

## **Top Management's Role in Coordinating Human Resources with Corporate Strategy**

### **Dr. Mirza Hassan Hosseini**

Assistant Professor, Head of Business Administration Department  
University of Payam-e Noor, Po. Box: 19395-4697, Tehran, Iran  
Phone: +989126351450, Fax: +982122441511 E-mail: ir\_Hosseini@Yahoo.com

### **Fatemeh Shakhshian**

Phd Student in Business Management  
University of Payam-e Noor, Tehran, Iran  
Phone: +989126996932, Fax: +982122905968, E-mail: fatemeh@shakhshian.com

### **Hamed Moezzi**

Phd Student in Business Management  
University of Payam-e Noor, Tehran, Iran  
Phone: +989177319179 E-mail: moezzihamed@yahoo.com

**Seyed Mohammad Sadeq Khaksar (Corresponding author)**  
MASTER OF INFORMATION TECHNOLOGY MANAGEMENT  
UNIVERSITY OF SISTAN & BALUCHESTAN, IRAN  
Phone: +989127778440 E-mail: sms\_khaksar@yahoo.com

### **Abstract**

*In airline industry, especially for low-cost carriers, human resource is considered as a valuable capital. In order for an airline to be successful in its strategy and maintain the highest standards, is to invest heavily in the people who will carry out this strategy. The current research work, strives to categorize these responsibilities into some key factors. By overlooking in the literature, some important points had been considered, then experts' opinion been asked in this matter through a questionnaire. As a result of an exploratory factor analysis test, three main categories had been defined. These respectively are: Motivational Role: Encouraging people to support the system in all conditions such as benefits sharing, proper compensation policy and so on; Cultural Role: Trying to establish a coordinator organizational culture such as team-working approaches, attention to intellectual capitals and so on; Structural Role: making a proper organizational structure such as minimization and decentralization.*

**Key words:** Management, Low Cost Carriers, Strategy, Human Resource, Aviation Industry, Strategic Management.

### **1. Introduction**

In an airline, consumers buy a service (going from one point to another); in fact they want an intangible product (Brueckner, 2002; Lee and Luengo, 2002). So their main goal is to get to their destinations safe, on time and as cheap as possible. These points can carry us to the main reasons of low cost carriers' succeed. Over the last three decades, Low Cost Airlines (which are famous as Low Cost Carriers (LCCs) in aviation industry) have emerged as an industry phenomenon that has fundamentally altered the market structure and competitive landscape of the airline industry (CAPA, 2002; Boguslaski, Ito and Lee, 2002; Mayer and Sinai, 2002) The growth of LCCs was a product of the successful application of an innovative business model, taking advantage of opportunities which were made possible by the deregulation in aviation market (Morrison, 2001; ELFAA, 2007)

The most perfect and complete strategies without a proper implementation will be useless (Flouris and Oswald, 2007). And this is thoroughly depending on the employments. As mentioned above, air transportation is a consumer service industry; so according to Norton and Kaplan (2004) opinion, the importance of intangible capitals for them is much highlighted. In all organization human resource is one of the most important assets. Labors are worthy intangible capitals that in strategic map play the fundamental role to implementing the corporate strategy (Kaplan and Norton, 2004). Consequently in a service industry with an absolute intangible product like airline, a successful strategy implementation is completely depends on human coordination. C. Mandl (SkyEurope Airlines' CEO) mentioned that "in order for an airline to maintain the highest standards of operational safety and quality of service, and ultimately be successful in their strategy, is to invest heavily in the people who will carry out this strategy."

(Flouris and Oswald, 2007) In the other hand, low cost model is based on high productivity and cost efficiency and these mainly referred to human factor (CAPA, 2002). As Greenslet (1999) explained, labor's strength also comes because airlines are very vulnerable to strikes, particularly by the pilots, which invariably shut down the company, causing a significant loss of revenue (CAPA, 2002).

Additionally top managements are responsible for everything and their attitude has a deep effect on the strategic management process (Schweiger, 1991; Menon, Bharadwaj, Howell, 1996; Amason, 1996). Their main task is to achieve the goals by perfect use of all resources. In airline, labor is a major input to all activities and can be consider as a great resource. Gillan and Lall (2002) argued that the most essential management's skill is the ability of human relation. As a matter of fact, the human skill is more essential in compare with professional or cognitive skills (Gratton, 1998). Top managers should gather people around the corporate organization and coordinate them. This research tries to investigate about the top management's role in relation with human capital to implement the strategies and categorize these roles.

## **2. Literature Review**

Through the last three decades, many researches had been done about low cost carriers' administration. Some of them are mentioned in Table 1. Some of them which are related to the topic and can consider as the research literature, will be mentioned in flow: To analyze the sustainability of the Ryanair model, Barrett (2004) mentioned that the most significant contribution of the low cost model in airline industry comes from its labor productivity. He said: "Ryanair's staff holds shares in the airline. The share value and staff promotion prospects depend on the profitable expansion of the airline." Also "Employees are strongly with the company and its management. They are proud of its achievements and success". In addition "They are confident that the Company will continue to grow and this will provide additional career opportunities for them. The Company's policy of promotion from within is highly regarded by employees." According to the Flynn-McAuley (1998) report, "Most Ryanair's employee groups consider that they work hard for the Company, harder and more effectively than workers in other airport-based companies". It shows that the staff corporate culture of Ryanair is strongly supported by the staff and that the strong management style in the airline is highly regarded by the employees (Barrett, 2004).

Barkin et al. (1995) explained that low-cost airlines exploit lower input costs in as many areas of their operations as possible. "The most significant is the cost of labor, which yields 10 to 20 percent savings compared with traditional airlines' total unit costs. Most low-cost airlines pay their pilots about 40 percent less in annual salary than traditional airlines, taking advantage of the host of qualified pilots who have lost their jobs with major airlines. Similarly, they tend to pay lower wages to other employee groups, such as flight attendants and airport personnel. But it is not just lower salaries that reduce labor costs; higher productivity can produce substantial savings too. Per block hour, Southwest's pilots cost 40 percent less than traditional airlines', though their annual salaries are comparable. The difference is higher utilization, negotiated into the company's union contract. Low cost carriers do not have to meet high customer or employee expectations." (Barkin, Hertzell and Young, 1995)

Forsyth (2003) argued about the greatest impact of low cost carriers in airline industry has appeared in labor segment. "Low-cost carriers operate with labor market arrangements which are very different from those with which the older carriers operate. They are more performance based, they require fewer employees to undertake a task, there is more multi-skilling, and employees often obtain lower pay. Employees in the established airlines have often been able to share in the rents which these airlines have gained, and this enabled higher than market rates of pay along with unproductive work practices. As a result, new entrants are able to achieve lower unit costs than the incumbents" (Forsyth, 2003).

Civil Aviation Authority (CAA) in a research paper (2006) mentioned that one of the main innovations of low cost carriers is lower labor cost and high staff productivity. "No-frills carriers have also made efficient use of labor, both by increasing the productivity of their workforce compared to full-service carriers, and also, by dint of being new entrants, avoiding some of the legacy costs that longer-established carriers have had to cope with, such as heavy pensions liabilities" (CAA, 2006). Kaberry (2007) through an investigation about social benefits of low cost carriers in Europe explained that "Despite a perception in some areas that there is a high degree of operational pressure on flying crew, there is no evidence that this is the case; overall flying hours are already strictly regulated and the new aircraft in the fleets of nearly all LFAs feature the latest flight-deck technology and equipment, which is designed to reduce the workload pressure on pilots when flying." (Kaberry and Congdon, 2007). As a case study Kaberry selected some famous low cost carriers. Firstly he describes the Ryanair's labor condition: "Ryanair offers a number of benefits to its employees, some of which could be considered more attractive than those offered by full service carriers.

Ryanair offers salaries for entry-level flight and cabin crew that are similar to, and in some cases better than, full service carriers. Pay is made up of a combination of basic pay and payments based on numbers of hours flown, a model also used by some full service carriers. All employees are entitled to share options and Ryanair also provides a pension scheme, with the majority of staff on a stakeholder pension scheme. Ryanair also offers travel concessions to its staff and their relatives, the airline's very extensive route network making this a facility highly valued by employees. As a rapidly growing business, the company offers good training opportunities and rapid promotion is possible. All training and promotion is in line with strict regulatory requirements. For pilots, the typical length of service before being promoted to Captain is three years, subject to flying time and regulatory requirements. This compares with up to ten years at the full service carriers. Similarly for cabin crew, the typical period for promotion is around 12-18 months after initial training. In addition, cabin crew benefit from transferable skills, such as sales training, which benefits the Airline for the period of employment, but provides transferable skills that can be used in other fields should the staff choose to leave the business. Ryanair also engages in charity work in the wider community and provides a platform on which employees can raise money for this charity, including in-flight promotions" (Kaberry and Congdon, 2007).

And about easyJet he said: "As an employer, easyJet's stated aim is to create a culture in which people feel that the airline is a great place to work. The airline sets out to provide a predictable roster, offering a stable lifestyle to its employees, and a safe and productive working environment. There is also a policy of keeping employees informed of and involved in the company's activities; various channels of communication are used to this end, including a company-wide Intranet" (Kaberry and Congdon, 2007).

Wizz Air is a low fares airline focusing on the markets of Central and Eastern Europe. Kaberry explained that: "Pilots can achieve rapid promotion to captain, and on to training/management pilot roles as a result of the need to fill positions through expansion. Whilst salaries may be lower than some full service carriers in the region, pilots can be promoted considerably more quickly than with traditional carriers. There are opportunities to earn a higher level of pay come much sooner. Additional benefits include the provision of Loss of License Insurance, Health and Accident Insurance, and Life Insurance (offered to all employees). Wizz Air provides the necessary operational training to its flight and cabin crews, but also provides additional transferable skills, such as sales training and customer service training for cabin crews, and people management skills for senior crew members" (Kaberry and Congdon, 2007)

European Low Fares Airline Association (ELFAA) (2004) in a research about the benefits of low fare airlines mentioned that: "LCCs rely heavily on the high productivity of their staff and incentivize their employees to work efficiently traditional flag carrier airlines have huge numbers of staff, more for political reasons than commercial. For example, airlines like BA (British Airways), Lufthansa and Aer Lingus, among others, have reduced staff numbers dramatically since 9/11 but are generally carrying the same number if not more passengers. LCC's employees are generally incentivized based on the number of flights flown and are often compensated through commissions for on-board sales" (ELFAA, 2007).

About executing strategy in airlines, Flouris and Oswald (2006) emphasized on putting together the right staff: "It is important to have a team of highly skilled individuals who can play varying roles in the implementation process. These individuals must embody the beliefs and vision of the strategic manager." They added that: "However good management is not enough. Company management has to make sure that they have the right employee team in place." They described the right person as followed: "The right person is the person with the skill set necessary to meet the company's needs and the personality and career goals to fit the culture of the organization." (Flouris and Oswald, 2007) On the other hand about human resource management based on the corporate strategy, Simon's research (1995) indicated that CEOs selected an existing management system, such as the budget, the project management system, or the revenue system, and operated it interactively. Development of the strategy map and Balanced Scorecard turned out, serendipitously, to offer managers the framework for a generic interactive system. According to Kaplan & Norton researches (2004-2008), managers could now design a customized interactive system based on their strategy, and, use the strategy map and scorecard as the cornerstone of their management system for executing the strategy.

Objectives in the process perspective reflected how the company would create and deliver the differentiated value proposition and meet the financial objectives for productivity improvements. Objectives in the learning and growth perspectives described the goals for employees, information systems, and organizational alignment (Bechet and James, 1993; Smith, 1995). All the objectives are linked in cause-and-effect relationships, starting with employees, continuing through processes and customers, and culminating in higher financial performance (Bamber, et al., 2004).

The idea of causal linkages among Balanced Scorecard objectives and measures led to the creation of a strategy map, articulated in an HBR article and several books. (Described in Figure 1) The value from intangible assets depends on organizational context and strategy. This value cannot be separated from the organizational processes that transform intangibles into customer and financial outcomes. The value of an intangible asset depends critically on the context – the organization, the strategy, and other complementary assets – in which the intangible asset is deployed. Also, intangible assets seldom have value by themselves. Generally, they must be bundled with other intangible and tangible assets to create value. (Kaplan & Norton, 2008) Human factor in airline industry for implementing the strategy is a fundamental and essential aspect of top management's task (Lawton, 2002). Through the literature some points were considered which they are research variables: to establish and spread the organizational values, to employ the minimum number of staffs, to make organization as flat as possible and small, to confer the authority to the lower levels, using proper compensation policy, sharing employees in corporate benefits, tiring to enrich the human resources, increasing employees' participation in the decision making, to employ the right man in right job, investment in intellectual capitals, driving team working attitude, to care and respect on employees, spread the attachment and dignity feeling among employees, to prepare proper facilities.

### 3. Materials and Methods

**Research Methodology:** In terms of its goal, this research is applied-descriptive and regarding the nature and data collection method, it is a survey (Harandi et al, 2008).

**Statistical Population:** The statistical population has been made by middle and senior managers of KishAir Airlines (An Iranian airline which tries to adapt to low cost model as much as possible). By applying simple random method, 59 managers were selected. (This value was derived through Morgan table which mentioned at the number 13 reference). And 57 questionnaires had been returned.

**Instrument:** According to the literature, 14 items was considered as the top management's role in coordinating the human resources in LCCs. Then a questionnaire prepared in order to ask responders' view point about them.

**Validity and Reliability:** For endorsing of the questionnaire's validity, it was edited by some of academic experts in strategic management also some who familiar with aviation science and experiment. Their suggestions were considered in the final edition. Cronbach correlation was used for evaluation of questionnaire's reliability (Harandi et al, 2008) The correlation was 0.960.

**Data Analyzing Procedure:** For answer the research question, exploratory factor analysis was used. Factor analysis is used to uncover the latent structure (dimensions) of a set of variables. It reduces attribute space from a larger number of variables to a smaller number of factors and as such is a "non-dependent" procedure (that is, it does not assume a dependent variable is specified) (Hayton et al, 2004; Hurley, Scandura and Schriesheim, 1997). Exploratory factor analysis (EFA) seeks to uncover the underlying structure of a relatively large set of variables (Pison, et al., 2003). The researcher's prior assumption is that any indicator may be associated with any factor. This is the most common form of factor analysis. There is no prior theory and one uses factor loadings to intuit the factor structure of the data (Habing, 2004; Hayton et al, 2004).

### 4. Result and Discussion

As a result of Kaiser- Meyer- Olkin Measure of Sampling Adequacy test, the value of KMO was 0.806. (Table 2) This amount was more than 0.6; thus the Factor Analysis test was used. According to the Variance chart (Table 3) we can consider variables in the form of three main factors. Based on the each variable's factor scores that Rotated Component Matrix (Variance with Kaiser Normalization) shows: x5, x6, x8, x12 and x14 are the first factor's components, x1, x7, x9, x10, x11 and x13 the second's and finally x2, x3, x4 indicated the third one (Table 4). The most important part of a factor analysis test is the factors' definition. The first factor, according to its variables mostly demonstrates the emotional aspect of top managers' role to motivate the employees, so we can call it "Emotional Factor". Besides the second factor's variables concerned about organizational culture, thus "Cultural Factor" is a proper definition for it. Lastly the third factor refers to the Organizational structure and we called it "Structural Factor". Each factors' variable has a priority which is mentioned in Table 5 to 7.

### 5. Conclusion

In the new business world, human resource is a fundamental and essential capital for a success strategy implementing (Rubino, 1994). This research tried to give an almost comprehensive overview in top managers' role for creating synergy and integration in labors side for low cost carriers. By reviewing the research literature also considering the successful LCCs' real experience, the most important points in coordinating the human resources be considered. Then through a exploratory factor analysis test these variables were categorized to three main factors.

As a result of the research, the first role of top managers in LCCs for integrating the human resources around corporate strategies is motivate and emotion them. By considering the priority of its variables, we can say the most important thing is to treat people in a manner that strengthen the feeling of share in all succeeds and achievements. Secondly low cost airlines' leaders should prepare the way for establishing a rich culture in the organization which support the corporate strategy and gather the staffs around the strategy. For this goal the main thing is enriching the human factors. At last they should build a harmony organization by a good structure. The best results will gain through a correct way. A low cost airline has to be as small as possible. So to speak in the airline's low cost business model any strategy will not be implemented successfully without considering people as a worthy capital which have to coordinate and integrate as the main and essential factor of the whole system. Actually this is leaders' the most important task. Lastly in a dynamic and multidimensional environment like aviation industry, for top managers to make a strong organizational culture, a proper structure and motivate people may not be sufficient. These are related to the human skills and what will be their role in other aspects?

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Table 1: A Part of Literatures in Low Cost Carriers Administration

<b>Factors</b>	<b>Researcher/ Year</b>
The Essence of Strategy (Corporate Values, Vision, Mission, Objects, Strategic Thought)	Flouris & Oswald (2007), Smyth & Pearce (IATA) (2006), Finkelstein & Harvey and Lawton (2008),
Situational Analysis	Griga (2006), Barrett (2004), CAA(2006), Flouris & Oswald (2007), Barrett(2004), Brophy & George (2003), Smith & Pearce(IATA)(2006), Ito & Lee(2004), Forsyth (2003), Traventec(2004), Barbot (2004), Dumri & Anas(2005), Greenslet (1998), Lehrer (2000), Schultz(2000),
Market Analysis	Smyth & Pearce (IATA) (2006), ELFAA (2004), Sorensen (2005), Gursoy (2003), CAA(2006), Greenslet (1998), Banderia (2004), European Parliament (2007), Pantazis(2006), Gillen(2003), Seig(2004), Eurocontrol(2004)(2006), Ito & Lee(2003), Karbery (2007),
Business Model	Graf (2005), Doganis (2006), European Parliament (2007), CAA (2006), Degonis(2007), Frank & Markus (2004), Banderia (2004), Sainak(2005), Koenisberg & Muller and Vilcassim (2003), Traventec (2004), Dennis & Ison (2006), Graham (2008) Brophy & George(2004), Monajemi (2003), Franke(2004), Weber & Williams(2001), Barkin & Hertzal & Yang(1995),
Key Success Factors (Benchmarking, Knowledge Management, Outsourcing, Simplifying the Business, Cautious Growth)	Barkin, & Hertzal and Yang (1995), Gillen & Morrison (2003), Flouris & Oswald (2007), Gillen(2003),
Productivity	Gillen & Morrison (2003), Campbell & Kingsly (2002), European Parliament (2007), Fransis (2006), Banderia (2004), Sainak(2005), Dennis(2007), Traventec (2004), Smith (2006), Forsyth (2007), CAA (2006), Masson (2000), Lawton(2003), Lawton & Solomko(2003), Dobruszkes(2006), Fransis & Graham (2005), Gillen(2005), Graham (2006), Sorenson(2005), Smith & Pearce(IATA)(2006), Najda(2003), Forsyth (2003), Lawton (2003),
Strategic Leadership	Flouris & Oswald (2007), Graf(2005), Lawton & Finkelstein and Harvey(2007), Rae(2001),
Organizational Structure	Doganis (2006), European Parliament (2007), Traventec (2004), Flouris & Oswald (2007), Graf(2005),
Corporate Culture	Lawton & Harvey and Feikelestein(2008), Flynn-McaAuley(2004), Baret(2004), Banderia (2004), Barrett (2004), Gillen(2003), Karbery(2007),
Motivation	Gillen(2003), Banderia (2004), Karbery(2007), Flynn-McaAuley(2004), , Baret(2004), Graham(2006),
Investment in Human Resource	Karbery(2007), Flouris & Oswald (2007), Barrett(2004), Forsyth (2003), ELFAA(2004),
Strategic Control Mechanism	Baret(2004), Sayanak(2004), ELFAA(2004), Gursoy & Chen & Kim(2005),
Critical Management	Flouris & Oswald (2007),
Scenario Planning	Flouris & Oswald (2007),
Social Investment	European Parliament (2007), Pantazis(2006), CAA(2006) ELFAA(2004),,



Figure 1: Strategy map

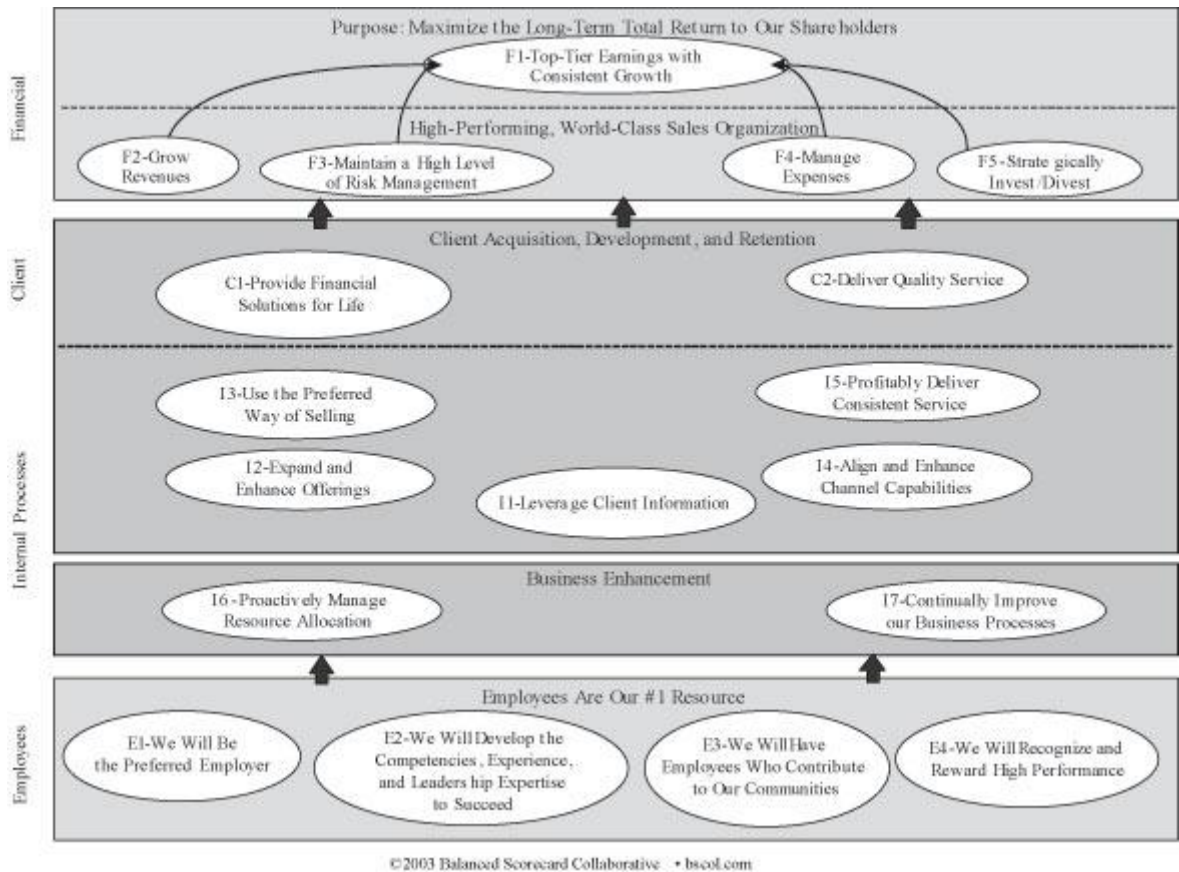


Table 2: Summarized Stages of KMO and Bartlett’s Test

<b>KMO Measure of Sampling Adequacy</b>		0.806
<b>Bartlett’s Test</b>	<b>Chi-square</b>	323.484
	<b>df.</b>	91
	<b>Sig.</b>	.000

Table 3: Summarized Stages of Statistical Analysis of Total Variance Explained

Factor	Total	% of Variance	Cumulative %
1	5.25	39.44	39.44
2	1.18	12.69	52.13
3	1.53	10.95	63.08

Table 4: Summarized Stages of Rotated Component Matrix (Varimax with Kaiser Normalization)

<b>Factor</b> <b>variables</b>	<b>1</b>	<b>2</b>	<b>3</b>
X1	-0.166	0.737	-0.007
X2	-0.070	0.160	0.790
X3	0.144	0.246	0.736
X4	0.321	-0.218	0.738
X5	0.801	0.269	0.146
X6	0.820	0.019	-0.051
X7	0.133	0.777	0.053
X8	0.783	0.020	0.326
X9	0.347	0.573	0.139
X10	0.347	0.634	0.383
X11	0.392	0.713	0.068
X12	0.650	0.450	0.122
X13	0.432	0.459	0.350
X14	0.577	0.494	0.028

Table 5: Factor Score of Emotional Factor's Variables

<b>Emotional Factor's Variables</b>	<b>Factor Score</b>
1- Sharing Employees in Corporate Benefits	0.820
2- Using Proper Compensation Policy	0.801
3- Increasing Employees' Participation in the Decision Making	0.764
4- To Care and Respect on Employees	0.650
5- To Prepare Proper Facilities	0.577

Table 6: Factor Score of Cultural Factor's Variables

<b>Cultural Factor's Variables</b>	<b>Factor Score</b>
1- Tiring to Enrich the Human Resources	0.777
2- To Establish and Spread the Organizational Values	0.737
3- Driving Team Working Attitude	0.713
4- Investment in Intellectual Capitals	0.634
5- To Employ the Right Man in Right Job	0.573
6- Spread The Attachment and Dignity feeling among Employees	0.459

Table 7: Factor Score of Structural Factor's Variables

<b>Structural Factor's Variables</b>	<b>Factor Score</b>
1- To Employ the Minimum Number of Staffs	0.790
2- To Confer the Authority to the lower Levels	0.738
3- To Make Organization as Flat as Possible and Small	0.736