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## Preface

Both retail markets and systems are changing with rapid pace following and or responding to changes in the patterns of purchasing and consumption. As a result retailers, marketers, managers and academics increasingly recognise the need for more research and/or development in retail business management systems, the changing patterns of consumption and the changing consumer behaviour. Therefore, the aim of the ***World Journal of Retailing Business Management (WJRBM)*** is to expand the current knowledge base about retailing and marketing management, to contribute to academic debates and to help practitioners to become better retail planners and decision makers.

The WJRBM is a quarterly title, issued by the World Research Organization. The goal of World Journal of Retail Business Management is to publish articles that significantly expand the current knowledge base about retailing and marketing management, with a focus on the processes of retailing and supply chain management that serve the household consumer. To clearly delineate WJRBM's domain, we must first define retailing--a business that sells products and/or services to consumers for their personal or family use. This definition includes the interface of retailers with both vendors and consumers, as well as other topics that impact retailers. WJRBM's domain does not include topics or data sets where retailers are not involved or are only superficially involved.

The following topics have been and will continue to be within the domain of research in retailing and marketing management, and by extension, WJRBM; consumer behaviour, retail strategy, marketing channels, location analysis, the marketing mix, merchandise management, store and operations management, store atmospheric issues, and retail services.

Other topics that go beyond the operational walls of a typical retailer are also appropriate for WJRBM so long as retailing is the focus of the paper. Examples include: emerging technologies, multiple channel retailing, supply chain management, measurement and marketing science issues, relationships with third party service providers, public policy issues.

C. Vignali  
Executive Editor

## Editorial

I have great pleasure in forwarding this special issue from the University of Zagreb. I have worked extensively with the faculty of Economics for the past 15 years and I have seen a wide number of academics coming through the various stages of their academic life. It's a great pleasure to have worked with Prof Natasha Renko the Marketing Strategy professor and now with her daughter in law in this special issue. The faculty under the stewardship of the dean Prof Darko Tipuric is fastly becoming one of the leading universities in Eastern and Central Europe. Their assistants and Tutors are also becoming World Street wise in all the economic and business disciplines. I hope you will find the issue interesting and usable in today's ever changing environment

Prof. C. Vignali  
Executive Editor  
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Editorial guest editor

Nowadays, there are many factors such as more sophisticated and more aware consumers, government pressure, some new legislation, new technologies, trade unions and increasing media attention that forced retailers to pay more attention to the economic, environmental and social impact of their activities.

The process of making sustainable development an important issue on the world stage started in 1987 with the report by the United Nation`s Brundtland Commission. The Commission identified a number of "common challenges" facing the earth, such as: population and human resources, food security, species and ecosystems, energy, industrial development and urbanization. The idea of sustainable development has been increasingly popular in the business world. EuroCommerce shares the view<sup>1</sup> that the concept of sustainable development needs to be a workable objective for everyone in the world, at the local, national, regional or international level.

This new approach includes new ways of looking at how we produce, consume, live, get along with each other or make decisions. However, successful achievements require co-ordinated actions between manufacturers, wholesalers, retailers, consumers and all other levels. As the link between manufacturers and consumers, retailers can influence consumption patterns and production to be more sustainable. There are numerous examples of companies in the retail sector which have started to green their operations and become important players in global efforts to benefit the society at large. Therefore, the main purpose of this special issue of the journal is to present the experiences of some companies in the retail sector and associated areas. The articles cover the core theories, essential research tools expanding the existing knowledge base about sustainability in retailing, etc.

We appreciate the time and efforts of all participants – the authors, reviewers and all colleagues who contributed their valuable suggestions to the journal.

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<sup>1</sup> Durieu, X., (2003), "How Europe's retail sector helps promote sustainable production and consumption", UNEP Industry and Environment, vol. 26, no. 1: 7-9.



# How the Process of Internationalization enhances the Sustainability of the Croatian Retailing

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## Abstract

*There is a constant interaction between changes in retailing and the internationalization in retailing. Thanks to their large-scale volume and market-power, international retail chains have a significant potential to affect changes on the market. On the one hand, they are in direct contact with customers and have a significant influence on what products and services they want to buy. On the other hand, they can influence suppliers on what products to produce. In such a way, this position creates a responsibility for international retail chains regarding the country of entrance. This paper, using the results of a study conducted on a group of international retailers operating on the Croatian market, examines their impact on the society. The results reveal that international retailers recognize the impact their business has on the Croatian market and believe that by implementing sustainability into their business operations, they will be better positioned to provide long term growth and to enhance their market position.*

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## Introduction

Generally, there is a constant interaction between changes in retailing and the internationalization in retailing. Their relationship assumes a causal effect because some changes in the domestic retailing make a contribution to the process of retailing internationalization. For example, markets of the former socio-political systems were undeveloped, with limited range of goods and services, low level of technology and store equipment, small number of retail formats, etc. Foreign retailers bring some innovations that domestic retailers have to face and react to. Otherwise, they risk the loss of their market share. The literature (McGoldrick, 2002; Newman & Cullen, 2002; Treadgold, 1990; etc.) points out the effect of internationalization on the economy of the country of entrance, mostly through the intensification of competition. Despite a large amount of Croatian literature in retailing which addressed the large set of issues, such as internationalization in the Croatian retailing (Anić 1999,

Gavranović 2003, Pavlek 2000, Segetlija 1999, Segetlija and Lamza-Maronić 2000), the impact of international institutions on retailing (Matić and Lazibat 2001, Rupčić 2003, Škuflić and Vlahinić-Dizdarević 2001, Šohinger, Galinec and Harrison 2000), little effort has been devoted to understanding the way by which the entry of foreign retailers may affect the economy, environment and society of a host country.

According to the definition of Newman and Cullen (2002) internationalization is the act of crossing international boundaries with business interests. The fact is that international expansion has been accompanied by large-scale global firms which consider size and sales volume a major strategic goal. Larger sales volume gives the opportunity for retailer to become a winner by the marketplace. As Pull (2003) and Wheelen and Hunger (2003) note "larger size implies inflow of more resources into the firm, creates more organizational slack in terms of unused resources, makes it easier to gain the support



of key stakeholders and offers more opportunities for advancement, interesting jobs and higher compensation for managers and employees.” Nonaka (1991) and Nonaka and Takeuchi (1995) point out that those firms that venture into new markets survive by learning to adapt to new environments. They must develop the tools and mechanism required to absorb new information about the new environment and to integrate this knowledge into the organization (Etgar & Rachman-Moore, 2008, pp. 246). In such a way retailers become more than the passive intermediaries between producers and manufacturers on the one hand and customers on the other. “*The majority view is that they have a very active role in driving production and in stimulating and shaping customer demand*” (Jones, Comfort & Hiller, 2007, p. 21).

Wrigley and Lowe (2002) argue that “geographies of production are being actively shaped by multinational retail capital” while McGoldrick (2002) emphasizes that “retailing ...exerts a major influence over the lives of customers”. Thanks to their large-scale volume and market-power, international retail chains, more than ever, have a significant potential to affect changes in society. On the one hand, they are in direct contact with customers and have a significant influence on what products and services they want to buy and how they use them. On the other hand, they can influence suppliers on what products to produce. In such a way, this position creates a responsibility for international retail chains regarding the country of entrance. McGoldrick suggests (2002) that transfer of retail concepts is associated with a transfer from countries with “developed” retail systems to those with less developed systems. An example of this kind of format transfer within Europe would be the hypermarket, which was “exported” from France to Spain and other Mediterranean markets. By transferring the retail format, large retailer chains also transfer technology, procedures, new strategies, etc.

In the case of Croatian retailing, the entry of large international retail chains such as Schwartz Group, Rewe Group, Spar Group, Coop Italy, Mercator, Metro not only increased competition but also increased consumers’ awareness because of their access to advanced technologies, modern management strategies, loyalty programmes, etc. Those large retailers were the driving force of the development of some edge-of-town and out-of-town locations (for example, the entrance of Metro in the region Dalmatia in 2005 influenced the development of the previously uncultivated and rocky ground area some 20km far from Split). Moreover, they have been addressing sustainable agendas on the Croatian market in a variety of ways. In this paper, the basic outline of sustainable development and the retailing first is discussed. The paper then proceeds to present the research methodology used to explore some of the way in which six international retailers are looking to address their sustainability

agendas on the Croatian market. After that, the results of the study and finally their implications are presented.

### **Retailing and sustainable development**

The review of literature reveals that existing definitions of sustainable development have several elements in common. There are some definitions of sustainable development:

- “It is the development which meets the needs of the present without comprising the ability of future generations to meet their own needs” (Report of the World Commission on Environment and Development, 1987),
- “Sustainable development means improving the quality of human life while living within the carrying capacity of supporting ecosystems”,
- ([www.interenvironment.org/wd1intro/glossary.htm](http://www.interenvironment.org/wd1intro/glossary.htm))
- “Sustainability, is better seen as a measure of the relationship between the community as learners and their environments, rather than an externally designed goal to be achieved” (Sriskandarajah et al, 1991),
- “It is a process of change in which the resources consumed (both social and ecological) are not depleted to the extent that they cannot be replicated”.
- ([www.smartec.org/smartec/resource/sn-glossary.xml](http://www.smartec.org/smartec/resource/sn-glossary.xml)),
- “It is a process which tells of a development of all aspects of human life affecting sustenance. It means resolving the conflict between various competing goals, and involves the simultaneous pursuit of economic prosperity, environmental quality and social equity famously known as three dimensions with is the resultant vector being technology,...” (Hasna, 1992).

If we put them in the context of retailing, we can identify two challenges for the retailers:

1. to ensure that their internal operations are sustainable, and
2. to influence suppliers to produce and customers to consume sustainable.

According to UNEP (<http://www.unep.fr/scp/retail/background.htm>) the retail sector can contribute to sustainable consumption and production activities in the following three main areas:

- a) *Cleaner production and environmental management systems* – The retail sector can first control and manage its own environmental and social impact through implementing environmental management systems for energy/water conservation, waste management, logistics, recycling programs, etc.
- b) *Supply chain management* – Retailers can co-operate with their suppliers and favour the development of products featuring enhanced environmental and/or social attributes. Efforts such as greening the supply chain and implementing green purchasing can encourage

suppliers to develop eco-friendly products, and to provide information on the sustainability aspects of their products notably through eco-labels.

- c) *Education and information of customers* – Retailers can encourage consumers to purchase eco-friendly products as well as provide advice on the use and disposal of the products and offer facilities and services such as take-back systems for batteries, reusable bags, etc.

Toepfer (<http://www.unep.org/Documents.Multilingual/>) notes that on the one hand, the retail sector can influence suppliers to produce in a more sustainable manner (for example, by raising questions of resource and energy use) and, on the other hand, the retail sector is in a unique position to help the public to adopt more environmentally friendly lifestyles and purchasing habits by providing customers with an appropriate choice. Almost 80% of environmental impacts of products sold by the retailers usually occur beyond the shop floor while only 20% can be attributed to the in-shop activities (WRI, 2006). The UK Government Framework for Sustainable Consumption and Production recognises (Jones et al, 2005) that the core of sustainable consumption and production is “getting more from less” and the focus being on “more efficient and profitable production, using less raw material”, “more value added to a product, with less pollution and waste in the process”, and “more consumer needs fulfilled, with less energy, waste or water”. Accordingly, a fair balance should be reached between three pillars underlying the sustainable development strategy (Durieu, 2003, p. 7): economic, social and environmental.

The praxis shows that economic growth and enterprise development are prerequisites for improving social and environmental conditions. Inaoka (2003, p. 27) suggests that the socially responsible investment movements underlines the importance of the economic element of sustainability and obviously, no corporate activity will last long without economic incentives. Table 1 shows

some of the most important environmental and social impacts of retailing, but there is always economic element involved. Kuisma (2003, p. 10) explains the relationship between three key sustainable issues as follows: “In any company good economic results and financial resources are essential to developing environmental and social responsibilities. If a company must be reorganized for financial reasons, the project of building an environmental management system will definitely be postponed. And vice versa: acting in a responsible way has to be profitable, either directly or indirectly, or motivation is weak.”

**Methodology**

After the secondary data collection (the relevant Croatian and foreign literature with the topic of sustainable development, retailing and internationalization), the study on the sample of seven foreign retailers trading in Croatia was conducted. Empirical data for this study were collected in two stages. At the first stage, an internet search on the sample of seven foreign retailers was undertaken in August 2008. The search included their web pages and the aim was to obtain some basic information about selected retailers and about their commitment to environmental, social and economic goals. In other words, the main purpose of the first stage was to reveal how those retailers promoted sustainability communicating with their customers through information posted on the World Wide Web. At the same time, in the context of the second stage, in depth interviews with some managers were conducted. The research instrument was the interview consisted of questions regarding the so called three pillars of sustainable development: the environment, society and the economy. The first group of questions related to the environmental area focused on recycling programmes, energy consumption and emissions, water consumption, waste, health and safety of children, genetically modified food, packaging, etc.

**Table 1: Environmental & Social Impacts of Retailing**

<u>Direct impact from</u>	<u>Solutions include</u>	<u>Benefits to retailer</u>
Transport (energy use, Co <sub>2</sub> emissions)	Backhauling/return logistical solutions, local sourcing, alternate-fuel vehicles, use of rail and ships, encouraging employee carpools, etc.	Lower fuel costs, savings on equipment and salaries
Packaging (waste)	Take-back, recyclable materials, reusable distribution packaging, integrated management, packaging guidelines, life-cycle assessment.	Increased ability to anticipate regulations, reduced costs
Property and operations (consumption of energy, water and materials, Co <sub>2</sub> emissions)	Environmental management systems, environmentally sound technology	Lower costs
Appearance (landscape impairment from “big box”	Eco-design, sustainable construction, eco-refurbishment	Flexibility, long-term cost savings, better working

stores: 50000-200000 sq.foot floor space in windowless single-storey buildings with huge parking lots and no-frills site development)		conditions, attractiveness to customers
<p><i>Indirect impacts involving</i> Supply chain (raw material use, labour standards, animal welfare, effects on biodiversity)</p> <p>Consumers (what they buy, how they use it)</p> <p>Employees (job satisfaction, involvement with community)</p>	<p><i>Solutions include</i> Guidelines, codes of conduct, certification, standardization, independent monitoring</p> <p>Awareness-raising, employee training, product development, customer surveys, communication strategy</p> <p>Training, contact with schools, internal communications</p>	<p><i>Benefits to retailers</i> Improved risk management, increased consumer and employee confidence in products</p> <p>Brand differentiation (i.e. customer perception of genuine choice), customer trust</p> <p>Higher employee loyalty, lower staff turnover and related training costs, improved customer relations</p>
<p><i>Other solutions, applicable generally</i> Integrating environmental considerations in all decision making Applying precautionary approaches Assuring environmental compliance and enforcement Reporting in a verifiable way to shareholders, employees, customers. Etc.</p>		<p><i>General benefits</i> Improving image Reassuring investors</p>

Source: UNEP, 2003, p.4.

The sustainability agendas concerning society was investigated through the questions about training and staff development, health and safety of the employees, charitable initiatives within the community, the co-operation with the educational institutions, etc. (the second group of questions). The third group of questions was focused on the contribution to the economy of selected retailers and included questions about the employment opportunities they create, the wages and salaries employees earn, the co-operation and support of the local food producers, etc.

### The main sustainability issues of foreign retail companies operating on the Croatian market

In order to investigate the impact the businesses of seven largest foreign retailers have on the environment, the economy and on society of the Croatian market, an overview of the selected retailers on the Croatian market was necessary. Kaufland and Lidl are German retailers which belong to the [holding company](#) Schwarz. Kaufland, the hypermarket chain opened its first store on the Croatian market in 2002 in Karlovac. Today, the chain operates over more than 20 stores in Croatia. It points out their offer of well known brands and regional products and specialties. The second member of the German Schwartz Group, media exposed chain of grocery stores, Lidl, opened its 13 stores in Croatia in 2006. Today, there are 38 outlets of Lidl on the Croatian

market. They offer their customers everyday products at the lowest possible price. Austrian retail store chain Billa, a subsidiary of German giant Rewe Group, opened its first store in Croatia in 1999. Until 2008, Billa had opened 50 outlets throughout the country. Company expanded through the merger of Minaco company in 2005. Now, it has a market share of 5 per cent and employs 1500 people. Company's strategy is further expansion having a Billa store in every regional centre.

Spar Croatia is part of the world largest retail chain. SPAR is a symbol group, which means individual SPAR members remain independent but enjoy access to collective buying and marketing power. Since 2005, the opening of its first Spar outlet in Croatia, the chain continues to expand through the hypermarket format Interspar on the Croatian market. Now it has 6 hypermarkets and employs more than 990 people. Hypermarkets Coop is a Croatian company established in 2002 and entirely controlled by [Coop Consumatori Nordest](#), a consumer cooperative and the leading distributor in the Italian north eastern market. It owns a chain of four retail outlets (Ipercoop hypermarkets) and employs 550 people on the Croatian market. Mercator is the biggest Slovenian retail chain operating since 2000 on the Croatian market. The chain is engaged in retail activities through 140 retail formats ([hypermarkets](#), [supermarkets](#) and [grocery stores](#)) in Croatia. Mercator started its expansion on the market through the strategic

alliance with the Croatian retailing company Presoflex (one of the leading FMCG retailers on the Croatian market), a joint venture agreement with Plodine (the Croatian supermarket chain) and taking over of retailers Era Tornado and Trgohit. Now, it has a market share of 5 per cent and employs 2500 people. Its strategic objective is to reach market share of 12 per cent on the Croatian market till 2010.

Although the Metro Group, one of the leading trading companies, started its operation in Croatia by opening its wholesale store, it is intentionally included in the sample of this research due to its importance for commercial customers, local suppliers, manufacturers and final consumers as well. The group entered the Croatian market in late 2001, by opening the first wholesale store in Zagreb. Today, the company manages the total of six wholesale stores and employs 1,420 people in Croatia. The following text will present the efforts and achievements that selected retailers obtained in three key sustainability areas.

### ***The environmental issue***

As the population as well as their consumption continues to increase, the increasing stress has been made on resources and environmental systems such as water, land and air. Retail companies have realized the importance of the environment, as increasingly reflected in their strategies and daily business operations. Mercator, for example creates its benefit for the broader environment by exhibiting a responsible attitude towards the natural and social environment and by respecting business ethics and social values in all fields of operation. It emphasizes its corporate culture values and involvement environment on its web pages. Nowadays, awareness is growing among consumers, who increasingly express the need to better take into account the environment and ethical concerns. In such situation retailers can serve as an educator, providing information to help customers to make their choice. Some companies recognise that only educated consumers will respond to such influences. Lidl, German retailer which received much negative publicity, made its Nutrition Information Guide where it promotes its own brand food products and healthy eating. In this Guide, Lidl provides the proportion of essential foodstuffs as well as the proportion of fat and sugar. The member of the same retail chain (the Schwartz Group), Kaufland, targeted advertising of socially responsible and environmentally friendly products through its catalogues where the company points out baby healthy food and some baby nutritional care advices. This retailer also emphasizes recycling options for all its promotional materials, because they are printed on recycled paper and distributed free of charge in stores contributing in such a way to education of consumers, deforestation, waste reduction, etc. Moreover, Kaufland is an excellent example of the retailer which recognizes that socio-economic growth and environmental protection are inextricably linked, and that an improvement in the consumers' quality of life cannot be obtained at the cost

of environmental destruction. Namely, Kaufland points out four basic principles of its operations: to prevent and to reduce environmental pollution, to standardize the packaging for transport and to manage raw material in a sustainable way.

IperCoop, for example launched a set of standards for the management of its supply chain for food. These standards cover ethical trading, support for non-genetically modified food (since 1998 the retailer required certificates from their suppliers that they did not use genetically modified organisms in their raw materials) and food safety (by selecting suppliers which produce without artificial fertilisers, chemicals or pesticides). Coop Italia (the holding company) is engaged in some projects for environmental concerns, such as Dolphin Safe, Friend of the sea (the project of social responsible fisheries policy), FSC (the project of optimal forestry management). It is the first company which received corporate social responsibility certificate SA8000 (a comprehensive, global, verifiable standard for auditing and certifying compliance with corporate responsibility). In 2001, the company also received very important Corporate Conscience Award. All selected retailers acknowledge that they are indirectly responsible for the environmental impacts of the produce and products in which they trade. For this reason all of them implement HACCP system of Food security management which provides health food across all supply chain. Also, they have waste management strategies in place. They exert pressure on their suppliers to reduce packaging waste or to ensure that this waste is reusable or recyclable. Thus, they use TOMRA's reverse vending systems which provide a complete solution for handling the return of deposit beverage containers at their retail stores. As they understand that energy used by refrigerators, freezers and for heating and lighting are among the largest cost centres, they implemented systems to save energy (for example, till 2005 Coop Italy implemented 135 lighting efficiency improvement projects that reduced electricity consumption in their branches and was awarded the Green Light Award for improved lighting efficiency in 2006 ([www.eu-greenlight.org](http://www.eu-greenlight.org)). In order to reduce carbon dioxide emissions, they have put in place transport management systems that reduce daily delivery and optimize flow. However, neither of selected retailers offers customers greener alternatives to plastic bags, for example corrugated boxes, reusable and recyclable bags, i.e. paper bags as they use in their stores on their domestic markets. Only Kaufland intended to implement such bags in the near future in order to minimize the negative impact of plastic carrier bags, i.e. PVC-polyvinyl chloride disposal.<sup>1</sup>

We see that selected foreign retailers introduced a number of environmental initiatives embracing their

<sup>1</sup> Just before publishing the paper, the author received the information that Spar Croatia started with the implementation of recyclable bags in their stores.

product range, packaging, waste disposal, recycling, energy consumption, etc. Those environmental activities have increased their profitability, lowering costs and offering better quality in all business activities.

### ***The social issue***

Many retailers focus on the social impact their business has on society and on the communities within which they operate because social issues are attracting growing consumer interest. The International Labour Organization points out that while retailing is increasingly a source of job creation worldwide, there are some disturbing trends such as a large proportion of women in low-status, low-paid jobs, high turnover rates and a high proportion of workers in short-term or part-time jobs (UNEP, 2003, p.5)

As Jones (Jones et al., 2005, p. 211) states the social responsibility mostly includes both training and staff development, health and safety issues for retail employees, health living for customers, charitable initiatives within the community. All of the interviewed retailers claim that caring for their employees and customers has always been a core value of their business. Mercator for example formulated a human resources strategy and put some priorities as follows: career planning of key and promising personnel, dialogue with employees at all levels, the transfer of knowledge and experience, internal and external staffing policy, rewarding and motivation, intercultural organizational development, innovation activity, safety and health of employees. All retailers are aware of the importance of their employees and that the success of their company business strategy depends predominantly on their employees. Thus, they ensure personal growth and development through training programmes. Metro, for example (Dobler & Sollbach, 2003, p. 22) promotes and offers permanent learning programme, so as to be faster and better than their competitors. Its employees have up-to-date information available to them at all times because the company ensures smooth and rapid exchange of information throughout the Metro Group.

Large foreign retailers also increasingly look to be “good neighbours” within their local communities (Jones et al., 2005, p. 212). In the case of Croatian market, they mostly achieve that through sponsorships and humanitarian campaigns. For example, Spar is the sponsor of the Croatian basketball team Zadar. Ipercoop fund some cultural projects such as “The days of Marko Marulić (the literature manifestation in honour of the famous medieval Croatian poet), “The cultural summer of the town of Osijek”, etc. Ipercoop also funds some environmental projects such as the donation of funds to Eco-centre “Zlatna greda” providing education, eco-tourism and preservation of natural and cultural values of Kopački rit and Baranja (Croatian nature parks). Lidl, for example made agreements with local communities to fund the rebuilding of some streets and the building of the infrastructure of the location in which it operates. All selected retailers are involved in

campaigns which included donation of funds to centres and institutions providing care and education for people with special needs. The analysis of the collected data shows that international retailers have actively contributed to satisfy the needs of local communities, because there are many humanitarian campaigns focusing on the diseases of the present day.

Also, all selected retailers claim that they obey the applicable Croatian labour laws and standards during employment of the workforce. These include procedures for the recording and verification of working hours, overtime payment, the issue of maternity compensation, etc. A wider commitment to social issue can be seen from the previous text. It increases companies' reputation as responsible companies with positive impacts on their corporate image and greater employee satisfaction.

### ***The economic issue***

According to Jones (Jones et al., 2005, p. 212), large retailers make a major contribution to the economy via employment opportunities they create and the wages and salaries their employees earn, the dividends they pay their shareholders, the profits they retain to fund future growth and the taxes they generate for the government. At the same time, they have a wide range of economic impacts and are addressing some of the associated sustainability agendas, such as urban regeneration, the promoting and supporting of local food producers, etc. All selected international retailers operating on the Croatian market point out that they give priority to the local producers and to the employment of the local workforce. In such a way they create wider economic and social effects as well. Kaufland, for example claims assortment policy of sourcing local and regional food that enable their customers to support Croatian food producers (70% of the total assortment in Kaufland's stores are Croatian producers' products).

Although international retailers create jobs thus stimulating local economy, neither of investigated retailers had reports about their contribution to the unemployment rate decrease and about some others economic benefits they made in deprived urban areas. We have already mentioned Metro, whose entrance influenced the development of the out-of-town area. However, all the selected retailers suggest that reduced costs through improving energy and resource efficiency in the shop are the most direct effect from addressing sustainability in their operations.

Conclusively, all of them brought new investments and create jobs thus stimulating local economies and improving the quality of life of their customers and communities.

### **Conclusion**

The retail sector, through its role in society and as a link between consumers and manufacturers, is one of the stakeholders promoting sustainable development. A large number of companies have engaged themselves

to move in this direction in recent years. Large international retailers, through the process of internationalization, influence the retail sector not only with their wider range of goods and services offered, modern technology and store equipment used, but also with various initiatives undertaken to support sustainable consumption and production patterns on the market of the country of entrance.

The international retailers, which operate on the Croatian market, understand the importance of engaging in sustainable strategies as shown by the examples of initiatives they have undertaken to address environmental, ethical, and social concerns. These include reducing energy consumption, waste management and recycling, carbon dioxide emissions, ethical trading, training, healthy and safely living, community support initiatives, humanitarian campaigns, etc. Acting in such a way those retailers made economic impacts too. As Durieu (2003, p. 9) states, "successful strategies are usually business driven and it is up to individual companies to consider the best course of action, given their corporate culture and their structure or environment. Sustainable production and consumption is an on-going process with a number of objectives. It is like a ladder, and companies decide what step of the ladder they wish to be on." The analysis show that international retailers believe that by implementing sustainability into their business operations on the Croatian market, they will be better positioned to provide long term growth and to enhance their market position. However, there is still the gap between actions undertaken to address sustainability on their native markets and the actions abroad. This fact can cause negative effect because it can lead to the conclusion that they still do not pay enough attention to the environment in which they operate or that they still consider Croatian customers less environmental responsible.

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# The Case Study of Calabria Local Products in Italian Retailing

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## Abstract

*Consumers' interest for local products increased in recent years, in particular for products with European Food Quality Certification. As consequence, the most important retailers in Italy acted principally two new strategies to exploit this market: 1) the launch of new lines of local products (with a new brand), realized by local producers – adopted by Auchan with I sapori delle regioni; 2) the creation of some corners related to gastronomic specialities of Italian regions in the stores – adopted by Despar. Calabria is a region rich of gastronomy specialities, most of them related to ancient tradition of Magna Graecia (the heritage of Greek colonization between VII and II century B.C.), and of a large number of local small producers. These specialities have very often a so limited distribution that they are not well known by consumers. The aim of this paper is to analyze the case of Calabria local products in the Italian Gross Retailing Trade to understand how the local products can support the regional entrepreneurial development and the promotion of the territory.*

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**Keywords:** Retailing, Gross Retailing trade, European Food Quality Certification, Calabria local products.

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## Introduction

Because of the traditional way in which local products are made, they have a particular need for a technological evolution in order to meet the demands posed by government regulations for greater food safety and higher quality as well as growing consumer expectations (Sado Kamdem et al., 2007). These products have the dual need to be on the one hand accepted by consumers, and on the other to respect the parameters that define their unique identity; with reference to this a number of new labels have been created certified by the European Union (Pérez Elortondo et al., 2007). In particular the EU has set up three specific certificates to guarantee local products (EU, 2008), which are considered an adding value to farm produce: PDO (Protected Designation of Origin), PGI (Protected Geographical Indication), TSG (Traditional Speciality Guarantee). In recent years, consumers have started "to appreciate the typical nature of the product" and to see "it as a distinctive attribute

with superior quality to the other general products of its kind" (Mattiacci & Vignali, 2004). Furthermore, consumer interest in the origin of product and the place of production has increased (Dimara & Skuras, 2003; Codron et al., 2006), in particular for those products with European Quality Food Certification.

Local products have usually been sold by the producers themselves or through or small scale retailers (Soberman & Parker, 2004), but, nowadays, also the Gross Retailing Trade is starting to put into action new strategies to exploit this segment of the market for local products:

- the launch of new lines of products (with new brands), created by local producers; for example, the one adopted by Auchan called I sapori delle regioni; in fact, Europe has recently witnessed the birth of a large number of new labels (Kotler & Keller, 2007);
- the creation of separate counters in stores such as Despar selling regional Italian gastronomic specialities.



Many researches (Tellstrom et al., 2005) suggest that the use of traditional regional food culture can be used to revitalize and create affections of a regional identity. In this study the case of Calabria local products in the Italian Gross Retailing Trade is analyzed. The aim of the present paper is to analyze the weakness and the opportunities in Italian retailing, to promote knowledge and diffusion of Calabria traditional products. In such a way, it will be possible to suggest new guidelines to develop a territorial marketing based on local products. The paper is organized as follows: the first part is concerned with the analysis of the retailing sector in Italy to understand the scenario where Calabria local products are currently positioned. In the second part a quantitative research is addressed in order to evaluate consumers' response to Calabria local products retailing.

### Structure of Italian Retailing

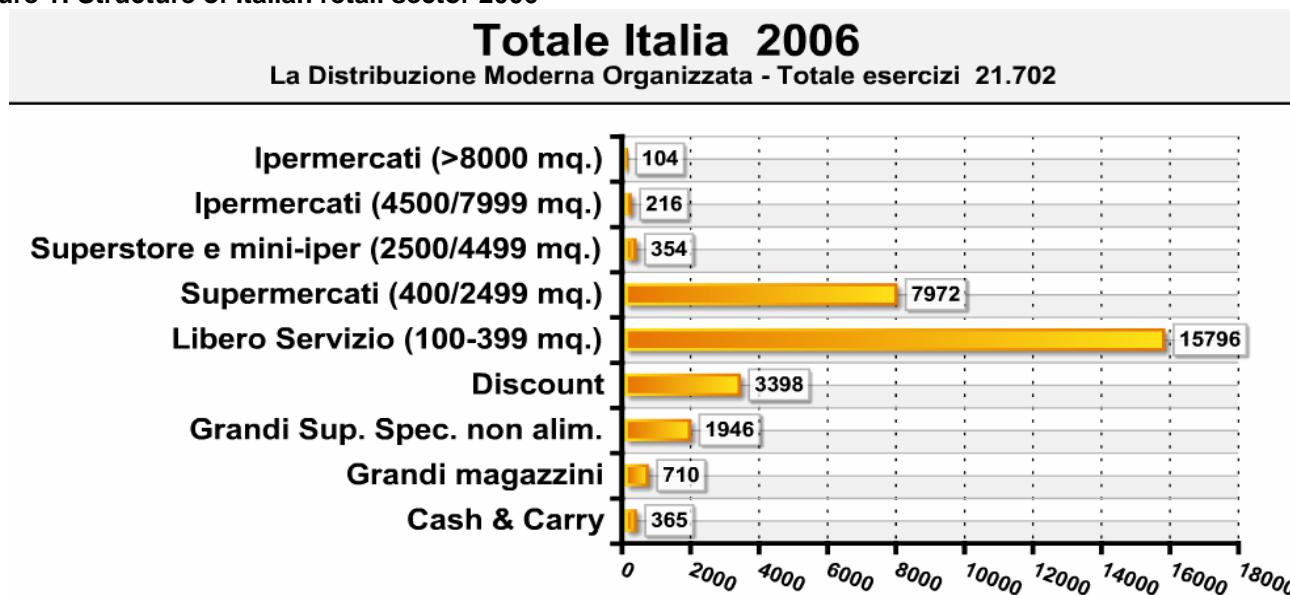
One very common tourist activity is holiday shopping, which mainly revolves around the purchase of local products (Oh et al., 2004; Moscardo, 2004; Sciarelli & Rossi, 2007; Stynes & White, 2006). Furthermore, it is one of the main activities done during the holiday. Shopping is assuming a great relevance in tourism industry because of its substantial economic contribution

to retail trade in several markets (Hu & Yu, 2006). Indeed, tourism influences specialities demand. So, an efficient retailing of local products could arise interest toward the region where they are made. In addition, it could attract more tourism flows, by giving useful data for definition of marketing strategies based on promotion of these gastronomic specialities. Companies operating in the distribution sector in Italy can be classified under the following categories:

- Hypermarkets, structures with a retail area of over 2,500 sq. metres;
- Supermarkets, structure with a sales area of between 400 and 2,499 sq. metres;
- Discount stores;
- Department stores (excluding food products);
- Cash and Carry, which sell in bulk at wholesale prices;
- Other specialised stores.

In Italy, stores with selling area between 100 and 399 square metres have the biggest market share (Figure 1), whereas the hypermarkets with more than 8000 square metres are less diffused (Federdistribuzione, 2007a). In particular, Figure 1 (ibid., 2007a) shows the data of the structures of Italian Retailing of 2006.

Figure 1: Structure of Italian retail sector 2006



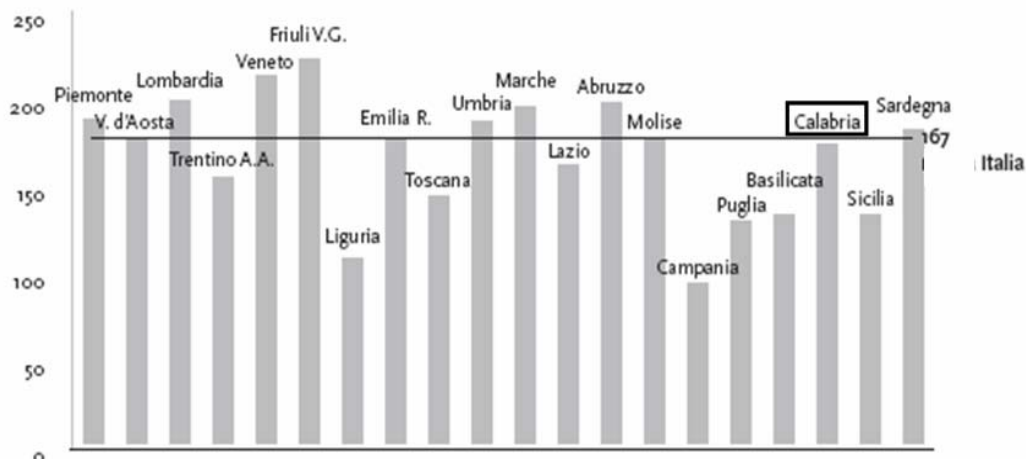
Source: Federdistribuzione, 2007a.

In recent times, the diffusion of gross retailers in the food sector (i.e. 180 square metres per 1000 inhabitants) grew up in the Italian retailing market (Federdistribuzione, 2007a). Figure 2 (ibid., 2007a) summarizes the diffusion of stores in each Italian region, calculated as square metre per 1000 inhabitant.

Recent researches have illustrated the development dynamics of the retail trade in divers European countries, highlighting how in Italy development is "likely to involve consolidation of fragmented domestic

markets" and the marked presence of "traditional family-owned outlets, cooperatives and discounters" (Poole et al., 2002). It is hardly surprising, therefore, that, with reference to the food sector, the main retailers are the large-scale Italian chains Coop and Conad, which are indeed made up from/by Italian co-operatives linked to these brands. In particular, Conad is present throughout the country, while the Coop is rooted in the north of Italy and in certain regions in Central Italy, although it is in the process of opening outlets also in the South.

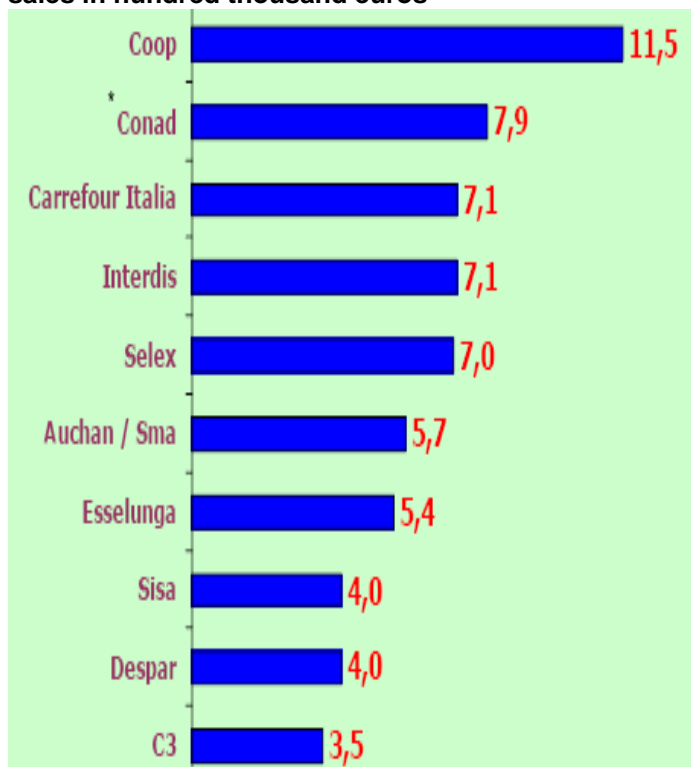
**Figure 2: Density of Gross Retailing Trade in Italy up to 2006 (calculated in sq. metres for 1000 inhabitants)**



Source: Federdistribuzione, 2007a.

In Figure 3 (Federdistribuzione, 2007b) is displayed the top ten chains in Italy for overall sales (in million Euros) up to the year 2006.

**Figure 3: Top 10 retail chains in Italy in 2006 for sales in hundred thousand euros**



Source: Federdistribuzione, 2007b.

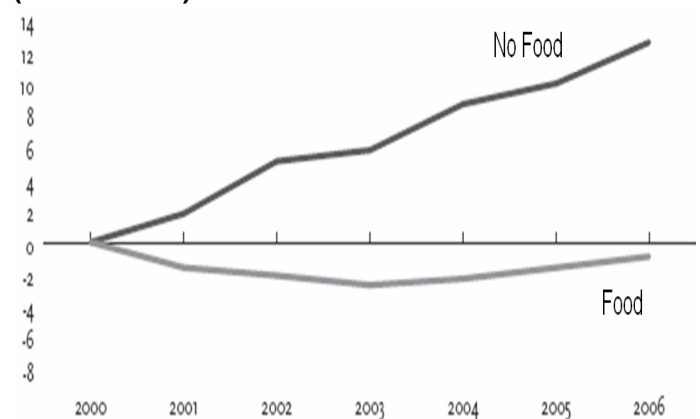
As regards the non alimentary sector in Italy, on the other hand, the situation has changed from that of the 1950s/1960s, in which there were only a few large-scale Italian retailers (Standa, UPIM, la Rinascente, Coin), to one where the local retailers operate alongside other chains- both Italian and foreign- in the 1970s (such as Prénatal, Benetton, Promod, Stefanel and many others), to the birth of hypermarkets, large scale specialist retailers and new franchising chains in the 1980s and

1990s (Ikea, Calzedonia, Mediaworld, DECATHLON, Douglas and so on), up to the recent past with the development of international brands and factory outlets (Zara, Mango, H&M etc.), all of which can be found in Figure 11 (Federdistribuzione, 2007b).

**Trends in Italian Retailing**

Recently, the number of commercial activities in Italy increased, in particular, in the non-food sector (Coop, 2008). Figure 4 (ibid., 2008) shows the trend of the number of stores in the non-food as well as the food sector. As it can be seen, the trend of non-food sector constantly increased in the timeframe 2000-2006; on the other hand the food sector, after a little decline from 2001 to 2004, is currently increasing.

**Figure 4: Trends in number of retail outlets in Italy (0=2000 units)**



Source: Coop, 2008.

Figure 5 (ibid., 2008) shows more in detail the number of stores for each Italian region from 2000 to 2006. In such a way it is possible to appreciate the proportional increase in the number of stores in the last years (ibid., 2008).

Figure 5: Trends in the number of retail enterprises for each Italian region

	2000	2005	2006	Variatz % 2000/2006	Variatz % 2005/2006
Piemonte	50.826	50.769	51.791	1,9%	2,0%
Valle d'Aosta	1.994	1.910	1.918	-3,8%	0,4%
Lombardia	92.971	88.663	90.688	-2,5%	2,3%
Trentino Alto Adige	10.377	10.397	10.435	0,6%	0,4%
Veneto	49.643	50.751	51.835	4,4%	2,1%
Friuli Venezia Giulia	14.729	13.960	13.948	-5,3%	-0,1%
Liguria	23.834	24.923	25.276	6,1%	1,4%
Emilia R.	51.342	48.941	49.509	-3,6%	1,2%
Toscana	49.271	49.779	50.416	2,3%	1,3%
Umbria	11.798	12.100	12.222	3,6%	1,0%
Marche	19.323	19.648	19.959	3,3%	1,6%
Lazio	58.804	66.982	70.063	19,1%	4,6%
Abruzzo	17.209	19.199	19.471	13,1%	1,4%
Molise	4.331	5.171	5.167	19,3%	-0,1%
Campania	83.205	98.104	99.417	19,5%	1,3%
Puglia	49.603	59.020	60.712	22,4%	2,9%
Basilicata	8.284	9.201	9.362	13,0%	1,7%
Calabria	29.888	33.059	33.577	12,3%	1,6%
Sicilia	65.441	72.374	74.172	13,3%	2,5%
Sardegna	20.853	26.637	27.152	30,2%	1,9%
ITALIA	713.726	761.588	777.090	8,9%	2,0%

Fonte: Elaborazioni Ufficio Studi Ancc-Coop su dati Mse.

Source: Coop, 2008.

The increasing number of stores which has been observed in Calabria in the last years could be addressed to an increase in selling, in particular in the

food sector. Table 1 (Istat, 2008) shows selling fluctuations in the timeframe 2006-2007 (2000=100):

Table 1: Selling of the stores in Italy (2000=100)

SECTOR	DATA	
	INDEX	VARIAZIONI %
	Nov 07	$\frac{\text{Nov 07}}{\text{Nov 06}}$
Food	119,1	+ 2,0
No Food	112,4	- 1,0
<b>Total</b>	<b>115,1</b>	<b>+ 0,3</b>

Source: Istat, 2008.

In Table 2 (ibid., 2008) these fluctuations are illustrated more in detail. As it can be seen, the kind of distribution which showed the most relevant increasing in selling is

the Gross Retailing Trade, in particular in the food sector.

**Table 2: Selling in Italy for different kind of distribution (2000=100)**

Kind of Distribution and sector	Value	Fluctuation %	
	Nov 07	$\frac{\text{Nov 07}}{\text{Nov 06}}$	$\frac{\text{Gen-Nov 07}}{\text{Gen-Nov 06}}$
<b>Food</b>			
Gross Retail Trade	123,0	+ 2,7	+ 1,1
Distribution in small areas	105,8	- 0,4	+ 0,5
<b>Totale</b>	<b>119,1</b>	<b>+ 2,0</b>	<b>+ 1,0</b>
<b>No Food</b>			
Gross Retail Trade	110,4	+ 1,1	+ 1,2
Distribution in small areas	112,7	- 1,3	+ 0,2
<b>Totale</b>	<b>112,4</b>	<b>- 1,0</b>	<b>+ 0,3</b>
<b>Totale delle vendite</b>			
Gross Retail Trade	120,4	+ 2,3	+ 1,1
Distribution in small areas	111,7	- 1,2	+ 0,2
<b>Total</b>	<b>115,1</b>	<b>+ 0,3</b>	<b>+ 0,7</b>

Source: Istat, 2008.

Local products are assuming a great importance for local economic development. Indeed, "typical products are conceptualized as issuing from small-scale agricultural systems, with special characteristics due to the combination of local raw materials with traditional, inherited, production techniques" (Tregear, 2003). The territory benefits from these products are shown in several ways: by increasing "farmers' incomes in marginal areas which may, through synergies, be multiplied across whole local economic networks" (ibid., 2003); enhancing skilled employment; enhancing social vibrancy; "improving environmental sustainability and animal welfare, and, safer, healthier food for the consumer" (ibid., 2003).

### Calabria local products

The case-study method is a powerful tool in particular when the aim of the research is that of obtaining the greatest amount of information regarding a given problem or phenomenon. The analysis of a single case may not be the most appropriate strategy, but nevertheless it can provide useful information in which this case is extreme (Flyybjerg, 2006). Calabria represents this condition. Furthermore, method is preferred only in the analysis of contemporary events, most of all when it is not possible to manipulate or modify the most relevant behaviour (Yin, 2003). Yet one could always exploit Calabria's various strong points, for instance the particular attention shown by foreign tourists: indeed, according to recent research carried out by the Tourism Observatory for the Calabria Region

(Osservatorio del Turismo, 2008), Calabria is perceived by foreign tourists as a place where it is still possible to enjoy the flavours of different local traditions. Some surveys show that 24.7% of the people interviewed associated Calabria with gastronomy and local products and this figure was even higher when it came to Japanese tourists at 31.8 % (ibid., 2008). Calabria is a region rich of gastronomy specialities, most of them related to the ancient tradition of Magna Graecia (the heritage of Greek colonization between VIII cent. b.C. and I cent. a.C.) (Bertacchini et al., 2007; Reitano et al., 2007; Pantano, 2008). Indeed, first Grecians on Calabria coast found the land so fertile and rich in vineyards that they gave it the appellation of Enotria, that is 'land where the tall vine is cultivated' (SMVMG, 2007b).

The most widespread food in Magna Graecia was fish, in particular in those villages close to the sea (SMVMG, 2007a). However, at that time people were used to consume figs, in particular dried figs, during the meal or at the end. Instead honey was the one sweetener, which was used very often like souce-seasoning for cheese (this tradition is still used in Calabria and in general in Italy), or as the main ingredient for cakes. In fact, local Calabria cakes are mostly made with honey instead of sugar. Furthermore, in Magna Graecia olive cultivation was really widespread and, even if in Calabria olives trees were also cultivated, Greek exploited very well the process. They highly improved the management, the organization, the promotion and the diffusion in all Mediterranean area. Indeed, it is believed that the actual

agricultural methods come from the Magna Graecia (SMVMG, 2007b). Because of this relationship, it is not surprising that the main Calabria producers are located nearby the zones where ancient Greeks started their productions. Today Calabria boasts 11 regional products that have been granted the European Food Quality Certification PDO or PGI (Mipaf, 2007a):

- cheese: Caciocavallo Silano (PDO);
- olive oil: Brutio (PDO), Lametia (PDO), Alto Crotonese (PDO);
- essential oil: Bergamotto di Reggio Calabria (PDO);
- fruit and vegetables and cereals: Clementine di Calabria (PGI), Red Onion of Tropea (PGI);
- meats: Capocollo (ham) di Calabria (DOP), Pancetta (bacon) di Calabria (PDO), Salsiccia (sausage) di Calabria (PDO), Soppressata (sausage) di Calabria (PDO).

In the course of 2008 three more Calabria products will receive the mark of quality: Fichi (figs) di Cosenza (PDO), Peperoncino (chilly pepper) di Calabria (PGI) and Tartufo (ice-cream) di Pizzo (PGI). Also, the region has 273 traditional specialities recognized by the Ministry for Agriculture and Forestry (Mipaf, 2007b) which represent about 15% of the total local products at national level. Relating to the percentage of the investments made in 2006 by Calabria companies, it appears that over than 60% of business not invest in marketing at all (Agros, 2007). In fact, the marketing strategy most used is related to the traditional strategy of selling promotion, i.e. special offers or sales and discounts in particular period of the year. Furthermore, many producers of Calabria specialities choose to sell their products only in their own stores (located in the production place) or in specialized stores. In this way, they exclude their products from Gross Retailing Trade, because of the very high royalties to be paid. The main weakness of this strategy is that in this way the products have a limited distribution and, in particular, the stores located in the production places are usually very far from tourism routes or from the city centre.

### Calabria local products in Italian Gross Retailing Trade

In recent years, consumers' attention for regional products increased, because consumers believe these products are genuine and quality products, based on traditional recipes. In particular, Italians prefer to shop products designed and made in Italy (Euromonitor International, 2008). They also "have a preference for high-end, branded products (ibid., 2008). Gross Retailing try to exploit this demand by launching new product lines dedicated to regional specialities or by creating a corner in their malls exclusive for typical products of a region. Since the year 2000 the large-scale retailers in Italy have been selling products from different Italian regions, with a specific identifying label. Initially the products sold in this way by retailers under their own labels were seen by consumers as low price/low quality, but through this intervention (i.e.

through the association of local and quality in new line of products) their original market position has improved (Liao et al., 2008).

Certain researches support the claim that the consumer perceives products with their own label with the large-scale retailers quality to be inferior to other products in the same category with national brands (Gabrielsen & Sørsgard, 2007). Moreover, such products have the characteristic of being sold exclusively by those particular retailers, in this way from the consumer's perspective, that products the private labels are unique in that they are the sold only in that store (Hansen et al., 2006). Furthermore, this labelling can have many functions: identifying, describing and promoting the products (Verbeke, 2008). The private labels contain a minimum amount of mandatory or legally required information, but a producer can choose to add more information so long as it is correct. This extra information can contribute to product differentiation, and can be perceived by consumers as adding extra value to the product (ibid., 2008). In this way the consumer perceives the products of these new lines as superior to the ones of the established brands. The first player in this development was Carrefour, which launched the line Terre d'Italia (logo is in Figure 6), which as the name implies clearly reminds the consumer of the products origins.

Figure 6: logo of Terre d'Italia by Carrefour



Source: [www.carrefour.it](http://www.carrefour.it).

In the choice of products to insert in the line Carrefour adopted a very restrictive selection criteria: the recipes must come from the areas where the product is made, the primary materials used must be grown solely locally and the production must at least in part be carried out by hand. The chain allows the use of technological adjuvants/additives only in the case where their use is required by the European Union and the producer must be located in the geographical home area of the product in question. Currently, the range numbers over 160 products among which are: cheese, salami, oil, condiments, preserves, pasta, rice, bread, sweets and pastry, honey, jam, wines, liqueurs and frozen food. It should be stressed that the line of products utilised were carefully studied for factors such as visibility, tradition and regional origins, which can be seen on the map of Italy with the regional of the product indicated, though it has to be said that Carrefour unlike other chains, does not link its product to a particular town but rather to a region. Finally it is worth noting that the price

of these products is slightly under that of similar regional product lines marketed by its competitors such as Conad, SMA and others.

The other main chains in Italy are (Cassiano, 2006): Saponi e Dintorni (Conad), whose logo is shown in Figure 7, began life in 2001. It was immediately successful on the market; also in this case products were made with local materials and traditional methods of production and transformation. Moreover, attention was focused, in particular, on those items with the certification PDO and PGI, and products were classed in the following categories: cheese, pasta and oven baked goods, dried legumes and cereals, salami, oil, sauces and condiments, alcoholic drinks, preserves, honey, jam and marmalade and ice-cream. On each item there was a map of Italy showing the region where the product was made, its history, the name of the local producer and the town or village where it is located. Overall, Calabria contributes around 7% of the regional varieties (Conad, 2007);

**Figure 7: logo of Saponi e Dintorni by Conad**



Source: [www.conad.it](http://www.conad.it).

I sapori delle regioni (Auchan, Sma,), whose logo is seen in Figure 8, this chain of products privileges the small-medium consumer, usually an unimportant figure in the Gross Retailing Trade. The initiative, which started life in 2002, was set up on the lines of a regional market, dedicated from time to time on a particular region, with a gap of about 3 weeks between one promotion and another. The aim of the initiative was to introduce the consumer to the culture and gastronomic traditions of different Italian regions. Moreover, each product was made in local firms with strong territorial roots and each item came with a leaflet which specified the name of the supplier, the history, methods and location of production (Auchan, 2007). The line boasts over 100 products;

**Figure 8: logo of I Sapori delle Regioni by Auchan**



Source: [www.auchan.it](http://www.auchan.it).

I piaceri italiani (Crai), whose logo can be seen in Figure 9, began life in 2003. Its distinctive features are that the products are made with traditional methods, the primary materials are of high quality and, above all, the items come with EU certification protecting the consumer and

guaranteeing the quality of the product. The message the company hopes to get across to the consumer with this line of products is: "The pleasure to savour Italy in all its diversity is at the basis of Piaceri Italiani".

Moreover, every week the company spotlights a particular product in order to entice the consumer to try and buy the line of products (be it a type of biscuit, a drink or kind of sausage) and promotes local food fairs and other events as a means of publicising regional products. Over the years other regional items have been added to the initial line of products;

**Figure 9: Logo of Piaceri Italiani by Crai**



Source: [www.crai.it](http://www.crai.it).

Compared with its competitors Fior Fiore (Coop), which is shown in Figure 10, employs less stringent selection methods. The Coop's policy is more orientated to interesting the consumer in particular products rather than products protected by EU guarantees, although it is equally concerned to offer quality products which have been made with traditional methods. The products in their line do not only come from Italian regions but also from abroad, though these require the same characteristics as the Italian products to be considered suitable for the product line. This line, which began life in 2004, has been expanded and enriched as a result of its success with new quality local products (Coop, 2007).

**Figure 10: Logo of fior fiore by Coop**



Source: [www.coop.it](http://www.coop.it).

Table 3 (Cassiano, 2006) summarises the main lines of local products on sale in the Gross Retailing Trade in Italy, for the period 200-2005. In particular the year of their introduction, the number of products available in each line (a number which has been expanded in several cases in 2007 and consequently are not included in the table), the number of suppliers (this also has to be updated in some cases vis-à-vis the figure in the table); finally the annual turnover is reported for the period 2004 and 2005, in order to underline the growth that has resulted from the success among consumers of these product lines from every part of Italy.

**Table 3: Summary of main characteristics of the typical lines of the main Italian retailers.**

	Terre d'Italia	Sapori & Dintorni	I Sapori delle Regioni	Piaceri Italiani	Fior Fiore
Lauching year	2000	2001	2002	2004	2004
N° of brands	5	2	4	1	2
Brands	Iper, Carrefour, Unes, GS, Dyperdi	Conad, Margherita	Sma, Auchan, Cityper, Simply Market	Crai	Coop, Ipercoop
N° Points of Sale TOT	1.544	2.905	1.542	2.751	1.290
- Hypermarkets	68	23	42	1	70
- Supermarket	514	2.882			
- other stores	962	-	1.140	2.050	-
N° ITEM TOT of the line	202	119	110	62	96
- Fresh products	72	30	50	39	33
- Tinned products	130	89	60	23	63
N° Supplying	120	80	70	48	60
Sales per year in million of euros					
2004	€ 30,000	€ 50,000	€ 10,000	€ 1,500	€ 24,000
2005	€ 35,000	€ 65,000	€ 12,000	€ 2,600	€ 30,000

Finally, it is necessary to add that also the Italian chain Sigma launched in January 2008 its own product line dedicated to regional Italian foods. The name is Scelto (an example of product can be seen in Figure 11) which synthesises the catchphrase "chosen for you by Sigma".

**Figure 11: A product of the line Scelto by Sigma**

Source: [www.sigma.it](http://www.sigma.it).

In the launch phase there were 26 products on offer, but it is expected that another 10 products will be added in the course of 2008. The items must be linked to the tradition of a particular place and made with quality raw materials but not all are accompanied by a European Food Quality Certification. As regards the packaging, like the other product lines of its competitors, Scelto foods come with a map of Italy with the relevant region highlighted and some information about the characteristics of the product. Furthermore, on each item there is the name of the local producer and the town or village where it is located. In the first phase of the launch, Calabria dried tomatoes were the only item

representing Calabria. As regards Despar, on the other hand, the company has chosen a different strategy to attract consumers interested in genuine local products. Indeed, they did not create any special line dedicated to this area but, at the end of 2007, they opened a corner in all their stores throughout the country dedicated to the sale of local specialities from the region in which the store was situated; each product keeps its own brand name which must be from the area and respect local traditions. For this reason in Despar stores in Calabria, for example, there is a corner set aside exclusively to promote Calabria decorated with photographs of local beauty spots and the shelves filled with goods made by local producers under their own label (Figure 12).

**Figure 12: Calabria corner in a Despar point of sale in Calabria.**

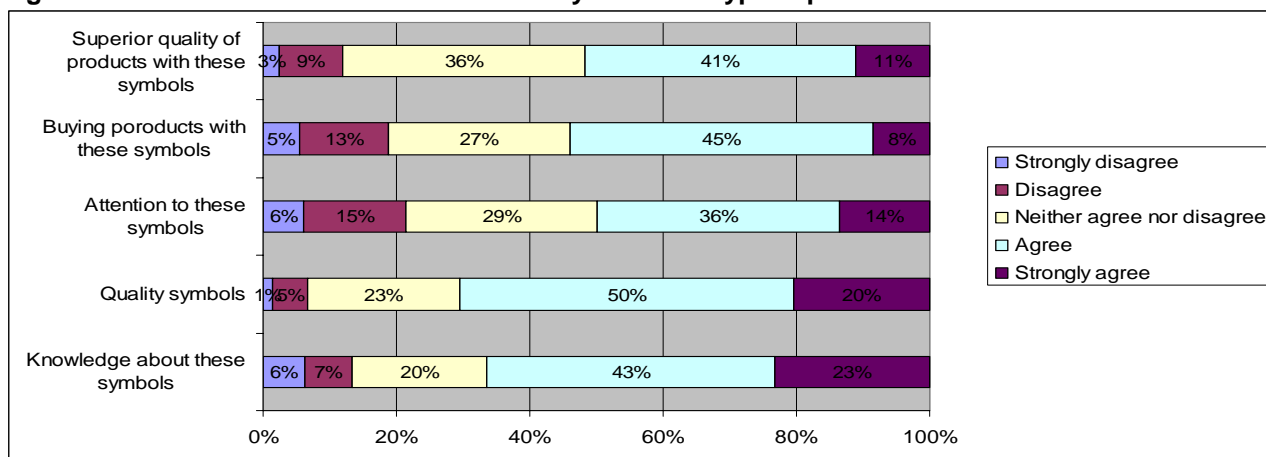
The attention shown to regional specialities on the one hand allows the retailer to attract that segment of consumers interested in locally produced food (in so far as it is believed to be better quality) while, on the other, it gives local producers the opportunity to promote their goods, thereby favouring the development of the local economy. This may have significant beneficial spin-offs for the local regional economy.

**Consumers' response of Calabria local products retailing**

In the second step, quantitative research is conducted to analyze consumers' response of Calabria local products

retailing. On the basis of the information obtained through the qualitative research, a questionnaire was constructed. Such questionnaire was then administered to consumers. Consumers' survey consist of 536, so the probability of error was respected. The results of the descriptive analysis was that more than 60% of consumers know European Quality Symbols, but less than 50% usually buy products with these symbols or pay attention to them (Figure 13). In fact, about 50% of consumers assert that products with these symbols really have a superior quality than the similar ones without these symbols.

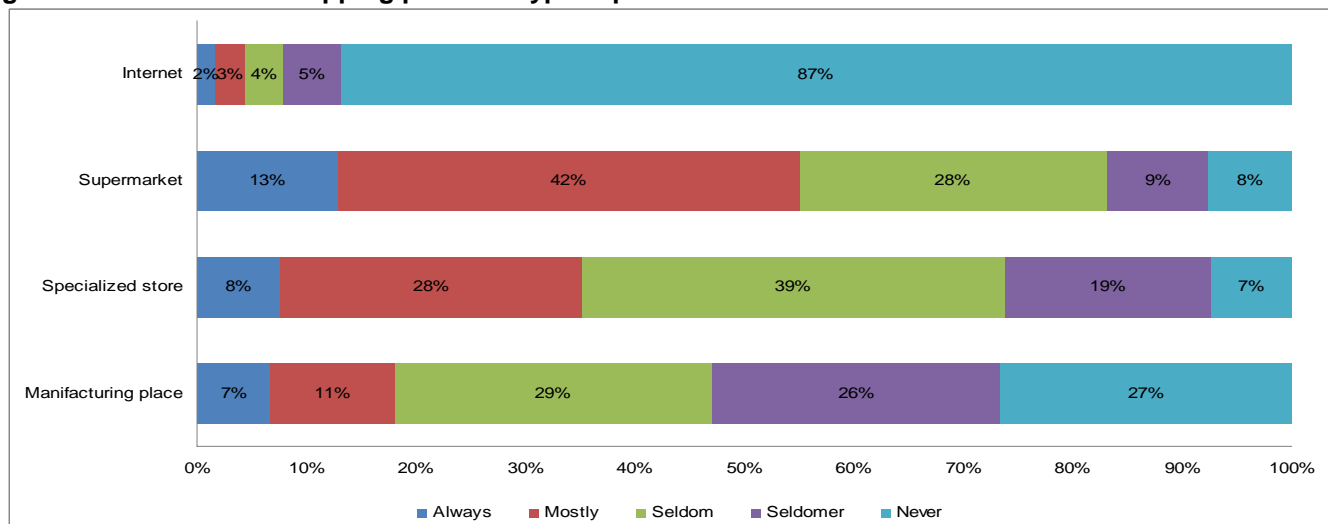
**Figure 13: Consumers' attitude towards EU symbols for typical products**



Another important result is related the consumer' shopping place for local products (Figure 14). Most of them prefers buying these products in supermarket. In fact, only a little part of interviewed buy the local products via internet (about 14 %), while the others assume to buy them never. This value is confirmed by the fact that only few Calabria producers sell their product via internet, most of them uses internet also like a virtual window, in opposite with the other Italian region or European countries (like Germany), where these

products are sold also in multi-channel retailing (Schröder & Zaharia, 2008). Only few products have been purchased in the manufacturing place, because very often it is difficult to reach, producers don't pay much attention to details (i.e. environment, design) to that place. Most of purchased local products have been done in supermarket (about 55% buy them always or mostly in supermarket), where it is available only a small part of the large number of local products of a territory.

**Figure 14: Consumers' shopping place for typical products**





In particular consumers answered they prefer purchase Calabria local products in supermarket, because their distribution is very limited, furthermore, these products entered in the market. This result is justified by the reason that most of point of sale of these products are difficult to reach, because of their particular location, out of the city or far from the most important tourism roads.

### Conclusions

In conclusion, one has to say that the spread of Calabria products is very limited both nationally and in the region itself. Calabria producers do not seem able to exploit the opportunities offered by Gross Retailing Trade. Calabria producers, therefore, should first improve their communication strategies by focusing on the quality of their products and the relationship these have with the local area and tradition and, secondly, on the presence of European Quality Certification. They could also exploit the opportunities offered by the main Italian retailers, by creating trading associations to overcome the obstacle of the high royalties. In this way they would play a more visible role in the Gross Retailing Trade and their products could be selected to be included in their product lines under their own brand. In this way they could create a contact with consumers who prefer to buy this kind of product mostly in the supermarket. In addition Calabria could use its local gastronomic specialities as a key-factor to attract more tourists, by inviting them to taste all specialities in situ (i.e. where they are produced). Furthermore the region should develop marketing strategies to promote these local products in a global scenario.

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# Factory Outlet vs. City Centre Stores: Is the shopping behaviour changing?

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## Abstract

*In this paper, a general overview of the factory outlet expansion in Europe will be explained, in order to highlight the strategies adopted by the main designer companies which have set up factory outlets in the European countries. The most consistent development of Factory Outlet Centres in Europe is occurring in the UK; therefore the Italian market is playing a significant role as well. For this reason, a focus on the UK market will be made, where the successful "formula" of the factory outlet seems to be easy to replicate, as many similarities do exist between the British and American market, where this new format had origin. Secondly a general overview of the Italian market will be made, in order to propose a comparison between the European countries. The UK maturity toward a new retail concept caused a successful application of the American strategy in the factory outlet centre development. The British legislation between 1980s and early 1990s also helped the out-of-town retail to grow (Fernie, 1996). In the same period, the economic recession reflected its implications on the consumption model as well, making British customers more "saving-money" oriented and, as consequence, attracted by this new retail format. In this study, a focus on the consumers' behaviour in the British market has been made, in order to analyse the hypothesis concerning an existing trade-off between the factory outlet shopping and the in-town purchasing habits. Finally the Italian law evolution concerning commercial issue will be considered; this is aimed to clarify if the potential development of the factory outlet centre, as out-of-town shopping offer, can be competitive if compared with the city centre stores. A secondary data research has been developed, in order to highlight the consumer behaviour trends, referred to the selection of alternative retailing formats.*

*A primary data research has been collected as well, in an attempt to verify the hypothesis above.*

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## Introduction

The following Matrix was devised to aid consideration of the research methods that will be used in this research. The propositions are the themes related to the literature reviewed concerning consumer behaviour and shopping in different commercial format. These are then linked to the objectives the research aims to investigate, the centre to sections relate to the method type that will aid the investigation of the objective. Based on the propositional matrix, this study will use firstly a deductive

approach using a positivist paradigm, in order to identify the preferences of customers about the place where doing shopping among UK citizens. This will be done by collecting data from the UK population and analyses accordingly to certify a generalization of the population (Gray 2004). The methodological approach in this case will be that of Quantitative. Veal (1997) suggests that quantitative data, including surveys and questionnaires, provides standard data and ensures reliable data, especially when collected in mass quantities. Data from

several sources in the retail property investment and research industry have been included in the period of 2006.

The questionnaire itself, will adopt a structured style. Zikmund (2000) suggests that structured questions limit the number of responses a participant can give. This may be perceived as a negative approach as freedom to suggest answers that aren't structured cannot be given. However, the possible responses will be compiled in relation to the literature review conducted and the objective seeks to compliment/identify trends of UK consumers in relation to the findings of this research. The open responses and additional findings of the

previous research will be later generated from the in-depth interviews that will be conducted. Once the Mintel Report has been analysed, this will form the basis upon the in-depth interviews. They have been conducted in the period of December 2007 (10 people interviewed in Leeds, UK) and February 2008 (8 people interviewed in Rome, Italy). The relationship with the phenomenological approach and qualitative data is highlighted by Saunders, Lewis and Thornhill, (2000). Who suggest that qualitative data is associated with concepts and characteristics of richness and fullness based on the opportunity to explore the subject?

**Methodology and Research Design**

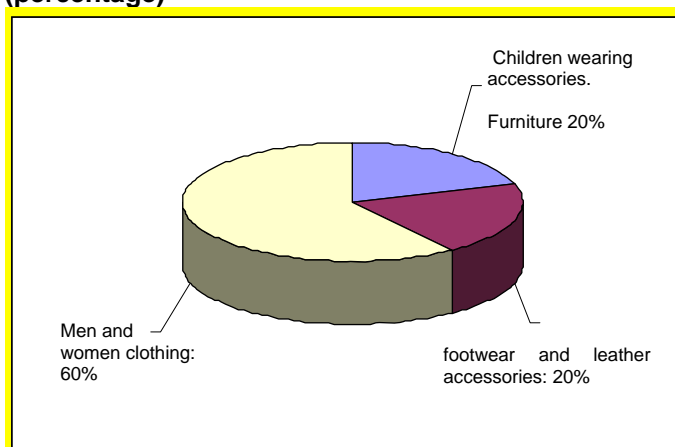
**Propositional Matrix**

Propositions	Qualitative	Quantitative	Objectives
Do consumers have differing views of shopping in Factory Outlet?		Questionnaire survey of Mintel Report	Identify customers preferences in the store choice.
What social variables effect the choice of the store?	In-depth interviews	Questionnaire survey of Mintel Report .	Investigate the social differences concerning the choice of the store.
What differences are perceived between high street store and factory outlet?	In-depth interviews		Examine the influences of attitudes and believes of customers between high-street store and factory outlet

**Factory outlet: Consumers' Perception of Discounted Fashion brands**

The out of town exodus can be traced back to the development of food superstores since mid-1960's onwards, but by 1980's retail warehouse operators have also been contributing to the development of putting pressures for suburbanization. In 1974, Vanity Fair opened the first factory outlet in Reading Pennsylvania (USA). It started from a collection of warehouse buildings. Actually, the first stimulus to factory outlet development was the manufacturer's need to dispose of its excess stock that arise from cancelled orders, or returns and slow-selling lines<sup>1</sup>. Originally, factory outlets were stores with crudely displayed merchandise. Later, they became the result of conversions arising from existing shopping centres or clusters of basic warehouse-style units. Nowadays, factory outlet centres are "shopping villages", where an attempt is made to create a warm and realistic atmosphere to make a customer happy and relaxed. Factory outlet centres can range from 930-185,000 square metres with an average of 14,000 square metres. Within the USA, these centres attract regular weekly customers from within a 25-mile radius. The main sectors that the factory outlets deal with are shown in Figure 1:

**Figure 1: Composition of factory outlets sales (percentage)**



Source: "Shopping e relax all'Italiana", *Largo Consumo* 01/08

Several economic factors contributed to the growth of the outlet industry during the 70's and 80's. It can be argued that energy crisis and a decrease in consumers' discretionary income led to a more conservative and value-for-money consumption model. At the same time, consumers' feelings toward an awareness and

<sup>1</sup> Moreover, this phenomenon is very common in the clothing sector, because of the existence of seasonable products.

desirability for designed label were increasing<sup>2</sup>. Finally, manufacturers' preference for the factory outlet format can also be considered as a response to the growing retail distribution competition based on private label merchandise and other tools of strategic marketing.

Several factors led toward the development of out-of-town shopping:

- widespread ownership of cars met the need of consumers to have a more dynamic mobility and availability of car parks in commercial area;
- a continuous search for discounted prices by consumers (Fernie, 1996) led many retailers to choose a location far from the city centre where structural costs were too consistent;
- creating a more relaxed atmosphere for shopping in the attempt to combine the concept of "*shopping as a consumer need*" with the statement of "*shopping as a way to enjoy consumers' own leisure time*".

The larger out-of-town location also offered a wide range of superstores, including purveyors of furniture, carpets, DIY products, food products as well as fast food restaurants that have been seen to complement (Jones and Vignali, 1993).

The combination of these elements has created a climate conducive to the growth of "value retailing". Value retailing offers customers "value for money" spent, that is, quality merchandise at lower than normal cost. This is a different concept from discounting because it does not imply the equation "*low quality=low cost merchandise*". Developers recognized that factory outlet centres, which offer value retailing in out-of-town shopping centre formats, would be highly attractive to the mobile European consumers of the 1990's. A rapid development of discount formats – and discount proposition within mainstream formats – is both the source and result of overcapacity and as such led to an increasing commodity nature of retail offering (Kaas, 1994). One of the most important consequences of this multiple price offers has been the consumer perception of the "fair market" value for some products (Emory, 1970; Gabor and Granger, 1970). This happened because an implausible percentage price reduction claim was expected to result in higher estimates of perceived price reduction and perceive offer value (Ang, Leong and Tey, 1997). In the fashion industry this statement is extremely important due to an ongoing chance to make a comparison between the high street price and factory outlet price for similar products. This could lead to a change in the consumer attitude towards such brand. According to the literature, a company can create values for its customers and differentiate its products from its competitors by investing in the *image of* and *loyalty toward* its own brand. The brand is able to summarize its product's tangible and intangible features

in order to make it unique and inimitable in consumer perception. Hence they are willing to pay a "premium price" to get such a brand rather than a certain product. The following aspects show the way a brand can be expressed:

- **Identity:** is what the company wants the brand to communicate to the market embracing the company's culture and values (Aaker, 1997).
- **Image:** is how consumers receive the company's message and, as a consequence, perceive its brand.
- **Positioning:** 'is all about creating the optional location in the minds of existing and potential customers so that they think of the brand in the "right way"' (Keller, 1999, pp 44).

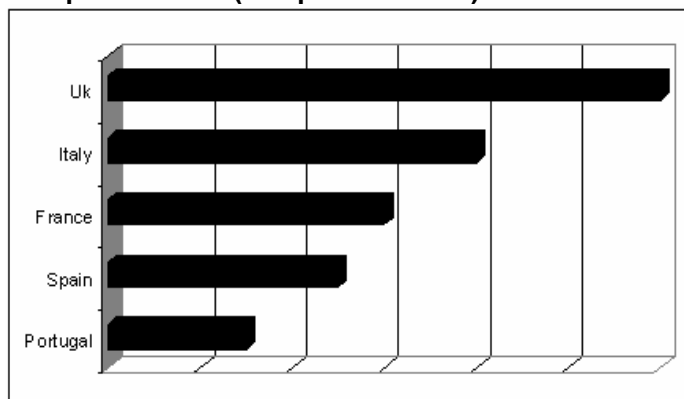
In terms of strategy, "identity" should precede "image" because this is the result of the company's values passed along the market. After that, "positioning" should be implemented by the company as a strategic choice in order to let the consumer differentiate the company's brand from their competitors' brands. The spread of factory outlets, where famous brands can be bought by paying very discounted prices, can compromise the positioning policy of some well-known brands. In the fashion sector, this issue gains more importance considering the relevance that both "*personal identity*" and "*social identity*" have in the act of purchasing (and wearing) fashion items (Noesjirwan and Crawford, 1982). The efforts made by the company to communicate a fashion brand's "*personal identity*" leads to a self-image developed in the customer's mind. It includes the people's perception of what they are like. Consumers seek those brands that match their self-image (or the image they would like to project) to others (Schiffman and Kanuk, 1997; Solomon, 2002). In order to avoid customers' "disaffection" toward brands available both in high street shops and in factory outlets, a strong store image could be built by the retailer. In this case, customers can assess the brand, not –or not only– considering its discounted prices, but also referring it to the store image perception, that is consequently linked to customer loyalty. However, due to a strong land use planning framework which inhibits out-of-town developments, until recently the UK lagged behind the USA, and so did many other continental European countries in the growth of peripheral retail activity. While in 1980 only 5% of the sales took place through out-of-town retailing, by 1991 it grew to 17% and this phenomenon is showing an upward trend.

In figure 2, the actual development of factory outlet centres in Europe can be seen.

As shown by the following figure, UK is the first Country followed by Italy. For this reason, although the following research is based on UK factory outlet expansion, some features of the Italian factory outlet model, development and law limitations will be analysed. A desk research has been done by analyzing written documents and articles. An important source of information has been the Mintel Report on the out-of-town shopping in the UK.

<sup>2</sup> This aspect can be associated to a greater importance that consumers gave to quality, value and status.

**Figure 2: Classification of the first 5 Countries in Europe for G.L.A. (in squares metres)<sup>3</sup>**



Source: Third Conference on Factory Outlet Centres of Magdus (July 2007)

Secondly, semi-structured interviews to factory outlets' customers have been made in order to dispose of a deeper profile of consumer behaviour, both in UK and in Italy. The interviews have been made to people who live within 30 km from the factory outlet location and who go there at least once a month.

#### Factory outlet development in the UK

During the 90's, the American model of factory outlet was imported in the UK. Nowadays, this is the largest and most evolved factory outlet market in Europe. Here, the process of internationalisation of factory outlet centre's developer has turned out to be easier than in other West European countries because of the existence of several common features between the USA and UK economic and social environment.

According to the internationalisation theory, the factors that influence market entry mode strategy are (Alexander, 1997, pp. 281-291):

- domestic market characteristics such as the local competitors' structure, market saturation, economic and political environment;
- non-domestic market characteristics such as the global competitors' structure, investment conditions and political stability;
- the nature of the operation concerned.

The process of factory outlet model "export" from the USA to the UK did not meet significant obstacles, thanks to the absence of difference in their domestic market characteristics. To explain this concept, it can be useful to refer this issue to the "obstacles" that McGoldrick highlights in an internationalisation strategy that are:

- 1) Culture and languages: in the case of the USA and UK these are the same.
- 2) Tariffs, quotas, developments laws: the UK property market is similar to the North American in its high degree of concentration of land ownership amongst leading property developers and financial institutions. Other European

countries have a "less free" market and a higher degree of land and property ownership by traditional institutions such as the government, churches, local landed interest, etc.

- 3) Cost of logistics and communications: the tariffs and quotation were very cheap in out-of-town locations. this led many retailers to move away from the city centre, in order to become a part of an integrated "tenant mix" in out-of-town shopping centres.
- 4) Reaction of local competitors: in the 90's competition in the UK market was not yet so intense, and this allowed factory outlet owners to get high market share.

Currently, in the UK there are more than 30 factory outlet centres with a G.L.A. of 547,000 square metres and 1,882 retail units. The average number of stores in British outlet centres is of 54 units with an average G.L.A. of 15,625 square metres.

The UK factory outlet model originated from different formulas:

- 1) The original shop was located in the manufacturer's factory. From this formula the name "factory + outlet" had its origin.
- 2) Development of a commercial area where some traditional shopping centres were transformed into factory outlets. In this case, the store becomes a "hybrid" in the sense that it could contain a mix of factory outlet and conventional high street goods.
- 3) Village of shopping. The aim is to create a particular atmosphere where the simple "act of purchasing" becomes a complete "shopping experience".

All these different formulas have a common aspect of giving out further services, restaurants and fast food, children entertainment, Leisure Park, etc.

The first elementary factory outlet in the UK was located around an original pottery factory shop at Hornsea on Humberside out of some existing shops. The Hornsea Freeport opened in 1992 and had 3,700 square metres of retail floor space. When opened, it contained 29 stores, including some brands as Laura Ashley, Aquascutum, Alexon, Benetton, Austin Reed, and others. "Clarks Village" is a factory outlet originating from the second "formula", as mentioned above. It was opened in a street in Somerset in 1993 by the famous footwear manufacturer Clarks. It has 38 stores and is spread on 7,430 square metres. Its attraction is also based on a leisure and tourist dimension that includes a shoe museum, a pottery centre, some children's playing areas and a 300-seater restaurant. The factory outlet "Galleria" comes from a traditional shopping centre converted and re-opened in 1995. Here, there are some typical factory outlet brands, as Jeffery Rogers, Pepe Jeans, Pilot and Hornsea Pottery. Some high street brands are also available, as Superdrug, Dillons, Dorothy Perkins. Finally, the "Cheshire Oaks, Designer

<sup>3</sup> G.L.A. stands for Gross Leasable Area.

Outlet Village” is an example of the last generation of factory outlets as a village. It was opened in North Cheshire in 1995 spread over 16,000 square metres. It is the largest UK factory outlet centre with more than 60 stores and brands like MEXX, Lee Cooper, Fruit of the

Loom, Daks, Edinburgh Crystal and others. The owner of this factory outlet is McArthurGlen, one of the largest factory outlet developers in the USA. In table 1, a UK factory outlet centre map can be found.

**Table 1: UK factory outlet**

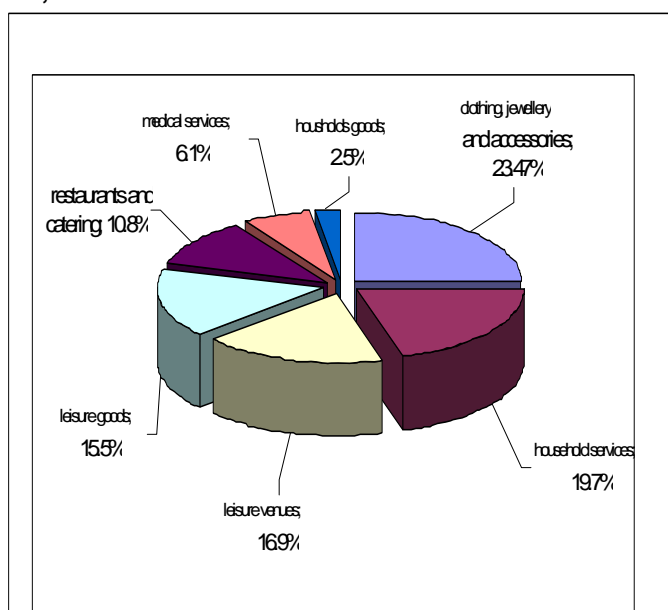
Outlet centre name	Location	Date opened	GLA size	Shops
Springfields Festival Gardens	Spalding Lincolnshire	May 2004	13.000	37
Junction One Outlet Shopping	Antrim, Northern Ireland	May 2004	13.500	46
Dockside Outlet Centre, Chatam Maritime	Chatam, Kent	June 2004	14.000	41
Dalton Park	Murton, County Durham	April 2003	14.500	54
The Waterfront, Brighton Marina	Brighton, West Sussex	October 2002	13.000	19
Lowry Outlet Mall	Salford, Manchester	September 2001	18.600	64
Gunwharf Quays	Portsmouth, Hampshire	March 2001	19.500	82
City Quay Factory Outlet	Dundee, Tayside	October 2000	5.500	50
McArthurGlen Livingston	Livingston, West Lothian	October 2000	27.000	65
The Mill, Batley Factory Outlet	Batley, West Yorkshire	October 2000	11.425	32
Atlantic Village Outlet Shopping	Bideford, Devon	June 2000	9.300	35
McArthurGlen Ashford	Ashford, Kent	March 2000	17.000	64
Whiteley Village Outlet Mall	Fareham, Hampshire	November 1999	15.300	42
Freeport Braintree Outlet Shopping Village	Braintree, Essex	November 1999	20.000	72
The Galleries, Aldershot	Aldershot, Hampshire	October 1999	6.505	31
Freeport Castelford Outlet Village (relaunch as Junction 32)	Castelford, Yorkshire	September 1999	23.225	63
Gretna Gateway Outlet Village	Gretna, Dumfries & Galloway	September 1999	12.080	49
Sterling Mills	Tillicoultry, Clackmannanshire	May 1999	8.920	34
Peak Village Factory Outlet Centre	Rowsley, Derbyshire	April 1999	5.575	19
Freeport Talke Outlet Centre	Stoke-on-Trent, Staffordshire	March 1999	13.200	34
McArthurGlen York	York, Yorkshire	November 1998	22.500	105
McArthurGlen Mansfield	South Normanton, Derbyshire	October 1998	15.000	54
Clacton Common Outlet Centre	Clacton-on-Sea, Essex	October 1998	10.800	50
McArthurGlen Bridgend	Bridgend, South Wales	May 1998	21.500	69
Loch Lomond Factory Outlet Centre	Alexandria, Dunbartonshire	September 1997	5.574	23
Festival Park factory Shopping Village	Ebbw Vale, Gwent	August 1997	9.300	35
McArthurGlen Swindon (Great Western)	Swindon, Wiltshire	March 1997	19.500	90
Royal Quays Outlet Shopping Village	Coble Dene, North Shields	October 1996	13.000	48
Lakeside Village Outlet Shopping (Yorkshire Outlet)	Doncaster, Yorkshire	June 1996	11.600	45
The Galleria Shopping Centre	Hatfield, Hertfordshire	May 1996	51.000	66
Bicester Village	Bicester, Oxfordshire	September 1995	16.750	89
Freeport Fleetwood Outlet Shopping Village	Fleetwood, Lancashire	June 1995	13.000	38
McArthurGlen Cheshire Oaks	Ellesmere, Cheshire	March 1995	31.500	123
Clarks Village Outlet Shopping	Street, Somerset	August 1993	16.720	84
Freeport Hornsea	Hornsea, East Yorkshire	July 1992	8.000	30

Source: R. O. Jones, “An examination of tenant evolution within the UK factory outlet channel”, International Journal of Retail & Distribution Management, Vol. 35 No. 1, 2007.

In the next section, British consumer behaviour is looked upon in order to analyse the existence of a trade-off between factory outlet shopping and in-town purchasing habits. The results have also been integrated with the quantitative analysis conducted by Mintel in 2006.

*The empirical research: British consumers' preferences*  
From the Mintel report "High street vs Out-of-town Retailing –UK", the following remarks can be highlighted to introduce the qualitative empirical research. An important element in people's choice store location arises from the shopping experience that the customer is expected to have. Actually, this aspect affects the level of willingness the customers have in doing shopping in such a place, and how often they go shopping there. The availability of facilities can be considered as another factor able to influence people's preferences for the shopping location<sup>1</sup>. It can be highlighted that an important indicator of consumers' purchasing habits arises from people's expenditure destination (Figure 3).

**Figure 3: Consumers' occasional expenditure in the UK, 2005.**



Source: our elaboration on Mintel data report 2006.

Considering the total British consumer expenditure, 16% is directed to occasional purchasing. Within this category the most important field is represented by the "clothing, jewellery and accessories" sector (23.47% of the occasional expenditure). This result can be combined with the weight of "leisure venues" and "leisure goods" which are the second biggest sector in the British occasional expenditure. In this sense the double concept of factory outlet centre that serves both as a supply of fashion discounted brand merchandise and as a place where consumers can spend their own

<sup>1</sup> It can be highlighted, for instance, that the concept of "shopping as a leisure time", rather than as a need, leads to an important role of food and drinks stores.

leisure time is better explained. The qualitative empirical research has been conducted throughout in-depth interviews that included both open and closed questions. Its aim was to allow the respondents to give answers in their own way (Fink, 1995a) when a lack in their knowledge of the topic was perceived. Closed questions are structured so as to let the customers choose one of the specific options given. They are used when the interest is just to have the answers in a pre-determined sphere of possibilities. Finally, in order to understand the strategic choice of the tenant mix, the technique of the "mystery shopper" has been used. The interviews were conducted in the York Designer Outlet. McArthurGlen is the owner of this factory outlet village. It is a Washington-based company which runs 25 factory outlet centres in the USA.

### 2.1.1 York Designer Outlet structure

The York Designer Outlet is located to the south of York and a few minutes drive from the A19/A64 interchange. Opened in 1998, it has around 120 stores (See Annexure 1 - Table 2), a gross lettable area of 22,600 m<sup>2</sup>. In this factory outlet centre, all the above-mentioned features of the most recent factory outlet "generation" can be found:

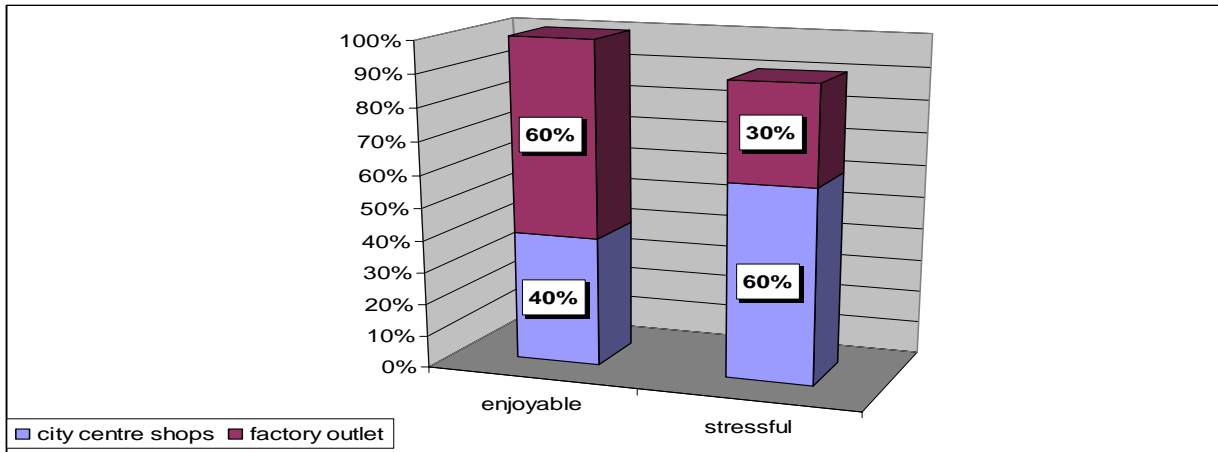
- Located near a tourist destination, that is the historical city of York.
- Located in a comfortably accessible area, in the middle of a big routes interchange, and 8.3 million people living within 90 minutes' drive.
- Includes restaurants, coffee and bar, fast food etc, to let people enjoy a pleasant and relaxing break during their shopping time.
- Big attention to detail in the structure of the centre has been given especially referring to the distinctive atmosphere re-created inside, although it is a completely indoor Designed Outlet.
- Enough space to hold around 2,7 million visitors each year, with a parking area suitable for 2,700 vehicles.

The in-depth interviews involved ten customers of the York Designed Factory Outlet Centre. The sample is composed of 80% women who are married in most of the cases. 70% of the sample is working, and it is possible to consider them as "middle social class"<sup>2</sup>. One of the most important aspects is the perception the respondents have when their shopping experience is analysed, referring it both to the city centre shops and to factory outlets (Figure 4).

<sup>2</sup> For more information about the sample, the appendix can be consulted.



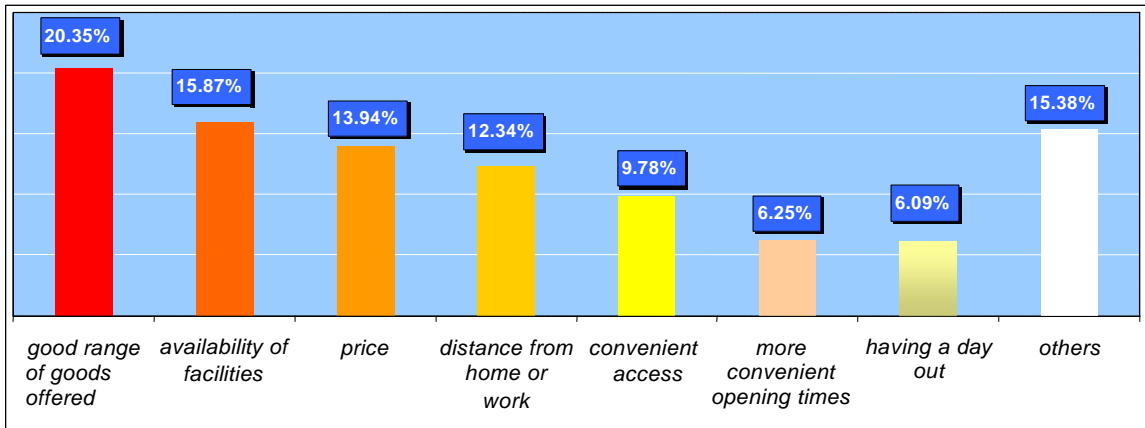
**Figure 4: Your shopping experience is:**



It can be highlighted that the factory outlet shopping experience is perceived as more relaxing, enjoyable and exciting by the respondents when compared with the one they have in the city centre. This is probably due to the more chaotic situation of the city centre where factors like parking areas, their cost and, traffic prolong

the time needed to get to the shops. In order to clarify the reasons that characterize a consumer's choice for a shop, the first step is to analyse customers' shopping motivations (Figure 5)

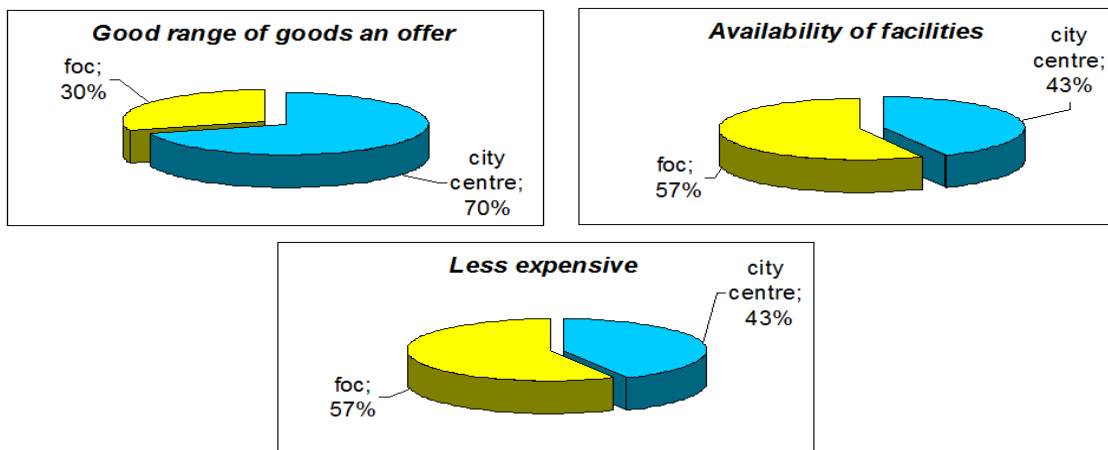
**Figure 5: Reasons for shopping**



From these results, it seems that the respondents give priority to the availability of merchandise. Secondly, the available facilities and price level are perceived as the elements that most influence the customer's choice.

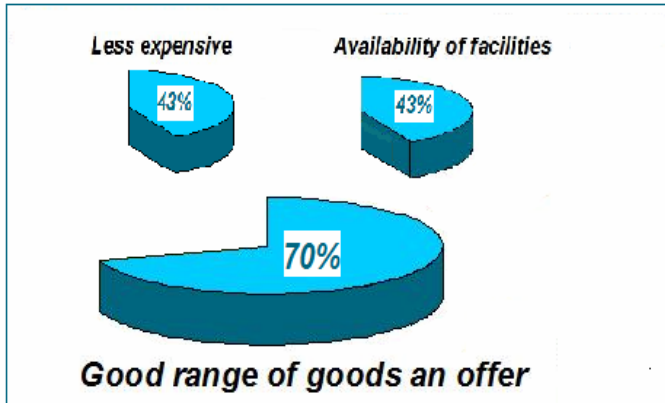
These three aspects can be analysed further:

**Figure 6: Reasons for shopping**



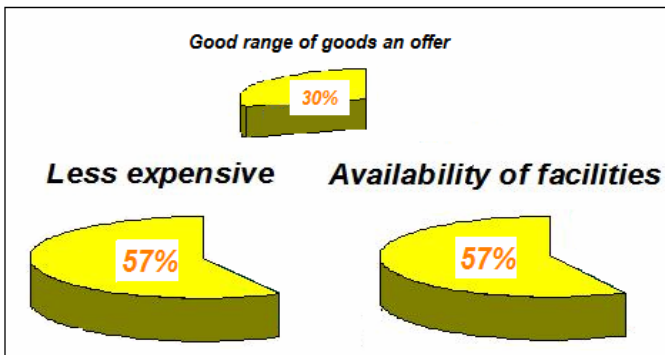
From this scheme, a general preference for the city centre shops can be underlined, especially when people's priority is to choose among a wide range of merchandise. In this case, shop assortment and fashion preferences of the customers are emphasized.

**Figure 7: Reasons for shopping: focus on city centre purchasing motivation**

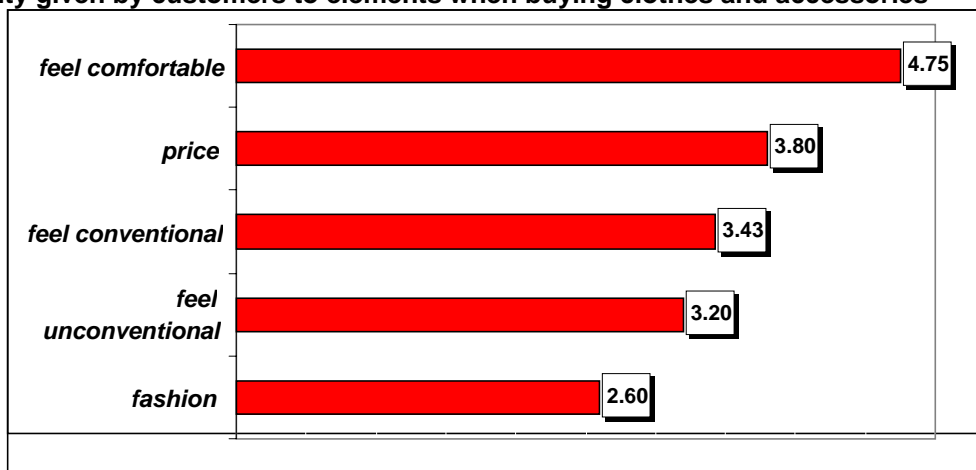


The second and third motivations expressed by the respondents imply aspects characterized by a significant practical component. This means that a greater attention is given to the price level and to the possibility of using facilities available.

**Figure 8: Reasons for shopping: focus on factory outlet purchasing motivation**



**Figure 10: Priority given by customers to elements when buying clothes and accessories**



The kind of product to be purchased can influence shop location. In the case of beauty, food and furniture products, city centre shops seem to be preferred. For clothes and footwear, lingerie and jewellery or gifts, the factory outlet is generally favoured.

**Figure 9: Places where people do shopping, per location**

Product Category	City Centre (CC)	Factory Outlet (FOC)
BEAUTY	67%	33%
CLOTHING AND FOOTWEAR	44%	56%
FOOD	100%	0%
LINGERIE	44%	56%
FURNITURE	80%	20%
JEWELLERY AND GIFTS	17%	83%

Actually, "To be fashionable" is not the respondents' most important need, and neither is it their priority during their shopping experience. This is confirmed by the assessment the customers made when they came across the features characterizing the purchase of clothes and accessories.

Although "fashion" got an average value, it is the last factor in degree of importance that is able to influence the choice of the customer. Even if convenience is considered as an important factor in the choice for buying clothes, it is not sufficient to justify the attractiveness of a factory outlet offer. It is necessary to verify the marketing mix managed by the tenants. Some important remarks can be highlighted by the mystery shopping technique.

Two kinds of brand macro-categories exist in the factory outlet:

1) **fashion brands,**

The majority of the items belong to the last collection. For this reason, very high discounts can be offered, and many customers are attracted to the shop. However, in order to draw high-street market customers, a limited part of the assortment offers some items of the new collection. For these products some discounts are foreseen as well, even if not more than 30%<sup>1</sup>. In-store communication is referred to the concept of “saving money”. Actually, in the case of fashion brands a “quality-based communication” is not necessary because the brand *by itself* is “synonymous” of high quality.

The most significant means to communicate are:

- Indication of discounts on the price label of the product, where both the high street price and the factory outlet price are highlighted. No other discount indications are used in the shop. A sober and discreet style is preferred (see paragraph 2.1.2),
- Store personnel approach. There are a limited number of sellers who specially dedicate themselves to keeping the goods available in order. The seller approach toward the customer is not intrusive. Only in case a customer requires the seller's help, he/she responds to the client's need. This is what generally happens in Armani or Hugo Boss branded stores.

- 2) **Down market brands.** In this case the offer is composed of a brand targeted to a lower range of customers. Sometimes, a specific factory outlet production is implemented. In this case, the items are not sold in high street stores. Generally, the aim of the tenants is to eliminate the potential competition that exists between the high street product and the factory outlet offer. This is possible by communicating that the stores offer two different kind of products, and by making a most rigid demand. In order to keep a low level of production costs, only some small changes to the two collections are made. In this case, in-store communication is more gaudy if compared with fashion brand stores and the seller has a direct approach with customer in order to persuade him/her to buy the product (see paragraph 2.1.2).

### 2.1.2 In-factory outlet communication”

#### **TIMBERLAND: an example of a fashion brand**

Some price labels with the “institutional colour” are used to show the price for each product. Most part of a typical collection offered is referred to old items of a past collection, and the customer can save around 70% of the original price. A limited part of the

assortment is composed of new articles, but having a significantly lower discount. The in-store communication style is very simple and focuses on the concept of saving money. In order to emphasize the money saved, all the labels include three levels of information:

-“*high street price*”

-“*you pay here*”

-“*difference you save*”

#### **GAP OUTLET: an example of a down market brand**

A part of the communication is included in its sign board by the use of the word “outlet”. In this case, the communication of the price is predominant and it is always shown in the product price label, where both high street price and discounted price are indicated. Finally, the products made just for the factory outlet format are available as well. To keep a high perceived quality, the full price is communicated. In the meantime, they add another type of message, that can be summarized as “*the same item would have a double price if sold in a high street shop*”.

### **Italian Factory outlet centre: the Model of Consumption**

The location of many shopping malls in suburban contexts and close to big route interchanges is now characterizing Italian retail distribution. For many years, this kind of retail format has been linked to the typical type of integrated shopping mall. Quite recently its development seems to have led to a wider building investment in order to attract bigger basins of customers. Throughout this direction the factory outlet model has become popular in Italy.

The Italian factory outlet centre target is represented by women who are 25-35 years old with a medium level of school, and a medium-high shopping availability. Factory outlet centres are developed as a mixed retailer formula (shops and department stores) and arise from an original factory shop. It is organized with the aim to gain benefit from the several synergies existing between industry and distribution. Presently, in Italy, especially in the non-food sector, the partnership between industry and distribution is considered as one of the most important way to achieve success. This is due to their particular structure. On the one hand, the Italian industry's main feature is the organization with manufacturing districts and high specialization of small factories in a particular phase of their manufacturing process. On the other hand the Italian retail typical format is the “pulverization” of retail. This has guided to the spread of factory shops and to a development of small stores with a very deep offer. For these reasons, a vertical integration in the economic structure has become very popular in Italy (see table 3).

<sup>1</sup> A classique item is always present in tenant assortment. This is what happens in the Blueberry store. For example, the “product symbol”, characterized by shirts with particular square and colours, is always available.

**Table 3: Factory Outlet Centre in Italy**

Outlet centre name	Date opened	Location	GLA size	Shops
Designer Outlet Serravalle Scrivia of McArthurGlen	September 2000	Serravalle Scrivia (AL)	43.795	160
Mall Outlet Centre of Design Management srl	August 2001	Leccio Reggello (FI)	5.000	20
Galleria Factory Outlet of Morrison Development/Buontempo	May 2003	Albano Sant'Alessandro	12.000	50
Fidenza Village	June 2003	Fidenza (PR)	12.000	60
Franciacorta Outlet Village of Craig Realty Group/European Fashion Centres I/ Gruppo Percassi	July 2003	Rodengo Saiano (BS)	24.551	160
Full & Fifty Factory Outlet Meda of Freeland Capfin/Fifty Outlet Group	September 2003	Meda (MI)	5.500	50
Fashion District Bagnolo San Vito of Prime Retail/Sandretto/Draco Spa	October 2003	Bagnolo San Vito (MN)	20.310	90
Designer Outlet Castel Romano of McArthurGlen Designer Outlet Centre	October 2003	Castel Romano (Roma)	20.750	113
Fashion District Valmonte of Prima Retail/Sandretto/Draco	November 2003	Fashion District Valmonte (Roma)	47.000	250
Castel Guelfo Outlet City of ING/Pantheon Retail Italia srl	May 2004	Castel Guelfo (BO)	9.000	103
Fifty Factory Outlet Store Aosta of Freeland Capfin/Fifty Outlet Group	June 2004	Aosta (AO)	4.500	26
Nassica retail outlet of Neinver	October 2004	Vicolungo (NO)	14.600	70
Fashion District Molfetta of Prima Retail/Sandretto/Draco spa	October 2004	Molfetta (BA)	24.000	101
Factory Outlet Valdichiana of Craig Realty Group/European Fashion Centres/Gruppo Picassi	April 2005	Foiano della Chiana (AR)	20.000	83
Designer Outlet Barberino del Mugello of McArthurGlen Designer Outlet Center	April 2006	Barberino di Mugello (FI)	23.000	100
Sardinia Outlet Village of Gruppo Policentro srl/Cogest Italia srl/Promos srl	April 2006	Sestu Località More Collaxe (CA)	17.500	107

Source: "I factory outlet centre in Italia", L.Tamini, 2007, [www.infocommercio.it](http://www.infocommercio.it)

This kind of retail distribution has caused some concern in the clothing sector about "unfair competition". As a consequence, some parliamentarians submitted a draft law with the subject line: "Provisions to protect competition in the area of outlet" on May 13, 2004 presented to the Chamber of Deputies (XIV legislature). This draft law states that "Under accusation is domestic industry's clothing that, in this period of crisis, is invading the market with an offer higher than the demand. This is creating a perverse system of production whose outputs are allocated in the system of "factory outlets". The proposal aims to come to an agreement that preserves not only traders but also consumers. Actually, it foresees that the name "outlet" is not used in an improper manner. (...) In order to avoid a distorting effect in terms of competition, the term "outlet" is explained as:

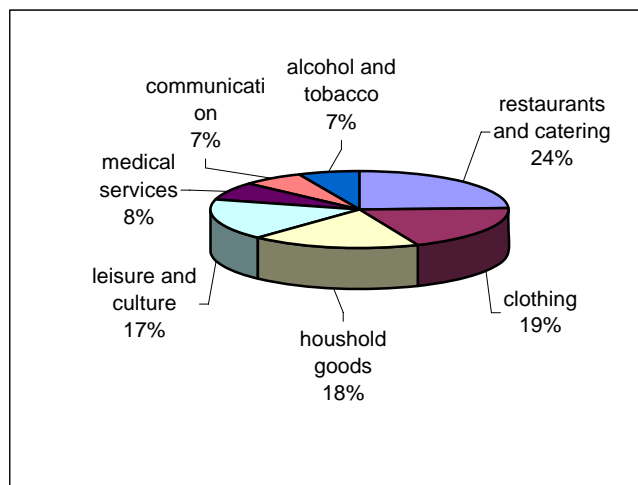
- A factory shop where manufacturers use their own space, close to the main factory, to sell their product to the final consumer.

- A manufacturer sells to a final consumer (with no other intermediaries) merchandise characterized by a unique brand. They have to be manufactured six months before, at least or must have some defects in manufacturing.
- Shopping centre, as regulated by letter g), comma 1, article 4, d.lgs. 31 March 1998, n.114 or by regional law.

#### **Empirical research**

It can be highlighted that an important indicator of consumers' purchasing habits arises from people's expenditure destination (Figure 11).

**Figure 11: Consumers' occasional expenditure in Italy, 2007.**



Source: our elaboration on ANCC Coop 2007.

Considering the Italian consumers' occasional expenditure, the most important field is represented by "restaurant and catering" (24% of occasional expenditure). This result can be combined with the expense on "clothing" that is the second biggest sector in the Italian occasional expenditure. This combination shows the importance that factory outlets are acquiring as a new consumption model, considering their double function as centres where the consumer can both "do shopping" and "spend a day out", with all guaranteed leisure services.

The qualitative empirical research has been conducted through in-depth interviews using the same model as already shown for British interviews. They have been conducted in the Valmontone Fashion District of the Fashion District Holding Group (paragraph 3.1.1).

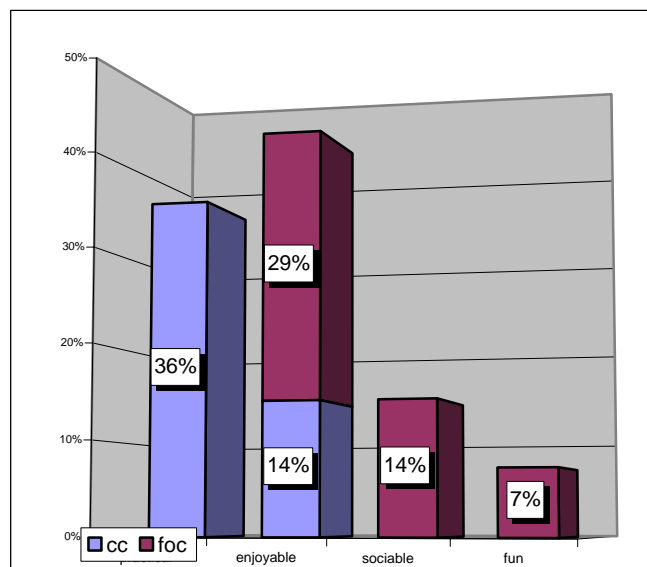
**3.1.1. Valmontone Fashion District structure**

With more than 200 stores and a G.L.A. of 47,000 sqm, it has registered around 4,300 visitors in 2006. It is located at a 30-minute-drive from all the biggest urban centres and just a 40-minute-drive from the international airport of Fiumicino, near Rome. Although other brands will be added, in terms of luxury, it is a medium-level-branded-shop-factory outlet. The Valmontone Fashion District has various strengths. First of all, this area is characterized by a development in progress of a new entertainment park with 40 games, 5 theatres, restaurants, self-service cafes, bars and entertainment rooms. There is a significant strength due to a significant offer of electronic goods, with the integration of "Unieuro" stores as tenant.

The in-depth interviews have involved eight customers of this Factory Outlet Centre. The sample is composed of 50% women and 70% of the sample does not work because they are either housewives or students. One of the most important aspects is the perception the respondents have when their shopping experience is

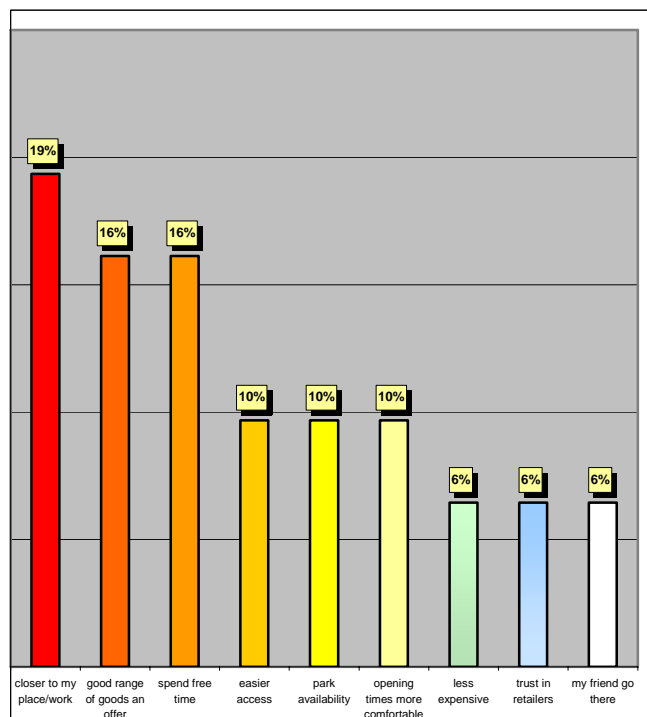
analysed making reference to both city centre shops and factory outlets (Figure 12).

**Figure 12: Your shopping experience is:**



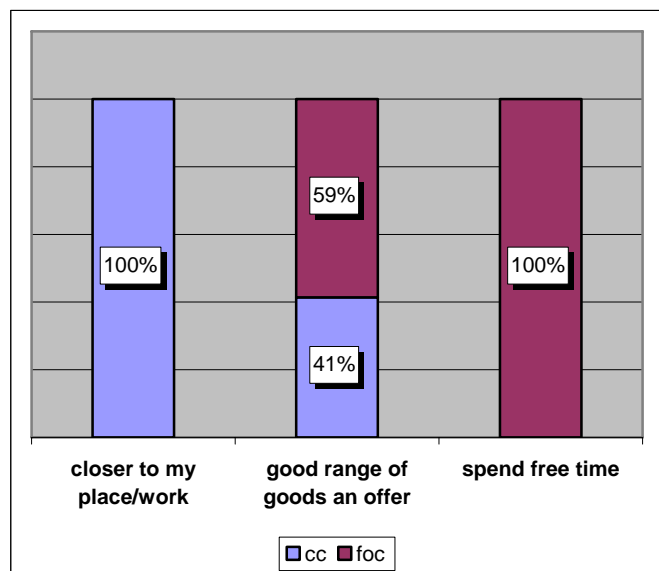
It can be highlighted that the factory outlet shopping experience is perceived by the respondents as more fun and enjoyable when compared with the one they have in the city centre stores. This is probably due to the most relaxing break the customers can have in a factory outlet centre, where it is possible for them to spend their own leisure time without traffic problems or the difficulties in accessibility characterizing the city centre. In order to clarify the reasons for the consumers' choice for the shop, it is possible to analyse the customers' shopping motivations (Figure 13).

**Figure 13: Reasons for shopping**



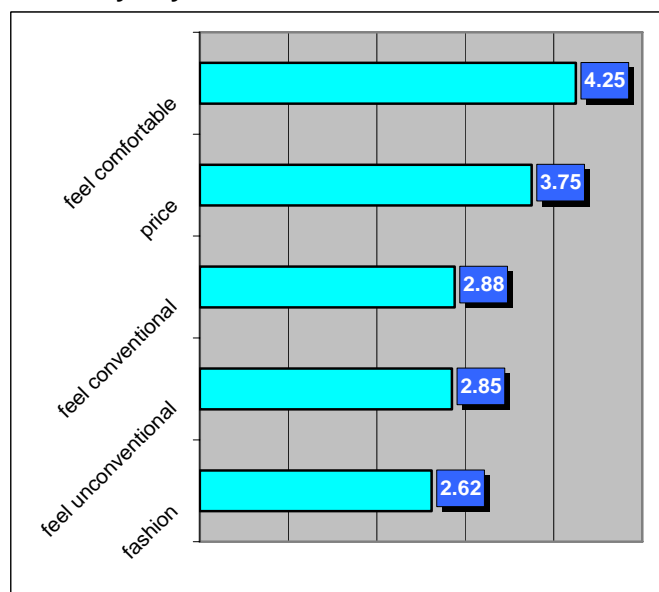
From these results, it seems that the respondents give priority to easy access and secondly to the availability of merchandise. Finally, the importance of the way they spend their own free time is considered. These three aspects can be further analysed (figure 14):

**Figure 14: Reasons for shopping**



From this graph, a general preference for city centre shops can be underlined if people's priority is to go closer to their place or work. The chances to choose among a wide range of merchandise seems to be possible both in factory outlets and city centre stores, but combining the need to do shopping with the willingness to spend free time is considered possible only in factory outlets. In order to understand what a shopper's priorities are, the following results should be considered (figure 15).

**Figure 15: Priority elements that customers consider when they buy clothes and accessories**



Even in this case, although "fashion" got an average value, it is the last factor, in terms of importance that is able to influence the choice of the customer. "feeling comfortable" and "price level" seem to be the most important factors in the choice for a store for the Italian respondents.

**Conclusions**

From this research it can come out that, in the beginning, the most important factor that was able to influence the decision of consumers to go to factory outlets was the possibility of saving money. This was possible because a significant discount from 30% to 70% was available on items also sold by high street shops. Nowadays, it can be argued that this trend is changing. First of all, the factory outlet setting seems to be very important. But also other factors like the care for displaying the goods or the approach of the sale personnel give an increasing attractiveness to the factory outlet. The structure of the new factory outlet looks like the one of a shopping centre, where its original appearance is going to be substituted by a modern shopping village. However, the factory outlet is also becoming a tourist attraction, and for this reason it is located near places considered strategic from this point of view.

In this study a comparison between the customer's preference for city centre and factory outlet shopping experience is shown. A re-evaluation of city centre shopping can be underlined due to many council programmes aimed to revitalize them. This has been made possible by projects as stated below:

- Giving a functional asset to the urban trade structure by foreseeing sufficiently wide park area and facilities.
- Giving coherence to store offers by creating some "shopping directions" and allowing customers to live a complete shopping experience by revitalizing tourist historical attractions.
- Giving coherence to some aspects of the city centre stores organisation, by foreseeing the same opening times or by planning common promotional projects.
- Offering a heterogeneous assortment of merchandise and services (for example, not only handicraftsmen, but also local travelling market).

A comparison has been presented by analysing the British and the Italian consumption model referred to factory outlet customers. Some differences can be highlighted by showing examples of customers' shopping experience. In the case of the UK, going to the city centre for shopping seems to be more stressful than it is perceived by the Italian respondents. Secondly, the British consumer seems to be more interested in the price, so his/her preference for the factory outlet arises from the need to save money. The Italian consumer visits the factory outlet centre mostly to spend his/her own free time, and also because there is a wider range of merchandise with respect to that in high street stores. If we compare the priority that consumers give to price

and other factors that involve their buying needs, the British and the Italian interviews lead to the same results. In both cases, "to feel comfortable" and "price level" seem to be the most important factors able to influence the consumers' purchasing choice.

From this research, it can be highlighted that factory outlet development does not seem to be in competition with city centre stores, neither in the UK nor in Italy. This is rather due to a general project of revitalization the councils are foreseeing for their city centre; this has also led a new plan of local trade offer and facilities. In the UK, Liverpool One can be cited as an example of this trend. This is the biggest project of urban revitalization in progress in Europe financed by private capital. It foresees to develop in the urban area not only 600 new apartments but also department stores, luxury stores and new hotel and restaurants.

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## Annexures

**Table 2: York Designer Outlet brands**

<b>Fashion</b>	<b>Children</b>	<b>Food, Drinks and Confectionery</b>	<b>Shoes and Accessories</b>	<b>Sport and Outdoor</b>	<b>Home and Gifts</b>	<b>Jewellery and Beauty</b>
<ul style="list-style-type: none"> <li>- Armani Collections</li> <li>- Austin Reed</li> <li>- Autonomy</li> <li>- Ben Sherman</li> <li>- Bench &amp; Hooch</li> <li>- Billie and Gruff</li> <li>- Burberry</li> <li>- Calvin Klein Jeans</li> <li>- Calvin Klein Underwear</li> <li>- Charcoal &amp; Chalk - Now open!</li> <li>- Chilli Pepper</li> <li>- Coast</li> <li>- Cotton Traders</li> <li>- Crew Clothing Co.</li> <li>- Daks</li> <li>- Designer Room</li> <li>- Double Two</li> <li>- Fred Perry</li> <li>- Gap Outlet</li> <li>- Hackett</li> <li>- Haggar</li> <li>- Hobbs</li> <li>- Hugo Boss</li> <li>- Intimas</li> <li>- Jacques Vert Group</li> <li>- Jeff Banks</li> <li>- Joules</li> <li>- Karen Millen</li> <li>- Klass Collection</li> <li>- Lacoste</li> </ul>	<ul style="list-style-type: none"> <li>- Bench &amp; Hooch</li> <li>- Designer Kidz</li> <li>- Gap Outlet</li> <li>- Hamleys Outlet</li> <li>- Marks &amp; Spencer Outlet</li> <li>- Mexx</li> <li>- Next Clearance</li> <li>- Polo Ralph Lauren</li> <li>- Ted Baker</li> <li>- Tog 24</li> <li>- Vecopri</li> </ul>	<ul style="list-style-type: none"> <li>- Bagel Nash</li> <li>- Cadbury Factory Shop</li> <li>- Caffè Nero</li> <li>- Julian Graves</li> <li>- McDonald's</li> <li>- Pizza Hut Express</li> <li>- Pret A Manger</li> <li>- Spud u Like</li> <li>- Starbucks</li> <li>- Thomas The Baker</li> <li>- Thorntons</li> <li>- Thorntons Café</li> </ul>	<ul style="list-style-type: none"> <li>- Antler</li> <li>- Claire's Accessories Outlet</li> <li>- Clarks</li> <li>- Daniel Footwear</li> <li>- Famous Footwear</li> <li>- Hobbs</li> <li>- LK Bennett</li> <li>- Next Clearance</li> <li>- Pavers Outlet</li> <li>- Shoe Studio</li> <li>- Soft Shoe Company</li> <li>- Staccato</li> <li>- Sunglass Time</li> <li>- Timberland</li> <li>- Travel Accessory</li> </ul>	<ul style="list-style-type: none"> <li>- Fox Racing</li> <li>- Adidas</li> <li>- Cotton Traders</li> <li>- Donnay</li> <li>- Mountain Warehouse</li> <li>- Oakley</li> <li>- Reebok</li> <li>- Sunglass Time</li> <li>- Tog 24</li> <li>- Craghoppers</li> </ul>	<ul style="list-style-type: none"> <li>- Birthdays</li> <li>- Bose</li> <li>- China China</li> <li>- Christy Home Outlet Store</li> <li>- Denby</li> <li>- Descamps</li> <li>- Le Creuset</li> <li>- Marks &amp; Spencer Outlet</li> <li>- Next Clearance</li> <li>- O2</li> <li>- Oneida</li> <li>- Perfume Point</li> <li>- Ponden Mill</li> <li>- Professional Cookware</li> <li>- Remington</li> <li>- Rugs Plus</li> <li>- Samsonite Company Stores</li> <li>- Tefal</li> <li>- The Paper Mill Shop</li> <li>- The Works</li> <li>- Thorntons</li> <li>- Whittard Of Chelsea</li> <li>- Zavvi</li> </ul>	<ul style="list-style-type: none"> <li>- Body Shop Depot</li> <li>- Chapelle Jewellery</li> <li>- Claire's Accessories Outlet</li> <li>- Mooche</li> <li>- Penhaligon's</li> <li>- Perfume Point</li> <li>- Virgin Cosmetics Company</li> </ul>

<ul style="list-style-type: none"> <li>- Levi's®</li> <li>- LK Bennett</li> <li>- Logo</li> <li>- Margaret Howell</li> <li>- Marks &amp; Spencer Outlet</li> <li>- Mexx</li> <li>- Moss, Moss Bros Hire</li> <li>- Next Clearance</li> <li>- Nitya</li> <li>- Olsen</li> <li>- Paul Smith</li> <li>- Petroleum</li> <li>- Polo Ralph Lauren</li> <li>- Racing Green</li> <li>- Rockport</li> <li>- Roman Originals</li> <li>- Sand</li> <li>- Suits You/Young's Hire</li> <li>- Ted Baker</li> <li>- Thomas Pink</li> <li>- Timberland</li> <li>- Wolsey</li> <li>- Van Heusen</li> </ul>						
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Source: <http://www.yorkdesigneroutlet.com/whatshere.asp>

# How to correlate the perceived Process of Strategic management and Success in Croatian Large Retail Companies?

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## Abstract

*Paper offers the new direction of the research concentrated on the retailer's point of view on the process of strategic decision-making process about the perceiving strategies in retailing. The underlying idea is that the most efficient way of doing business will offer more probability for retail to sustainably develop. The ways top managers perceive process of strategic management is the approach and the paradigm they choose to lead and manage companies. In case of the large company, top manager directs a large number of employees according to his own perception, attitudes, ways of perceiving the business and the world. Schools of strategic management are the attempt to group the numerous ways of perceiving the process of strategic management. The empirical analysis focused on the Croatian large retail companies and tests the relation between the top manager's attitudes towards strategic management process and financial results of those companies they lead and manage. The aim of the article is to help top managers in adjusting their type of strategic behavior closer to the one that proves to have a certain correlations with the good financial results among Croatian large retail companies.*

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**Keywords:** Strategic management, Retail business, Croatia, classical environment, competitive-contemporary

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## Introduction

When looking at the research topics in the *Journal of Retailing* from the period 2002-2007 the most frequently topics in the field are (Brown, Dant, 2008; Grewal, Levy, 2007): consumer behaviour, price, loyalty, services, internet, brand/product, organization, promotion, and channels. Retail by definition is focused on consumers, their perspective and behaviour. There are two distinctive paths how should the retail research field advance. One is to follow the advice of the Grewal and Levy (Grewal, Levy, 2007) and agree with the fact that *strong contributions to the retailing literature do not come from the simple application of different approaches and tools to new content areas. Rather, they stem from the new insights provided by those methods. For example, the creative application of research methods to retailing problems can potentially lead to the following important contributions to the literature:*

- *the uncovering of new insights,*
- *the reconciliation of contradictory results,*
- *the plugging of gaps in knowledge (Smith 2003), and*
- *The uncovering a theory's boundary conditions (Smith 2003).*

The other path, according to Brown and Dant (Brown, Dant, 2008, p.5) is to admit that shaking up the traditional patterns in research may provide additional insights into old retailing problems and reveal new problems for retailing researchers to tackle. This paper has the aim to tackle the new topics and new directions for further research. The strategic issues in retailing are understood as the factors that should prevail in the strategic decision-making process. Factors are store, market, and competitive characteristics (Ingene and Brown, 1987 according to Gauri, et.al., 2008, p. 257). The focus is on the content strategy, in other words

factors that determine the strategy shape. Unfortunately, a lot of factors influence strategy and this approach could not benefit from explaining the consumer behaviour or reactions on different combinations of retail critical success factors. This paper is focused on the context strategy factor, the way to handle strategic issues no matter the name of those might be. In the search of the reason why some retailers are successful and others are not, mindset of top managers could be one of the possible success drives (Grewal, Levy, 2007, p. 451). This research offers the perception of process of strategic management as one of the factors that could explain the success of the retail firm.

The retail is focused on the consumers and their needs. There are very few papers that offer the research topic from the perspective of the retailer. This paper fills in the gap in the research literature about the top managers managing retail firms and perceiving the process of strategic management. The way they perceive process is the way they approach business in general, understand the principles, values and relations in business. Researching the way top managers in retail firms perceive process of strategic management is the way to explain to the foreign investors, government agencies and other industries how do the top managers in the retail deal with business. More precisely the way they perceive process of strategic management is correlated to the financial results, giving the notion about the most efficient way of perceiving process of strategic management in large retail firm in the Republic of Croatia. The differences in retailing is depicted between the American and Japanese, but also with the specifics of European retailing, concerning different culturally-influenced managerial paradigms (Dawson, 2001, p.264). This paper is a research of the Croatian large retail firms.

Strategic management as the discipline offers different approaches that are not congruent as some other discipline and there are a variety of ways, theories, and approaches to the process of strategic management. Depending on the country of the researcher, educational background, personal experience of the researcher and year there is a different approach to strategy. Hambrick (Hambrick, 1983) would explain this with two reasons: strategy is multidimensional and strategy must be situational and accordingly, it will vary by industry. McKiernan (McKiernan, 1997, p.790) would poetically describe the evolution stage of strategy similar to the scramble from adolescence to adulthood, as it is beginning to ask questions about its new Identity. Chaffee (Chaffee, 1985, p.90) regards strategic management to suffer from the more fundamental problem- the term strategy has been referring to three distinguishable mental models, rather than the single model that most discussions assume. Strategic management is accused of being too scientifically oriented and too little of practical relevance to top managers in the real companies with real everyday problems. The aim of this paper is to combine

scientifically methods of both theory and statistical testing of the empirical data providing practical directions for the top manager in the Croatian large retail companies. In this way the way of doing business will be the way toward the sustainable development of retail industry.

### Theory and Hypothesis

There are generally speaking two distinctive directions of critics about the development of the strategic management as a scientific field. On the one hand there are critics according to the arguments of Kuhn (Kuhn, 1996) and ideas of his scientific revolution and paradigm. Paraphrasing his words, strategic management has symptoms as any other science at the early developmental stage characterized by continual competition between a number of distinct views of nature, each partially derived from, and all roughly compatible with the dictates of scientific observation and methods (Kuhn, 1996, p. 4). The differences does not imply that one of the directions is wrong, rather they are all "scientific" but incommensurable ways of seeing the world and of practicing science in it. The next step is to dramatically restrict and the range of admissible scientific belief, else there would be no science (Kuhn, 1996, p.4). One of the numerous definitions of paradigm is that it stands for the entire constellation of beliefs, values, techniques and so on shared by the members of a given community (Kuhn, 1996, p.175). Strategy is regarded as the science of fashion (Camerer, 1985). In this pre-paradigmatic stage one should appreciate this kind of pluralism theories and concepts from various related and non-related disciplines really have expanded and enriched the knowledge base of strategic management. In Pfeffer's terminology (Pfeffer, 1993) it is time to evaluate critically the added value of further fragmentation. His analogy is interesting; he regards the strategy field like a garden- in which there are thousands of flowers blooming without any pruning or tending to the garden. The problem created by this lack of pruning permeates the meaning, methodology and research methods in strategic management. At the moment the field is well beyond the classification stage (Hamel, Prahalad, 1994) and it is about the right time in the field's evolution for some focusing. Nevertheless there have been little researchers following this advice for further research.

The literature could be considered out of date, but present the discussion of the strategic management paradigm, something that marketing underwent such a dialog in the 1980s (cf., Anderson 1983; Hunt 1990 cited by Brown, Dant, 2008, p. 1). On the other hand there are scientists like Dess and Lumpkin (Dess, Lumpkin, 2005, p. 3) that consider the lack of integration as a major strength and attraction of the strategic management field because its multidisciplinary nature draws on disciplines such as economics, sociology, behavioral sciences, marketing, finance, and so on. This certainly adds to the richness of both theories construction and research methodologies. Elfring and Volberda suggest that the

real progress in the strategy field requires synthesis (Elfring, Volberda, 2001, p. 246-247). It does not attempt to develop a single paradigm consisting of universal concepts and laws covering the entire strategic management field. Instead, it is anchored in a few clusters of strategic management problems. Schools of strategic management are the attempt to classify the different point of view of the process of strategic management according to the top managers' perception. There are many different researches challenged by the attempt to simplify and generalize the perceptions. Each of the researches have their own criteria, distinctive classifications, interesting labels for schools and none of them have excluded all the possible views that exist in the practicing world of strategic management. In the table 1 there is a short summary of researchers, years, criteria and the labels/names of the schools of strategic management.

**Table 1: Overview of the different schools of strategic management**

Researcher	Year	Criteria	Label
Mintzberg	1973	distinct groupings or "modes"	entrepreneurial, adaptive, planning
Ellen Earle Chaffee	1985	primary focus of the distinguishable mental models	linear, adaptive, interpretive
Whittington	1993	generic approaches; the outcomes of strategy and the processes by which it is made	classical, evolutionary, processual, systemic
McKiernan	1996	modern contributions in strategy, not excluded but interwoven	planning and practice school, learning, positioning, resource-based view
Henry Mintzberg, 1990; Henry Mintzberg, Bruce Ahlstrand, Joseph Lampel	1990, 1998	first three prescriptive in nature (should be), next six describing how (actually do), the last is combination of all others	design, planning, positioning, entrepreneurial, cognitive, learning, power, cultural, environmental, configuration
Haberberg, Rieple	2001		planning, ecological, political, visionary,
Jelenc	2004	active/passive role of top manager, historical or future trends	classical, environmental, competitive, contemporary

This classification, as Mintzberg and Chaffee note at the very beginning of their paper (Mintzberg, 1973; Chaffee, 1985, p. 90), it is the attempt to describe a collective version of similar views. Each model also includes many variations of the central theme and the models are not independent. They might seem as naïve oversimplification of the business reality, but when combined together in specific situation they might offer a realistic and useful description of the process of strategic management. None of them did explore the usefulness of the schools of strategic management in the specific business environments putting in relation to financial results of the companies. Therefore, schools of strategic management are perceived as pure theoretical oversimplification of the business environment, serving as an overview of the possible top managers' perspectives. The schools of strategic management have their own fallacies and limitations. They are broad classifications of the attitudes that assume to be related to the way top manager perceives process of strategic management, and consequently the way they manage and lead. The last listed school of strategic management in the table 1 was designed as the suggestion for bringing together all the schools of strategic management. The main criteria of selecting four main schools of strategic management are active and passive approach to the process of strategic management, and historical and future trends in strategic management fields (Jelenc, 2004).

**Classical school of strategic management** gathers premises that represent the basis of the business policy later called strategic management. Those ideas build the very beginning of the strategic management. There are the most basic and historically the oldest approaches in handling top management duties and tasks. Although the premises are shaped about eighty years ago, they represent the cornerstone of the field still valid today. The premises have been developed though out the years and almost each of contemporary premises can be tracked back to those years or is formed as the opposing premise of the one dating in the past (Jelenc, 2005, p. xx).

**Environmental school of strategic management** integrates common features including all those factors functioning outside the company but which directly and in a large degree influence the process of strategic management. These schools believe that these are the factors that actually prevail during the process of forming strategy and should thus be recognized and taken into consideration on time. Unfortunately, they cannot be influenced on, changed, nor can their strength, character on intensity be refocused. It is important to point out that these factors are created within the environment, but they have an effect within and on the company (Jelenc, 2006). According to this school, the process of strategic management is formed by the mirroring principle (Mintzberg, Ahlstrand, Lampel, 1998, pp. 286), in which the situation in the environment is reflected on the company and under this influence the company forms its

strategy. At this point the environment takes the role of the strategist. The influence of the environment is so strong that it is questionable whether the manager has any strategic choice. However, in a more moderate form, this school sets down a range of potential decisions that could be made according to the forces and needs of the external environment.

**Competitive-Contemporary school** is the combination two streams of thinking. One stream is the competitive school of strategic management that supports the idea of competition as the underlying concept of each business activity. The main motive and the goal is to establish, acknowledge and development of the competitive advantage. The recipe of competitiveness could be depict from the industry (Porter), entrepreneurship (Schumpeter), vision (Haberberg, Rieple), core competences (Hamel, Prahalad), resources (Penrose, Barney) or from the concept of dynamic capabilities (Teece). The second stream of thinking is the contemporary school of strategic management, supporting the idea of collaboration, understanding of each other (Mintzberg, Ahlstrand, Lampel) and learning. This approach integrated knowledge from the disciplines like psychology, anthropology, biology in order to give a broader and metaphoric point of view on certain problems in strategic management. From the literature there could be several hypothesis generating:

*Hypothesis 1: Successful Croatian large retail companies are prone to the premises of the classical school of strategic management.*

*Hypothesis 2: Successful Croatian large retail companies are prone to the premises of the environmental school of strategic management.*

*Hypothesis 3: Successful Croatian large retail companies are prone to the premises of the competitive-contemporary school of strategic management.*

Hypothesis 1, 2, and 3 are designed in order to answer the question according to the premises of which school of strategic management is better to follow in order to have better financial results. This answer is based on the assumption that significant relation between premises of the each of the schools of strategic management and financial results are valid in both directions. Sometimes it is necessary to have a certain level of financial results in order to follow the premises of certain school, and sometimes it is necessary to think according to the premise in order to reach financial results. This analysis tests the correlation, not the cause-effect relation between the premises of the strategic management school and financial results.

*Hypothesis 4: The influence of the premises of the schools of strategic management on financial results is getting stronger as approaching present day.*

This hypothesis is set in order to test the importance and influence of the premises of schools of strategic management correlation with the financial results from the period 1996-2006. During the ten year period there could be traced a trend about the popularity of certain schools of strategic management and their influence on the financial results.

### **Research Design and Methodology**

Each of the school of strategic management is presented with the construct of certain number of premises that reflect the theoretical ideas of those schools. Premises are short sentences that are formulated in the everyday top managers' vocabulary. The premises were listed in the questionnaire. The four levels Likert scale is offered to choose in order to agree or disagree with the premise. The Questionnaire was anonymous. The data about the financial results have been taken from the secondary databases. The construct of strategic management schools have been tested on the large Croatian retail firms (classified in retail according to the national industry classification) that have 250 and more employees. The questionnaire was distributed to top managers asking to state anonymously their conformity to the statements concerning basic strategy issues, actually premises of three schools of strategic management. The research was taken from October 2006 up to July 2007. There were 61 large retail firms with more than 250 employees ([www.hgk.hr](http://www.hgk.hr)) in the Republic of Croatia. We received 20 answers which makes high 32,78 % respond rate. This rate is considered extremely high concerning the other study (Denison, Hart, 1987, Milliken, 1990 in Tegarden, Sarason, Banbury, 2003, p.5). There was only one respondent per firm, usually the top manager or the member of the top managers' team.

Methodological correctness was tested by validity and reliability. Validity is tested with content validity and reliability with internal consistency coefficient Cronbach alfa. Content validity was tested according to the ideas and premises from the theoretical literature supported by researchers in the field of strategic management (Jelenc, 2007). Internal reliability of the sample of Croatian large retail firms for the schools of strategic management is 0,851. The average Croatian large retail firm has the following characteristics:

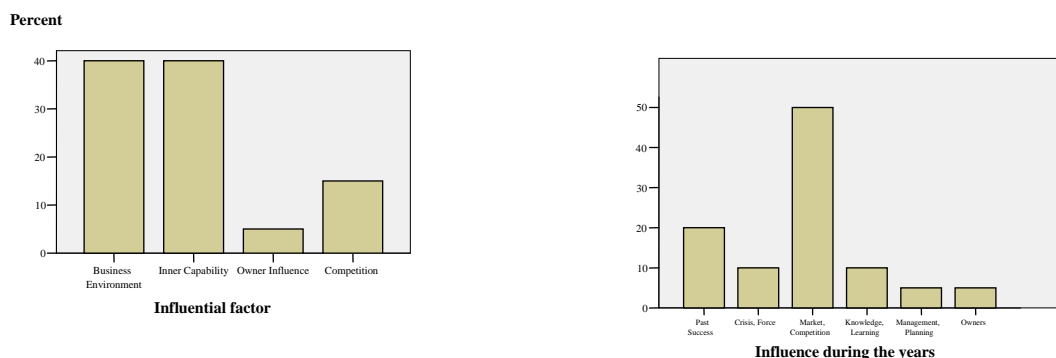
- CEO is on the current position between two and five years (50%)
- CEO had experience in the different industry (55%) before start serving as CEO
- Is between 46-60 years old (60%)
- Has a university degree (45%)
- Works within the firm with tradition more than 31 years (45%)
- Firm operates on the domestic market (85%)
- Private firm (90%)
- Has between 250 and 500 employees (65%)

The general characteristics about the nature of strategic decisions in the firms are in the following few sentences

(Picture 1). The strongest influence on the strategic issues in the firm have in 55% of the cases top managers, while in 40% of the cases has owners. Politics have the influence only in the 5% of the cases. When looking at the most influencing factor when working on the strategy, top managers equally decided that in 40% of the cases business environment and inner capabilities have the same weight, while in 15% of

the cases there is competition that influences the strategy. During the years, the most important factor that influenced top manager is market and competition (50%), success in the past (20%), crises and outside forces (10%), knowledge and learning (10%) while management and owners influenced equally 5% of the sample.

**Picture 1 Influential factor and managerial influence during the years**



Source: Empirical Analysis

**Results and Practical Implications**

The empirical analysis took into consideration the whole sample of the large Croatian firms while in this paper is the special focus on the firms in the retail industry. The statistical tests (factor analysis) show the existence of three schools of strategic management; the classical, environmental and competitive-contemporary school of strategic management.

The table 2 presents the most frequently utilize way of perceiving way of process of strategic management. It is the competitive- contemporary school followed by the classical school of strategic management. The least utilized is the environmental school of strategic management. When looking closely into the selection of the successful and unsuccessful firms and their top managers' selection of schools of strategic management there are several points to remark. While the most of the firms have positive financial results, and classified as the successful firms, the ranking of the successful firms dominated the selection of the unsuccessful firms. The ranking among the successful is the same as the general ranking list. There were only three firms that has negative financial results and their ranking is the quite opposite. The first place is the environmental school of strategic management, followed by the classical school of strategic management. The least utilized is the competitive-cotemporary school of strategic management. The difference between the ranking could be proved as statistical significant only in several relations.

T-test performed on the firms depending on their school of strategic management and positive or negative

financial results, demonstrates several interesting aspects that are statistically significant.

The Classical school of strategic management is chosen if the financial results in the period 1996-2006 are positive ( $t=-2.915$ ,  $d.f.= 17$ ,  $p=0.010$ ). If the financial result of the firm is negative the school is not considered as the priority between the top managers. In the period 1996-2000, the competitive-contemporary school of strategic management is chosen ( $t=-2.546$ ,  $d.f.= 18$ ,  $p=0.020$ ) if the financial results were positive. If the results were negative, the school was not chosen as the priority.

**Table 2: The most frequently used school of strategic management**

	N	Mean	Std. Deviation
<b>All</b>	<b>20</b>		
Classical		3,0000	,39273
Environmental		2,7875	,44629
Competitive-Contemporary		3,1500	,43082
<b>Successful</b>	<b>17</b>		
Classical		3,0196	,36506
Environmental		2,7500	,43526
Competitive-Contemporary		3,2243	,33297
<b>Unsuccessful</b>	<b>3</b>		
Classical		2,8889	,61426
Environmental		3,0000	,54486
Competitive-Contemporary		2,7292	,75087

Source: Empirical analysis

In the period 2001-2006 the selection of classical school is determined by the financial results ( $t = -2.954$ ,  $d.f. = 16$ ,  $p = 0.009$ ) in a way that if the financial results were positive top managers decided for the classical school while if the financial results were negative the top managers did not chose classical school of strategic management. When looking at the demographic characteristics of the top manager like age, education, years in business, function and comparing it with the way of perceiving process of strategic management there are no statistically significant relations. The decisions about the type of business units and other aspects of market approach are in charge of the top manager who approves or disapproves the general business policy and on the lower level marketing director who implements and offers solutions and suggestions for top manager. Top managers perception is important while it directs the atmosphere for all lower level managers giving the instructions and policy recommendations.

Concluding, it could be seen that top managers that are not successful prioritize environmental school of strategic management, rather than competitive-contemporary school of strategic management and the general ranking is quite opposite of a top managers' ranking in the successful firm. When looking the selection of the schools of strategic management separately for the successful and unsuccessful firms during a period of time there are some points needed to mention. Classical school is the whole period recognized as the school chosen when firms have positive financial results. The ideas represented by the school have not brought negative financial results during the whole period 1996-2006 (and especially 2001-2006), rather quite positive. In the period 1996-2000 the competitive-contemporary school proves to have positive effect too.

The selection of schools of strategic management, meaning the way top managers perceive the process of strategic management could be the cause but also the effect on the financial results. Successful firms could benefit from their view according to the classical and competitive-contemporary school of strategic management and the unsuccessful firms could blame environmental point of view of their top manager as the reason for performing badly. On the other hand, the positive financial results could be the cause of the accepting ideas of the classical and competitive-contemporary school while the financially unsuccessful firms do not find way out but rather thinking according to the environmental school of strategic management.

The next step in the analysis was to perform the correlations between the selection of particular school of strategic management and financial results in several period of time. The correlations are tested with Kendalls' tau-b coefficient.

**Table 3: Correlation between schools of strategic management and financial results**

		Kendall's tau b	p
Classical school	MeanProfitLoss9606	0.084	0,604
	MeanProfitLoss9600	0,084	0,604
	MeanProfitLoss0106	0,147	0,364
	MeanProfitLoss0406	0,211	0,194
Environmental			
	MeanProfitLoss9606	-0,20	0,218
	MeanProfitLoss9600	-0,074	0,650
	MeanProfitLoss0106	-0,242	0,136
Competitive-contemporary			0,044*
	MeanProfitLoss9606	-0,011	0,948
	MeanProfitLoss9600	-0,032	0,848
	MeanProfitLoss0106	0.053	0,748
	MeanProfitLoss0406	0.053	0,748

Source: Empirical analysis

Table 3 presents the results of correlation between the specific school of strategic management and the financial results expressed as the mean value of the profit/loss during specific period of time. It could be seen that only the relation between the environmental school of strategic management and the mean value of the profit/loss in the period 2004-2006 has statistical relevance. The Classical school has no significant relation, but it could be seen that the coefficient is growing in the strength and the significance. It could be predicted that the financial results from the period 2008-2010 will be close to statistical relevance. The ideas of classical school have low, but positive effect on the financial result during the period 1996-2006 and its relevance is growing. The competitive-contemporary school has a switch in the trend during the period 1996-2006. The first period 1996-2000 have a very small, but negative coefficient which is not statistically relevant. The trend is alternating to positive during the period 2001-2006 with a little bit higher value, but still not statistically significant. At the beginning it could be seen that ideas of this school had a very small but negative effect on the financial results of the firms. In the second period the impact of ideas started to be quite positive but still with the little strength. The Environmental school has a stable negative tendency of coefficient, that is growing in it strength and gaining statistical significance. During the period 1996-2006 the ideas of this school had constantly negative effect on the financial results. The negative effect of these ideas will certainly grow in the future and prove higher level of statistically significance. Table 4 presents the results of the mean value of the profit/loss during several periods according to the selection of specific schools of strategic management. When looking in the absolute mean values of the profit/loss of the firms that chose specific



schools of strategic management there could be depicted some remarks.

**Table 4: Mean value of the profit/loss for each of the school of strategic management during several periods**

MeanProfitLoss	1996-2006	1996-2000	2001-2006	2004-2006
<b>Class</b>	3 643 809,20	2 256 160,53	4 800 183,09	6 179 555,58
<b>Envir</b>	-9 520 988,87	-16 984 481,50	-3 301 411,68	-6 578 611,03*
<b>Com-Con</b>	3 726 011,29	1 931 118,81	5 221 755,03	8 259 184,78

Source: Empirical analysis

The values present that in the period 1996-2000 the best way to perform business was to perceive the process of strategic management according to the classical school of strategic management. The second most beneficial way was the competitive-contemporary school of strategic management. The least beneficial was environmental school of strategic management. In the second period 2001-2006 the ranking has changed. The most profitable starts to be the competitive-contemporary school, while the classical school is the second most beneficial way. The least desirable was environmental school that brought negative financial results. The last period 2004-2006 demonstrates only one part of the latter period. The growth of the competitive-contemporary is growing steadily, while the classical school is stable and positive. The positive influence of classical school is always present, although benefits with the lower financial results that competitive-contemporary school of strategic management. Environmental school always brings negative results and this relation in the period 2004-2006 starts to be statistically significant.

When looking back at the proposed hypothesis, one might conclude:

**Hypothesis 1:** Successful Croatian large retail companies are prone to the premises of the classical school of strategic management.

The classical school of strategic management is the second most utilized school of top managers in the large retail firms in Croatia. The ideas of classical school of strategic management are present in those firms that during period 1996-2006 performed with positive results although not statistically significant. If top manager perceives the process of strategic management according to the premises of classical school of strategic management he will certainly perform with positive financial results. No matter the factors in the environment, it is always beneficial to do business according to the ideas of this school. The benefit of this school on the financial results is not statistically significant but shows the trend toward the positive and

stronger relation. The impacts of this school will grow in the future. The results that classical school offers comparing to other schools are stable but moderate. It is the stream of thinking that can offer a stable cornerstone of strategic management in the firm but with the moderate risk and moderate results. The way of perceiving process of strategic management according to this school will be always valid, but sometimes out of the focus. This school is appropriate for the firms that have experienced several shocks and crisis in the past and yearn for the stability and positive financial results. This school is hardly possible to offer the source of the competitive advantage on the market. It is rather for the quite large firm that is the leader on the market with not strong competitors on the horizon.

**Hypothesis 2:** Successful Croatian large retail companies are prone to the premises of the environmental school of strategic management.

This hypothesis is declined why the situation is quite opposite. The environmental school of strategic management, when looking generally, is the least utilized school of strategic management. Only the firms that are not successful rank this school as the most important among others. The correlations proved that the ideas of this school and the financial results are negatively correlated. These ideas can explain a large percentage of the failure of the firm and this negative effect rising during the years and is expected to results in more negative environment than before. There are always a number of firms that operate according to the environmental school of strategic management and certainly there is always going to be a number of them in the future. These ideas bring large firms in the position of passive observer waiting for other firms and sometimes smaller and more flexible ones to set the rules of the game in the industry. These firms will be close to the bankruptcy situation, with the constant pressure for survival. Their perspective is not to growth, develop or lead, rather to survive.

**Hypothesis 3:** Successful Croatian large retail companies are prone to the premises of the competitive-contemporary school of strategic management.

This school is ranked as the most utilized school among others. The successful firms seem to prefer this school, while the top managers in the unsuccessful firms consider these ideas as the least usable. In the first period, it seems that top managers that preferred this school were only the successful ones, while later there were cases of both successful and unsuccessful firms whose top manager preferred this case. This school does not guarantee the success, but there is a large probability that operating according to this school would result in a positive financial result. The negative correlation with financial results and this school was changed from 2001 and now there is a very small but positive correlation. There a number of other factors rather than ideas of competitive-contemporary school

that contribute the positive financial result but the impact of this school is positive. This school has the lowest strength of correlation coefficient among others and therefore it has not still found the way how to reflect on the financial results of the firms. The absolute numbers of the mean value of the profit/loss show that the top managers thinking according to this school have the highest rate of growth and perspective; this could be results of many factors apart from top manager's perspective on the process of strategic management.

The ideas of this school could be the valuable resource for the competitiveness and therefore more suitable for the firms that want to become or stay leaders on the highly competitive and dynamic marketplace. These ideas will offer perspective how to find a way to growth and expand. It will assume higher business risk, but the level of the necessary risk that each of the firm needs to undertake in order to stay up to the expectations of the customers.

**Hypothesis 4.** The influence of the premises of the schools of strategic management on financial results is getting stronger as approaching present day.

This hypothesis is based on the correlation coefficients presented in the paper. The concept of strategic management has its evolution path. Each community, economy, industry has its own characteristics that make distinctions in perceiving process of strategic management. During the period of time the both environment and the top manager change and they change their perspectives on strategic management. This analysis proves that the ties between ideas of this school and financial results quite weak, with the tendency of going stronger and becoming statistically significant. The first significant relation was the negative one, proving the negative consequence of the environmental school. This tendency is a way how the consciousness about strategic management develops within the firms. This research is directed to the effort to educate, train and develop top managers' competence in order to think strategically reflecting in a positive financial result. Strategic management is a discipline that is growing in the importance in the world and in the Republic of Croatia.

#### Limitations

This research has several limitations. The empirical research was performed on only one top manager in each of the firms and not on a team, or at least several managers on the top level. Due to this fact it is a very subjective opinion of the top manager about his way of perceiving process of strategic management. The research was performed at a specific period in time and not as the longitudinal research of the trends, approaches and attitudes. There was assumption that the opinion of the top manager reflected the past results of the firm and therefore it was adjustable to compare with the financial results from the period 1996-2006, although the research was performed at the end of 2006

and beginning of the 2007. The contemporary research shows a large array of financial and non-financial results as the methods indicating the performance of the top manager. This research took into consideration only mean of the profit/loss value. The selection of the large retail firms is quite small and therefore it was impossible to perform some statistical methods suitable for a larger than 30 cases sample. These limitations have certainly influenced the conclusions, reflection and discussion of this research.

#### Future research

The process of strategic management is a very sensitive and subjective issue and its interpretation depends on the approaches of the top manager. The more insight research should be focused on the assumptions and sources of the schools of strategic management in order to grasp the way they are formed, articulated and developed in order to be capable to influence them. The second stream of research is to follow the path of this research and conduct a repeated research during a longer period in order to grasp the longitudinal perspective of the problem. This research is one of the possible starting points for the global picture of strategic management development in the Croatian large firms and specific industries like retail industry.

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# To what extent have key retail and generic marketing texts adopted sustainability?

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## Abstract

*Consumers are increasingly aware of ethical and/or environmental issues and are adapting their spending patterns accordingly. Consumers are also increasingly cynical in terms of green claims and their increasing awareness of green-washing (Ramus & Montiel, 2005) may render 'green' marketing ineffective. The conjunction of 'Beyond Greening' (Hart, 1997) and the 'Triple Bottom Line' papers (Elkington, 1998) represented a turning point for sustainability stakeholders however the UK's Co-operative retailers have operated 'sustainably' since the 1840s. Marketing academics have failed to embrace sustainability whilst increasingly acknowledging that marketing lacks definitions of sustainability hence this paper derives a definition of Sustainable Retail Marketing (SRM). Retailers may be at a disadvantage if they do not know their customers' perceptions of their sustainability position therefore this study uses a framework which could provide the basis for benchmarking SRM. This paper seeks to use the SRM definition and framework to explore the extent to which triple-bottom-line (TBL) based sustainability has permeated key retail (and generic) marketing texts used in UK business schools. It juxtaposes its findings with contemporary sustainable development studies. The paper also seeks to partially redress the imbalance amongst sustainability studies which are predicated on supply-side approaches, largely ignoring the key role of customers.*

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## Introduction

The notion of companies being motivated by more than economic profit is not new. In the 1960s Philip Kotler was central to the efforts of incorporating social and moral concerns into marketing 'science' (Crane & Desmond, 2002). He first proposed the notion of 'social marketing' for social ideas and causes in 1969. Then in 1972 he developed the 'societal marketing concept' predicated on a more ethical approach to marketing. Despite 35 years of extensive studies and academic debate on the efficacy of societal marketing, practitioners and academics are increasingly concerned that the social, ethical and environmental issues have not been redressed and if anything have deteriorated (ibid). In 1997 the Harvard Business Review published Beyond Greening by Hart (1997) which brought the

issue of sustainable development to the wider business community (Starkey & Welford, 2001). The following year the term 'Triple-Bottom-Line' (TBL) was first defined (Elkington, 1998) in which the traditional economic focus was replaced with the new foci of social, environmental and economic responsibility. The Hart and Elkington texts are considered to be two "of the most important recent contributions on the subject of business and sustainable development" (Starkey & Welford, 2001, pxxix). Since the advent of TBL, the sustainable business development concept has gained credence featuring in academic, consultancy and practitioner texts (CRR, 2007). This approach, often paraphrased as 'People-Profit-Planet' (Starkey & Welford, 2001), represents an emergent branch of social science.

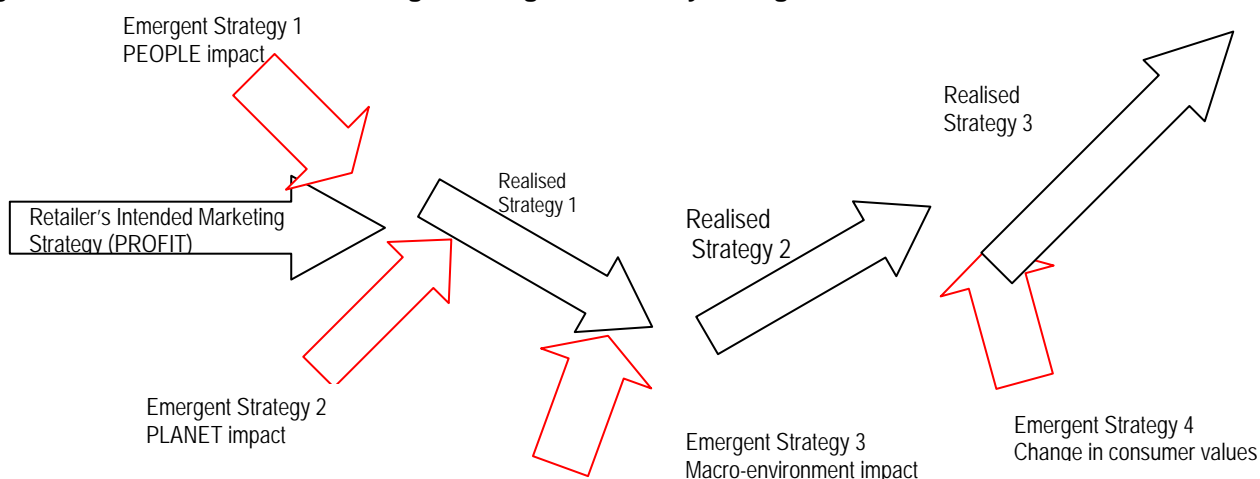
**Literature Review**

**Why Retail?**

Sustainability may be emergent, however elements therein have been long-practiced within retail. Most marketers would agree with Pal & Byrom's argument that: *"customer attraction, retention and satisfaction are imperative to the survival and success of a retailer. Understanding customer needs and meeting and exceeding expectations have become part of the lexicon of marketers and retailers"* (2003, p523). Retail is worthy of special consideration as it is a key economic driver (BRC, 2007) and unlike other service providers, its modus operandi is based largely upon extensive consumer contact. Other laudable service providers who may carry out sustainable business practices, say those in the FTSE4GOOD index (Times, 2007), are unlikely to have the complexity of hundreds of sites where literally millions of transactions take place. Indeed, Rosenbloom and Schiffman (1981 as cited in Pal & Byrom (2003))

argue that retailing is a complex and mysterious subject that can be viewed from a variety of perspectives. Also retail is recognised as a fast changing environment where studies are soon out of date (Mitchell & Harris, 2005). If, for a moment, one considers the challenges facing retail developers, a key question is "Why would shoppers visit one shopping centre rather than another?" Answers to such questions can be of crucial importance for retail managers and developers (Dennis, 2005). One contributory answer is that all consumption is social in that consumer spending is always conditioned by a socialised process in which consumers' thoughts, feelings and actions are subject to a range of social and cultural factors (Petrick & Sheehan, 2007). A socialised individual takes on attitudes, beliefs, opinions and values of others (ibid) hence retailers who are not aware of changes in society run the risk of alienating customers.

**Figure 1: Retailers' intended strategies being deflected by emergent factors**



Source: original diagram adapted from Mintzberg (1990)

Retailers following the traditional business focus on bottom line profit may find themselves reacting to emergent factors (Mintzberg, 1990), which ultimately lead to strategic drift. Figure 1 illustrates how the best strategic intentions could be deflected by the elements of TBL and/or macro-environmental changes and/or changes in consumer values such as the growth in ethical or green goods. This study explores the extent to which sustainability has permeated the key retail and generic marketing texts used extensively in business schools. Where gaps are identified elements drawn from sustainable business development studies are utilised (Figure 2).

Sustainable Retail Marketing, being a conflation of sustainability and extant marketing (Figure 2), represents a new emergent paradigm with resulting new taxonomies that will require clarification. This study will provide the clarification, and further contextualisation, by first considering a historical perspective of sustainable retailing.

**Figure 2: Area of overlap between disciplines**



Source: author

### Historical Retail ‘Sustainability’ Perspective

The UK Co-operative retail movement (hereafter co-ops) can trace its principles and practices back to the Rochdale Pioneers in the 1840s (Birchall, 1994). Amongst their guiding principles were education, training, information and concern for the community through sustainable development (Davies & Burt, 2007). Often they have been leaders in terms of a range of actions including product labelling, health education, fair trade, changing the attitudes of local workers towards taking responsibility for their own welfare (ibid). Indeed Davies & Burt (2007, p159) maintain that a co-op not only channelled funds but existed “to serve the community in which it traded”. Co-ops have cultural, industrial and historical origins which Hess (2004) considered important and these elements create ‘societal’ embeddedness. Two further forms of embeddedness attributed to co-operatives are ‘network’ (the composition and structure of the network relationships) and ‘territorial’ (the relationships in “place” with local firms, consumers and regulations). These forms of embeddedness share many similarities with the TBL foci of social, environmental and economic responsibility. The economic strength of the co-op movement was recently demonstrated by the acquisition of the Somerfields chain which elevated the co-op to being the fifth largest UK retailer.

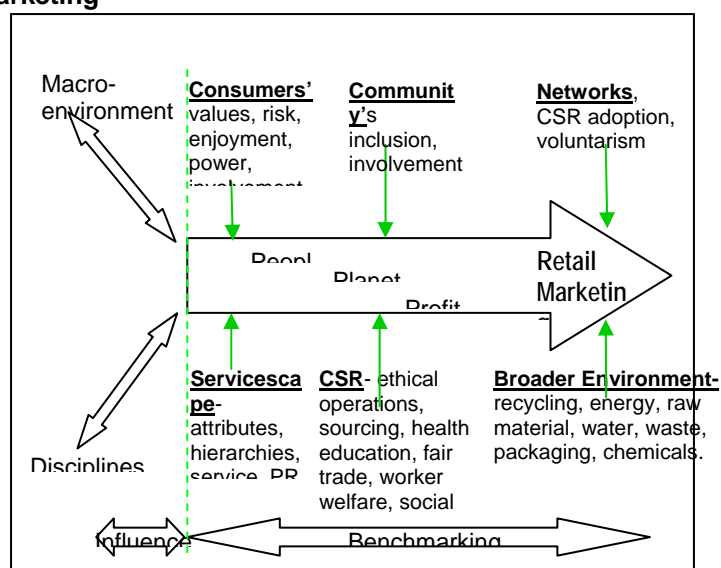
Whilst other retail stakeholders may not want to share all of the Co-operative movement’s altruistic aims, the notion that their longevity, differentiation and customer retention may be attributed to their form of ‘sustainability’ suggests further consideration is prudent. SRM represents an emergent marketing approach (Fig 1), hence there is a need for a clear, working definition of SRM which can then act as a datum for further studies on, say positioning and benchmarking. Mainstream retailers have recently followed the Co-operative movement’s lead by espousing their green credentials (Jones, Comfort & Hillier, 2007). This has coincided with the well documented rise of consumerism (Kotler et al, 2005; Kotler & Armstrong, 2006; Brassington & Pettitt, 2007; Dibb et al, 2006; Jobber, 2007) and environmentalism (Kotler et al, 2005; Kotler & Armstrong, 2006; Jobber, 2007). Environmentalism has received less coverage in the key marketing texts despite a widening range of issues becoming increasingly important to UK consumers for example ethical practices (Jones, Comfort & Hillier, 2007; Times, 2007). This change in emphasis coincides with the public’s increasing awareness of ‘greenwashing’, hence merely stating green credentials may no longer be sufficient (Ramus & Montiel, 2005).

### Methodology

As there are no empirical studies of TBL based sustainable retail marketing (SRM) practices, the Literature Review represents a conflation of historical (retail) marketing and contemporary sustainable development themes. This study originally sought to seek the extent to which sustainability had permeated

what are regarded to be the key retail marketing texts (McDonald, 2002; Gilbert, 1999; Omar, 1999). Simply put there was nothing to utilise hence the remit was broadened to include marketing texts widely used in business schools (Kotler et al, 2005; Kotler & Armstrong, 2006; Brassington & Pettitt, 2007; Dibb et al, 2006; Jobber, 2007). Ontologically speaking this decision conforms with social constructionism (Saunders, Lewis & Thornhill, 2007) in that the texts were chosen by the Author based on experience; the belief that these texts support a substantial proportion of marketing taught in business schools based on some elementary polling with peers across a range of business schools. From an empirical view this is a limitation of the research as others may challenge the choice of texts.

**Figure 3: A Framework for Sustainable Retail Marketing**



Source adapted from Gosnay & Richardson, 2008

The study of sustainability, as a relatively new branch of social science research, suggests the need for empirical research of a phenomenological nature. The interpretivist philosophical approach is well suited as it promotes understanding, rather than measurement, of issues. Such qualitative methods are particularly suitable for gaining an understanding of Sustainability, however to ensure focus of the content analysis a coding frame was used (Figure 3). In noting the differentiation between marketers and retailers the question arises ‘whilst all marketers are not retailers surely all retailers are marketers?’ If the two are identifiably different, representing different disciplines, then another limitation of this study is that differences may exist in language, tactics, cultures and strategies represented within the texts. Where appropriate the findings were presented using quotes to illustrate different points being made (Wright and Crimp 2000; Jankowicz 2005) or areas of congruence. The findings were synthesised with studies from a range of sustainability related academic disciplines.

## Findings and Analysis

### A definition of Sustainable Retail Marketing (SRM)

As discussed, retail is a fast changing environment (Mitchell & Harris, 2005) and it is not surprising that a variety of terms are used to represent new, emerging societal retail theories. As there is no extant definition for Sustainable Retail Marketing (SRM), this study will now derive one drawing on the different disciplines (Figure 2). Kotler first proposed the extension of marketing technologies into non-business arenas in 1969 (Crane & Desmond, 2002) when he defined social marketing as the approach for social ideas and causes. He currently defines it as: *“the design, implementation, and control of programs seeking to increase the acceptability of a social idea, cause or practice among a target group”* (Kotler & Armstrong, 2006, p239).

This suggests a range of approaches and different solutions to differing problems which is not ideal from a sustainability perspective where global solutions are needed (Starkey & Welford, 2001). Also it can be inferred (from the definition) that what matters is the short-term selling of products and services which, ironically, is now considered a contributory factor in consumers' awareness of greenwashing (Ramus & Montiel, 2005). Societal marketing develops the social concept further being defined as: *“a principle of enlightened marketing that holds that a company should make good marketing decisions by considering consumers' wants the company's requirements, consumers' long run interests and society's long run interests.”* (Kotler & Armstrong, 2006, p642)

This extends Kotler's previous model to include community and consumer dimensions, however, it stops some way short of Elkington's TBL concept. It offers no specificity for example with respect to ethics or environmental sustainability but it does introduce the notion of long-term relationships. Dibb et al (2006) discuss 'social responsibility and marketing ethics' which chimes with the ethical element of 'People' within the TBL concept (Elkington, 1998). Brassington & Pettitt (2007) however further develop the definition by linking 'societal' marketing with ethical marketing as elements of Corporate Social Responsibility (CSR) which should inexorably lead to 'sustainable' marketing which is the closest any of the key texts, reviewed in this study, come to TBL. Hence this study offers: "Sustainable Retail Marketing involves principled marketing predicated on the tenets of the Triple Bottom Line. Hence retailers' marketing decisions should be ethical and guided by sustainable business practices which ultimately are the only way to resolve the tensions between consumers' wants and long term interests, companies' requirements, society's long run interests and the need for environmental balance". Having offered a definition of SRM this study will now use the TBL framework (Figure 3) to consider areas of SRM that are not covered adequately by the key retail marketing texts.

### Macro environmental (E<sup>m</sup>) and inter-disciplinary influences.

McGoldrick (2002) discusses how 'brownfield' developments have found increasing favour among planners. However retailers seeking development opportunities have complained about a lack of co-operation by local authorities, citing severe delays in winning planning approval (Guy & Bennison, 2002). This macro-environmental interface is inter-disciplinary in nature (being between the domains of retail marketing and the built environment) and is typical of others ultimately being driven by UK Government environmental policies. Another key area of governmental legislation is the Companies Act (2006) which heavily impacts Corporate Social Responsibility (CSR). All of the featured marketing texts concur with McGoldrick regarding the importance of macro-environmental considerations and provide extensive coverage. Hence the macro-environment is beyond this study's scope, being primarily concerned in finding lacunae, other than to recognise the complexity that derives from the multi-variate nature of retail and the inter-disciplinary nature of the stakeholders (Jobber, 2007, p203).

### CSR

A major driver for this study is the lack of references to TBL elements within key retail and generic marketing texts. The generic texts accessed in this study were recent (being published since 2005) and yet none refer to the work of Elkington (1998) and only two texts (Kotler et al 2005, p187; Armstrong & Kotler, 2006, p637) refer to the work of Hart (1997). All of the marketing texts and some of the retail texts (McGoldrick, 2002; Gilbert, 1999) refer to elements of CSR, whereas others make no reference at all (Omar, 1999). McGoldrick (2002) only fleetingly refers to the issue of CSR twice in his 650 page tome. He alludes to 'some' retailers having CSR elements in their mission statements which may include 'green' issues, ethical supply policies and charitable links. He argues that short term advantages can be gained by the early CSR movers however "long-term, socially responsible stances...raise consumer expectations, leaving the companies vulnerable to a wide range of potential criticisms" (p420). This negativity contradicts the mainly positive thrust of the generic marketing texts that refer to social responsibility (Dibb et al, 2005) or corporate social responsibility (Brassington & Pettitt, 2007; Jobber, 2007) and recent studies of CSR in UK retail (Jones, Comfort & Hillier, 2007).

### Stakeholder Networks

None of the texts consider CSR in terms of disparities of commitment within the wider context of the interaction of stakeholder relationships. To improve relationship management requires understanding of both interpersonal (consumers) and person-to-firm (company) perspectives (Wong & Sohal, 2002; Sparks & Wagner, 2003), both of which occur in modern retail networks. The 'network' of embeddedness, namely the composition and structure of the network relationships,

has contributed to the long term success of the Co-operative movement (Hess, 2004). Retailers are undoubtedly networking organizations (Elg, 2003) and inter-dependent stakeholders therein will need to develop trust in their partners.

Trust can be shaped by previous experiences and co-operative efforts and on the more general reputation a firm has built up through its earlier behaviour (ibid). McGoldrick (2002) recognises that socially responsible retailers may also engender trust in consumers and that trust can be grown, say through positive word-of-mouth. Hence it is logical to assume that there is a business case for measuring and developing trust (say within an SRM framework) across a range of issues (Jones, Comfort & Hillier, 2007). As previously discussed CSR features briefly in McGoldrick (2002) and to a greater extent in the key generic marketing texts. However the texts do not address the issue of adoption of CSR. Patterns exist in the adoption of CSR across differing organisations (Haberberg et al, 2007). Retailers who are highly motivated may adopt an idealistic stance or even one of enlightened self-interest whereas stakeholders on whom they rely may only adopt CSR practices when coerced (ibid). This potentially poses a risk for the more motivated retailers for example Nike's poor public relations due to child labour related negative publicity (Times, 2007).

### Community

McGoldrick (2002, p240) considers location at length and provides a detailed 'location checklist', however it features no references to the host community. This is remiss despite being consistent with recent research that identified reticence, on the part of larger UK retailers, to engage with the community (Jones, Comfort & Hillier, 2007). This attitude simplistically reduces the site to 'a plot' and something apart from the community in which it is located. Hess (2004), on the other hand argued that 'Territorial embeddedness' was a key element of the Co-operative movement's success as it defined the relationships in "place" with local firms, consumers and regulations. An example of retailers improving their territorial embeddedness is the provision of public libraries within retail developments (Morris & Brown, 2004). The degree of compliance with any future SRM framework would have to reflect the extent to which developments reflect a degree of 'locality' which could avoid the homogenisation of high streets.

Social exclusion refers to diverse groups such as those with disabilities, the elderly, those on low incomes and homeless people amongst others (Broadbridge & Parsons, 2003). Rather than simply complying with, say, disability law, retailers need to be more sensitive to stakeholders' psychological needs and motivations if they are to gain and sustain a distinct differential advantage (Mitchell & Harris, 2005). Consumers are more likely to prefer to shop in retail stores that match their self-image (Baker, Holland & Kaufman-Scarborough, 2007; Mitchell & Harris 2005.). Charity

shops are vital vehicles in countering social exclusion in their local communities and the 'trading up' of their retail locations on high streets across the UK has enabled extensive reach (Broadbridge & Parsons, 2003). Retail developers may benefit from an improved public relations role with the local community (ibid) if as McGoldrick suggests: *"It is obviously in the interests of a retailer to try to enhance its chances of success by favourably influencing the opinions of planners and the local community. This may be regarded as a special area of retail marketing, communicating the benefits of a proposed store to the relevant public"* (2002, p267)

Therefore the adoption of SRM practices may improve prospects during planning processes not to mention underpinning any claimed green credentials as charity shops play a key role in recycling clothing and household goods (Parsons, 2002). Further to this, affluent social groups comprise a substantial proportion of charity shop patrons (Williams, 2003) and would no doubt be a welcome part of a retailer's chosen demographic. For many socially excluded groups mobility (for both physical and financial reasons) is an issue (Broadbridge & Parsons, 2003). Hence another key element of social inclusion is accessibility and while progress has been made, studies indicate that only partial accessibility has been achieved (Baker, Holland & Kaufman-Scarborough, 2007). Ultimately accessibility is more than widening doors and building ramps (ibid) and McGoldrick (2002, pp241-242) recognises that it "is still seen sometimes as synonymous with driving times and parking provision". That said he offers a range of measures that are already in place in most city centres (such as bus lanes) and goes on to say that "most retailers must still pay the closest attention to their accessibility to car-borne shoppers" (ibid).

### Consumers

It is **critical** that retailers understand the factors that consumers value when shopping as in many cases the appeal is on both social and psychological levels (Carpenter, Moore, & Fairhurst, 2005). Retailers need to consider these variables and the potential impact on the effective management of long-term customer relationships (Wong & Sohal, 2003). Whilst consumer decision-making research has been mainly cognitive in nature, increasing numbers of scholars acknowledge the importance of affective and emotional aspects (Da Silva & Alwi, 2006; Malhotra, 2005). Aldaigan & Buttle (2001) recognise the role of cognitive, connotative and affective dimensions citing five dimensions of involvement (Laurent and Kapferer, 1985), namely:

- Interest in a product (its personal meaning or importance)
- Pleasure in the form of emotional appeal
- Sign value for example the degree to which the purchase expresses the consumer's self
- Importance of risk attached to negative consequences of a mispurchase
- Risk probability relating to the exposure to such risks



Consumers attach varying degrees of symbolism and values to their purchases. Indeed the act of shopping can offer hedonic and/or utilitarian value for consumers (Carpenter, Moore, & Fairhurst, 2005). Shopping presents risks for example when food and drink choice is based on cultural norms (Mitchell & Harris, 2005), or health concerns or 'conscience' consumption such as fair trade. Increasing numbers of consumers buy food products that are identified as Fairtrade or other ethically-produced goods (Richardson, Eilertsen & Kenyon, 2007). The risks for retailers are two-fold: if their ethical or environmental profiles fail to align with consumers' values or alternatively reduce the enjoyment of the shopping experience then increased customer attrition is likely. Two factors which are deemed to be of particular significance are consumer involvement (Aldlaigan & Buttle, 2001) and consumer power (Menon & Bansal, 2007). Houston and Rothschild (1978) suggested three types of involvement namely situational, enduring and response involvements. They suggest involvement is an unobservable state of motivation, arousal or interest and that consumers can develop many different types of involvement with activities, objects, ideas or even social issues. A consumer's power standing during service consumption may be a function of two broad categories of antecedent variables- individual factors (that reside in the consumer) and interpersonal factors (that arise in the social group) (Menon & Bansal, 2007). Consumer knowledge was cited as a cause of high power with retail patrons being better informed than those involved in other services (ibid). Having considered the lacunae germane to 'People' this study will now considers those pertaining to 'Planet'.

### **Broader Environment (E<sup>b</sup>)**

The term 'environment' is used in varying ways between differing texts and in some cases by the same author. In one paragraph McGoldrick (2002) uses three variations, for example he argues that environmental considerations (assumed to be the broader environment) are leading many governments (macro-environment) to promote the development and use of a wider range of public transport options (task environment). Kotler et al (2005) refer to the 'natural' environment when discussing the marketing environment, which in turn is under the auspices of the macro-environment. These conflicting uses of nomenclature are problematic and recent studies have shown that environment and atmosphere appear to be influential in consumers' patronage decisions (Carpenter & Moore, 2006).

It is prudent to consider such concerns since individuals have a connectedness with the broader environment in which they live (Petrick & Sheehan, 2007). Their environmental interaction is extremely important, featuring intense emotional commitments (ibid) which can affect their store patronage decisions. There is general agreement that consumers experience involvement when an object or event is connected to

important goals such as centrally held values such as a store being sustainable (Mitchell & Harris, 2005). A recent study of the UK's top 10 retailers (Jones, Comfort & Hillier, 2007) found broad environmental issues were high up on their agenda featuring energy consumption and emissions, raw material usage, water consumption, waste, the volume of packaging, recycling, genetically modified foods and the use of chemicals. Further to this a recent study considered the negative psychological role perception when consumers are faced with too few recycling points (Mitchell & Harris, 2005).

### **Servicescape**

The task environment "comprises the business environments within which retail and others operate" (McGoldrick, 2002, p563). It is comprised of specific store attributes which consumers consider to guide their decision on which store to patronise (Mitchell & Harris, 2005). The store attributes can be direct reflections of store characteristics (such as cleanliness, spaciousness or layout) or more abstract psychological concepts such as staff friendliness. Mitchell & Harris (2005, p829) list 10 attributes in a hierarchical map for psychological risk. Of these 10 only one can be attributed to sustainable retailing namely disabled parking which is, unfortunately, included with trolley provisions. As previously discussed a key challenge in discussing SRM is the large number of variables and "a major draw back of the multi-attribute model is the unrealistic implication that consumers make an almost simultaneous evaluation of many attributes in arriving at their store choice. Such decisions are more likely to involve a hierarchical evaluation of alternatives". McGoldrick (2002, p101)

Mitchell & Harris (2005, p833) develop this further arguing that consumers "may think heuristically (ie deal in general perceptions of stores rather than comparing stores in every detail)" so emotive issues such as sustainability could easily shape hierarchies. Mitchell & Harris argue that "psychological risk results from the social embarrassment and loss of social esteem resulting from friends or family comparing the store's image with the image they have of you, as well as the internal psychological disappointment at oneself for shopping at a store which is not consistent with one's self-image" (2005, p824). Recent studies have shown movement by large retailers towards addressing consumers' concerns regarding sourcing issues, namely ethical trading and Fairtrade, sourcing local and regional goods, food safety and animal welfare (Jones, Comfort & Hillier, 2007). The 'store as brand' approach is attractive to retailers due to its capacity to create differentiation (Carpenter, Moore, & Fairhurst, 2005). Demand for ethical goods and services is growing (Richardson, Eilertsen and Kenyon, 2007) and interest is growing in the ways in which such issues (as part of CSR) can build and enhance brands (Jones, Comfort & Hillier, 2007). For the purposes of this study "the term service is taken to mean more than just serving customers" (Pal & Byrom, 2003, p525). Indeed the production, delivery and consumption of services

revolve around the interpersonal interaction between service providers and consumers and are among the most significant determinants of consumer satisfaction (Menon & Bansal, 2007). All interactions between the service provider and the customer provide an opportunity to portray the firm in a positive or negative light (Wong & Sohal, 2002). Understanding a customer's specific needs and having the customer's best interest at heart send a powerful signal to customers. Retailers need to appreciate that not all service dimensions contribute equally to customer's perceptions of overall relationship quality (ibid) hence emotive elements such as sustainability may have a higher value. Porter (1996 as cited in Mitchell & Harris, 2005) suggests many managers have let operational effectiveness supplant strategy particularly in forms of retailing where constant improvement is often seen as the route to superior profitability. What is needed is not change for its own sake but the right change and many examples now exist of companies who have moved towards the triple-bottom-line (Times, 2007).

Retailers will have to react to the aforementioned changes however Pal & Byrom (2003) cite a lack of attention within general retail management texts on even the broad area of retail operations, let alone the specific area of problem solving and improvement. They also refer to the store manager's influence differs across organisations and even between stores in a single organisation. Hence responsibilities, accountabilities and control are not uniform and are variable in these areas. Retailers should seek unanimity in pursuing change and need to 'operationalise' a progressive culture of change. Marketers who are said to study the 'Servicescape' are concerned with the co-creation of experience between designers, marketers and consumers (Baker, Holland & Kaufman-Scarborough, 2007, p161). Having a consumer focus elevates the Servicescape above McGoldrick's task environment which is a purely operational function. Organizational or operational viewpoints (rather than those of customers) have largely governed areas such as store attribute research (Mitchell & Harris, 2005). However without a clear understanding of customer needs it would have been impossible to make the necessary operational changes (Pal & Byrom, 2003, p523).

On entering retail Servicescape consumers immediately make judgements as to whether they belong or feel welcome (Baker, Holland & Kaufman-Scarborough, 2007). When retailers do not understand their customers' needs, perceived discrimination may be brought to the forefront on the basis of age, disability, ethnicity, or gender (ibid). Pal & Byrom's assertion that operations "hold the key to either satisfying or disappointing customers" (2003, p518) is too simplistic. That said they acknowledge that operations have to keep pace with customer change and the move to sustainable marketing could be one such change. A challenge for operations managers would be how to

operationalise the move towards sustainable retail marketing as no models or theoretical constructs exist.

### Conclusion

Whilst not exhaustive this investigation of key texts found many of the elements contained within the TBL framework. On the whole the generic texts provided better coverage of key functions, such as CSR and the broader environment, than the retail marketing texts. The divergence of definitions and concepts, within the marketing discipline illustrates the complexity that is endemic currently and one can only speculate as to the reasoning behind the almost total absence of references to TBL. None of the texts (or related studies) offered an acceptable definition of either sustainable marketing or sustainable retail marketing so this study derived a clear working definition. Retail will continue to be a complex, fast-moving industry and the role of the macro-environment will continue. Also the inter-disciplinary nature of related academic research means studies are dispersed across academic boundaries. That said the proposed factors (Fig 3) may form a basis for stakeholders wishing adopt SRM.

Ultimately McGoldrick (2002) and the authors of the generic marketing texts have not prioritised sustainability. It is possible that Kotler's focus on product in the Societal Marketing Concept still prevails. The seachange in consumer opinion (Times, 2007) may mean that marketing academics are trailing consumers and other disciplines. Kotler now argues that "Marketer's lives will become more complicated. They must raise prices to cover environmental costs, knowing that the product will be harder to sell. Yet environmental issues have become so important in our society that there is no turning back." (Kotler et al, 2006, p190)

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## Towards Sustainability in the Retail Services Markets

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### Abstract

*Environmental issues are commanding considerable attention internationally. Climate change, pollution, water availability, waste generation and disposal are among the leading challenges in this regard. Over time our understanding of the interaction between the businesses, society and the physical environment has developed, and therefore the ideas about what might constitute corporate environmental responsibility and green marketing have continued to evolve. This paper reviews this evolution in terms of the concept of sustainable development. Despite the varied impact associated with the adoption of green practices, service sector represents a potentially major source of environmental preservation. The paper aims mainly at:*

- (1) discussing the process of greening of marketing in the context of sustainable development*
- (2) providing some green initiatives adopted by retail service providers and traditional retailers.*

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### Introduction

Awareness of the social and environmental impact of economy can be traced back over thousands of years. But during the past decade there has been a growing concern of widespread environmental degradation of eco-system. This concern has been intensified by European Commission, which put sustainable development high on the agenda of all EU members. The review of the research priorities of most of financing and forming mechanisms of scientific studies, like Seventh Framework Programme of the European Union, explicitly point out the range of the problem of continuous degradation of the natural environment. "Environment protection", "environmental management", "economy as a climate change factor", "optimization of use of natural resources" or "health care and civilization dangers" are the most frequent leading subjects of the aforementioned research programs. We might assume that such an intensive interest in this group of issues is a consequence of changes in environment, an imperative resulting from the fact that a human being – through its consumption and production – keeps interfering in the ecosystem.

Yet, when discussions of environmental responsibility and green consciousness are raised, the focus is usually on manufacturers. As the production of physical goods requires raw materials processes and outputs may be environmentally harmful. Thus, environmental abuses are more visible among the manufacturing sectors of the economy. In contrast, the environmental impact of service sector and their products is less obvious, as well as the ecological soundness of the design of service processes. In this context, it should be stressed that service industries represents a formidable segment of European economy, accounting for accounting for 70 per cent of the Gross National Product, 75% per cent of the EU labour force and more than 50 per cent of the average annual family's budget being spent in service sector (Eurostat, 2007). Just as manufacturing processes that require expenditures of natural resources and produce waste, the services processes have environmental impact. Hence, green practices and social responsibility for sustainable development of the ecosystem can be easily applied to service sector. Consider the impact that might ensure if a hotel chain

adopted an energy conservation policy that involved setting thermostats at a mere two-degree difference. The concept of green marketing has become a familiar key phrase in recent years as more and more companies have targeted the environmentally conscious consumers and have begun to respond to the stricter environmental regulations. Over time corporate understanding of the integration between the economy and the environment has developed, and therefore the ideas about green marketing in all three sectors (agriculture, industry and services) have continued to evolve. This paper reviews this evolution, referring particularly retail in service sector.

The purpose of this article is to provide a framework for identifying different ways in which service economy may embrace the green marketing imperative. A latent objective is to bring attention to the significant social responsibility role that service retail outlets can play in the development of sustainability by adopting various green practices.

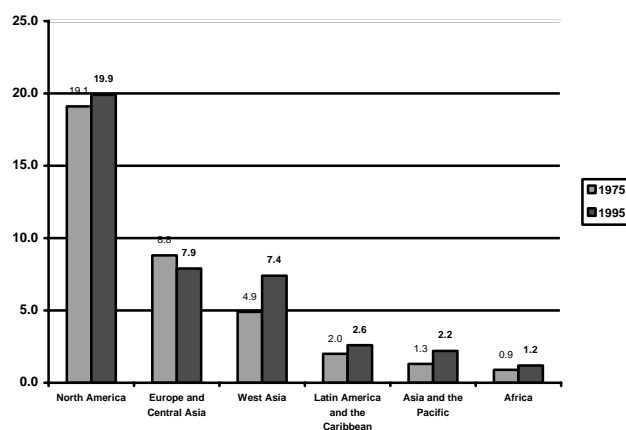
**Global environmental situation**

Environmental issues are commanding the rising attention internationally. Water availability, climate change, pollution and waste generation and disposal are among the leading challenges in this regard (OECD, 2001). As a major user of raw materials and energy, and a major source of pollutants and waste, economy is an important player. Progress in dealing more systematically with these issues has been made on several fronts. During last two decades, institutions for addressing current and emerging environmental matters were developed, public awareness and international cooperation increased. At the same time, legal frameworks and economic instruments were introduced, especially on the European Union's forum. In 1998, the Commission proposed a strategy for the rational use of energy, focusing on the role of energy efficiency in the development of a more sustainable energy policy with reduced CO<sub>2</sub> emissions. A Green Paper published in 2000 concentrated on the issue of energy security, and concluded that energy-saving measures should be promoted in order to reduce demand. These proposals were developed more concretely in the 2006 Green Paper on a European strategy for sustainable, competitive and secure energy (COM, 2006).

Above mentioned as well as other initiatives have been undertaken in the light of many environmental reports suggesting no favourable changes since 2000. The significance and range of the natural environment degradation problem is illustrated by the international statistics, Eurostat, OECD, and academic reports like Summary for policymakers' in Climate change (IPCC 2007). According to the annual report of the European Union, "Measuring progress towards a more sustainable Europe", since the year of 2000, results concerning the most significant subjects for the ecosystem, i.e. the climate changes and exploitation of the energy resources have not been satisfactory (Eurostat, 2007).

The gross energy consumption on inner market of the European Union keeps increasing with 1% yearly. Most of the energy supply comes from import, which increases the dependence of the union countries from the external sources of energy and its suppliers. In 2004 the participation of external energy suppliers for 27 EU countries exceeded 50%. The participation of renewable sources in the total consumption of energy increases very slowly, i.e. 0, 18% yearly (since 2000), reaching the level of 6, 7% in 2005. This result is very distant from the target result assumed by the EU authorities to be 12% in 2010. Similarly unsatisfactory results are noted in the greenhouse gas emission. In 2005 emission of those substances reached 92, 1% of the basic value specified in the Kyoto Protocol for 27 members of EU.

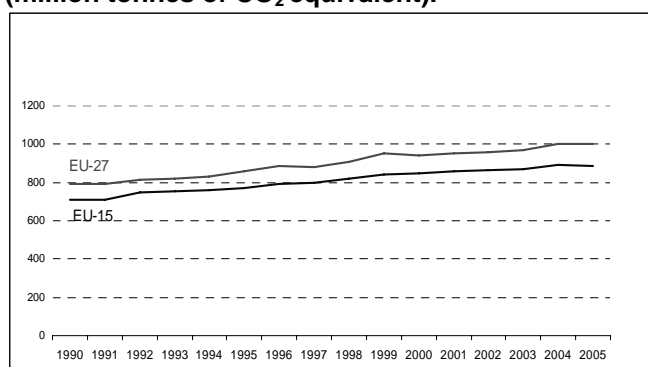
**Figure 1: Carbon dioxide emissions per capita (tonnes per year)**



Source: UNEP, 1999.

Especially difficult situation is seen in the transport sector, where the yearly increase of gas emission is 1, 8% for EU-15, and 1, 6% for EU-27. A major part of greenhouse gas emissions from transport is carbon dioxide emissions, which are influenced by a number of factors, including the modal split of transport, but also use of lower-carbon fuels, engine efficiency, driver behaviour, frictions, and traffic flows (Figure 2).

**Figure 2: Greenhouse gas emissions from transport (million tonnes of CO<sub>2</sub> equivalent).**



Source: OECD, 2007.

Increased greenhouse gas emissions are seen as making it impossible to prevent global warming, despite the efforts undertaken in the Kyoto Protocol. There are also important issues to be addressed concerning resource use. Natural capital is declining in a number of key areas, with the implication that efficiency in the use of resources will have to increase, or substitutes will have to be developed in order to meet future consumer demand. EU-27 dependence on imported energy fluctuated between 1990 and 2000, ending up 2.3 percentage points higher at the end of the decade relative to the beginning. Since then the level of dependence has increased every year, and in 2004 exceeded 50% ending up 5.7 percentage points higher in 2005 than in 2000. The energy dependence of the EU-15 is about 3 percentage points higher than that of the EU-27 (Eurostat, 2007). The EU-27 consumption of renewable energy sources are a whole increased at the significant average rate of 3.2% per year during the 1990s, growing to 4.1% between 2000 and 2005. Biomass is the most important renewable, comprising more than 2/3 of the total in 2005 and having the highest growth rate in terms of its share. Hydro is second in importance, although weather dependent, and it actually reduced its share between 2000 and 2005 due to a number of very dry years. Wind and geothermal are still minor contributors and although showing high growth rates in absolute terms, the size of their share is developing very slowly. Since 2000, gross inland energy consumption has grown at 1.1% per year for both the EU-27 and the EU-15, growing considerable faster in the EU-27 than in the previous decade, and reflecting increasing energy demand. The switching from high-carbon solid fuels towards gas and renewable continues, but at a slower pace.

### **Sustainable development and the greening of marketing in the service industry**

Integrating concern about the environment into the practice and principles of marketing is an idea that has been developed since 1970s. Marketing has been cast as both a major villain for its role on stimulating unsustainable levels of demand and consumption, and also as a potential saviour through the application of market mechanisms to tackle environmental and social issues (Peattie, 2001). Marketing oriented towards ecology was defined for the first time by Henion and Kinnear in 1976 as any kind of marketing activity that may contribute to the search for the remedy for environmental problems (Henion, Kinnear, 1976). This description directly refers to the book of R. Carson, „*Silent Spring*”, very popular in the '70 and publication of the Club of Rome's „*Limits of growth*”. A common issue of these books is discussion over the uncontrolled expansion of a human being and its interference into the ecosystem. Therefore, the first phase of the “green” marketing was an answer to the warning signals coming from the surrounding represented by the ecologic movement. It was treated more like a manifestation of initiative of single enterprises, not as a market imperative, a base for competitiveness and a base to

meet the customers' requirements. The icons of the initial phase of green orientation in business are such brands like: Body Shop, Ben & Jerry's or 3M, however their ecologic activity was concentrated at that time on the final product of production process, totally omitting the subjects of pro-ecologic technology. In most of the cases the marketing thinking concerning the environment meant following of multiple legislations and skilful omitting the rules that were to hard to be obeyed.

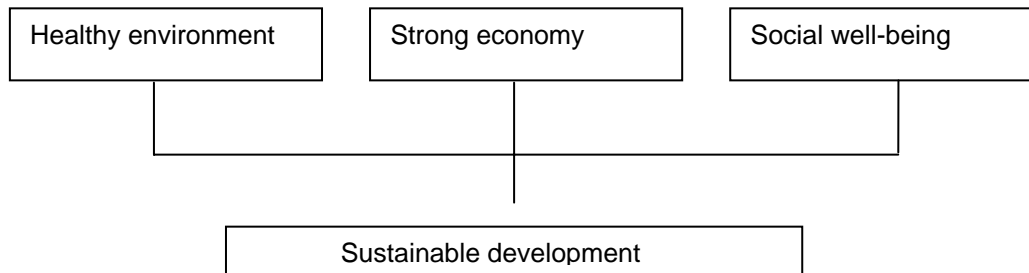
The second phase of marketing directed towards the environment started in the late '80 and early '90. A stimulator of increase of interest in ecology subject and in balance in ecosystem problem was a very critical event, i.e. diagnose of significant decrease of ozone concentration (up to 90%) in the ozone layer, mainly around the South Pole, over the Antarctic (so called Antarctic hole). The stimulation of environmental awareness was also caused by some ecologic catastrophes like the breakdown of Nuclear Power Plant in Chernobyl in 1986 or the „Exxon-Valdez” (oil tanker) oil spill by Alaskan sea shore in 1989. Undoubtedly a critical moment in the marketing look at the environmental problems was issuing of the WECD report in 1987 (called after the name of the chairman of commission the *Brundtland Report*), which contained a list of threats and challenges for the future, correct development of humanity. This report promoted a concept of sustainable development, which further was strongly exposed by the European Union agendas<sup>1</sup>. The concept of sustainable development is an attempt of coherent attitude towards the subject of continuous increase of quality of life and well being of current and future generations, through society's involvement into the problem of rational use of natural resources and effective management of those resources. Therefore a skilful connection between innovative potential of economy and ecologic and social orientation becomes a superior matter. According to this concept, an economic development should lead to the increase of social coherence (including the decrease of social class division, equalization of chances, counteraction against marginalization and discrimination) and increase of the quality of natural environment through limitation of harmful influence of production and consumption on the condition of environment and protection of natural resources. Such economic model assumes a conscious development of relations between aiming at prosperity, taking care of the environment (natural as well as the one created by the human being) and health of the single units. A sustainable development (also called eco-development) aims at reconciliation between the economic and environmental effectiveness of economic ventures, through the detailed calculation of production costs and their influence on the outer resources (Tietenberg, 2003). The rising importance of sustainable development issues have been seen in the growing interest of companies. Social and environmental

<sup>1</sup> [EU Sustainable Development Strategy](#) was introduced in June 2001 in Gothenburg and renewed five years later.

concerns are increasingly viewed as relevant to business performance (Beloff et al, 2007). According to Lambert, the motivation behind this trend is the emergence of sustainable development. The core of the concept of sustainable development is a notion that it is possible and essential to make a profit, protect the

environment, and care about people, all at the same time. It calls for a triple-bottom-line approach to measuring a company's integrated financial, environmental, and social performance (exhibit 1).

#### Exhibit 1: Sustainable development – a framework



Source: own work based on Kleb, 2002

Getting the concept of sustainable marketing accepted will be, as Kilbourne (1998) notes, a significant challenge. He points, that "it involves a different way of looking at marketing, its objectives, and its strategies that goes beyond societal marketing this is problematic since even the limited view of societal marketing has yet to be accepted by more than a handful of firms". Several points about sustainability are worth mentioning (Prothero, 1990; Peattie, 1995, Peattie 1999):

- It is about social as well as environmental protection – the sustainability agenda strives to protect the well-being of people through protection of the environment. So does environmental marketing concept.
- It is an absolute concept – if a particular economic activity is not sustainable in all its dimensions (production, exchange, consumption), the environmental system it depends upon will become unstable.
- It is more than "environmentally friendlier" – improvements in the eco-performance of a company will have limited meaning, unless it represents part of an ongoing and continuous process of moving towards sustainability.
- It is future oriented – sustainability takes the consideration of the needs of current as well as future stakeholders.
- It is difficult to define in practice – economies and ecosystems are both vast and complex systems whose behaviour is hard to model.

Porter (1991) suggested that marketing strategists have traditionally seen environmental concern as incompatible with business objectives. Today, it is obvious that companies need corporate strategies in order to orientate them towards both the external environment and the future. They have to ensure that

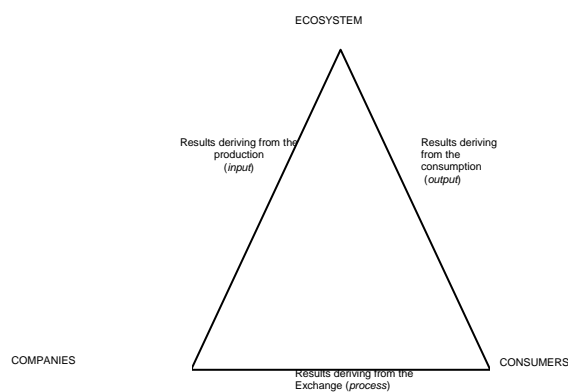
they remain viable in the long-term time perspective. The review of academic literature helps to understand the difficulties that marketers have in integrating the environment into their marketing strategies. Kilbourne and Beckman (1998) point that, up until the mid-1990s, research had a management-oriented perspective focusing basically on issues of so called green consumer, advertising and marketing segmentation. Above all, green consumer behaviour and its implications for marketing strategy were top on the agenda (Davis, 1994; Kangun et. al. 1991; Donaton et. al. 1992). From the mid-1990s onwards, a new research agenda highlights broader and more conceptual perspective regarding physical sustainability of marketing (Carlson et. al. 1996; Kilbourne et. al. 1997). The concept of the sustainable development results in the following implications for the marketing activity of enterprises oriented on the environment:

- marketing is seen not as one of the spheres of activity of a market entity, but as an element of greater entirety (researches, studies and development, production, physical distribution, cooperation with other links in a channel, returnable distribution), which has an influence on the natural environment,
- the introduction of environmentally safe technology is as important as limitation of harmful influence of final products and services on the environment,
- the introduction of ecologic solutions to the marketing usually requires cooperation with other entities (like governmental and non-governmental organizations, green movement, customer movement),
- A pro-ecology marketing is a strategy, not a tactics.



In such perspective marketing gains new meaning as a creation and cultivation of satisfactory relations between the businesses in a particular surrounding. Here the main „actors” are: enterprises, clients and other entities of the setting (like non-governmental organizations, public institutions of control and supervision, local society, financial institutions, self-government authorities, competitors and media), which – in a context of concept of sustainable and continuous development – will be interested in environmental consequences of activity of economic entities and their clients. The consequences for the ecosystem can have a supply character (resulting from production of goods and services), demand character (resulting from their consumption) and supply and demand character (resulting from the market exchange) – exhibit 2.

### Exhibit 2: Interactions among supply-side, demand – side, and the ecosystem



Source: own work.

The above illustrated interactions and resulting consequences for the ecosystem concern production companies as well as service providers, despite the fact that the interference with the ecosystem of the last ones is considered relatively less often, probably due to the specificity of the third sector. The services can be described as processes, characterized by commonly lack a physical presence (i.e. intangibility), disability to store (i.e. perishability) and disability to divide between production and consumption (i.e. production and consumption occur simultaneously). These characteristics render service products as little threats to the environment. However, a closer approach on the service industry forces to see it in a surrounding of physical elements of service processes, which have a very strong influence on the natural environment. Let's mention at least the transportation (requiring physical elements like an airplane or car or train), medical services (using for example x-ray equipment) or gastronomic services (using for example disposable packages for foods, generating tones of organic and non-organic wastes every year). Another type of services being harmful to the environment are service

industries that consume significant quantities of energy and expel various energy by-products as pollutants. To illustrate, hotel services and cultural services consume kilowatts of energy to warm up and lighten their service outlets.

Given the growing size of the service industry, ecological considerations regarding the materials comprising the tangible aspects of service products could have a major impact on the environment. For example, the need for industry-wide solutions has led to Ford, General Motors and Chrysler combining to introduce low-emission cars and to the formation of the Industrial Coalition for Ozone Layer Protection (Peattie, 1999). Through out this Coalition leading electronics companies are pooling research efforts to phase out CFCs as electrical solvents. Identification of consequences and impacts on the environment resulting from input and output, including service industries, is common for the second age of development of ecologically responsible marketing. In the '90 the possibility to gain competitive advantage from the corporate environmental excellence was detected. The “for” arguments were submitted by M. Porter and C. van de Linde, publishing the article in *Harvard Business Review* (Porter, Linde, 1995), refuting a current common thesis that the pro-ecologic activities of the company, that were an answer to the restrictive environment protection legislations lead to increase of costs and limitation of competitiveness. The logic of Porter and van de Linde had a totally opposite direction: the tough environmental legislation (very often questioned by the companies) ordering environment protection stimulates innovation and increase of competitiveness. And in a long-time perspective the ecologic activity of enterprises gives profits due to gaining new markets (so called the green consumers) and reduction of costs.

The new look at ecologic involvement of enterprises as on a relation of “win-win” solution, started by Porter and van de Linde (1995), has undoubtedly changed the attitude towards this issue. The most important “gains” of the second stage of the greening of marketing in the service sector are:

- Wider look at the economic activity, that influences the environment not only through production processes but also through exchange and consumption,
- Development of new markets, like environmentally friendly tourism, “green” investment funds,
- Appearance of symbols and slogans like: “environmentally friendly”, “eco-friendly”,
- Development of new products and new production lines, referring to the process of their creation, like eggs from ecology farms, vegetables from ecology farms, fish from ecology animal farms, etc.,
- Introduction of environmentally friendly packages to the trade (bags made of natural

resources, like canvas) and resignation from harmful packages (like foil bags),

- Cooperation of enterprises with non-profit sector, directed on ecology (Milne, et. al.),
- Appearance of market demand for environmental audit,
- Introduction of environmentally oriented processes to TQM (so called TQEM) and new quality standards referring to enterprise's interaction with the environment ( ISO 14000),
- New technologies, which boost e-commerce (especially the Internet allows ecologically minded firms to target green consumers globally without developing extensive distribution networks; the Ecomall ([www.ecomall.com/biz/](http://www.ecomall.com/biz/)) is a good example).

The contemporary ecologically responsible marketing (III phase of development) clearly moves the accent from the environmental orientation to the orientation of sustainable development. It can be defined as a holistic process of management responsible for identification, anticipation and fulfilment of society's needs in a profitable way, leading to sustainable development (Polonsky, Rosenberger, 2001). Fuller accurately points out that sustainable marketing: is a marketing that meets three criteria: meets the customers' requirements in a

satisfactory way, realizes aims of the enterprise, and as a process, is compatible with ecosystem (Fuller, 2000). The company that implements the processes of sustainable marketing changes from environment's conqueror to its stakeholder, developing the ecologic consciousness of its clients and does not gain profits from the activities that are harmful to the ecosystem.

**Environmental responsibility of service providers and retailers – some practical applications**

Trying to illustrate the problem of responsibility of industries towards ecosystem it is worth to mention the 3R's concept, originating from the environmental management framework. It concerns three dimensions of introduction of environmental friendly changes in the company, i.e.:

- 1) reduction of negative influence on environment /reduce/,
- 2) processing of products used in service process /recycle/, and
- 3) repeated use of those products /reuse/.

Table 1 illustrates that 3R concept can be used not only in industry and agriculture sector but also in service sector.

**Table 1: Green effort of the service providers**

Service industry category	Service organization example	Reduce	Recycle	Reuse
Health care	Hospital	Change to low-flow shower heads and taps as a means to reduce water usage	Reclaim plastic bottles in which normal, saline or sterile water is contained	Develop systems for sanitizing and reusing medical gowns rather than disposing of them
Financial	Retail bank	Reduce the size of patrons' monthly bank statement to save paper	Collect paper (e.g. computer print-outs, correspondence, etc.) used in daily operations	Convert to pens, printer cartridges, etc., which are refillable rather than disposable
Professional	Dentist	Replace filling materials with fewer toxic substitutes	Recycle masks, gloves, plastic materials common to the practice	Sterilize various dental tools rather than dispose of them
Hospitality, travel, tourism	Hotel	Close off floor/wing during slow period to control necessity of heating/cooling	Collect cans/bottles from restaurant and guest service operations	Reclaim used water for ground keeping purposes
Sports, arts, entertainment	Golf course	Utilize grasses that require less water, fertilizer and chemicals for their upkeep	Recycle grass clippings converted into compost to fertilize grounds	Collect score-keeping pencils for subsequent use by later patrons
Governmental, quasi-governmental, non-profit	City bus line	Convert to electric-powered vehicles to reduce internal combustion pollutants	Recycle tyres for their rubber content and other materials	Assemble parts from old buses for use as replacement components in operating vehicles
Channel, physical distribution, rental,	Department store	Make an effort to stock environmentally sound products	Recycle boxing and packaging materials in which products are delivered	Convert to marquee and/or electronic signs which can be used over and over again

leasing				
Educational, research	University	Lengthen class periods to shorten semester terms to save on resources needed to run the physical plant	Collect the vast amounts of white paper (e.g. tests, memos, etc.) used in daily activities	Find new homes within the school for old computers that are replaced by new machines
Telecommunication	Telephone company	Convert to fibre optics to reduce reliance on telephone wire	Reclaim old phones for components and material content	Develop capacity to refurbish and market used or old phones
Personal, repair	Automobile repair	Utilize commodity materials (e.g. oil, lube, grease, etc.) in large containers rather than small, wasteful ones	Collect used oil during oil change operations for later use	When possible, save replaced auto parts to be remanufactured (e.g. alternators, carburettors, etc.)

Source: Grove et al, 1996

The above examples show, that many of the environmental friendly activities can be adopted without the necessity of spending a lot of money on it. The reduction of use of paper through limitation of correspondence or through choice of electronic mail is a good example. The aforementioned examples of use of 3R concept have a wide application in the service sector, however, big concerns and well known brands have a better ecologic consciousness. Most of the reputable hotels have limited the consumption of detergents through resignation of every day exchange of bedclothes and towels in rooms rented by resident guests. The AT&T has reduced various toxic pollutants by changing the chemicals and processes used to colour its equipment, the Royal Bank of Canada's programme to save paper in its 1,600 branches by converting almost exclusively to electronic data processing, and Canadian retailer Loblaw has adjusted its delivery cars to be driven on bio-fuel.

Another example is the retail giant Wal-Mart which has made an effort to reduce consumption of natural resources by pressuring its suppliers to become green-oriented (Ortega, 1993). From the same service category comes the example of H&M stores which promote their clothes using label "*Organic cotton*" accompanied with the following claim: "*organic cotton means environmentally friendly cotton that has been grown without the use of pesticides or synthetic fertilisers; it is healthier for cotton farm workers, better for nature and wonderfully soft and natural for you to wear*". Such a voluntary labelling seems to be an efficient instrument for influencing sustainable consumer choices. The case of H&M refers to corporate labelling scheme introduced by the company on its own. But the most viable labels are those where environmental claims are verified by a third party, including governments and NGOs. Studies show that the sustainability effects of labelling schemes are growing with heightened consumer interest in environmental issues in OECD countries (OECD, 2008). The best-known eco-labels, in terms of high levels of consumer recognition and effects on producers, are the German *Blue Angel* (introduced in 1977) and the *Nordic Swan* (introduced in 1989). The former is applied to some 3 800 products from 710 companies, while the

latter marks a similarly high numbers of products and has consumer recognition of up to 90% (OECD, 2008). Corporate image can be a significant driving factor for improving environmental performance, and adopting a greener corporate image can be a proactive marketing strategy. For example, Ben & Jerry's advertise the environmental ethics of the founders and the green soundness of all its operations (OECD, 2001). The Body Shop bases its appeal on the friendliness of its production processes to both the environment and animals. Both IKEA and Home Depot developed environmentally friendly product lines to appeal to a certain customer segment. Moreover, it is worth to emphasize that the green orientation of enterprises contains a whole range of values. For example the Starbucks coffee shop chain declares carrying out of environmental audit on each level of coffee production. Similar green audits are carried out by British Telecom or IBM for their sub-suppliers. To sum up, the responses of retailers to the environmental impacts cover a huge range of activities. They differ from introducing the environmental friendliness of the retail space by reduction of their carbon footprint and energy consumption to marketing green lines and organic collections (Table 2).

**Table 2: Green operations of the retailers**

Operation	How it works	Example retailers
Upgrading to low energy devices	-using computers that run on 45 watts of power -using LCD screens instead of CRT screens -switching to low energy bulbs for lighting -introducing light emitting diode solutions	Marks&Spencer
Using green energy	-buying power sourced from renewable or non-polluting energy	Topshop, Oasis, Marks&Spencer

	sources	
Introducing green home delivery	-conversion of X per cent of the delivery vehicles to electric power	Sainburys (X=20)
Introducing green travel plan	-all those involved in the construction process of a new store signing up to a green travel plan, which covers how personnel and materials arrived at the site. The purpose is to highlight travel alternatives and to make them more feasible (e.g. provision of cycle racks)	Marks&Spencer
Stocking organic and Fair-trade collections	-introducing own-brand products and green lines collections	Tesco, Co-op

Source: own work based on Thompson, 2007.

The above given examples prove that green orientation is something more than just organic bags and that some retailers do introduce environmental friendly changes to their operations.

### Conclusion

The results of adopting an environmentally friendly corporate image are mostly positive, as companies which have used environmental responsibility as a means of enhancing their reputation or brand image have been shown to have increased sales and to have attracted investment capital. OECD study on business and sustainable development, examined the policies and performance of 300 large companies, found that 95% of the managers surveyed believe that sustainable development is important, with 82% concluding that it offered business value (OECD, 2002). Overall, environmentally proactive corporate posture has, in addition to any direct environmental and cost-reduction benefits, a significant impact on the firm's value in the marketplace. Anyway, one should remember, that sustainable marketing must involve extensive coordination across functional areas to be effective. The level of greening – strategic, quasi-strategic, or tactical – determines exactly what activities should be undertaken.

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# Marketing Activities as a Basis for a Sustainable Development of Banks in Poland

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## Abstract

*The evolution of the banking services market in Poland, which began in 1989, was connected with the processes of deregulation and liberalization of this market and led to the situation when banks had relatively little time to face the necessity of fighting fiercely for the customer and market position not only with other banks but also with other financial institutions. Gaining a competitive advantage on the market of retail banking services requires at present the creation of a proper combination of various factors, but at the same time it should be noted that traditional factors of material character lose their value. The observation of the market and the conducted research lead to the conclusion that currently bank managers should concentrate their attention on non-material factors including marketing ones. Some of them, e.g. relations with various market subjects (customers, employees, ecology and social pressure groups as well as local communities) are unique, difficult to imitate, characterized by a limited substitution because they are based on trust and emotions as well as they are not subject to ownership, therefore they cannot be traded. All the features can determine the sustainable competitive advantage of a bank. The observation of the Polish market of banking services leads to the conclusion that the idea of the sustainable development, manifested by the increasing environmental and social consciousness of banks, is going to develop. Existing global problems, including environmental and social ones, force banks to take an interest in the social approval of the way and effects of functioning of these institutions by social environment as well as their participants (employees). Therefore, establishing relations with various market subjects' enables banks to maintain their competitive position and to pursue socially responsible, environment friendly and economically valuable strategies.*

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## Introduction

Nowadays competitiveness is understood as a long-lasting ability to create a widely understood offer which has more attractive features than respective features offered by competitors. It is also understood as an ability to create distinctive abilities and resources inaccessible to competitive subjects. A competitive bank is an institution that is capable of meeting requirements imposed by direct and indirect competition as well as acting in the interests of its own and the community in which it functions (Marcinkowska, 2007). Competition in the financial sector has a specific character. This specificity results from a particular role performed by

banks. Since they are institutions of public trust they cannot be engaged in a fierce struggle for the position on the market that would be destructive for competitors. This would have a negative influence on the image of these institutions as trustworthy subjects that ensure their customers security and stability. In addition, dissimilarity of the competitive struggle stems from the fact that operating banks have to cooperate and participate in the system of mutual settlements. Therefore, they have to compete but also cooperate at the same time. In this context, the competitive struggle carried on by banks should concentrate on activities that would allow creating an exceptional set of distinctive

values which are valuable from the customers' point of view, employees, local communities and ecology organizations and can strengthen the position on the market. It will be vitally important to create the proper image of a bank, to develop capital, personnel, technological and marketing potential.

### Methodology

The article aims at attempting to assess the influence of marketing on the creation and consolidation of the competitive advantage of subjects operating in Poland, in the context of the concept of the sustainable development, as well as determining the role of particular marketing activities in this process. The analyses presented in the article were conducted on the retail banking services market. Conclusions presented in the article have been reached on the basis of secondary and primary sources of information. In order to achieve the aims of the article, direct research was conducted in 2007. The research was carried out by means of an individual survey with a questionnaire form as a measuring tool. Surveys were conducted among presidents of banks or entitled and competent people designated by them. The choice of samples for the research was deliberate and included all the banks quoted on the Stock Exchange<sup>1</sup>. After preliminary verification three banks were rejected from the research. One of them, i.e. Bank Austria Creditanstalt (BACA) did not operate on the Polish market then, whereas the remaining two (GETIN Bank and DZ Polska) did not give their permission for taking part in the research. The research was preceded by a pilot study, which enabled to prepare the final version of the questionnaire carefully.

As a part of the secondary research, the analysis of materials published by banks was performed. Among them there were annual reports of these financial institutions, their strategies and information available on websites of the analyzed banks.

### Competition and the banking sector in Poland

One of the most interesting phenomena of the Polish modern economy is the development of the banking sector. It developed from a secure and widely protected by state regulations sector into the sector subject to fierce rules of competition and forced to apply market methods of struggling for customers and the market position. The transformation of the Polish economy began in 1989 and contributed to significant changes in the banking sector. The deregulation of this sector resulting from the reduction of institutional and legal limitations as well as the liberalization connected with the removal of barriers as far as the free flow of capital is concerned, started competition processes in this sector. A network of commercial banks emerged and

they became autonomous as far as the scope of their activities, margins and interest rates as well as all matters regarding banking economics were concerned (Baka, 1997). Competition processes on the domestic market of banking services resulted from those changes. The next bank law act dated 29 August 1997<sup>2</sup> sanctioned the positive tendencies happening on the analyzed market, which is regarded as the fastest growing sector in the Polish economy.

While analyzing competitiveness of the Polish banking sector it should be noted that these subjects currently function in conditions of the so-called *extended competition* (Korenik, 2002). It is connected with non-bank financial agencies such as savings funds, savings and loans funds, insurance companies, pension funds, investment funds or agencies providing financial services (cf. Table1). The development of these subjects, parallel to the development of commercial banking is characterized by high dynamics resulting from a highly-market approach to customer service. Suffice it to say that their activities in the field of identification of new market segments are innovative and they offer an increase in the availability of financial services for households. Therefore, these institutions form an important competitive power on the banking services market, mainly in the area of (Pietrzak, 2003):

1. Deposits of small and medium-sized companies,
2. Deposits of individual customers,
3. Loans given to privately owned enterprises and individuals.

**Table 1 Financial institutions competing against commercial banks**

Type of institution	Kind of institution	Main field of activity
Depository institutions	Saving funds Savings and loans funds	Attracting savings of households, giving mortgages and consumer loans
	Cooperative credit funds (Credit unions)	Non-profit institutions owned by their members. They service local communities and their financial needs, particular professional or religious groups.
Non depository institutions	Insurance companies	They collect fees and amass customers' resources after signing an agreement stipulating terms and conditions of their reception. They offer innovative policies. They invest funds in various financial instruments.
	Pension funds	On the basis of a

<sup>1</sup> Among these banks there were: Bank Ochrony Środowiska S.A., Bank Przemysłowo – Handlowy S.A., BRE Bank S.A., Citi Bank Handlowy S.A., Fortis S.A., ING Bank Śląski S.A., Kredyt Bank S.A., Millennium S.A., Nordea S.A., PeKaO S.A., PKO BP S.A., Wielkopolski Bank Kredytowy S.A.

<sup>2</sup> Law Gazette from 1997, no 140, entries 938 and 939.

		contract they collect fees from employees and employers in order to provide for their old age. They invest funds in various financial instruments.
	Investment funds	They invest resources from individuals and enterprises in money and capital markets instruments.
	Broker's houses Trust funds	They match people who possess savings with investors on various kinds of financial markets. They compete with banks in the field of investment consultancy and portfolio management.
	Companies rendering postal services	They offer savings accounts, „Giro” accounts, payment turnover services and credit cards.
	Specialized institutions rendering financial services	They act as agents in hire purchase handling, give consumer loans, deal with leasing, and give loans secured on fixed properties. “Financial conglomerates” facilitate purchase of goods manufactured by particular industrial corporations or sold by particular chains of stores.

Source: J. Pietrzak, *Czynniki ...*, op. cit., p. 44.

There is a growing competition from other commercial banks as well as from non-bank financial institutions. According to the National Bank of Poland there are more than 70 commercial banks in Poland. Two new banks are going to enter the Polish market in autumn 2008. At the same time there is a slight increase in the concentration of the market. CR5 index increased from 46, 5% to 47% in 2007. The increase is a consequence of the fusion of two banks, i.e. PeKaO S.A. and BPH S.A. resulting in the emerge of the biggest bank in Poland as far as the balance sum is concerned.

Gaining and maintaining a competitive advantage on the market seems to be a particularly important issue but it is also a difficult task for banks to accomplish. On the one hand, the banking sector is one of the most important elements of the market economy. Its

functioning is hedged with numerous regulations due to the fact that banks function as a factor stabilizing the economy and their aims are connected with security of entrusted resources. Functioning of banks is based on public trust; therefore, banks care about safe and stable activities of all subjects providing particular services as this is a sine qua non for creating the image of trustworthy subjects. On the other hand, they have to compete for the customer the same way that other subjects operating on the market do, in order to gain and maintain a strong competitive position. Competition in the banking sector has a special nature stemming from a significant role performed by banks. They are institutions of public trust. Therefore, competition in the banking sector cannot be a fierce and destructive rivalry (Marcinkowska, 2007). This special situation is also connected with the fact that no subject in the banking sector can operate on its own, irrespective of the system, which is connected, among others, with the necessity of participating in the system of mutual settlements. We cannot pass over the fact that the competitive pressure can have a negative influence on the security of banks, thereby destabilizing the whole banking sector. Such a situation can arise when a bank striving for an increase in its competitiveness will jeopardize itself without having enough capital. Bearing in mind the above-mentioned, from the microeconomic point of view, banks can be treated as special servicing companies (Jaworski, Krzyszkiewicz, Kosinski, 1997), subject to market rules, expecting long-term profits and competitive position (Marcinkowska 2003; Pawlowska, 2005).

In the face of a fierce competitive fight, Polish banks face the necessity of undertaking consistent activities that will concentrate on establishing a long-lasting competitive advantage connected with obtaining the superior position of an enterprise over a greater number of competitors. It conditions the functioning of banks on the market – it enables to offer products and services that meet the customers' requirements and are better than those offered by competitors. It can be expressed by a lower price, a higher quality of the product, better service or a complete fulfilment of customers' needs. Moreover, an increase in the environment and social consciousness in Poland (Kryk, 2005) causes the necessity to focus on the development of the advantage by delivering proper value to customers, employees and other subjects in the environment and ensuring the harmonious coexistence and permanent balance among various interests of individuals, groups, organizations, local and central authorities.

In the literature it is noted that a competitive advantage consists in company's abilities to generate value added. It has been proven that the maintenance of a competitive advantage depends on special abilities of a company, which are divided into two groups (Kay, 1999):

1. Distinctive abilities – features that cannot be imitated by competitors or can be imitated with a



great difficulty even if competitors realize the advantages that these features can bring to a company. In case of banks distinctive abilities comprise a strong brand, relations with partners and customers as well as expertise of bank personnel or the quality of service.

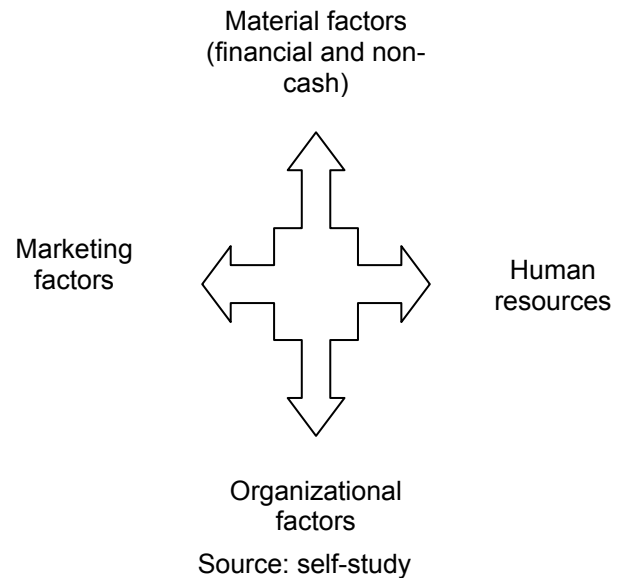
2. Imitative abilities – features that can be imitated or purchased by other companies which have efficient management and suitable financial resources. Examples of abilities that can be imitated are technical solutions, a chain of branches, price strategy and product strategy.

### Non-material sources of competitive advantage

Sources of a competitive advantage are currently sought in different factors. According to the traditional approach these factors were connected with material, i.e. non-cash and financial factors. However, these factors can be easily and relatively quickly imitated. Therefore, nowadays attention is paid to non-material factors, which are not reflected directly in financial reports of banks. R.E. Lusch and M.G. Harley (1994) claim that results achieved by subjects operating on the market depend more on non-material resources, which both directly and indirectly through an influence on financial resources determine the company value. Organizational culture, customer relations and brand value are the most important factors. According to the conducted research, financial results constitute only 50% of factors influencing an assessment of a future market position of a bank. The remaining part is a result of the market's assessment of non-material elements (Holman, Flavell, 2001). Similar conclusions can be reached by analyzing the average value of the market value index in relation to the book value. Currently it is more than 4, which means that more than 75% of value of these companies is connected with non-material assets components. The research carried out by Ernst & Young shows that in 1996 half of the market value of companies did not correspond to their balance sheet assets (Dorozik, Flejterski, 2002). Calculations made by M. Marcinkowska (2000) among the biggest world companies prove that in some cases as much as 96% of the market value is based on non-material value of a company<sup>3</sup>.

The issue of factors determining the competitive position of subjects operating on the market is widely discussed in the field of management sciences and economics. However authors express relatively firm opinions on the division of these factors into material and non-material ones, they propose a different classification of the latter factors. The author of this article has reviewed concepts formulated by various authors and subdivided these factors into four key groups (Figure 1).

**Figure 1: Factors determining the competitive position of a bank**



The first group is constituted by **material factors**, which include bank's financial resources (e.g. cash, portfolio securities, capital cost) and non-cash (e.g. equipment, premises, network of branches). **Marketing factors** constitute the second group. They are created thanks to exceptional abilities to establish proper relations between a company and widely understood environment. The following abilities are of vital importance: abilities to conduct marketing and market research, abilities to identify target groups properly and adjust marketing tools, diversification abilities of a company, abilities to attract customers and establish profitable customer relations as well as abilities to build partnership relations with other subjects. Attention should be paid to the following marketing factors: company brand, its image, distribution systems (their efficiency and uniqueness), attractiveness of products (owned brands and the level of distinction), price policy (the level of prices, ways and character of price diversification), communication policy (the degree of integration of particular tools, originality), the structure and value of customers, an information system and a database of customers, a market position and marketing company culture. The third group comprises human resources which include abilities, expertise, creativity, problem-solving abilities, development potential and employees' experience, a high degree to which employees identify with their company and enterprising abilities. These resources seem to be of the utmost importance in contemporary digital times. In the face of an abundance of information, progressing technological changes and a fast transfer of new ideas only these people who want and can acquire knowledge quickly will be able to contribute to establishing a competitive position of a bank. The fourth group is constituted by organizational factors which include processes and technologies streamlining the managing of a bank. They

<sup>3</sup> Among the thousand biggest companies in the world there are companies, whose book value constitutes only 3% of their market value. For more cf.: M. Marcinkowska, *Kształtowanie wartości firmy*, PWN, Warszawa 2000, p. 17.

are connected with an internal communication, organizational culture, a strategy used by a given financial institution, organizational structure, innovation, processes of changes management, incentive systems and organization of work. It is worth mentioning that the competitive advantage of a bank does not stem directly from a single resource but from interactions between material and non-material assets. Particular groups of factors affect one another and only their proper combination leads to the synergy effect. Not favouring any of the factors it should be recognized that the sum of particular factors value is lower than the value of the whole they form. The synergy effect determines possibilities of a better use of the discussed resources, which results in a greater production potential of a company, the improvement of its market position and gaining a long-lasting competitive advantage.

**Marketing factors determining competitive advantage of Polish banks**

The changes in the Polish banking sector described above cause a situation when traditional methods of a competitive struggle based on the use of material factors are insufficient. That is why non-traditional sources of a competitive advantage, especially marketing factors are becoming more important. The research conducted by the author explicitly confirms the above hypotheses. It indicates a minor role of traditional factors in the process of establishing a market advantage of banks (Table 2). According to the financial institutions that participated in the survey, marketing factors are the most important among other non-traditional factors.

**Table 2 Significance of particular groups of factors in the process of establishing a competitive position of a bank (mean assessment\*)**

Item no.	Factors	$\bar{X}$
1.	Material (financial and non-cash)	1,67
2.	Organizational	2,42
3.	<b>Marketing</b>	<b>3,42</b>
4.	Human	2,67

\* A four-grade scale (from 1 to 4) was used, where 4 denoted maximum value.

Source: self-study on the basis of direct research

The performed analysis of marketing factors, which according to the banks' managers have the biggest influence on a competitive position of their institutions, indicated the dominance of two variables. At present, the analyzed banks seek possibilities of the consolidation of their market position in establishing lasting and long-term customer relations as well as creating bank's image and brand (Table 3).

**Table 3: Marketing factors of competitive advantage**

Lp.	Marketing factors	$\bar{X}$
1.	Positioning of offer in customers' awareness, diversification abilities	1,42

2.	Market segmentation	1,17
3.	Promotional activities	1,42
4.	Price policy	1,17
5.	Long-term customer relations (customer loyalty)	<b>4,00</b>
6.	Developed, unique distribution network	0,92
7.	Ability to conduct marketing research	1,00
8.	Innovative services	2,17
9.	Good knowledge of market and competitors	1,08
10.	Partnership relations with cooperating subjects	0,58
11.	Bank image, brand	<b>3,33</b>
12.	Customer structure and value	1,17
13.	Information system and customer database	1,17

Source: a study based on the research conducted by the author

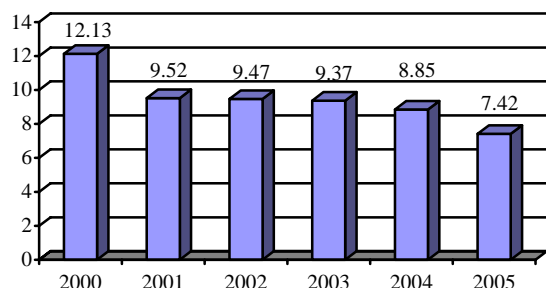
The analysis of the received data gave rise to the statement that banks attach minor significance to abilities to build a competitive advantage, which are categorized as the so-called marketing imitative abilities. One of them is a low assessment of price strategies ( $\bar{X} = 1,17^4$ ). On the basis of the observation of the market, it can be stated that in spite of a relatively minor significance, activities in this area are actively done by banks. ING Bank was one of the first to introduce the internet Direct Account without any charges for handling, transfers and other activities done via the Internet. Customers can bear the cost of charge cards, but they do not have to pay if they use charge cards for cashless payments. The next move was made by Nordea Bank which introduced Spektrum account with an access to free cash dispensers all over Poland. The account can be free of charge as long as regular deposits are put down. However, a card is charged, unlike in the previous offer, but an account is charged less. Bank joined this pursuit of customers on 11<sup>th</sup> February 2007 when it abolished the 50-groszy charge for a transfer, thus returning to the attractive offer available at the beginning of the bank's activity. Such moves of several banks are not left unresponsive. Competitors are expected to reduce their prices in a few weeks.

Strong competition and the necessity of fighting for customers made banks reduce margins on mortgages to one of the lowest levels in Europe. In case of a mortgage in domestic currency, the margin was reduced below 1 percentage point, in case of mortgages in Swiss francs; the margins are a little higher. From 2002 to 2006 costs of mortgages fell by half (Borkowski, 2006). The situation was similar on the deposit market, where in case of aggressive banks interest rates soared to 6-7%, i.e. above interest rates on the inter-bank market. In

<sup>4</sup> The five-grade scale was used (from 1 to 5), where 5 denotes the maximum value.

relation to the year 2000, costs of cashless transactions fell almost by half (chart 1).

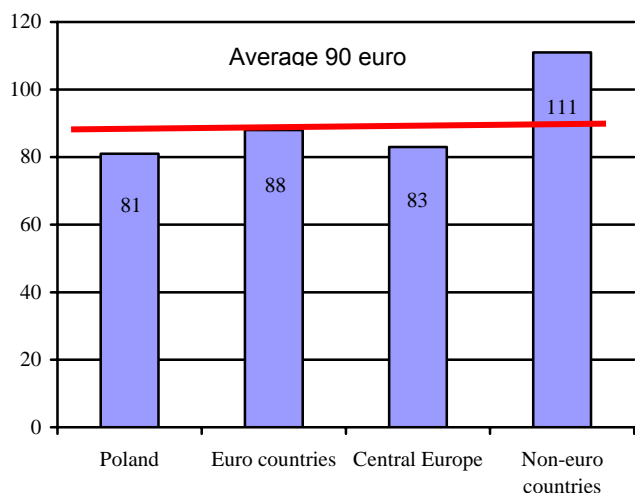
**Chart 1 Average cost of a cashless transaction – cards and transfers in Poland (in zlotys)**



Source: Ernst&Young

Nowadays costs in the Polish retail banking are close to average world costs or they are even lower, depending on the analyzed package of services (chart 2). According to the report prepared by the research company CapGemini, on average the Poles pay 81 euros of commission per year, while the Czechs pay 68 euros and the Slovaks pay 48 euros. In richer Central-European countries, such as Germany and Austria, banks' commissions do not exceed 100 euros (Borkowski, 2006).

**Chart 2 Costs of retail banking (global profile) in 2005. Annual weighed prices of basic bank services for chosen regions and active customers (in euros)**



Source: CapGemini

The offer of banks has a greater significance among the so-called marketing imitative abilities which are to maintain the competitive position ( $\bar{X} = 2,17$ ). In case of this factor, financial institutions operating in Poland are very active. During the last few months several interesting products and services have emerged on the Polish market, some of them being innovative and non-

standard not only in Poland but also in Europe. During the last months Bank Zachodni (BZ WBK) has introduced and widely promoted its Wydajesz & Zarabiasz account (Spend & Earn account) which has turned out to be the biggest revolution in bank services. Moneyback products are not common in Poland (not even in Europe), and this account is to play a role of a tool attracting customers of other banks and ensuring a geographical expansion. However, managers of banks operating in Poland take notice of the fact that banks have to provide their customers with innovative offers, but rapid pace of their imitations make it impossible to gain a lasting advantage on the market. In order to prove that Jacek Bartkiewicz, the president of the Bank Gospodarki Żywnościowej S.A. (BGŻ S.A.) board notes that: "Every new product is imitated after three months the longest and becomes a common trend."

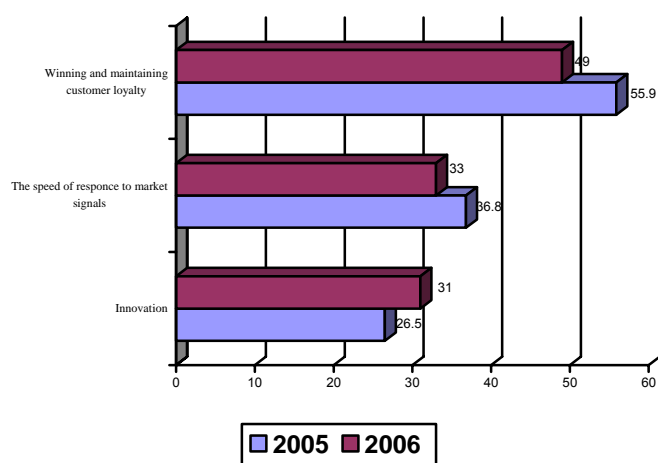
**Relations with customers and other subjects in the environment – non-material determinant of competitive position of banks in Poland**

The significance of relations with customers and other subjects in the environment in the process of establishing a competitive advantage is commonly presented in the literature on management and economy. According to the views of the positional school of thinking, of which M. Porter is the leading representative, lasting customer relations are a major entrance barrier protecting banks operating in a given sector against new competitors (Porter, 1999) thus ensuring a long-lasting competitive advantage. The discussed relations create entrance barriers forcing subjects which enter a given sector to bear considerable expenses in order to overcome for example existing customer loyalty. The barrier is so great because its breakdown requires a long period of time. The so-called resource theory of a company is an interesting approach to the notion of relations with customer and other subjects in the environment as a source of bank's competitiveness. According to this theory, the competitive advantage of subjects operating on the market results from developed by them and distinguishing resources and abilities (competences). In this case attention is paid to strategic resources which are impossible to use by competitors in their strategies. Depending on the available configuration of unique resources and abilities, a company is able to create its own different position in business. Certainly, lasting customer relations are strategic and distinctive marketing resources of a bank. They are unique and difficult to copy because they are established through personal contacts with particular customers and organizations; they are characterized by a limited substitution as they are based on trust and emotions, they are not subject to ownership and as a result they cannot be traded.

As the Table 3 shows, possibilities of banks' competition to the greatest degree depend on abilities to establish and properly manage customer relations in the long term. The findings of the survey conducted by The

Conference Board and CapGemini<sup>5</sup> confirm the research carried out by the author of the article. They reveal that the growing competition causes a situation when winning and maintaining customer loyalty becomes a priority challenge that subjects functioning on the market face (chart 3). The significance of this activity is well expressed by J.K. Bielecki from Bank PeKaO S.A. who said: "The market is competitive, new technologies are introduced quickly, the offer of products and services is quickly developed. Maintaining the competitive advantage depends on an ability to establish partnership relations with customers, to win their loyalty and to attach them to a company."

**Chart 3: Three most important challenges that companies face (percentage of respondents, N = 102)\***



Source: „*Doswiadczenia Prezesow – Challenge 2006*”, the report on the research conducted by The Conference Board i CapGemini Polska.

\* Percentage of responses does not equal 100, because the respondents could mention more than one challenge.

Establishing relations is a key challenge for Polish companies, since Poland has noted the highest percentage of customers' withdrawals (Augustyniak, 2007)<sup>6</sup>. 13% of Polish respondents who participated in the research changed their service providers in the last half year (the research was conducted at the beginning of 2007). The Poles change banks (25%), Internet providers (23%) and mobile phone operators (20%) most often. Polish customers migrate because their loyalty is unnoticed and not appreciated, they are not provided with enough offers, they are not informed about problems with services or products and they are

<sup>5</sup> Presented research results were conducted in Poland by prof. K. Obłoj, M. Zdziarski and D. Brzezinski. For more cf.: „*Doświadczenia Prezesów – Challenge 2006*”, the report on the research conducted by The Conference Board and CapGemini Polska; [www.pl.capgemini.com](http://www.pl.capgemini.com).

<sup>6</sup> The results of the research on consumer loyalty in European countries were commissioned by BMC and conducted by researchers from London School of Economics, BMC Churn Index Survey.

serviced by incompetent customer service (customer service is unfamiliar with an individual customer record). Such a situation is also a consequence of a degree of the market maturity and cultural factors. Some nations, for example the Swiss, are less prone to make changes in their environment by nature. Other nations, such as the Poles, become immediately interested in technological innovations. Another reason is the companies' approach. If they do aggressive marketing aiming at attracting customers, also at competitors' expense, they will be successful and cause the erosion of loyalty. There is a steady increase in the demand for banking services. According to various researches, from 50 to 70 per cent of the Poles take advantage of banking services at present. Although this number is smaller than in Europe, where 90 per cent of the population takes advantage of banking services, it is growing considerably. Ten years ago only 40 per cent of the population in Poland took advantage of banking services. The Poles are more willing to open savings and clearing accounts by the year. The e-banking has also been developing rapidly – more than 10 m. customers have an access to bank accounts via the Internet. At the same time this data indicates that from 30 to more than 50 per cent of the society do not use these kinds of services. It constitutes at least 11 million people. It shows that e-banking has a great potential for development. Banks focus their marketing activities on people who do not use e-banking by improving their product offer and developing price diversification.

Although not many Poles use banking services, those who banks care about most, i.e. quite well-off customers, have already opened their bank accounts. Therefore, as the basic market experiences an increase in its saturation, the most important way of gaining and maintaining a competitive position will be through attracting competitors' customers by offering more profitable price conditions and innovative services, or keeping present customers and establishing long-term relations. In this field, additional activities, e.g. the development of loyalty programmes, can be expected, apart from long-established activities connected with improving customer service, creating new, individualized distribution and communication channels. On the basis of the observation of the market, it can be noted that banks in Poland start to notice advantages of the so-called point loyalty programmes. Customers also expect financial institutions to introduce such programmes<sup>7</sup>. A holder of such a card has an access to different benefits, e.g. discounts at partner's outlets, additional points in the loyalty programme for purchase paid with a card. Banks organize such programmes themselves and offer them to credit cards' holders, who receive points for each or chosen bank transactions, or act as partners of a loyalty programme run by another company and emit

<sup>7</sup> The research conducted by ARC Rynek and Opinia shows that they are expected by 28 per cent of the Poles. Banks rank them sixth, after supermarket chains, patrol stations chains, mobile phones operators, beauty salons and travel agencies. Cf.: *Jak zadbać o lojalność klientów? Raporty i analizy*. „Biuletyn Bankowy” 2004, no 7/8, p. 27.

promotional charge cards (the so-called *co-branded* cards, which are both loyalty programme cards and regular credit cards). A charge card, as a perfect platform for loyalty programmes, is a tool enabling the registration of transactions and information about the number of points, and therefore it is used to manage customer relations more effectively. Within such a programme both purchase at partners and all other transactions carried out with a card are awarded (Simpson, 2004)<sup>8</sup>.

Expecting an increase in a customer involvement in relations, a growing number of banks decide to include loyalty programmes in their offer. Nowadays they are offered among others by Citibank Handlowy S.A., PeKaO S.A., BZ WBK S.A., PKO BP S.A., Nordea S.A. and Bank BPH S.A. In the next months, ING bank is going to introduce such a programme. So far the bank has not revealed any details but basing on available standards, an interesting offer can be expected. For example, the Internet Dutch Postbank, which is a part of the ING group, offers a loyalty programme, in which customers collect points as they use banking services and then they can use these points to buy goods in the on-line shop. As it has been noticed earlier, the popularization of the sustainable development idea leads banks, which operate in Poland and strive to establish their market position, to focus their activities on establishing and maintaining relations with customers as well as other market subjects, e.g. ecology organizations, local communities and employees. Banks begin to perceive such activities as taking into consideration ecology aspects, interests of a local community and their employees as a chance to succeed in the long term and remain on the market. The research conducted by the author leads to the conclusion that banks' managers have been demonstrating the importance of these aspects of banks' activities in their strategies for a short time, and therefore they are not treated as the key ones yet. The analysis of secondary materials such as annual reports, financial reports and their strategies of operating on the market let us notice that the majority of banks covered by the research signed the UNEP declaration, i.e. the declaration of banks concerning the environmental protection and long-lasting sustainable development. Thus, they pledged to take into consideration problems of environmental protection in their policy in the future. Following the declaration banks have to observe standards of environmental protection, acknowledge the long-lasting and balanced development of the bank and its customers as the basis of its existence and approval from the public (Korenik, 2002). Bank Ochrony Środowiska S.A. (BOŚ S.A.) is a notable example of an institution, which takes into consideration the idea of the balanced development in their activities. In this case, the key component of the bank's mission is acting for environmental protection, which is connected with the

specificity of its activity and its statute which assumes that the cooperation with ecology organizations is necessary. It suggests that this institution is particularly active in the field of value creation, e.g. for local communities. Therefore, the bank has established and maintained lasting relations with the National Environmental Protection and Water Management Fund (Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej), regional environmental protection and water management funds, the M. Rataj Polska Wieś 2000 Fund (Fundacja Polska Wieś 2000 im. M. Rataja), the Polish Countryside Development European Fund (Europejski Fundusz Rozwoju Wsi Polskiej) and other aid funds. The bank's president emphasizes that the bank, acting according to the rule of the balanced development, strives for the active participation in the development of regions by supporting development programmes run by self-government and entrepreneurs. The bank supports the Natura 2000 Programme and cooperates with non-government ecology organizations. It offers popular with customers EKOKONTO and EKOPROFIT services, which help to donate part of the profit to the All-Poland Society of Birds Protection (Ogólnopolskie Towarzystwo Ochrony Ptaków) and the Green Lungs of Poland Fund (Fundacja Zielone Płuca Polski) – organizations protecting various bird species. The bank also undertakes activities aiming at establishing close relations with its employees, which resulted in winning the "Reliable Employer" title – given for modern human resources management in accordance with ethics. Among other environment-friendly activities undertaken by banks in Poland the following deserve attention: preferential interest rates of loans for customers who intend to use solar energy; non-cash money turnover, the application of the latest ecological technologies within the bank; encouraging borrowers to implement management systems based on the idea of environment protection. All these activities, as well as socially minded activities undertaken by banks which establish and support foundations helping children or the sick and acting in accordance with the rules of good banking practice, which determine a code of ethics for banks in Poland, create favourable conditions for strengthening relations and retaining customers.

### Conclusion

As a result of the evolution of the conditions of functioning caused by deregulation and globalization, in a relatively short time banks operating in Poland had to enter a new field they did not know much about, that is the field of commercial services. That required not only adopting a new philosophy, but also acquiring completely new skills, techniques and management tools that would enable to establish a lasting market advantage among competitive subjects. Banks can build their competitive advantage on the basis of distinctive abilities and imitative abilities. However, only in case of distinctive abilities banks will be able to establish an advantage that would be long-lasting and difficult to copy. Due to the developing idea of the sustainable

<sup>8</sup> Research has revealed that partner credit cards generate monthly turnover that is two and a half times larger than standard cards of similar financial parameters.

development, banks in Poland have begun to notice possibilities of keeping their position on the market through establishing lasting relations with customers as well as other subjects such as environment organizations, employees and a local community. Owing to this fact, banks tend to undertake activities aiming at creating a better society and a cleaner environment. Theoretical deliberations and empirical research proved that customer relations can be qualified as distinctive abilities of a bank which cannot be quickly and easily imitated by competitors. Owing to this fact, they have the greatest potential for establishing a lasting competitive advantage of banks in Poland and simultaneous implementing of the concept of the balanced development. In the conclusion of the article it is worth mentioning that a competitive advantage on the market of retail banking services depends on the proper combination of material and non-material factors, including marketing ones focusing on a customer and other stakeholders and expressing banks' concern for the society and environment.

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# Sustainable Development and the Retail Oil Companies in Croatia

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## Abstract

*Purpose - Aims to offer a simple exploratory review of how the major Oil retailers in Croatia are tackling the issue of sustainable development. Methodology/approach - The top 3 retailers, based on 2007 report, were selected for analysis and an internet search of their web site, exploring their "corporate social responsibility" reports and statements, and a series of in depth interviews was undertaken. Findings - The findings suggest that the majority of the major oil retailers in Croatia are addressing sustainability agendas that they recognise, the impact their businesses have on the environment, the economy and society. Originality/value –Sustainable development is attracting increasing attention in government and in the business community and the paper provides students pursuing retail and business management programmes, academic staff teaching on them and retail researchers and consultants with a contemporary view of how Croatia's large retailers are addressing the issue of sustainable development.*

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## Introduction

At the World Summit on Sustainable Development held in September 2002 in Johannesburg/South Africa, representatives of over 180 governments, industry and non-governmental organisations stressed sustainable consumption and the need to change consumption patterns. At the heart of the concept of "sustainable consumption" lies a call to consume differently in order to preserve natural resources for the sake of future generations.<sup>1</sup> From a business point of view in an Arthur D. Little survey published in 1999 of 481 executives world-wide it was reported that 95% of managers believed that sustainable development offered real business value and 75% said that companies would have to make the required adjustments in vision and strategy, although only 19% said that their companies were "well down the road" in making such changes.<sup>2</sup>

Retail oil companies are under pressure from many directions to become more sustainable – from governments, non-governmental organisations, investors, customers and end consumers. Employees, too, are focusing attention on sustainability and corporate responsibility. The link between brands and corporate social responsibility is increasingly clear and the asset value of a brand is growing on corporate balance sheets. Investors are increasingly making their investment decisions based on how well a company integrates the triple bottom line (economic, social and environmental) into its mainstream business. Retail oil companies in Croatia are beginning to realise that becoming more sustainable can create new sources of competitive advantage, as well as achieving cost savings and stimulate innovation. They are all committed to sustainable development.

The retail oil industry in Croatia is dominated by INA (44% state-owned), which controls almost 60% of the retail network, an all product market share of over 85% – through its various offshoots – and around two-thirds of

<sup>1</sup> <http://www.un.org/events/wsssd/>, 4.09.2008.

<sup>2</sup> Solange, M. J., Otto, M., (1999) Homo Automobilus – An Endangered Species! Why Should Companies Care about Environment and Social Responsibility? pp. 3.

the combined motor fuels market in volume terms. Moreover, although average throughputs are high by regional standards, the Croatian retail market is unsatisfactory in terms of profitability, due to the political and economic environment, as well as the small size of the market, which means that for foreign operators, a retail presence here is of interest mainly as part of a broader regional retail strategy. From this point of view, a retail presence in Croatia is valuable for operators such as OMV, MOL-Tifon and Petrol.<sup>3</sup>

How will foreign operators (OMV, MOL and Petrol) in the Croatia address the sustainable development issues? What were the circumstances that led them in Croatia to develop petrol retailing?

### Methodology

To generate the answers we applied traditional 'industrial research techniques', such as: a) review of published data sources (the top 3 retailers, based on 2007 report, were selected for analysis and an internet search of their web sites, exploring their "corporate social responsibility" reports and statements) b) a series of in depth interviews with 20 directors and experts in INA, MOL, OMV company c) industry observers such as professional and sector analysts and the trade press, academics from business schools and research institutes specialising in distribution.

### Background

As identified by Barkham<sup>4</sup> (2007), within the context of the retail shopping environment, retail sales account for 21 per cent of our gross domestic product, and have a significant role in shaping the environment, and the communities within which they operate. The industry can adopt a position of environmental leadership and influence touching as it does so many people's lives, whether shoppers, retailers, investors, transport networks, energy suppliers and local communities (Crewe, 2007)<sup>5</sup>. Despite INA's dominance and the relatively tough retail environment in Retail Oil Industry in Croatia, foreign operators are gradually making inroads. The size of most of these networks is dwarfed by INA, but many are eyeing expansion given the prospect of improved operating conditions and anticipated EU accession. In general, network growth has been slow in recent years as players have waited to see how INA's privatization process would progress, and the high cost of building stations (up to Euro 1.6 m per site) made progress difficult. Nevertheless, there was retail network expansion in 2004-05 (+7%), and further growth is in store.<sup>6</sup>

<sup>3</sup> Butigan, R. (2007) Konkurentsko okružje-moderator razvoja industrije maloprodaje derivata nafte, pp.48.

<sup>4</sup> Barkham, R. (2007) Future of Retail Property — Shopping Places for People, British Council of Shopping Centres, Queen Anne's Gate, Westminster, London

<sup>5</sup> Crewe, T. (2007) The Mall Briefing Document 'Enviromall', November (2007), www.themall.co.uk.

<sup>6</sup> Wood McKinsey (November, 2006.) *Central and Eastern Europe Downstream Oil Report, Country Profile Croatia*, pp. 7.

In a highly competitive market, foreign competitors, OMV, MOL-Tifon and Petrol continually sought new service lines and initiatives to differentiate themselves from other operators. Observers considered that domestic oil retail companies either genuinely failed to appreciate the danger represented by the foreign companies or were unwilling to accept they had the ability to become a significant force.

### Breakdown of the Croatian retail oil network by brand

INA, the biggest domestic retail oil network has a very heterogeneous structure – just a small "tail end" but many low performing sites, due to many small shops INA is not utilizing the potential in non-fuel sales.

A relatively outdated forecourt offering, with few additional services and old stations has meant that the biggest domestic retail oil company INA is at risk of losing market share to modern regional retailers. The increasingly strong offering of foreign operators and competition based on price is forcing INA to be competitive. With its strategy now increasingly focused on price and service. The company has begun upgrading its fuel offering with the introduction of its own 50 ppm diesel and gasoline in January 2006 (sold as Eurodiesel and Eurosuper), and restructured its non-oil format according to a new visual identity adopted in early 2005, which includes an upgraded range of shop items, bars and services<sup>7</sup>. In line with the latter, INA and Mol introduced mutual acceptance of their respective fuel cards in early 2005.

MOL has purchased 100% of Tifon, the Croatian fuel retail and wholesaling company which has a retail network of 36 filling stations and ambitious expansion targets in the premium segment of the Croatian fuel market. Tifon sells fuel supplied by MOL and always according to the highest quality standards. Customers associate the Tifon brand with high service quality and innovation. With MOL's financial clout and retail know-how, the current premium status of the Tifon brand will be further strengthened and network expansion continued. Selectively applying well-proven MOL business methods at Tifon could create even more prosperous business results. MOL will invest in the establishment of more than 20 filling stations by 2010, which will almost double their presence in the Croatian market.<sup>8</sup> At end-2006, OMV operated a total of 51 retail outlets in Croatia with an estimated 11% combined motor fuels market share, up from 30 stations and a 5% share in 2003.<sup>9</sup> The network is operated by OMV Istrabenz, a joint venture set up in 1992 with Slovenia's Istrabenz. Since 1998, OMV-Istrabenz has focused its expansion in Croatia on the Adriatic coast, opening its first highway service station on the bypass around the

<sup>7</sup> Prospekt INA d.d., Merrill Lynch International, 2006.

<sup>8</sup> [www.mol.hu](http://www.mol.hu), 02.09.2008.

<sup>9</sup> Wood McKinsey (November, 2006.) *Central and Eastern Europe Downstream Oil Report, Country Profile Croatia*, pp. 7.



port of Rijeka in May 1999, but has since extended its geographical coverage to other areas. The 50,000 sq.m Rijeka site, which operates on a 24-hour basis, is comparable to Western European highway service areas and targets tourists heading towards the coast. OMV is the second largest operator in this market,

controlling some 5.6% of the network, although it is not significantly ahead of the other small players in the market and is facing increasing pressure from the likes of Petrol and Mol.

**Table 1: Breakdown of Retail Network in Croatia by Brand**

Breakdown Of Retail Network By Brand										
Number of Outlets (At Year End)	2001	% Of Total	2002	% Of Total	2003	% Of Total	2004	% Of Total	2005	% Of Total
INA	397	62.6	393	59.7	405	60.0	410	59.6	410	58.9
OMV - Istrabenz	25	3.9	30	4.6	30	4.4	36	5.2	40	5.7
Petrol	-	-	12	1.8	15	2.2	18	2.6	18	2.6
MOL	1	0.2	1	0.2	1	0.1	1	0.1	1	0.1
EuroPetrol	16	2.5	17	2.6	18	2.7	19	2.8	19	2.7
Other	195	30.8	205	31.2	206	30.5	204	29.7	208	29.9
<b>Total</b>	<b>634</b>	<b>100.0</b>	<b>658</b>	<b>100.0</b>	<b>675</b>	<b>100.0</b>	<b>688</b>	<b>100.0</b>	<b>696</b>	<b>100.0</b>

Source: Energetski institut "Hrvoje Požar", Godišnjak, 2005. p. 120

Key elements in the success of the OMV and MOL-Tifon are the extension of loyalty card schemes to cover forecourt purchases, linked promotions between petrol and food purchases, the introduction of forecourt service features targeted specifically at women (who make up the majority of store users), above and below-the-line advertising/promotion of petrol facilities. Anticipated developments in the foreign petrol retailing operations can be summarised as wider availability of twenty-four hour opening; upgrading forecourts developed in the late 1980's to improve layouts, access and throughput capabilities; investment in added-value customer services; for example: outdoor payment systems, 'fast-pay' credit card readers. Improved forecourt shop offers: toilets, car washes, wider acceptance of branded fuel cards, 'while you shop' car valet/servicing; linked promotions between petrol sales and in-store cafe/restaurant facilities. Foreign operators can be expected to seek new business opportunities or improved margins through: investment in retailing operations in the region, acquisition of secondary supermarket players in the Croatia, investment in in-store technology and investment in home-shopping services particularly for household commodities.

**Sustainable development and Croatian retail oil companies**

Sustainable motivations among citizens underlying the society push have been subject to continuously changing themes, as today there is a general consensus to act according to the framework of the 3Ps – People, Planet and Profits – a concept elaborated by Elkington (1997)<sup>1</sup>, namely, the sustainable business which operates on the principles from the triple bottom line of social justice, environmental quality and economic prosperity. Large corporate bodies are increasingly aware of the fact that key markets, as identified by

Hamel and Prahalad (1994)<sup>2</sup>, are on the verge of rapid change, driven by new environmental standards, levels of public disclosure and consumer confidence in their brand values, ethics and codes of business conduct. Organisations are increasingly embracing the concept of 'triple bottom line' reporting — financial, environmental and social performance — in an effort to demonstrate their corporate responsibility credentials to a wide range of stakeholders such as investors, consumers, employees and local communities. Sustainability and environmental considerations are also given real emphasis in Croatian retail oil companies, INA, OMV and MOL/Tifon in their Corporate Social Responsibility programmes. The major retail oil companies in Croatia are committed to minimising their impact on natural resources and promoting sustainable development by delivering on its responsibilities to the environment, the economy and society.

*Economic dimension*

Sustainable development's economic pillar is vitally important to companies operating in market economies. Strengthening market share and financial positions as well as the maintenance of customer trust and investor credibility together provide the solid base leading, "pace-setter" companies build upon to achieve their objectives as "good corporate citizens".<sup>3</sup> INA took relatively high 16th position on the Top 500 list of the largest companies in 19 countries of Central and East Europe. In the broader economic context, INA's financial results represent a significant contribution to domestic economy and national income, while business relations with economic and state entities also greatly influence the status of domestic economy. INA also plays an important economic role when it comes to employment, securing a living to some ten thousand citizens in

<sup>1</sup> Elkington, J. (1997). *Cannibals With Forks: The Triple Bottom Line of 21st Century Business*. Capstone, Oxford

<sup>2</sup> Hamel, G., & Prahalad, C. K. (1994) *Competing for the Future*, Harvard Business School Press, Boston, pp. 24 – 32

<sup>3</sup> MOL, SD report 2007. p. 24.

Croatia. Although circumstances were not always in INA favour, such as the situation in the global oil market and the price cap on oil and gas in the domestic market, INA's 2007 business results were successful. Sales revenue was 2% higher than planned, which was attributed to 2% higher domestic sales and 3% higher foreign sales. Increased domestic sales were influenced by 5% higher gas sales and 7% higher gas prices, as well as 7.6% higher average prices of refined products, together with the negative effect of 7% less products

sold. The increase in foreign sales was achieved with a new product assortment and higher average sale prices. MOL 2008 economic performance targets are: maintain leading position in the region, continue modernisation and efficiency improvement projects, improve customer services and customer satisfaction, and strengthen market position in Croatia and successful integration with IES, the newly acquired subsidiary in Italy.

**Table 2: Fulfilment of sustainable development 2007 targets by MOL**

<b>Economic</b>	<b>Target</b>	<b>Result</b>
Retail fuel portfolio	Renewal of retail fuel portfolio in Hungary	Withdrawal of Tempo 98 gasoline from the market Introduction of EVO NEO gasoline and EVO NEO diesel
Fuels with bio-component	Production and sales of 4.4% bio-component content gasoline and diesel in Hungary	Production of gasoline and diesel with 4.4% bio-component and introduction of this gasoline to the market from July 2007.
<b>Environmental</b>	<b>Target</b>	<b>Result</b>
Hazardous waste	Total amount of hazardous waste generated by normal operations, and cases of emergency not to exceed 80,000 tonnes	66,943 tonnes
Climate change	Identify project-based carbon-dioxide emission-reduction opportunities to decrease allocation quota deficit by 20%	Opportunities identified
Indicators	Each Business Unit to stipulate and implement at least one additional HSE leading indicator	100%
Environmental liabilities	Reduce MOL Group environmental liabilities as at end of 2006 by HUF 5 billion	HUF 3.23 billion
<b>Social</b>	<b>Target</b>	<b>Result</b>
Fatalities	No fatal accident at work at MOL Group, its suppliers or third parties	2 third party
Injuries	Lost-time injury frequency (LTIF) not to exceed 1.8	1.52
Occupational illness	Total reportable occupational illness frequency (TROIF) to equal zero	0
Road safety	Road accident rate (RAR) not to exceed 2.5	2.4
Incident investigation	Incident inquiry not to be less than 80%	80%
Cases of fire	Total number of fires not to exceed 15	9
Social Investment Programmes	Develop guidelines for our Social Investment Programmes	Guideline with reviewed principles and system used in SIP

Source: [http://www.mol.hu/en/about\\_mol/news\\_media\\_centre/our\\_publications/](http://www.mol.hu/en/about_mol/news_media_centre/our_publications/), 02.09.2008.

OMV - 2007 was the fifth successive year of record results. The company achieved this success in an environment not just of high oil prices, but also of harsher operating environment. Relentless adherence to their strategy brought them record results again. OMV's success in increasing its size and improving its strategic alignment over the past few years has won international

recognition. Now their aim is to capitalize on this potential by continuing to grow our profitability and to enable our shareholders to reap sustainable rewards from the value we have created".<sup>1</sup>

<sup>1</sup> OMV CEO Wolfgang Rutenstorfer, Results of OMV's Annual General Meeting, 14.05.2008

Fulfilment of 2007 targets

### *Environmental dimension*

Quality standards such as ISO14001, as argued by Watson and Emery (2004)<sup>2</sup>, provide an organisation with a recognised framework to achieve appropriate management standards. ISO 14001 is an environmental management system standard, and provides the incentive for companies to seriously pursue excellence in environmental management. To gain accreditation, organisations must have in place a framework by which they can understand, prioritise and address their environmental impacts. The emphasis is not only on managing those impacts but also measuring them, accounting for them, reporting on them to stakeholders and having those reports externally reviewed and verified (Goodman and Stanger, 2002)<sup>3</sup>. The key advantages of ISO 14001 accreditation as identified by Hamschmidt and Dyllick (2001) are:<sup>4</sup>

- Improving cost control from tighter management control over waste and control of pollution
- Compliance with legislation and being aware of future legislative changes
- Demonstrating an organisation's commitment to the environment
- Reduce overhead costs such as waste disposal, energy and insurances

INA commitment to environmental protection is reflected through key decisions and worthwhile campaigns and initiatives. As an integral part of business policy, environmental management is organized in all core activities, which reflects INA's commitment and contribution to sustainable development. All INA segments that pose a potential or direct threat to human health, safety, or the environment possess ISO 14001:2004 certified environmental management systems.<sup>5</sup> These certificates guarantee that all environmental issues are under constant supervision, and represent recognition for the progress achieved so far in this field. INA business policy also reflects commitment to providing a healthy working and living environment by applying modern knowledge and practice based on the principles of sustainable development. MOL – Tifon Group is committed to decreasing any impact on the environment caused by its operations and use of its products. Therefore, proper management of environmental issues has become an integral part of MOL strategic objectives and they make every effort to apply the principle of precaution to their operations.<sup>6</sup> MOL Group is committed to decreasing any impact on the environment caused by its operations and use of its products. Therefore, proper management of

environmental issues has become an integral part of their strategic objectives and they make every effort to apply the principle of precaution to their operations. OMV continually strive to improve their environmental and safety standards. They work actively towards minimizing their impact on the environment, participate in climate protection measures and promote alternative sources of energy.<sup>7</sup> OMV strives to create a responsible ratio between ecology and economy. Their petrol stations, processes and products are continually evolved in accordance with the newest ecology/safety related knowledge. The contribution that they make to climate change comprises three areas: improving product and production related energy efficiency, provision of energy sources with low carbon content and accelerating technological innovations.

### *Social dimension*

The rapid emergence of environmentalism, as described by Elkington<sup>8</sup>, can be regarded as the most pervasive new social movement of the post-1945 period. Environmentalism has significantly influenced the way society views consumerism and the need to preserve vital world resources for future generations. INA influences social systems respecting ethical values and aiming to improve the quality of life and social wellbeing. INA employees have to be people with drive and commitment, risk takers with initiative; adaptable to changes, quick decision-makers, good team workers who appreciate the value of timely exchange of information; trustworthy and respectful of customers, suppliers and colleagues. In accordance with the Labour Act, INA has in place clearly defined procedures for the exchange of information, consultations, and negotiations between the management and employee representatives concerning issues of mutual interest.

Before passing any resolution relevant to the status of employees, the management consults with the union representatives, especially in the process of developing labour regulations, operational changes, or redundant labour management programs. Provisions are made for two-way communication - down from management to employees – and up from employees to management, respecting hierarchy. Management regularly informs employees on the business management policy, the set goals, and the tasks, plans and rules for attainment of those goals. Employees-to-management communication is achieved through reports on plan and goal realization. Information regarding the efficiency of the business management system includes identified process non-conformities. The management responds to queries of interested parties by using the internal communication procedure to consult with the relevant officer or to authorize the relevant officer to communicate directly.

<sup>2</sup> Watson, M. & Emery, R. T. A. (2004). Environmental management and auditing systems: The reality of environmental self-regulation. *Managerial Auditing Journal*, 19 (7), 916 – 928.

<sup>3</sup> Goodman, S. & Stanger, C. (2002). *Guide to Environmental Management Law and Practice 2002*, Workplacelaw Network, Cambridge, pp. 51 – 55.

<sup>4</sup> Hamschmidt, J. & Dyllick, T. (2001). ISO 14001: Profi table? Yes! But is it eco-effective? *Greener Management International* 36, 43 – 54.

<sup>5</sup> INA (2007) Sustainable development report

<sup>6</sup> MOL (2007), SD report 2007.

<sup>7</sup> The HSE policy of OMV, (2007)

<sup>8</sup> Elkington, J. (2002). *Cannibals with Forks*, Capstone Publishing Ltd, Oxford, pp. 17 – 99

**Table 3: Employee turnover in INA 2007**  
Employee Turnover in 2007

	2006	2007
Total terminated employments	445	576
of which permanent employments	323	348
of which temporary employments	122	228

Source: INA sustainable report 2007.

INA permanent goal is to raise the level of knowledge and skills of their employees. The Human Resources Sector is responsible for conceiving and organizing

training programmes that will provide top-quality education to our employees.

**Table 4: Training and education**

Type of education/training	In-house/Out-of-house	Number of employees 2007
Studying while working	Out-of-house	498
Foreign languages	Out-of-house	970
Computer training	In-house/Out-of-house	934
Professional training (seminars, business schools...)	In-house/Out-of-house	4,266
Additional training	In-house/Out-of-house	4,574
Specialization	Out-of-house	42
<b>TOTAL</b>		<b>11,284</b>

Source: INA Education and Training Regulations, INA, 2007

**MOL 2008 social performance targets are:**<sup>1</sup>

- Minimize fatal accident at work at MOL Group, its suppliers or third parties
- Total reportable occupational illness frequency (TROIF) to equal zero
- Each Business Unit contribute to get involved at least 40% of employees in Workplace Health Promotion Programme
- Lost time injury frequency (LTIF) not to exceed 1.0
- Road accident rate (RAR) not to exceed 2.3
- Incident inquiry to reach at least 80%
- Long-term suppliers (beyond 1 year) to become HSE pre-qualified
- Each business unit to set and apply at least one Process Safety leading indicator
- Conduct ethics training for employees, focusing on particular groups (expatriates, newcomers, managers, purchasers)
- Launch ethical monitoring system
- Provide access to disabled people at FSs

OMV - Over 5,000 employees are active for OMV worldwide. They contribute to the success of the company with their performance and motivation. With a corporate philosophy built upon ethical values they create the foundation required to make them happy and proud to work for OMV. Their scope for responsibility and individuality as well as fair salary and employment models ensure a positive working environment and make OMV an attractive employer.<sup>2</sup> For example: In 2007 OMV and its established partners Caritas, SOS Children's Villages and UNICEF are again working together to carry out numerous education projects in Europe and Pakistan. This year new emphasis is being placed on the subject of road safety. Caritas is launching safety training courses for teachers and organizing city trips for children where they can practice what they have learned about road safety in real life. SOS Children's Village is supporting moped training for teenagers, L17 driver's license training and refresher courses for those who have recently gotten their driver's license. UNICEF is addressing the subject of road safety by making the way to school safer for children at dangerous places.

<sup>1</sup> MOL, Setting the pace from New Europe, 2007, pp. 10.

<sup>2</sup> [www.OMV.com](http://www.OMV.com), 04.09.2008.

## Conclusion

The Croatian Retail companies contributes to the development of retail automotive and other product ranges, and are responsible for sales and service at filling stations. Their key aims are to improve network efficiency, increase customer focus and loyalty, and selectively expand their branded network across the region. The sustainable development task is based on the principle that sustainable development should be an integral part of INA, MOL and OMV day-to-day operations, which implies that it should be integrated into prevailing business strategies and recognised as a normal part of their business operations, embracing environmental and social considerations not just economic ones. There is, therefore, no such article as a "sustainability strategy" or "sustainability budget" since every business strategy and budget should comprises all issues related to sustainable development.

INA's corporate philosophy is based on the principle of sustainable development; key to this approach is taking accountability for balancing business development with environmental protection and social responsibility.

MOL is well aware of the crucial importance of sustainable development, which is ultimately the precondition of long-term business success and maximisation of stakeholder value. The company therefore produces and sells products of outstanding quality whilst continuously developing its asset base and the technology used in its operations, with sustainable development in mind. The company continuously seeks to maintain good relationships with its customers and other business partners based on high quality service, reliability and trust. As a European corporation OMV is not only committed to economic values, but also to ecological and social values. Environmental protection and sustained economics are equally important as the safety of employees, customers, and partners. Furthermore, they support numerous social and development projects and are engaged in sport sponsoring. The business community has a crucial role to play in the furtherance of sustainable development. There is growing evidence that responsible behaviour of companies with regard to social and environmental issues can contribute to their long-term business success. Croatian retail oil companies have to adopt a behaviour which goes way beyond local issues since sustainable development requires international thinking and action to integrate the three dimensions, economic, social and environmental, equally into corporate strategy and programmes in all operating areas. However, there is no one-size-fits-all solution to the implementation of sustainable development. Each company naturally has different sets of objectives, traditions and practices and therefore has to identify and develop its very own specific tasks and objectives. Monitoring, analyzing and reporting on economic, social and environmental aspects of performance are the essential components of corporate social responsibility, offering the platform upon which to communicate with stakeholders, the public, as well as recognize the need to change.

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### Paper preparation and submission

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#### First page

The first page should bear the title (of no more than 14 words) of the paper and name(s) of the author(s). The corresponding author must be clearly indicated and must provide a full postal address, fax and e-mail contact details; the corresponding author will check proofs, receive correspondence and off-prints.

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#### Manuscript

- Manuscripts should be double spaced and 12-point **Arial, Normal** Style. The printing area should be a single column, top and bottom margins of 2.54cm and left and right margins of 3cm, based upon an A4 paper size. There should be no running headers or footers. Paragraphs should not begin with tabbed indentations.
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- All pages of the manuscript should be numbered, top centre.
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Black, R. J. and Van Der Post, N. J. 1990. *Themes in tourism education*. London: Benton.

Smith, R. J. (Ed.). 1985. *Towards a philosophy of education*. London: Benton.

### **Chapters in books**

Green, R. J. 1989. Comparative themes in management education. In J. N. Brown (Ed.), *Trends in higher education*, 312-350. London: Benton.

### **Journal papers**

Brown, R. J. 1999. Policy studies in education. *The South African Journal of Higher Education*, 3(2):51-59.

### **Theses and dissertations**

Green, R. J. 1994. *Critical theory and university transformation*. D.Phil. thesis, University of South Africa, Pretoria.

### **Newspaper papers**

*Rand Daily Mail*. 1980. 25 June:7.

### **Website references**

Green, G. 1989. *Maslow's hierarchy of needs*. Available from: <http://www.connect.net/georgen/maslow.html>. [Accessed on: 2 May 2005].

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