

ISSN: 1975-8480

Volume 7 · Number 1 · Summer 2012

Management Review:
An International Journal

KINFORMS

Management Review: An International Journal · Volume 7 · Number 1 · Summer 2012



Management Review: An International Journal
June 30, 2012
ISSN: 1975-8480

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A Conceptual Model of Value Apportioning among Organization's Stakeholders

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Received Dec. 16, 2011, Revised Apr. 12, 2012, Accepted May 17, 2012

ABSTRACT

The article considers the problem of organization's resource flows distribution among its stakeholders. The distribution is aimed on increase of operations and development sustainability of the organization. In order to compare different alternatives of the apportioning a utility function is used and maximization of utility is considered as the main goal equivalent. The survey is expository and sets the framework for further investigations in the area.

Keywords: stakeholder, stakeholder theory, rent, utility, utility function, risk

INTRODUCTION

The problem of distribution of value added among the organization's stakeholders (shareholders, customers, employees, authorities, society etc.) could be considered as the measurement problem of the stakeholder theory. The theoretical and practical potential (especially in terms of its economical, not the ethical intention) of the theory is significantly reduced by the absence of means of apportioning of efforts to satisfy competing stakeholders' needs.

The theory applicability and the problem relevance is much higher for non-governmental and not-for-profit organizations since their goals are much wider distributed among stakeholders compared to "maximize free cash flow" shareholders' goal importance for a commercial company. The resources involved into exchange between a non-profit organization and its stakeholders involve lots of intangibles, making the introduced model relevance to be extremely high for this class of organizations.

An organization exists as a kind of merger of resources put in by stakeholders and used for the strategy implementation (Gurkov, 2007). These stakeholders also get some resources back from the organization, making their own strategies possible. The sustained resource exchange could be feasible only if both parties would assess the value of resources given to be less than the value of resources received. The difference in valuation of the same exchange is explained by the difference in strategies of exchange parties and, therefore difference in ways the resources could be used or consumed. This asymmetry leads to the effect when each exchange party becomes wealthier according to its own value system (Petrov, 2005).

The sustainable resource exchange is therefore prerequisite to the survival of an organization. The negative difference between values of resources given and received for a stakeholder could lead the exchange to discontinue. The break could happen even with positive difference of values, if the stakeholder finds an alternative way to use its resources, making the difference between value received and given even higher. The probability of this break will be lower if there are higher costs connected to the process of seeking for better alternative and establishing a new exchange. The exchange where one stakeholder believes it receives less value than gives could extend for a long period of time not only because of high costs of change, but also because of uncertainty of the environment (in terms of systems approach) and limited rationality of decision maker.

Let us assume that an organization produces rent which is distributed among its stakeholders. The amount of rent acquired by some stakeholder is determined in some bargain process between the stakeholder and management (Clarkson, 1995). The management's rent is the remainder after this rent distribution between all stakeholders. It should be mentioned that management is the special stakeholder, because it organizes the resource exchange and administers relationships with other stakeholders.

Thus, the management solves the rent distribution problem, taking into account risks of break of relationships with particular stakeholders. The management makes a choice between several strategic alternatives. These alternatives vary in quantitative and structural parameters of the relationships between the organization and its stakeholders. The criterion of choice is the sustainability of existence and development of the organizations. Let us assume the management is oriented on the long-term

sustainability and maximization of utility of relationships between the organization and its stakeholders.

The Utility Maximization Problem

The strategic choice has a goal to maximize the integral utility of relationships and the rent re-distribution structure is the tool for the goal implementation. Obviously, some stakeholders will start to receive less than usual after the re-distribution and could decrease the resource return or even break the relationships. Management accepts this aftermath having that the released amount of rent being re-distributed to other stakeholders will increase the integral utility.

Let us consider the relationships between an organization and its particular stakeholder. Firstly, these relationships imply the existence of bi-directional resource flow. The utility is affected not only by the volumes of flows of wide variety of resources but also by the structure of the flow. Secondly, the utility is affected not only by the parameters of the resource flow. It depends on the business structure of the organization and the degree of involvement of the input resources into this structure. Thirdly, the utility depends on the transaction costs paid in case of connection break for its restoration. These transaction costs are the combination of amounts spent on seeking a new source of a resource, institutionalization of the connection, covering losses from possible effectiveness decrease due to flow break. Fourthly, the utility received from a stakeholder depends on the stakeholder's expectations toward the organization.

Having this in mind one could conclude that the level of utility received as a result of a connection with stakeholder depends on the amounts of resources received in terms of this connection and on such a connection parameters as resources involvement, transaction costs and expectation system. In order

to simplify further consideration, the organization point of view is default. It means for example that the word “received” will be treated as “received by the organization” if not stated otherwise. Let us use the following notation:

U_i — utility, received from i -th stakeholder;

$U = \sum U_i$ — integral utility, received from all stakeholders;

\tilde{U}_0 — utility, received by management from the organization.

The more correlation assured between \tilde{U}_0 and U in the management compensation plan, the more management is motivated on the long-term effectiveness maximization problem solution. Consider one-period model, which means that resources are given to a stakeholder at the moment of time t_0 . Reverse flow of resources from the stakeholder occurs at t_1 . In this case the difference $t_1 - t_0$ defines the minimal time frame for given and received resources measurement.

It is reasonable in terms of problem solving to consider the utility as a function of the received resource flow and the connection parameters:

$$U_i = U_i(r_i(t_1), c_i(t_1), t_1),$$

Where $r_i(t_1)$ — norm of vector of resources received from i -th stakeholder at the moment of time t_1 , calculated by translation of each resource’s value to its monetary equivalent and further summing-up or applying of another metrics.;

$c_i(t_1)$ — vector of connection parameters with i -th stakeholder.

The utility function in this form does not depend on management decision directly. The decision affects directly the following value:

$\tilde{r}_i(t_0)$ — norm of vector of resources given to i -th stakeholder at the moment of time t_0 . The following condition is then applicable:

$$\sum_i \tilde{r}(t_0)_i \leq \tilde{r}(t_0),$$

Where $\tilde{r}(t_0)$ — norm of vector of resources available for transfer to stakeholders at the moment of time t_0 .

Now it is obvious that $r_i(t_1)$ depends on $\tilde{r}_i(t_0)$, therefore the utility function could be considered as the function of resources given:

$$U_i = U_i(\tilde{r}_i(t_0), c_i(t_1), t_1).$$

Consider the shape of the function with fixed t and c_i . The function should be non-decreasing:

$$U_i(\tilde{r}_i + \Delta\tilde{r}_i) \geq U_i(\tilde{r}_i).$$

The law of diminishing marginal utility should be followed:

$$U_i(\tilde{r}_i^1 + \Delta\tilde{r}_i) - U_i(\tilde{r}_i^1) > U_i(\tilde{r}_i^2 + \Delta\tilde{r}_i) - U_i(\tilde{r}_i^2) \quad \text{where } \tilde{r}_i^1 < \tilde{r}_i^2.$$

This kind of the behavior should be true for relatively big values of \tilde{r}_i^1 . An increase of small value of given resources could lead to non-significant increase of received utility. Therefore $U_i(\tilde{r}_i)$ could be concave down at small level of \tilde{r}_i , but must be concave up for bigger values of the variable.

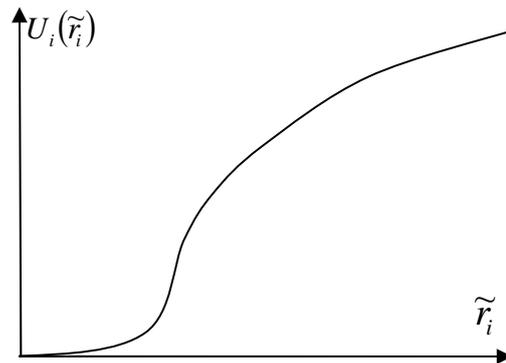


Figure 1. Common shape of the utility function

The level of utility received could be measured for an existing connection with a stakeholder. For planning and forecasting purposes it is reasonable to consider the utility as the random variable. The randomness is determined by the imperfect information about the stakeholder, nonhomogeneity of the stakeholder (which could involve several entities), uncertainty of environment.

It is reasonable then, to consider some maximal $U_{\max,i}(\tilde{r}_i)$ and minimal $U_{\min,i}(\tilde{r}_i)$ utility levels with given \tilde{r}_i , such as:

$$U_{\min,i}(\tilde{r}_i) < U_i(\tilde{r}_i) < U_{\max,i}(\tilde{r}_i)$$

with some pre-defined significance level α (Fig. 2). The degree of risk could be then measured as the difference:

$$R_i(\tilde{r}_i, \alpha) = U_{\max,i}(\tilde{r}_i, \alpha) - U_{\min,i}(\tilde{r}_i, \alpha).$$

The level of risk increases with increase of \tilde{r}_i .

The received utility level forecasting could be performed, for instance, when evaluating the reasonableness of making a new stakeholder connection and bargaining the parameters of this

connection. Planning of the connection is focused on getting some desired level of utility and usually some average (market) level of resources \tilde{r}_i^* which should be given in exchange for the utility level is known.

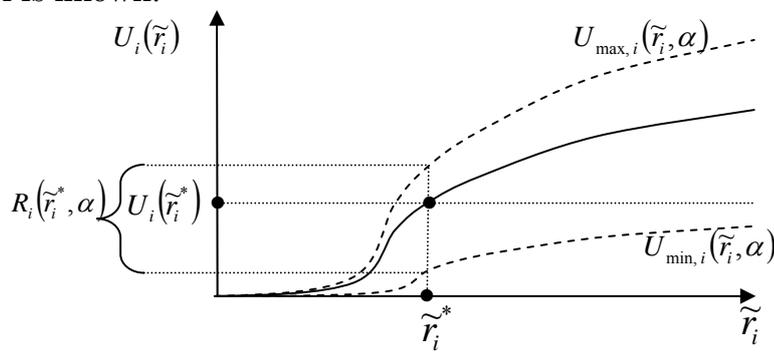


Figure 2. Risk measurement for the utility function

Now consider the utility function with change of time and fixed values of \tilde{r}_i , c_i . The utility could be stable, or could increase (for instance, when making uniform investments in a social project with increasing effectiveness) or decrease. We believe the last case to be the most common due to the environment change. The utility function could be considered as the function of time $U_i(t)$. $R_i(t, \alpha)$ in this case is obviously an increasing function due to the uncertainty increase with the passage of time.

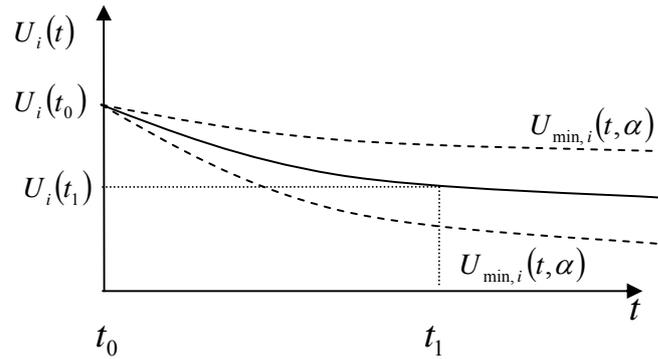


Figure 3. Utility as a function of time

The goal of optimal (from the long-term effectiveness and sustainability point of view) distribution of resources could be now stated as the utility of the next period maximization problem with resource and risk constraints, where R^* is the acceptable risk level:

$$\begin{cases} \sum_i U_i(\tilde{r}_i(t_0), c_i(t_1), t_1) \rightarrow \max \\ \sum_i R_i(\tilde{r}_i(t_0), \alpha(t_1), t_1) \leq R^* \\ \sum_i \tilde{r}_i(t_0) \leq \tilde{r}(t_0); \tilde{r}_i(t_0) \geq 0 \end{cases}$$

Also, the risk minimization problem with the acceptable utility level U^* constraint could be stated as follows:

$$\begin{cases} \sum_i R_i(\tilde{r}_i(t_0), \alpha(t_1), t_1) \rightarrow \min \\ \sum_i U_i(\tilde{r}_i(t_0), c_i(t_1), t_1) \geq U^* \\ \sum_i \tilde{r}_i(t_0) \leq \tilde{r}(t_0); \tilde{r}_i(t_0) \geq 0 \end{cases}$$

The amount of given resources \tilde{r}_i could be represented as:

$$\tilde{r}_i = \tilde{r}_i^* + \tilde{\Delta}_i,$$

Where \tilde{r}_i^* is some “standard” market average level of resources needed to be given to the stakeholder in order to receive the desired utility level and $\tilde{\Delta}_i$ — the stakeholder’s rent. The positive value of the rent could be helpful when decreasing risks. The negative value could be relevant in case of high transaction costs for stakeholder or in case of good expectations about future levels of \tilde{r}_i .

Therefore, the task of distribution of resources could be restated as the task of distribution of rents. The volume of resources $\tilde{\Delta}$, available for distribution as rents at the moment of time t_0 is defined as follows:

$$\tilde{\Delta}(t_0) = \sum_i (\tilde{r}_i(t_0) - \tilde{r}_i^*(t_0)).$$

Rent, received by the stakeholder could be now expressed as:

$$\tilde{\Delta}_i(t_0) = d_i(t_0) \tilde{\Delta}(t_0),$$

Where $d_i(t_0)$ — the part of $\tilde{\Delta}$ given to the stakeholder at the t_0 . This d_i is not necessarily positive, but the following constraints are applicable:

$$\sum_i d_i = 1, \quad d_i(t_0) \geq -\frac{\tilde{r}_i^*(t_0)}{\tilde{\Delta}(t_0)}.$$

The last condition means that the connection with a stakeholder is impossible if no resources are given to it. The new level of resources given to i -th stakeholder could be now expressed as:

$$\tilde{r}'_i(t_0) = \tilde{r}_i^*(t_0) + d_i(t_0)\tilde{\Delta}(t_0).$$

Now the utility maximization and risk minimization problems could be re-stated as follows:

$$\left\{ \begin{array}{l} \sum_i U_i(d_i(t_0), c_i(t_1), t_1) \rightarrow \max \\ \sum_i R_i(d_i(t_0), \alpha(t_1), t_1) \leq R^* \\ \sum_i d_i(t_0) = 1; d_i(t_0) \geq -\frac{\tilde{r}_i^*(t_0)}{\tilde{\Delta}(t_0)} \end{array} \right.$$

and

$$\left\{ \begin{array}{l} \sum_i R_i(d_i(t_0), \alpha(t_1), t_1) \rightarrow \min x \\ \sum_i U_i(d_i(t_0), c_i(t_1), t_1) \geq U^* \\ \sum_i d_i(t_0) = 1; d_i(t_0) \geq -\frac{\tilde{r}_i^*(t_0)}{\tilde{\Delta}(t_0)} \end{array} \right.$$

In some cases, particularly when the difference between \tilde{r}_i^* and \tilde{r}_i is non-significant, the volume of $\tilde{\Delta}$, available for re-distribution could not be determined with the above mentioned procedure. Nevertheless, the stated problem could still be considered if the volume of $\tilde{\Delta}$ is determined by management in an arbitrary way, taking the sustainability of the organization into account. Then \tilde{r}'_i should be re-defined as follows:

$$\tilde{r}'_i = \tilde{r}_i + d_i\tilde{\Delta},$$

and constraints in the problem statements should look like:

$$\sum_i d_i = 0; d_i \geq -\frac{\tilde{r}_i}{\tilde{\Delta}}$$

CONCLUSION

The proposed formalization of the rent distribution problem is just a first small step. Further investigation should be performed in the following areas:

- the utility function analytic expression and utility calculation methods;
- the connection parameters structure specification and its employment in the utility function;
- the determination of an affective way of solution of the stated problems.

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What Explains a Negotiated Outcome for Social Policy Shareholder Resolutions?

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Received Jan. 20, 2012, Revised Apr. 21, 2012, Accepted May 29, 2012

ABSTRACT

This article analyzes the outcome of social policy shareholder resolutions. It does so by focusing on many types of resolution

withdrawals sponsored by various types of filers. The paper shows that some characteristics of the resolutions themselves as well as those of the targeted firms play a role in the likelihood of a negotiated settlement between filer and management. Some issues, such as board diversity or equal employment, seem more conducive to a negotiated settlement of the resolutions filed. Others, such as energy and environment, against our expectations, do not seem to tilt the negotiation in favour of filers. The percentage of votes received by the resolution the year before also increases the probability of a favourable settlement for filers. Moreover, when introduced into the regressions, this variable overrides many other variables' influence in the outcome.

Keywords: Outcomes of shareholder resolutions, firm ownership, corporate social responsibility, filer of shareholder resolutions

INTRODUCTION

The so-called Rule 14 a-8, enacted in 1942 by the United States' Securities and Exchange Commission (SEC), entitles investors of US public firms to use the proxy machinery to file shareholder resolutions calling, among other things, for a better relationship with the different societal groups which are affected by the firms' business activities.(Ryan 1988). For instance, shareholders use Rule 14 a-8 to request that firms increase minority and gender diversity on their boards or to implement measures intended to reduce the environmental impact of corporation operations or products.

There are three possible outcomes when the firm receives a shareholder proposal that has been submitted. A first possibility is that the firm publishes and distributes the proposal to

shareholders, along with the proponent's statement of support and management's statement of opposition. A second potential outcome is that management negotiates with the resolution's sponsors to have them withdraw the proposal, removing it from the consideration of shareholders. A third possibility is that the firm requests that the SEC omit the resolution from the proxy materials to be distributed to shareholders (Proffitt and Spicer 2006). If the SEC concurs with the corporation officials, the resolution cannot be placed in the proxy materials. There are thirteen grounds for exclusion of a proposal.

These outcomes are not indifferent for filers. If the resolution is omitted, it comes to a dead end, showing, in fact, a very limited possibility of shaping corporate policy in any meaningful way. Chidambaran and Woidtke (1999) argued that the initiation of a shareholder proposal is part of an ongoing process of negotiations between shareholders and management. Only if an agreement cannot be reached by the parties is the proposal put to vote. We reason that withdrawals should be preferred by filers if Chidambaran and Woidtke's view is correct. First, they would prefer a negotiation of any sort (including maintaining dialogue with management) to a halt in exchanges and discussions on the disputed issue. Secondly, if the social resolution is put to a vote and gathers a very small percentage of votes, the filers may not be able to re-submit it again for five years, limiting further actions of the filer and entailing the risk of a clear signal from other owners of the firm of the rejection and detraction from the issue presented in the resolution.

In accordance to the view that withdrawals signal a negotiation between filers and management, in this article, we examine whether some characteristics of the firm, identity of the filers or characteristics of the resolutions themselves (such as the

type of issue they deal with) increase the likelihood of a withdrawal.

The rest of our article continues as follows. The next section presents the results from previous literature and states the hypotheses of the study. A third section presents data sources and methodology. A fourth section discusses the results of the study. A final section wraps up the article, suggesting future avenues for research.

PREVIOUS LITERATURE ON THE OUTCOMES OF SHAREHOLDER RESOLUTIONS

An important body of empirical literature on shareholder filing activity deals with the outcomes of the activity, in particular the capacity of shareholder resolution filers to influence management to adopt the suggested policies. Most of this literature deals exclusively with outcomes of resolutions related to corporate governance shareholder-initiated resolutions, i.e. calls to repeal management decisions intended to isolate the firm from the market of corporate control (for instance, Bizjak and Marquette, 1998; Smith, 1996).

Social shareholder resolutions have attracted much less attention from scholars. Chidambaran and Woidtke (1999) have examined the impact of a number of variables connected with size and profitability on the withdrawals of social policy proposals and corporate governance proposals. Their results suggest that social activist shareholders are more likely to strike deals for withdrawal with management of larger and more profitable firms. To the best of our knowledge, only three previous articles have focused exclusively at the empirical level on the influence of shareholder resolution filers on management. Hoffman (1996)

presents a case study of the interactions between the Coalition for Environmentally Responsible Economies (CERES) and Amoco, a large chemical, gas and oil firm that merged with British Petroleum (now BP) in 1998 (History of Amoco, 2009). These interactions included the filing of social proxies by socially responsible investors associated with CERES, calling Amoco to endorse a ten-point code of corporate environmental conduct promoted by CERES and intended to be publicly endorsed by companies that strive to improve their environmental performance. Proffitt and Spicer (2006) examined the evolution of shareholder proposals on the topics of international and labour human rights, filed from 1969 to 2003. They draw on the social movement perspective to analyze the influence of shareholder filers on the policies of targeted firms. Within this perspective, they assert that social movement activists deploy efforts to shape collective attitudes and beliefs over a long period, while trying to force change immediately through case-by-case struggles. In this context, they sustain that influence on management can only be discernible over years or decades, thus making the “success” of campaigns (in terms of influence on managerial decision-making) an elusive concept, which can be assimilated to the capacity of shareholder proposals to focus managerial attention on the issues raised in the proposals that create debate. Tkac (2006) analyzed all corporate social responsibility (CSR) proxies filed during the 1992–2002 period, not only those related to international labour and human rights. Tkac also concurred with the view that withdrawal of social resolutions signals a negotiation with management.

Our article makes a distinct contribution to the literature on the ability of social policy shareholder proposal resolution filers to influence management of targeted firms in a number of ways. First, based on Chidambaran and Woidtke (1999), we saw the

initiation of a shareholder proposal as being part of an ongoing process of negotiations between shareholders and management. Only when an agreement cannot be reached by the parties, is the proposal put to a vote. Thus, in an initial step, we study whether a number of factors (including characteristics of the targeted firms, of the filers and of the resolutions) influence the outcome of withdrawn resolutions. To the best of our knowledge, only Chidambaran and Woidtke (1999) have previously conducted an examination of the influence of certain numbers of firm traits using univariate tests (size and profitability) on the likelihood of withdrawal of social policy shareholder resolutions. However, their study differs from ours in a number of aspects. Most notably, Chidambaran and Woidtke (1999) compared the traits of firms exhibiting a withdrawal with those of firms that have not received a shareholder proposal. In our view, this design could be more appropriate for the examination of the firm targeting decisions of shareholder resolution filers. Thus, unlike Chidambaran and Woidtke (1999), we used regression analysis to study a number of factors that may affect the likelihood that social proxy is withdrawn (instead of being voted on). In summary, we focus our analysis on the outcomes of the resolutions of a sample of firms that have been targeted by filers, avoiding any comparison with a hypothetical matching sample of companies not receiving a social policy resolution.

We examine the influence of a number of factors on the likelihood of withdrawal, assuming that a withdrawal signals a sort of negotiation between the filer and management of the targeted firm. We are able to examine econometrically if firm traits, such as size, and profitability, social performance, and ownership structure may play a role in the outcome of social resolutions. These traits were suggested to us by the literature on corporate governance shareholder activism, as well as literature

on the interplay between CSR and corporate financial performance (Waddock and Graves, 1997; Orlitzky *et al.*, 2003), and the review of accounts of the operation of activist campaigns, such as those presented by Vogel (1978), Manheim (2001), and Hoffman (1996). Previous findings in the area of corporate governance shareholder activism suggest that characteristics associated with resolutions themselves, such as the type of issue raised or the filer may play a role in management decision to adopt requests from shareholders.

Previous literature on corporate governance shareholder activism suggests that it is possible to identify a number of factors that may strengthen the capacity of activist shareholders to negotiate with management. This literature depicts an adversarial relationship between managers and activist shareholders. In the framework of this adversarial relationship—basically modelled along the lines of agency theory—activist shareholders can file resolutions to discipline managers of firms with poor financial performance who pursue their selfish interests to the detriment of the targeted company's stockholder base. In turn, corporate governance activist shareholders can also pursue their own interests, advancing resolutions to gain personal publicity in order to advance professional or political careers. We also consider the negotiation between management and filers of social proxies as adversarial. However, the variables that may favour the negotiation for filers of social proxies are arguably different, given that firm-value maximization is not necessarily the main motivation of filers, who can also pursue other objectives.

Characteristics of Resolutions

Types of Issues and Filers

Characteristics of the resolutions themselves (such as the type of issue that they raise or the identities of their sponsors) have shown to favour a settlement of the issue with management (Smith, 1996). Chidambaran and Woidtke (1999) found that corporate governance proposals sponsored by institutions and coordinated groups have a higher probability of withdrawal than those filed by individuals. We concluded from the above-mentioned articles that some type of investors could have more financial clout than others, which is favourable to them in their dealings with management. Moreover, some types of issues presented in the resolutions could be perceived as more harmful for market valuation if management does not deal with them. On the basis of this discussion, we formulated the following hypotheses:

H1a. Social policy shareholder resolutions sponsored by some particular types of filers exhibit a greater likelihood of being conducive to a settlement with management.

H1b. Social policy shareholder resolutions containing some particular types of requests could be more likely to be the object of a settlement with management.

Previous Vote Turnover

It also seems plausible that resolutions that have been voted in a year before, receiving relatively large vote tallies, could have a greater likelihood of ending up in a settlement between management of the targeted company and the filer. It has been argued that the proxy machinery favours management in a number of ways (Davis and Thompson, 1994). For instance, a proxy vote is not generally anonymous, which leaves institutional investors open to pressure from managers who may be able to determine in many circumstances who voted for them and against

them. This may be a sensitive issue for institutional investors who supply financial services to the firm. Because proxy votes are revocable up to the time of the vote at the annual meeting, management can lobby to change the votes of shareholders who voted against its wishes. In some cases, however, management anticipations about vote turnover can be proved wrong, with higher unexpected vote turnover signalling investors' dissatisfaction with corporate lack of responsiveness toward a sensitive social topic. This leads us to formulate a second hypothesis concerning the study.

H2. Vote turnover of resolutions being subsequently re-submitted have a greater likelihood of being part of a settlement between management of the targeted firm and the filer.

Firm Size

Previous research about firm targeting—in both areas, corporate governance and social policy shareholder resolutions—suggest that large firms are preferred by activist investors. Thomas and Cotter (2007) found that companies targeted by corporate governance shareholders are relatively large, albeit those targeted by social policy shareholder resolutions could be even larger. Three reasons could explain that preference. First, large firms can be leaders in the industry. Innovative social policies can be copied, if smaller competitors adopt them, either by mimesis, out of fear of losing an important segment of the consumer or investors bases, or to avoid harsher forms of governmental intervention. Secondly, McWilliams and Siegel (2001) conjecture that there are economies of scale in firms provision of goods with CSR attributes. Thirdly, larger firms are more visible and are more likely to have global operations, and

consequently attract media attention. This could be particularly relevant if political or personal careers can be furthered by social policy shareholder activism, as Romano (2001) and Del Guercio and Hawkins (1999) have argued that it can be the case of corporate governance activism. As well, Baron (2003) suggested activists advocating for social causes (whether using the proxy machinery or not) may want to attract new members and contributions. If these motivations apply in the case of social proxy filer, clearly larger firms are more likely to provide higher rewards. Thomas and Cotter (2007) provide partial evidence that larger firms are more likely to respond to shareholder proposals. Nevertheless, Smith (1996) uncovered evidence that firm size, although important in the targeting selection process for corporate governance shareholder activism, does not affect the likelihood of a successful outcome.

This discussion leads us to formulate another hypothesis:

H3: Resolutions filed at large firms are more likely to end up in a settlement.

Firm Profitability

Researchers have pointed out that firms with higher profits could invest in programs allowing them to improve their social performance (Waddock and Graves, 1997; Seifert *et al.*, 2004; Orlitzky *et al.*, 2003). If that is the case, firm profitability will be positively related to management decision to yield to socially concerned shareholders' requests. Thomas and Cotter (2007) found that the firms' market adjusted one-year return increased the likelihood of the board taking action on corporate governance resolutions receiving majority votes, indicating that well-performing firms are more willing to abide by the their activist

shareholders' requests, especially when it comes to removing anti-takeover defences. On the contrary, Carleton *et al.* (1998) reported weak evidence that poor stock market performance leads to a higher likelihood of a negotiated settlement.

This discussion allows us to formulate the following hypothesis:

H4: Resolutions received by more profitable firms are more likely to generate a negotiated settlement.

Previous Firms' Social Performance

Arguably, companies that perform better in social terms should be more likely to integrate social activist shareholder requests presented to them in social policy resolutions. There is anecdotal evidence showing that socially performing firms could attract corporate campaigns intended to transform them in setters of new trends in CSR that could be mimicked by other less performing firms. Likewise, Rehbein *et al.* (2004) presented anecdotal evidence that Operation PUSH, an organization intended to promote African-American people's advancement, decided to target a beer maker with a number of actions, because of its lack of minority distributors. However, these authors claim that the main reason for targeting the company was to maximize publicity about diversity issues, even if the company had an above-average record regarding those issues.

In accordance, we present the following hypothesis:

H5: Resolutions targeting more socially responsible firms are more likely to have a negotiated settlement as an outcome.

Ownership Structure

Shleifer and Vishny (1997) argued that the most direct way to align cash flow and control the rights of outside investors is to concentrate shareholdings. A substantial minority shareholder has the incentive to collect information and monitor management, avoiding the so-called “free-rider” problem, i.e., the fact that investors holding limited amounts of stock do not have a financial interest to invest in monitoring management. Furthermore, investors holding a substantial minority have enough voting power to put pressure on management to the point of ousting management through a proxy vote or a takeover. Thus, investors holding large stakes in a firm could have an interest to deploy major resources to monitor management regarding decisions of social policy deemed as detrimental for major key stakeholders, and having a potential implication in financial returns for their investments. Institutional investors, given their accrued salience on capital markets in the United States, tend to hold large percentages of outstanding shares. In this way, they have an interest in deploying resources to monitor social issues that could pose a threat to the future financial rewards of the companies in their portfolios. The same could be argued about block-holders. These aspects of the firms’ ownership structure lead us to formulate the following hypothesis:

H6a: Firms with larger percentages of institutional ownership or block-holder ownership are more intensively monitored regarding their social performance, making it more likely to have a negotiated settlement of the shareholder resolution.

If institutional ownership could favour filers in their negotiations with management of targeted firms, it is not

arguably the case of insider stockholders, which should tend to vote with management. Thomas and Cotter (2007) reported, in fact, that vote turnover for social policy resolution in their sample was negatively related to the level of insider ownership. Low expected vote turnovers tilt negotiations with filers in favour of management. In consequence, we propose another hypothesis.

H6b: Management of firms with larger proportions of insider ownership can be less inclined to negotiate a settlement of a social policy shareholder resolution.

SAMPLE AND SOURCES OF DATA

We put together all social policy resolutions received by US firms during 2000 to 2004. The source of these shareholder resolution proposals was the yearly publication of Social Policy Shareholder Resolutions, from the Investor Responsibility Research Center (IRRC). A total of 1,486 resolutions (presumably, the entirety of resolutions received by U.S. companies during the above-mentioned years) were assembled. We used Compustat to retrieve targeted firms' accounting data and market returns. KLD's Socrates database provided data intended to evaluate the social performance of firms. In some cases, we could not find any sort of information about the firms, causing us to drop those firms from the sample. In total, we kept 1,424 for further analysis. Ownership data were retrieved from Compact D/SEC (Disclosure SEC).

For each proposal, IRRC provides a checklist, containing the name of the company; the summarized title of the resolution; the sponsor(s) name; as well as the status of the resolution, i.e., withdrawn, omitted, not in proxy or voted (in this later case,

turnover is reported in percentage of shares). This information allows us to examine the likelihood of a negotiated settlement.

We identified 18 shareholder resolutions that were withdrawn, although the IRRC reported that, in those cases, the omission could be very likely or even imminent because the resolution did not comply with the technical requirements of Rule 14 a-8, and one or more of the thirteen reasons invoked to omit resolutions could apply. Five resolutions also were withdrawn because the company reported that the resolution did not apply or the requested policy was already implemented. In both cases, we re-classified those withdrawn resolutions as omissions. In two cases, filers preferred to withdraw their proposals because the targeted company merged or it was acquired since the proposal had been filed. We did not consider these resolutions as withdrawals, because there was no meaningful negotiation to talk about. Instead, we classified them with those in the original category from IRRC comprising shareholder resolutions proposals that were reported as not presented, not in proxy, had cancelled the shareholder meeting, or were taken over or merged during the proxy season.

Between 2000 and 2003, IRRC reported the names of the first sponsor and co-sponsors of resolutions. For 2004, nonetheless, only the main sponsor's identity was reported. We dropped the identity of co-sponsors from the analysis to facilitate comparison. Thus, only the first sponsor is associated with each of the resolutions.

DISCUSSION OF RESULTS

If withdrawals signal a negotiated settlement of an issue between the filer of the resolution and management of the targeted firm, as Chidambaran and Woidtke (1999) proposed, Table 1 shows that

most resolutions are not conducive to such an agreement. More than half of the 1,424 resolutions in our sample (54.3%) ended up being voted by shareholders, presumably signalling management's unwillingness to negotiate with the resolution filers. Slightly less than 28% of all resolutions in our sample ended up being withdrawn, while about 13% of resolutions were omitted by the regulator, which sided with management requests to keep these resolution proposals out of the proxy materials distributed to shareholders.

Withdrawal of resolutions is not uniform across the types of topics raised in resolutions and filers.¹ For instance, calls to

¹ Most categories for issues and filers are self-explanatory. However, it is important to include clarification for a few of them. Equal employment proposals seek to promote discrimination-free workplace environments in domestic operations of firms. Discrimination could be the result of gender identity, ethnicity, religious confession, sexual orientation or age. Resolutions in the international labour and human rights category include calls for management to adopt codes of conduct in their operations in certain countries, such as China, or adoption of the International Labour Organization standards and external monitoring. Shareholder resolutions in the "fairness in society" category seek to promote corporate policies that are consistent with fairer access to wealth and well-being for disadvantaged groups or communities, at domestic or international levels (such as calls to banks to apply globally the community investment act, or to create stakeholders' committees to supervise plant closings). Human health issues' resolutions intend to promote corporate initiatives seeking to improve or expand access to healthcare or healthier products, including calls to develop ethical criteria for patent extension. Filer categories were established on the basis of the information retrieved from the Web sites and publications of the IRRC. We considered mutual funds to be those identified as such in the Social Investment Forum (2003).

Table 1. Outcome of Social Policy Shareholder Proposals in the U.S., 2000–2004, According to the Category of Issues Raised and Type of Sponsors

Type of Issues	Total		Voted		Withdrawn		Omitted		Not Presented ^{1/}	
	No.	% ^{2/}	No.	% ^{3/}	No.	% ^{3/}	No.	% ^{3/}	No.	% ^{3/}
Energy and environment	362	25.4	203	56.1	103	28.5	44	12.2	12	3.3
International labour and human rights	287	20.2	178	62.0	71	24.7	31	10.8	7	2.4
Equal employment	145	10.2	54	37.2	78	53.8	10	6.9	3	2.1
Fairness in society	102	7.2	62	60.8	27	26.5	11	10.8	2	2.0
Human health issues	97	6.8	41	42.3	41	42.3	13	13.4	2	2.1
Involvement in partisan politics	87	6.1	66	75.9	4	4.6	13	14.9	4	4.6
Charitable giving	71	5.0	28	39.4	3	4.2	39	54.9	1	1.4
Tobacco issues	64	4.5	39	60.9	14	21.9	9	14.1	2	3.1
Involvement in the military	57	4.0	46	80.7	5	8.8	3	5.3	3	5.3
Board diversity	55	3.9	27	49.1	25	45.5	2	3.6	1	1.8
Local or indigenous community rights	16	1.1	6	37.5	7	43.8	2	12.5	1	6.3
Animal rights	15	1.1	8	53.3	1	6.7	0	0.0	6	40.0
Other/unknown ^{4/}	66	4.6	15	22.7	15	22.7	2	3.0	34	51.5
Total	1424	100.0	773	54.3	394	27.7	217	15.2	40	2.8

Type of sponsor	Total		Voted		Withdrawn		Omitted		N/A	
	No.	% ^{2/}	No.	% ^{3/}	No.	% ^{3/}	No.	% ^{3/}	No.	% ^{3/}
Religious investor	469	32.9	267	56.9	154	32.8	34	7.2	14	3.0
Mutual fund	249	17.5	101	40.6	119	47.8	22	8.8	7	2.8
Individual	246	17.3	128	52.0	10	4.1	100	40.7	8	3.3
Public pension fund	185	13.0	99	53.5	68	36.8	15	8.1	3	1.6
Asset manager	109	7.7	70	64.2	27	24.8	8	7.3	4	3.7
Advocacy group	99	7.0	63	63.6	12	12.1	23	23.2	1	1.0
Trade union	56	3.9	42	75.0	3	5.4	9	16.1	2	3.6
Unknown/other ^{4/}	11	0.8	3	27.3	1	9.1	6	54.5	1	9.1
Total	1424	100.0	773	54.3	394	29.4	217	2.9	40	13.4

1/ Not presented, not in proxy, shareholder meeting cancelled, or takeover or merger took place during the proxy season.

2/ Percentage of total number of resolutions.

3/ Percentage of each outcome for the issue or filers' category.

4/ No category found; plus other categories comprising each one less than 1% of total number of resolutions.

diversify boards (adding more women or minorities) exhibited a large percentage of withdrawals during the period. It was also the case of resolutions requesting the firm to offer a discrimination-free working environment in their domestic operations (equal employment). From the point of view of sponsors, religious investors, mutual funds and pension funds exhibited a greater number of withdrawals.

The view that certain types of issues and filers could have an accrued capacity to negotiate with management is reinforced by the examination of voting patterns. As Table 2 reports, when negotiations with management fail and the resolution is put to a vote, resolutions linked to energy and environment, international labour and human rights, and especially equal employment and board diversity receive tallies that are higher than average. Likewise, voted resolutions sponsored by mutual funds and pension funds gather a higher turnover than those sponsored by other types of filers. The clout of these two latter types of filers may be connected with a greater financial might in terms of stockholdings, as well as a greater access to specialized human resources.

In a next step of our analysis, we used logit analysis to check our intuition that factors concerning the resolution characteristics, firm size, profitability, social performance and ownership structure of companies could tilt the negotiation of resolutions in favour of one of the parties involved, as stated in the hypotheses of this study. Concerning the traits of the resolution themselves, we hypothesized that resolutions connected with energy and environment, international labour and human rights, equal employment, and board diversity, as well as those being filed by mutual funds and pension funds, are more likely to end up in a settlement.

Table 2. Vote Turnover of Voted Proposals in the US, 2000–2004, According to Category of Issues raised and Type of Main Sponsor

Type of Issue	No.	Average Turnover (%)
Energy and environment	203	10.8
International labour and human rights	178	10.3
Equal employment	54	16.9
Fairness in society	62	8.3
Human health issues	41	8.4
Involvement in partisan politics	66	7.6
Charitable giving	28	5.7
Tobacco issues	39	7.2
Involvement in the military	46	6.2
Board diversity	27	19.8
Local or indigenous community rights	6	7.3
Animal rights	8	4.1
Other/unknown ^{1/}	15	6.3
Total	773	10.0

Type of sponsor	No.	Average Turnover (%)
Religious investor	267	9.0
Mutual fund	101	13.5
Individual	128	7.0
Public pension fund	99	13.5
Asset manager	70	10.7
Advocacy group	63	7.6
Trade union	42	9.6
Unknown/other ^{1/}	3	43.8
Total	773	10.0

^{1/} No category found, plus other categories comprising less than 1% of all resolutions.

This is based on the evidence presented in the tables already discussed and other intuition that mutual funds and pension funds have more financial power and access to resources, including specialized human resources, to conduct their activism. High vote turnovers received by the resolutions that these actors sponsored may be uncomfortable for management, and thus previous vote turnover may play a role in the possibility of a settlement if the resolution is submitted the year after.

Table 3 presents the results of a logistic regression, based on the information used to develop Table 1. The dependent variable in our regression is set to be one (1) if filers have withdrawn their resolution (presumably in exchange for negotiation) and zero (0) if management, instead of negotiating a settlement with the filer, felt confident enough to let the proposal be voted on by stockholders. We dropped the group of omitted resolutions from the analysis, because omission depends on technicalities and opinions of the SEC rather than on firm characteristics. We also dropped resolutions that were not presented or not in the proxy from this analysis, because a merger or takeover occurred after the filing, since there was not a meaningful negotiation to talk about in this case. Four models were run in order to test our hypotheses. The first model includes as independent variables the natural logarithm of market value of the firm (the proxy for size), one-year total return (as indicator of profitability), separate dummy variables set to one (1) if the resolution was connected to issues of energy and environment, international labour and human rights, equal employment or board diversity, or if the resolution was filed by a mutual fund or a pension fund, and set to zero (0) otherwise. Other independent variables are the social performance of the firm, as reported by KLD, and the percentage of the firm value owned by the institutional investors, the top five

investors and insiders. Model 2 replaces one-year total return as the indicator of profitability with the three-year total return.

Table 3. Determinants of Shareholder Resolution Withdrawals

	Model 1	Model 2	Model 3	Model 4
Ln (market value)	-0.040	-0.060	-0.180	-0.160
One-year total return	-0.004		-0.016 ***	
Three-year total return		-0.002		0.003
Dummy energy & environment	0.175	0.151	-0.001	-0.278
Dummy int. labour & human rights	-0.830 **	-0.760 **	0.360	0.330
Dummy equal employment	0.870 *	0.900 *	0.790	0.700
Dummy board diversity	0.370	0.440	1.420	1.070
Dummy mutual fund filer	0.200 *	0.190 *	0.060	0.070
Dummy pension fund filer	0.190 *	0.170 *	-0.010	-0.040
KLD rating	0.800 **	0.760 **	0.150	0.250
Institutional ownership	0.010 **	0.010 **	0.010	0.010
Five largest owners	-0.012 **	-0.015 **	-0.006	-0.005
Insider ownership	-0.010	-0.010	-0.040	-0.050
Vote previous year			0.080 *	0.060 **
Constant	-0.900	-0.770	-2.370	-2.120
No. of observations	643	632	179	178
Pseudo R2	0.0889	0.0861	0.1436	0.1221

*, **, *** significant at 99%, 95% and 90% respectively.

Logit regression, dependent variable 1= resolution withdrawn, 0= resolution voted

Models 3 and 4 add the vote turnover gathered by the resolution the previous year (in percentage). To run the models,

all variables had been lagged by one period. This is because the so-called proxy season covers a number of months, and proposals for one year can start to be filed as early as the month of March the previous years (Karpoff et al. 1996). Logistic regressions reported in Table 3 (models 1 and 2) partially confirm our hypothesis H1a) concerning the identity of filers. Estimated coefficients in the models 1 and 2 show that a withdrawal of the resolution is more likely if it was filed by a mutual fund or a pension fund. Results from models 1 and 2 also partially confirm our hypothesis 1b). In effect, resolutions calling companies to provide discrimination-free workplace environments in domestic operations show a greater likelihood of ending up being withdrawn as hypothesized. The estimated coefficients for this dummy variable are positive and significant at the 99% confidence level in models 1 and 2. However, the coefficient for the dummy for resolutions related to international labour and human rights issues, albeit significant at the 95% level of confidence is negative, indicating that this type of resolutions are less likely to be conducive to a withdrawal. The coefficients estimated for the dummy variables assigned to the resolution if it was related to the energy and environment and the board diversity categories were not statistically different from zero in any of the four models. Results concerning the two latter dummy variables are puzzling to us. Environmental issues are, in fact, pervasive in the public arena concerning firms' interaction with society (Hoffman 1996). Firms that neglect the energy and environmental impact of their operations can indeed be harshly punished by large segments of consumers, and, consequently, can fare worse in capital markets. A partial explanation for our results regarding energy and environment issues could be provided by the fact that energy and environment as well as international labour and human rights are heterogeneous and broad categories. We have the intuition that only some of the calls to reform

environmental or energy policy of the corporation could be perceived by management of the targeted firm as having a potential to damage financial performance if shareholder concerns are not addressed properly. In many other cases—our argument goes—energy and environment resolution could reflect the concerns of a very limited segment of activist shareowners, with a narrow agenda, and a very limited potential of hurting the economic fortunes of the concerned firm if left unanswered.

This can be also the case of the resolutions in the category that we labelled as international labour and human rights. These resolutions include, for instance, calls to multinational corporations to adopt codes of conduct that can guarantee the respect of workers' rights in operations overseas (including their suppliers) and independent monitoring of compliance. O'Rourke (2003) and Elliott and Freeman (2001) present anecdotal evidence that many firms have positively reacted to pressure from stakeholders to adopt codes of conduct for themselves and their suppliers abroad. O'Rourke (2003) identifies a host of schemes (mostly non-governmental) that have emerged during the late 1990s and early 2000s to develop appropriate codes of conduct for multinational firms and certifications of compliance. These firms enter these arrangements voluntarily in order to avoid negative reactions from consumers who could refuse to buy products, presumably developed under exploitative conditions. This corporate commitment to the adoption of codes of conduct and independent monitoring runs contrary to our finding. Our only provisory explanation is that resolutions that we have put together since international labour and human rights constitute also a relatively broad array of issues. Some of them could be related to the adoption of codes of conduct (for which management could presumably be responsive), but some others are connected with more requests more difficult for firms to implement, such as

demands for a “living wage” in their operations in developing countries, or calls to divest from countries with a record of mass violation of human rights. These latter types of resolutions could reflect rather a protectionist attempt from some groups. This explanation is only partial, and more research is needed on the issue.

It is interesting to observe as well that the coefficients for the dummy variable equal employment is positive and significant while those of the dummy international labour and human rights are negative and significant. We reason that potential damage of the issues connected with operations outside the country would be less damaging in terms of discrediting the firm than domestic issues connected with employment or board design, or perhaps threats of legal action or consumer boycotts are larger at the domestic level.

Models 3 and 4 introduce the percentage of votes gathered by the resolution the previous year as an independent variable. The estimated coefficient for the variable is positive and significant (H2). Moreover, when this variable is introduced into the regression, other variables (such as the dummies for mutual funds and pension funds, or rating from KLD) lose their significance, suggesting that it dominates over them. This dominance tells us that a relatively high vote turnover for a resolution constitutes for management an indication of the potential resonance of the issue in society at large, and facilitates negotiations for filers. This conclusion, however, must be handled with care, because introducing the percentage of voted received the previous year implies that the outcome of the resolution (voted, not withdrawn) at time t becomes an independent variable at $t+1$, which could be the source of potential econometric problems.

Our logistic regressions presented in Table 4 suggest that firm size (H3) does not increase the likelihood of a withdrawal,

even if larger firms could benefit from economies of scale to adopt innovative social policies, or take advantage of early adoption of them to foster their competitiveness. The estimated coefficient for the variable is not statistically different from zero in any of the models. Contrary to our expectations as well, profitability (H4) appears to have only a limited impact on the probability of a resolution withdrawal. The estimated coefficient for the three-year total return (models 2 and 4) are not statistically different from zero. The coefficient for the one-year total return is significant—and negative, thus against our expectations—in just one model. We suspect that this could reflect that financially underperforming firms are subject to heavier scrutiny from stockholders than their more performing counterparts. If so, their management could be tempted to give more consideration to demands from social activist shareholders, because refusing to do so could provoke reactions (like threats of divestment) or bad publicity that can be particularly damaging for a financially underperforming firm.

Estimates of the coefficient for the rating received by the company from KLD suggest that socially over-performing firms are more likely to integrate demands from social policy activist shareholders. It also appears, from Table 3, that institutional ownership in the firm increases the likelihood of a withdrawal (H6a). However, blockholder ownership decreases the likelihood of a withdrawal. This could reflect that this type of owners, who are considered to favour monitoring of managers and alignment of managerial and shareholder interests (Shleifer and Vishny, 1997), consider social policy shareholder resolutions as detractive for the firm market value.

Insider ownership, however, shows statistically insignificant coefficients in all models.²

CONCLUSION

This paper examines empirically whether a number of characteristics of social policy resolutions and targeted firms have an influence on their outcomes. Drawing on Chidambaran and Woidtke (1999), we considered that voted resolutions spelled the end of negotiations between firm management and filers, while withdrawals imply a negotiation of some sort. If this view applies, about 28% of all resolutions in our sample would end in negotiations between the parties, while, in slightly more than half of the cases, management felt confident enough to put the resolution to a vote.

We examined, using logit regression, whether a number of factors related to the characteristics of the resolution themselves as well as those of the targeted firms increased the possibility of a negotiated settlement. The indicator of this negotiated settlement of the resolution is the withdrawal of the resolution.

Our results falsify some of our hypotheses and confirm others. Resolutions filed by mutual funds and pension funds exhibit positive coefficients suggesting that these resolutions are more likely to end up in a withdrawal. Institutional ownership also increases this likelihood, as it does, among other aspects, the

² It is important to highlight that the introduction of the vote turnover received by the resolution the previous year strongly decreases the number of observations. When models 1 and 2 are run using the sub-sample of resolutions that have been voted the previous year and then re-submitted, results are qualitatively similar to those of models 3 and 4. It is thus possible that the impact of the vote turnover gathered by re-submit proposals can be the result of the sub-sample, rather than the explanatory power of the variable.

rating received from KLD by the company. In many cases, though, these variables lose significance when the vote percentage received by the resolution the previous year is introduced into the analysis. Thus, this latter variable seems to dominate over other variables.

Our article focuses on all types of filers and issues. Future research, however, could gain if other approaches were implemented. For instance, by focusing on a single filer of social shareholder resolutions that gives access to its communications, researchers could gain additional information about the capacity of all resolutions over a number of proxy seasons, both withdrawn resolutions and those that have been submitted to a vote. Future research could also benefit of taking into consideration how media coverage of social policy shareholder resolutions may tilt negotiations in favour of filers. Reports in the financial press suggest that media attention may indeed play a role in management decisions to implement an action suggested by activist shareholders. For instance, in 2007, Berkshire Hathaway, a financial company controlled by renowned investor Warren Buffett, received a shareholder resolution asking it to sell its shareholding stake in PetroChina, a company that activists have accused of indirectly funding human right abuses in the region of Darfur, Sudan. The board of Berkshire suggested stockowners vote against the proposal, and received slightly less than 2% of support (Berkshire Hathaway, 2009). However, and presumably as a consequence of media coverage and demonstrations outside the building where the general annual meeting of the company was taking place, Berkshire Hathaway's board decided to divest, effectively abiding by shareholders' request.³ Thus, the role of

³ Some analysts have pointed out that Berkshire Hathaway's decision could have been driven by profit-seeking, rather than a desire to appease criticism on its social policies (National Public Radio, 2009).

media coverage can be potentially fruitful for research on shareholder activism, although it may imply methodological challenges, such as how to develop the appropriate metrics for it.

Future research could also address another limitation of our study. Although we do not deal with the topic, previous research on corporate governance and social policy suggests that less public forms of activism such as private letters and phone calls to management could be common. Del Guercio and Hawkins (1999) pointed out that a pension fund proposing changes in corporate governance will only use the proxy machinery to file a shareholder resolution as a last resort. Naturally, this only works if the threat is credible. As one pension official quoted by Del Guercio and Hawkins (1999: 297) put it, “every once in a while the junkyard dog has to bite.”⁴ Logsdon and Van Buren (2009) have already noticed that a resolution was not filed for several years because of an ongoing dialogue, putting this form of activism out of the public view, and making it much more difficult for researchers to scrutinize it. In spite of the difficulties of this avenue of research, we agree with the observation of Logsdon and Van Buren that understanding dialogue could greatly enlarge our capacity to examine the ability of activist shareholders to influence management on matters of social policy.

⁴ Baron (2003: 36) in his study about activism seeking to promote “private orderings” intended to change targeted firms’ social policies, states that more important than the successful or failed attempts of activists are the proactive measures adopted by many firms to avoid private politics. Some of these attempts are, according to the researcher, a little more than public relations, but many represent real commitments to changes in policies and practices.

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Marriage between Strategic Alliances, Collaboration and Innovation: A Hedonistic View from Biotechnology Industry

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Received Feb. 12, 2012, Revised May 19, 2012, Accepted Jun. 5, 2012

ABSTRACT

This research is a replicative study involving Strategic Alliances, Innovation, collaboration and Biotechnology from a firm level setting with application of evaluation tools like Balanced Scorecard. A conceptual model is referred to in here from relevant academic literatures involving Trust, Alliance Governance (Leadership) Strategic Intent (direction), Organization culture, Knowledge sharing and Internal Business process which enhances alliance satisfaction and increases performance. This performance can be measured by metrics like scorecard and an attempt has been made to do that. This study aims to provide a theoretical background for a broader research theme in the elements

proposed in the conceptual model and paves the way for further examination by application of various qualitative and quantitative measurements.

Keywords: Strategic Alliances, Innovation, Biotechnology, Conceptual Model, Balanced Scorecard, Theoretical Background.

INTRODUCTION

The knowledge economy has undergone a sea change in modern world with the winds of innovation blowing from all directions had swept away the archaic processes and yielded ways for firms to radically transfer them into focal point for innovation. Firms in the technological arena competing in the new era of knowledge economy had felt the need to access to superior ideas continuously, with access to knowhow and information to be sustainable in the market space (Bierley and Chakrabarti, 1996). As frontiers crumble, no firm can individually access all the information in the marketplace making collaborations essential in the form of alliances with domestic and international firms, government research laboratories and universities (Arora and Gambardella, 1990; Powell *et al.*, 1990). One of the approaches adopted by the firms in knowledge economy is to monitor development of knowledge externally and leveraging it for gainful purposes, is to engage in Strategic Alliances. Strategic Alliances are a quicker source to gain access to superior technology in the form of knowledge repositories patents copyrights etc. Research has corroborated this fact, that alliances are an important source of scientific and technological knowledge (Mowery *et al.*, 1996; Powel *et al.*, 1996; Ahuja, 2000) and contributes to firm success. Empirical research also suggested firms learn from each other

than formal alliances and individual employees also play a big role in diffusing /dissemination of knowledge as suggested by research conducted on localized knowledge spillovers (Saxenian, 1994; Porter, 2000). Also the internet with its far reaching network has facilitated the dissemination of knowledge to a great extent between individuals. Here a discussion is ensued in order to form a routine for guiding future research on individual level collaborations on strategic alliances and the impact it plays on innovation. This individual level of knowledge exchange is of permanent importance in alliance scenario, through contribution made to the knowledge intensive industries like software, research and development laboratories, academia etc. The focus of the individual as a conduit for inter firm knowledge flows is also evident from the work on mobile engineers and innovation in semiconductors (Almeida and Kogut, 1999).

Stages in the formation of Strategic Alliances

In reviewing the literature on developmental stages of Strategic Alliances (Das and Teng, 2002) concluded that all models of strategic alliances contained: A Formation Stage, in which the partners are identified, negotiations are carried out, and the alliance's strategy is formulated and set up. An Operation Stage, in which the partners start to operate the alliance and implement the agreements. An Outcome Stage, in which the alliance either becomes mature and stabilizes or continues to change and reform.

Primary Purpose of an Alliance:

a) Cooption - In this process potential competitors are converted into allies and providers of complementary goods and services that allow new businesses to develop. The benefits are: D) Potential rivals with complementary skills helps in creating

network economies. II) Firms with complementary goods create network economies in favour of coalition.

B) Co Specialization: -It is the synergistic value creation in which partners in an alliance contribute unique and differentiated resources like skills, brands, relationships and create value through bundling of resources.

c) Learning and Internalization:-Alliances are a breeding ground for learning new skills which are tacit, embedded and collective, which can be internalized and exploited to yield more value.

Synergies Generated in Strategic Alliances

a) Modular Synergies: - This happens when companies manage resources independently and pool only the results for greater profits as for e.g. Hewlett Packard and Microsoft have created a non equity alliance that pools the companies' systems integration and enterprise software skills, respectively, to create technology solutions for small and big customers.

b) Sequential Synergies: This occurs when one company completes its tasks and passes on the results to a partner to do its bit. In those cases the resources of the firms are sequentially interdependent. As for instance in a Biotech firm that specializes in discovering new drugs, like Algenix, wishes to work with a pharmaceutical giant that is more familiar with the FDA processes, such as AstraZeneca, as both companies are seeking sequential synergies.

c) Reciprocal Synergies: This is achieved by closely working together and executing tasks through an iterative knowledge sharing process. In these types of synergies, not only firms have to combine resources, but also have to customize them a great deal to make them reciprocally interdependent. In examining the motives for strategic alliances there is a related study by (Almeida,

Song and Grant 2005) which discusses about the superiority of firms vis-à-vis alliances and markets. This paper traces the superiority of MNCs in strategic alliances in facilitating cross border flows of knowledge and the sources of this superiority.

Here the authors examined patent citations in semiconductor companies and found that it points to the superiority of multinational firms over both alliances and markets in cross border knowledge building. The research done by the authors suggest that the challenge of knowledge management for MNCs extends beyond the creation of international information systems, to the design of organizational structures, systems and culture capable of supporting the flow of knowledge. Other studies pertaining to the choice of alliances relates to an interesting insight from the paper by the authors Villalonga and McGahan (2005) which investigates how firms choose among acquisitions, alliances and divestitures when they decide to expand or contract their boundaries. Here the authors had examined a sample of 9276 deals completed by 86 members of Fortune 100 companies between 1990 and 2000. Their findings support the explanations based on resources, transaction costs, internalization, asymmetric information and real options and suggest that these theories are related and complementary. The authors found less consistent support for theories based on agency costs and asset indivisibilities. The strong role of firm attributes explains in part why firms may pre specify whether they will pursue acquisitions, alliances, or divestitures as part of their corporate strategies.

Other findings highlighting inter firm knowledge transfer in strategic alliances by (Mowery, Oxley and Silverman 1998) discussed interesting insights dealing with new modes of vehicles of knowledge transfer in alliance dynamics. Here the authors had analyzed partner firm's 'overlap's of technological resources as a

result of alliance participation. The cross citation measure used here was

$$\text{Cross Citation Rate (Firm}_i, \text{ Firm}_j) = \frac{\text{Citations to Firm}_j \text{ patents in Firm } i}{\text{Total Citation in Firm}_j \text{ patents}}$$

The paper arrived at the conclusion that equity joint venture's appears to be more effective for transfer of complex capabilities than contract based alliances such as licensing agreements. It has been found that significantly, the formation of unilateral contracts are influenced by lower level of agreements.

A similar study conducted by Yves L. Doz in the paper. 'The Evolution of Cooperation in Strategic Alliances: Initial Conditions or Learning processes?' discusses learning along several dimensions and provide us with valuable insights. It states how the learning along several dimensions (environment, task, process, skills, goals), that takes place in strategic alliances between firms mediates between the initial conditions and the outcomes of these alliances. Through a longitudinal case study of two projects in one alliance, replicated and extended in another four projects in two alliances, this paper had devised a framework to analyze the evolution of cooperation in strategic alliances. Successful alliance projects were highly evolutionary and went through a sequence of interactive cycles of learning, reevaluation and readjustment.

Failing projects, it was found, were highly inertial, with little learning, or divergent learning between cognitive understanding and behavioural adjustment or frustrated expectations. Here it also highlights the critical role played by the middle managers and how they interact with others at other levels, in their own organization and across organizational boundaries, as a key feature of alliance evolution. An interesting study done by the

authors Brian. S. Silverman and Joel A.C. Baum in the paper “Alliance Based Competitive Dynamics” discussed the effects of rivals’ alliances on the competitive pressures experienced by a firm. Linking ecological and economic research on organizations, the authors here propose that the effects of rivals’ horizontal, upstream and downstream alliances are determined by the degree to which these firms a) foreclose a focal firm’s alliance opportunities and 2) increase industry carrying capacity. The authors also hypothesize that firms can co opt rivals’ alliances by partnering with well linked rivals. An analysis carried out by the authors on Canadian Biotechnology Industry corroborated their predictions regarding biotechnology alliances. In examining alliances closely, it is also worth mentioning the article by Dyer and Singh (2004) where, we are exposed to the relational view of alliances as sources of competitive advantage enhancing the value of parties forging an alliance. This paper talks about specific sources of competitive advantage related to: a) relation specific assets b) knowledge sharing routines c) complementary resources/capabilities d) effective governance.

Conclusions arrived at in this paper by the authors are firstly, pair/network firms can develop relationships that result in a sustained competitive advantage. Secondly, collaborating firms can develop relational rents through relation specific assets/knowledge sharing routines/competitive resource and ‘effective governance’. Thirdly, relational perspectives contradict RBV and dual structure view. Thus here we get a snapshot of the problems and prospects related to relational view and cooperative strategy. Furthermore, other studies made in this context by Khanna, Gulati and Nohria(1998) discusses the tension existing between competition and cooperation and how it affects the dynamics of learning alliances with reference to ‘Private Benefits’ and ‘Common Benefits’. ‘Private Benefits’ and ‘Common Benefits’

differ in the incentives they create for investment in learning. The competitive aspects of alliances are most severe when a firm's ratio of private to common benefits is high. The authors have introduced a measure, 'Relative Scope' of a firm in an alliance, to show that the opportunity set of each firm outside an alliance crucially impacts its behaviour within an alliance. Finally the authors suggest why firms deviate from the theoretically optimal behaviour patterns. The authors also had demonstrated that optimal behaviour patterns differ between unilateral learning and learning in alliances, and this divergence grows more pronounced the greater is the ratio of private to common benefits. Prior research has placed emphasis on how R&D partner selection is impactful to firm and product performance outcomes (Miller, Fern, & Cardinal, 2007; Rothaermel & Deeds, 2004; Shan, Walker, & Kogut, 1994) where greater use of strategic collaborations can yield greater innovation performance (Hoang & Rothaermel, 2005; Kotabe & Swan, 1995). Building on this work, Pleggenhule-Miles and Khoury (2009) in their paper "How Do Different Strategic Alliances expand a Firm's Technological Breadth? A Study of Joint Patenting within Biotechnology 1980-2007" the authors tried to fill the overlooked void of how R&D collaborations influence an invention's technological breadth. Focusing on patent strategies, this study aims to further knowledge management research on how R&D collaborations can be leveraged to create more capabilities for the firm (Leonard-Barton, 1992; March, 1991). Given the strategic advantages that come from access to patents with expanded technological breadth, we consider (1) how access to knowledge from different types of R&D partners impacts the resultant technological breadth of a patent, and(2) how prior joint-patenting experience with different partners moderates this relationship. The conclusion arrived at in this paper is joint invention, regardless of type should increase an innovation's

technological breadth is consistent with previous research (i.e. Kotabe & Swan, 1995) that depict alliances as vehicles for knowledge transfer. However, the sub model analysis by the author revealed that not all joint-interactions expand an invention's technological breadth. Rather, academic collaborations have a distinctively positive influence on a firm's capabilities, as determined by its technological diversification. In acknowledging that technological diversification typically outweighs a firm's product diversification (Breschi, Lissoni, & Malerba, 2003), this paper helps complete the story of how different collaboration type can impact a firm's strategic options to diversify its product offerings. A similar study involving universities, biotech firms and pharmaceutical companies in the paper "Vertical Alliance networks: The case of university–biotechnology pharmaceutical alliance" by Toby. E. Stuart, Salih Zeki Ozdemir, Waverly W. Ding provides valuable insights in vertical alliance networks where young biotechnology firms act as intermediaries in tripartite alliance chains. They (Biotech Firms) enter upstream partnerships with public sector research institutions, and later form commercialization alliances with established, downstream firms. The paper examines the alliance activity in a large sample of biotechnology firms and find: (i) firms with multiple in-licensing agreements are more likely to attract revenue-generating alliances with downstream partners; however, (ii) the positive relationship between in-licenses and downstream alliances attenuates as firms mature, and (iii) the diversity and the quality of the academic connections of firms' principals influences their chances of successfully acquiring commercialization rights to scientific discoveries in universities.

Trust – Trust plays a critical role in Strategic Alliances. Wicks (2001) argued that trust was a critical facilitator of cooperation and also played a crucial role in the Quality

Management perspective in Strategic Alliances. Ring and Van de Ven defined trust as “an individual’s confidence in the good will of the others in a given group and belief the others will make efforts consistent with the group’s goal” (1994:110).

Strategic Intent (Direction): It is found that firms entering an alliance share common strategic (intent) direction, to gain better understanding of their mutual goals and expectations (Ellram1990). Lo and Young (2004) pointed out that having a common strategic direction is a requirement for effective supplier integration in strategic alliances. Gulati *et al.* (1994) pointed to the fact that most strategic alliances involve mixed motive payoff where each partner share both private and common interests. Zollo *et al.*(2002) pointed out the importance of firm-level characteristics (culture, strategic orientation) on alliance performance.

Organizational Culture - Smith *et al.* (1995) argued that similarities in the partners’ values fostered the level of cooperation. As values impact the culture of an organization cultural proximity helps in building up an environment of trust and understanding between firms. Organizational culture has been cited as one of the key firm level variables in studying alliance performance (Zollo *et al.*2002).

Alliance Governance (Leadership)– In a study of alliances in semiconductor industry, Smith *et al.* (1995) found that leaders play an important role in trust building within an alliance setting. Inkpen (2005) had cited the role of top management in fostering a climate of learning in an alliance setting which becomes more critical with leaders designated as role models for developing an environment of trust and belief. It was also found that leadership is a key influencer in business performance.

Knowledge Sharing: Enhancement of learning process has been one of the major motives for formation of strategic alliances

(Morrison and Mezenseff, 1997; Inkpen, 2005). Jones and George (1998) indicated that leaning is achieved through sharing of information both intra and inter organizationally. Koka and Prescott 2002 emphasized the role of social capital in the formation of alliances, and defined it as “sum of resources that accrue to a firm by virtue of possessing a durable network of inter-firm relationships.”(2002: 795).

Process Improvement: Practitioners and scholars had emphasized the role of Kaizen or continuous improvement in strategic alliances. A recent study by Lo and Young (2004) of strategic alliances of firms engaged in construction industry, reinforced this view.

Co-operative Learning The term cooperative learning refers to the ability of partners in sharing knowledge, information and resources (Morrison and Mezenseff, 1997) and focuses on cooperation in alliances, rather than competition (Morrison and Mezenseff, 1997)

Performance – To measure the performance we introduce a new tool for performance measurement, the balanced scorecard developed by Robert Kaplan and David Norton (1992). The scorecard measures performance along four dimensions a) Financial b) Internal Business Process c) Customer Metrics d) Learning and Growth. It tries to measure the performance of firms engaged in alliances by mapping the value generated in alliances into different performance metrics.

The Conceptual Model for Strategic Alliances¹

This model for strategic alliance revolves around trust and learning. In a strategic alliance trust directly influences the values, attitudes, moods and feelings of parties (Jones and George, 1998). The closer the culture of the organizations involved in strategic alliance, the greater the level of trust. In their study

with semiconductor firms, Browning *et al.* (1995) pointed out that cultural difference between firms hindered productive communication among individuals in the alliance. Arino *et al.* (2001) indicated that familiarity and shared experience were sources of trust, where differences in cultures and institutions had significant impact on trust. They argued that trustworthiness in strategic alliances was deep rooted in the cultural context of the firms within the alliance. Jones and George (1998) argued that shared experience was related to the culture of organizations. However, building trust within strategic alliance is also affected by strategic intent (the motivation for formation of the alliances) which arises from economic considerations (e.g. economies of scale, efficiency, risk sharing), to more complex (e.g. learning new technologies seeking political advantage). Parties involved in a strategic alliance should share common values based on a win-win situation for all. Arino *et al.* (2001) argued that strategic changes in each party's goals could affect the level of trust among them. They indicated that changes in strategic objectives posed a great threat to the level of trust among partners. It has been argued that without cooperative learning the success of strategic alliances will be limited in the long term (Morrison and Mezentseff, 1997). Leaders in a strategic alliance promote a conducive environment for knowledge sharing and thus develop trust in the alliance setting. Management style and leadership plays a pivotal role in a successful strategic alliance (Browning *et al.*, 1995). Koka and Prescott (2002) indicated that firms' commitment dedicated to building relationships enhanced access to information, since partners shared more information with each other. Gulati (1998) argued that trust not only enabled greater exchange of information, it also promoted ease of interaction and a flexible orientation on the part of each partner. Partners share information with confidence because of the development of trust

(Koka and Prescott, 2002). Empirical research also supports that development of trust between alliance partners affects knowledge sharing between them (Uzzi, 1996, 1997). Trust can lead to lower transaction cost, which leads to competitive advantage (Dyer, 1996). Empirical studies also show that trust can influence the performance of the alliance (Gulati, 1998). Gulati *et al.* (2000) argued that strategic alliance promoted trust and reduced transaction cost. Therefore, trust directly affects performance. In the presence of trust, organizations rely on less-detailed contracts which are costly (Gulati, 1995). Alliance satisfaction is defined as one of the outcomes of strategic alliances (Zollo *et al.*, 2002). Such satisfaction enhances overall satisfaction of individual firms in the alliances. It was found that learning within a mutual collaboration and within strategic alliance requires trust and honesty (Crossan and Inkpen, 1995). Learning emerges through the communication and information sharing in strategic alliances (Browning *et al.*, 1995). In that regard, in strategic alliances, knowledge sharing affects cooperative learning. Levinthal and March (1993) argued that strong ties with partners in alliances resulted in exploitative learning. In their study on the nature of social capital in alliances in the steel industry, Koka and Prescott (2002) empirically showed that the nature of information exchange (information volume and information diversity) between firms in strategic alliances was significantly and positively related to firm performance. Inkpen (2005) discussed the role of knowledge sharing in enhancing organizational performance in the auto industry. Morison and Mezentseff (1997) argued that strategic alliances that incorporate shared learning encouraged a foundation of trust and mutual respect, where by developing cooperative learning in strategic alliances; the degree of trust within an alliance was increased. Arino *et al.* (2001) stated that the interactions between partners led to constantly evolving relationships where the tests of loyalty

and fidelity occurred periodically. Koka and Prescott (2002) further argued that a firm's history and experience with partners resulted in exchanging information that was rich with value and context because of increased opportunities for learning-by-doing, which leveraged trust. Jones and George (1998) argued that interaction among members and organizations generated knowledge and learning, which was a form of tacit knowledge. Accordingly, cooperative learning affects the level of trust among partners. Arino *et al.* (2001) stated that the level of trust among alliance members increased as they engaged in the process of mutual adjustment which is defined as the degree of responsiveness of each partner in different circumstances in their alliance, which in turn, stresses the need for cooperative learning. Any change in the learning process directly affects trust in an alliance partnership. Zollo *et al.* (2002) argued that knowledge gained through collaborative work between partners helped them develop a refined understanding of each other's culture, management style, capabilities, and weaknesses thereby affecting level of trust. Firms in the alliance attempt to systematically diffuse knowledge throughout their organization (Hamel *et al.*, 1989). Crossan and Inkpen (1995) argued that learning was directly linked to the ability of the firms to develop a sustainable competitive advantage. In that regard, learning positively affects the performance of firms. Garvin (1993) argued that continuous improvement required a commitment to learning. Knowledge acquired within an alliance is valuable after it has been diffused through the organization (Hamel *et al.*, 1989). Accordingly, learning should enhance continuous improvement of processes in firms within the alliance. Continuous improvement is defined as the ability of the firm to continuously develop its processes (Dean and Bowen, 1994). Research stands testimony to the fact, that process improvements affect firm performance (Wilson and

Collier,2000). Gulati *et al.* (2000) argued that both exogenous and endogenous variables could explain how strategic alliances and networks evolved over time. In the model the environmental variables (culture, strategic intent etc) are exogenous variables impacting an alliance partnership. Madhavan *et al* (1998) indicated that environmental variable should be regarded as exogenous variables. It has been indicated that both top managers and network/institutional perspectives were important for understanding patterns in the adoption of innovations among organizations (Young *et al.*, 2001).While the role of the top manager has been recognized as one of the key variables in the model, the network effect has been considered as well, where its effect on building trust is unquestioned.

BIOTECHNOLOGY INDUSTRY: AN INTRODUCTION

This is a rapidly growing industry marked by continuous change in the industrial and scientific domain. Compared to other pharmaceutical companies biotech companies possess core competencies in the area of molecular biology which helped them foray into uncharted areas of research. Thus there are an ever increasing number of “locks and keys” particularly for pharmaceutical research and drug development and very few firms can develop mastery on all of them (Ameida, Hohberger and Parada, 2008). In this rapidly evolving industry the sources of knowledge are garnered from a variety of fields, namely research laboratories, specialized biotechnology firms and prominent government institutions across the globe (Arora and Cambardella, 1990; Powel *et al.*, 1996).Success here is defined as having expertise over basic science domain and harnessing emerging technologies to test, develop and commercialize scientific ideas

(Bartholomew, 1997). Rothaermal and Hess (2007) discussed about the interaction between industry/firm /individual level factors for generating innovative research output. As number of collaborations entered into by firms increase, there is a greater chance of having access to a vast body of untapped knowledge, ready to be tapped, acting as a launching pad for future development in this sector. These collaborations enhance innovation capabilities following the growth cycle, monitor the progress of innovation capabilities and contribute to the growing body of academic literature in the scientific domain.

Problems and prospects in Biotechnology sector: A Snapshot View

An alliance results in a long-term partnership between two or more partners, involving resources (tangible and intangible) in a bid to gain superior advantage in the domain space the companies are operating and represent mostly, all the major industries. Biotechnology industries thrive on research productivity and are an indispensable source of sophisticated research capability. It is this symbiotic relationship, that fuels an increasing number of alliances with current trend, focussing on establishing alliances with companies interested on exploiting the entrepreneurial skills. Entering an alliance reduces ancillary costs like selling and distribution for companies and enhances presence in the market through increased penetration. A healthy alliance thus, eventually reaps huge benefits, for both pharmaceutical and biotechnology companies in the market.

In recent past, most licenses for products in biotech and pharmaceutical domain involved mid-to-late-stage products which reduced the risk of failures considerably in the market place. However, it was found that early-stage alliances had a higher chance of failures and not very successful with companies entering into an alliance relationship. Another downside for early stage

products is the response time/turnaround time, which is considerably slower and breeds uncertainty, making the smaller companies an unviable option. In addition, these companies require domain specific skills which can only come by through efficient management. Thus, companies in this area should focus on timing of forming an alliance partnership to be successful. Another viable option to gain cheaper access to molecules is through collaboration and stay abreast in marketplace.

Pharmaceutical and biotech companies are now facing a challenge sourcing and selecting the right partner and emergence of biopharmaceutical companies complicates the market scenario and increases pressure on the pharmaceutical companies, who thus starts seeking alliances with biotech companies. Integrating small companies with niche products with larger pharmaceutical companies becomes a challenge and henceforth companies prefer partners with similar skill sets and culture as for example an emerging company in the biotech super specialty domain. Alliance managers enjoy higher bargaining power in the deals in pharmaceutical mergers by virtue of their financing capabilities.

However, the increasing trend is that the biotech companies are gaining more power by virtue of their market position and this depends largely on the negotiation skills of pharmaceutical companies. Research has shown, approximately half of all alliances does not perform up to expectations because of intellectual property disputes along with cultural problems. Funding for small and niche biotech companies is sparse because of its inherent complexities and have close ties with in-house developments. Effective alliance management thus involves sufficient funding and foster innovative culture and openness.

Larger biotech companies grow organically by harnessing resources and thereby needs an alliance coordinator to ensure sustainability. Alliance performance can be manipulated, using

specific actions through an open environment of trust and commitment. Well researched objectives, smooth process flow and suitably channelized communication will help nurturing success alliances. A learning environment coupled with proactive alliance sourcing and management will breed success by involving proper governance network. An increasing challenge for companies in this domain is matching the sophistication of biotech companies in terms of knowledge and learning to match up with the new generation firms and creation of suitable market opportunities. In short, pharmaceutical companies need to exploit these vast pool of learning and knowledge available through collaborative settings by charting out an optimal plan for survival and to leverage the market opportunities in their favour (outlines adapted from www.frost.com). Complexity in process or product influences the decision to partnering or to go alone in case of companies. Biotech firms such as Biocon, Amgen, and UCB are characterised by a combination of simple and complex processes and are faced with the question of time factor for framing an alliance in the prevailing scenario, and the need for focussing on processes for efficient utilization of the scarce resources. There is no one single answer to these issues in the paper by 'Esteve Almirall and Ramon Casadesus-Masanell in the Academy of Management Review'. Complexity in biotech firm both in terms of process/product leads to a number of trade-offs in relation to the decision to partner an alliance. Only complex processes generates value through Research and Development for Biotech firms and are most sought after in strategic alliances and thus the firms need to take a strategic decision, as to the appropriate situation for partnering a deal. This involves taking a clear view of the processes and elaborately defining the functions and objectives. Improvement in business functions like process improvement/cycle time reduction helps reducing the complexity

of a process. Subsequently the firms can decide whether to collaborate or not. The right level of complexity to benefit from an alliance is the mid–low category where all the partner’s act complementarily with each other in this setting efficiently to arrive at a consensual decision among its partners and thus, utilizing resources in an optimum fashion.

INDIVIDUAL COLLABORATIONS: HOW DOES IT INFLUENCE ALLIANCE SETTING IN BIOTECHNOLOGY/ PHARMACEUTICAL INDUSTRY?

It is generally believed, that strategic alliances and individual collaboration enhance innovation and learning significantly in an alliance setting. Two schools of thought exist on this issue. In Biotech industry evidence points to an alternative method of knowledge acquisition through communities of practise to which scientists are affiliated (Liebeskind *et al.*, 1996). It is seen scientists in this sector often collaborate with peers in other firms, universities and research institutions transcending all geographic and firm boundaries and act as an excellent knowledge repository. Research also points to the fact that collaboration enhances the productivity of a scientist’s research (Cockburn and Henderson, 1998). Restrictions also exist in terms of managerial and financial resources for small biotechnology firms as the sources of knowledge are vast and hitherto scattered. Evidences point out that on an average each biotech firm formed eight alliances (Rothaermal and Deeds, 2004). Furthermore, knowledge networking among scientist’s of individual firms could help the firm booster its innovation and get a distinct advantage among the peer firms in the market. According to (Rosenkopf and Almeid, 2003) firms hire pioneers in research domain, to fill in their

research portfolio and enhance competitiveness. There exists two alternative forms of knowledge acquisition, one through following systems, processes and norms like strategic alliances (formal collaboration) and the other through networks of scientists working in different research centres (informal collaborations) and pooling in scientific knowledge from a host of resources. One of the most challenging things is to avoid falling into competency traps by companies while commanding superior knowledge and skills over a specific domain of innovation by making a conscious choice of adopting one and neglecting the other. (Levinthal and March, 1993). It is also believed that informal networking among individual scientists paves the way for formation of exploitation of formal strategic alliances and vice versa (Stuart *et al.*, 2007).

BALANCED SCORECARD: A NEW TOOL ENHANCE STRATEGY AND A NEW MEASURE OF APPRAISAL

The Balanced Scorecard (Kaplan and Norton, 1992) is a new measure of performance and has been derived from strategy of the organization. It can be used as a future predictor of performance (both financial and non financial), which encompasses the four quadrants of a scorecard i.e. financial, internal business process, external process and learning and growth. It has a wide gamut of uses for communicating strategy in the organization, identifying and aligning strategic initiatives, reviewing strategy systems as well as generating feedback to improve upon the existing one.

The Balanced Scorecard relies on four measurement metrics to translate the short objectives /activities into long term drivers of success:

a) **Translating the Vision:** The scorecard forces the managers to translate their lofty vision into tangible operational objectives. For translating these lofty ideals into operational measures managers should come to a consensus regarding identification of stakeholders and their requirements

b) **Communicating and Linking:** This process involves communicating the high level objectives into suitable performance measures appropriate to each business group to yield a “personal scorecard”. Thus it helps the individual productivity affects the organization’s strategy and helps to create an alignment of individual to organizational objectives (goal congruence).

c) **Business Planning:-**Balanced Scorecard forces managers to integrate financial budgets to support strategic objectives and helps in identifying the most important “drivers” for the desired outcomes.

d) **Learning and Feedback:** The Balanced Scorecard provides valuable feedback about technologies, processes, innovations and keeps the managers updated about the proper implementation of strategy and refining them according to the company’s needs. It is in short a feedback tool to find out whether a company has proper strategic systems in place and the effectiveness with which they are utilized to meet the company’s vision.

Appraisal of Biotechnology Firms using Scorecard metrics:

Having discussed about alliances and its implications on Biotechnology firms, a pertinent question which strike our minds is how to measure the effectiveness of Biotechnology firms, pre and post alliance. For this purpose we have adhered to a long standing tool, the Balanced Scorecard devised by Kaplan and Norton (1992) of the Harvard Business School to successfully evaluate firms engaged in research and collaboration.

a) **Balanced Scorecard: Performance Dimensions:**

The Four Metrics of Scorecard are as follows: Financial Metrics which measures the economic consequences of actions already taken in terms of EVA (Economic Value Added). EVA can be considered as a good measure of financial performance. It EVA is the excess of returns (ROI- Return on Investment over Cost of Capital). In a Biotechnology Firm the cost of capital is the funds procured through debt capital (mainly loans). Customer Metrics defines the market position of the firm/organization and the perception it enjoy from the stakeholder point of view. It includes several generic measures of successful outcomes from a well formulated and dexterously implemented strategy. In a biotech firm this includes customer satisfaction new product launch etc.

Internal Business Metrics deals with the organizational excellence achieved by the company particularly through process improvement, reduction of cycle time and by achieving a cost leadership thus giving it a sustainable competitive advantage. In a Biotech company this typically would be introduction of new generic drugs, capturing new generic markets for drugs and increased customer satisfaction.

Learning and Growth metric depicts the innovation/knowledge creation within the company. This can be done through patent development, successful clinical trials and knowledge management through ongoing research and innovation.

CONCLUSION

This paper discusses the important role played by individual collaborations and strategic alliances in biotechnology domain and its impact on the innovation processes. We suggest practitioners and academicians must move beyond alliances while harnessing

the power of knowledge in acquisitions through various collaborative avenues. Distinctive capabilities are needed for organizations seeking knowledge transfer through individual collaborations. We predict based on the experiences that firms might develop new capabilities to deal with both types of collaborative activities (individual and joint) in order to be successful.

Table 3. Balanced Scorecard Implementation in Biotechnology – An Example¹

Financial	Internal Business Process	Customer	Innovation
Growth(% increase in top line revenues)	Reductions in Inventory (Inventory Turnover Rate)	New Products (Percent of Sales from New Products)	New active ingredients (Number of new ingredients identified through a discovery program)
Profitability(Return on Equity/EPS)	New Products (No of introductions Vs Target)	Customer Satisfaction (Customer Satisfaction Surveys)	Proprietary Position (Number of patents that create exclusive marketing rights)
EVA (NOPAT- Cost of Capital) NOPAT= Net Operating Profit After Tax.	Cost Leadership (Low Cost producer to give a sustainable competitive advantage)	Product Quality Product Performance Vs Standards)	
		Early Payment a.k.a Debtors Turnover (% of Customers. pay early)	

¹ Source: Applying the Balanced Scorecard to Small Companies by Cheen.W.Chow, Kamal. M. Haddad, and James E. Williamson - Management Accounting, August 1997.

Moreover, this paper proposes a new conceptual model of measurement by using Balanced Scorecard (BSc) as a performance measurement tool in strategic alliances in association with different elements (Trust, Alliance Governance, Culture, Strategic Intent etc) and their impact on performance which may act as a benchmark for future research. One point worthy of mentioning here is, the research undertaken here is at an embryonic stage but provides a clear direction for rigorous research process in future.

LIMITATIONS OF THE STUDY

The concepts and ideas discussed here may further connect well with chances of better development of arguments. This is an initial direction/approach to build on a research line and thus may be looked upon as an exploratory study. It might appear that there is a lack of focus but the key here is to focus on less issues (for e.g performance) and working closely with that by taking up a focussed study.

Future Research

The conceptual framework discussed in this study discusses two outcomes for a strategic alliance: performance and customer (alliance) satisfaction. While performance encompasses the overall performance of the alliance, customer satisfaction is related to each individual firm, to the extent that each firm is satisfied with the alliance. Empirical research is needed to determine the applicability of the proposed framework. Identifying tools, techniques and procedures for developing practical tools for trust development, generating knowledge, enhancing organizational learning, and continuous process improvement (kaizen) in

strategic alliances could be considered as future research within strategic alliances. Also we feel each of the elements in a Balanced Scorecard used for measurement of alliance performance can itself provide a self sustaining research direction and can be investigated further (as for e.g. the role of EVA as a financial tool in measuring the affectivity of alliances can be pursued).

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An Empirical Study on Management Consulting Models in Korea

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Received Mar. 6, 2012, Revised Apr. 29, 2012, Accepted May 27, 2012

ABSTRACT

This study empirically analyzed what consulting model has tendency to choose between fact-based model and process-based

model and also analyzed which factors management consultants in Korea prefer when choosing consulting models. We concluded that in order to create performance on consulting projects, models of management consulting have been developed in a way either fact-based or action-based, not a mixed model. In addition, this study concluded that consulting performance is affected by professionalism, and consulting satisfaction during consulting projects is created by building interaction and trust with customers. Our major findings showed that the impact of professionalism on consulting performance would be higher than that of customer-orientation because consultants are qualified with professionalism. The impact of customer-orientation on consulting satisfaction would be higher than that of professionalism as consultants are qualified with customer-orientation. This study, adopting questionnaire used in a precedent study, has a limitation with a view to the majority of respondents group that mostly consists of prospective consultants. In addition to, all of the variables used in the empirical study were collected from one source and this could have been a source of common method bias.

keyword: Consulting model, Fact-based model, Action-based model, Professionalism, Customer-orientation, Feasibility, Consulting performance, Consulting satisfaction

INTRODUCTION

Generally, the term ‘consulting’ is widely recognized and used in a field of management consulting. The word itself, however, is used in many different fields such as accounting, architecture,

finance, design, engineering, law and so on, and there has been a gradual growth in the consulting industry(Williams & Woodward, 1994). These concepts in consulting can be classified in many different ways as Steele(1975) defined in his viewpoint of consulting process and Greiner & Metzger(1983) did in consulting problem solving. If approached in context of consulting model aspects, Lawless(1981) and Czerniawska(2002) explain the fact-based/problem solving model and the action-based/ process model.

The first model is regarding a consultant helping a client with the help of specific information, which eventually enables the entire problem solving possible). This shows similarities to the medical model by Greiner & Metzger(1983). On the other hand, the action-based model is process-oriented, similar to the viewpoint of Steele's(1975), focusing on the connection related to an organization's problem solving, done by an organizational learning. In addition, Rockwood(1993) suggests that the models do not operate independently but are mutually linked that they need mutual interactions with each other. Thus, this study empirically analyzes what consulting model management consultants prefer to choose between a fact-based model and a process-based model in Korea.

THEORETICAL BACKGROUND

Since the topic, management consulting models, is classified into both fact-based and action-based model, the main characteristics of the two models are considered first. Whereafter, connectivity and interaction between the two models are also discussed in the study.

Consulting Model

Fact-Based Model

The fact-based model can be classified into four categories, including expert, consultant type, task and consultant approach.

First, expert model focuses on the expert who is able to recognize and solve the problem clients face. However, this model can only contribute to organizational success if the organizational problem is correctly diagnosed by the client (Schein, 2003).

Rockwood (1993) called this “medical model” since the model diagnoses organizational problems based on the symptoms that the organization displays, as if diagnosing a patient based on their symptoms. This model focused more on the content of the problem than on the process of finding a solution, and applied when the client knows that there is a problem in the organization, yet he or she is either unsure about the exact reason behind, or about the ways to fix the problem.

In essence, the consultant takes over the control of the problem and the client is dependent on the consultant for correctly identifying and finding solutions. This is not generally accepted by proponents of organizational learning, who raise concerns about the accuracy of the diagnosis and the appropriateness of the prescription to the particular circumstances and culture of the organization (Schein, 2003).

Second, Nees and Greiner (1985) identify five types of consultants. The first category, the mental adventurer, shows similarities to the expert model. Consultants who play the role of mental adventurer use their expertise to analyze and find solutions to complicated organizational problems. Three of other types—the strategic navigator, management physician and system architect—show similarities to the medical model.

Consultants as strategic navigators have a tendency that they diagnose and recommend based more on the market and competitive dynamics rather than the client's view. In the role of management physician, consultants focus more on the internal dynamics of the organization rather than external competitive dynamics when diagnosing and recommending remedies (Appellbaum & Steed, 2005).

According to Nees and Greiner(1985), the system architect involves the client in redesigning processes, systems and routines. When confronted with identifying the problems in the organization and prescribing suitable solutions to these problems, the consultant typically considers both internal organizational dynamics and environmental and industry dynamics as appropriate.

Third, Turner(1982) identified eight task categories that can also be related to the models. The tasks of providing information to a client, solving a client's problem, making a diagnosis, making recommendations based on the diagnosis, and assisting with implementation of recommended actions are associated with the expert and medical model(Appelbaum & Steed, 2005).

Last, according to Merron(2005), the primary strategy that drives most consultants' actions and behaviors is the "Savior Strategy". In this approach, consultants take full responsibility for identifying organizational problems and solutions, and the client is not involved in the process. The consultant acts as a problem solver using expert model of consulting. In this approach, the client views the services of the consultant as an aid to grow or develop the organization.

Action-Based Model

While fact-based models focus on the connectivity of problem solving, action-based models are process-oriented approach that clients solve their problems on their own without the help of consultants (Czerniawska, 2002). The action-based models include the process consultation model, masterful consulting strategy, the friendly copilot, task categories and can be classified as “Carucci and Tetenbaum’s model”.

First, process consulting model focuses on how to solve the problem or process not on diagnosing organizational problems. According to Schein (1997), in this model, consultants supports clients while the clients perform the process of problem-solving by themselves. According to Rockwood (1993) and Schein (1993), consultants emphasizes the process of problem solving, rather than providing clients with the solution. Schein (2000) emphasizes that in the process-consultation model, in order to define problems in the complicated organizations, clients need to build a relationship of trust and to be able to act as advisors for their organizational culture. Action-based consulting assumes that a variety of data sources need to be integrated and consultants work closely with clients in a trusting relationship, enabling ongoing evaluation and change (Czerniawska, 2002). Both Czerniawska (1999, 2002) and Greiner & Poulfelt (2005) raise the issue of client expectations of the consultant’s active involvement in implementing recommendations.

Second, Merron (2005) introduced masterful consulting strategy model to be similar to Schein’s process consultation model. In this model, clients are empowered to share information or build learning process with consultants during the consulting process by forming the genuine partnership with the consultants. Thus, consultants’ knowledge is transferred in a timely manner and the wisdom of the clients is enhanced through learning in the

management consulting process. In Nees and Greiner's model(1985), consultants act a role as friendly co-pilot. In this model, clients embrace consultants as a team member. Consultants, on the other hand, make clients participate in the consulting process to give opportunities of learning and finding solutions to organizational problems. Turner(1982) illustrates the level of participation consultants have with their client from providing expertise to the client to being fully involved with improving organizational effectiveness, which explains that the task categories focus on facilitating client learning and permanently improving organizational effectiveness. These tasks align to the concept underlying process-consultation where the client is actively involved in identifying organizational problems and developing long-term solutions. Knowledge transfer from the consultant the client takes place, and the organization improves through its own learning and development.

The model proposed by Carucci and Tetenbaum(2000), focuses on the consultant's role- the consultant in the role of a messiah to the organization; partner which indicates shared accountability, ownership and outcomes ;capacity-builder which reflects the empowerment of the client to solve problems with its own resources and truth-teller, focusing on building active and accurate feedback systems with the client.

This study rearranged and compared Erwee & Malan's research models(2006) in the action-Based and Process Category.

Previous Studies

Basically, Consulting models consisted of professionalism, customer-orientation and feasibility. As shown in <Figure 2-1>, these three concepts have close interactions with each other (Sang Uk Nam, 2008).

Table 2-1. Compared Turner, Need & Greiner, Carucci & Terenbaum, Schein, Merron

	Turner(1982)	Nees & Greiner(1985)	Carucci & Tetenbaum (2000)	Schein(2003)	Merron (2005)
Fact-based	Provide formation to client Solving a client's problem Making recommendations based on the diagnosis	Mental adventurer Strategic navigator Management physician System architect	none	Purchase-of-expertise model Doctor-patient model	Savior strategy
Action-based	Facilitating client learning Permanently improving organization effectiveness	The friendly copilot	Partner Capacity-builder Truth-teller	Process consultation	Masterful Consultant

First, professionalism is ability to diagnose and to solve problems, deciding validity and reliability of consulting results. According to Schein(2003), it is important to find consultants who are able to diagnose and solve the problem and qualified with professionalism because it is the first step of management consulting.



Figure 2-1. Interaction among management consulting components

In addition, Rockwood(1993) compared professionalism with medical diagnosis which needs an accurate diagnosis for organizational symptoms as if doctors diagnosed a disease through patients' symptoms and proposed a method of treatment. Thus, professionalism focuses on problems themselves, rather than process that enables people find organizational problems. The reason for this is that successful consulting needs precise diagnosis of problems.

Second, strong customer-oriented service mind is required in consulting field when having relationships with clients. This is why customer-orientation is necessary. Customer-orientation is to do one's best to fully understand difficulties and problems of customers and fulfill customer's satisfaction so that consultants can maximize effective value. Thus, it is needed that consultants qualify ethicality to enhance customer-orientation as well as professionalism. Czerniawska(1999, 2002) and Greiner & Poulfelt(2005) emphasized that customer-orientation is closely related to customer's preference for the consultants because active participation of consultants reinforce the relationships with the customer.

Third, Business feasibility is related to a commercial objective as consultants or consulting firms should run and develop the business, based on the professionalism. Consulting services provided by consultants should be of great value as professional service and customers should pay the price for the results.

Nees & Greiner(1985) suggested that consultants play a role as a friendly copilot. This type of consultant approaches the organization as a team member, joining the client in a journey of learning and finding solutions to organizational problems This model emphasizes that the learning experiences is given to

customers themselves. Thus, it focuses on the importance of feedback after consulting projects.

Erwee & Malan(2006) empirically researched preferred consulting models conducted by Australian consultants. Moreover, Information service and applicability of organization in fact-based model are defined as professionalism. Customer trust, secret keeping, customer's ability for implement, customer's interaction and customer's ability for participation are defined as customer-orientation. Finally, consulting performance and consulting satisfaction are defined as business feasibility.

To empirically analyze the research issues, this study attempts to analyze consulting models by using previous scales used in consulting models in Australia. Also, consulting models were assorted into fact-based category and action-based category, each of which represents for professionalism and customer-orientation.

EMPIRICAL ANALYSIS

Research Model and Hypotheses

Based on Erwee & Malan(2006)'s model, this study established the research model in attempts to analyze preferences of consulting models, adding preparation for consulting as professionalism and consulting performance and satisfaction related to feasibility.

Fact-based categories are information systems ability, preparation for consulting, professional ability for consulting, utilization of tool for diagnosis, applicability for organization and as a doctor/consultant, diagnosticians' customer trust and diagnosticians' secret keeping were also included. Since action-based categories consider processing with customer as important

value, they include customer's ability for implement, customer's interaction and customer's ability for participation. Based on this, <Figure 3-1> presents the research model of the study.

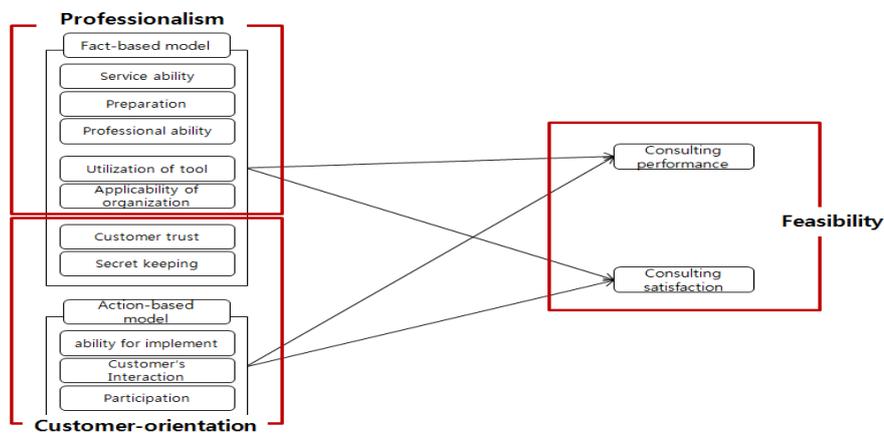


Figure 3-1. Research Model

In order to prove how real consulting tendencies, which are fact-based model(Professionalism) and action-based model(customer-orientation) affect consulting performance and consulting satisfaction, we hypothesized :

- Hypothesis 1 : As a fact-based category, information systems ability will be positively related to consulting performance.
 As a fact-based category, preparation for consulting will be positively related to consulting performance.
 As a fact-based category, professional ability for consulting will be positively related to consulting performance.

- Hypothesis 2 : As a fact-based category, utilization of tool for diagnosis will be positively related to consulting performance.
As a fact-based category, applicability for organization will be positively related to consulting performance.
- Hypothesis 3 : As a fact-based category, diagnosticians' customer trust will be positively related to consulting performance.
As a fact-based category, diagnosticians' secret keeping will be positively related to consulting performance.
- Hypothesis 4 : As an action-based category, customer's ability for implement will be positively related to consulting performance.
As an action-based category, customer's interaction will be positively related to consulting performance.
As an action-based category, customer's ability for participation will be positively related to consulting performance.
- Hypothesis 5 : As a fact-based category, information systems ability will be positively related to consulting satisfaction.
As a fact-based category, preparation for consulting will be positively related to consulting satisfaction.
As a fact-based category, professional ability for consulting will be positively related to consulting satisfaction.
- Hypothesis 6 : As a fact-based category, utilization of tool for diagnosis will be positively related to consulting satisfaction.
As a fact-based category, applicability for organization will be positively related to consulting satisfaction.

- Hypothesis 7 : As a fact-based category, diagnosticians' customer trust will be positively related to consulting satisfaction.
As a fact-based category, diagnosticians' secret keeping will be positively related to consulting satisfaction.
- Hypothesis 8 : As an action-based category, customer's ability for implement will be positively related to consulting satisfaction.
As an action-based category, customer's interaction will be positively related to consulting satisfaction.
As an action-based category, customer's ability for participation will be positively related to consulting satisfaction.

Data Collection and Measurements

Data Collection and Sample

The majority of respondents were graduate students in one university who are full-time students and part-time students. Full-time students are reserved consultants, having no experience in consulting field and part-time students are consultants, having experience in the field. The others included professors and researchers of the university.

Data were collected at two different points at the university and total 82 surveys were collected. 48 surveys were collected at the first period(April 1st, 2011- April 30th, 2011), which was complete enumeration survey. 34 surveys were also collected at the second period(May 1st, 2012 – May 14th, 2012).

Surveys include 8 items demographic measurements and ratings to measure important factors were completed on a seven-point Likert-type scale. Characteristics of the respondents were that male has the higher score(73, 89%) than female(9, 11%) and

part-time students who have a job or work at a consulting firm were indicated higher score(60, 73%) than full-time students(11, 13.5%) and faculty & researchers(11, 13.5%).

The majority of respondents answered none(42, 51.2%), in performance career and less than 3 year(14, 17.1%), less than 1 year(13, 15.9%), less than 9 year(7, 8.5%) and over 10 year(6, 7.3%) in order. It also indicated that percentages of the company size were SMEs(29, 35.4%), an individual enterprises(24, 29.3%), university laboratory(19, 23.2%), large-sized enterprises(10, 12.2%) in order. Finally, it shows that respondents work at various consulting fields such as operations(15, 18.3%), business environment(13, 15.9%), marketing(13, 15.9%), finance/accounting(12, 14.6%), MIS/IT(12, 14.6%), organization/HR(7, 8.5%) and etc.(10, 12.2%).

Operational Definition of Variables and Items

To test hypotheses and research model, operational definition of variables and items that were accepted considerable in reliability and validity from previous studies were measured(See Appendix). Specifically, preparation for consulting(that is related to consulting factors), consulting performance and satisfaction(that are related to business feasibility) were added to the survey.

Verification of Measurement

We used SPSS 18.0 to test reliability of the questionnaire. Reliability is related to consistency, accuracy, dependency, predictability (Kerlinger & Lee, 2000).

The reliability of the questionnaire was tested according to Cronbach's Alpha measurements and the reliability coefficients of all the elements of measures were above 0.60, which concurs with the suggestion made by Nunnally(1994) and Seo-il Choi(2006).

Even though three items were deleted after exploratory factor analysis, the convergence validity of the measures used in this study was validated by the reviewed literature and analysis results of which factor loading is higher than 0.6 and eigen value is higher than 1.0.

<Table 3-1> shows the results of correlations analysis. The correlations indicated the existence of some significant relationships between professionalism and Consulting performance(service ability: .672, preparation: .680, professionalism: .751, utilization of tool: .682, applicability for organization: .739 etc.) and also indicated the existence of some significant relationships between customer-orientation and consulting satisfaction (secret keeping: .664, customer's interaction: .705, customer's ability for participation: .567 etc.).

Before Analyzing our data, we examined the variance inflation factor(VIF) for each variable as a further check for multicollinearity. First, all the tolerance limit of the results is higher than 0.10, second, VIF scores fell below 10, third, Durbin-Watson scores are closed to 2.0. These suggest that multicollinearity was not a serious problem in this analysis(Kwang Ho Ahn & Byung Hoon Yim, 2008).

Hypothesis Test and Results Analysis

Regression Analysis

To test hypotheses of the study, the results of regression analysis that is components of consulting models affecting consulting success(performance and satisfaction) is as following.

Table 3-1. The Results of Correlations Analysis

	Service ability	Preparation	Professionalism	Utilization of tool	Applicability of organization	Customer trust	Secret keeping	ability for implement	Interaction	Participation	Performance	Satisfaction
	Service ability	1										
	Preparation	.731***	1									
Professionalism	Professionalism	.748***	.885***	1								
	Utilization of tool	.758***	.850***	.850***	1							
	Applicability of organization	.703***	.828***	.858***	.858**	1						
	Customer trust	.341*	.531***	.514***	.496**	.547**	1					
Customer orientation	Secret keeping	.365***	.365**	.444***	.389**	.313**	.286**	1				
	ability for implement	.146	.204	.275*	.205	.297*	.405**	.203	1			
	Interaction	.307**	.326**	.424***	.371*	.304**	.350**	.740**	.308**	1		
	Participation	.430***	.322**	.392***	.419**	.368**	.458***	.546**	.294*	.652**	1	
Feasibility	Performance	.672***	.680***	.751***	.682**	.739**	.408***	.461**	.342**	.489**	.550**	1
	Satisfaction	.513***	.458***	.530***	.513**	.495**	.368**	.664**	.391**	.705***	.567**	.677**

***<0.001, **<0.01, *<0.05.

First, regression results as shown in <Table 3-2> indicated an overall model of two main predictors (professionalism, customer-orientation) that significantly predict feasibility. Professionalism accounted for each 57.6% and 54.4% of variance in consulting performance. On the other hand, Customer-

orientation accounted for each 27.8% and 33.2% of variance in consulting performance.

For fact-based model on consulting performance, review of the beta weights specifies that the predictors, including information service ability ($\beta=.251$), professional ability ($\beta=.571$), diagnostician's applicability for organization ($\beta=.584$), significantly contributed to the model. The analysis indicated that the higher levels of diagnostician's applicability for organization and professional ability predicted higher levels of consulting performance. That is, when performing consulting, the more professionalism consultants have, the more positive consulting performance would be.

On the other hand, the results indicated that preparation for consulting, utilization of tool for diagnosis have no impact on consulting performance.

For action-based model on consulting performance, review of the beta weights specifies that the predictors, including diagnosticians' customer trust ($\beta=.301$), diagnosticians' secret keeping ($\beta=.375$) and customer's ability for participation ($\beta=.381$), in customer-orientation factor significantly contributed to the model. The analysis indicated that the higher levels of diagnosticians' customer trust, customer's ability for participation predicted higher levels of consulting performance.

As shown in <Table 3-3>, for fact-based model on consulting satisfaction, review of the beta weights specifies that the predictors, including professional ability ($\beta=.441$), significantly contributed to the model. The analysis indicated that the higher level of professional ability predicted higher level of consulting satisfaction. That is, when performing consulting, the more professional ability consultants have, the more positive consulting satisfaction customers have.

Table 3-2. Regression analysis on consulting performance

Performance Impact		Unstandardized coefficients		Standardized coefficient		Collinearity Statistics		Adjusted R ²	F	Durbin Watson			
		B	SE	β	t	TL	VIF						
fact-based	professional	Information service ability	.240	.107	.251	2.244*	.418	2.392	.544	37.659** _*	2.221		
		Preparation for consulting	-.008	.145	-.009	-.056	.206	4.851					
		Professional ability	.520	.149	.571	3.483**	.195	5.133					
	Utilization of tool for diagnosis	.150	.122	.180	1.236	.264	3.786						
	Applicability for organization	.480	.120	.584	4.003***	.264	3.786						
	Diagnosticians' customer trust	.323	.106	.301	3.052**	.918	1.089	.278				16.556** _*	2.417
	Diagnosticians' secret keeping	.346	.091	.375	3.800***	.918	1.089						
action-based	customer-orientation	Customer's ability for implement	.198	.110	.174	1.807	.890	1.124	.332	14.397** _*	2.620		
		Customer's interaction	.197	.132	.181	1.492	.560	1.786					
		Customer's ability for participation	.427	.136	.381	3.150**	.565	1.770					

On the other hand, the results indicated that preparation for consulting, utilization of tool for diagnosis has no impact on consulting satisfaction as previous results also indicated. For action-based model on consulting satisfaction, review of the beta weights specifies that the predictors, including diagnosticians' customer trust ($\beta=.193$), diagnosticians' secret keeping ($\beta=.608$), Customer's ability for implement ($\beta=.176$), Customer's interaction ($\beta=.549$) in customer-orientation factor significantly contributed to the model. The analysis indicated that the higher levels of

diagnosticians' customer trust, customer's interaction predicted higher level of consulting satisfaction.

Table 3-3. Regression analysis on consulting satisfaction

Performance Impact		Unstandardized coefficients		Standardized coefficient		Collinearity Statistics		Adj R ²	F	DW
		B	SE	b	t	TL	VIF			
fact-based	Information service ability	.244	.123	.287	1.985	.418	2.392			
	Preparation for consulting	-.115	.166	.143	-.691	.206	4.851	.290	12.016***	2.099
	professional ability	.357	.172	.441	2.079*	.195	5.133			
	Utilization of tool for diagnosis	.246	.138	.332	1.782	.264	3.786	.256	14.955***	2.093
	Applicability for organization	.153	.136	.210	1.129	.264	3.786			
	Diagnosticians' customer trust	.185	.081	.193	2.273*	.918	1.089	.461	35.698***	2.363
	Diagnosticians' secret keeping	.499	.070	.608	7.146***	.918	1.089			
action-based	customer-orientation ability for implement	.178	.082	.176	2.169*	.890	1.124			
	Customer's interaction	.531	.099	.549	5.376***	.560	1.786	.527	31.118***	2.543
	Customer's ability for participation	.156	.101	.157	1.544	.565	1.770			

The Results of Hypothesis Test

The series of regressions conducted to address hypotheses were reported in <Table 3-4> and partial support and denial were indicated.

Table 3-4. Hypotheses test results

No.	Hypotheses	β	Support		
1	Information systems ability will be positively related to consulting performance.	.251	Yes	Profession- alism	
	Preparation for consulting will be positively related to consulting performance.	-.009	No		
Fac- t- bas- ed	Professional ability for consulting will be positively related to consulting performance.	.571	Yes		
	Utilization of tool for diagnosis will be positively related to consulting performance.	.180	No		
2	Applicability for organization will be positively related to consulting performance.	.584	Yes		
	Diagnosticians' customer trust will be positively related to consulting performance.	.301	Yes		Custo- mer- orien- tatio- n
3	Diagnosticians' secret keeping will be positively related to consulting performance.	.375	Yes		
	Act- ion- bas- ed	Customer's ability for implement will be positively related to consulting performance.	.174		
Customer's interaction will be positively related to consulting performance.		.181	No		
4	Customer's ability for participation will be positively related to consulting performance.	.381	Yes		
	5	Information systems ability will be positively related to consulting satisfaction.	.287	No	Profession- alism
Preparation for consulting will be positively related to consulting satisfaction.		-.143	No		
Fac- t- bas- ed	Professional ability for consulting will be positively related to consulting satisfaction.	.441	Yes		
	Utilization of tool for diagnosis will be positively related to consulting satisfaction.	.332	No		
6	Applicability for organization will be positively related to consulting satisfaction.	.210	No		
	7	Diagnosticians' customer trust will be positively related to consulting satisfaction.	.193	Yes	
Diagnosticians' secret keeping will be positively related to consulting satisfaction.		.608	Yes		
8	Customer's ability for implement will be positively related to consulting satisfaction.	.176	Yes		
	Customer's interaction will be positively related to consulting satisfaction.	.549	Yes		
Act- ion- bas- ed	Customer's ability for participation will be positively related to consulting satisfaction.	.157	No		

As results of hypotheses tests, fact-based model has more significant impact on both consulting performance and consulting satisfaction. In case of action-based model, however, customer's interaction has stronger impact on consulting satisfaction. Moreover, this study also shows that professionalism has more powerful impact on consulting performance than customer-orientation. Instead, customer-orientation has higher impact on consulting satisfaction. Based on these results, we can consider that by combining and balancing two models, the synergy of professionalism and customer-orientation would have positive impact on business feasibility.

CONCLUSION

The results of the study show that the fact-based model has more significant impact on consulting performance and consulting satisfaction. Based on these results, it is indicated that customers expect more performance and satisfaction when consultants perform consulting projects as professionals. This shows how the results are similar to that of the previous studies conducted in Australia.

But there were slight differences on significant factors affecting business feasibility(consulting performance and satisfaction) between Korea and Australia's consulting model. In Korean consultants' case, a customer's ability for participation had the most significant impact on consulting performance. Instead, the customer's ability for implementation and customer's interaction factors had the strongest impact on consulting satisfaction.

Moreover, when we reorganized fact-based model as professionalism, action-based model as customer-orientation, and

consulting performance and consulting satisfaction as business feasibility, professionalism had more powerful impact on consulting performance and customer-orientation had more powerful impact on consulting satisfaction. Our major findings showed that the impact of professionalism on consulting performance would be higher than that of customer-orientation as consultants are qualified with professionalism and the impact of customer-orientation on consulting satisfaction would be higher than that professionalism as consultants are qualified with customer-orientation.

Since Korea's current consulting industry is smaller than that of Australia, we concluded that in order to create performance on consulting projects, models of management consulting have been developed in one way either fact-based or action-based, not a mixed model. In addition, this study could be concluded that consulting performance is affected by professionalism, consulting satisfaction during consulting projects is created by building interaction and trust with customers.

These results support Schein(2003) and Rockwood(1993), who argued that professionalism has high impact on consulting performance. In addition, the results also support Nees and Greiner(1985), who argued customer-orientation has significant impact on consulting satisfaction. As a result, the important factors, professionalism and customer-orientation affecting consulting performance and satisfaction, were analyzed targeting Korean consultants about preferred consulting model through an empirical study.

However, there is a limitation to our study. This study, adopting questionnaire used in precedent study to Korea, has a limitation with a view to the majority of respondents group that mostly consist of reserved consultants so that variables in this study were collected from one source and this could have been a

source of common method bias. Thus, future research remains to be solved.

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Appendix 1. Rotation Factor Matrix by Countries

Rotation Factor Matrix	Australia	Korea	Question naire	Categ ories
1. Research	Consultant information service	Information service ability	a1-a5	
2. Testing				
3. Psychological assessment				
4. Data collection				
5. Benchmarking				
6. Internal diagnosis		Preparation for consulting	b1-b6	
7. Analysis of survey results				
8. Recommendation to clients				
9. The client is able to identify the kind of information/help that is really needed				
10. The client is able to choose a consultant who has the expertise to meet the need				
11. The client is able to communicate the nature of the need	Masterful consultant	Professional ability for consulting	c1-c7	Fact- based
12. The client can understand what the consultant offers				
13. The client can act on recommendations				
14. The client has confidence that the consultant process will not have negative impact				
15. Both the client and the consultant can remain objectives				
16. Analyse a particular system or strategy within the organization	Diagnostic service	Utilization of tool for diagnosis	d1-d4	
17. Make a diagnosis of a problem or need				
18. Work with the client to identify action to solve the				

problem or meet the need		
19. Make recommendations to solve the problem or meet the need		
20. Assist the client in following recommendations through	Applicability for organization	e1-e6
21. The client has correctly identified where the problem/issue is	Diagnostician	f1-f5
22. The client has correctly chosen a consultant with the right diagnostic skill	scustomer trust	
23. Employees in the targeted area will reveal correct information		
24. The client can interpret and understand the diagnosis (item deleted)		
25. The client can carry out the prescribed course of action (item deleted)	Consultant as a doctor	
26. The client will not view the diagnostic process as disruptive to core business	Diagnostician	
27. The client will be able to function well even after the consultant has left	secret keeping	g1-g3
28. Conduct an analysis of a major area of the organization, or the organization as a whole		
29. Recommend structural changes		
30. Assist top management in making the structural changes		
31. Provide training to enable employees to fulfill their new roles		
32. Restructuring and retraining		

will enable the organization to reinvent itself			
33. Restructuring will result in improved productivity and innovation			
34. The organization has the right sort of leadership to reinvent itself			
35. The consultant has the right tools to enable to organization to reinvent itself			
36. The consultant has correctly read the culture of the organization			
37. The consultant has the skills to determine whether minor surgery or reconstruction is need			
38. Work together with the client to interpret information and define the problem/issue		Customer's ability for implement	h1-h4
39. Work together with the client to determine the required course of action		Customer's interaction	i1-i6
40. Include employees as well as managers and leaders in the consultation process			
41. Include other members of the community in the consultation process	Process consulting		Action-based
42. The correct diagnosis can only be reached if the client is involved in the process		Customer's ability for participation	j1-j3
43. Clients need to help define an issue/problem			
44. Clients do not know what kind of help is needed or which consultant to use			
45. Clients have the capacity to			

solve their own problems with skilled intervention
 46. There is long-term benefit for clients who are involved in the problem-solving process
 47. The skill of self-diagnosis can be learned
 48. Collecting information prior to diagnosis impacts on and influences everyone involved

Consulting Performance 4 items	-	Consulting performance	k1-k4	Performance
Consulting Satisfaction 5 items		Consulting satisfaction	l1-l5	

Based on Erwee R. & Malan R.(2006)'s 48 items, 15 items were added in the survey.

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June 30, 2012

ISSN: 1975-8480

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