel or intuition guided them when making strategic decisions in their businesses. This suggests that even those with some training (86.75%) were inclined to use gut feel in decision making. For networking competencies, Fisher's Exact Test at the 5%

level of significance suggests that there is no statistically significant relationship between the strategic decisions made and the owner managers' characteristics.

The financial management strategic decision making process

The steps followed by small business owner managers in their decision making process can depicted as follows:

1. Recognition of a need to make a decision
2. Information search
3. Information analysis
4. Consideration of surrounding issues
5. Establish objectives of the strategic decision to make
6. Receive feedback

Each question is structured employing a 5-point agreement Likert scale rating. Respondents were requested to indicate, on a scale rating, the extent of their agreement or disagreement with each statement, with the coding strongly agreed (SA), agreed (A), disagreed (D), strongly disagreed (SD), and unsure or neutral (U). The frequency percentage score is treated as a measure of significance. The responses were separated into three groups using the following criteria:

1. Whether small business owner managers understand financial management principles (techniques) and apply them to make strategic decisions. This category of responses comprised decision makers who strongly agreed (SA) and agreed (A).
2. Whether small business owner managers understand financial management principles (techniques) but choose not to apply them to the decision making process. This category of responses consists of those who strongly disagreed (SD) and disagreed (D).
3. Whether small business owner managers do not understand financial management principles (techniques) and therefore cannot use them. This applied to those who were unsure (U).

The strategic financial management decisions

Strategic financial management decisions in this study

Table 5. Financial management practices.

	Statements	SD / D %	U %	A / SA %
34	I use cash flow statement information for predictions in my business.	20	32.14	47.86
40	I prefer to borrow than to use own internal funding.	52.15	13.57	34.29
41	I use the cost of equity to determine the cost of my capital.	15.71	42.14	42.15
47	I consider tax implications when making investment decisions in my business.	20.71	23.57	55.72
50	Small businesses are often likely to wait for cash (internally generated funds) before engaging in expenditure decisions.	10.71	17.86	71.43
53	The instability of cash flow in small business makes it difficult to predict the future cash flow in my organization.	12.14	16.43	71.43
54	My withdrawal pattern is based on own personal needs.	43.57	29.29	27.14
56	I follow the withdrawal pattern for similar businesses in my sector.	31.43	40	28.57
57	My withdrawal pattern depends on my organization's plan	7.19	27.34	72.66
61	My customer credit periods help me to determine late payments.	25	27.86	49.14
66	My capital expenditure decisions are based on business profitability (wait for profit generated).	5.72	12.14	82.14

Source: Own data analysis.

cover the areas of budgeting, capital structure, working capital management (cash flow and inventory decisions), withdrawal decisions, and costing. Table 5 explains extent to which small business owner managers applied the following techniques (practices) to facilitate strategic decisions in their businesses.

Some 72.66% of the respondents did control their withdrawals based on some organisational plan. The data suggest, however, that most of the respondents (82.14%) had difficulties in developing a capital expenditure plan (budget). Most of them based their capital expenditure decisions on the cash generated instead of the cash flow projected or anticipated. This lack of planning for future cash flow explains the waiting for cash (71.43%) before carrying out capital budgeting.

Overall, responses in this section also suggest that a significant proportion of respondents were not familiar with financial management techniques or principles developed for sound strategic decisions. "Unsure" responses recorded the following percentages: techniques related to cash flow statement - (32.14%); cost of equity - (42.14%); tax implication - (23.57%); withdrawal patterns for similar businesses - (40%); personal needs evaluation - (29.29%) and customer credit periods - (27.86%). These "unsure" responses may in fact point to ignorance.

Information search

Table 6 shows responses to statements relating to information search. Overall, the responses to these statements indicate that most small business owner managers (79.29%) based their strategic decisions (cash flow) on a limited (narrow) information search. It is

possible that they rely on their experience (personal judgment) when making cash flow decisions. This type of information search is called passive. Relative to costing decisions, a significant group of respondents (68.89%) who based their information search on competitors' prices. This form of information search is termed active. These findings are in agreement with results presented by Pineda et al. (1998:2), who argued that most small business owner managers used external sources of information (such as competitors' prices) to make costing decisions in their businesses. They observed that most small business owner managers collected information about competitors indirectly from a number of sources, including customers, suppliers and newspapers.

Information analysis

Table 7 reports responses to statements relative to the analysis of information by owner managers. Some 83.57% of the respondents indicated that they double-checked information before use, pointing to some degree of financial analysis. About a third (32.85%) of the respondents were unsure about the use of the Balance Sheet, and only 56.43% of the respondents were able to make use of the auditing financial statement to make strategic decisions (funding decisions). Other significant groups of respondents instead relied on personal financial analysis such as aspiration and personal needs. This is in line with an analysis reported by Ghobakhloo et al. (2011:53), who demonstrated that most small business owner managers have been found to use personal rather than impersonal financial analysis. They contend that most small business owner managers rely

Table 6. Information search.

Statements	SD / D %	U %	A / SA %
32 I get my financial information from my bank statement.	28.58	24.29	47.14
42 I consider my competitor's prices when making costing decisions.	10	20	68.89
52 My past experiences guide me in making cash flow projections in my business.	7.86	12.86	79.29
58 I often rely on a key family member's advice to determine how much funding I need to withdraw.	51.42	14.29	34.28

Source: Own data analysis.

Table 1. Information analysis.

Statements	SD / D %	U %	A / SA %
27 I make strategic decisions in order to satisfy my own personal needs.	52.86	14.29	32.85
20 Strategic decision making is a process of making a choice from a number of alternatives.	12.14	14.29	73.57
33 I often rely on my balance sheet statement when making decisions.	21.42	32.86	45.72
37 I generally make capital decisions that feel right to me.	27.15	28.57	44.28
39 I make use of my financial auditing report statements to determine my funding capacity.	20.71	22.86	56.43
46 I double-check my information sources before making capital budgeting decisions.	5.72	10.71	83.57

Source: Own data analysis.

on intuition (aspiration) and own needs to make strategic decisions (funding decisions).

Consideration of surrounding issues

Surrounding issues are related to find out if the business objectives as well as the feedback received from various stakeholders have been considered by the owner managers when making strategic decisions. This section deals with the extent to which issues of the environment and social responsibility are considered in the decision making process.

Objectives

Table 8 shows the extent to which small business owner managers consider business objectives when making strategic financial management decisions.

Although most small business owner managers (88.57%) agree with the statement "I make strategic decisions for the sake of growing my businesses", a significant group of respondents (23.57%) were unsure about their main objective in making strategic decisions. This may indicate disconnect between the organization's long-term objectives and the strategic decisions taken.

Feedback

Table 9 concerns the incorporation of stakeholder feed-

back in decision making. Most respondents heed requests and suggestions from customers (79.28%) in their investment decisions. This consideration could possibly stem from the African notion Ubuntu (sharing). Feedback may also be gathered from recorded information in the monitoring and evaluation processes, when deemed adjustments are introduced. On this aspect, some 59.29% of the respondents indicate an interest in an information recording system. This is line with Frost's analysis (2003:49), in which he observes that the monitoring and recording of information relative to competitors is not available to small businesses, owing to a lack of strategic thinking.

DISCUSSION

The overall findings in this article indicate that strategic financial management decision making is a very complex phenomenon for South African small business owner managers. These complexities are often related to human (decision maker) who is at the starting point (centre) of the decision making process. This human who is the principal driver of the businesses has two major handicaps (financial literacy and resources limitation). These handicaps often prevent this person (human) to accurately search for information, analyse it, and consider the risks involved and options available (surrounding issues). These are the necessary steps or predicament necessary for effective strategic decision making. As a result, most African small business owner

Table 8. Objectives of strategic decision making.

	Statements	SD / D %	U %	A / SA %
25	I make strategic decisions for the sake of growing my business.	4.28	7.14	88.57
26	I make strategic decisions in my business for the sake of gaining profit.	8.57	18.57	72.85
28	I make strategic decisions for the sake of making money.	24.28	23.57	52.14
31	Strategic decision-making helps me to solve problems that occur in my community or environment	17.02	22.7	60.29

Source: Own data analysis.

Table 2. Feedback analysis.

	Statements	SD / D %	U %	A / SA %
35	My business does not need a traceable information recording system.	27.86	12.86	59.29
49	I usually consider the requests of my customers concerning investment in new products and services.	8.57	12.14	79.28

Source: Own data analysis.
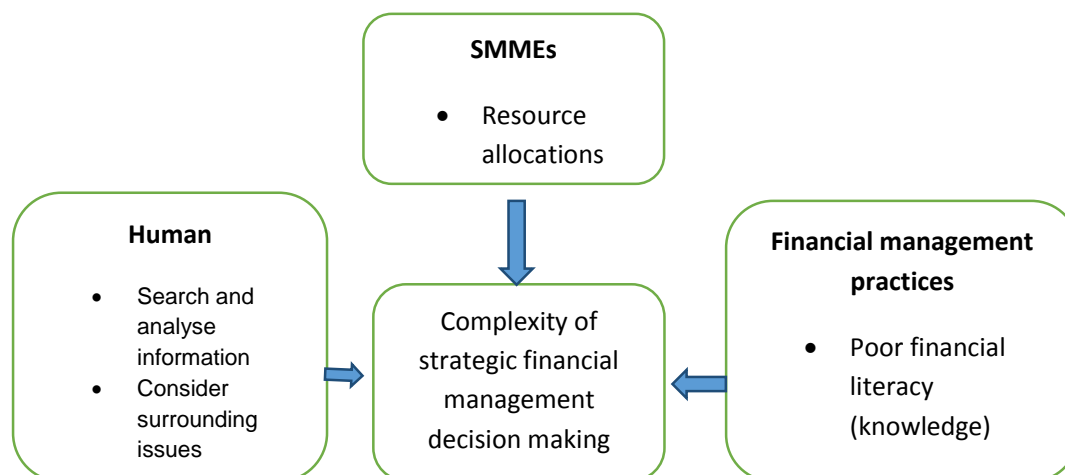
Figure 3. Complexity of strategic decision making in SMMEs. Source: Author's own construction.

managers who are often unfamiliar with these theoretical sequence of steps tend to rely on survival activities which are mainly based on the day to day decision making (Figure 3).

LIMITATIONS OF THE STUDY

There was a limitation regarding the target population group, which was not representative of the entire population of SMMEs in South Africa. The respondents who took part in this study were those registered with, and considered active by SEDA in the 9 provinces of South Africa. The study further concerns the small

business sector only, excluding big business and the corporate sector. Thirdly, the study limits itself to only the financial management aspects of the small business, precluding other functions such as marketing, human resource, or production, for instance. Lastly, the study limits itself to those decisions deemed strategic, to the exclusion of others such as operational and tactical decisions.

CONCLUSION AND RECOMMENDATIONS

This article describes the factors inhibiting efficient and effective strategic financial management decisions in

South African small business. The results indicate that the important inhibiting factors are related to owner managers themselves. There is an apparent lack of theoretical knowledge relating to the gathering and analysing of information requisite for effective strategic decisions, and a tendency is suggested on their part to rely on intuition and experience alone.

This study contributes to the academic field of strategic financial management decision making and small business management through a suggestion as to the reasons for unsound strategic decisions in small business. This problem is significant, but surprisingly largely ignored in current strategic literature. Much of the literature has tended to focus on describing how small businesses function. Limited attention has been given to this special problem, compounded by a scarcity of empirical data on how these small businesses arrive at strategic decisions. Much of the knowledge to date pertains to large firms.

A possible solution to the problem lies in mentorship, partnership, or coaching, and possibly a provision of financial literacy education to small business owner managers. For future research, it would be useful to extend the number of SMMEs involved in this study, to obtain a sample more representative of the universe of small business in South Africa.

Conflict of Interests

The author has not declared any conflict of interest.

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