Vol. 20 No. 1

J.B.M.

Journal of Business and Management

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Published by Chapman University's Argyros School of Business and Economics
Sponsored by the Western Decision Sciences Institute

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Journal of Business and Management

Volume 20, Number 1 2014

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Contents

When Character and Entrepreneurship Meet:
A View from the World of Sport.....5
Thomas A. Wright

Factors Affecting Customer's Perceptions Towards Online Banking
Transactions in Malaysia 25
Md. Abdul Jalil, Majharul Talukder, and Muhammad Khalilur Rahman

Impact of Store Atmospherics on Customer Behavior:
Influence of Response Moderators.....45
Hari Govind Mishra, Piyush Kumar Sinha, and Surabhi Koul

Does IFRS Adoption Influence Financial Reporting?:
An Empirical Study on Financial Institutions.....67
Yusuf Mohammed Nulla

The Weaver's Loom: A Conceptual Framework for Facilitating Transformational
Human Resource Management Through the Strategic Integration of Knowledge
Management and Continuous Improvement 87
Terry B. Self, Tish Matuszek, Dennis R. Self, and Mike Schraeder

When Character and Entrepreneurship Meet: A View from the World of Sport

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The study of character is both a legitimate and worthwhile topic for organizational discourse and analysis. Character (ethos) refers to those interpenetrable and habitual qualities within individuals, and applicable to organizations that both constrain and lead them to pursue personal and societal good. Considered through the lens of character strengths profiles, an interview with Gus Rethwisch, successful entrepreneur, world-class athlete, and professional actor, is used as a backdrop to help provide an engaging and provocative discussion of the topic of character. To that end, suggestions are provided which highlight how the topic of character can best be used to enlighten our organizational research and teaching.

A number of social commentators, including the author (Hunter, 2000; Sennett, 1998; Wright, 2011; Wright & Goodstein, 2007; Wright & Huang, 2008; Wright & Quick, 2011; Wright & Lauer, 2013) have suggested that the widely discussed crisis in leadership, personal integrity, psychic well-being, even zest for life and work, is clearly associated with the perceived decline in individual character formation. Hunter (2000) has gone so far as to suggest that character, as traditionally considered, is "dead" in today's society. This is highly distressing for many as character plays an instrumental role in better understanding a wide spectrum of human activities and endeavors (Wright & Goodstein, 2007; Wright & Huang, 2012). For example, along with managing change (Giannantonio & Hurley, 2002), a number of scholars and practitioners alike have proposed that the most important need facing today's human resource professional is the selection, training, and development of employees with demonstrated strengths of character (Wright & Lauer, 2013). This need is consistent with the increasing number of management scholars who have championed the call for business schools to return to asking questions that have a positive impact on not only people, but also students and society at large (Bell, 2010; Giacalone & Promislo, 2013).

Historically, the study of ethics (and character) education in business schools has primarily been limited to attempts on better equipping students with the necessary cognitive and intellectual skill sets to make good judgments (Steubs, 2011; Wright, 2011). Unfortunately, this approach has not proven sufficient in convincing enough students of the importance of ethical, character-based behavior, prompting the incorporation of such experiential learning techniques as self-reflection, self-assessment, role-playing and role-modeling (Steubs, 2011; Wright, 2011; Wright & Lauer, 2013).

One particularly promising role-modeling approach involves the use of an interview format to determine character strength profiles for successful individuals from the fields of higher education, business and professional sports (Wright & Wefald, 2012). For example, in an interview with Jon Wefald, the longtime president of Kansas State University (23 years), the authors provided real life examples of the prominent role of character in both Jon Wefald's success and failure as a university president (Wright & Wefald, 2012). Considered through the lens of his character strength profile, the current interview with Gus Rethwisch, successful entrepreneur, world-class athlete, and professional actor is used as the backdrop to provide an engaging and provocative discussion of the role played by one's strength of character in both personal and professional success.

World class athlete, professional screen actor, and highly successful entrepreneur, Gus Rethwisch is truly a man of many accomplishments. From a small town in Iowa and modest beginnings, Gus first achieved fame as a champion power lifter in the 1970's, even competing in 1978 in the highly successful, long-running, *World's Strongest Man* competition on CBS. Viewed by millions, and competing injured against such legendary sports icons as Bruce Wilhelm, Don Reinhoudt, Brian Oldfield, the Oakland Raider's John Matusak, Ivan Putski, and Jon Kolb at Universal Studies, Gus finished in the top 5. Transitioning from world class competitor to promoter, Gus promoted a number of major power lifting competitions on network TV from 1977 to 1981, upgrading the typical venue from high school gyms to such luxury resort hotel locations as the Turtle Bay Hilton Hotel on the north shore of Oahu.

Ever expanding his horizons, Gus gained cult status recognition for his memorable villain role as Eddie "Buzzsaw" Vacowski in Arnold Schwarzenegger's *Running Man* and featured roles in such movies as *Twins*, *The Scorpion King*, and *The Concorde….Airport '79*, as well as such successful TV series as *Hawaii Five-0* with Jack Lord and *Magnum PI* with Tom Selleck. Currently, Gus is busy promoting *The World Association of Bench and Dead Lifters* (WABDL) in his latest entrepreneurial venture. Truly a world-wide organization, WABDL has had upwards of 3,500 paying members from just about every state and 29 countries. Using his signature strengths as the backdrop, Gus candidly and oftentimes humorously incorporates what it takes to be a successful, character-based entrepreneur in the high pressure world of competitive powerlifting. To that end, and given the importance of character in today's society, a brief overview of how character can best be considered and defined is provided next.

Character Considered and Defined

The topic of character raises numerous considerations, not the least of which involves just what is character? (Wright & Goodstein, 2007; London, 2013). Providing an adequate definition of character is no small achievement given that a number of supposedly related terms, including virtue, values, personality and themes are often used interchangeably. As a result, these terms have often been confounded in the literature (Peterson & Seligman, 2004; Wright & Lauer, 2013). While a detailed analysis of each of these terms is beyond the scope of the present discussion, it is worthwhile to briefly consider how character and virtue have been previously compared and contrasted. Perhaps *Webster's Dictionary* is the best place to commence.

Webster's Unabridged Dictionary (1989) defines character as "the aggregate of features and traits that form the apparent individual nature of some person or thing" and refers to its adherence to "moral qualities, ethical standards, principles and the like." Highly consistent with their definition of character, Webster (1989) defined virtue as the "conformity of one's life and conduct to moral and ethical principles," and "a good or admirable quality, as of a person or some aspect of personality." Inherent in these traditional definitions of *both* character and virtue is the notion of a moral standard or code against which behavior can (and should) be measured (Velasquez, 2002; Wright & Goodstein, 2007). However, while Webster suggested that character and virtue are virtually interchangeable constructs, Peterson and Seligman (2004) provided a useful mechanism for scholars concerned with distinguishing between the terms.

Building their framework on the Linnaean classification system of species (i.e., levels ranging from the general and abstract to the concrete and specific), psychologists Christopher Peterson and Martin Seligman (2004) provided a worthwhile virtue/character distinction based upon a conceptual level (for a further discussion, see Peterson & Seligman, 2004). Virtue is considered to be the more abstract and general level and Peterson and Seligman listed six broad virtue categories (wisdom, courage, humanity, justice, temperance, and transcendence). According to Peterson and Seligman, these general virtues were the core characteristics valued by moral philosophers and theologians. Peterson and Seligman suggested these virtues as being universal, potentially even transcending time and culture (cf., Wright, 1997). In addition, they were potentially grounded in biology through the evolutionary process of assisting in the survival of the species. They also maintained that these six "universals" must be present at above-threshold levels for an individual to be considered as someone of "good" virtue.

Peterson and Seligman purposely determined not to measure these six virtues because they were considered to be too general and abstract for meaningful measurement. Alternatively, they advocated that strengths of character held greater promise for research because of the increased level of construct specificity. In particular, for Peterson and Seligman, character strengths were the psychological ingredients (processes or mechanisms) that defined virtues. For example, the virtue of courage could be achieved through such strengths of character as persistence, integrity, and what they call vitality or zest – approaching life with excitement and energy. For Peterson and Seligman, these strengths of character were similar in that they all involved

emotional strengths that entailed the exercise of will in order to accomplish goals in the face of opposition, irrespective of whether this opposition was generated external or internal to the individual. In previous work, the author and his colleagues (Wright, 2011; Wright & Goodstein, 2007; Wright & Huang, 2008; Wright & Quick, 2011; Wright & Wefald, 2012; Wright & Lauer, 2013) proposed a more traditional approach to character based upon the fundamental adherence to a morally-based framework.

Throughout the ages, traditional views of character have been influenced by a wide variety of sources (Wright & Lauer, 2013). These sources include Aristotelian thought, Judeo-Christian beliefs as especially expressed in Saint Paul's faith, hope, and charity, such Eastern philosophies as Confucianism, as well as by the more modern, secular approaches proposed by utilitarian, justice, and social contract models (Hunter, 2000; Peterson & Seligman, 2004; Wright & Goodstein, 2007; Wright & Wefald, 2012). Benjamin Franklin's (1790/1961) widely-known classification of strengths of character and virtue promoted the many benefits of being humble, industrious, sincere, clean, and long provided the inspiration for the mission of such institutions as the YMCA and the Boy and Girl Scouts (Wright & Lauer, 2013). Traditional definitions of character typically contain moral and social dimensions and, as a result, character is best considered as a multidimensional construct (for a further discussion, see Peterson & Park, 2006; Wright & Huang, 2008; Wright & Wefald, 2012). A number of scholars agree that the following three character dimensions are the most widely accepted throughout recorded history: moral discipline, moral attachment, and moral autonomy (Hunter, 2000; Wright & Goodstein, 2007).

An individual exhibits *moral discipline* (the first dimension), if he or she suppresses individual and personal needs for those of a "greater good" considered at the group, organization, or societal levels. As one example of being highly disciplined, Gus Rethwisch discussed his willingness to sacrifice his personal life for the betterment of his organization and consistently work 12 or more hours per day for 7 days a week. Students found it utterly amazing when Rethwisch noted that he hadn't taken a single day off from work in more than 10 years!

The second dimension of character is *moral attachment*. Moral attachment constitutes a clear affirmation of an individual's commitment to someone or something greater than themself. Hunter (2000, p. 16) presented this in terms of embracing an "ideal" that attracts and inspires. Wright and Wefald (2012) discussed how universities have increasingly attempted to incorporate the concept of "family" in order to assist in forming this sense of attachment.

The third dimension is *moral autonomy*. One exhibits moral autonomy if he or she has the capacity to freely make ethical, character-based decisions. Autonomy means that a person has both the necessary discretion *and* the skills of judgment at their disposal to freely act morally. In an interview with a student who voluntarily admitted to "successfully" cheating (not getting caught), Wright (2004) described that because the student considered the author as a positive role model and also desired to be a positive role model for his daughter (moral attachment), the student committed to never again cheat in the future (moral autonomy). This example of the role of character in moral transformation is consistent with an increasing body of evidence that indicates individuals will sometimes contemplate abandoning self-interest and do what is morally right (Nesteruk, 2012; Wright & Lauer, 2013).

Distinguishable from values (Wright & Quick, 2011), personality (Wright & Lauer, 2013), image norms (Hurley-Hanson & Giannantonio, 2007), and themes (Buckingham & Clifton, 2001), character is shaped by one's convictions and is best evidenced by the ability to persist in those convictions in the face of temptation or challenge (Hunter, 2000). Perhaps William James (1920) best expressed this strong sense of commitment in noting that character involves those mental and moral attributes that leave people the most deeply and intensely vibrant and alive. For James, this special and even transcendent moment is best personified by one's inner self telling them that "This is the real me!" Influenced by James and the three moral dimensions, character was previously defined as those interpenetrable and habitual qualities within individuals, and applicable to organizations that both constrain and lead them to desire and pursue personal and societal good (Wright & Goodstein, 2007; Wright & Huang, 2008; Wright & Quick, 2011; Wright & Lauer, 2013).

Character Measured

The most comprehensive classification framework to date in the social sciences for measuring character was developed by Peterson and Seligman and is called the *Values in Action—Inventory of Strengths* (VIA-IS). The VIA-IS is a 240-item self-report questionnaire that uses a 5-point Likert scale to measure the degree to which respondents endorse strength-relevant statements about themselves (1 = very much unlike me, through 5 = very much like me). As noted earlier, Peterson and Seligman (2004) identified 6 core virtues (with the strengths of character common to each virtue listed in parentheses): wisdom and knowledge (creativity, curiosity, critical-thinking, love of learning, perspective); courage (valor, integrity, industry, zest); humanity (kindness, love, social intelligence); justice (fairness, leadership, citizenship); temperance (forgiveness, modesty, prudence, self-regulation); and transcendence (appreciation of beauty, gratitude, hope, humor, spirituality). Each of the 24 strengths of character was assessed with 10 items. For example, sample items of the character strength ***zest*** includes "I never approach things halfheartedly" and "I look forward to each new day"; sample items for the character strength *hope* includes "I know that I will succeed with the goals I have set for myself" and "If I feel down, I always think about what is good in my life"; sample items for the character strength *valor* includes "I have taken frequent stands in the face of strong opposition" and "I must stand up for what I believe even if there are negative results".

Building upon Peterson and Seligman's 24 strengths of character taxonomy and incorporating a focus group approach (Wright, 2011; Quick & Wright, 2011; Wright & Quick, 2011; Wright & Lauer, 2013; Wright & Wefald, 2012), the author developed a number of "top-5" profiles (from the population of all 24 VIA-IS strengths) which respondents (both graduate and undergraduate business students and actual business practitioners) considered to be the most beneficial in achieving a successful leadership role in a growing number of work occupations. For instance, the "top-5" profile for an accountant included: prudence, integrity, industry, critical-thinking and valor. Nurses had a top-5 profile which included: kindness, prudence, integrity, equity, and forgiveness. The profile for engineers is composed of critical thinking, curiosity, creativity, love of learning, and integrity. For sales and marketing, the top-5 signature

strength profile included zest, social intelligence, creativity, humor, and curiosity. The top-5 profile for longtime Kansas State University President, Jon Wefald included hope, humor, leadership, capacity to love and be loved, and fairness. An increasingly popular potential career option that more and more students seriously consider is the entrepreneur route exemplified by the career path of Gus Rethwisch.

The study of entrepreneurs has become extremely popular over the last 30 years (Littunen, 2000; Rae, 2005). Entrepreneurs can be found in all occupations, can be both male and female, and come from diverse economic and ethnic backgrounds (Rae, 2005). Such personality traits and characteristics as having a high need for achievement, being goal-oriented, taking initiative, high internal focus of control, adventurous and risk-taking have consistently been identified (Beugelsdijk & Noorderhaven, 2005; Brockhaus, 1982; Casson, 1982; Fagenson, 1993). Entrepreneurs can be defined as individuals who acquire or exhibit habitual traits, abilities and strengths of character utilized to effectively recognize opportunities, assume risks in a start-up business venture, and overcome obstacles (Quick & Wright, 2011). Entrepreneurs successfully incorporate new ideas and concepts or bring existing ideas together in new ways. Signature strength optimal profiles for entrepreneurs include the following strengths: hope, industry, zest, curiosity, and self-regulation (Wright & Lauer, 2013). Classroom discussion of the profiles in character concept, emphasizing the profiles of such successful entrepreneurs as Gus Rethwisch, highlighted the importance of character strength to entrepreneurial success. To that end, and incorporating input from students, working adults and actual entrepreneurs, class discussions regarding what constitutes the strengths of character to be a successful entrepreneur proved to be very enlightening.

For those who have known Gus Rethwisch over the years, it comes as no surprise that his character signature strength profile, as measured by the VIA-IS questionnaire (Peterson & Seligman, 2004), embodied those of an entrepreneur and included such strengths as hope, industry, zest, valor, and kindness. According to Rethwisch, the most successful entrepreneurs that he has known over the years have had an abundance of the strengths of zest, hope and optimism. For Rethwisch, another key to being a successful entrepreneur is being able to persist in the face of adversity. This persistence was certainly evidenced several years ago right before the start of WABDL's competition lifting season when he required emergency open heart surgery. As a story backdrop, Rethwisch is a hands-on CEO, who makes every effort to attend as many meets as he can in person (each meet is usually promoted by a local business person). WABDL's competition season typically extends from February to the World Championships in late November. Then headquartered in Minneapolis, Minnesota, Rethwisch had previously committed to represent WABDL in Missoula, Montana five weeks after his open heart surgery. From Missoula, he had committed to attend a meet in Pasco, Washington the next week, Chico, California the week after that, and Dallas, Texas the following week (competition meets are typically on Saturdays and the World Championships in November involve a weeklong, gala event in a destination city such as Las Vegas). Further compounding his ordeal, because he personally transports customized, heavy lifting equipment, he drives to the competition events. Adhering to a "the show must go on" philosophy, Rethwisch ended up driving the 5,600 miles by himself in wintry,

oftentimes hazardous road conditions, all within 2 months of his surgery! Students are always amazed at his dedication and grit, although they understand why his family was very concerned for his safety.

Above all else, an entrepreneur has to find their niche and provide their customer base with a distinct added value. For Gus Rethwisch, this meant targeting Master's level lifters, those 40 years of age and older, for WABDL. Successful in this pursuit, today roughly 50% of WABDL's membership is composed of Master's level lifters. In addition, by recognizing that many Master's level lifters suffer from knee injuries and cannot easily do squats, Rethwisch made WABDL the first major lifting organization to become a two-lift organization and focus only on the bench press and dead lift. As a result of these insights, membership (and revenue) in the organization jumped significantly and WABDL reached a peak of roughly 3,500 active members worldwide. Ongoing research and classroom discussions strongly suggest that students benefit from reading interviews and case studies documenting how engaging, successful people like Gus Rethwisch have optimally utilized their top-5 profiles to achieve professional success. As discussed next, this student benefit is further enhanced from the knowledge of their own top-5 strength profile.

Student Character Profiles

Over the last 10 years, hundreds of the author's undergraduate and graduate business students at the University of Nevada, Reno, Kansas State University, and Fordham University have completed the 240-item VIA-IS questionnaire. After filling out the survey online, the students received immediate feedback detailing their scores. Responses were averaged within scales, so that the respondents learned the relative (within subject) ranking of their 24 strengths of character. With their scores in hand, students engaged in animated discussions on the role of character on a wide range of topics, including employee success and well-being, the development of character-based leadership and the comparison of their top-5 strength profile with various occupation-specific signature strength profiles (Wright & Lauer, 2013).

Unfortunately, ongoing research suggested that relatively few business students initially had the optimal profile of character strengths deemed necessary for maximizing success in any number of occupations, including as an entrepreneur. In fact, the findings indicated that actual top-5 student profiles were consistently and significantly at variance from their proposed or ideal profiles (Wright & Lauer, 2013). For instance, students ranked social intelligence as being one of the top strengths necessary to be an effective manager. Likewise, love of learning was considered as one of the top-5 character strengths needed to be an effective MBA student. However, both of these strengths of character were actually among the least commonly self-reported by the students (Wright & Quick, 2011; Wright & Lauer, 2013). Similar results were found among undergraduate business students. In fact, in some undergraduate cohorts, upwards of 30% of male students self-ranked love of learning as their lowest strength of character (out of 24). Furthermore, business students consistently self-rated themselves low on the entrepreneurial signature strengths of zest, self-regulation, curiosity and industry. The importance of being industrious bears further discussion.

Students readily acknowledged that it was important to be persistent and industrious. However, many only became truly engaged in the discussion when they were aware of just how much time and effort people were actually called upon to expend in their quest for success. Without exception, students were amazed with what Rethwisch was able to accomplish in the wake of his open heart surgery. In his interview, President Wefald confirmed that he typically spent 14-15 hours a day on the job, remarking that he always seemed to be working (Wright & Wefald, 2012). Gus Rethwisch similarly acknowledged the need to work long hours. Typically, the first classroom response from many students was whether these were accurate assessments. When informed that successful people really do work extraordinarily long hours, the tone of the discussion changed to one that was more serious and contemplative in nature. The classes were then informed that almost all highly successful people shared the strength of character, zest. Since students invariably scored very low on this strength of character point, typically animated discussions were had of ways for them to become more passionate and zestful in their professional and personal pursuits.

To address these types of inconsistencies between obtained student and actual occupation-specific top-5 profiles, and adopting Bandura's social learning or modeling framework (Bandura, 1977, 1997), students were encouraged to become more proactive and self-regulatory through the development of an agentic motivational perspective to character formation and development (Wright & Lauer, 2013). The underlying assumption of an agentic approach to learning is that students were motivated to consider themselves as self-regulatory and self-reflective organisms, not just as passive beings reacting to influences from their environment (Wright, 2011; Wright & Lauer, 2013). For example, Bandura and Walters (1963) found that boys from intact, affluent homes modeled the negative, aggressive attitudes of their parents. In addition, Bandura, Ross, and Ross (1963), using the famous Bobo doll framework, extended the scope of social learning by demonstrating that learning could occur in the absence of immediate reinforcement. Various social learning techniques were used in the aforementioned classes. Methods used included multiple forms of role-playing, the development of a character-based vocabulary, identification of character role models, and role-modeling through the use of interviews and class presentations by successful business practitioners.

One particularly successful role play involved having students identify each morning three aspects of their life ("Good Things") for which they were grateful (cf., Seligman et al., 2005). Regarding the development of a character-based vocabulary, each in-class topic discussion and assignment made explicit reference to such character strengths as "equity", "gratitude", "kindness", "hope", "industry", "integrity", and "valor". For Rethwisch, the integrity and reputation of WABDL was intricately associated with running WABDL as a drug-free organization. Interestingly, according to Rethwisch, drug testing was not systematically incorporated into Olympic lifting events until the Montreal 1976 Olympics. It was incorporated into competitive powerlifting even later, in 1982. It is obvious from the interview that Gus Rethwisch was proud of the efforts that WABDL has undertaken regarding random drug testing. While other power lifting organizations have mandates that lifters pay the cost of testing, WABDL pays for the cost when testing competitors for performance-enhancing drugs. It was obvious that

Rethwisch believed strongly in doing whatever it took to guarantee the integrity of any world records (there have been many) set in WABDL-sanctioned competitions. Students showed considerable interest in these self-reflective exercises. The use of interviews with successful management practitioners, such as Gus Rethwisch, proved to be highly successful in engaging business students to consider the importance of character education (Wright, 2011; Wright & Wefald, 2012). As with teaching, the study of character holds much promise for management research.

New Research Directions on Character

While Peterson and Seligman (2004) listed 24 strengths of character, it is clear that a number of their strengths of character, while all certainly positive traits, talents or attributes, did not fulfill the moral component criterion (Quick & Wright, 2011; Wright & Quick, 2011). For example, social intelligence, humor, and zest are lacking in a moral dimension as traditionally understood. In particular, unlike strengths such as kindness or gratitude, an individual high on social intelligence could more easily use this talent for either good or bad in their dealings with other people. Finally, leadership might be best considered as either a cause or consequence of good character. In today's highly distrusting political climate, a woman known for her honesty and critical-thinking strengths might be sought out for leadership positions, given the apparent lack of these strengths in many politicians. Thus, her potential opportunity to lead could be considered a consequence of her honesty and critical-thinking strengths.

In examining the "master" or "cardinal" strengths of character (and virtues) over time and culture (Wright & Goodstein, 2007), it becomes readily apparent that certain strengths have been consistently considered as "elevated" or preeminent in nature (Peterson & Seligman, 2004). These strengths include: valor, industry, integrity, critical-thinking (wisdom), and self-regulation. Interestingly, in discussions with both students and management practitioners, these same five strengths were consistently mentioned as being worthy of consideration as "Top-5 Signature Strength" status. Upon reflection, this makes sense as there is the theoretical basis to posit that each one of these strengths of character is related to such variables as psychological capital (Luthans, Youssef, & Avolio, 2007), the Big-5 personality traits (Wright & Lauer, 2013), job and life satisfaction (Peterson et al., 2009), core self-evaluations (Judge et al., 2003), psychological well-being (Wright & Huang, 2008), and various aspects of work performance and achievement (Quick & Wright, 2011; Wright & Quick, 2011).

The relation between strength of character and individual well-being, however defined (Wright & Doherty, 1998; Wright & Cropanzano, 2007), has long been recognized with "good" character considered as a central and defining feature for individual health and well-being (Gavin, et al., 2003; Wright, 2013; Wright & Lauer, 2014). For example, the well-being benefits of being industrious and persistent have been documented for cancer (Ferrell et al., 2003), arthritis (Lambert et al., 1989), and HIV/AIDS patients (Goodman, Chesney, & Tipton, 1995). Singh and Jha (2008) found that a measure of perseverance was positively related to both happiness and life satisfaction, while Mino and Kanemitsu (2005) established a relation with job satisfaction. In addition, Fredrickson and Joiner (2002) found evidence that

self-regulation was positively related with psychological well-being, while Wright and Walton (2003) investigated the relation between creativity and psychological well-being. Finally, spousal integrity was found to build relationship trust and was instrumental in marital well-being and satisfaction (Yeh et al., 2006). These findings provided support to the longstanding belief that an association exists between various strengths of character and individual well-being (Wright & Lauer, 2014).

Character is also proposed to be instrumental in fostering long-term health and well-being at both the organizational and societal levels. For example, given that leadership is best considered in the context of emotional experience and social exchange (Ashkanasy & Dasborough, 2003), a leader "well-being contagion" effect may exist in settings in which leaders (i.e., teachers) demonstrate not only interpersonal competence (cf., Olian et al., 1988), but also exhibit such strengths of character as integrity, valor, gratitude, and kindness. As a result, through their actions, character-based leaders (teachers) may well model the display of these strengths of character in their subordinates (students). Next, research will be discussed that suggests a possible relation among the character strengths, valor, industry, and critical-thinking, with performance and achievement.

Worline, Wrzesniewski, and Rafaeli (2002) proposed that valor, under certain circumstances, can be instrumental in helping motivate individuals to take on new, challenging tasks in extreme, stressful situations. Likewise, Markham and Baron (2003) hypothesized that individuals high in perseverance performed better and experienced fewer feelings of anxiety under challenging circumstances. Finally, Barrick and Mount (1991) provided preliminary evidence that self-regulation may have been related to performance. Building upon these initial findings, future research is now needed to more fully investigate the theoretical basis for suggesting relationships between strengths of character and such work and nonwork-related correlates as psychological well-being, work performance, job and life satisfaction, job commitment, and absenteeism.

Concluding Thoughts

This interview provided the necessary backdrop that supported the influential role of "profiles in character" in the determination of both individual and business entrepreneurial success. In particular, the use of interviews with successful management practitioners, such as Gus Rethwisch, proved to be an important pedagogical mechanism in helping inform both students and actual business practitioners of the importance of character education (Wright, 2011; Wright & Wefald, 2012). As with teaching, character holds much promise for how, as well as what, is researched. Hopefully, this interview with Gus Rethwisch provided compelling evidence of the possible benefits of studying character in organizational and business school settings. This is obviously an exciting time to be conducting research in character.

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Appendix A

Interview with Gus Rethwisch - CEO WABDL

Interviewer: Before we get started, it might be helpful for you to distinguish for the readership among Olympic style weight lifting, powerlifting and bodybuilding.

Rethwisch: Olympic style weight lifting is the oldest organized form of lifting. It was integral to the first modern Olympics in Athens, Greece in 1896. The first games did not have weight divisions, but separated competitions into one or two-handed lifts. One-armed lifts were discontinued from the Olympic Games in 1928 and the official lifts consisted of the snatch, clean and jerk and the press. Starting in the 1950's bodybuilding grew in popularity, thanks to the work of such early legendary entrepreneurs as Bob Hoffman and Joe Weider. As I like to put it, body builders lift to look good, while power lifters lift to do good. Truly international in nature, during the same period, an early form of powerlifting composed of three lifts, the bicep curl, bench press and squat became hugely popular in Great Britain. In fact, many talented lifters from around the world went to Great Britain to compete. Later, the curl was replaced with the deadlift, forming the current three power lifts.

Interviewer: From 1977 to 1981, you were involved in 5 major events on network TV. It looked like power lifting was becoming more main stream until someone put the label "trash sport" on it. What happened?

Rethwisch: There were a number of reasons for this label of "trash sport". First, in one of the initial World's Strongest Man contests, which are still going, no pun intended, strong today, the Italian body builder, Franco Columbo, broke his leg in a refrigerator race. Viewed by millions, it was horrible and brought a lot of negative publicity to the sport. Arnold Schwarzenegger was his expert witness in a high-profile lawsuit. Columbo won. As a result, the networks dropped the event. It went overseas and became a cult event. Without American competitors, the ratings dramatically dropped. ESPN eventually picked it up.

Interviewer: With that backdrop established, please tell us a little about your formative years.

Rethwisch: My roots are from small town America; I grew up in rural Iowa. I know it sounds funny, but I got interested in sports in general and powerlifting in particular because, for a short while, I was the victim of bullying in grade school.

Interviewer: That reminds me of the Charles Atlas legend of getting his start by having sand kicked in his face at the beach. Given that you were a robust 6"3 and 340 pounds in your prime, I guess bullying can happen to anyone at some point in their life.

Rethwisch: That's right and being bullied was my motivation to get bigger and stronger; I did not like bullies, nor did I personally like being bullied. My father had a lumber yard and I took great pride in eventually being able to work harder, lift more than anyone, developing my strength through constantly lifting heavy pieces of lumber, cement sacks and plasterboard. In a short period of time, I went from being someone who lacked motivation to someone who came to value the benefits of hard work. My willingness to work hard and put in 12, 14, 16 hour days has been very helpful in helping me achieve whatever success I have obtained as an entrepreneur.

Interviewer: Your character strength profile is consistent with those of other successful

entrepreneurs and includes the three entrepreneurial signature strengths of hope, industry and zest, along with valor and kindness. Is your character strength profile consistent with your perception of yourself?

Rethwisch: Yes, it is. I would maintain that every successful entrepreneur must be industrious, have a true zest for life in general and what they are doing in particular, and be optimistic or hopeful that they will succeed. I also think an entrepreneur must be courageous, especially when starting out. In addition, I was pleased to learn that kindness was one of my signature strengths. On the other hand, I am not surprised that I ranked lower in self-regulation……

Interviewer: Has your character strength profile influenced your management style?

Rethwisch: Yes, it has. I always try to solve the problem at hand. In an arena composed of world-class athletes, as you might expect, I have to deal with individuals with large egos. I am a very direct person and early on in my promoting career, I would often speak before I thought things through. I got a chuckle when I learned that the questionnaire identified self-regulation as not being one of my signature strengths. Early on, my accountant was always encouraging me to slow down and carefully consider all the options. I didn't always follow his advice and it has cost me over the years.

Interviewer: Can you elaborate how these signature strengths have been beneficial in making WABDL a success?

Rethwisch: Working for my father established the precedent of putting in 12, 14, 16 hour days. My father was my first role model for hard work and industry. As a result, I have always been industrious. I can honestly state that I have not had a day off from WABDL in over 10 years!

Interviewer: That is an amazing statistic. Given that work schedule, how have you remained so zestful?

Rethwisch: To me, hope and zest go hand-in-hand. Early on, my passion or zest for powerlifting was as a competitor. I had a very good career, but I knew that I wouldn't be a world-class competitor forever. I wanted to stay connected to the sport, so I looked to the opportunities provided by event promotion.

Interviewer: This was in the 1970's. How was the business of powerlifting conducted?

Rethwisch: It was very haphazard. The typical event would be at the local high school gym or YMCA. I knew that I could do better than that as a promoter.

Interviewer: Can you elaborate further?

Rethwisch: My first power lifting promotion was at the Turtle Bay Hilton on the north shore of Oahu. Not wanting to leave anything to chance, we included everything….. We had a woman's bikini contest, men's body building exhibition, and some world class guest lifters. Well, the contest was a success, but I learned an important lesson.

Interviewer: What was that?

Rethwisch: The competition went on all day and well into the night. It was too long. As a point of comparison, at that time, a typical major league baseball game was roughly 2 and 1/2 hours and an NBA basketball game ran about 2 hours. However, as I noted, powerlifting meets could take all day to complete, with competitions in three lifts, the bench press, squat and dead lift, combined to determine an overall champion. I immediately realized that I could not continue to succeed with contests lasting 10, 12 or more hours. I just could not compete with other sports, nor could I keep viewer

attention that long. I was not providing a value-added. What I did was simple, but it worked and continues to work. WABDL was the first major power lifting federation to move from sanctioning three competitive lifts to just two lifts, the bench press and dead lift.

Interviewer: How did you decide on those two lifts and not the squat?

Rethwisch: Sometimes there is genius in simplicity. The squat is a very physically tough exercise on lifters with knee, hip, and back problems. I figured out early on that in order to succeed, we would have to attract Master's level competitors, lifters at least 40 years old. As a reference point, roughly 50% of our current membership is Master's level lifters. Since older lifters are more likely to have knee, hip, and back problems, the squat was the competitive lift that we eliminated. As a consequence, our competitions take less time to complete and are physically easier on lifters, especially those with knee, hip, and back problems.

Interviewer: What did you do next?

Rethwisch: After my first major promotion at the Turtle Bay Hilton, I knew I wanted to be a promoter. At this time, I was working at the Sheraton Waikiki Hotel which had the largest hotel ballroom in the world, something like 40,000 square feet. It was huge! I had established a solid professional relationship with Mr. Kent, the hotel general manager. A kind man, Mr. Kent wanted his employees to succeed and he was impressed with my initiative when I told him about my promotional plans. He fully supported me and the competition was a huge success. We drew thousands of fans and filled the ballroom. To put it in perspective, as I recall, Frank Sinatra, Helen Reddy, Tony Orlando and Dawn, and Tony Bennett did not fill that ballroom. I ended up promoting 19 major events from Hawaii.

Interviewer: Like professional boxing, there are a number of competing powerlifting federations. How do you keep WABDL ahead of the crowd?

Rethwisch: As I noted, my passion for the sport translates into my willingness to work long hours, day in and day out. My job as president is really not that glamorous when you think about it. While I have administrative assistants who handle specific aspects of the organization, I am the point person. I get and return an enormous number of phone calls. My philosophy is that no question is without merit and every question must be treated with respect. I realized early on that I am in the people business. Without the people, there is no WABDL.

Interviewer: Speaking of being people-oriented and providing a value-added, your *Tabloid of Excellence* has been very popular with your membership.

Rethwisch: If you think about it, like baseball, powerlifting is a sport possessed with numbers and statistics. In baseball, everyone is familiar with Babe Ruth's 60 home runs, Joe DiMaggio's 56 game hitting streak and Ted Williams .406 batting average. Powerlifting is similarly disposed to numbers and statistics. Over the last few years, we have been diligently categorizing state and world "all-time" record lists, what I call the "Tabloid of Excellence". I personally have spent a lot of time creating the various lists. By creating these lists, I was hopeful that they will create interest and growth; they seem to have done just that! People can easily look on the internet and see that they are ranked #22 in the bench press at a certain age and weight and see that they need to lift, say, 45 more pounds to make it into the top 10. People thrive when they have goals that

are specific, measurable, and attainable. Everyone likes it when they can see that they can improve their standing in something they value and find important.
Interviewer: What major changes in the sport of powerlifting have you seen over the years?
Rethwisch: There have been a number of changes. One evolution in the sport has been the increased use of supportive powerlifting equipment or gear. Supportive equipment such as squat and deadlift suits and bench shirts are used for two primary purposes. First, at least in theory, they help protect the lifter from injury. Second, they act as an ergogenic aid and enable the competitor to lift more weight. The relative benefits of lifting "raw", that is, without supportive equipment versus lifting with gear is a widespread debate in the sport.
Interviewer: Like society at large, everyone seems to be looking for that edge….
Rethwisch: While most lifters currently use gear, there is a wide range of performance results. Take the bench press. Forty years ago, the most the strongest man could bench press unaided or raw was 650 – 670 pounds. Today, these results are the same, even though people are "lifting" over 1000 pounds with supportive equipment. So the lifters are really no stronger, but because of improved supportive equipment, they can lift a lot more……..
Interviewer: And more is better, no matter how accomplished. Because of their use of illegal performance-enhancing drugs, Roger Clemens and Barry Bonds recently failed to garner the necessary votes to be elected to the Baseball Hall of Fame. How do you address the problem of performance-enhancing drugs in your organization?
Rethwisch: The use of performance enhancing drugs is a serious problem in all competitive sports. There is plenty of blame to go around. If you go back to the late 1970's, college team trainers would actually provide amphetamines to athletes. At that time, amphetamines were part of the game plan! Steroids then became part of the problem. There was no drug testing in Olympic lifting until, I believe, 1976. As I recall, the 1976 Olympics was the first time for systematic drug testing. We have a stringent policy of drug testing at WABDL and have for many years. Competitors know that we test at every event. I am proud of our efforts to have "clean" athletes and records.
Interviewer: Women are becoming more prominent in powerlifting in general and WABDL in particular. What are your thoughts?
Rethwisch: I love it; it is great!! While women are not well-suited to compete with men on the bench press due to the relative lack of upper body strength, they have an abundance of lower body core strength. This allows them to very effectively compete with men on a pound-for-pound basis in the dead lift. We see a number of women who are able to competitively lift over 3X their body weight. We also have both males and females competitively lifting well into their 80's. It is truly inspirational! Tom, as I recall, you were amazed at the strength of a number of Master's lifters when you competed in your first meet about 10 years ago in Pasco, Washington.
Interviewer: I certainly was amazed and truly inspired by the two lifters from Montana, Victor Starkel and Harold Smith. Both lifters were able to bench press over 300 pounds well into their 70's. I didn't know what to expect when I attended my first competition. I was impressed with the welcoming nature of WABDL and the friendliness of many of the lifters. In fact, I remember telling Victor and Harold that I wanted to be just like

them when I grew up.
Rethwisch: Your response is a typical one. So many lifters go to their first meet to test their competitive instincts and come away thoroughly enjoying the people they meet and compete against. They want to come back to compete and enjoy the fellowship.
Interviewer: Please describe your "typical' day as president of WABDL.
Rethwisch: I am constantly talking with people. I am on the phone for up to 12 hours a day, 7 days a week. One of the reasons that our Federation is successful is that we operate under the premise that there is no such thing as a dumb question. We treat every question and person with respect.
Interviewer: The driving force for many entrepreneurs is that they do not like working for other people. Was that true in your case?
Rethwisch: I think I have always known that I performed better working for myself. For one thing, I've never been afraid to take chances with money…..so I guess it is better to take chances with my own money…..The second meet I put on at the Sheraton Waikiki Hotel could have been the end of my promoting career. My accountant informed me that I was going to be thousands of dollars in debt. Using that knowledge as my impetus, I was highly motivated and able to negotiate a deal with NBC Sports World to film the competition. As a result, I managed to stay out of debt. Even though our event was shown taped, we outdrew the major league baseball game in the same time slot!
Interviewer: What do you see as the future of powerlifting?
Rethwisch: There are more lifters today than ever before. About 50% of my membership is composed of Master's lifters (40 or over years of age). I am actively reaching out to high school and college students. We now host the National High School and Intercollegiate Championships every year. This year (2013), the competitions were held in Kingwood, Texas. I also want to attract inner-city youth competitors and set-up weight-lifting programs. These young lifters are our future and I want WABDL to be a positive role model.
Interviewer: Speaking of the future, you have been doing this for a long time, what are your plans for the future?
Rethwisch: I had open heart surgery a few years ago and was told to cancel the entire competitive season by my doctors. It gave me great pause for reflection. I had my surgery on January 28. The schedule for the year was already set up and was an extremely arduous one. The first meet that I was promoting was scheduled for Missoula, Montana on March 7, the next meet was March 14 in Pasco, Washington. Chico, California was scheduled for March 21 and Dallas, Texas was March 28. WABDL was then based in Minneapolis, Minnesota. I provide the equipment, all the weights, bars etc., so it is best to drive and I don't like to fly. So, I am 6 weeks out from major surgery and I drove a total of 5,600 miles to these events and back to Minneapolis. Needless to say, my wife and family were not happy.
Interviewer: You are obviously driven to succeed. For WABDL the competition season starts in early February and ends in November, culminating in the World Championships. As a businessman, the World Championships can financially make or break you for that particular year. Describe the negotiation process.
Rethwisch: The negotiation process is both fascinating and frustrating. As you said, a poor showing at the World Championships can financially ruin your whole year

of competitions. This has been a real learning experience. Here is where I really had to work on my self-control and regulation skills. Hotels negotiate rates based upon the number of rooms that you will "guarantee" them. The more rooms that you can guarantee, the better the rate you will get. That rate applies to not only the rooms themselves, but also to the ballroom etc. Say I can get the best available rate by guaranteeing that I will fill 5,000 rooms for the week of the World Championships. At $125 per room, per night, that's $625,000 revenue for the hotel. Throw in another $300,000 for food, drink and entertainment and it's obvious that we are providing the hotel with a large revenue stream. Here is where knowing your limitations is important. If there are no consequences for not filling your room guarantee, the hotel stands to lose a lot of money as well. So, hotels typically include attrition clauses, where there are penalties for not fulfilling your room guarantees. It gets very expensive if you don't deliver. There have been a number of cases over the years where promoters have figuratively lost the shirt off their back by being overly optimistic…. It takes both skill and luck to get the best rate. As a word to the wise to future promoters, get a contract without an attrition clause if at all possible. Having a reputation for delivering the room guarantees certainly helps in the negotiation process.

Interviewer: Has the current economic downturn had a negative impact on WABDL?

Rethwisch: Yes and no. I am seeing roughly the same number of participants at the regional meets so far this year. However, people are not buying the souvenir items like t-shirts and programs as before. Overall the downturn in the economy has had an effect.

Interviewer: Any regrets?

Rethwisch: Not really. It has been an interesting ride to date. I suppose my biggest professional disappointment is that I did not get the opportunity to play major league baseball.

Interviewer: What advice do you have for someone interested in putting on a powerlifting meet?

Rethwisch: The signature strength profile for entrepreneurs was very illuminating and insightful for me. Invariably, the successful entrepreneurs that I have known over the years have an abundance of such strengths of character as zest, hope and optimism. Above all else, an entrepreneur certainly must be willing to persist in the face of adversity. Of course, it helps to be able to find one's niche in a particular area and provide your customer base with a value-added. So, I can understand why successful entrepreneurs are curious. Speaking of which, I would be curious to know the character strength profiles for success in other occupations and whether character can be taught?

Factors Affecting Customer's Perceptions Towards Online Banking Transactions in Malaysia

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A model for the customer's intention towards online banking transactions will be developed and empirically investigated in this paper. The theoretical model is tested using a structural equation modeling (SEM) technique. To achieve a more balanced finding among the online banking users in Malaysia, a self-administered questionnaire is designed and a total of 200 valid cases found from five major banks that are part of the customer's behavior towards online banking transactions used. The results show that mutual dependency has the strongest effect on the customer's expectancy variables, and that a customer's trust has a direct effect on intention towards online banking transactions. This paper provides banking service providers with guidelines to improve their organizational performance and ends with recommendations for future study.

Globalization and the growth in new technological developments has spurred a new era of e-commerce (Ibrahim et al., 2013). The term 'online banking' is associated with internet banking or electronic banking which has been appropriately defined as the automated delivery of new and traditional banking products directly to the customers through online and interactive communication channels (Mobarek, 2009). Internet users are rapidly increasing in Asia. In 2012, internet users in Asia had the highest growth rate of 44.8%, followed by Europe with 22.7%,; North America 13%,; Latin America 10.6%; Africa 7%; Middle East 3.3%; and Oceania/Australia 1% (Internet World Statistic, 2012). In Malaysia, at the beginning of 2011, the number of online

banking users had increased to 2.7 million which was a 16% increase in that year. In 2012, the number of Malaysian online banking subscribers had increased to 45% which meant almost half of the Malaysian population had adopted the idea of online banking (Bank Negara Malaysia, 2013; Foon & Fah, 2011). Table 1 illustrates the online banking subscribers in Malaysia from 2005 to 2012, a tacit indication that the number of online subscribers is increasing every year in Malaysia.

Table 1: *Online Banking Subscribers in Malaysia*

Year	Number of Subscribers (Millions)	Penetration to Population (%)
2012	12.4	45.0
2011	11.9	41.6
2010	9.8	34.8
2009	8.1	29.1
2008	6.2	22.5
2007	4.6	16.9
2006	3.2	12.0
2005	2.6	9.8

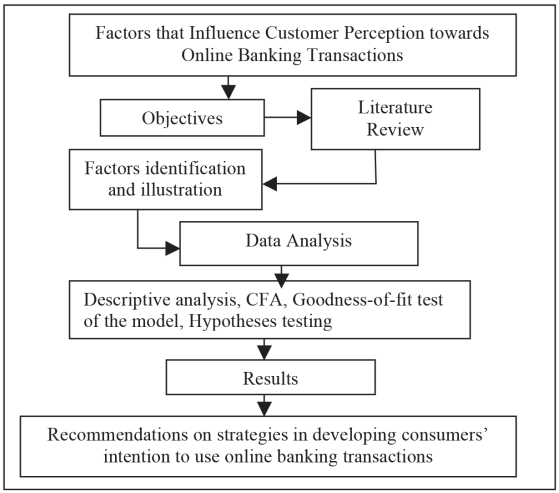
Source: Foon & Fah (2011), Bank Negara Malaysia (2013)

There are twenty-three commercial banks currently listed by Bank Negara Malaysia. *The Daily Sun* reported on November 30, 2011 that the CIMB had been announced as the best online bank in Malaysia because it provided high quality online services and developed its customers' trust through its credible capabilities. Online banking systems facilitate the financial institutions, customers, individuals and businessmen to have ease of access to their accounts, to engage in business transactions as well as to enable the account holders to obtain information on the financial product and services through the intranet and extranet (Singhal & Padhmanabhan, 2008). Many terms have been used to describe the online banking terminology, such as, internet banking, online banking, or PC banking. Apart from that, consumers can engage in online banking by using ATMs, wire transfers, telephone banking, electronic fund transfers and debit cards (Haque et al., 2009).

Because of online banking facilities, customers are able to perform many transactions such as customer service inquiries, transfers of funds from one account to another account, loan applications, opening a new account, and transactions between third party accounts. With the rapid changes and advancement in information technology (Rahman et al., 2014; Talukder, 2011, 2014), online banking has introduced new methods and systems for banking institutions to deliver their services to potential customers (Mobarek, 2009). Hence, it is important for the banks to align their prognostic strategies in response to the changing customer needs with new technological developments. This study was conducted to investigate the Malaysian consumer's perceptions towards online banking. It is also crucially important for the banking institutions to understand their consumer's perceptions towards their online banking system in order to compete in reactive banking marketplace. Security, trust, and website privacy may lead consumers to take a careful but bold approach when using online banking services. The main purpose of the study was to explore the crucial factors that influenced the Malaysian customers' perception towards the online banking

transaction. Oh et al. (2006), Sumanjeet (2009) and Harris, Guru, and Avvari (2011) stated that security, trust and privacy were the most significant factors of the online banking system. Quazi and Talukder (2011) investigated the impact of demographics on the adoption of technological innovation. This study reviewed the Malaysian consumers' perceptions and intention to use online banking transaction literature, and Martin Fishbein's (1968) expectancy value theory was exploited through the source of Palmgreen (1984) that intended to develop a theoretical model and discuss the findings. The methodology part, design procedure, and sample characteristics were described and a measurement model was presented and validated. The survey questionnaires were constructed by using SEM with data analysis results and a discussion preceded the concluding remarks. A structure of the study design is illustrated in Figure 1.

Figure 1: *Structure of the Study*



Literature Review and Theory

Security

The security of banking transaction is the primary concern of the online banking or e-banking system. The lack of convincing security in the online transfer of funds may cumulatively culminate into serious damage to the banking sector. Hence, the ardent hope of most internet banking customers who want financial transaction security is in order to protect their money (Ndubisi & Sinti, 2006; Fatima, 2011). The security of information is the most key component to online banking users (Singhal & Padhmanabhan, 2008). Ragoobur and Ayrga (2011) believed that internet accessibility and security concerns were important elements for the adoption of online banking. Hemandez and Mazzon (2006) showed that relative advantage control, compatibility with lifestyle, image, subjective norm, self-efficacy, relative advantage of security and privacy collectively influenced consumers to use online banking. The users of

online banking systems faced security risks from unauthorized access into their bank accounts. Some users were not fully satisfied with the online transaction because of the remote possibility of unsecured access to accounts which require reliable identification of the sender and the receiver of the online banking transactions. Non-secured online transactions can be misused to disguise as the online banking account owner. Therefore, it is extremely necessary to have a trusted third party who holds the identity certificates of both the sender and the receiver in the online transaction. Srivastava (2007) stated that there were various psychological, egoistical and behavioral issues such as trust, respect and security of the internet transactions, and especially the lack of enthusiasm by the banking sector to change according to the preference for human interface which appeared to obstruct the growth of the internet banking. The study highlighted that a consumer's willingness to use e-banking primarily depended on the security of transactional activities on the internet (Wong et al., 2009). From this perspective, it was suggested that there was an intrinsic need for banks not only to employ mechanisms to build trust for their specific online banking website, but that banks should also confirm the security of the customers in online banking.

Well-planned security can lead consumers to take a more confident approach to e-banking. Hence, a bank needs to diminish a customer's anxiety regarding the safety of its online financial transactions by providing appropriately related information on the reliability of the technology used. Online banking companies stress that they provide safe internal operational controls with a layered security system through the incorporation of advanced banking technology which constantly monitors the online transactional activities via a variety of software packages currently available to meet the situational need wherein the online financial transactions rely on browsers as the front-end software. Saleh (2011) and Berger and Gensler (2007) found that there were three levels of financial transaction security such as encryption standard, firewalls and filtering routers, as well as an internal operating system. An encryption standard provided either a Secure Electronic Transaction (SET) or a Secure Socket Layer (SSL) protocol that assured message reliability (Ndubisi & Sinti, 2006; Fatima, 2011) that allowed the transfer of an appropriate digital signature for authentication procedures and provided confidentiality for the data that flowed between a web server and a browser. Firewalls and filtering routers and internal operating systems provided protection for stored information. As an additional measure of security, customers were assigned a personal identification number and password for accessing their accounts. SSL provided data encryption and message integrity for an internet connection with its ability to provide server authentication for users. SSL security protocol on the web server and customer browser ensured that authenticated data were received from the intended customer. Although SSL was often involved with a strong encryption, the banking company preferred the SET protocol, because it provided the authentication of all financial transaction parties (Berger & Gensler, 2007).

Security is an important aspect that may affect the users' intention to confidently use the online banking transaction systems (Saleh, 2011). Hutchinson and Warren (2003) hypothesized that tight security had a positive effect on the consumers' acceptance of the online banking systems. Central banks devised the standard payment forms and the bank authorities coordinated their efforts to strengthen and upgrade

the systems. The main manifestation of the security of the customers' payments was to create a common understanding of the relevant security against fraudulent transactions (Heikkinen & Iivarinen, 2011). The study by Saleh (2011) highlighted that an electronic banking system could protect the customers' security by applying three techniques: (1) password, (2) encryption, and (3) firewalls or server security. Saleh developed a model that was used by the Radio Frequency Identification (RFID) as a second authentication layer to tighten transaction security. There were five important dimensions interconnected to the online banking transaction activities and the security electronic system was the most important issue that could be installed in a company's computer or built into a website. Security could protect a financial transaction as it has a direct significant impact on the consumer's perception of online banking (Schaupp & Bélanger, 2005). They also stated that there were many types of web security, but the first type of protection on many websites was encryption. Today, most websites use encryption and banks advocate to guarantee the security for the customers by using the firewalls and the encryption technology by which all information (customer's account numbers and account balances) are converted into a series of unrealizable numbers before they are exchanged over the internet. The study by Chuang (2011) and Lee and Turban (2001), stressed that security and privacy had a powerful effect on customers' trust in the online transaction period. According to Saleh (2011), Erikson, Kerem, and Nilsson (2005), and Polatogly and Ekin (2001), security consisted of three dimensions, namely, reliability, safety, and privacy. A good experience of security and privacy on e-banking websites had a positive influence on customers' trust and in general, the level of trust was positively connected to customers' manner and intention in using the internet banking services. Security was recognized as an important determinant of online banking quality (Liao & Cheung, 2002). Security, trust and website privacy were the most significant areas of the online banking system (Oh et al., 2006; Sumanjeet, 2009; Harris et al., 2011), whereas security was the most significant factor influencing a user's perception (Treblmaier et al., 2008; Wai-Ching, Gun-Fie, & Woon-Har, 2009; Changsu et al., 2010). Poon and Tan (2008) pointed out that security factors had exclusively influenced the online banking development. Banks usually included in their online banking contracts, the strict confines of their legal responsibility. Customer protection laws should be determined so that injustice was not surreptitiously enforced. Therefore,

> *H1a: Security has a significant relationship with consumers' trust towards their intention to use online banking transactions*
> *H1b: Security has a direct impact on a customer's intention to use online banking transactions*

Website

Banking websites on the internet usually record transactional information. In these online banking transactions, customers can make their payments for loans and mortgages (Wong et al., 2009). In 1999, most bank websites offered transactional capabilities. Some common services offered were derived such as money transfers, bill payment, checking account balances and histories, etc. (Eze et al., 2011). Nowadays,

many banks attempt to advance their corporate standing with a unique offering of services. Online banking services are different from government, private and trade sources because of differences in terminology and especially, the generic use of the term online banking which specifically refers to a customer's ability to conduct banking on the internet (Talukder, 2011b).

Banking sectors invest in developing their online competencies in the hopes of attracting customers. Slow websites and difficult navigation are the most popular complaints from web users (Chuang & Hu, 2011; Wang & Lin, 2003). Users are generally reluctant to upgrade their connection speed as well (Ryan & Valverde, 2003). Internet delays are likely to remain long before eventually becoming shorter. Internet users want websites they visit to be quick to load and easy to use. Many people log off and never return if a site takes more than eight seconds to load. Goi (2010), Liao et al. (2006) and Vanlwaarden et al. (2004) argued that quality factors determined the website's success and a successful website strategy was acknowledged to be increasingly important to the organizations. User satisfaction with websites directly impacted their choice of sites visited, demonstrating that users were most concerned with information content and ease of use. Kim, Shaw, and Schneider (2003) identified six criteria of website evaluation by integrating the criteria used: 1) business function, 2) corporate credibility, 3) contents reliability, 4) website attractiveness, 5) systematic structure, and 6) navigation. Many elements of design and graphic art can be used to convey content on the web. Elements of space, use of images, size of images, use of animation, audio, number of words per line, color, and size of characters are among just a few of these factors (Rosen & Purinton, 2004). Kenneth et al. (2010) and Balasubramanian, Konana, and Menon (2003) proposed that the virtual attributes of the online banking website created the situational regularity which one uses to create trust in the online environment. Miranda and Banegil (2006) mentioned that the quality of web home pages was determined using an original Web Assessment Index, which focuses on four categories: accessibility, speed, navigability and content. Therefore,

> *H2a: Website had a positive relationship with customer trust towards their intention to use online banking*
> *H2b: Website had a direct relationship with customer intention to use online banking*

Trust

Consumers' trust in e-banking may also bring the success of e-commerce. Trust is very much related to a consumer's behavior with e-banking security (Chong, Keng-Boom, & Boon-In, 2010). Trust can be defined as an individual's belief in the security and privacy of the e-banking system. Furthermore, trust can be defined based on the consumer perception of reliability and security towards an internet banking system (Eriksson et al., 2005). Trust is a crucial and a complex factor in the virtual environment of conducting online banking transactions (Chong et al., 2010). The lack of customer trust can limit the opportunities for implementing web technologies (Hamid et al., 2007) and can be further determined by the perception of confidence and trust on the reliability of the e-banking partners (Hamid et al., 2007). The customer

may not trust internet technology for three reasons: (1) uncertainty of the degree of security, (2) distrust of the service providers; and (3) worry regarding the reliability of internet services (Talukder, Quazi, & Keating, 2014). Trust can be influenced by security, reliability, and the usefulness of the e-banking website. Consumers' attention to trust has a significant relationship with e-banking transactions. However, studies have found these to be truly significant based on the consumers' attention, trust and confidence in the online banking security system (Foon & Fah, 2011). Thus,

> *H3: Trust has a significant impact on customers' intentions to use online banking in a Malaysian context*

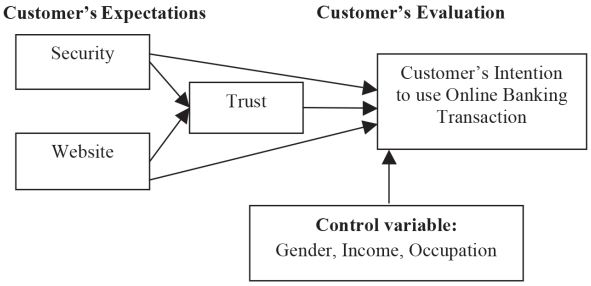
Theoretical Foundation

The theoretical framework for this study was grounded on the convergence theory from a number of fields, specifically philosophical or epistemological perspectives and behavioral or motivational expectancy theories. The role of expectancy theory in the customers' intention to use online banking system, whether implicitly or explicitly articulated, is critical as it deals with the interpretation and transmission of information, construction of meaning and creation of new knowledge, which together may have influenced a customer's intention to use online banking. Behavior is a function of the expectancies. This approach predicts that when more than one behavior is possible, the behavior chosen will be the one with the largest combination of expected success and value. Expectancy value theory holds that people are goal-oriented and the behaviors they perform in response to their beliefs and values are undertaken to achieve some end (Mondi, Woods, & Rafi, 2008). Furthermore, expectancy value theory suggests that people orient themselves with the world according to their expectations or beliefs and evaluations. Utilizing this approach, attitudes and behavioral intention are seen as a function of "expectancy and evaluation that is the degree of affect, positive or negative, towards an attribute or behavioral outcome" (Palmgreen, 1984; UTWENTE, 2013). Expectancy value theory directly relates to use and gratification theory founded by Martin Fishbein in the 1970's (Mondi et al., 2008; UTWENTE, 2013). Communications theory pertinent to this study arose from the perspectives of media uses and gratifications (Mondi et al., 2008). Uses and gratification theory presupposes prior adoption of an innovation and concerns itself with the different user's motivations to continue the use of the technology (Ruggiero, 2000; Stafford, Stafford, & Schkade, 2004; Mondi et al., 2008).

Expectancy value theory links individual needs or expectations with varying goals and levels of satisfaction (Fishbein, 1968). According to expectancy theory, consumers' perception behavior describes a set of beliefs and evaluation that may initiate the Malaysian consumers' intention to use online banking (Mondi et al., 2008). The concept of expectancy value theory maintains that if consumers' beliefs and values in using online banking resources is positive, it is likely that they would continue to use online banking. Conversely, if negative, then consumers would tend to avoid this transaction. Expectancy theory is more concerned with the reasoning antecedents that go into encouragement and the ways in which consumers relate to each other (Miller, 2013). Indeed, expectancy theory is a cognitive process theory of motivation

that is based on the concept that consumers believe there are relationships between expectancy and values and outcome received from customers' perceived behavior and values (Stafford et al., 2004; Lunneburg, 2011). Online banking consumers will be motivated if they believe that expectancy and value can lead to a consumer's desired reward. In this study, factors including website and security had a significant impact on consumers' trust towards the intention to use online banking transactions. Herzberg's two-factor theory arose from the perspective of customers' motivation towards online banking. Figure 2 shows the theoretical research framework adapted from Martin Fishbein's (1970) expectancy value theory through the source of the Palmgreen (1984) that was cited by UTWENTE (2013). In this study, expectancy value theory addresses the Malaysian consumers' intention to use online banking.

Figure 2: *The Conceptual Framework*



Methodology

The main objective of this study was to observe the behavior of customers towards online banking services. To measure the objective, empirical data was used for analyzing and finding the proper results.

Participants, Procedure and Measures

The stratified random sampling technique was used in the study since the population was heterogeneous and was drawn from different types of sectors. A self-administered online questionnaire using this sampling method was employed as the instrument for collecting data between April and June 2013 from a sample of organizational members or staff that were either directly or indirectly involved in the online banking service in Malaysia. These organizations comprised various banking service sectors, insurance companies, and universities (students, lecturers, and administrative staff). In addition, to achieve a more balanced finding among the internet banking users in Malaysia, a total of 450 questionnaires were distributed to online banking customers at 5 major banks in Selangor, Klang Valley, and across the major cities in Johor, Penang, and Ipoh. Contact information for respondents was obtained from official websites, including the banking sectors and other business organizations. The remainder was met mainly through internet websites by using the Google search engine and phone directories.

The unit of analysis of this study was online banking customers and the survey was

mainly addressed to the organizational staff members and customers. The questionnaire was conducted through the Google form and online. The survey link was distributed with a deadline for submission by e-mail, including a cover letter stating the intention of the study and a guarantee to the participants of confidentiality. Then, the questionnaire was sent with an online survey link generated by Google. Filter questions were asked concerning the respondents and how long they had been involved with the online banking services. Potential respondents were not included in the survey if they were not involved in online banking activities. However, a total of 450 questionnaires were distributed and 200 valid responses were received, resulting in a response rate of 44.5%, which is good in light of the allotted time and geographical constraints.

The study examined the influence of security (5 items), website (5 items), trust (3 items), and intention (4 items). Each of the measurement constructs in this study had three to five items, which were measured using a five-point scale ranging from strongly disagree (1) to strongly agree (5). The measurement constructs used in this study were adapted from previous studies. The exogenous variables comprised security (adapted from Szymanski & Hise, 2000; Gommans, Krishnan, & Scheffold, 2001; Boonghee & Donthu, 2001; Schaupp & Bélanger, 2005), website (adapted from Gommans et al., 2001), trust (adapted from Gommans et al., 2001; Loiacono, Watson & Goodhue, 2002; Anderson & Srinivasan, 2003; Schaupp & Bélanger, 2005; Foon & Fah, 2011; Mohan et al., 2013), and the intent to use online banking (adapted from Foon & Fah, 2011; Rahman et al., 2014).

Data Analysis

This study was conducted based on confirmatory factor analysis (CFA), which tested whether a specified set of constructs influenced the responses in a predicted way. The CFA was done using AMOS version 18 to achieve the inter-relationship between the exogenous and endogenous variables of the conceptual model. The CFA was used in this study as it was a multivariate statistical technique (Hair, Bush, & Ortinan, 2006) and the analytical process was applied in the measurement of the linear combinations of constructs. It was also a meaningful arithmetical method used in combining larger sample sizes into a considerably smaller number of factors with a minimum loss of information (Hair et al., 2010). CFA was used to ensure maximal prediction from the set of independent constructs. The weights signified the relative contribution of the exogenous and endogenous variables to the overall prediction. A number of related statistical tests were also applied including convergent validity and reliability, correlation, and hypothesis testing. This study used a structural equation modeling (SEM) technique which estimated the path coefficients and other model parameters in a way that maximized the explained variance or minimized the amount of unexplained variance. In order to test the coefficient for significance of the path modeling, an SEM algorithm was applied. The output from the SEM algorithm also presented the path corresponding to each hypothesis. The difference at a significance level of the p-value for each path was less than 0.05. The convergent validity was determined by loadings greater than 0.70, and the average variance extracted (AVE) should be greater than 0.50 (Hair et al., 1992, 2014). The composite reliability (CR) was generally explained in a similar way as Cronbach's alpha and varied between 0 and 1, in which higher values indicated higher levels of reliability (Hair et al., 2010, 2014).

Justification of SEM

The Structural Equation Modeling (SEM) approach helped to test hypotheses about a relationship among possible and observed variables by estimating a set of individual multiple regression equations (Hair et al., 1998). Mulaik (1994) stated that the SEM was a mathematical model that represented an objective state which could influence other objectives in a more congruent and scientific manner. Furthermore, SEM was the most popular and powerful statistical analysis tool that was specifically developed for analyzing multiple variables in a research model and was available for solving a number of requirements such as interrelationships among variables in a model, Confirmatory Factor Analysis (CFA), analyzing regression with multicollinearity problem, and path analysis with multiple dependents correlation and covariance (Awang, 2012). According to Anderson et al. (1993), SEM helped to test hypotheses about relationships among possible and observed variables by estimating a set of individual multiple regression equations. SEM can be observed in order to predict events (Godfrey & Hill, 1995) and its indicator variable could show unobservable latent variables that were considered as accurate data analysis. The study by Tabackhnick and Fidell (2001) posited that it was a statistical tool which was used in a wide array of directions and disciplines by the marketing researchers over the last two decades. Byne (2006) defined SEM as the statistical methodology that was used in hypothesis testing to the analysis of structural theory. Furthermore, the SEM counted the number of independent variables and ensured how reliable each of the measured variables could be as it made comparisons among the individual models and evaluated between groups (Hair et al, 1998). In this study, SEM was the most appropriate statistical tool to test the models as it included two important characteristics: (1) SEM was used to classify equations for each endogenous construct and allowed researchers to identify multiple dependent relationships that reflected the effect of mediating constructs (Hair et al., 1998), and (2) SEM provided an effective, systematic, and random measurement error (Bagozzi & Philips, 1982). A systematic measurement error was a source of error where all variables were generated by SEM. In this study, a large number of parameters, latent variables and observed indicators were all faithfully estimated by the SEM and the incidence observed of what factors influence customers' intentions to use online banking.

Findings and Discussion

Demographic Information

Descriptive data constitutes an important source of information about employee adoption of innovation in an organizational context. This study elaborated on the illustration of respondents' demographic information in order to identify factors that influenced a customer's intention to use online banking in Malaysia. Demographic information collected from the survey questionnaire provided information on the personnel and organizational characteristics of the respondents. Table 2 presents the summary results of the respondent's demographic characteristics including gender, age, income, occupation, and the recommendation of others for online banking transaction. The proportion of male respondents (64.5%) was higher than female (35.5%). More than 95% of respondents were between the ages of 26 and 40. A large

majority of respondents were administrative staff (61%), followed by academic staff (30.5%), and students (8.5%). A majority of participants (77.5%) recommended others for online banking transactions once they trusted the security of the website. The analysis indicated that the sample was representative of the research population regarding gender and occupation. Such information may prove significant when the adoption and usage level of these respondents are investigated.

Table 2: *Demographic Information About Respondents*

Characteristics	Frequency	Percentage
Gender		
Male	129	64.5
Female	71	35.5
Age		
Below 25 years	11	5.5
26-39 years	115	57.5
40 and above	74	37.0
Income		
Below RM 1,000	20	10.0
RM 1001-RM 2000	52	26.0
RM2001-RM3000	73	36.5
RM3001-RM7500	31	15.5
RM7501-RM10,000	3	1.5
Above RM 10,000	3	1.5
Occupation		
Student	17	8.5
Academic staff	61	30.5
Administrative staff	122	61.0
Recommend for online banking transaction		
Yes	155	77.5
No	45	22.5
Total	**200**	

Confirmatory Factor Analysis (CFA)

Table 3 summarizes results of the measurement model. The item reliability, CR and AVE supported the convergent validity of CFA results. The CR presented the degree to which constructs indicators explained the latent variable, range from 0.894 to 0.924, which was above the cutoff value 0.70. The AVE ranged from 0.647 to 0.740, which was greater than 0.50, justified the use of the construct. The Cronbach's alpha, which was greater than 0.70, indicated the reliability of all measures. The construct with the highest Cronbach's alpha ranged from 0.841 to 0.908, which indicated a good internal consistency of the items in this construct. Overall, these findings indicated that the measurement model had good convergent validity. The internal reliability was achieved through a Cronbach's alpha greater than 0.70 and construct reliability was also achieved through CR. According to Wheaton et al. (1977) cited by Awang (2012), construct reliability should be greater than 0.60.

Table 3: *CFA Result of the Measurement Model and Convergent Validity*

Construct and its item	Factor loading	Cronbach's Alpha	CR	AVE
Security		0.861	0.900	0.647
Latest encryption technology	0.69			
Safeguard	0.71			
Secure communication	0.83			
Updated operating systems	0.90			
Protect my personal information	0.87			
Website		0.841	0.924	0.714
Website is comprehensive	0.72			
Website design	0.88			
Website always updated	0.94			
Quick to load and easy to use	0.96			
Website provides details	0.69			
Trust		0.908	0.894	0.740
Trust affects the demand	0.87			
Maintain privacy	0.75			
Influence Excellent online banking services	0.95			
Consumers' intention to use online banking transaction		0.944	0.915	0.730
My parents, my friends and another third party encourage me to do online banking transaction because they have a positive perception of online banking	0.83			
My perception on online banking is positive because I receive enough information about e-banking service from my bank.	0.77			
I have a positive perception on the online banking service of my bank since I can access it anytime and anywhere.	0.89			
Because of easy access of information on products and services, I perceive online banking services of my bank convenient.	0.92			

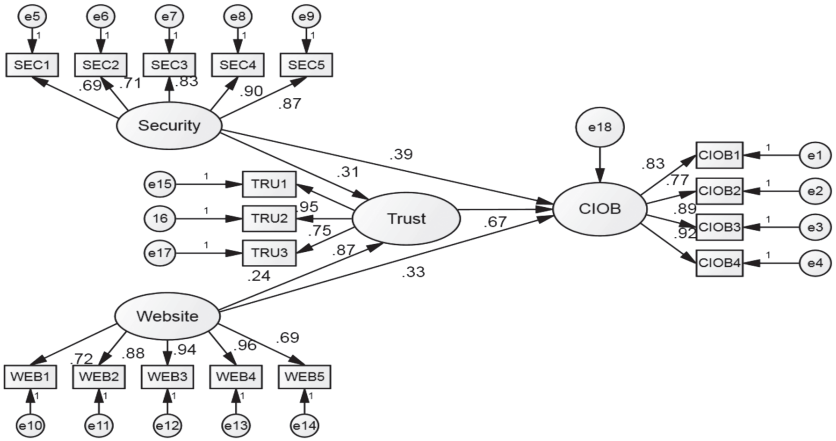
CFA can be used to assess unidimensionality. To estimate the CFA measurement model, maximum likelihood estimation was applied in this study. CFA generally organized the assessment using criteria such as chi-square, root mean square error approximation (RMSEA), comparative fit index (CFI), goodness of fit index (GFI) and adjusted goodness of fit index (AGFI). Content validity depended upon how well the researchers created the measurement items using the relevant literature to cover the content domain of the construct that was measured (Bohrnstedt et al., 1983). Table 4 shows the summarized result of the fit index of the measurement model. The measurement model was assumed to be correct as the probability of normed chi-square was 3.714 which was less than 5, indicating a good fit (Hair et al., 2010). For RMSEA value, which was 0.041, indicating a good fit also, as RMSEA value 0.80 or less recommended a very close fit for the model (Browne & Cudeck, 1993 cited by Awang, 2012). The respective value for the CFI was 0.929, GFI was 0.961, and AGFI was 0.923, which collectively indicated a very good fit for the model. CFI value should be around 0.90 (Bentler, 1990; Kline, 2005). GFI value should be greater than 0.90 (Joreskog & Sorbom, 1984), and 0.95 is considered to a very good fit (Awang, 2012). The AGFI value, which is greater than 0.90, also indicated a good fit (Bollen, 1989;

Awang, 2012), as 0.95 was considered a very good fit for the model (Awang, 2012). Overall, these findings indicated that the measurement model has an overall goodness-of-fit.

Table 4: *Fit Index of the Measurement Model*

Name of Index	Fitness Indexes	Level of acceptance
Normed Chi Square	3.714	X2 ≤ 5
Root mean square error approximation (RMSEA)	0.041	RMSEA < 0.08
Comparative fit index (CFI)	0.929	CFI > 0.90
Goodness of fit index (GFI)	0.961	GFI >0.90
Adjusted goodness of fit index (AGFI)	0.923	AGFI >0.90

Figure 3: *Measurement Model: Degree of Relationship Between Key Factors of Consumers' Perceptions Towards Security, Trust, Website, Consumers' Intention to Use Online Banking (CIOB)*



Hypotheses Testing

The measurement model was used to test the hypothesized relationships among the variables. Table 5 illustrates all the hypothesized relationships in this study. All the paths had a significant relationship at significance level p<0.05. Security and website appeared to have significant effects on trust, supporting H1a (β=0.31, p<0.01) and H2a (β=0.24, p<0.01). In terms of the effect on trust, it had a significant impact on a customer's intention towards online banking, supporting H3 (β=0.67, p<0.01). However, for the direct effects of the security and website on a customer's intention towards online banking, both appeared to have a significant impact, supporting H1b (β=0.39, p<0.01) and H2b (β=0.33, p<0.01).

Table 5: *Standard Estimation of the Main Model*

Relationship				Estimate	S.E.	C.R.	Result
H1a	Trust	<---	Security	0.314	0.061	5.147**	Supported
H2a	Trust	<---	Website	0.244	0.059	3.796**	Supported
H3	CIOB	<---	Trust	0.672	0.098	6.857**	Supported
H1b	CIOB	<---	Security	0.393	0.065	6.046**	Supported
H2b	CIOB	<---	Website	0.337	0.063	5.349**	Supported

**p<0.01, * p<0.05

Control Variable Including Gender, Income and Occupation

Table 6 shows the control variables including gender, income and occupation of the respondents. The role control variables played into the relationship segment of the model. It shows particularly, the roles that monthly income and occupation played in control of the relationship of the model but in terms of gender, the result found that there was no relationship with the model.

Table 6: *Control Variables: Gender, Income and Occupation*

Relationship			Estimate	S.E	C.R	P-value	Relationship
WEB	<---	Gender	0.053	0.067	0.791	0.391	No
TRU	<---	Gender	-0.033	0.042	-0.785	0.226	No
SEC	<---	Gender	0.011	0.083	0.132	0.289	No
CIOBT	<---	Gender	-0.017	0.059	-0.288	0.314	No
SEC	<---	Income	0.298	0.062	4.806	0.01**	Yes
WEB	<---	Income	-0.048	0.057	-0.842	0.542	No
TRU	<---	Income	0.023	0.084	0.273	0.476	No
CIOBT	<---	Income	0.321	0.087	3.689	0.04*	Yes
SEC	<---	Occupation	0.28	0.060	4.666	0.00**	Yes
WEB	<---	Occupation	0.35	0.071	4.929	0.00**	Yes
TRU	<---	Occupation	0.013	0.126	0.103	0.463	No
CIOBT	<---	Occupation	0.22	0.078	2.820	0.05*	Yes

**p<0.01, * p<0.05
WE= Website, SE= Security, TRU= Trust, CIOB= Customers' Intention to Use Online Banking .

Conclusion and Implication

The main finding of this study was that customer trust was the most important variable that significantly and positively affected all other variables. The aim of this research was to examine the perception of Malaysian consumers towards online banking. The results showed that security, trust, and the website itself had a significant relationship with the consumer's perception towards online banking in a Malaysian context. The findings related to customer trust were somewhat inconsistent with prior studies that found a positive impact on customer intentions to use online banking (Chong et al., 2010; Eriksson et al., 2005). However, some studies found no significant relationship between a website and trust but security did have a significant relationship with trust in terms of the use of online banking (Balasubramanian et al., 2003; Eriksson et al., 2005; Kenneth et al. 2010).

The result provided an important implication for organizations. It suggested that organizations should focus their attention on the importance of customers' perceived behavioral intention to use online banking. They should provide customers secure access when making online transactions. The organization should also develop a clear policy on integrating security and website innovation into their business strategy. The policy should pay greater attention to developing website and customer security. Trust in the website and security were the most important component of online banking to customers all over the world. Thus, security, website, and trust played a pivotal role in the decision to use online banking. The government can facilitate this by offering financial assistance and providing infrastructural help for the overall development of online banking implementation.

Limitation and Future Study

The study was confronted with a number of limitations. The survey was conducted with a small sample size in a short time span and a convenient method of data collection. Due to this shortcoming, there is the possibility of an undetected bias subtly playing a role in the outcome. Therefore, a bigger sample size would be necessary to obtain a better result in a future study. This study collected data from a single state of Selangor in Malaysia, yet ignored others such as Trinangun, etc. A future study on the topic should include them in the sample frame so that a general comparison can be made. Another limitation was that this study collected data from one single point in time. Future studies could use a longitudinal approach to capture the changes that would occur in the long-term for the integration of online banking transaction novelty into an organizational setting. However, the results obtained in this study offered some important considerations to the marketing and banking practitioners with regards to the strategic implementation of the online banking services. Nonetheless, this study made a significant step in that direction because it investigated the direct influence on security, trust, and the website which in turn showed relevant relationships with the perceptions towards the online banking services. This study also offered some support for the proposed conceptual research model and an experimental basis for comparison in future studies. In terms of making the findings generalized at the international level, future studies can be based on data collected from other emerging economies in the region such as Singapore, Thailand, and Indonesia.

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Appendix 1: *Survey Instrument*

Security (five items)

- Banking company should provide a latest encryption technology to secure online transaction
- I will not feel secure sending financial information unless bank provide safeguard my account
- I need a secure communication access through online banking website
- I will not feel secure if bank update operating systems
- I will not feel secure if bank protect my personal information

Website (five items)

- The website of my bank is comprehensive
- The design of the website of my bank is attractive
- The website of my bank is always updated
- The website of my bank is convenient and quick to load and easy to use
- My bank's website provides details when bank charges apply

Trust (three items)

- Online banking customer's trust affects the demand
- I trust my bank because my bank maintain privacy for customers
- I trust my bank as it provides excellent online banking services

Online Banking Customer's Perception (four items)

- My parents, my friends and another third party encourage me to do online banking transaction because they have a positive perception of online banking
- My perception on online banking is positive because I receive enough information about e-banking service from my bank.
- I have a positive perception of the online banking service of my bank since I can access it anytime and anywhere.
- Because of easy access of information on products and services, I perceive the online banking services of my bank convenient.

Demographic information

- Gender: ☐ Male ☐ Female
- Age: ☐ Below 25 years old ☐ 26-39 years old ☐ 40 and above
- Occupation: ☐ Student ☐ Academic staff ☐ Administrative staff
- Monthly income: ☐ Below RM 1000 ☐ RM1001-RM2000 ☐ RM2001-RM3000 ☐ RM3001-RM75 ☐ RM7501-RM10,000 ☐ Above RM10, 000
- Would you suggest the e-banking website that you are currently using to your friends and family for their consumption? ☐ Yes ☐ No

Impact of Store Atmospherics on Customer Behavior: Influence of Response Moderators

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This study aims to explore the theme of creating and managing the store atmosphere of exclusive stores from a customer's point of view. The findings from the study indicate that store atmospheric factors have a significant positive correlation with customer approach behaviors, with intangible factors having the most significant impact among all factors. Store atmospheric factors influence not only customer emotions, but also customer perceptions of commodities and services. Price shows a negative correlation with the customer behavioral response. An important finding of the study reflects that a customer's perceptions and emotional state can affect their behavioral responses and perceptions. Emotional responses act as a moderator between store atmosphere and customer behaviors. A very interesting finding of the study is that the customer behavioral responses are influenced by both social and intangible factors. So, although social factors are difficult to manage, they are of considerable importance to the service provider.

Managers of retail and service outlets are increasingly recognizing that the store environment significantly affects sales (Milliman, 1982; Smith & Curnow, 1966; Stanley & Sewall, 1976) and customer satisfaction (Bitner, 1990; Harrell, Hutt, & Anderson, 1980). Attitudes towards the store environment have been studied and were found to sometimes be more important in determining store choice than attitudes toward the actual merchandise (Darden, Orhan, & Darden, 1983). Past researchers have found that specific attributes such as product assortment, price, location of the store, and

store layout have a strong impact on the store's overall image (Bearden, 1977; James, Durand, & Dreves, 1976). A positive store image and affordable merchandise are the keys in order for retailers to attain and maintain success in such an increasingly competitive marketplace (Dodds, Monroe, & Grewal, 1991). Moreover, as stated in many studies, store image is an important input in the consumer decision-making process (e.g., Nevin & Houston, 1980). Retailers are working hard to strengthen the environment in their stores in order to create a store atmosphere that will inspire consumer loyalty. Kotler (1973) suggested using atmospherics as a competitive tool in an attempt to attract and maintain a specific target market, especially where product or price differences were nominal. Some retailers claimed that they influenced customers' buying behavior by manipulating store atmosphere via the store's layout, color, lighting, and music.

The idea that store environmental factors can also influence subjective feelings experienced by consumers and influence the shopping intentions, satisfaction, consumption amount, and perceived quality has also been studied (Babin & Attaway, 2000). Since the store atmosphere can affect shopping behavior within the store, it is necessary to develop a framework with which to study such effects. This study attempted to apply the Mehrabian-Russell model (M-R model), an environmental psychology framework, to explore environmental variables in retail settings. The logic of the M-R model emerged as the dominant concept of explaining atmospherics' effects on emotions and behavior (Havlena & Holbrook, 1986). Holbrook and Gardner (1993) investigated the relation between the emotional dimensions of pleasure and arousal and the duration of a consumption experience, which was, in the case of their study, listening to music.

Mehrabian and Russell (1974) proposed the stimulus organism response model (S-O-R), which indicated that the external physical environment influenced an individual's internal state and behavior. Baker, Parasuraman, and Grewal (2002) described the three categories of environmental cues: design, ambient variables, and social variables. Many researchers have shown how environmental cues (music, scent, etc.) affected the emotional state of the consumer, which in turn caused behavioral changes (Chebat & Michon, 2003). Mattila and Wirtz (2001) added that consumers perceived service scapes holistically, and that responses to physical environments depended on a combination of effects. Olney, Holbrook, and Batra (1991) indicated that emotional dimensions like pleasure and arousal mediated the relationship between advertising content and attitudinal components.

The retail industry is concerned with how to improve shopping experiences in order to create a positive impression on customers and increase the length of time they spend in the store. To increase the overall consumption of the shopper, retail stores need to provide a shopping environment that attracts shoppers. To find the answer to all these questions, it is necessary to find the impact of an external shopping environment on customer shopping behaviors and how the store atmosphere should be managed in order to satisfy the customers. To fulfill these objectives, this study explored the relationship between the environment and human behavior in a retail context by using the M-R model, the emotional states induced, and the approach-avoidance behavior of the shoppers. The study explored the mechanism of the atmosphere in a retail store and its influence on a customer's perceived values (PERVAL Scale) and emotions (PAD Scale),

and their approach-avoidance behavior. The impact of perceived values and emotions as a moderator on shopping behaviors was also analyzed in the study.

Literature Review

Recent work has shown that emotions experienced in the store environment affected the outcome variables of interest to retailers (Donovan & Rossiter, 1982). According to Bitner (1992), retail environments interconnected the store's image and customers, they induced emotional reactions (Donovan et al., 1994), influenced the customers' decisive satisfaction with the service, and the amount of money and time spent in the store by the consumers (Bitner, 1990). Many retailers acknowledged the importance of store environment as a tool for market differentiation (Levy & Weitz, 2000).

Environmental Psychology Model

Environmental psychology focuses on two major constructs: the emotional impact and effects of physical stimuli on a variety of behaviors (Mehrabian & Russell, 1974). The theoretical model developed in work by environmental psychologists Mehrabian and Russell (1974) and Russell and Pratt (1980) were the main inputs to the study. Typically studies looked at the effects of store atmosphere on shopping behavior. In the S-O-R environmental psychology model proposed by Mehrabian and Russell (1974), three dimensions were provided that could describe the emotional states: pleasure, arousal, and dominance. The combination of these three different emotions resulted in different behavioral consequences that led a person to decide whether to remain in a specific environment or not (i.e., approach or avoid).

Donovan and Rossiter (1982) were the first to utilize the S-O-R model and studied retail stores as testing objects. They found the relation between environmental stimulus and behavioral intention existed in two emotional dimensions: pleasure and arousal. Eroglu, Machleit, and Davis (2001, 2003) empirically studied a model that proposed that the atmospheric cues of the online store influenced shoppers' emotional and cognitive states, which then affected their shopping outcomes. They laid the conceptual foundations for the extension of the S-O-R paradigm to online retailing, and provided empirical support for the significant effects of site atmospherics on shopper attitudes, satisfaction, and a variety of approach/avoidance behaviors. The S-O-R psychological model propositions showed a significant effect of site atmospherics on shopper attitudes, satisfaction, and various approach/avoidance behaviors as a result of the emotions experienced during the shopping episode. Marketing articles that have used the S-O-R framework to explain atmospheric effects include Spangenberg, Crowler, and Hasty (1996) and Bitner (1992).

Singh (2006) introduced customer experience value on the basis of the S-O-R model and took the foundation of customer valuations and perceptions to explore how the environmental perceptions and valuations of customers with different shopping motives affected their shopping behavior. Jacoby (2002) contradicted the traditional S-O-R model and emphasized that the traditional model lacked parsimony, comprehensiveness, coherence, and flexibility. In the modern model provided by

him, the three stimulus factors – stimulus, organism, and response – were integrated. Lindenberg and Steg (2007) analyzed the literature in environment psychology in light of this goal framing theory.

Baker (1986) considered that the design of a business environment could produce unique emotional impacts in customers' minds and could increase buying possibilities. He divided environmental factors into three categories: (1) ambient cues, that is, the ambient conditions that could potentially influence customers, such as temperature, music, noise and lighting; (2) design cues, referring to those aesthetic feelings that could be perceived by customers directly, including style, layout and architecture; and (3) social cues, referring to factors related to people in the environment, including customers and store employees. The number, type, and behavior of people were proposed to influence customers' perceptions of stores.

Customer Perceived Value

Customer perceived value states that "value is the consumer's overall assessment of the utility of a product based on perceptions of what is received and what is given" (Zeithaml, 1988). If it is true that retail customers are "value-driven" (Levy, 1999), then managers need to understand what a customer's value is and where they should focus their attention in order to achieve the needed market place advantage (Woodruff, 1997). In this context, Holbrook (1996) measured three dimensions: (1) extrinsic value and intrinsic value; (2) self-oriented value and other-oriented value; and (3) active value and passive value. Mathwick, Malhotra, and Rigdon (2001) took "economy" and "experience" as two measuring dimensions. Though the names used by the aforementioned scholars were different, their intentions all focused on "customer perception" and "customer benefit". The shopping value under a retail context included tangible shopping results and intangible value perceptions as well as customer emotions. Customers' shopping behaviors were considered from the acquisition view of the overall experience of value. Babin and Darden (1995) thought that experience value provided two kinds of benefits for customers: external and internal benefits. The former was to acquire concrete benefits from shopping, for example, the commodity purchased and the service enjoyed, etc. The latter referred to the preference of the purchasing experience itself and how the type of preference was related to the results of the experience (Holbrook, 1994).

Bitner's (1992) service scapes model was the earliest theoretical model that involved the concept of perception in store atmosphere. It considered that in the store atmosphere, customers would have perceptual, emotional, and psychological reactions against the environment they were in. These three kinds of reactions would have varying effects on customer behaviors. Sweeney and Wyber (2002) considered that customers' emotional and perceptual reactions must be considered at the same time when exploring the impact of store atmosphere stimulus on customers. The findings showed that the emotional condition and perceptual process could interfere with the impact of musical stimulus on approach-avoidance behaviors at the same time. Sanchez–Fernandez, Iniesta-Bonillo, and Holbrook (2009) documented that deep classification customer perceived value had two constructs. The first defined customer value as a one-dimensional construct based on price and means end theory.

In the second, consumer value was a multidimensional construct that entailed several interrelated dimensions and focused on hedonistic and utilitarian value.

Customer Shopping Emotions

Mood states are a vital set of affective factors that influence consumer behavior in a number of contexts. Specifically, consumers' emotion or mood states are considered a situational variable that affects one's purchasing behavior (Dawson, Bloch, & Ridgway, 1990). Dawson et al. (1990) worked upon the transient emotions that influence shoppers' satisfaction and future shopping intensions. Swinyard (1993) showed interacting effects of in-store mood and the quality of consumers' shopping experiences on future shopping intentions. Mehrabian and Russell (1974) examined ambient (lighting and music) and social cues (number and friendliness of employees) on respondents' pleasure and arousal, and willingness to buy.

Psychological evidence has shown that emotional states can be represented in nearly three orthogonal dimensions, and the pleasure-arousal-dominance (PAD) emotional state model (ESM) provided a sufficient description of emotional states. In the ESM, emotions were classified into six categories (+/- Pleasure, +/- Arousal, and +/- Dominance). The M-R model, which explained the relationship between environments, intervening variables, and behaviors relevant to retail setting using a Stimulus-Organism-Response paradigm, received the widest usage in order to explain shopping emotions in consumer research. According to the M-R model, three emotional responses of pleasure-displeasure, arousal-non arousal, and dominance-submissiveness mediated people's approach or avoidance reactions to environments.

Donovan and Rossiter (1982) showed that pleasure and arousal were significant mediators of intended shopping behaviors including time spent in the store, interpersonal interaction tendencies, willingness to return, and estimated monetary expenditures. The relationship was strongest for the pleasure state, whereas arousal increased the time spent in the store, willingness to interact with sales personnel, and overspending in pleasant environments. It was found that pleasure resulting from exposure to the store atmosphere influenced such in–store behaviors as spending levels, amount of time spent in the store, and willingness to visit again. These findings further specified the nature and range of emotional experiences encountered at the retail level, the marketing/retail factors that affected them, and their impact on the outcome measures of interest to retailers. A particular purpose of this study was also to add to this research stream. Consumers understand that a wide variety of store types can provide the nature of emotional responses to shopping. Emotions are extensively discussed in the marketing research. However, shopping emotions are not extensively described in the marketing literature (Machleit & Eroglu, 2000). The previous research explored the interaction factor for emotional responses to products and services (Desmet, 2005).

Customer Behavior Responses

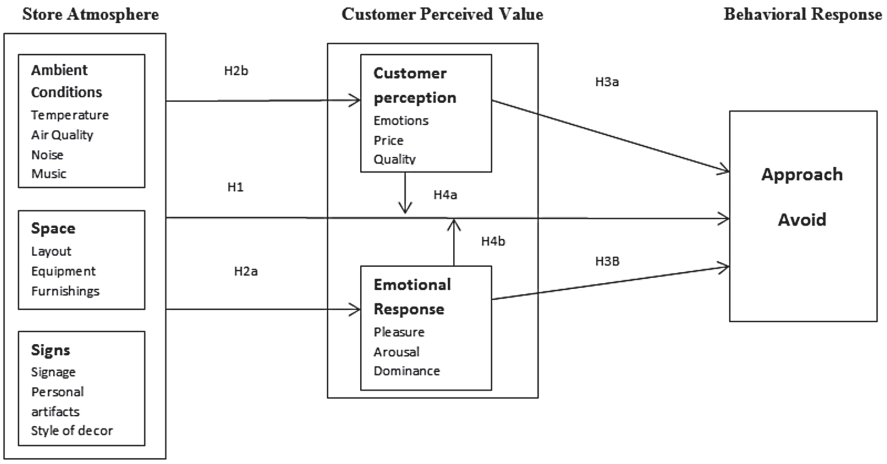
In Mehrabian and Russell's (1974) S–O–R model, customer behavioral responses were the customer's intentions of approaching or avoiding a certain environment, referred to as approach-avoidance behaviors. Approach behavior referred to the approach to certain environments by staying, exploring, interacting, and identifying with it, having a good impression of the environment and having the intention to return to that environment again. Avoidance behavior referred to just the opposite; to express dissatisfaction, boredom with the environment and wanting to leave without any intention to return. Customers' responses depended on the extent initiated by the environment and could be used to predict customer emotions and their responses to environment.

In a retail context, Donovan and Rossiter (1982) applied the S–O–R model to study the impact of emotion on customers' presence behaviors. They considered: (1) in general conditions, appropriate arousal level can promote customers to enact accepting behaviors, but excessively high or excessively low arousal level will make customers choose avoidance behaviors; (2) in a pleasant environment, arousal level and customers' acceptance have a positive correlation; (3) in a unpleasant environment, arousal levels and avoidance behaviors have a positive correlation. Baker (1986) and Baker, Levy, and Grewal (1992) studied the connection between a physical environment and a customer's psychological status. Baker et al. (1992) considered that an individual's emotional response to an environment revealed the ability of the environment-regulated emotions; that is, the extent that a customer perceived pleasure and arousal in the environment. They examined the impact of two kinds of environmental factors on customers' emotional assessments and found that surrounding environment factors (background music) affected the extent of customer pleasure along with social factors (store service staff). The extent of arousal that social factors influenced customers complied with the opinions of the S–O–R model in their findings in that customer emotions regarding a store environment had important moderating effects on buying behaviors.

Conceptual Model

Bitner (1992) first introduced the opinion of cognitive valuation in the S–O–R model, and proposed that customers make use of environmental information to infer and valuate the commodity and service quality, as well as the behaviors they should perform. Retail stores presented commodity and service information to customers through the design of a store atmosphere. Customers would sort the retail store into a certain type according to their perception of the environment and thus form an overall impression to apply as the standard of purchase decisions. In contrast to research of emotions, the current study focused on how the environment affected customers' perceptions towards the store. A conceptual model has been framed which is described in Figure 1. The model explains the individual impact of all three factors of the store atmosphere (ambient conditions, space, signs) on the customers' perceptions and their emotional response. Moreover, the model is extended to determine the relationship of store atmosphere, customer perceptions, and emotional responses with behavioral responses (Avoid and Approach).

Figure 1: *Conceptual Framework*



Using the study of literature and the conceptual framework developed, this study intended to explore the relationship among the shopping environment of a retail store, customer buying perceptions, customer emotional responses, and customer behavioral responses. Research hypotheses were developed as follows:

H1. Store atmosphere has a positive impact on customer behavioral response.

H2a: Store atmosphere has a positive correlation with emotional state.
H2b: Store atmosphere has a positive correlation with customer perceptions.

H3a1: Product quality is positively correlated to customer behavioral response.
H3a2: Product price is negatively correlated to customer behavioral response.
H3a3: Product emotions are positively correlated to customer behavioral response.
H3a4: Social attributes are positively correlated to customer behavioral response.

H3b1: Pleasure has a positive correlation with shopping behavior.
H3b2: Arousal has a positive correlation with shopping behavior.
H3b3: Dominance has a positive correlation with shopping behavior.

H4a: Customer perceptions will moderate the impact of store atmosphere on customer shopping behavior.
H4b: Emotional states will moderate the impact of store atmosphere on customer shopping behavior.

Research Methodology

Research Designs

The research design of the study involved constructing a survey that measured parameters of customer perceptions and emotional responses and also studied the impact on behavioral responses. A structured questionnaire was designed which had five sections. The first section consisted of basic personal data including gender, age, qualification, monthly income, etc. The second part of the questionnaire included the construct of store atmosphere measurement instruments. The third and fourth parts of the questionnaire showed the items for customer perceptions and emotional states. Finally, the fifth part of the questionnaire had items that reflected the construct of behavioral response. This study adopted the convenience sampling method and data was collected from 15 exclusive apparel stores in Jammu City of the J&K state in India. The stores were selected at random. The customers who were leaving the store after shopping or the customers who were shopping at the store were selected at random and asked to answer a few questions. Some customers denied responding, so a total of 273 customer responses were collected.

Measurement Scales

Store atmosphere factors:

The construct of store atmosphere was measured using the scale provided by Bitner (1992). He separated physical environment into three categories: ambient conditions (12 items), spatial layout and functionality (7 items), and signs, symbols, and artifacts (3 items). A 5–point Likert scale was used which had a total of 22 items that were slightly modified in the context of the present study.

Customer Perceived Value:

Customer perceived value was measured using the scale developed by Sweeney and Soutar (2001). The PERVAL scale measured the customer perceived value, consisting of 19 indicators in 4 categories. This scale aimed at evaluating customer perception of value on a long-term brand level. This kind of measuring method was used to determine the consumption value that could result in attitude and behaviors in the retail transaction environment. It formed four independent value dimensions: emotional, social, quality/performance, and price/value for money. The scale was measured using a 5–point Likert scale.

Emotional state:

Mehrabian and Russell's (1974) PAD semantic differential measure approach was adopted to determine the construct of emotional state. The Mehrabian and Russell emotional dimensions of pleasure and arousal have become principal to marketing contexts, and have the ability to capture a wide range of emotional states experienced in consumption experiences (Dawson et al., 1990). Yet a number of earlier studies found that the third dimension, dominance, was a poor indicator of purchase behaviors. Hence, the third dimension of dominance was not included. The twelve scales drawn from the PAD paradigm were: (Pleasure) happy/unhappy, pleased/annoyed, satisfied/

unsatisfied, pleasant/unpleasant, contented/depressed, important/unimportant; (Arousal) frenzied/sluggish, excited/calm, stimulated/relaxed, jittery/dull, wide awake/sleepy, aroused/not aroused. The order and directions of the scales were randomized, and each was measured using a 7–point scale between bipolar adjectives as in the semantic differential scale.

Customer Behavioral Response:

The construct of customer behavioral response was taken from Mehrabian and Russell (1974). Customer behavioral responses were customers' intentions of approaching or avoiding a certain environment. This study used the revised scale proposed by Sweeney and Wyber (2002) on the basis of Donovan and Rossiter (1982), expressing the approach behaviors under retail context as seven items that included customer intentions of visiting, impulse buying and a satisfactory experience, etc. The scale was purified using factor analysis and finally a 4–item scale was generated to be answered on a 5–point Likert scale.

Results and Analysis

Reliability and Validity

Reliability and validity were assessed on the four multi-item constructs of store atmosphere, customer perceptions, emotional response, and behavioral response. The process of purification consisted of factor analysis (varimax rotation and elimination of items below 0.50 loadings), followed by the examination of the levels of internal consistency. The sample items were first checked for reliability using Cronbach's alpha. A value of 0.6 or less generally indicated unsatisfactory results. The value of Cronbach's alpha for the sample selected for the study came out to be 0.845, greater than 0.6. This implied that the data collected was reliable. The reliability of data collected was tested on individual scales also. The Cronbach's alpha for the construct of store atmosphere came out to be 0.883 which suggested that the three broad variables (ambient conditions, space, and signs) were highly reliable in assessing the store atmosphere construct. The reliability of variable customer perceptions came out to be 0.798, 0.875 for emotional state and 0.866 for the behavioral response construct which were all above the desired score of 0.6, also indicating satisfactory reliability. The results can be analyzed in Table 1.

The process of the purification of the factor started from running a factor analysis of the statements of impulse buying and then shopping emotions. A separate factor analysis was carried out on the 18 emotional measure items and individual factor loadings of pleasure, arousal and dominance were deduced (Billings, 1990). The results of factor analysis on this study can be analyzed in Table 1 and Table 2. The study made use of the sample adequacy of Kaiser–Meyer Olkin (KMO) and Bartlett's Test of Sphericity to measure and examine whether constructs of this study were fit for factor analysis or not. Individual KMO values of the four constructs were evaluated and the value for store dimensions, customer perceptions, emotional states and customer behavioral responses were 0.861, 0.886, 0.821 and 0.855 respectively. Meanwhile Bartlett's Test of Sphericity achieved a significant level, reflecting the data was fit for conducting factor analysis.

Table 1: *Measures, Construct Reliability and Factor Loadings for All Constructs*

Construct	Measures	Loadings	Construct Reliability
Store Atmosphere	***Ambient Conditions***		**0.883**
	The background music played in the stores is soothing	0.772	
	The type of music which is played at stores is the kind of music I usually listen to	0.659	
	The existence of music increases my well-being and comfort	0.813	
	The lighting in the store makes the merchandise more attractive	0.792	
	The lighting in the store makes me evaluate the quality of merchandise	0.881	
	The overall lighting at the store is adequate	0.847	
	The better the lighting, the more comfortable I am	0.691	
	Noise at the store distracts me from selecting the goods	0.852	
	The cleanliness of the store attracts me towards the store	0.819	
	The overall ambience in the store increases my duration at store	0.901	
	The quality of air in the store makes me relaxed	0.783	
	The temperature of the store makes me stay for a longer time at store	0.918	
	Space and functions		
	The corridors within the store allow for good circulation	0.683	
	The store has sufficient space to locate my product easily	0.728	
	Each section of the store is properly managed	0.739	
	The product organization allows me to identify the location of products easily	0.843	
	The furnishing of the store is very comfortable	0.874	
	Location of each section within the store is important	0.779	
	Store displays allow me to see the available products more easily	0.831	
	Signs and Symbols		
	The signs used within the store make it easier to locate my product	0.938	
	Signs and symbols within the store are important	0.846	
	Signs and symbols help me recall the brand	0.862	

Construct	Measures	Loadings	Construct Reliability
Customer Perceptions	***Quality***		**0.866**
	Product has consistent quality	0.918	
	Product is well made	0.883	
	Product has an acceptable standard of quality	0.831	
	Product would last for a long time	0.532	
	Product will perform consistently	0.853	
	Emotions		
	Product is one that I would enjoy	0.694	
	Product would make me want to use it	0.785	
	Product is the one that I would feel relaxed about using	0.763	
	Product would make me feel good	0.753	
	Product would give me pleasure	0.798	
	Price		
	Product is reasonably priced	0.859	
	Product offers value for money	0.818	
	Product is a good product for the price	0.786	
	Product would be economical	0.583	
	Social		
	Product would help me to feel acceptable	0.885	
	Product would improve the way I am perceived	0.831	
	Product would make a good impression on the other people	0.803	
	Product would give its owner social approval	0.912	
Emotional State	Unhappy / Happy	0.943	**0.875**
	Annoyed / Pleased	0.918	
	Unsatisfied / Satisfied	0.886	
	Melancholic / Contented	0.854	
	Despairing / Hopeful	0.793	
	Bored / Relaxed	0.829	
	Relaxed / Stimulated	0.859	
	Calm / Excited	0.837	
	Sluggish / Frenzied	0.903	
	Dull / Jittery	0.951	
	Slept / Wide Awake	0.893	
	Unaroused / Aroused	0.851	
	Controlled / Controlling	0.897	
	Influenced / Influential	0.752	
	Cared For / In Control	0.694	
	Awed / Important	0.736	
	Submissive / Dominant	0.862	
	Guided / Autonomous	0.803	
Behavioral Response	I will recommend the product to my friends	0.894	0.866
	I am willing to buy	0.905	
	I will repeat my purchase in the store	0.861	
	Shopping in the store was a nice experience	0.786	

After the factor analysis, each of the constructs was further reduced and a smaller set of constructs was developed. For the first construct, store atmosphere, a factor analysis was conducted and reduced the data into 7 factors. The attribute value of each factor dimension was bigger than 1 with a cumulative total variance explained ratio of 91.956%. The dimensions of factor analysis were named as Intangible Factors, Image of Service Provider, Physical Ambience, In Store Spacing, Store Friendliness, Social Attribute, and Store Design. A total of 18 items were present in the customer perception construct which was reduced into 4 factors with a total variance explained of 88.933%. The dimensions of the factor were named as Sociability with Product, Value for Money, Acknowledgment with Product, and Perception of Service. For the third construct of customer behavioral response a factor analysis was run which reduced it into two factors which were named as Approach and Avoid.

Table 2: *Regression Analysis Between Store Atmosphere and Consumer Behavioral Response*

Order of Importance	Factor	Regression Coefficient
1	Intangible Factors	.898
2	Image of Service provider	.798
3	Social Attribute	.646
4	Store Friendliness	.886
5	Store Design	.825
6	In Store Spacing	.734

A multiple regression analysis was run between the store atmosphere factors and the behavioral responses. Store atmosphere showed a significant relationship with consumers' behavioral responses with all beta values having a significantly strong value. The results can be viewed in Table 2 and depict the importance of Intangible Factors on customer behavioral response with the strongest beta value of .898, which illustrated the importance music, scent, noise, and room temperature had on consumers' behavior. Consumers enjoyed shopping at those stores where the intangible factors were maintained by the retailer. Consumer behavioral response was also influenced by Store Friendliness with the beta value .886 which suggested that the relationship maintained by the retailer with the customers affected their overall behavior. Although the lowest beta value but significantly strong value was reported for Social Attribute at .646. Thus, all the store atmospheric variables significantly affected the customer behavioral responses, hence supporting H1.

Table 3: *Regression Between Store Atmospherics and Customer Perceived Value*

Factor of Store Atmospherics	Regression Coefficient		
	Pleasure	Arousal	Dominance
Intangible Factors	.891	.798	.831
Image Of Service Provider	.849	**	.674
Physical Ambience	.769	**	.791
In Store Spacing	**	.676	**
Social Attribute	.772	.784	.742
Friendliness	.810	**	**
Store Design	.696	.812	.861

Note: ** = not significant (p>.005)

A multiple regression analysis between store atmosphere factors and emotional states (pleasure, arousal, and dominance) was also run. Pleasure, arousal, and dominance reported a significant relationship with store atmosphere. In the case of pleasure, all store atmosphere factors showed a significant B coefficient except in store spacing. While in the case of arousal, image of the service provider, physical ambiance, and friendliness showed an insignificant B coefficient. When dominance was measured, all the factors showed a positive regression coefficient except in store spacing and friendliness. It can be said that store atmosphere factors were significantly affected by emotional states (pleasure, arousal, and dominance), which supported H2a.

Table 4: *Regression Between Store Atmosphere and Consumer Perception*

Factor of Store Atmospherics	Regression Coefficients			
	Sociability with Product	Value for Money	Acknowledgement with Product	Perception Service
Intangible Factors	.684	.846	**	.831
Image of Service Provider	.761	**	.759	.781
Physical Ambience	.747	.612	.812	.842
In Store Spacing	.695	**	.775	.649
Social Attribute	.819	.854	**	.762
Friendliness	.779	**	.614	.883
Store Design	**	.775	.845	.819

Note: ** = not significant (p>.005)

Table 4 depicted the result of the regression between store atmospherics and customer perceptions. Sociability with product showed the highest beta value (.819) for social attributes, whereas intangible factors revealed the lowest beta value (.684) for intangible factors. But store design had an insignificant regression coefficient. In the case of value for money, in store spacing, social attribute, and friendliness showed an insignificant relationship. The relationship between acknowledgements with product and intangible factors, and social attributes also showed an insignificant association. In acknowledgements with product, physical ambience showed the highest beta value (.812). Hence, it can be deduced that store atmosphere had a significant relationship with customer perceptions. Emotional states and customer perceptions both had a significant relationship with store atmosphere so H2 was supported.

Table 5: *Logistic Regression Between Customer Perception and Customer Behavioral Response*

	B	S.E	Sig	Exp B
Product Quality	.521	.203	.000	.953
Product Price	-.786	.094	.000	.691
Emotions	.641	.125	.000	.873
Social Attribute	.588	.139	.001	.716
Pleasure	.795	.132	.002	.743
Arousal	.827	.097	.002	.818
Dominance	.712	.045	.213	.687
Constant	.973	.573	.000	.796

A logistic regression was run to find out the probability of behavioral response as a function of emotional states and customer perceptions. These 7 independent variables in logistic regression produced the likelihood ratio chi-square of 29.101 (p=0.002). In case of Customer Perception, all four factors came out to be significant. For product quality, Exp (B), came out to be .953 and the regression coefficient was significant (p=.000), thereby supporting H3a1. Emotions and Social attributes were also significant with Exp (B) as .873 and .716 respectively. This supported hypothesis H3a3 and H3a4. But the product price showed a negative relation with the customer behavioral response. The B value came out to be -.786 but it was significant with p=.000. So the hypothesis H3a2 is supported. Similarly when we evaluated the Exp (B) for pleasure and arousal it came out to be .743 and .818 respectively with the regression coefficient as significant (p=.000). The results show that pleasure and arousal were important factors towards the behavioral responses of customers. This supported hypothesis H3b1 and H3b2. The logistic regression run on dominance showed opposite results. Although the Exp (B) came out to be .687, the regression coefficient was insignificant (p=.213). This showed dominance had no impact on customer behavioral response.

It can be concluded from the aforementioned analyses that the results received from efforts on store atmosphere management and the promotion of positive emotions were much better than reducing the effects of negative emotions. Meanwhile, product quality, emotions, and social attribute had a positive correlation with customer approach behaviors, indicating commodity and service perception influenced their sense of satisfaction, impulse consumption behaviors, and intention of repeated presence.

Table 6: *Moderating Effect of Customer Perceived Value on Behavioral Responses*

	STEP 1			STEP 2			STEP 3		
Variables	B	t	p	B	t	p	B	t	p
Quality	.751	3.825	.000	.681	2.289	.003	.769	3.558	.000
Price	-.373	-2.402	.000	-.440	- .112	.003	-.210	-1.262	-.794
Emotions	.833	5.256	.002	.827	5.876	.001	.7873	.234	.000
Social	.769	3.585	.559	.708	3.651	.516	.745	4.151	.149
Store Atmosphere	.728	3.74	.000	.864	4 .963	.000	.663	2.567	.000
Behavioral Response				.745	3.788	.000	.815	4.232	.000
Quality × Behavioral Buying							.845	5.988	.002
Price × Behavioral Buying							-.491	.775	.000
Emotions × Behavioral Buying							.854	3.765	.000
Social × Behavioral Buying							.723	2.705	.090
Store Atmosphere × Behavioral Buying							.843	4.856	.000
Constant	5.374	45.92	.000	5.382	47.696	.000	10.26	7.427	.000
R^2	.798			.765			.864		
Adjusted R^2	.818			.795			.879		
F value	10.363			9.923			11.387		

Another important aim of the study was to investigate the moderating effect of customer perceptions on behavioral responses. The data were analyzed using a hierarchical moderated regression. The moderated regression results are summarized in Table 6 above. Entering the independent variables, the moderator, and the interaction terms in the multiple regression generated an R-square of .839 (F =11.387, p = 002). It was hypothesized that customer perceptions would moderate the relationship between store atmospheric factors and customer behavioral responses but as represented in Table 6, the interaction term of quality and behavioral responses in Step 3 was statistically significant (t = 5.988, p = .002) and emotions also played a strong role with t= 3.765 (with p =.000). But price was seen to have a negative relation with the behavioral responses with B= -.491, although the value was significant where p =.004 Thus, the hypothesis H4a was supported because customer perceptions acted as a moderator between store atmosphere and behavioral responses. The significant value of store atmosphere and behavioral response signified that both had a strong correlation (t = 4.856, p =.000). Overall, findings from the moderated regression analysis demonstrated that customer perceptions have a moderating role in quality, price, and emotions.

Table 7: *Moderated Regression Between Emotional States and Behavioral Response*

	STEP 1			STEP 2			STEP 3		
Variables	B	t	p	B	t	p	B	t	p
Pleasure	.711	3.921	.000	.743	3.169	.003	.674	2.458	.000
Arousal	.883	4.487	.000	.8694	.312	.000	.762	3.262	.000
Dominance	.862	5.156	.000	.817	3.976	.001	.787	3.234	.000
Store Atmosphere				.8544	.618	.000	.887	3.232	.000
Behavioral Buying							.845	4.678	.002
Pleasure× Behavioral Buying							.818	4.775	.001
Arousal× Behavioral Buying							.754	3.765	.000
Dominance×Behavioral Buying							.723	3.705	.000
Store Atmosphere× Behavioral Buying							.756	3.662	.000
Constant	5.321	42.72	.000	5.273	45.196	.000	10.56	7.227	.000
R^2	.768			.754			.839		
Adjusted R^2	.832			.798			.865		
F value	9.916			9.327			10.410		

Another important aim of the study was to investigate the moderating effect of emotional states on behavioral response. The moderated regression results were summarized in Table 7. Entering the independent variables, the moderator, and the interaction terms in the multiple regression generated an R-square of .839 (F = 10.410, p = 000). It was hypothesized that emotional state would moderate the relationship between store atmosphere and behavioral response. As represented in Table 7, the interaction term of pleasure and buying impulsiveness traits in Step 3 was statistically significant (t = 4.775, p = .001) and arousal and dominance also played a strong role with t = 3.765, and t = 3.705 respectively, with p = .000. Thus, the hypothesis was supported as store atmosphere was found to affect the pleasure, arousal, and dominance with behavioral response. Store atmosphere was found to be significantly associated with behavioral response. Overall, findings from the moderated regression analysis demonstrated that emotional states had a substantial moderating role in pleasure, arousal and dominance.

Conclusion

Store Atmosphere Factors Will Impact Customer Behavioral Response Significantly (S-R)

All store atmospheric factors had a significant impact on customer behaviors. In order from highest to lowest according to the extent of impact, the factors were intangible factors, image of service provider, social attribute, physical ambience, store friendliness, design, and spacing. This revealed that the intangible factors of a store were the biggest environmental factors that impacted customer behavioral

response. Its power of influence and interpretation were significantly higher than other factors. Customers paid special attention to the design of a store including whether the layout and overall structure was reasonable, how the interior decoration was, whether the signs were clear, and whether the display of commodities in corridor space, commodity information and classification was complete and convenient. All the aforementioned factors have a significant positive correlation with customer approach behaviors, indicating that customer behaviors in an exclusive store were mainly affected by the environmental factors that had the biggest relevance with commodity. The image of a service provider and social attribute, that is, the clothing and attitude of service personnel, were also considered by customers as critical factors that influenced their behaviors.

Store Atmospheric Factors Will Impact Customer Perceived Value (S-O)

This study added cognitive valuation as an important driving factor of customer perceived environment on the basis of the S-O-R model to explore how customer perceptions and emotional states influenced customers' environment perceptions and their shopping behavior responses. Therefore, the effective management of service provided significantly promoted customer perceptions of commodity value. Secondly, the factors that influenced customer perceptions are sociability with the product and acknowledgement with product. When the emotional states of pleasure, arousal and dominance were discussed, all three factors showed significant importance towards the store atmospheric factors.

Customer Perceived Value Will Affect Customer Approach Behavior Significantly (O-R)

It can be concluded from the aforementioned analyses that the results received from efforts on store atmosphere management and promotion of positive emotions were much better than reducing the effects of negative emotions. Meanwhile, factors of customer perceptions, quality, emotions, and social attributes had a significant positive correlation with customer approach behaviors. Only price showed a negative correlation with the behavioral response.

Customer perceptions and emotional states showed a moderating effect between store atmospherics and customer behavioral responses. Customer perceptions acted as an interface between the store atmospherics and behavioral responses. Similarly, emotional state responses showed a moderating effect between store atmospherics and behavioral responses. The interface effect was not very obvious, which indicated that store atmospheric factors influenced customer behavioral responses through channels.

Managerial Implications

According to analytical conclusions, this study proposed the following suggestions that can be taken as references when enterprises in the industry make marketing strategies.

Management of Retail Environment's Design Factors

Empirical studies showed store design factors were significantly correlated with their impact on customer perception and customer behavioral response. According to the conclusion that design factors significantly affected customer perceived value, exclusive stores should pay attention to highlight the functional value of design factors and promote customers' perceptions of commodity value with a reasonable display and information presentation of commodities. Other than the common application of promotional commodities in decorated carts and large-size promotional signs, other alternatives of comparing similar commodities include putting main commodities with high profits and those with a high price side-by-side to increase the chances of a customer selecting them. All these methods can promote a customer's perception of commodity value effectively. Secondly, based on the conclusion that design factors had a significant impact on customers' positive emotions, exclusive stores should design the overall layout of the store environment based on a shopping customers' mood when managing design factors in order to make customers feel relaxed and at ease without any anxiety and promote positive emotions. Clear and explicit signs navigating the customer throughout the store should also be installed as well as the locations of other functional facilities so that customers can see them clearly when entering the store. In addition, a special atmosphere created for customers to promote their enjoyment in shopping can increase the frequency of their visits and the duration of each visit. Both can be quite effective in increasing sales volume.

Management of Retail Environment's Social Factors

A retail environment's social factors mainly affected customers' perception evaluation and behavioral responses. Social factors were factors that were difficult to control by retail enterprises. But they could influence social environmental factors through the appropriate management measures and marketing strategies. For example, enterprises could improve the service staff's clothing and behavioral management through the regulation of services. They could also reduce the crowds in stores through a reasonable route design in the store so as to enable it with a favorable socially interactive atmosphere. Research outcomes showed that the service behaviors and emotional expressions of service staff were key factors that influenced a customer's consumption, emotion, satisfaction, and desire for repurchase. If the service staff were concerned about customer benefits, knowing the customer's demands and providing them with prompt services would enable customers not only to experience the perfect shopping environment, but also to perceive the amicability, honesty, and concerns of the staff. They would definitely leave the customers with an unforgettable impression and thus promote customer trust and satisfaction in the store and increase the likelihood they would return.

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Does IFRS Adoption Influence Financial Reporting?: An Empirical Study on Financial Institutions

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This paper primarily examines the effect of the mandatory International Financial Reporting Standards (IFRS) adoption in Canada by Canadian financial institutions. It is a comparative study between the Canadian GAAP financial reporting from 2008 to 2010 and IFRS financial reporting from 2011 to 2012. Since this research is an empirical study, the quantitative research method is applied. The research question for this research study is: Does IFRS adoption influence financial reporting? This research finds that earnings quality has increased due to an increase in value relevance (earnings influence to market price), increase in persistency and predictability in earnings and cash flows, increased influence of earnings to shareholder value, and increase in accruals and timeliness loss of recognition (reduce in income smoothing). However, it also finds that valuation usefulness of earnings to book value per share (accounting valuation) has reduced.

Over the past decade, the International Financial Reporting Standards (IFRS) has emerged as the dominant reference for financial reporting in over one hundred and twenty countries around the world. While there is extensive research worldwide on the impact of adopting IFRS, this research proposes that examining the Canadian experience (recently adopted IFRS in 2011) may provide relevant information based on its culture and capital market, as previous studies did when the European countries adopted IFRS in 2005. It is also believed that results from this study will provide relevant information to United States accounting scholars and standard setter (FASB), as both countries GAAPs are comparable and the respective capital markets are similar in nature. That is, the research findings will provide some useful hints as to what the U.S. firms and markets should expect from the adoption of the IFRS.

From 2011, the Canadian public companies were required to report the financial information using the International Financial Reporting Standards – a change of reporting culture from the Canadian GAAP. For two decades, Canada's accounting standard setter had a convergence policy towards the U.S. GAAP, primarily adopting the U.S. standards with some modification or reconciliation (mostly in the culture of rule-based standards, a stringent application of accounting regulations). The purpose of this preliminary empirical research on the IFRS, primarily characterized as a principal-based standard (difficult to circumvent provision in the form of transaction), in Canada, is to investigate whether the adoption of the IFRS by the Canadian financial institutions enhances accounting reporting quality. To do so, as demanded each time the IFRS were implemented in respective countries, this research pursued a comparative approach. First, it studied the pre-IFRS period (2008-2010) under the Canadian GAAP, then compared that with the present IFRS period (2011-2012), in order to better understand the nature of the accounting quality, along the defined accounting quality attributes of the reported earnings, accruals, persistency, value relevance, predictability, income smoothing, timeliness loss of recognition, and reporting aggressiveness. Previous studies concerning the European countries showed an overall increase in earnings management in the post-adoption period, documented by an increase in income smoothing and no significant change in managing earnings towards a target. The findings derived from the measurement of timely loss recognition indicated that the IFRS adoption was associated with a decrease in the timeliness of the recognition of large losses with a contemporaneous increase in the timeliness in recognizing economic losses relative to gains in the reported income. As for the value relevance tests, results highlighted that the IFRS adoption increased the combined value relevance of the book value and earnings in particular, while the outcomes of relative value relevance analysis highlighted that earnings markedly improve the ability to explain stock prices in the post-adoption period compared to the pre-adoption one.

It is evident that the financial reporting presentation under the IFRS is much more detailed in nature relative to the Canadian GAAP (despite similar principle-based framework as IFRS) and the United States GAAP (rule-based framework). That is, under the IFRS, statement of operations items are detailed in nature and include items such as amortization, purchases of materials, transportation costs, employee benefits, advertising costs, cost of sales, and cost of distribution. It is theoretically believed that the adoption of the IFRS is associated with earnings becoming timelier, more volatile and more informative, making their introduction beneficial for investors and shareholders. The two most frequently claimed benefits associated with the IFRS adoption are an increase in information quality and an increase in accounting comparability. The highest quality standard indicates a standard that either reduces managerial discretion over accounting choices that inherently disallowed smoothing or overstatement of earnings. According to Ball (2006) and Choi and Meek (2005), IFRS has the potential to facilitate cross-border comparisons, increase reporting transparency, decrease information costs, reduce information asymmetry and thereby increase the liquidity, competitiveness, and efficiency of the markets.

The properties of accounting numbers such as earnings smoothness and magnitude of accruals were affected not only by the underlying economic determinants and the exercise of the managerial judgments, but also by the nature of the accounting standards. For example, the IFRS permitted capitalizing development expenditures that were expensed under many domestic accounting standards. This increased earnings and reduced earnings volatility. Similarly, the IFRS required goodwill impairment rather than systematic amortization. Again, this increased accruals and earnings except during periods when goodwill was impaired. Another example of a potential significant change in accruals was the recognition of employee benefit expenses that were not recognized prior to the IFRS adoption. This could reduce accruals and earnings but also potentially increase smoothing. The broader point was that the adoption of certain standards could alter the properties of earnings without necessarily changing the accounting quality. According to Schipper and Vincent (2003), earnings were important to a firm because they were used as a summary measure of the performance of a firm by a large variety of users. Earnings were said to be persistent when they recurred over time, or when they were sustainable or permanent. It also referred to the extent to which an innovation (unexpectedness) in the earnings series caused investors to revise their future earnings expectations (Boonlert, 2004). Researchers measured the persistency of earnings by looking at the explanatory power of the past earnings in relation to present earnings. When the past earnings were not associated with the present earnings, the earnings were not persistent or recurring. Predictability was defined as the ability of current earnings to predict future earnings and cash flows from operations. Current and also past earnings were the input for forecasting the future earnings/cash flows. Smoothness was measured by the amount of variability of the cash flow and the variability of earnings (Leuz, Nanda, & Wysocki, 2003). Also, smoothness could be seen as a desirable earning attribute as managers used information about their future income to smooth out momentary fluctuations. This gave more representative reported earnings, as these earnings contained future information. Value relevance was determined by measuring the correlation between the income variables (e.g., EPS) and the market price per share. According to Lang, Raedy, and Wilson (2006), stock prices could be explained as a multiple of earnings. Market prices followed earnings, (i.e., changes in earnings will affect the market prices). The higher the explanatory power of the earnings, the more value relevant the earnings were. Since more value relevant earnings would describe the firm's asset price more accurately, earnings were judged to be of high quality when they were high value relevant. Warfield and Wild (1992) suggested that the market returns should lead annual earnings and have a predictive power over the investors. If earnings had a greater predictive power under IFRS, they should be anticipated much more before the release of the annual report under IFRS than under Canadian GAAP.

Literature Review

Penman (2007) stated that the quality of earnings was based on the earnings persistency, and predictive ability of the earnings. The view was that earnings were to be of high quality when the firm's past earnings were strongly associated with its future earnings. Other researchers viewed earnings to be of higher quality when earnings were value relevant; for example, the earnings were strongly associated with the security's price (Francis & Schipper, 1999). Voulgaris, Stathopoulos, and Walker (2011) believed that IFRS added noise to accounting numbers that made reported earnings less useful for evaluating managerial performance. This was mainly due to the adoption of the fair value accounting, which potentially made accounting numbers more value-relevant, but also more volatile and sensitive to market movements. In addition, they believed that whilst the IFRS may have made accounting earnings more useful for stock market valuation purposes, this may have been achieved at the expense of other purposes that accounting served (i.e., stewardship/performance contracting). In other words, as accounting numbers were designed to conform more and more closely with market values, the less they were able to provide information over what was complementary to market values for evaluating performance. Similarly, Kim and Suh (1993) believed that if accounting numbers became more sensitive to market movements, then the accounting-related signals provided little additional information about managing performance, as they no longer screened out market-related noise. Moreover, the move to fair value accounting caused accounting earnings figures to be more volatile (Barth, Landsman, & Lang, 2008). If the increase in earnings volatility was driven by events almost entirely outside the control of management, this also reduced the attractiveness of the earnings as a basis for performance-based contracts. Ball (2006) and Choi and Meek (2005) believed that the IFRS had the potential to facilitate cross-border comparability, increase reporting transparency, decrease information costs, reduce information asymmetry and thereby increase the liquidity, competition, and efficiency of markets. In addition, Ball (2006) noted that the fair value orientation of the IFRS could add volatility to the financial statements, in the form of both good and bad information, the latter consisting of noise which arose from inherent estimation error and possible managerial manipulation. Ahmed, Neel, and Wang (2012) stated that, the effects of the mandatory IFRS adoption on the accounting quality critically depended upon whether the IFRS was of higher or lower quality than domestic GAAP and how they affected the efficacy of enforcement mechanisms. By a higher quality standard, they meant a standard that either reduced managerial discretion over accounting choices or inherently disallowed smoothing or overstatement of earnings. If IFRS were of higher quality than domestic GAAP, and they were appropriately enforced, then one would expect mandatory adoption of IFRS to improve accounting quality. On the other hand, if IFRS were of lower quality than domestic GAAP or if IFRS weakened enforcement (i.e., because of increased discretion or flexibility) then it would potentially reduce accounting quality. Thus, the impact of IFRS on the accounting quality was an empirical question. This was supported by Leuz et al. (2003), Barth et al. (2008), Christensen, Lee, and Walker (2009), and Chen et al. (2010), who believed that accounting choices that resulted in greater income

smoothing, greater management of earnings to meet a target, and overstatement of earnings (or delayed recognition of losses) as compromising faithful representation of the underlying economics therefore, reduced accounting quality. Similarly, Barth et al. (2008) presented three reasons why the adoption of the IFRS could lead to improvements in the accounting quality. First, the IFRS eliminated certain accounting alternatives, thereby reducing managerial discretion. This could reduce the extent of opportunistic earnings management and thus improved accounting quality (Ewert & Wagenhofer, 2005). Second, IFRS was viewed as a set of principles-based standards and thus were potentially more difficult to circumvent. For example, under a principles-based standard it should be more difficult to avoid recognition of a liability through transaction structuring. Third, IFRS permitted measurements such as use of fair value accounting which better reflected the underlying economics than domestic standards. At the same time, Barth et al. (2008) also noted two reasons why the adoption of IFRS may reduce accounting quality. First, IFRS could eliminate accounting alternatives that were most appropriate for communicating the underlying economics of a business, forcing managers of these firms to use less appropriate alternatives and thus result in a reduction in accounting quality. Second, because the IFRS were principles-based, they inherently lacked a detailed implementation guidance and thus afforded managers greater flexibility (Langmead & Soroosh, 2009). For some important areas such as revenue recognition for multiple deliverables, the absence of implementation guidance would significantly increase discretion and allowable treatments depending upon how they were interpreted and implemented. Given a manager's incentive to exploit accounting discretion to their advantage which was documented in prior studies such as Leuz et al. (2003), the increase in discretion due to lack of implementation guidance was likely to lead to more earnings management and thus lower accounting quality, *ceteris paribus*.

Ahmed et al. (2012) stated that previous studies focused on a number of institutional factors that impacted accounting quality. The evidence in previous studies suggested that the accounting quality was generally higher in strong enforcement countries relative to weak enforcement countries. This in turn suggested that there may have been systematic differences in the effects of the IFRS adoption in strong enforcement versus weak enforcement countries. However, it was very difficult to make definitive predictions because the change in accounting quality from the pre-IFRS periods to the post-IFRS periods depended upon: (1) whether the IFRS was of higher or lower quality than the domestic GAAP (i.e., whether they increase or decrease overall managerial discretion); and (2) on the efficacy of enforcement mechanisms. For strong enforcement countries, if IFRS were of higher quality than domestic GAAP and they were appropriately enforced, an improvement in accounting quality could be expected. For example, if IFRS eliminated accounting alternatives that were opportunistically used by the managers, the elimination of these alternatives would improve the accounting quality. They also believed that strong enforcement partition had a significantly higher average rule of law score. That is, firms in the strong enforcement partition had lower (higher) average total assets, book-to-market, growth rates, and leverage (market values) relative to the weak enforcement partition. In addition, they believed that if the IFRS were of lower quality than domestic GAAP in the sense that they increased managerial discretion, accounting quality would

decline even in strong enforcement countries given that managers had incentives to exercise their discretion in their own interests. Furthermore, the accounting quality may decline after the mandatory IFRS adoption because principles-based standards were looser, on average, than domestic standards and thus, more difficult to enforce. Nelson, Elliott, and Tarpley (2003) concluded that the aggressiveness of reporting decisions increased with the imprecision of the relevant reporting standard, based on a survey-based research. In addition, they believed that even in strong enforcement countries, relatively loose standards could result in more opportunistic choices. This idea was supported by Paananen and Lin (2007), who found evidence of a decline in accounting quality in Germany, a strong enforcement country, after the mandatory IFRS adoption. Ball, Kothari, and Robin (2000) believed that in the absence of suitable enforcement mechanisms, real convergence and harmonization was infeasible, resulting in diminished comparability. Collectively, these studies suggested that loose standards could lead to a decline in accounting quality even in strong enforcement countries. On the other hand, in the weak enforcement countries, previous research studies such as that of Leuz et al. (2003), Burgstahler, Hail, and Leuz (2006), Holthausen (2009), and Hope (2003) argued that rules or standards were generally not effective without adequate enforcement and even the best accounting standards would be inconsequential. Extending this logic, even if the IFRS were of a higher quality than a domestic GAAP, they would be unlikely to result in improvements in accounting quality in weak enforcement countries because they were unlikely to be properly enforced. Therefore, a change in accounting quality cannot be expected after the mandatory IFRS adoption for firms in weak enforcement countries.

Ahmed et al. (2012) also found in their study that there was an increase in income smoothing for the IFRS firms relative to benchmark firms after the mandatory IFRS adoption. Specifically, they found a significant decrease in the volatility of net income relative to the volatility of cash flows, and the correlation between cash flows and accruals for the IFRS firms relative to benchmark firms. Second, they found evidence of a significant increase in aggressive reporting of accruals for the IFRS firms relative to benchmark firms. Third, they found evidence of a significant reduction in the timeliness of loss recognition for the IFRS firms relative to benchmark firms consistent with the increase in reporting aggressiveness suggested by the accrual tests. Finally, they believed that their evidence was consistent with meeting or beating earnings targets after controlling for variable management in benchmark firms. In addition, they stated that while the evidence was not fully consistent across all proxies, taken together, the results suggested that the accounting quality decreased after the mandatory IFRS adoption. Ball et al. (2000) found that the timeliness of loss recognition decreased significantly after the mandatory IFRS adoption, relative to benchmark firms. Similarly, Paananen (2008) and Paananen and Lin (2007) found in their results that there was a decrease in financial reporting quality, an increase in earnings management, and a reduction in timeliness of loss recognition in Germany, following mandatory IFRS. Jeanjean and Stolowy (2008) found no decline in the pervasiveness of the earnings management in Austria and UK, but an increase in France. Christensen et al. (2008) found that the incentives dominated standards in determining accounting quality around mandatory IFRS adoption. Daske et al. (2008) showed that the capital market benefits around

the mandatory adoption of the IFRS were unlikely to exist primarily because of IFRS adoption. Daske (2006) found no evidence that the IFRS adoption decreased a firm's cost of capital. Atwood et al. (2010) found that the earnings reported under the IFRS were no more or less persistent and were no more or less associated with the future cash flows than earnings reported under the local GAAP. In addition, they suggested that the documented increase in analyst forecast accuracy following the IFRS was not the result of the differences in the underlying persistence of those earnings. Hung and Subramanyam (2007) reached similar conclusions about accounting quality for German voluntary adopters between 1998 and 2002. Horton, Serafeim, and Serafeim (2013) found that forecast accuracy improved significantly after the mandatory IFRS adoption relative to firms that did not adopt IFRS. In addition, the larger the difference between IFRS and local GAAP earnings, the larger the improvement in forecast accuracy, increasing the confidence that it was the IFRS adoption that caused the improvement in the information environment.

Research Methodology

This research was an empirical comparative study between Canadian GAAP (2008-2010) and IFRS (2011-2012) periods, in order to understand the effect of IFRS adoption on the Canadian financial institutions that were listed on the Toronto Stock Exchange (TSX). Fielding and Fielding (1985, p. 34) stated that what was important was "to choose at least one method which is specifically suited to explore structural aspects of the problem and at least one which can capture the essential elements of its meaning". This research study required collecting, counting, and classifying data, and performing analyses on statistical findings. It required a process to include a method of deductive reasoning by the use of the measurement tools to collect the relevant data. In addition, it required only establishing associations among variables using effect statistics such as correlations. As such, the quantitative research method was selected for this research study. Bryman and Bell (2003) explained that the quantitative research method tested hypotheses and identified patterns in variables whereas the qualitative method validated corporate information and informed some of the methodological decisions. With its origins in the scientific empirical tradition, the quantitative approach relied on the numerical evidence to draw conclusions, to test hypotheses or theory, and was concerned with measurement, causality, generalization, and replication. Burns (2000) believed that the quantitative research method was infused with positivism and was based on a collection of quantifiable observations, which permitted deduction of the laws and the establishment of relationships. In addition, Creswell (2009) stated that if a problem called for the identification of factors that influenced an outcome, the utility of an intervention, or understanding clear outcomes, then a quantitative approach would be most suitable. Within a quantitative research method framework, a longitudinal survey method was adopted to collect five years of data from 2008 to 2012. According to Zenaida and Fernando (2000), longitudinal design was seldom used in social science research; however, it was typically used within financial investigations that had adopted positivist research philosophy. Buck et al. (2003) and McKnight and Tomkins (1999) believed that financial research was very typical for a positivist investigation.

This was supported by Main and Johnson (1993), who believed that companies' annual reports were a common resource tool when examining archival data. Accordingly, this study collected financial data of companies from highly credible SEDAR (the Canadian public companies financial reporting database). The sample consisted of the nine largest financial institutions selected randomly (to avoid selection bias, as it is the purest form of probability sampling) from the TSX/S&P index, which held majority market share in Canada. Yates (2008) believed that an unbiased random selection of individuals was important so that in the long run, the sample represented the population.

Surveys are generally believed to be useful when a researcher wants to collect data on phenomena that cannot be directly observed. It is a non-experimental, descriptive research method. As such, this research study used the survey method to collect data from 2008 to 2012. The use of the regression models was a technique utilized for the modeling and analysis of the numerical data consisting of values of a dependent variable (or response variable) and independent variables predictor or explanatory variable). Regression was a tool for determining causal relations between two or more variables. The regression coefficient gave the strength of this relation. When the regression was 1, the dependent variable was entirely explained by the independent variable. If the regression was 0, there was no relation whatsoever between the two variables. The regression equation showed how the dependent variable was explained by the independent variable. The strength of this relation was indicated by the regression coefficient or R^2 (Larsen & Marx, 2001). The F-test value indicated if there was evidence that the independent variable (in the case of the value relevance model these are the reported earnings, which will try to explain the market return) was linearly associated with the dependent variable (the market return in the value relevance attribute). The larger this F-statistic, the more useful the model. The critical value for the test depended on the sample size (i.e., the degree of freedom, and of course the arbitrary confidence interval). For this research, a confidence interval, or alpha, was chosen to be 5%, which is very typical in academic research.

Statistical Models

This research study attempted to understand the accounting quality with two approaches.

1) *Statement of Financial Position* (Balance Sheet) approach:

$\Delta NI/\Delta TA = \Delta NI/\Delta OCF + \Delta OCF\Delta Accruals + \Delta OCF/\Delta TA + \Delta NI/\Delta Accruals + \Delta EPS/\Delta MP + \Delta NI/\Delta BVPS$.

2) *Statement of Operations* (Income Statement or Profit/Loss) approach:

$\Delta NI = \Delta EPS + \Delta BVPS + \Delta MP + \Delta OCF + \Delta Accruals$.

Where:

NI=Net income; TA=Total Assets; OCF=Operating Cash Flow; EPS=Earnings per share; BVPS=Book value per share; MP=Market price.

Regression Model 1 (Statement of Financial Position approach):

$Y_1 = c + B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4 + B_5X_5 + B_6X_6 + \epsilon$

Y_1= ΔNI/ΔTA; c=constant predictor; B_1=influential factor for ΔNI/ΔOCF; B_2=influential factor for ΔOCF/ΔAccruals; B_3=influential factor for ΔOCF/ΔTA; B_4=influential factor for ΔNI/ΔAccruals; B_5=influential factor for ΔEPS/ΔMP; B_6=influential factor ΔNI/ΔBVPS; ∈=error; X_1=value of ΔNI/ΔOCF; X_2=value of ΔOCF/ΔAccruals; X_3=value of ΔOCF/ΔTA; X_4=value of ΔNI/ΔAccruals; X_5=value of ΔEPS/ΔMP; and X_6=value of ΔNI/ΔBVPS. Confidence level (α) was set at 5%.

ΔNI/ΔTA was a dependent variable in the statement of financial position approach. It represented an accounting quality. Δ in NI represented the equity component, and Δ in TA represented one component of the statement of a financial position and as such, the combination of these components represented added value for the statement of financial position. ΔNI/ΔOCF represented operating capabilities and predictability and ΔOCF/ΔAccruals was an independent variable and represented the ratios between the operating cash flows and accruals and had an indirect impact on the accounting quality in terms of cash and non-cash transactions. ΔOCF/ΔTA was an independent variable and represented liquidity and future earnings. ΔNI/ΔAccruals was a dependent variable and represented reporting aggressiveness and timeliness of loss recognition. ΔEPS/ΔMP was a dependent variable and represented the earnings value relevance (earnings sensitivity or usefulness to market price). ΔNI/ΔBVPS was a dependent variable and represented earnings sensitivity to book value per share.

Regression Model 2 (Statement of Operations Approach)

Y_2=c+ B_1X_1+B_2 X_2+B_3X_3+B_4 X_4+B_5X_5+∈

Y_2= ΔNI; c=constant predictor; B_1=influential factor for ΔEPS; B_2=influential factor for ΔBVPS; B_3=influential factor for ΔMP; B_4=influential factor for ΔOCF; B_5=influential factor ΔAccruals; ∈=error; X_1=value of ΔEPS; X_2=value of ΔBVPS; X_3=value of ΔMP; X_4=value of ΔOCF; and X_5=value of ΔAccruals. Confidence level (α) was set at 5%.

Δ in NI was a dependent variable and represented the macro effect or added value to equity component. Δ in EPS was an independent variable and represented earnings persistency and predictability through net income and shared outstanding, provided shares did not change materially to influence EPS. Δ in BVPS was an independent variable and represented the accounting value for the shareholders. Δ in MP was an independent variable and represented a fair value measurement of the firm. Δ in OCF was an independent variable and represented operating capabilities and future cash earnings. Δ in Accruals was an independent variable and represented reporting aggressiveness and income smoothing.

Research question:

Does IFRS adoption in the Canadian financial institutions improve financial reporting quality?

Hypotheses:

H_0: Financial reporting (accounting quality) has not improved after IFRS adoption in financial institutions in Canada.

H_1: Financial reporting (accounting quality) has improved after IFRS adoption in financial institutions in Canada.

Results

Correlations Analysis: Statement of Operations

Table 1: *Discussion on Correlation Results: Statement of Operations*

Pre-IFRS (Canadian GAAP) 2008-2010 vs IFRS (2011-2012)	
Δ EPS	Δ in EPS had changed from .301 under Canadian GAAP period to .781 under IFRS period, indicating that significant differences with respect to the persistency and predictability were found concerning the reported earnings under the Canadian GAAP and IFRS. Although these results at first sight had shown that under IFRS, earnings exhibited higher persistency and predictability, perhaps due to the use of fair value accounting, under IFRS the period had created volatility. Therefore, these attributes had shown accounting quality had been increased under IFRS.
ΔBVPS	Δ in BVPS had changed from -.116 under Canadian GAAP period to .059 under IFRS period, indicating that under IFRS earnings had influenced the book value per share for shareholder value, therefore, the quality of accounting had been improved.
ΔMP	Δ in MP had changed from -.174 under Canadian GAAP period to -.750 under IFRS period, indicating that under IFRS, the market price movement is negative and more volatile or sensitive, therefore reported earnings were less useful under IFRS period.
ΔOCF	Δ in OCF had changed from -.834 under Canadian GAAP period to .993 under IFRS period, indicating that operating capability and future cash earnings had significantly increased under the IFRS accounting as such provides healthier cash predictability or financial cash outlook, and perhaps less manipulation of income by the management.
ΔAccruals	Δ in Accruals had changed from -.428 under Canadian GAAP period to -.997 under IFRS period, indicating that under IFRS, had significantly increased accruals (increased income smoothing, less timely loss recognition, and reduced certain accounting incentives) therefore increase in accounting quality.

Figure 1: *Comparison Pre-IFRS to (2008-2010) to IFRS (2011-2012): Statement of Operations Approach (Income Statement)*

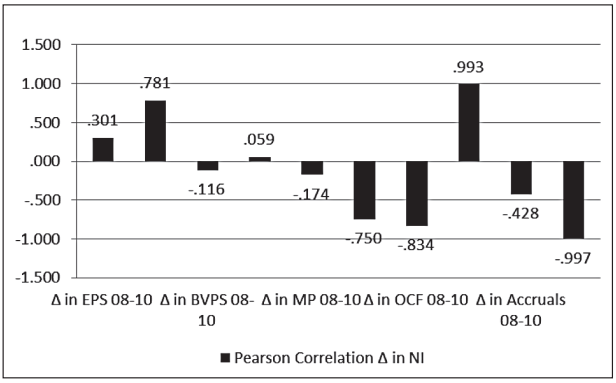


Table 2: *Discussion on Correlation Results: Statement of Financial Position*

Pre-IFRS (Canadian GAAP) 2008-2010 vs IFRS (2011-2012)	
ΔNI to ΔOCF	ΔNI to ΔOCF had changed from -.068 under Canadian GAAP period to .509 under IFRS period, indicating that under IFRS, cash earnings, operating capabilities, and predictability of earnings had increased as such, the earnings are characterized as higher quality.
ΔOCF to ΔAccruals	ΔOCF to ΔAccruals had changed from -.787 under Canadian GAAP period to .413 under IFRS period, indicating that correlations between them had increased, however, no direct effect on accounting quality.
ΔOCF to ΔTA	ΔOCF to ΔTA had changed from -.857 under Canadian GAAP period to .984 under IFRS period, indicating that significantly increased in this correlation was perhaps due to the fair market valuation of the assets.
ΔNI to ΔAccruals	ΔNI to ΔAccruals had changed from -.217 under Canadian GAAP period to .718 under IFRS period, indicating that significant reduction in reporting aggressiveness (more accruals) and increased timeliness of loss recognition, consistent with the earlier finding on Δ in Accruals under statement of operations approach. Therefore, significant reduction in reporting aggressiveness had increased the quality of accounting, perhaps indicated that the Canadian GAAP is less stringent towards managerial discretion than IFRS in financial institutions.
ΔEPS to ΔMP	ΔEPS to ΔMP had changed from -.501 under Canadian GAAP period to .550 under IFRS period, indicating that there was a significant increase in value relevance (earnings sensitivity or usefulness to market price). That is, the accounting earnings are more useful to market valuation purposes; however, the earnings may provide little additional information about managing performance. Nevertheless, significant increase in value relevance under IFRS had improved the accounting quality.
ΔNI to ΔBVPS	ΔNI to ΔBVPS had changed from .804 under Canadian GAAP period to -.086 under IFRS period, indicating that the valuation usefulness of IFRS earnings to book value per share had decreased, therefore, accounting quality under IFRS had been declined.

Figure 2: *Comparison Pre-IFRS to (2008-2010) to IFRS (2011-2012): Statement of Financial Position Approach (Balance Sheet)*

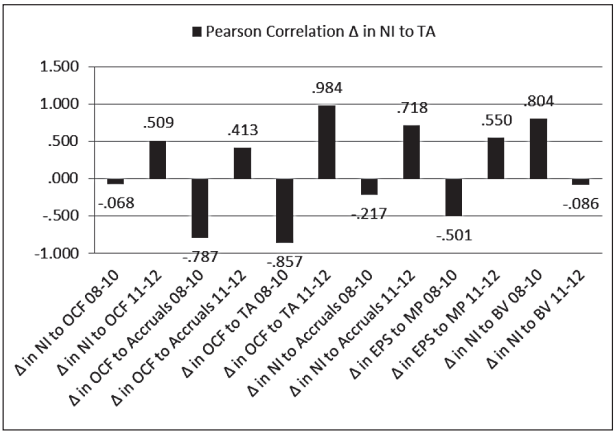


Table 3: *Correlations*

Statement of Operations Approach		Δ NI 08-10	Δ NI 11-12	Δ in EPS 08-10	Δ in EPS 11-12	Δ in BVPS 08-10	Δ in BVPS 11-12	Δ in MP 08-10	Δ in MP 11-12	Δ in OCF 08-10	Δ in OCF 11-12	Δ in Accruals 08-10	Δ in Accruals 11-12
Pearson Correlation	Δ in NI	1.000	1.000	.301	.781	-.116	.059	-.174	-.750	-.834	.993	-.428	-.997
	Δ in EPS			1.000	1.000	-.141	.000	-.297	-.327	-.267	.704	-.068	-.733
	Δ in BVPS					1.000	1.000	.637	-.134	.003	.066	.234	-.064
	Δ in MP							1.000	1.000	-.053	-.793	.128	.779
	Δ in OCF									1.000	1.000	0.573	-.999
	Accruals											1.000	1.000

Table 4: *Correlations*

Statement of Financial Position Approach		ΔNI to ΔTA 08-10	ΔNI to ΔTA 11-12	ΔNI to ΔOCF 08-10	ΔNI to ΔOCF 11-12	ΔOCF to ΔAccruals 08-10	ΔOCF to ΔAccruals 11-12	ΔOCF to ΔTA 08-10	to ΔTA 11-12	ΔNI to ΔAccruals 08-10	ΔNI to ΔAccruals 11-12	to ΔMP 08-10	to ΔMP 11-12	to ΔBV 08-10	to ΔBV 11-12
Pearson Correlation	ΔNI to ΔTA	1.000	1.000	-.068	.509	-.787	.413	-.857	.984	-.217	.718	-.501	.550	.804	-.086
	ΔNI to ΔOCF			1.000	1.000	-.325	.003	-.092	.431	-.473	.309	-.214	.270	-.254	.434
	ΔOCF to ΔAccruals					1.000	1.000	.855	.411	.372	.587	.641	.095	-.505	-.142
	ΔOCF to ΔTA							1.000	1.000	.034	.736	.805	.490	-.529	-.096
	ΔNI to ΔAccruals									1.000	1.000	-.234	.385	-.274	-.204
	ΔEPS to ΔMP											1.000	1.000	-.156	-.480
	ΔNI to ΔBV													1.000	1.000

Table 5: *Model Summary (Operations)*

Model Summary[b] Canadian (2008-2010): Statement of Operations Approach										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.868[a]	.754	.695	.29508	.754	12.877	5	21	.000	1.716
Model Summary[b] IFRS (2011-2012): Statement of Operations Approach										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	1.000[a]	1.000	1.000	10.69599	1.000	51085.549	5	12	.000	2.843
a. Predictors: (Constant), Δ in Accruals, Δ in BVPS, Δ in MP, Δ in OCF, Δ in EPS										
b. Dependent Variable: Δ in NI										

Table 6: *Model Summary (Financial Position)*

Model Summary[b] Canadian (2008-2010): Statement of Financial Position Approach										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.959[a]	.921	.895	.16857	.921	36.687	6	19	.000	1.584
Model Summary[b] IFRS (2011-2012): Statement of Financial Position Approach										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.993[a]	.985	.977	16.17110	.985	121.633	6	11	.000	1.962
a. Predictors: (Constant), Δ in EPS to MP, Δ in OCF to Accruals, Δ in NI to OCF, Δ in OCF to TA, Δ in NI to Accruals										
b. Dependent Variable: Δ in NI to TA										

Table 7: *Statement of Operations Approach*

ANOVA [a]Canadian GAAP (2008-2010): Statement of Operations Approach						ANOVA [a]IFRS (2011-2012): Statement of Operations Approach					
	Sum of Squares	df	Mean Square	F	Sig.		Sum of Squares	df	Mean Square	F	Sig.
Regression	5.606	5	1.121	12.877	.000[b]	Regression	29221995.448	5	5844399.090	51085.549	.000[b]
Residual	1.829	21	.087			Residual	1372.850	12	114.404		
Total	7.435	26				Total	29223368.298	17			
ANOVAa Canadian GAAP (2008-2010): Statement of Financial Position Approach						**ANOVAa IFRS (2011-2012): Statement of Financial Position Approach**					
	Sum of Squares	df	Mean Square	F	Sig.		Sum of Squares	df	Mean Square	F	Sig.
Regression	6.255	6	1.043	36.687	.000[b]	Regression	190845.394	6	31807.566	121.633	.000[b]
Residual	.540	19	.028			Residual	2876.548	11	261.504		
Total	6.795	25				Total	193721.942	17			
a. Dependent Variable: Δ in NI to TA											
b. Predictors: (Constant), Δ in EPS to MP, Δ in OCF to Accruals, Δ in NI to OCF, Δ in OCF to TA, Δ in NI to Accruals											

Regression Coefficients:

1) *Statement of Operations Approach*

Canadian GAAP: $Y_{2008\text{-}2010}$=.306-003X_1+.044X_2-.454X_3-.032X_4 +.014X_5 (Table 8)

IFRS: $Y_{2011\text{-}2012}$=-2.062+6.552X_1-.005X_2+2.1863X_3-.073X_4-3.563X_5 (Table 8)

2) *Statement of Financial Position Approach*

Canadian GAAP: $Y_{2008\text{-}2010}$=.071-.007X_1-.032X_2-.024X_3-.002X_4+1.739X_5-.028X_6 (Table 8)

IFRS: $Y_{2011\text{-}2012}$=-1.030+5.241X_1+4.932X_2+2.043X_3-3.535X_4+12.273X_5-.001X_6 (Table 8)

Pertaining to the regression coefficients under the statement of operations approach for the IFRS period in the Table 8, it was found that B_1 and B_3 were higher relative to the Canadian GAAP which indicated that these betas were significant in the regression, providing much clearer evidence that positive and negative shocks were transitory for the IFRS firms. However, it was found that B_2, B_4, and B_5 were lower relative to the Canadian GAAP. That is, under IFRS, B_2 and B_4 indicated that these betas had similar

transitory shocks relative to Canadian GAAP. However, they were non-significant to the IFRS regression model. On the other hand, B_5 had a large negative shock and had impacted the IFRS regression model. According to Brauer and Westermann (2010), the negative coefficient on the betas would imply a smooth (non-oscillating) impulse-response pattern. The larger the B, the faster the reversion to the mean. B_1 (ΔEPS) and B_3 (ΔMP) are > 0 indicating significant influence to the predictability and value relevance. Similarly, B_2 (ΔBVPS) was < 0, however, it was positively non-significant to the IFRS regression model. B_4 (ΔOCF) was < 0, which indicated the weak negative influence of positive cash flows to the IFRS regression model. Similarly, B_5 (ΔAccruals) was < 0 however, it was negatively significant to the IFRS regression model, which indicated that negative losses had been recognized more timely than gains. In the statement of a financial position approach for the IFRS period in Table 8, B_1, B_2, B_3 and B_5 were higher relative to the Canadian GAAP, which indicated that these betas were positively influenced by the IFRS regression model. However, B_4 and B_6 were lower relative to the Canadian GAAP, which indicated that these betas had weakly influenced the IFRS regression. In the IFRS regression, B_1 (ΔNI to ΔOCF), B_2 (ΔOCF to ΔAccruals), B_3 (ΔOCF to ΔTA), and B_5 (ΔEPS to ΔMP) were > 0 which indicated a significant positive influence of these respective betas concerning cash forecasting, predictability of future earnings, value relevance, and accruals, to the IFRS regression model. B_4 (ΔNI to ΔAccruals) < 0, however, it was significant, which indicated that in the long run, the persistence of negative shocks would influence the IFRS regression model. B_5 (ΔNI to ΔBVPS) = 0 indicated that the valuation usefulness of earnings to book value per share would be persistent. The F-tests results (large numbers characterized statistical model's usefulness) as were provided in Tables 5 and 6, showed that the IFRS models were relatively more useful in both statements of operations and statements of financial position approaches. That is, the Canadian regression models had a relatively weaker relationship between independent and dependent variables, relative to IFRS regression models, yet both types of regression models were statistically valid to draw conclusions on the accounting quality between the Canadian GAAP and IFRS.

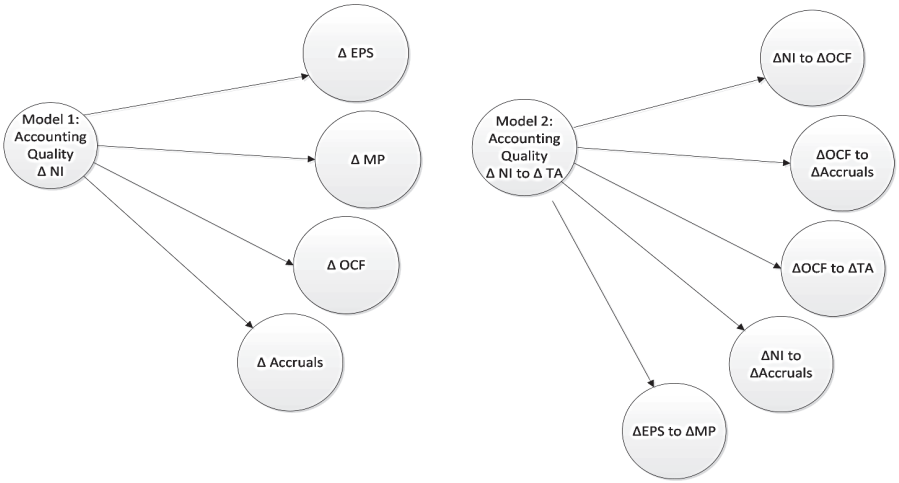
Table 8: *Statement of Operations (Coefficients)*

Coeffficients: Statement of Operations Approach: Canadian GAAP (2008 - 2010)						Coeffficients: Statement of Operations Approach: IFRS (2011 -2012)					
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta				B	Std. Error	Beta		
(Constant)	.306	.109		2.799	.011	(Constant)	-2.062	2.989		-.690	.503
Δ in EPS	-.003	.037	-.010	-.079	.938	Δ in EPS	6.552	.580	.105	11.287	.000
Δ in BVPS	.044	.362	.017	.121	.905	Δ in BVPS	.005	.027	.000	.174	.865
Δ in MP	-.454	.265	-.254	-1.712	.102	Δ in MP	2.186	2.358	.004	.927	.372
Δ in OCF	-.032	.005	-.923	-6.476	.000	Δ in OCF	-.073	.746	-.013	-.098	.923
Δ in Accruals	.014	.015	.129	.921	.368	Δ in Accruals	-3.563	.544	-.937	-6.544	.000
a. Dependent Variable: Δ in NI											
Coefficients: Statement of Financial Approach: Canadian GAAP (2008 - 2010)						Coeficients: Statement of Financial Approach: IFRS (2010 -2012)					
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta				B	Std. Error	Beta		
(Constant)	.071	.059		1.217	.239	(Constant)	-1.030	5.770		-.179	.862
ΔNI to ΔOCF	-.007	.018	-.038	-.376	.711	ΔNI to ΔOCF	5.241	2.420	.121	2.166	.053
ΔOCF to ΔAccruals	-.032	.054	-.101	-.584	.566	ΔOCF to ΔAccruals	4.932	3.558	.066	1.386	.193
ΔOCF to ΔTA	-.024	.007	-.733	-3.618	.002	ΔOCF to ΔTA	2.043	.136	.908	15.017	.000
ΔNI to ΔAccruals	-.002	.012	-.021	-.180	.859	ΔNI to ΔAccruals	-3.535	3.685	-.061	-.959	.358
ΔEPS to ΔMP	1.739	1.310	.200	1.328	.200	ΔEPS to ΔMP	12.273	8.180	.083	1.500	.162
ΔNI to ΔBVPS	.028	.007	.381	3.739	.001	ΔNI to ΔBVPS	-.001	.005	-.015	-.250	.807
a. Dependent Variable: ΔNI to ΔTA											

Table 5, under the Canadian GAAP period, had shown average R^2 for the timeliness of 75.4% and under IFRS GAAP period, had shown average R^2 for the timeliness of 100%. Table 6, under the Canadian GAAP period, had shown average R^2 for the timeliness of 89.5%; and under the IFRS period, had shown average R^2 for the timeliness of 97.7%. All of these R^2, especially under IFRS period, indicated high persistent earnings; that is, the predictive value of earnings represented by the variance in the persistency of the earnings, had a high certainty (low degree of variance) in future earnings. Francis et al. (2005) found an average R^2 for the timeliness of 21.9% for the sample consisting of a large number of US firms from 1975-2001.

Following Figure 3 are the derived statistical models for the accounting quality that resulted from the correlation results. That is, the accounting quality could be determined through the application of variables in the respective models for accruals (income smoothing and timeliness loss recognition): reporting aggressiveness, earnings persistency, value relevance, predictability, managerial discretion, and enforcement.

Figure 3



Conclusion

Globally, the use of the IFRS in financial reporting is the requirement for many countries, primarily due to the influence of investors/shareholders demand, cost minimization in financial reporting, security listings requirements, foreign investments, free trade, and global competition. However, the question of whether such a global transition towards a single set of accounting standards has been met by the presumed benefits of higher accounting quality and comparability yet remains unanswered. To contribute to the knowledge on this important topic, this research investigated whether mandatory IFRS adoption in the Canadian financial institutions improved firms' accounting quality. This research found that earnings quality increased due to an increase in value relevance (earnings influence to market price), an increase in persistency and predictability in earnings and cash flows, increased influence of earnings to shareholder value, and an increase in accruals and timeliness loss of recognition (reduce in income smoothing). However, it also found that the valuation usefulness of earnings to book value per share (accounting valuation) was reduced. Table 9 summarizes the results.

Table 9: *Summary of Accounting Quality Regression Results Under IFRS Relative to Canadian GAAP*

Statement of Operations Approach		Statement of Financial Position Approach	
Δ EPS	Higher persistency and predictability in earnings; higher accounting quality under IFRS.	ΔNI to ΔOCF	Increase in operating capability and predictability; increase in quality of reporting under IFRS.
ΔBVPS	Increase in earnings influence to shareholders value; higher accounting quality under IFRS.	ΔNI to ΔBVPS	Decrease in valuation usefulness of earnings to BVPS; lower accounting quality under IFRS.
ΔMP	Earnings provide higher volatility to market price; higher accounting quality under IFRS.	ΔEPS to ΔMP	Increase in value relevance (earnings influence to market price); increased accounting quality under IFRS.
ΔOCF	Better predictability in cash flow and financial forecasting; higher accounting quality under IFRS.	ΔOCF to ΔTA	Increase in fair market valuation; higher accounting quality under IFRS.
ΔAccruals	Increase in accruals; higher accounting quality under IFRS.	ΔNI to ΔAccruals	Increase in accruals and timeliness loss of recognition; higher accounting quality under IFRS.
		ΔOCF to ΔAccruals	Increase in correlation; no direct effect on accounting quality under IFRS.

The quality of the accounting information is very often determined by the quality of the reported earnings. For this matter, researchers made the quality of accounting information empirically operationalized by developing several attributes in order to determine the earnings quality. Because earnings can be decomposed into cash flows and accruals, several researchers used accruals quality to draw conclusions about the earnings quality (Francis et al., 2005). On the other hand, some other scholars interpreted the quality of earnings when earnings were persistent with the predictive ability of the earnings. In their view, earnings were of high quality when a firm's past earnings were strongly associated with its future earnings. Other researchers viewed earnings to be of higher quality when they were value relevant (i.e., the earnings are strongly associated with the security's price). This research found that the results were consistent with both information and comparability effects between the two approaches of the statement of operations and the statement of financial position, as illustrated in Table 9. Overall, this research concluded that after the adoption of the IFRS, accounting quality had a positive influence on the financial reporting of the Canadian financial institutions.

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The Weaver's Loom: A Conceptual Framework for Facilitating Transformational Human Resource Management Through the Strategic Integration of Knowledge Management and Continuous Improvement

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Using the metaphor of a weaver's loom, this conceptual paper draws from existing literature to develop an integrative model that synthesizes relevant attributes of transformational leadership, continuous improvement, and knowledge management into an overall framework that supports a more strategic role of human resource management (HRM). The theory espouses that a constant focus on strategic goals, with all processes, policies, practices, procedures, and systems, working congruently with each other, results in a transformational HRM environment. This transformational atmosphere is essential as organizations focus on their strategic goals, while continually scanning their business environments for new opportunities, as well as impediments toward achieving their goals.

This conceptual paper, drawing from the collective experiences of the authors and from existing literature, reveals numerous ways organizations experience change. From one perspective, the following is observed; short-term quick fixes for situations that have been brewing for a long period of time. Another more palatable approach embodies a more long-term, strategic outlook. When managers think strategically, they continually scan the external business environment-competitors, demographics, general economy, legal/regulatory atmosphere, political climate, structural changes in industry, unemployment rates, other external factors, and their organization's internal environment (Ulrich et al., 2009b). This continual examination of the business environment enables strategically minded managers to understand the business and external realities that impact their organizations (Hargis & Bradley, 2011; Mitchell et al., 2013; Ulrich et al., 2009b). This understanding enables managers to incorporate their external/internal observations into their short- and long-term strategies, including ensuring that their internal processes, practices, policies, procedures, rules, metrics, and so forth are in alignment. Barring catastrophic, unanticipated events, these managers, with appropriate internal processes in place, can minimize the need for quick fixes. These top managers can assess their strategic goals in terms of their business environment to make ongoing, needed adjustments in real time as opposed to crisis situations when the viability of the organization is threatened. The purpose of this paper is to outline one approach organizations can consider using to enhance their overall ability to maintain proper alignment with the external environment. This approach utilizes the metaphor of a weaver's loom as a framework for strategically integrating key elements of knowledge management and key elements of continuous improvement into the HRM practices of an organization in an effort to create transformational HRM environment. Knowledge management and continuous improvement were selected as the basic frame for the metaphorical loom because these processes enable managers to acquire, store, and disseminate knowledge within organizations (Ooi, Ten, & Chong, 2009) and have a means to harness internal processes and resources (Gupta, Iyer, & Aronson, 2000), respectively. These capabilities are fundamental elements needed to create and sustain transformational HRM. Granted, there are other processes such as employee engagement/participation programs that may enhance the overall strategic nature of HRM. However, knowledge management and continuous improvement were chosen because of the likelihood that they would provide a more comprehensive foundation to transformational HRM that would subsume other processes.

One major facet of this framework focuses on the strategic integration of key elements of continuous improvement and HRM. When key elements of continuous improvement and HRM share a symbiotic relationship, with each supporting the other, focusing jointly on the strategic goals of the organization, HRM becomes a more transformational process. Since continuous improvement builds on certain elements from total quality management (TQM), considering TQM within the context of this integrated framework may be instructive. For a truly symbiotic relationship to be successful, HRM practices and procedures must be aligned with the core beliefs and needs of TQM (Blackburn & Rosen, 1993, 1996; Jiménez-Jiménez & Martínez-Costa, 2009). Ooi et al. (2009) viewed HRM practices as the soft aspects of TQM and therefore, maintained that it is essential for organizations to establish realistic, no-nonsense criteria for HRM practices in order to ensure that each of them is congruent with the

principles of quality management. In turn, TQM functions and resultant actions must be interwoven with HRM practices and procedures so that the focus remains on all HRM functions, and are supportive of the strategic goals of the organization. When interwoven and tightly focused on the strategic goals of the organization, these two processes will help the organization achieve its goals, including facilitating the changes needed to accomplish those goals.

The second major facet of this framework focuses on the strategic integration of key elements of knowledge management and HRM. The weaver's loom metaphor is built on a framework that establishes knowledge management as a parallel requirement facilitating and strengthening the symbiotic relationship between continuous improvement (based on principles of TQM) and HRM. Indeed, the platform of effective continuous improvement relies on access to knowledge acquisition and dissemination (Algorta & Zeballos, 2011). The integration of these knowledge management and continuous improvement processes into the HRM activities of an organization will provide a strong organizational infrastructure ensuring alignment throughout the organization, but also will significantly affect long-term organizational change. As such, the strategic integration of knowledge management and continuous improvement into traditional HRM practices contribute to HRM becoming more transformational rather than transactional.

Contrasting Traditional (Transactional) Human Resource Management with Transformational Human Resource Management

Transactional Human Resource Management

Transactional HRM takes an "accountant's view" of employees, seeing these individuals as assets (Cooke, 2008, p. 4). This form of HRM provides the administrative infrastructure of the organization, focusing on counting heads, processing benefits, overseeing pay, maintaining personnel records, ensuring compliance with government regulations and employee-contract obligations, managing established programs, conducting best-practices benchmarking on a reactive basis, responding to stated needs, and performing other basic HRM functions (Becton & Schraeder, 2009; Cooke, 2008; Gilley & Maycunich, 2000; Meijerink, Bondarouk, & Looise, 2013; Ulrich & Brockbank, 2005; Yusoff & Abdullah, 2008). While repetitive, these functions associated with transactional HRM are a necessity for organizations (Gilley & Maycunich, 2000; Meijerink et al., 2013; Mothersell et al., 2008; Schein, 2010) and are somewhat analogous to the infrastructure of a building with its electrical, plumbing, and other systems (Ulrich & Brockbank, 2005), or the digital elements of a computer with its motherboard, memory chip, and software operating system.

Transformational Human Resource Management

When HRM practices and policies are carefully designed and managed, they comprise "a system that attracts, develops, motivates, and retains employees to ensure the effective functioning and survival of the organization and its members" (Schuler & Jackson, 2007, p. 24). Transformational HRM is more strategic in nature than transactional HRM. Instead of reacting and responding, transformational HRM is more

consultative (Becton & Schraeder, 2009; Lawler & Mohrman, 2003; Pilenzo, 2009; Ulrich & Brockbank, 2005, 2009; Yusoff & Abdullah, 2008). Skill sets in transformational HRM include business and industry knowledge, diagnostic and analytical capabilities, change management, planning, strategic and critical thinking, knowledge collection and dissemination, and cost management (Becton & Schraeder, 2009; Brown, 2004; Lawler & Mohrman, 2003; Mohrman & Lawler, 1997; Pilenzo, 2009; Ulrich & Brockbank, 2005, 2009; Yusoff & Abdullah, 2008). Unlike transactional HRM, transformational HRM necessitates human resource professionals who are schooled in business practices and willing to contribute toward the organization's strategic goals by combining their business knowledge with their human resource technical skills and knowledge (Becton & Schraeder, 2009; Pilenzo, 2009; Ulrich & Brockbank, 2005, 2009). By having this wealth of combined knowledge and skills, these human resource professionals can help forecast business trends as well as anticipate the types of employee knowledge, skills, abilities, behaviors, and attitudes needed to address current and future business challenges (Lawler & Mohrman, 2003; Pilenzo, 2009).

In a practical sense, transactional HRM is more traditional, representing business-as-usual HRM. As such, transactional HRM does not facilitate long-term strategic change, as a consequence of being more reactionary in nature (Becton & Schraeder, 2009; Cooke, 2008; Ulrich & Brockbank, 2005; Yusoff & Abdullah, 2008). Transactional HRM focuses on the day-to-day activities required to process employees into, within, and out of the organization (Ulrich & Brockbank, 2005), while managing the recordkeeping and other routine, but essential, functions of the daily business (Schein, 2010).

Transformational HRM is truly strategic in scope. Concomitant with the focus on the organization's strategic goals, all transformational HRM decisions are made with the long-term well-being of the organization in mind. Accomplishing this involves human resource professionals trained in the principles of business, as well as human resource technical skills and knowledge (Becton & Schraeder, 2009; Lawler & Mohrman, 2003; Pilenzo, 2009). The critical thinking, planning, analytical, and diagnostic skills of these trained human resource professionals enable them to become "strategy architects" (Ulrich, Brockbank, & Johnson, 2009a, p. 26), who use their skills and position to (a) partner with executives in other departments or business units to initiate strategy discussions, thus facilitating the strategy-creation progression, (b) communicate and clarify the organization's strategy, (c) ensure the successful implementation of the organization's strategy by making sure that all human resource practices and procedures are aligned with the strategy, (d) align the behavior of the organization's leadership with the organization's strategy (Ulrich et al., 2009a), and (e) convey the view of outside customers to human resources' internal clients (Brown, 2004; Ulrich et al., 2009a).

Transformational HRM, which requires human resource professionals to migrate from business-as-usual human resource practices, does not mean that human resource professionals abandon the day-to-day needs of the organization. Instead, under transformational HRM, the human resource professionals must not only focus on the day-to-day, business-as-usual human-resource functions, but must also align these functions with the strategic goals of the business to ensure that both the short and

long–term goals of the organization are met (Hughes & Rog, 2008). This alignment necessitates human resource departments to design and implement internal policies and procedures that are consistent and work in harmony with each other. By doing this, organizations are ensuring that the combined knowledge, skills, and abilities of their employees, or human capital, add to, and are supportive of the organizations' overall strategic goals (Becton & Schraeder, 2009; Hughes & Rog, 2008; Huselid, Jackson, & Schuler, 1997; Jackson & Schuler, 1995). An improved understanding of how transformational HRM can be successful in an organization embodies a greater overall understanding of the symbiotic relationship transformational HRM shares with the strategic integration of knowledge management and continuous improvement (based on principles associated with TQM).

Figure 1: *Transformational HRM*

Integration of Knowledge Management

Knowledge management is a process which allows organizations to find, select, organize, distribute, and relocate the valuable information required for functions such as decision making, ongoing organizational learning, problem solving, and strategic planning (Gupta et al., 2000; Ooi et al., 2009). Technically, knowledge management is defined as the development and use of new knowledge to achieve enhanced value (Batra, 2010). In an organization, knowledge management represents the sharing of knowledge through an ongoing process of development and constant improvement, which increases the innovative capabilities of employees (Batra, 2010). In its simplest form, knowledge management involves three activities: (a) knowledge acquisition, (b) knowledge dissemination, and (c) receptiveness to knowledge within the organization (Ooi et al., 2009).

Some individuals reason that the goal of knowledge management is to transform or convert tacit knowledge into explicit knowledge, enabling it to be codified, stored, transferred, and utilized by others (Algorta & Zeballos, 2011; Gupta et al., 2000). Mooradian (2005) contends that the goal of knowledge management should be to capture explicit knowledge. According to Mooradian (2005), what individuals know in the context of business is explicit knowledge, or "focal knowing" (Polanyi, 1974, p. 109) or "focal awareness" (Polanyi, 1974, p. 55), even though it is unwritten. For instance, workers may know that the written instructions for a procedure are incomplete and, based on their experience, they supplement the written instructions, performing extra steps, to ensure the procedure has a successful outcome. These workers can train others how to supplement the written instructions to gain an equally successful outcome. In the context of business, what these workers know, along with how they supplement the insufficiently written documentation, is explicit knowledge that can be captured by modifying the written instructions (Mooradian, 2005). In this example, the tacit information is not the supplemental information that they can articulate and write down, but rather it is the workers' awareness and comprehension of the overall goals and the context of the organization. It is also the various procedures the organization utilizes and the workers' modification of this understanding and the adjustment to the circumstances in such a way that enable them to revise and correct the procedure (Mooradian, 2005).

Certain types of tacit knowledge may be difficult to articulate (Chilton & Bloodgood, 2008; Ipe, 2003; Mooradian, 2005; Nonaka & Takeuchi, 1995). For example, some knowledge deals with auditory and visual experiences. Others may involve sensory awareness and brain signals on a subconscious level. Mooradian (2005) maintained that this type of tacit knowledge can be virtually impossible to articulate in order to capture and transfer it into explicit knowledge.

Considering this complexity, Mooradian (2005) and Chilton and Bloodgood (2008) recommended that organizations use a knowledge-management methodology that acknowledged and respected the structural dependence shared by explicit and tacit knowledge. Research has often suggested a two-phase knowledge process when undertaking a knowledge-management initiative (Mooradian, 2005). Phase one would require the organization to inventory all existing explicit knowledge such as practices, policies, procedures, white papers, instructions, training, and so forth. Once the

organization gathers all obtainable explicit knowledge, it classifies the knowledge, codes it, and stores it. This is usually done with the aid of computer-based systems (Mooradian, 2005; Smith, 2001). Phase two assumes that tacit knowledge can be pursued independently of explicit knowledge. Based on this assumption, phase two requires the organization to attempt to identify the tacit knowledge of its knowledge workers. In other words, to find out what is in their minds. When relevant tacit knowledge is identified, the organization should attempt to convert the knowledge into explicit knowledge.

Instead of this two-phase knowledge process, Mooradian (2005) advocated focusing on identifying and capturing the explicit knowledge that was both obtainable and valuable to the organization. Once the inventory is compiled, the organization should conduct an analysis of each item to determine the kinds of tacit knowledge that was involved in creating the explicit knowledge. By analyzing the relevant explicit knowledge inventory in terms of what tacit information went into the creation of the different items, the organization would develop a set of the underlying forms of tacit knowledge that supports the organization's explicit knowledge. After the organization develops its inventory of underlying tacit knowledge and understood its structure, it begins the process of classifying, storing, and so forth (Mooradian, 2005). However, Chilton and Bloodgood (2008) advocated that prior to translating the tacit knowledge into explicit knowledge, organizations should determine the competitive benefits of certain tacit knowledge. If there was specific tacit knowledge that, if leaked to competitors, could negatively impact the organizations, they should elect not to codify that strategic tacit knowledge into explicit knowledge (Chilton & Bloodgood, 2008).

Whether an organization elects to use a two-phase knowledge process or to focus on analyzing the tacit knowledge components of obtainable explicit knowledge (Mooradian, 2005), the organization must understand the need for undertaking a knowledge-management initiative. Knowledge management not only can help an organization stay on track in attaining its strategic goals and strengthening its infrastructure, but it also can provide a means for managing valuable intellectual capital, which represents "the collective knowledge and knowing capability of organization members" (Pil & Leana, 2009, p. 1103).

Knowledge Sharing

One way that organizations capture tacit knowledge on an ongoing basis is through "knowledge sharing," depicted as "the act of making knowledge available to others within the organization" (Ipe, 2003, p. 341). Knowledge sharing supports the view that technology is secondary to the human element, because humans are the source of tacit knowledge (Gupta et al., 2000). Many knowledge-management researchers recognize that when people leave organizations, they take their tacit knowledge with them (Smith, 2001). This potential loss of tacit knowledge makes it critical for organizations to tap into the tacit knowledge of employees, converting it to explicit knowledge that can be shared by the organization instead of being lost, if or when individuals leave the organization (Gupta et al., 2000; Ipe, 2003; Ooi et al., 2009; Smith, 2001).

Knowledge sharing is critical to the organization because it furnishes a connection between the individual employee and the organization by transferring knowledge from the individual level to that of the organizational level (Chilton & Bloodgood, 2008; Ipe, 2003). This transfer of individual knowledge to the organization enables the knowledge to be converted into explicit knowledge or knowledge that can be used by others in the organization (Chilton & Bloodgood, 2008; Ipe, 2003). Because the knowledge is tacit, it means that individuals must be willing to share their personal experience and expertise in order for it to be changed into a form that can be accessed, understood, as well as used by others (Ipe, 2003).

Integrating Knowledge Sharing into HRM Practices

The complexity of knowledge sharing demands more than traditional-business-as-usual human resource practices (Cabrera & Cabrera, 2005). HRM professionals must be strategic in working with top management, line managers, and other employees cross-functionally to consider the use of practices that will enhance the probability and success of knowledge sharing. For example, work design can be used to enhance knowledge flow by encouraging social networks through creating interdependencies among jobs, which result in a subsequent need for increased interactions and more information flow (Cabrera & Cabrera, 2005). There are a number of work designs that leverage this type of social network and knowledge sharing. Instead of structured jobs with highly defined tasks, work can be designed as a series of assignments, requiring employees to interact and work closely with other employees in different groups on each assignment or project in the series. This, in turn, fosters cross-functional linkages that could involve multiple-geographical locations and business units (Cabrera & Cabrera, 2005; Ghobadi & D'Ambra, 2012). Work could also be designed around teams, requiring employees to not only work closely with each other, but also encouraging them to share knowledge. Designing work around the team concept intensifies the need for collaboration and coordination, facilitating knowledge sharing (Cabrera & Cabrera, 2005; Ghobadi & D'Ambra, 2012). Cross-functional teams can enhance the willingness to share knowledge with individuals in other business units or work groups (Cabrera & Cabrera, 2005; Ghobadi & D'Ambra, 2012).

Knowledge sharing by individuals is essential to the development, distribution, as well as management of knowledge throughout all levels of an organization (Ipe, 2003). Organizations cannot create knowledge without individuals. If individuals do not share their personal knowledge with other individuals and groups, their hoarded knowledge will most likely have limited influence on the effectiveness of the organization (Ipe, 2003; Nonaka & Takeuchi, 1995).

Just as organizations cannot create knowledge without individuals, effective HRM and efforts directed toward continuous improvement cannot reach their full potential without the strategic integration of knowledge management.

Integration of Continuous Improvement

The foundation of continuous improvement parallels the core of TQM premised on fundamental belief that organizations can obtain a competitive advantage in the marketplace by concentrating on their customers' needs, striving for continuous

improvement in both product and service quality, assisting employees in their efforts to develop to their fullest potential, and developing and implementing relevant metrics to gauge and track improvements (Blackburn & Rosen, 1995; Jiménez–Jiménez & Martínez–Costa, 2009). This foundation for continuous improvement based on the fundamental core of TQM makes it an obvious process for organizations to use in trying to achieve their strategic goals. In addition to the fundamental core of TQM, it should be noted that TQM is a process, or means, for harnessing internal processes and resources (Gupta et al., 2000). As such, continuous improvement efforts, based on TQM principles, can assist in binding HRM and knowledge management together. However, to be successful, continuous improvement (embodied in TQM) necessitates a culture that is collaborative in its efforts, with cross–functional work, managers and coworkers who coach and enable, and, at the forefront, an emphasis on quality and customer satisfaction (Algorta & Zeballos, 2011; Blackburn & Rosen, 1993; Jiménez–Jiménez & Martínez-Costa, 2009). For many organizations, this represents a paradigm shift from a culture focused on individualism, differentiation with little or no cross–functional work, leadership that is autocratic in nature, and strong emphasis on profits and productivity (Blackburn & Rosen, 1993). To achieve this paradigm shift toward a culture of consultation, decentralization, and focus on the strategic goals of the organization (Soltani et al., 2004), human resource departments, as well as other departments, must align their HRM practices with the core belief and needs of continuous improvement/TQM (Blackburn & Rosen, 1993, 1996; Jiménez–Jiménez & Martínez–Costa, 2009).

The strategically integrated relationship between continuous improvement and HRM becomes critical as HRM focuses on achieving the strategic goals of the organization. By incorporating continuous improvement principles into HRM, human resource professionals will be focused on doing the right things for strategic reasons. In a sense, knowledge management represents that "what" and continuous improvement provides the "how" to transformational HRM initiatives within the organization. The combined processes, when coupled with knowledge management, enable human resource departments to work with top leadership, as well as cross–departmentally, toward strategically strengthening the organization, even when this strengthening involves a needed paradigm shift as mentioned above. The combined processes enable strategic results through consultation, decentralization, and developmental procedures (Soltani et al., 2004).

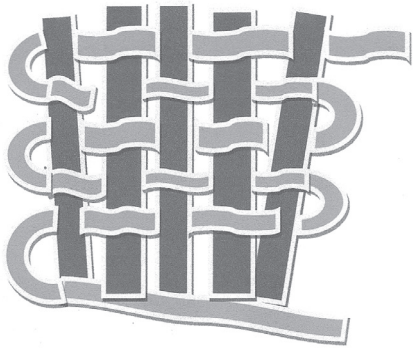
In a somewhat reciprocal manner, strategically integrated knowledge management ensures that the tacit and the explicit knowledge created through transformational HRM and continuous improvement efforts are collected, stored, and made accessible for use throughout the organization. This support by knowledge management of the symbiotic relationship between HRM and continuous improvement not only improves functional alignment as it relates to strategic-goal achievement, but elevates the effectiveness of HRM to become transformational in scope. As the integration of knowledge management and continuous improvement into HRM become interwoven, each supporting and enhancing the other, they not only enable organizations to stay focused on their strategic goals, but also create an environment conducive for organizational change. As previously noted, this atmosphere is essential as organizations continually

scan their business environment, including examining external stakeholders such as customers and investors to better understand the relationship between these stakeholders and organizational strategy (Hargis & Bradley, 2011; Ulrich et al., 2009b). This focus enables organizations to adapt to current needs in real time and to project future needs.

The Weaver's Loom: A Conceptual Framework

As mentioned previously, the metaphor of a weaver's loom provides a useful framework for discussing the relationship between HRM and an organization's strategic goals in a manner similar to fabric that is being woven. Just as weavers secure their vertical fibers on a loom, organizations must firmly anchor their strategic goals to a framework of transformational of HRM (Becton & Schraeder, 2009; Brown, 2004; Lawler & Mohrman, 2003; Mohrman & Lawler, 1997; Pilenzo, 2009; Ulrich & Brockbank, 2005, 2009; Yusoff & Abdullah, 2008), reflecting the integration of knowledge management (Batra, 2010; Cabrera & Cabrera, 2005; Gupta et al., 2000; Ipe, 2003: Mooradian, 2005; Nonaka & Takeuchi, 1999; Ooi et al., 2009; Pil & Lenna, 2009; Polanyi, 1974) and continuous improvement (Algorta & Zeballos, 2011; Blackburn & Rosen, 1993, 1995; Gupta et al., 2000; Jiménez-Jiménez & Martínez-Costa, 2009). By doing so, organizations, as weavers with their looms, create a stable framework to ensure that their basic human resource-management elements—staffing, training and development, performance appraisal, and compensation (Kaeomanee, 2009)—as well as other human resource management policies, practices, and procedures can be seamlessly intertwined with the organization's strategic goals. (However, for the purpose of this paper, the human-resource-management functions will be limited to the basic elements.) Without a solid framework of HRM practices bolstered by the strategic integration of knowledge management (Chilton & Bloodgood, 2008; Ipe, 2003) and continuous improvement (Blackburn & Rosen, 1993, 1996; Jiménez-Jiménez & Martínez-Costa, 2009), an organization's strategic goals may become unstable, creating disconnects in the HRM process as seen in Figure 2 below.

Figure 2: *Transactional/Business-As-Usual Human Resource Management*



The horizontal "fibers" represent the basic elements of human resource management. Their thickness and strength depend on the focus being applied to the individual elements.

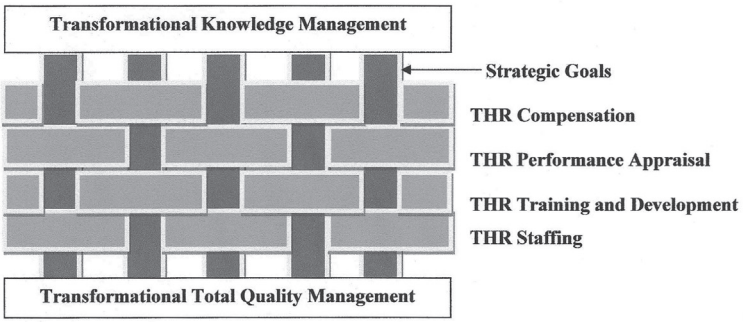
The vertical "fibers" represent the strategic goals of the organization.

Figure 2 illustrates business-as-usual human resource management. The human resource department and the organization have not put processes in place to anchor the organization's strategic goals in their vertical position, as a weaver's loom would provide a frame to hold the vertical fibers in their perpendicular position. Business-as-usual, or transactional HRM, is reactive or responsive in nature (Becton & Schraeder, 2009; Cooke, 2008; Gilley & Maycunich, 2000; Meijerink et al., 2013; Mothersell et al., 2008; Schein, 2010; Ulrich & Brockbank, 2005; Yusoff & Abdullah, 2008). Therefore, at any given time, the focus on the various human resource management elements will vary. If these elements were fibers being woven on a loom, the result would be loosely woven fabric, with no straight of grain (or in terms of an organization, no direct line of sight on the strategic goals [Aquila & Lees, 2013]).

In the case of transactional HRM (Becton & Schraeder, 2009; Cooke, 2008; Gilley & Maycunich, 2000; Meijerink et al., 2013; Mothersell et al., 2008; Schein, 2010; Ulrich & Brockbank, 2005; Yusoff & Abdullah, 2008), emphasis is placed on the different human resource elements in order to be responsive to immediate needs of the organization. This is likely to have a negative-long-term impact on the organization's ability to achieve its strategic goals. For example, short–sighted hiring decisions can result in an incongruent person-organization fit throughout the organization (Cabrera & Cabrera, 2005). This results in individuals who are not as supportive of the organization's strategic goals or willing to do what is necessary to ensure the organization's long–term viability (Cabrera & Cabrera, 2005). Their lack of support may stem from their not having the necessary knowledge, skills, abilities, and other competencies. If an organization is overlooking the training and development needs of its employees or is providing the wrong type of training and development (e.g., programs that do not support the organization's strategic goals), this weakens the fabric of the organization (Brown, 2010; Hargis & Bradley, 2011; Pineda, 2010). If performance appraisals do not provide documented objective reviews with constructive development, as well as performance improvement plans, then the organization's strategic goals will be in jeopardy because employees are not given an opportunity to grow, learn, and improve (Brauns, 2013; Sripirabaa & Krishnaveni, 2009). Also, if performance evaluations are emphasizing the wrong things, the organization's strategic goals are not being supported, because employees will do those things on which they are measured (Cabrera & Cabrera, 2005; Ulrich & Brockbank, 2005). The same can be said for compensation. People will do those things for which they are compensated (Ulrich & Brockbank, 2005). For example, if the compensation system is stressing individual performance when teamwork is essential to the organization's strategic goals, then employees will focus more on their individual efforts, rather than on teamwork. As demonstrated in these examples, when HRM is transactional, focusing first on one basic element and then on another, but not binding them together as one transformational human resource management process through the integration of knowledge management and continuous improvement, it results in a weak organizational fiber. In other words, when an organization practices only transactional HRM, it not only weakens its infrastructure by reducing its prospects for attaining its strategic goals, but it also inhibits the ability to make smooth transitional changes when needed.

Figure 3 takes an entirely different approach to human resource management. Instead of illustrating transactional human resource management, Figure 3 shows the even and satin-like organizational fabric that occurs with transformational human resource management.

Figure 3: *Strategically Aligned Transformational Human Resource Management (THR)*



In Figure 3, the strategic integration processes of continuous improvement and knowledge management act as the frames of the loom, anchoring the strategic goals. Because the fibers are anchored to the loom's frame, they will maintain their upright, evenly spaced position. The interweaving of the basic-transformational-human-resource-management elements—staffing, training and development, performance appraisal, and compensation (Kaeomanee, 2009)—cannot pull the strategic goals askew.

The horizontal fibers represent the basic elements of transformational human resource management. Because the elements are integrated, they work in tandem with each other and are bound together by knowledge management and continuous improvement (Algorta & Zeballous, 2011; Barta, 2010; Becton & Schraeder, 2009; Blackburn & Rosen, 1993; Cabrera & Cabrera, 2005; Chilton & Bloodgood, 2008; Gupta et al., 2000; Huselid et al., 1997; Ipe, 2003; Jackson & Schuler, 1995; Jiménez-Jiménez & Martínez-Costa, 2009; Ooi et al., 2009; Pil & Leana, 2009). As such, every human resource decision, procedure, practice, and other initiative is made in support of the strategic goals (Ulrich et al., 2009a). This requires HRM to be part of the organization's strategy team. It also requires HRM to partner with all cross–functional managers to ensure that all departments and their practices, policies, procedures, rules, metrics, and so forth are in alignment with those of human resources, with each supporting the strategic goals of the organization (Algorta & Zeballous, 2011; Blackburn & Rosen, 1993; Cabrera & Cabrera, 2005; Hargis & Bradley, 2011; Jiménez-Jiménez & Martínez-Costa, 2009; Ulrich & Brockbank, 2009; Ulrich et al., 2009a).

Practical Implications

To develop, implement, and nurture an environment in which transformational HRM, knowledge management, and continuous improvement work in symbiosis to enhance organizational infrastructure requires total commitment of everyone in the organization. The commitment has to begin through the dedicated and consistent

actions of the organization's top managers. This commitment cannot be only verbal; it must be demonstrated through every action and every decision that is made by top managers (Verma, 2009). Only this type of commitment and reinforcement can be successfully cascaded through the ranks and be viewed as believable and not just as the program of the month. In other words, if leaders fail to enact what they espouse, they will lose credibility among their followers (Boyd, 2011; Mosley & Patrick, 2011)

A transformational HRM environment has an expensive start-up cost, which, if properly designed and implemented, will result in efficiencies and savings in the long term. The phrase *long term* is one of the primary keys for attaining a successful transformational environment. Every decision is based not on filling today's needs, but rather on *fulfilling* the organization's long-term strategic goals. As part of this, organizations must seek internal alignment to ensure a viable infrastructure is in place to support the transformational environment (Barbaroux, 2011).

On a more precautionary note, adopting the transformational HRM reflected in Figure 3 requires organizations to commit to seeking alignment throughout the organization. It is a strategic model that is not intended to be reactive. It is a long-term commitment (Algorta & Zeballos, 2011) in which organizations will be successful in achieving short and long-term strategic goals and affect sustainable change if they create, implement, and nurture a transformational human resource management environment. This cannot be done by picking and choosing only those elements that have appeal or appear to be easy to achieve.

The model will also cause organizations to look at HRM differently. To be transformational HRM, the process requires cross-functional participation (Hargis & Bradley, 2011; Ulrich & Brockbank, 2009; Ulrich et al., 2009a). It is not just a function of human resources (Oakland & Oakland, 1998).

The model will also create a paradigm shift in the way some organizations manage knowledge. Historically, most organizations have placed the learning and the knowledge functions in different departments, and these two groups have neither aligned their activities, nor aimed toward the same objectives (Davenport, Prusak, & Strong, 2008). For knowledge management to become strategically integrated into HRM, organizations must look toward continuous improvement to ensure that the traditional technology group and the traditional training and development group (i.e., information technology and human resource) are focused on the same strategic goals of the organization. This includes making sure that employees receive ongoing training and development on the various platforms, such as corporate intranets, database–software programs, and web portals (Davenport et al., 2008). Training programs such as workshops, and practices such as mentoring and on–the–job training, which are often conducted by human resources, will encourage employees to put their knowledge to use (Davenport et al., 2008). In other words, maintaining databases is not the answer to the effective integration of knowledge management into HRM. Employees must have user-friendly technology platforms that they know how to access and utilize and that they are encouraged to use (Algorta & Zeballos, 2011; Casimir, Lee, & Loon, 2012; Gupta et al., 2000). Employers must be committed to providing user-friendly technology platforms and the time and encouragement needed for training and transfer into the work environment (Algorta & Zeballos, 2011; Casimir et al., 2012).

The weaver's loom metaphor associated with Figure 3 is not a quick fix, nor is it an easy undertaking. It is a long-term investment in time and resources that will result in long-term, sustainable transformation (Andries & Wastyn, 2012; Pulakanam, 2012). High up-front expenses for such things as identifying knowledge, skills, abilities, competencies, behaviors, attitudes, and traits needed for short and long-term strategic success and the development and use of screening and testing tools for these attributes will be offset by the increased probability of hiring the right people the first time and not incurring the unnecessary expenses associated with inappropriate hires and turnovers (Da Silva, Hutcheson, & Wahl, 2010; Karsan, 2007). The integration of continuous improvement will ensure the organization is focused on the strategic goals of the organization, as well as the alignment of the "hard aspects" (Soltani et al., 2004, p. 392) of TQM, such as systems, techniques, and tools. The integration of knowledge management will provide the organization with the ability to acquire, store, and disseminate knowledge (Ooi et al., 2009), thus ensuring no loss of organizational memory (Casimir et al., 2012; Gupta et al., 2000; Ipe, 2003; Ooi et al., 2009). With today's proliferation of computers and software, there is no excuse for organizations, regardless of size, to refuse to maintain and use employee knowledge, skills, and abilities inventories; track strategic–goal progress; fail to align policies, practices, procedures, systems, and so forth. In other words, all organizations have access to the tools needed to create a transformational human resource management environment through the strategic integration of knowledge management and continuous improvement. However, the question is whether their top managers and other leaders within the organization have the courage and conviction to pursue such a transformational environment. In order for all elements within an organization to become aligned, it means that some groups will have to change how they do things and get out of their comfort zone.

Conclusion

Unlike St. Vincent Millay (1956, p. 697), who marveled over the "meteoric shower of facts" that "lie unquestioned, uncombined" because "there exists no loom to weave it into fabric", organizations today have no excuse because a loom does exist that has the capability to weave a smooth and strong organizational fabric from the organization's strategic goals, processes, policies, practices, procedures, systems, functions, etc. With two foundational processes—knowledge management and continuous improvement—anchoring the organizations' strategic goals in place, this loom enables organizations to create an environment in which all transformational human resource management practices, policies, procedures, functions, and related systems are integrated and work in harmony with all other organizational practices, policies, procedures, functions, and systems. To ensure organizational viability, these elements must be congruent and collectively work in synch (Bennett, Lehman, & Forst, 1999; Bunch, 2007; Cabrera & Cabrera, 2005; Kepes, Delery, & Gupta, 2009; Derouen & Kleiner, 1994; Ooi et al., 2009; Rago, 1996; Soltani et al., 2004). For many organizations, this type of congruency will probably mean a paradigm shift in which organizational policies, practices, metrics, and workloads may have to be reevaluated or redesigned to ensure compatibility.

Organizations that are willing to commit the time and resources (Andries & Wastyn, 2012; Pulakanam, 2012) to implement the practices reflected in Figure 3 will move toward a transformational environment. This environment, in turn, can affect and sustain long-term change, avoiding the systemic problems of reactive-human-capital decisions that lead to downsizing and large numbers of turnovers. A transformational environment is one in which continual learning, constant evaluation, and gradual evolution occurs (Algorta & Zeballos, 2001). This type of environment is much more apt to avoid the upheavals and angst caused by reactive management. In other words, transformational HRM, bolstered by strategically integrated knowledge management, and continuous improvement, acting in concert, enable an organization to weave an organizational fabric that is tightly woven, smooth, and strong.

As noted earlier, this is a conceptual paper and the model depicted in Figure 3 has not been tested. However, there is not only potential value-added for organizations willing to implement this conceptual model, but there is also equal value in studying these assertions empirically.

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