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Faculty of Communication and Public Relations
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University of Sheffield International Faculty, CITY College

Proceedings of
the 9th International Conference
for Entrepreneurship, Innovation
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RESPONSIBLE ENTREPRENEURSHIP VISION, DEVELOPMENT AND ETHICS

June 23-24, 2016
Bucharest, Romania

Edited by
Alexandra Zbucea and Dimitrios Nikolaidis

Responsible Entrepreneurship • Vision, Development and Ethics

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Preface

The present volume comprises the papers presented at the 9th edition of the International Conference on Entrepreneurship, Innovation and Regional Development (ICEIRD), organized by the National University of Political Studies and Public Administration (SNSPA), from Bucharest, Romania, and the University of Sheffield International Faculty, CITY College, Thessaloniki, Greece. The conference has been designed as a forum able to facilitate discussions and cooperation between decision-makers, academia and researchers, as well as practitioners involved in innovation and entrepreneurship. The past editions of the conference addressed a wide area of topics relevant for national competitiveness as well as sustainable regional development.

The 2016 edition follows the successful series of ICEIRD conferences previously organized in Greece, Serbia, FYROM, Bulgaria, Turkey, Cyprus and UK. This year's edition held in Bucharest, Romania on June 23-24, proposed debates around the concept of responsible entrepreneurship. The economic and social benefits of entrepreneurship are important factors of sustainable development. In order to enhance the actual contribution to society, entrepreneurial activities have to be responsible. It means that entrepreneurs are not concerned only with their own financial interests, but they should also be keen to contribute to the prosperity of the society. They operate taking into account the interests of various societal stakeholders and communities, as well as the environment.

Since 2000, promoting entrepreneurship is one of the priorities of the European Union as a means of employment, of economic reform, of social cohesion, of smart and sustainable development. Nevertheless, the success rate of responsible entrepreneurial endeavors is low, as it is the growth rate of such surviving start-ups. One of the causes might be the relatively low interest in universities in entrepreneurship. A study published in 2012 by the European Union reflecting the state of the entrepreneurship, *Entrepreneurship in EU and beyond* (Flash Eurobarometer 354), reveals that only one of four Europeans has taken a course on entrepreneurship or undergone an activity related to entrepreneurship while students. Many other reasons could be related to economic and political factors, even with cultural framework in which entrepreneurs operate. These and many other aspects are investigated in the present volume.

We trust that reading this tome will provide useful insights referring to the entrepreneurial endeavors and challenges around the world. We also believe that the studies presented can contribute to better understanding of the relationships between academic, governmental, non-governmental and economic environments, contributing thus to closer cooperation. We hope that it is thought-provoking and will lead to new discussions and directions of investigation in the field.

Editors

Challenges and trends in contemporary entrepreneurship

The Tri-Anthropo-Type Paschalidis business model. A new tool for the interpretation of entrepreneurial motives and behavior

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Abstract: This study investigates the factors that motivate people to establish and effectively operate an enterprise, by applying the Tri-Anthropo-Type Paschalidis Business Model. The Model analyzes the personality characteristics of entrepreneurs, how they react to psychological pressure, their attitudes and actions when they implement projects. It explains how individuals make decisions, how they deal with the challenges they face from the wider economic and business environment and how they are motivated to do business. The data was collected from four sources in businesses and academic institutions. We gathered information about entrepreneurs' business background, administered the "Tri-Anthropo-Type" personality questionnaire, and conducted seminars on the practical application of the Model in the sampled companies. Finally, we conducted in-depth structured interviews with the entrepreneurs before and after the application of the Model in their companies, focusing on entrepreneurial behavior and motives and on personality characteristics. After systematic codification of qualitative and quantitative data, we matched them and compared them with the Model's data. Findings showed that the Tri-Anthropo-Type Model effectively explains the motives, the personality characteristics and the behavior of entrepreneurs; it shapes the business culture and renders it attractive to customers; and it transforms the company into a pleasant and productive environment.

Keywords: Entrepreneurship, motivation, personality type, Tri-Anthropo-Type Model, businesses behavior

Introduction

In recent years there has been increasing need to study the importance of entrepreneurship as a factor in personal, business and social growth. This is evident in its application in economic research as well as in economic policy (Bruyat & Julien, 2000). Researchers have exerted especial efforts to identify those factors that motivate people to establish and operate a company effectively (Henry, Hill & Leitch, 2004; Kuratko, 2005). There have also been research attempts to answer the question if an entrepreneur is born as such or develops into the role because of the environment in which he or she operates (Baron, 2004; Bonnett & Furnham, 1991). The present study uses the Tri-Anthropo-Type Paschalidis Model in order

to examine the factors that motivate people to become entrepreneurs as well as how they can operate their company successfully. It analyzes the personal characteristics of businessmen, how they react in conditions of calm and psychological pressure, and how they act as they materialize projects. It explains how these people make decisions in the face of challenges they receive from the broader economic and business environment and how they are motivated for business activity.

Theoretical approaches to entrepreneurship

Research on entrepreneurship started a long while ago, but systematic approaches started in 1934 when Shumpeter presented his views on entrepreneurship and innovation. Initially researchers focused on the personal traits of businessmen, while later they were more concerned with the environment in which a person operates as well as the demographic and social characteristics of entrepreneurs (Begley & Boyd, 1987; Brockhaus, 1980; Sexton & Bowman, 1984). There have been research attempts that aimed to answer the questions of if a businessman is born or develops in the environment in which he or she operates (Baron, 2004; Bonnett & Furnham, 1991). Significant theories and approaches developed as a result, of which the most important are the following:

a) personality theories (Bucholz & Rosenthal, 2005; Korunka, Frank, Lueger, & Mugler, 2003): They maintain that some people's business activities (unlike others') can be ascribed to their personality traits.

b) behavioural theories (Bridge, O'Neill & Cromie, 2003): They study entrepreneurship on the basis of the environment in which a person is active and support that this person's behaviour should be examined within the context of this environment.

c) economic approaches (Carolis, Marie & Saparito, 2006): They focus on the environmental factors that influence entrepreneurship and support that the external environment is that which can motivate or discourage people from assuming business initiatives.

d) sociological approaches (Reynolds, Camp, Bygrave, Autio & Hay, 2001): These were developed by sociologists and maintain that the choices people make concerning their professional occupation are mainly dictated by the social environment.

e) the cognitive approach (Delmar, 2000): This approach is supported by researchers who admit that personal traits play an important role in who will be an entrepreneur and who will not, but also propose further investigation of the decision-making process, before the initiation of business activity.

Despite extensive scientific research, researchers have not arrived at any commonly accepted conclusions that could become development tools for the business world. The following questions remain relevant to us today: "What are the reasons why some people are motivated to start their own businesses while others are not despite identical environmental conditions? And how can they operate their business successfully?" The purpose of the present study is to answer these interesting and perennial questions, basing our research on the Tri-Anthropo-Type Paschalidis Business Model.

The basic principles of the Tri-Anthropo-Type Paschalidis Model

The Tri-Anthropo-Type Paschalidis Model connects the brain with personality, behavior and the way in which people perceive, manage and act out their emotional and biological functions (Paschalidis, 2014b; Paschalidis, Vlogiari, Karaviti & Chiou, 2015; Paschalidis & Stathopoulou, 2012a). The basic principles of the Model are as follows:

According to the Model, every person belongs to only one of three distinct personality Types: A-, B- or C-Type, differentiated mainly by brain function and plasticity. The three personality Types are classified according to certain physiological, neuroanatomical and neurochemical characteristics as well as personality traits, which are genetically specified and inherited from one's biological parents (Paschalidis & Stathopoulou, 2012a). The three personality Types originate in the differentiations in the function of the three brain structures of the limbic system: the temporal lobe, the amygdala, and the hippocampus (Paschalidis & Stathopoulou, 2012b). Under conditions of intense pressure, the function of the neurotransmitters of serotonin and dopamine in the above structures becomes disturbed because of the overfunction of those brain structures (Paschalidis, 2013, 2015). In the cases where large amounts of serotonin are stored in the temporal lobe, certain personality and behavioral traits appear that belong to the A-Type. This Type is visual, processes information instantly and acts immediately. In the case that a large amount of dopamine is stored in the amygdala, there appear traits that belong to the B-Type: this Type is auditory and processes information successively, that is why he/she is cautious in action. People who experience dysfunction in both dopamine and serotonin exhibit characteristics that belong to the C-Type: they are kinesthetic, they process information with persistence and attention to detail and insist on completing their targets (Paschalidis & Stathopoulou, 2012c; Paschalidis, 2014d). The Model introduces what it defines as the "dominant gene" factor, and defines the way each person handles and manages their life and relationships (Paschalidis, 2014e). This also plays significant role in Type-specific characteristics (Paschalidis, 2012a, 2012b & 2012c).

The personality and behavior of an entrepreneur based on the Paschalidis Model

Based on the Model, the personality traits and the activity of employers are determined by the brain's neurotransmitters (Paschalidis, 2014c). For A-Types, serotonin, the neurotransmitter of "action", plays the most significant role: when it is at low levels in the brain, it makes A-Types fast and effective, while when at high levels it makes them extremely hasty with negative results in their actions. For B-Types, dopamine, the neurotransmitter of "negotiation" plays the important role – when it is found at low levels, it allows the person to take action but when at high levels it condemns the person to cyclical, repetitive thought that fore-stalls action. For C-Types action is determined by the simultaneous function of both serotonin and dopamine. When serotonin and dopamine are in the right and sufficient quantity in the brain, then people have calm, swift and efficient action. When, however, the levels of both of these hormones are high, they force the person to impose on those around him, and when those around cannot perform to his expectations, he dismisses them (Paschalidis, 2015).

In A-Type businessmen, haste and tension give them agility in overcoming obstacles and make them practical, confident and perceptive. Their inner tension makes them spontaneous

and forces them to quick action and risk-taking. It makes them impatient, quick-tempered, and quick to abandon fruitless endeavors (Paschalidis, 2014c).

Table 1: Characteristics of Type A entrepreneurs

Type A in calm conditions	Type A under stress
Leader	Cannot direct, panics, and is tired by responsibility
Spontaneous guide	Oppressive leader
Inspired visionary, clear thinker, problem-solver	Inactive, without clarity of thought for problem solving
Practical, calm, careful, effective in action	Haste leads to impatience and carelessness
Quick, can create everything	Hasty, destroys everything
Quickly and effectively adapts to forthcoming changes	Finds it difficult to accept change
Keeps his/her promises	When feeling hurt, she forgets all promises she has made
Does not know what pressure means	Little tolerance for pressure
Makes comments to elevate others	Makes comments without thought of the consequences
Takes risks to achieve quick results	Panics and takes risks in search of a solution, but creates problems instead
Acts without being affected by the larger picture	Gets annoyed by the larger picture and is not effective
Breaks rules in order to achieve quick results	Gets annoyed by rules and is not effective
Optimistic with results	Pessimistic, without result
Perfect management	Lack of management
Polite, with good manners	Temperamental, abrupt, indelicate
Overcomes obstacles	Drowns in the face of obstacles and gives up

B-Type businesspeople are careful, patient, with great self-control and a great sense of responsibility towards fulfilling their goals. This is because their brains direct them to management and elaboration. They are well organized, diplomatic, capable in their calculations and their programming. Their tendency to worry and fear makes them careful in their actions; that is why they need time in the execution of goals. They never fail in their decisions because they do not engage in dangerous moves (Paschalidis, 2014c).

Table 2: Characteristics of Type B entrepreneurs

Type B in calm conditions	Type B under stress
Motherly / fatherly guide	Cannot impose on others
Carefulness brings good results	Extreme caution causes them stress and does not bring about results
Self-confident when he/she knows the field of action	Insecure
Meticulous, organized	Wastes time over organization
Accepting and trusting	Suspicious and cautious
Has good ideas and brings about results	Gets lost in his/her thoughts and imagination and cannot bring about results
Patient	Stressed out because of endless patience
Polite and cooperative	Conservative
Will not make negative comments in your presence so as not to upset you	Makes comments that upset others
Cautious in the face of change but will move ahead anyway	Gets stressed over future changes and will not move ahead
Pays heed to the criticism of others but is not affected	Is greatly affected by criticism
Often agrees with others so as not to cause problems but remain likeable	Often disagrees with what others say; is reactionary
Compromises in order to be effective	Uncompromising in order to have his/her way
Will risk after checking all possible consequences	Risk-taking is too stressful
Pays great attention to the whole picture in order to be effective	Gets stressed out over the larger picture and cannot bring about results
Theoretical and analytical thinker	Wastes time in analytical thought and slow action

Persistence and passion make C-Type businesspeople systematic innovators, hard workers, stubborn perfectionists. They are distinguished for their ability to materialize goals. They are highly demanding and want to exert influence on those around them. They never abandon a problematic situation (Paschalidis, 2014c).

Table 3: Characteristics of Type C Entrepreneurs

Type C in calm conditions	Type C under stress
Imposing leader	Commanding leader
Hardworking, a fighter	Demands hard work of others as well
Trusts only those he considers his own people	Suspicious and controlling with everything
Overcomes a problem to avoid mistakes	Becomes obsessed with the problem
Fair according to his/her code of ethics	Self-centered: expects everyone to follow his/her own sense of fairness
Demanding	Revengeful
Will not give up on the company because he/she cannot stand failure	Will invest everything (life, family) even for something that cannot be solved and is doomed to failure
Disregards the whole picture because he/she focuses on the target at hand	Dismisses the whole picture and goes only after the target
Steadfast, with stamina	His/her persistence destroys his/her life
Is not afraid of the target and must bring results by any means	Dashes forward and disregards even his own life in order to bring about results
Makes his/her own rules	Forces others to follow his/her rules
Tough negotiator who brings about results	Rigid negotiator who cannot bring about results
Cooperative when the prospects for achievement are high	Non-cooperative when the prospects of achievement are low
His/her persistence for perfection brings about results	Is tortured by his/her need for perfection and demands perfection of others

Methodology

Our methodology is based on qualitative data that we collected from four different samples.

Sample 1: Training seminars on the Paschalidis Model addressed to 50 businesspeople of the Hellenic Business Network (ΕΠΙΔΕ). Our method followed these two steps: the first step was to identify the Types of each businessperson and the second step was to conduct separate interviews with each one. The interview dealt with each interviewee's business background, with special emphasis on the parameters that prompted them to enter the business field.

Sample 2: Seminar/training on the application of the Model in ten (10) businesses – four in Thessaloniki, Greece, four in Athens, Greece, and two in Warsaw, Poland. The first step was to identify the Type of each businessperson and CEO (wherever the latter existed) through the Tri-Anthropo-Type Paschalidis questionnaire and the structured interviews. The second step was to have those businesspeople and CEOs attend a three-day seminar conducted by the creator of the Model, Professor Dr. George Paschalidis, on the application of the Model on a company. The third step was to help employers identify the Types of their employees by administering questionnaires and conducting interviews. The fourth step was the application of the Model on the employees. The businesspeople gave new responsibilities and new

forms of motivation to their employees based on the traits of their Type. The newly-hired employees were placed in positions that fit their Type. We observed the companies for a year and wrote semester reports of these employees' cooperation and general productivity in combination with the goals the employers had set.

Sample 3: We cooperated with the Business Administration department of the Alexandrian Technological Educational Institute (ATEI) of Thessaloniki, Greece, in the framework of a research program on family businesses by conducting in-depth interviews of ten (10) businesspeople. These interviews focused on the business background of these businesspeople and on the same open and closed questions as in Sample 1.

Sample 4: At the same educational institute (ATEI) we conducted a virtual exercise on entrepreneurship over two semesters (Winter 2014-15 and Spring 2015) with the participation of 35 students in the Business Administration program. The students first filled out questionnaires to determine their Type. Then, for the first three weeks, they were split into groups of 6-8 individuals of the same Type and for the next three weeks in groups made up of all three Types. In both cases they were asked to make business decisions based on real data. The meetings were videotaped and the professor kept the minutes of each meeting.

Results

After systematic codification of the basic concepts of the qualitative data that we received from the interviews, we continued on to a comparative and thematic analysis of these data and finally to their correlation to the data in the Ôri-Ânthropo-Ôype Paschalidis Model.

The in-depth interviews as well as the questionnaires used showed that:

Sample 1 showed that 61% of businesspeople belonged to Type A, 13% to Type B and 26% to Type C.

In Sample 2, 10% belonged to Type A, 60% to Type B and 30% to Type C.

Sample 3 showed that 50% belonged to the Type A, 40% to Type B and 10% to Type C.

Sample 4 showed that 28.6% were A-Types, 51.4% were B-Types and 20% were C-Types.

Figure 1: Distribution percentages of each personality Type in the Paschalidis Model in Sample 1

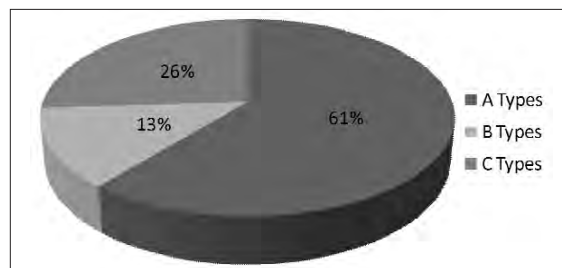


Figure 2: Distribution percentages of each personality Type in the Paschalidis Model in Sample 2

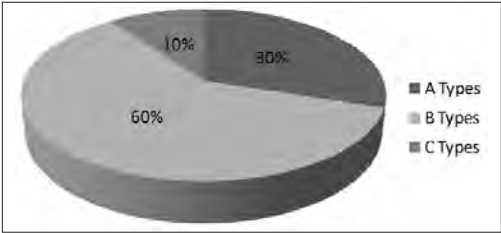


Figure 3: Distribution percentages of each personality Type in the Paschalidis Model in Sample 3

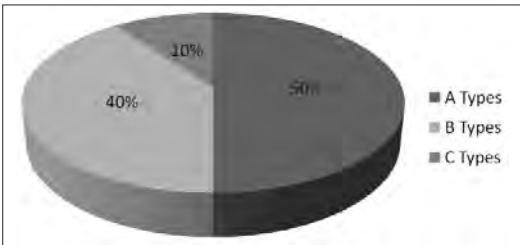
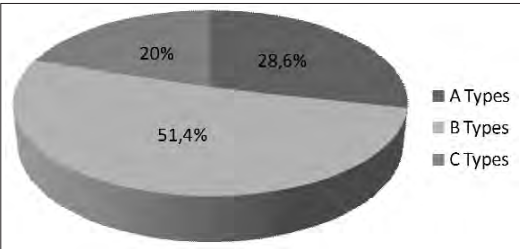


Figure 4: Distribution percentages of each personality Type in the Paschalidis Model in Sample 4



The qualitative analysis of the interviews showed that during their training in the Paschalidis Model, 96% of A-Type businesspeople acknowledged that under conditions of stress their behavior was as follows: because of their impatience and temper, they responded to a situation with panic and tension, something that made them ineffective in managing crises and high-demand projects. They gave up easily on projects while they often behaved abruptly and unpredictably towards employees. During the application of the Model, we observed that 93% of A-Type employers improved their behavior and became more patient and persistent, learned to control their temper and abrupt behavior. They became more observant, more careful, more effective in crisis management, had the clarity of thought to find solutions to problems, to not give up right away and to control their business moves before taking risks. Moreover, they recognized that when they followed the instructions of the Model and placed a C-Type to oversee their business and a B-Type to manage and plan projects, then they had better results in the broader operations of their company. Below we attach a detailed table

with the data that we extracted during the interviews and which relate to the actions of businesspeople and managers in conditions of calm and in conditions of stress. The data are systematized by the Type of each employer.

Table 4: A-Type employers’ actions under normal circumstances and under stress

A Type employers	
under normal circumstances	in conditions of psychological stress
Are especially productive in demanding projects and effective in crisis management	Stress-induced panic makes them irritable, nervous, and thus ineffective in demanding projects and in crisis management
They quickly take care of pending obligations	They disregard pending obligations
They are practical and execute projects by finding the easiest and fastest solutions	Their reactions are so lightning-fast that they cannot think sequentially – thus they make the wrong decisions
Quick and clear thought	They feel that they are choking in the workplace
They manage their company calmly, enthusiastically and spontaneously	They are so nervous in their actions that they lose sight of their goal
They invest in secure and productive ventures	Their nervousness makes them lose clarity of thought and the vision of where to invest
They have the clarity of thought and the readiness to abandon an unprofitable venture	When making decisions, their panic and nervousness lead them to thoughtless actions and finally to failure

Concerning Type B entrepreneurs, 91% of them recognized that their behavior under stress was that described by the Model: because of their worry and their fear for the result, they dealt with situations overcautiously, lost themselves in the details and the recycling of theories and discussions, and could not solve problematic situations. Fear and insecurity led them to constant review of obstacles, resulting in inaction. They constantly gave advice and instructions to employees and colleagues. They could not fire employees easily. During the application of the Model, we observed that 87% of B-Types began to get over their stress and over-cautiousness, were able to make swifter decisions, to not worry so much for the result and to focus on the target. They started to trust, encourage, and reward their employees more. They also observed that, based on the instructions of the Model, when they trusted the oversight of projects and employees to a Type C, they felt more secure and limited their own actions to decision-making. Moreover, when they entrusted the execution of external affairs to a Type A, they noticed that they achieved practical, immediate, and easy solutions.

Table 5: B-Type employers' actions under normal circumstances and under stress

B-Type employers	
under normal circumstances...	in conditions of psychological stress
Are productive and manage crisis with discretion and excellent diplomatic deftness	Are extremely cautious and get lost in their thoughts
They can handle difficult situations with meticulousness; they can find solutions	Fear and insecurity lead them to a constant study of obstacles, thus blocking their action
They process data quickly and analytically and then enter into action	They don't overcome obstacles easily
They invest safely in profitable ventures	When faced with a problem, they check constantly all possible solutions and analyze all details, arriving at a solution quite late
Their planning and calculating abilities help them organize quickly and easily their company	Because of their extreme caution and worry, they constantly investigate possible dangers and proceed very slowly to the execution of a project
When planning to invest, they have clarity of thought and quickly move through all the details before proceeding.	They lose their managerial abilities because their stress leads them to endless and winding thoughts and constant observation. That is why their action is delayed.
They decide to abandon an unprofitable venture after making their estimations and calculations	They suffer under the stress of how to best manage their company
They are the best financial advisors in a company	They always arrive at success exhausted

Regarding C-Type entrepreneurs, 95% of them recognized and acknowledged their behavior under conditions of stress as described in the Model. Because of their persistent behavior, their thought was clouded and made them obsess over problems without being able to arrive at a solution. They were strict with themselves and their perfectionism would not allow them to fail. This resulted in their becoming competitive workaholics. They demanded of their employees' devotion and adherence to the rules they imposed, as well as hard work to the point that they had huge employee turnover, as they were searching for the best. During the application of the Model, we observed that 82% of these employers became gradually more flexible and managed to overcome their obsession and their stubbornness. They managed crises swiftly and effectively without getting stuck to a problem, they had the clarity of mind to see obstacles and find solutions and abandon a problematic situation if necessary. They succeeded in directing and managing calmly and fairly without discrimination. They started to trust their employees more and be less oppressive. They also observed that they had immediate results when they followed the Model and trusted an A-Type to see through difficult or problematic situations in their practical and swift way as well as to deal with public relations and when they entrusted a B-Type with managing and planning financial and other matters.

Table 6: C-Type employers' action under normal circumstances and under stress

C Type employers	
under normal circumstances	in conditions of psychological stress
Are the best and most productive employers since they are not deterred by obstacles	Are the toughest and most demanding employers; they impose their rules and demand of others to comply to them
Persist and handle demanding projects successfully; effective in crisis management	Are fighters and tough in highly demanding projects but their obsessiveness prevents them from managing a crisis successfully
See the company's problems and make the necessary changes in order to solve them	Their stubbornness clouds their thinking and makes them "stick" to the problem without being able to see the solution
Complete their projects successfully and organize all their employees	Performance stress makes them "stick" to a problem instead of overcoming it
Try to foresee and overcome all potential impediments on the way to success	Become passionate with their goal and persist in order to conquer it. They make radical changes disregarding consequences
Are exemplary managers of their company: calm, fair, inspiring others to follow their example	Their workplace is a military camp
Can determine profitable companies or stocks and invest in them	Lose their ability to determine where to invest
Can detect obstacles and find solutions so they can salvage an unprofitable venture	Their persistence leads them to take care of everything themselves and at the same time to dominate over their employees so that they work harder
Are the most effective in salvaging companies through their hard work and persistence	Their obsession with detail does not allow them to handle pending matters quickly

Regarding the motivation of A-Type businesspeople, data collected from business backgrounds have shown that this hinges on their need for financial comfort, for freedom of action and expression, and for quick development. From the structured interviews of the samples the following results emerged:

- a) 80% of businesspeople are materially prosperous, something important for their life styles
- b) The managerial style of 96.7% of these businesspeople is to focus on the issue at hand, disregarding details
- c) A-Type businesspeople do not follow the typical work hours, and if necessary they work longer hours or handle the company's public relations
- d) 90% of the sampled businesspeople said that they seek out and take advantage of every opportunity, manage many and various companies, and easily trust others to manage their companies. They set short-term goals, abandon problematic ventures easily because they cannot handle hardship and oppression when a company does not proceed successfully

Regarding B-Type businesspeople, data has shown that these are motivated by the need for financial security and stability, and for recognition and social status. From the interviews the following emerged:

a) 97.6% admitted that their fear of failure has led them to conservative business moves, with slow and careful steps. They have intense thinking and doubts, things that prevent them from high-risk ventures

b) 75% of them live simply and conservatively. They make sure they keep a low profile in their life-style and they ask their family to do the same

c) 97% of them set realistic and long-term goals, planning meticulously to safeguard the future of the company. These businesspeople admitted that this results in their maintaining companies with average financial returns

d) 76% said that while at the beginning of their careers they took risks and invested more, as soon as they secured the prosperity of their families, they became conservative and did not seek to expand their businesses with new risks.

As for C-Type businesspeople, the study has shown that they are motivated by the need for financial success, for authority over others, for recognition and glory. From the structured interviews and business background analysis, the following emerged:

a) 97% of C-Type businesspeople tend to set difficult long-term goals and to invest in ventures that seem difficult or even impossible

b) 93% of them invests in glamorous public relations

c) 98% do not measure the effectiveness of a company on the basis of the budget but on the basis of the company's image

d) 96.8% of them seek the new and the cutting-edge and risks to achieve it

e) 98.2% want to be at the top

In those businesses that applied the Model, 86% of businesspeople reported that knowing the Types of their employees and managing them according to their Type (including the motivation that each Type needs according to the Model) resulted in significant increase in productivity, up to 50% in some cases; cooperation among employees improved; productivity time was reduced. All this resulted in increase of orders.

Regarding the virtual exercise of the students in Sample 4, data has shown that no team made up of people of the same Type achieved complete results. A-Types found quick but incorrect solutions, and in their remaining time made jokes or played games amongst themselves or simply got bored waiting for others to finish. B-Types checked meticulously every parameter, overanalyzed data in democratic circular discussions; they did not complete the exercise in the given time, even when they got an extension. C-Types never arrived at a commonly approved result. Every member had his/her own opinion and fought to impose it on the team. All meetings resulted in tense discussions and antagonism.

In the teams where all Types participated, the projects were completed successfully in the given time. A-Types were sometimes indifferent but when they did participate, they were very active and usually took on leadership roles. B-Types generally followed the others, kept the minutes and did the administrative work. C-Types vied for leadership. They usually proposed difficult solutions that were not easily accepted by the other members. They did not follow democratic processes and when they failed, they became disappointed and withdrew their cooperation. It seems that the most effective team was the one that was comprised of one A-Type, three B-Types, and two C-Types (of different dominant genes).

Conclusions

The results of the study have shown that the Tri-Anthropo-Type Paschalidis Model is an invaluable tool for entrepreneurs and CEOs as it opens up the path to self-knowledge and personal development and enables them to locate the reasons behind their business behavior and motivation. Through the Tri-Anthropo-Type Paschalidis Model, businesspeople can develop according to the steps below:

1. by recognizing and maximizing their abilities and by acknowledging and overcoming the extremes in their behavior
2. by knowing the personalities of their employees and reinforcing their strengths so they perform to the maximum even in positions that are not compatible to their Type
3. by knowing which approach and motivation fits each Type of employee
4. by choosing the right people for the right places
5. by reinforcing teamwork and by establishing a harmonious relationship among employees – the result is increased productivity and improved communication among sectors of the company
6. by knowing the Types and weaknesses of their clients and suppliers – the result is better interpersonal relations and more effective cooperation with them
7. by knowing their Types, employees overcome their own weaknesses so that they are happier in their workplace and safeguard themselves against mental and physical disease (Paschalidis, 2014a, 2014c).

It has emerged that A-Types are motivated from business opportunities, aiming at easy profit; B-Types are motivated from the necessity to achieve security and stability; and C-Types are motivated from the necessity of differentiation, they are innovative and do not follow the beaten path. The study has shown that, as the Model supports, each Type develops a different temperament, abilities, and weaknesses as the part of the brain with which each functions forces him/her to behave differently.

So, the A-Type businessperson has a leader's temperament; the B-Type has managerial (organizational) abilities; and the C-Type is performance and goal oriented. Yet, the study and the Model have shown that the Type of each businessperson (bound until now to specific behaviors and actions) is not limited anymore; by knowing their Types, they minimize their weaknesses, they reinforce their strengths, and they adopt the strong and positive aspects of the other two Types. Thus, they develop a unique and complete personality to lead their companies without stress. According to the Model, a successful company must incorporate people of all three Types in positions and roles in which each Type can use their strengths to the maximum.

At the same time the study has shown that by using the Model, businesspeople can identify quickly and clearly the behavior of their employees to forestall any mental or physical disease, as their employees are happy in their workplace. Similarly, the relationship and cooperation among businesspeople, stakeholders and employees improved and became productive and harmonious.

The Model shapes a new company culture in terms of behavior and operation. It reinforces the brand of the companies, so that they are more attractive to the employees. Compared to other models, it gives a company a competitive edge and secures for employers the best possible distribution of responsibilities and projects.

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Behavior of entrepreneurs and volition

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Abstract: Volition is an important characteristic in the field of training and vocational guidance. Literature on entrepreneurship has focused on this concept to better understand the behavior of the entrepreneur (Achtziger & Gollwitzer, 2008). This study analyzes the personal characteristics involved in the process of transformation of intentions into actions in the field of entrepreneurship. Three categories of people were included in this study, which allowed us to circumvent the methodological problems associated with the implementation of a longitudinal study. Thus, our sample consisted of university and business school students, potential entrepreneurs, and entrepreneurs. We conducted a variance analysis after confirming the homogeneity of each group, thus allowing intergroup comparisons. We found that volitional capacities are mobilized in a successive order, one after the other. In addition, this order is determined by the individual's progress on the process of creation.

Keywords: Intention, Action, Volition, Entrepreneurship, Entrepreneur, Behavior, Student.

Introduction

Last decade, management researchers were more interested in understanding the process of entrepreneurship (Krueger, 1993), mainly considering the models of intent, such as, the behavioral theory proposed by Ajzen (2002). In light of these results, we know the predictors of the emergence of an entrepreneurial project. However, other questions ought to be asked: How does a virtual entrepreneurial project turn into an effective project? What are the psychological mechanisms that come into play? These questions have a particular importance in France because the GEM 2013 Global Report reveals that the gap between intentions and actual creations (TEA) is one of the highest in the world after Singapore.

In business, it is common to see highly motivated people with a strong intention to perform an action, being unable to perform the necessary actions to realize this intention. For psychologists such as Gollwitzer & Heckhausen (1987) and Oettingen *et al.* (2000), the inher-

ent difficulties in achieving such a goal, despite a challenging environment and a high level of motivation, evokes a lack of individual characteristics, which has long been considered as a “skill”, the volition. More recently, it has been emphasized by Broonen (2010) for whom volition is the process that determines the transition from intention to action.

The overall objective of our study is to identify a set of cognitive variables that may contribute to the prediction of entrepreneurial intention, which will explain the transformation of intentions into entrepreneurial actions. Our approach is to demonstrate that entrepreneurship is a goal pursued by the individual's will, and is therefore affected much more by personal dispositions than economic and environmental constraints. In particular, we wish to highlight the personal dynamics in the structure, maturation and production of a range of entrepreneurial careers, to extract the volitional characteristics of this career choice.

Our hypotheses on volition were tested using data from interviews conducted with French students and present and potential entrepreneurs, in order to identify the volition skills of each population and explore how they mobilize these skills during the entrepreneurial process.

The present paper is structured as follows. We first present the corpus of literature to which this study contributes. We then present our hypotheses and methodology, followed by our empirical analysis. Finally, we discuss our findings and their implications for different stakeholders.

Theoretical framework of the research

According to the theory of planned behavior – TCP – intention is predicted by attitudes towards the behavior, perceived behavioral control, and the subjective norm (Ajzen & Madden, 1986). This indicates that the individual will only adopt a certain behavior over which he has some level of control, that which he believes he is able to complete successfully, and that which gives him real pleasure. This ability to control behavior was also suggested by Kuhl (1985) as the notion of action control. Action control is the self-regulatory mechanism that mediates the link between intention and action. Kuhl (1982) hypothesized that individuals differ in not only their willingness to control their actions, i.e., oriented state versus orientation towards action, but also in terms of the proportion of intentions turned into behavior. In addition, those with an orientation towards action generally tend to approach things proactively, while “state-oriented” persons exhibit inertia action. Studies on the control action theory have been relatively successful in predicting action in various fields. For instance, a study by Bagozzi *et al.* (1992) examined the participants' intention to use coupons and to use them effectively in a supermarket. It was found that orientation towards action increases the relative importance of attitudes but lessens the impact of subjective norms on intention. Thus, attitudes towards behavior are more important in the formation of intentions in action-oriented people than in “oriented state” individuals. Although Kuhl (1982, 1985), and Bagozzi *et al.* (1992) have used the theory of reasoned action and not the TCP, it appears necessary to integrate volitional skills of self-regulation in the TCP, because behavioral control structure is an important aspect of volitional models (Hale *et al.*, 2003).

Volition, long neglected in psychology, together with the advent of behaviorism, is an important characteristic with reference to training and vocational guidance. Motivational processes account for the decision to act; however, they do not optimally explain how the individual protects his intention from potential distracters and implements actions to execute this intention. The construct of volition is important in this context, especially for activities such

as entrepreneurship, because the time between the formulation of the objective and its implementation can be long. Defined as the sum of mental events or activities through which an agent consciously and actively exercises its agentivity to voluntarily direct his thoughts and action (Zhu, 2004), volition is possible because of constructed representations, knowledge, and inferences about the professional project.

It is important to note that the distinction between motivation and volition is still vague, because the literature on motivation includes volition, and vice versa (Forstmeier & Rüdell, 2008). A close examination of Gollwitzer's (1996) Rubicon model reveals a distinction between volition and motivation, which can be expressed in terms of degree. According to this model, motivation emerges first, which helps people to choose and set a goal to pursue. Then volition is triggered, which pushes the individual to progress towards his or her goal. Therefore, intention can be found in the interaction between motivation and volition. According to Corno (2004), volition controls intentions and impulses so that the intended action is achieved regardless of the difficulties and obstacles. Volitional processes protect the intention from actions in competition with other potential distractions. Thus, our point of view is identical to the one of Kuhl (1985) and Corno (2004) that indicates that motivation may lead individuals to initiate actions, while volition leads them to continue the action they seek to achieve, while simultaneously protecting it from distracters.

In the present study, we referred to volition as the expression of volitional capacity. We postulated that when the student or budding entrepreneur is in a volitional state of mind, he or she begins by focusing on how to proceed to achieve the desired goal. In line with the work of Corno & Kanfer (1993), Kuhl (1985), and Gollwitzer (1993), we conceptualized motivation and volition as distinct but interacting concepts.

Hypotheses and methodology

Research hypotheses

Our research is based on the theoretical models of planned behavior and reasoned action, which explain entrepreneurial behavior through an intention to perform the behavior. Among these models, those who integrate, even partially, volitional and motivational factors seem most likely to account for the determinants of intention, depending on its implementation (Hale *et al.*, 2003). Indeed, one cannot simply consider the background of intention in terms of motivation because an individual, being discomforted by the pursuit of his or her purpose or professional project, must use his/her volitional resources to achieve it.

The literature on intention (Ajzen & Fishbein, 1980; Ajzen, 2002) reveals that it is determined by one's attitude towards the behavior, the subjective norm, and the behavioral control. In addition, further research on entrepreneurial intention has shown that the construction of entrepreneurship seems to originate from the opinions on entrepreneurship and from entrepreneurs' motivation (Battistelli, 2001), self-efficiency (Boyd & Vozikis, 1994), and expectations (Battistelli *et al.*, 2003). Thus, though there is no evidence of a direct relationship between intentions and certain career choices, we can assume that the choice of an occupation depends on the behavioral intention. This intention can be acquired from both personal and social characteristics.

The realization of an entrepreneurial project is a long process that requires an individual's commitment and persistence in pursuit of the goals despite obstacles, and the mobilization of volitional skills. We hypothesized that the volitional capacity is mobilized successively in an order determined by the progression of the individual on the path of creation. This would imply that the self-motivation of the students who formulated entrepreneurship intentions would be better than that of the other students (H1).

Other volitional skills such as self-regulation, and in particular, self-determination and resistance to uncertainty, would be more mobilized by entrepreneurs who realize their projects as well as the potential entrepreneurs, than by the persons who remained in pre-sentence stage (H2).

Skills of action development (action orientation, concentration, and proactivity) occur more for entrepreneurs in activity than for the potential entrepreneurs and other students (H3).

To explore these hypotheses, a quantitative approach (using a structured questionnaire and multiple tools) based on a plan to compare the attraction towards an entrepreneurial career and the appeal of a wage career, was adopted.

Data

Three categories of people were interviewed in the present study, using a questionnaire. This allowed us to circumvent the methodological problems related to the implementation of a longitudinal study. Thus, our sample consisted of 2,780 French College and high school students, 492 potential entrepreneurs and 488 active entrepreneurs. Among the 3760 participants 59% were female and 41% were male. Observe that girls have particularly benefited from the democratization of access to post-baccalaureate education that France has been known for since the middle of the twentieth century. Since the 1970s, they have overtaken boys in terms of academic achievement (European Commission, 2012). This trend naturally translates into a higher participation rate of females than males in the sample of students in the present study. The age of participants was between 17 and 57 years, with a mean age of 38 years for active entrepreneurs (EA), 36 years for potential entrepreneurs (EP), and 20 years for students. For this study, the students were recruited based on their knowledge of the business environment. Therefore, 22.69% had at least one contractor among the members of their family and 18.40% had the same among the friends of their family members. Only 400 of the 2780 students surveyed in the present study were willing to provide information about their parents' entrepreneurial activity. Further, 75% of the students reported having professional experience especially in food and beverage, hospitality or tourism industry, accumulated mainly during the summer holidays (40%).

Results

The choice of career

Career choice refers to the career-related intentions of students, which can be entrepreneurial or wage-based jobs. Based on the identification of the projects, we defined four sub-groups of students in our analysis. It was found that 17% of the students wanted to become an entrepreneur (EN), 21% expressed a desire to secure an employment (S), and 37% planned to continue their studies up to the master's or doctorate level (ET). We found that

25% were still undecided (IN). Despite the unequal gender distribution of the sample, the number of boys (240) wishing to pursue a profession in entrepreneurship was not significantly different from that of girls interested in pursuing the same (231). Finally, the Pearson's chi-squared test revealed that three variables, sex, maturation of the project, and choice of career were related to a risk threshold of 5%.

We also interviewed active entrepreneurs (EA) and potential entrepreneurs (EP), to compare their volitional characteristics to the students. As our sample comprised a similar number of male and female students wishing to become an entrepreneur, we selected respondents belonging to both the categories, EA and EP, and ensured a uniform gender distribution in these groups (Table 1). Thus, we avoided a gender bias in our comparisons in accordance with the literature in this area (Loza de Siles, 2011). In terms of size, the three categories EP, EA, and EN are also similar.

Table 1: Distribution of the entire sample by status and gender

	STATUS – EP	STATUS – EA	STATUS – EN	STATUS – IN	STATUS – ET	STATUS – S	Total
Female	244	237	231	479	768	362	2321
%	6.44%	6.26%	6.10%	12.65%	20.27%	9.56%	61.27%
Male	258	264	249	218	255	223	1467
%	6.81%	6.97%	6.57%	5.76%	6.73%	5.89%	38.73%
Total	502	501	480	697	1023	585	3788
%	13.25%	13.23%	12.67%	18.40%	27.01%	15.44%	100.00%

Mobilization of volitional abilities

We conducted an analysis of covariance, and ensured homogeneity of each group, which allowed for group comparisons. The results have been organized in three stages. As a first step, we analyzed the volitional skills associated with the construction of the professional project. The objective here was to understand the difference between students who are oriented towards entrepreneurship and others. Only self-motivation proved to be relevant to account for our observations in the decision stage. We then analyzed the dimensions involved in the development of an entrepreneurial approach. This was done to explain the difference between merely formulating a plan and actually beginning the realization of this intention through the implementation of the first steps that lead to the creation of an autonomous activity. Self-determination, resistance to uncertainty, and control of the action were considered for this purpose. Finally, we explored the elements related to the exercise of an autonomous activity. In this context, we discussed the notions of action orientation, concentration, and proactivity.

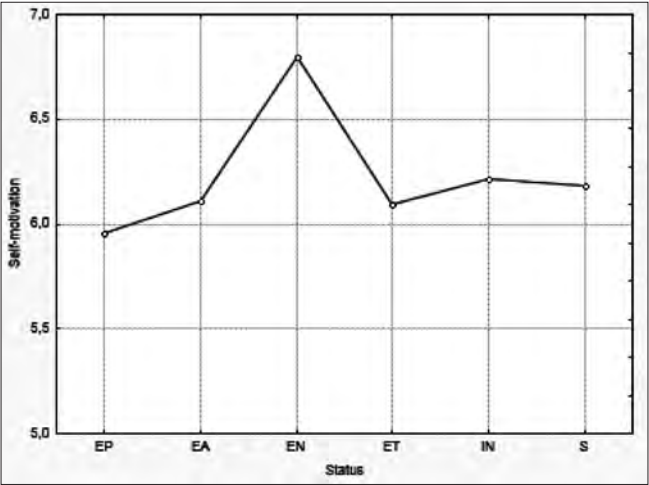
The ability volitional associated with the formulation of future intentions: self-motivation

Students wishing to embark on an entrepreneurial (EN) career exhibited the highest scores on this dimension (Figure 1). Their average score was 6.79 on a scale of 1 to 10. They were followed by those who were undecided (6.21) and those who wanted employment (6.18), respectively. Students wishing to pursue higher studies (ET) obtained a score of 6.09 that was similar to those of active entrepreneurs (EA), with an average score of 6.10, higher than the scores of potential entrepreneurs (5.95).

Duncan's test of multiple comparison revealed that the score of the students with entrepreneurial projects (EN) was statistically different from the other groups of students. In other

words, this consciousness of being on the way to achieving what we always dreamed motivated those who wished to undertake the same. These observations are consistent with our hypothesis, H1. Self-motivation proved to be relevant to account for our observations in the decision stage. We found that, with reference to this dimension, students who were moving towards the business of entrepreneurship differed the most from others. The comparison with active entrepreneurs (EA) and potential entrepreneurs (EP) was not pertinent at this stage because they were in a different stage of the entrepreneurial process and had already mobilized their volitional capacities.

Figure 1: Difference in level of self-motivation based on the status

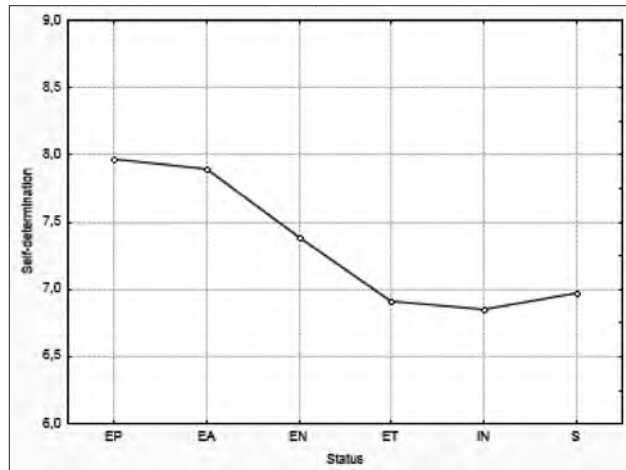


EA = Entrepreneur in activity, EP = Potential entrepreneur, EN = Students considering an entrepreneurial career, ET = Students who wish to pursue further studies in higher education, S = Students who prefer a paid professional career, IN = Undecided students.

Skills volitional mobilized at the stage of preparation for action

For self-determination, which refers to the ability to present goals and ambitions confidently, and the ability to implement them successfully, our results showed that entrepreneurs, potential (EP) and active (EA), exhibited better results. Their scores, though identical, differed significantly from the scores obtained by all the groups of students, where there is no significant difference between them (except between groups EN and IN) as shown in Figure 2. Thus, there is a clear separation between these two groups for this dimension. Self-determination allows distinguishing the formulation of intent and the implementation thereof, through action planning.

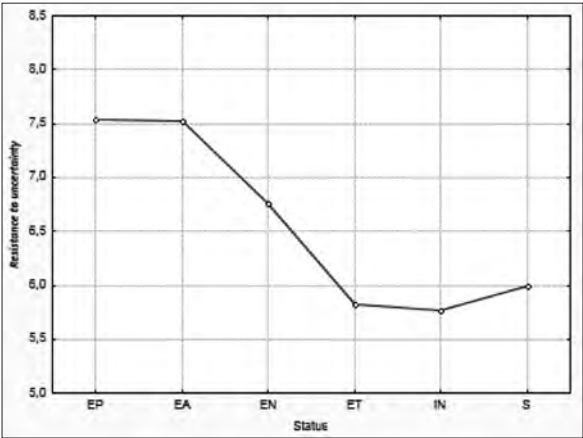
Figure 2: Difference in level of self-determination based on the status



EA = Entrepreneur in activity, EP = Potential entrepreneur, EN = Students considering an entrepreneurial career, ET = Students who wish to pursue further studies in higher education, S = Students who prefer a paid professional career, IN = Undecided students.

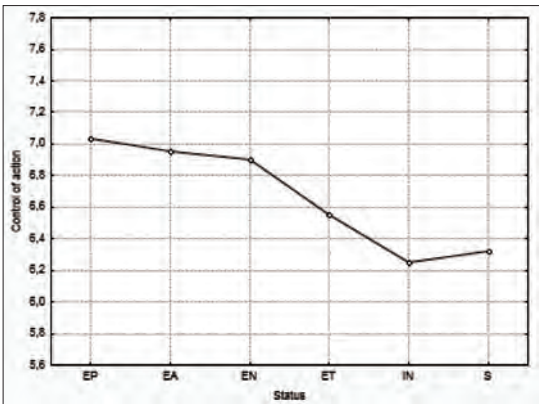
For the dimensions of resistance to uncertainty, we observed that entrepreneurs (active and potential) differed significantly from all groups of students. We also noted that students considering an entrepreneurial career (EN) differed significantly from the other groups of students. These data confirm our hypothesis, H2. The socio-economic context and uncertainties apply to all entrepreneurs, and in a lesser extent, students who wish to become entrepreneur used their determination in order to move forward. Then, the individual participates in a planning activity that mobilizes the knowledge, motivation, and opinions that he/she has in relation to the proposed activity. Thus, it entails feeling free to undertake the project and the knowledge that he/she will be able to go beyond the obstacles that may stand in the way of his/her projects. There was also a significant difference between students seeking an entrepreneurial career and other students. In other words, students who wished to become entrepreneurs saw their future with greater confidence than did other students. With reference to the ability to control the action, the results were similar, except for students who wished to pursue studies, who were more similar to the group of entrepreneurs in a broad sense (EP, EA and EN). Their decision to continue their education seemed to give the impression that they wished to control and improve their future.

Figure 3: Difference in level of resistance to uncertainty based on the status



EA = Entrepreneur in activity, EP = Potential entrepreneur, EN = Students considering an entrepreneurial career, ET = Students who wish to pursue further studies in higher education, S = Students who prefer a paid professional career, IN = Undecided students.

Figure 4: Difference in level of the control of action based on the status



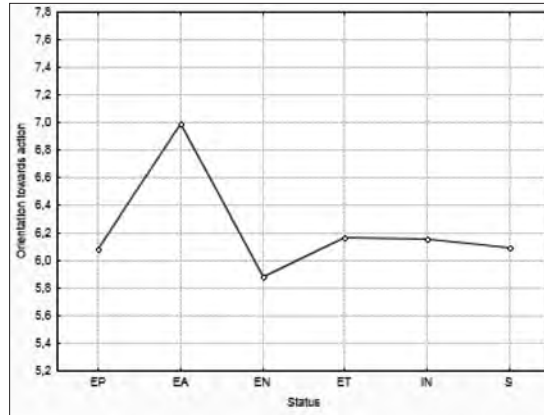
EA = Entrepreneur in activity, EP = Potential entrepreneur, EN = Students considering an entrepreneurial career, ET = Students who wish to pursue further studies in higher education, S = Students who prefer a paid professional career, IN = Undecided students.

The skills involved in the implementation of the action

It refers to the ability of the individual to engage in achieving his/her objectives without hesitation and justifies the gap between action planning and its realization. This dimension is particularly developed when individuals realize that their skill level allows them to perform their duties and that such activity will enable them to achieve the desired results. It is therefore not surprising that, as the graph below shows (figure 5), there was a significant difference between active entrepreneurs and potential entrepreneurs, and that the latter group was at the same level as the student groups, since the activity remains latent at this stage. This phase is the psychological aspect of action, which indicates that the construction of the

operative image is the mental realization of the entrepreneurial project. In addition, the operative image is followed by a sequence of steps in the realization of the action and such individuals guide the action a priori, based on their plans.

Figure 5: Difference in level of the orientation towards action based on the status

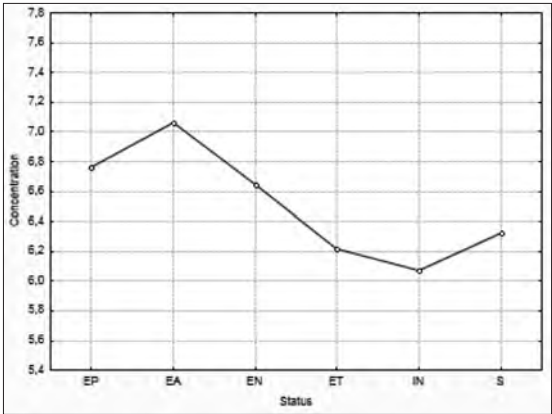


EA = Entrepreneur in activity, EP = Potential entrepreneur, EN = Students considering an entrepreneurial career, ET = Students who wish to pursue further studies in higher education, S = Students who prefer a paid professional career, IN = Undecided students.

Concentration

It is the ability to ignore disturbing thoughts, negative emotions, and impulses in order to focus attention exclusively on the goal. Specifically exhibited by active entrepreneurs, concentration is a characteristic of the state of flow, which one would feel while acting with a sense of control over the actions. In the present study, the active entrepreneurs (EA) scored higher on this dimension, as compared to potential entrepreneurs. Such individuals are likely to follow their actions as it is now with her body. Blur at times he feels is the result of everything he does and small successes that accumulates. Thus, entrepreneurs (EP, EA, and EN) formed a homogeneous group (no statistically significant differences were exhibited by the Duncan test). However, students wishing to pursue their studies and those who were undecided were more likely to be distracted from their goal. This finding seems logical for people in the last category, given their inability to define a professional project.

Figure 6: Difference in level of concentration based on the status



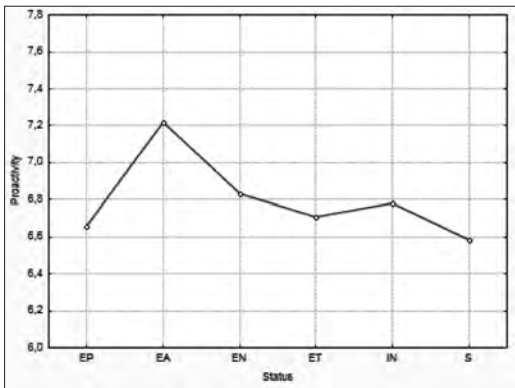
EA = Entrepreneur in activity, EP = Potential entrepreneur, EN = Students considering an entrepreneurial career, ET = Students who wish to pursue further studies in higher education, S = Students who prefer a paid professional career, IN = Undecided students.

Proactivity

The individual must have a vision of his goal in the long term and be able to anticipate the course of events, plan strategies and specific solutions, and predict his/her actions. Active entrepreneurs (EA) had a significantly higher score as compared to the other groups in the present sample. This characterizes their behavior in managing their business.

They take initiatives to cope with unforeseen situations and turn challenges into opportunities for improvement. They identify useful resources, know how to mobilize them, and implement a profit. This means that they are concerned with not just the allocation of static resources, but also the constant search for improvement of the process. In this context, they differed from potential entrepreneurs and students, as evident from Figure 7. This superiority of active entrepreneurs in all the three dimensions of volition confirms our hypothesis, H3.

Figure 7: Difference in level of proactivity based on the status



EA = Entrepreneur in activity, EP = Potential entrepreneur, EN = Students considering an entrepreneurial career, ET = Students who wish to pursue further studies in higher education, S = Students who prefer a paid professional career, IN = Undecided students.

Conclusion

We studied the personal characteristics involved in the cognitive process of the transformation of intentions into actions, specifically associated with the entrepreneurial process. Three categories of people participated in this study, French students from a university and high schools, potential entrepreneurs, and active entrepreneurs.

This allowed us to circumvent the methodological problems related to the implementation of a longitudinal observation. We ensured that the groups were homogenous to allow intergroup comparisons. Our results showed that the volitional capacity was successively mobilized in an order determined by the progression of the individual on the path of creation.

The present study is original because it explained entrepreneurial intention based on volitional skills. That is, if the entrepreneurial choice is a goal pursued by will, related personal dispositions had a greater impact on the process than economic and environmental constraints. This is a first step in this direction and opens doors to a variety of perspectives for future research. In particular, the relationship between the process of defining a career and skills of an individual deserves further exploration. It is no longer a question of know-how, know-be, or know at all, as a necessary and sufficient condition for career choice, but rather the association between these structures of meaning and volitional skills. Thus, professionals involved in vocational guidance need to consider the psychological processes involved in making career decisions in order to prepare better strategies leading to the goal.

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Digital social media marketing for entrepreneurs: boosting brand image and innovation potential

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Abstract: The diffusion of the digital era is perceived as a key driver of innovation and growth. Globalization and access to information have changed the way entrepreneurship is implemented. Such a digital driven society is implicitly drastically changing the way businesses interact with their customers and this aspect provides a key competitive advantage for entrepreneurs. Nevertheless, since DSMM practices are still in their infancy stage for entrepreneurs, there are various obstacles and acceptance issues (Royle and Laing, 2014; Beier and Wagner, 2014). One confirmed way of overcoming such obstacles is to identify the technology acceptance level of the targeted population and to suggest mitigating strategies. For this purpose, one of the most utilized models for testing technology acceptance is the Unified Theory of Acceptance and Use of Technology (UTAUT) model. This paper binds together marketing studies, technology/digitalization and behavioural sciences in order to firstly understand how digital trends can boost entrepreneurs' brand image and potential for innovation and co-creation with their customers. Secondly, apply the UTAUT model on a sample of entrepreneurs in order to identify their acceptance levels of DSMM practices and assess the actual impact of DSMM practices on brand image and innovation. Finally, based on the survey findings, propose recommendations for improved implementation of DSMM practices. The results show a strong interest and perceived benefit of DSMM practices by entrepreneurs, however there is a general skill-gap and absence of information on this recent topic which needs to be properly addressed.

Keywords: Entrepreneurship, competitive advantage, digital social media marketing, innovation, co-creation

Introduction

The diffusion of the digital era (globally) is perceived as a key driver of innovation and growth. Implicitly, open innovation and co-creation are fully overlapping with the digital context and their interdependency is more than just a necessity. Digital solutions (from digital social media marketing to platforms for co-creation, virtual learning environments, crowd-sourcing, etc.) are core enablers of open innovation and recently, core enablers of the new

generation of entrepreneurs. To this end, globalization and access to information have changed the way entrepreneurship is implemented. The new role models of entrepreneurs are fully digitalized in order to access resources and markets online within the knowledge society (Siakras *et al.*, 2014; Martin, 2008). Thus there is a high need of research to generate and encourage such global role models – global, digital and responsible entrepreneurs that develop within a fostering environment in which active citizenship, open innovation, co-creation, social empowerment and digitalization are flourishing (Carayannis *et al.*, 2010).

Such a digital driven society is implicitly drastically changing the way businesses interact with their customers (Martin, 2008) and this aspect provides a key competitive advantage for entrepreneurs. Specifically, we are witnessing tremendous changes in one of the core revolutionized contemporary sectors – marketing which is steadily being blended with social interaction through digital social media platforms in order to target very specialized needs of the public (Mangold & Faulds, 2009; Tuten *et al.*, 2014). To this end, the current social media platforms became key means for startup development, promotion and more importantly for co-creation with customers (Hanna *et al.*, 2011) and due to their low cost and access to wide masses – entrepreneurs are often using such techniques to boost their brand impact and (openly) innovate. As a proof to this situation, there is a wide number of recent business startups that undertake such practices (Goodvidio, 2014; Tuten *et al.*, 2014; Mohr, 2014). Consequently, according to (Siakas *et al.*, 2014), the digital social media marketing (DSMM) sector will significantly increase in investment, leading thus to a new business environment which also has full policy support (EU Digital Agenda, 2012).

Nevertheless, since DSMM practices are still in their infancy stage for entrepreneurs, there are various obstacles and acceptance issues (Royle & Laing, 2014; Beier & Wagner, 2014). However, such trends with high societal and policy support should be immediately enabled for entrepreneurs to pursue and this is why the literature stresses the needs for advances in this field.

One confirmed way of overcoming such obstacles is to identify the technology acceptance level (intentions, beliefs, perceptions, ease of use) of the targeted population and to suggest mitigating strategies (besides refraining to just measure the actual impact of DSMM on brand image and innovation potential of the start-up). For this purpose, one of the most utilized models for testing technology acceptance is the Unified Theory of Acceptance and Use of Technology (UTAUT) model (Venkatesh *et al.*, 2003) developed in the behavioural sciences discipline. This model has been used in various disciplines (e-banking, e-health, e-commerce, etc) however, there is no application of the model for DSMM practices for entrepreneurs (AlAwadhi & Morris, 2008).

To this end, this paper binds together marketing studies, technology/digitalization and behavioural sciences in order to:

- Understand how digital trends like digital social media marketing (DSMM) can boost entrepreneurs' brand image and potential for innovation and co-creation with their customers.
- Apply the UTAUT model on a sample of entrepreneurs in order to identify their acceptance levels of DSMM practices and, complemented by performance measurement survey questions, – assess the actual impact of DSMM practices on brand image and innovation.
- Based on the survey findings, recommendations for improved implementation of DSMM practices for entrepreneurs to boost their brand image and their innovation potential through co-creation with their customers.

Literature review – Overview on Digital Social Media Marketing (DSMM)

DSMM and its potential for entrepreneurs

Over the past decade, with the development of Web.2.0. and introduction of different social media platforms that enable users' digital interaction, social media has become one of the most innovative mediums for companies and their marketing campaigns (Brogan & Smith, 2009). Social media is a core player in the field of business. DSMM is the next generation of business strategies and entrepreneurs must adopt it (Evans, 2010). Entrepreneurs who want to start a business will have to use digital social media for marketing purposes in order to reach as many customers as possible. Moreover, digital social media marketing is considered a cost-efficient strategy (Kirtiř & Karahan, 2011) by removing hard infrastructures of advertising. Entrepreneurs with startups ideas might not have an enormous budget for their marketing campaign. As a result, DSMM is a very promising strategy to adopt by replying social networks like Facebook, Twitter, YouTube, Instagram, etc. Social networks are part of human interaction and it will be easy for entrepreneurs to pass their message through them in order to boost the company success. However, entrepreneurs are more tend to use the traditional marketing which rely on a "bottom-up" strategy rather than a "top-down" one (Stokes, 2000). This means that entrepreneurs prefer to approach group of people and use marketing strategies that are not related to digital systems (Stokes, 2000). On the other hand, DSMM is a core strategy nowadays in order for companies to success as customers spend a lot of time on Internet and more especially on social networks. Thus, in many ways DSMM can bring a great value to the business. One of the main purposes of traditional marketing mediums such as TV commercials, posters etc. is to increase brand recognition. Social media marketing enables targeted mass advertising and makes it very effective in creating brand awareness. Millions of people have profiles on various digital platforms, which they access on daily basis giving marketers the opportunity to target huge amount of segments (Evans, 2011).

An example of social media platforms is Facebook, which has 900 million active users and ads are done through user's newsfeed. Any sort of entertaining information placed on their feed will be viewed which also gives companies the ability to direct potential customers to their own websites. This also enables having new visitors on their websites who are unaware of the brand and who came across the company's web page only because of the add seen on the newsfeed (Zarrella, 2010). The information on social media platforms is spread further without any additional effort as the users have the ability to "share", "favorite", "like", "retweet" etc. the particular digital advertisement, making it visible to many more.

Brand loyalty is also encouraged as customers have the ability to directly interact with company. This is done through exchanging messages with company's online profiles, or comments on their SM pages, Tweets etc. At the same time customers are exposed to the particular add multiple times per day, which automatically creates familiarity with the brand (Gomez, 2014). DSMM is a great way to create a competitive advantage in many ways. Firstly, it has a real time response. Within a very short amount of time companies can respond to their customers and have an advantage over those businesses that do not have the ability to do so (Nadaraja, 2013).

Secondly, it allows the businesses to monitor their brand and track the feedback of the customers about company's products. This creates the opportunity to quickly depict the errors,

improve the products or adjust the prices according to the customer's current needs, which puts the business in a highly competitive position (Perdue, 2010).

Furthermore, DSMM involves word of mouth, which is one of the most efficient mediums of advertising. Since, the information on digital platforms spreads very fast, positive online feedback of the customers will lead to a lot more customers being in favour of the brand as they are likely to trust the opinions of other users of the product. This increases the customer base of the company, upscale its sales and brings competitive advantage (Singla, 2015).

Social media marketing also encourages innovation in the business. It can be used as a tool for crowdsourcing in order to gain insights and gather ideas beyond the walls of company's research and development department. Using platforms such as Facebook, Twitter etc. can provide a whole new level of idea generation as the users have the opportunity to offer their own desired features on particular products or offer ideas on development of products that they would be keen on buying (Mrinal, 2012).

The innovation is also encouraged through different ways in which businesses can advertise through social media. Be it a Facebook page or a YouTube video, a blog, an Instagram account etc. businesses must always be creative and find innovative ways to make their digital ads more eye catching, memorable and worthy of sharing (Chaffet & Chadwick, 2012).

Moreover, innovative ways of teamwork are also encouraged. An example can be Facebook or LinkedIn pages focusing on particular area of interest of employees. Company can create a Facebook page of a new project and involve the employees working on that particular task. This enables them to share ideas, respond to comments, "like" some suggestions and most importantly have a fast and easy access to all the information and be able to respond quickly as opposed to other mediums such as writing formal emails (Chu, 2011). One of the other advantages of social media marketing is that it allows organic targeting which enables tailored customer focus for the business. Various Social Media platforms such as Facebook allow the businesses to filter their audience according to gender, age, location relationship status, interests etc. LinkedIn allows the companies to filter by company size, industry, etc. which is an amazing tool for B2B companies (Evans, 2011).

On Instagram and Twitter the companies can follow specific people of their interest, use hash tags, repost same add several times a day etc. in order to catch the attention of their followers. Even if some users do not follow back, they will still be aware of the brand. Furthermore, users are able to share information with their online friends, who most likely fall under the desired target of the company as well, which automatically creates tailored marketing without any incremental efforts (Chu, 2011).

Using Social Media can drastically decrease the marketing costs of the business. Creating digital pages to advertise products and spreading it across millions of users is essentially free, which immensely reduces the advertising costs. It also helps to shorten the time for recruitment as the potential candidates can be easily found by their Facebook, Twitter and LinkedIn pages (Sisira, 2011).

Furthermore, it helps to minimize product's design costs due to the huge amount of feedback available through user's responses, which provides a great insight to customer's wants and preferences and makes sure that the particular product can satisfy them right from the first day of its introduction. So the probability of the need for further investments in its development and packaging is lowered (Arca, 2012).

Additionally, the companies have the ability to see the return on their investment and the efficiency of their social media marketing through digital campaign tracking. A popular tool

is for this is Facebook Insights. It monitors how many people view particular social media posts, the number of clicks each the posts receive, and how many times people are sharing the posts with others. The insights also give a breakdown of the different demographics of the page's Facebook network. (Rowles, 2015) Other popular tools include LinkedIn Insights, YouTube Analytics, Hootsuite etc. Proper campaign tracking will give the company reports about its most valuable networks, how much social media contributes to the overall visits of the website, information about landing pages which will allow the company to invest more in valuable networks, improve the weaker ones and make sure that their business costs in terms of both time and money is reduced (Linnell, 2011).

User acceptance level of DSMM practices

Regardless of whether DSMM practices are widely being incorporated by corporations, it is of core importance to identify the exact situation in relation to entrepreneurs. To this end, research shows that there is no difference between the adoption of digital social media marketing by startups compared to large corporations. Social media is omnipresent in the business world today. Entrepreneurs that want to start a business must take into consideration social media marketing strategies in order to reach customers. Moreover, digital social media marketing can be adopted within an organization with low cost. Social media networks are present everywhere and available for customers to access it from any countries (Qualman, 2010). All the sectors of an organization can be involved in social media. As a result, either startups or large corporations can take advantage of this tool. Large corporations are already settled in the market place, but in order to extend and boost the company's values, social media marketing is crucial. Applications from the social media networks can be very useful in order to achieve new goals and boost the organizations' performance (Tuten & Solomon, 2014). Technology is advancing and even though large corporations have already adopted marketing strategies in order to grow their business environment, managers still need to adopt the new trends in order to keep the existent customers and reach new target group in order to make more profits. On the other hand, startups will benefit from digital social media marketing because it is the best strategy to enter a new marketplace and be successful in the business world. Social media networks can be used in order to boost the brand image of a company and reach as many people as possible globally. Small firms comparing to big corporations do not have the budget to make traditional marketing campaign internationally. However, social media marketing is a perfect strategy for those firms that want to obtain a brand growth (Siakas *et al.*, 2014).

Still, there is a strong reluctance especially among start-ups from lower income regions in terms of utilizing DSMM practices and this reluctance resides in the absence of proper DSMM skills and know-how. Especially in the EU, there is a general DSMM skill paucity which hinders startups and existing enterprises to properly utilize DSMM as a core approach to boost their business' competitive advantage. To this end, in order to combat such skills and to equip current enterprises and future startups with enhanced DSMM abilities, the EU Funded JEMSS project (Joint European Masters in Digital Social Media Marketing) which provides the basis for this paper – developed (considering this context) a MOOC and a Book on DSMM related strategies based on true co-creation with existing industries (JEMSS, 2016). In this context, the purpose of this paper is, as it has been stated, is to focus on the require-

ments of startups in terms of DSMM practices in order to ensure a long term sustainable impact and replication of such cutting-edge work developed through JEMSS.

Still, even with such DSMM skills presumably being present, there is still a general matter of technology acceptance which needs to be investigated. For this purpose, one of the most relevant approaches is the Unified Theory of Acceptance and Use of Technology (UTAUT) – a theory developed by Venkatesh and others that study the behaviour of people when they use information systems (Venkatesh *et al.*, 2003). The theory focuses on four main concepts that will determine the intention behaviour of people and will thus lead to the behaviour use of the information systems. First of all, performance expectancy which means that people will use the information systems in order to achieve job performance. Second of all, effort expectancy is how comfortable an individual becomes by using the information system. Third of all, social influence is individuals that are convincing others to use the information system. Finally, facilitating conditions is the support that a company offers for the utilization of the information system (AlQudah, 2015). Managers could benefit of this model within an organization because technology is omnipresent nowadays and companies have to start using information system. However, employees are not used to all the new technology that is offered and UTAUT will definitely ensure the success of the technology within the organization and will guide the employees that will use the system to become comfortable using it. The four concepts established by UTAUT are very important because they are the key factors on which an individual will accept using the information system in a working environment. The theory can boost an organization performance due the use of technology. Moreover, UTAUT will determine the employees' motivation toward the new information system that will be installed in the company. Thus, managers will provide proper guidance for the employees by providing the positive aspects of technology. Also, employees will benefit from proper help from UTAUT in order to learn how to work with the new tools that are offered in companies nowadays concerning technology (Venkatesh *et al.*, 2003).

UTAUT has been used in many sectors of business such as e-health, e-commerce and e-banking. This model is crucial for the digital social media marketing in order to increase buyers within organizations. UTAUT will boost brand image and relation with customers through social media networks. For instance, healthcare in Thailand have used the UTAUT model to improve its system with information systems (Kijsanayotin *et al.*, 2009). This theory will help with the implementation of IT system in the country and help the users through the transition. It is important for individuals to have the right tools and formation in order to proper use the IT systems in the healthcare. Information systems are important nowadays because the technology will help to keep records of patients and provide a better service (Kijsanayotin *et al.* 2009). Another important example of the utilization of UTAUT is in the banking systems. Banks need to invest in e-banking systems in order to provide better services to their customers. Many individuals are doing their transaction from internet instead of going to the bank. Thus, the UTAUT model is a promising approach to take in order to understand the users' behaviours (Yu, 2012). According to a study, the new trend in e-banking is the utilization of mobile application in order for customers to use the services offered by the bank worldwide (Yu, 2012). Furthermore, in Jordan a study proves that the utilization of the UTAUT model is very important for Internet banking. Performance expectancy, effort expectancy and social influence are key aspects for the success of e-banking (AbuShanab and Pearson, 2009). The results of this study shows that users are willing to use the new technology that is the Internet provides.

Moreover, the Turkish Public Relations Association used the UTAUT model in order to determine the importance of social media within the organization. The study determined how important are social medias for PR professionals in Turkey and how social media could be useful in order for the company to grow (Alikilic and Atabek, 2012). To this end, it was proved that the employees want to use social media (more especially social networks) because they will be a huge benefit for the company itself (Alikilic & Atabek, 2012). Also, UTAUT could reinforce an organization's power with the use of social media. Social media in corporations are used for internal communication among the employees and external communication for the brand image (Vuori, 2012). Thus, it is crucial to use the model in order to understand what the customers need and also to make sure the users completely understand how these new tools work. To sum up, the UTAUT model has been used in many studies from different sectors and has shown that it is a very crucial tool to use within an organization in order to understand how to use the new technology that is available for business nowadays and also provide to the users a better service in order to facilitated the services from any sector and provide assistances globally.

The Unified Theory of Acceptance and Use of Technology (UTAUT) could provide many benefits for the application of digital social media marketing. For example, e-health is a sector where the UTAUT model is used a lot. A study occurred where health educators would use social networks for promotion purposes (Hanson *et al.*, 2013). According to the study, performance expectancy and social influence that are two main concepts of the UTAUT boosted the individuals to use social media in the healthcare system for marketing campaigns (Hanson *et al.*, 2013). Moreover, e-commerce is another core sector that use the UTAUT model for achieving success. Online shopping has been increase for the past years and the UTAUT model is helping companies in order to determine the consumer behaviours. A study that occurred in Iran proved that UTAUT is an important tool to use among the e-commerce (Yaprakli *et al.*, 2013). Digital social media marketing is the key to success in the e shopping. Companies have to promote their products through social networks in order to boost sales. Thus, the UTAUT model would be useful in the adoption of digital social media marketing because it is important to study the behaviour of each individual when they use social media networks in order to be able to target the right group of people (Mangold & Faulds, 2009).

Regardless of the models that can be used to promote effective DSMM practices, social media marketing has its own pitfalls and entrepreneurs should be taking all of those into consideration. One of the main feature of social media is that information spreads very fast, once it is out there is no way to control it, it has user generated content and everyone is free to say their honest opinion. In case if even one user has a bad experience with particular product and posts it on any social media platform, the negative feedback will go viral which will alter the potential customer's perception of the brand and the preference will be given to competitor's product (Tuten & Solomon, 2014).

DSMM also requires a lot of time investment. Each of the networks has to be closely monitored and the marketers have to make sure that their social media pages are constantly updated. Each piece of information has to be engaging and entertaining and re-posted several times per day as it is quickly taken over by other posts on newsfeed and might not attract user's attention. It also involves the need for quick responses to customers' comments, questions etc. (Gomez, 2014).

At the same time lots of users complain about the obtrusive adds on their social media profile and just skip through them, which makes business's investment in social media mar-

keting highly questionable. Even with digital campaign tracking a lot of times it is hard to say if the increase in sales resulted from a social media marketing campaign or some other mediums or patterns (Nadaraja, 2013).

Even though there are certain risks associated with social media marketing the benefits that the companies can gain from it are huge. If social media platforms are used efficiently, they can increase brand recognition, help the businesses to have competitive advantage, target particular segments and reduce costs. Finally, social media marketing encourages innovation, and it is one of the outcomes of technological developments over the past few decades (Bernoff, 2011). This means that in order to benefit from technological developments, survive competition and gain market leadership companies and startups should try to find correct ways of implementing their social media marketing campaigns.

Methodology

As primary research aims, this paper undertook a survey with entrepreneurs and assessed their views & acceptance on Digital Social Media Marketing in terms of creating innovation and boosting brand image as well as their willingness and ability to apply these practices in their organizations. In order to achieve this lead researcher was in charge of conducting a survey as well as of processing the data for the use of the other co-authors. More specifically, for preparing the targeted respondents, an information sheet preceded the survey (in order to present the main questions that will be asked during the survey – as well as the ethical considerations and guidelines – data storage, data processing, duration of the survey, ability to quit at any point, acceptance of the data to be stored, acknowledgement that the info will be used for research purposes only, etc.). Additionally, the respondent was asked to tick a consent form (based on the information sheet) before proceeding to the survey questions. The primary data (raw) are stored in a secure location within the department's secured local ethics office and will be destroyed after 5 years. The lead researcher analysed, transcribed and anonymized then the raw data (ensuring that no private data is disclosed on the summary of the survey which was utilized during this research). The lead researcher undertook ethics training under the EU & departmental standards. A departmental ethics approval was also performed on the intended survey questions and procedure (in order to ensure the ethical and unbiased nature of the content).

In order to create the survey questions, a secondary research was performed towards identifying valid scientific constructs (mostly based on UTAUT surveys). The secondary research was based on academic databases (Scopus, EBSCO, Elsevier, Springer, etc.) as well as on policy and R&D databases such as the EU CORDIS portal. No access to any personal data was interfere at this stage. The survey was created online (via Google Forms) and was disseminated to a probability sample of 55 contacts. A valid response rate of 21 answers has been recorded (38% success rate). The findings of the surveys as well as the survey structure are presented in the next section.

Data analysis and discussion

Demographics

The valid respondents (20) range from 23 to 50 years old (45% women, 55% male), residing in the management field (entrepreneurs, executive managers, administrators of recent startups, marketing managers etc) as their main occupation – from the following countries: Greece (60%), United Kingdom (5%), Australia (5%), Canada (10%) and Germany (10%), Italy (5%), France (5%).

Construct analysis

The following constructs (1-5 Likert measurement scale) that have been tested reveal the following outcomes:

- Perceived usefulness of DSMM practices in conducting marketing campaigns. The exclusive number of 100% of the respondents perceive this as being important (70%) and very important (30%).
- Perceived ease of implementation of Social Media Marketing in this case has a more linear distribution in the sense that 20% of the respondents believe this will be very easy, 70% believe this is easy, 10% are highly neutral. However, none of the participant found it hard or impossible.
- Behavioural intention/willingness towards engaging in DSMM campaigns: 70% of the respondents will most likely engage in it, 20% are very keen/sure that they will engage in it, 10% are neutral/unaware.
- Perceived benefit of Massive Online Open Course (MOOC) – (such as the one developed in the JEMSS project– however focused on entrepreneurs) in enhancement of DSMM skills – 40% of the respondents believe there is some benefit/potential, 45% of participants are neutral/unaware and 15% found it not so useful.
- Possession of knowledge and skills to implement DSMM practices: 80% of the respondents feel confident that they have some skills, 15% believe that they have strong skills, 5% are neutral.
- Barriers to applying DSMM: the most common response is competition, content writing, finding the right tools to reach the right target group and communication.
- The relevant DSMM tools mentioned with regards to the participants occupations are: Facebook, Instagram, Twitter, Youtube, Linked In and Google PPC
- The extent to which DSMM enables co-creation with customers: 85% of the respondents that it takes place to some extent, 15% to a very good extent. So all the participants believed that DSMM platforms contributed towards co-creation with customers.
- Finally 100% of participants agreed (70%) and strongly agreed (30%) that co creation with customers through DSMM is a key to boost brand image.

Implications and limitations

Overall, the results show a good coherence of the DSMM practices with the views of responsible entrepreneurs pointing towards the fact that this medium of advertising is becoming more and more widely applicable. The majority of participants are keen on using this mar-

keting strategy, as they believe that it encourages innovation and enables the co creation with customers, which in turns boosts their brand image. However, some entrepreneurs are still not sure about the ease of usage or do not know how to apply it. Considering the number of tools available for the application of DSMM (various SM platforms, digital analytics etc) the participants are not sure on the direction that their DSMM campaigns should take in order to target the desired market, which gives opportunity for the development of various courses related to this matter.

Still, in true alignment with the literature findings, the results of this study also show a great percentage of neutral/indecisive responds in relation to this topic which is primarily driven by the relatively infant stage of DSMM practices compared to traditional mediums (eg. TV, newspaper ads) meaning thus lack of awareness and access to information for the involved parties. Nevertheless, a core implication of this gap resides also in the perceptions of the respondents related to their skills in the area of DSMM practices – in the sense that by not having a proper/clear view over this topic, the perceived skills that they possess might not be the actual skills required to properly implement DSMM. Furthermore, some of the participants might have fallen into response bias meaning that they might have responded in a way that pleases the researcher (unconscious trend adoption/bias). Finally, given this bias, another limitation that may hinder the validity of the findings resides in the low number of respondents across a wide geographic span. Future research should focus on local/regional areas in an in-depth approach towards unveiling the perceived benefits of DSMM practices with regards to innovation and boosting brand image.

Conclusion

Due to the quick technological developments of the 21st century and the introduction of Internet, the ability to reach huge number of audiences is bigger than ever. This gives companies a great framework for applying DSMM practices, which encourages close communication with customers, which in turn boosts brand image. At the same time DSMM practices enable innovative and up to date approach on advertising and in order for firms to remain competitive, they need to be up to date with these practices. This paper adopts the UTAUT approach in order to assess entrepreneurs' perceptions towards DSMM. The results show that as indicated in the primary as well as the secondary research, since DSMM is in its developing stages many companies use it inefficiently, which turns their own strategy against them. It is thus crucial to have all the essential information and knowledge in order to benefit from DSMM practices, which will enable companies to target a wide number of potential customers, establish close relationship with them as well as stay up to date and innovative in order to always have competitive advantage.

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Older people in digital creation contexts: building a participatory action research design

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Abstract: The interest in participatory action research (PAR) is strongly connected with the general quest for more action-oriented, bottom-up approach that bridges between scientific research and practice. The three aspects that we argue to be constitutive for this research approach are its collaborative, performative and contextualized nature. Within the wide spectrum of fields and topics that PAR can be resourceful for, we focus on its use in the area of technology creation and appropriation. The aim of the paper is, thus, to propose a PAR design that could be used in studying the social media practices of older people. We argue that in order to provide a resourceful methodological framework for an in-depth analysis of both the emergent social learning process, as well as the post-hoc experiences of the participants, the Ethnographic approach and Photo Voice are two PAR techniques that could be mobilized in this regard.

Keywords: participatory action research, older people, Photo Voice, ethnographic approach, technology

Introduction

During the last decades, the research rhetoric has moved the focus from multidisciplinary, interdisciplinary, and transdisciplinary to an action-oriented approach that challenges the traditional relationship between the subject, the object and the context of the research. The increasing interest in participatory action research (PAR) was strongly related to the general quest for reconnecting the ivory tower of the academic research with a more hands-on approach of the social dynamics (Chevalier & Buckles, 2013, p. 1). Aimed to empower the “ordinary people” in and through research (Kindon, Pain & Kesby, 2007), this bottom-up approach has gained centrality not only in social science, but also in health or environmental sciences, as it provides a powerful interplay between research and practice.

Given the accelerating globalization process and the digital technology revolution that had a significant impact on the social practices all over the world and among all generations, to what extent can this be integrated or, moreover, addressed using PAR methodology? What is to be gained and how can PAR design be built to address the social impact and appropriation of the new technology?

Within this general framework, the main aim of this paper is to build a PAR design that could be used in studying the social media practices among the older generations, as the overlapping process between two global phenomena of Active Ageing and New Media spread, is worth analyzing and understanding at both individual, as well as community level. In doing so, we start by providing a general discussion about the PAR approach, focusing on its constitutive dimensions, and moving further to the use of PAR in the area of technology creation and appropriation. The second part of the paper is focused on building a PAR design for studying how older people use and relate to using social media platforms, such as Facebook. Moreover, we argue that Ethnographic approach and Photo Voice are two PAR techniques that can contribute to a more in-depth understanding of this topic.

A general framework of the Participatory Action Research approach

Before discussing the constitutive principles of PAR, we want to briefly address the general context that favored the ascending wave of this approach in social science. Participatory research has often been associated with the 20th century social movements (Chevalier & Buckles, 2013; Kemmis & McTaggart, 2007). It is thus not surprising that it usually involves “participants in vulnerable situations, whose voices are typically absent from the dominant academic discourse” (Lykes, Hershberg & Brabeck, 2011, p. 27), placing the whole action-inquiry process within a social justice framework. Seen as a research approach that empowers marginalized social groups and “ordinary people”, PAR has been widely embraced by feminist, critical and emancipatory theories (Fournier, Mill, Kipp & Walusimbi, 2007).

Another contextual aspect that contributed to the overall success of PAR was the claim for a more pragmatic, action-oriented approach of the research. This meant, on the one hand, that research needed to be more connected to the community problems and to the community members themselves, and, on the other hand, that it should be more focused on the end-goal and the problem-solving function of the research. Based on these coordinates, PAR has become one of the dominant methodological approaches that are consistent with the principles laying beyond the sociology of intervention.

The three dimensions that we want to discuss further, as we argue that they are constitutive for PAR, are connected to the *collaborative*, the *performative* and the *contextualized* nature of this research approach.

The core-element in terms of research dynamics brings to the fore the *collaborative* construction and production of meaning between the researchers and the participants. The traditional relationship between the researcher and the subjects of the research are redefined in less hierarchical terms, as it is no longer about the symbolic dominance and control of the former over the research process. On the contrary, PAR is primarily about a dialogic framework in which the participant takes on an active co-researcher role and is, hence, actively engaged in the research process at all stages. From a broader sociological theoretical perspective, this could place PAR within a symbolic interactionism logic (Genat, 2009), as meanings and interpretations emerge and are subject to a continuous process of negotiation between the researchers and the participants, as well as between the participants themselves. One of the main advantages of facilitating a collaborative research context is that “the practical knowledge that emerges is usually a better fit for those for whom it is intended, since they them-

selves helped generate and make sense of the findings” (Piercy, Franz, Donaldson & Richard, 2011, p. 821).

Simplifying things for a better understanding of the overall research dynamics, it can be said that PAR involves three recurring stages: *inquiry*, *action*, and *reflection* (Kemmis, & McTaggart, 2005; Mackenzie, Tan, Hoverman & Baldwin, 2012) that fuel the meaning making process. Nevertheless, there is no linear sequence of these stages, as they actually tend to overlap and merge (Crane, & O’Regan, 2010). The mere iterative nature of this process is the key-trigger in generating knowledge that may lead to social action and change for the better. But the process does not end here, as it brings us back to reflection on those actions, opening up new areas of inquiry (Greenwood & Levin, 2003; Kindon, Pain & Kesby, 2007). These action–reflection cycles, that cover: observing, analyzing, planning, acting, and sharing knowledge, are at the heart of the experiential learning process that emerges within the research group. Both the researcher and the scientific community, as well as the participants and the local community they are part of are expected to benefit from it.

Moreover, this dynamic inquiry process has a significant learning component that we want to lay emphasis on. PAR is a “democratic knowledge construction process” (Lykes, Hersherberg, & Brabeck, 2011, p. 32) that is as much about creating a deliberative space where researchers and people closest to the research topic are equally and actively engaged, as it is about emergent experiential learning (Genat, 2009; Pahl-Wostl *et al.*, 2007). Providing a context that builds on interaction and knowledge sharing among the participants and the researcher, PAR promotes “social learning” (Keen *et al.*, 2005; Measham, 2009) and, thus, the engagement of both parties in an effective and authentic dialogue.

Nevertheless, the key-element that contributed to PAR becoming one of the leading community-oriented research is its end-goal focus. The PAR research design is meant to lead to social change that follows an organic bottom-up approach. The performative dimension of PAR, which implies learning, decision-making and acting (Marti’, 2015; Reason & Bradbury, 2001), reveals its transformatory aims. Generally speaking, PAR involves researchers and participants interacting and working together to examine and understand a situation or public issue in order to change it for the better (Wadsworth, 1998; Kindon, Pain & Kesby, 2007).

On these collaborative basis, “meaningful relationships develop in PAR projects, wherein academic and community participants express authentic commitment toward shared goals” (Lykes, Hersherberg & Brabeck, 2011, p. 32), which address real-life problems and are meant to bring positive social change (Reason & Bradbury, 2001). PAR is, hence, about action for change. This purposive aspect makes research more relevant and integrated within the social dynamics of the communities, admitting and making the most of the input brought by those closest to the community problems in the mere research process.

The general logic of bringing research not only closer, but rather within the social arena where the actual action takes place, answers to the quest for a more *contextualized* research process. The “researcher is expected to recognize the power of the context, and the context of power, within which research is being conducted” (Khan, Bawani, & Aziz, 2013, p. 168), as the whole process of meaning-making and emergent social learning is situated within a specific social setting. On the one hand, the contextualized research process involves bringing the researcher and the research process within the real social setting it address, and, on the other hand, it involves active participation of the people within that particular social context as co-creators of knowledge in the research process. Been situated within the context where change occurs (Smith, Bratini, Chambers, Jensen & Romero, 2010), PAR is perceived

as an inside-out research that builds on “action as a legitimate mode of knowing, thereby taking the realm of knowledge into the field of practice” (Tandon, 1996, p. 21, cited in McIntyre, 2008, xii).

Although in the action-research literature there is a high consistency in defining PAR as a context-specific “process concerned with developing practical knowing in the pursuit of worthwhile human purposes” (Reason & Bradbury, 2001, p. 1) and social change, we argue that, depending on the primacy of a component over the others, *de facto*, we are faced with distinct versions of the same research approach.

This comes in line with the broader categories of approaches identified in the literature on action research (Whitelaw, Beattie, Balogh & Watson, 2003, p. 166): *technical action research*, favoring a rather positivist research approach; *practical or mutual-collaboration action research*, placed within a more interpretivist framework and stressing the collaborative nature of the research; and the *critical, emancipatory action research*, focused on the empowerment of “ordinary”/marginalized people and, hence, on the performative, social change orientation of the research process.

Moreover, it is supported by the wide spectrum of fields and corollary designs that lay under the PAR umbrella term (Kendon, Pain & Kesby, 2007): education and critical pedagogy, feminist studies, environmental studies, health studies, community-based research, organizational studies etc. Generally speaking, PAR is a research approach in which people (e.g., residents, community organizers, youth, practitioners or other stakeholders) give voice to and collaboratively address community problems (Abo-Zena & Pavalow, 2016), such as gentrification, street harassment, unemployment, pollution, access to health care, illiteracy etc.

Nevertheless, despite this high consistency in addressing the benefits of PAR and defining its main characteristics as research approach, we argue that the literature tends to focus less on the way social learning emerges on both the individual and collective levels and more on the end-goal of the research process and the actual social action/ change that are grounded in the outputs of the research process.

Participatory Action Research in the area of technology creation and appropriation

Different types of PAR could be found in the area of ICT when we talk about user friendly designing of applications to fit customers’ needs and daily habits. Most of the time, such approaches are employed by Human-Computer-Interaction (HCI) domain and are used for prototype designing and testing, concerning for the final product/application appropriation and use. Therefore, the approach is defined as Participatory Action Design (PAD), as a model of involving users in co-creation of the designing product, alongside of the entire process (Ding, Cooper & Pearlman 2007).

The Research and Development (R&D) areas are using PAD by involving end-users in different stages of the process: establishing research agenda, formulating the research questions, involving participants as research assistants or advisors, involving participants in testing prototypes or ideas and in the evaluation process – as for example continuation in use, advantages and disadvantages of the implemented ideas (Wu, Richards & Baecker, 2004).

Since the first use of PAD models in 1970, when they assisted the implementation of computers in work environments, the approach has been successfully extended to other areas too,

such as urban design and transportation (see Carmona, 2010; Taylor, Braveman & Hammel, 2004). Still, PAD remains a research approach largely used in the ICT design for users with reduced capabilities or impairment associated with ageing: for example mobility related problems (Hitchen, Williamson & Watkins, 2015; Muller, 2003; Seale, McCreddie, Turner-Smith & Tinker, 2002) and Ambient Assistant Living (AAL) technologies designing or socio-technical solution (i.e. Quality of Life technology- QoLT devices and systems) to reduce the effects of cognitive impairment or other cognitive disabilities impacting individuals' social life (Slegers, Duysburgh, van Rijn & Hendriks, 2012; Spinuzzi, 2005).

The use of PAD model in research follows some steps in which the end-users get involved in co-creation process (see for example Ding, Cooper & Pearlman, 2007): (1) identification of the users' needs, mainly through semi-structure interviews, focus groups, brainstorming or similar open discussions, some using participants as moderators or facilitators; (2) getting all the information together to design the possible solutions of prototypes features; (3) testing prototypes/ideas and determining perceived advantages and dis-advantage of each. This will include feedback questionnaires, interviews and observation; (3) designing the final product in accord with the industry standards and the available benchmarks. This will be the final prototype which has to be feasible; (4) evaluation of the results with the co-participation of the potential users: testing for the durability, availability, easiness to use and appropriation. It should be noted that the small experimental designs and in-depth interviews are usually revealing for the consumers' desire to use that particular product, the relevance for daily routine or specific needs and meanings associated with the prototype appropriation or rejection; (5) Adjustments of the prototype could be done as a result of the evaluation process and different ways to present the product/idea on the market, constructed with the involvement of the end-users as well. Note that participants could be involved in all five steps of PAD to different degrees from coordinating the data themselves and analyzing it, to testing and discussing the products elaborated by the researchers.

The next sections are focused on two PAR techniques that we argue to be fitted in building a research design for the study of social media practices of older people.

Ethnographic Action Research

A particular type of Participatory Action Research is Ethnographic Action Research (EAR). Although both PAR and EAR use ethnographic research tools (interviews, observation, participant observation and field notes), EAR involves an ethnographic approach in data collection as well (Tacchi, Foth & Hearn, 2009). For example, when using EAR to research on media practices, the capacities of different media to record, select and present the data are used as such, with the researcher playing an active role. That is not only monitoring and evaluating the media practices for the researched social group, but also altering those practices from inside (as a member of the social group).

The level of involvement for the researcher in changing media practices is different from a research study to another, while performing different types of "interventions". As Tacchi, Foth and Hearn (2009, p. 31) stated, EAR employs a "communicative ecology" meaning, which brings out a reflective way on doing participatory action research: we reflect both on interventions and their functional roles in the media practices, for example, but also on the effects generated by each type of intervention. For example, in a study on the way older individuals learn to interact using a new communication technology tool, we might reflect on differ-

ent ways to introduce this particular tool, as well as on the obstacles and advantages related to people's factual experience (observational notes) or perceived one (in-depth interviews) during the appropriation sessions. Here the ethnographic approach is broadly used, not only to methodological level, but to the entire research process.

Another particularity of EAR is the fact that "the research object" is treated in the same time as the "subject" of the research. For example, when examining media practices of different social groups – the research subject, we can use media tools to collect, archive and groups the data in categories – the research object. Even more, the power relations between researchers and participants are flexible, permanently shifting and changing (Rodriguez, 2001) in a co-creation process in which both parts (researchers and participants) have their role in creating and analyzing data.

The final goal is "communication for social change", as EAR addresses the gap between research and intervention (Tacchi, Foth & Hearn, 2009, p. 32). Learning "from the inside" and grounded forms of participation consist of mixing knowledge and reflection (Hickey & Mohan 2004), with participants taking the researcher's role or the role of a trainer, an advisor in planning and acting when findings occur. The grounded theory approach (Glasser, 1998) is, thus, the fundament for the EAR with "thick descriptions" and bottom-up approach.

Photo Voice

PhotoVoice is presented as a participatory action research technique mostly used in the process of identifying community problems, describing them from "the inside", using visual representations and discussions of the associated meanings, while empowering the community through the entire process (Flicker, Maley, Ridgley, Biscope, Lombardo & Skinner, 2008). The photographic techniques are used and participants are trained to portrayal their communities, by the means of basic photographic and reflective skills.

The essence of this Photo Voice technique is to enable communities and to prepare policy plans by starting from "the real" community problems and the subjective meanings people invest in revealing the community problems (Wan, 1999). Basically, this strategy involves three steps: (1) participants are trained to record and reflect on their own community issues, including strengths and weaknesses – the use of photographic techniques is required in this stage, when employing Photo Voice as a PAR strategy; (2) participants are encouraged to discuss the data (the collected photos) using groups techniques, to share the meanings and knowledge of different community issues, as they appeared in the photos, and to describe their own experience in facing those community problems; (3) researchers aim to reach policy makers using the data obtained in the previous steps.

An in-depth analysis on both the photos recorded by participants and the discussed meanings of the community problems creates the bases for the research report and for future policy implementation. Planners brought to the table are used as audience for the community people's perspective. Finally, Photo Voice is about community and individual's empowerment (Hergenrather, Rhodes, Cowan, Bardhoshi & Pula, 2009).

Involving older people in Participatory Action Research

When we investigate ICT practices for older adults, we have to take into account the fact that their needs in using different types of technologies might be different compared to other age groups. In previous studies (Fernández-Ardèvol & Ivan, 2013) we revealed the fact that older people have a utilitarian approach in their decision to appropriate a particular device or technology, whereas younger ones base their decision merely on hedonistic views: older adults could start use a particular device because they perceive certain functional value for the everyday interactions, whereas adolescents could choose a particular device or application because “it is cool to do it”, or to get accepted in peers’ groups. Therefore, participatory action research could be employed as a methodological option to research media practices by focusing on older people’s needs (Demiris, Oliver, Dickey, Skubic & Rantz, 2008).

The design and training for different technology applications, including social network applications, would benefit from the co-creation data by empowering older people and making them more active as participants. We agree with Fudge, Wolfe and McKeivitt (2007, p. 492) in admitting that benefits for using PAR with old participants could be “increasing their knowledge, awareness and confidence, meeting others in similar situations, empowering old people to become active members in their communities regarding decisions/policies which affect them”.

The same is valid for research concerning older people and media practices. As we have previously proved (Fernández-Ardèvol & Ivan, 2015), the age is not a barrier in itself, but a mediator for people’s familiarity to ICTs and their self-confidence in approaching new applications. Participant Action Research could be a methodological approach to address both issues: (1) In terms of familiarity, the direct experience in using a type of technology/ application, while having the opportunities to reflect on the experience could have a positive effect; (2) In terms of self-confidence, the experience of producing and critically analyzing the data could enhance positive meaning associated with a particular type of technology.

Also, in previous research on older people and the use of Facebook (Ivan & Hebblethwaite, 2016) we revealed the fact that the use of photos to document their everyday life could be an important aspect of the media practices for this age group, even though the skills in creating visual content are, generally speaking, lower than at younger adults.

Consequently, the use of Photo Voice technique might hold the potential in the studies conducted using PAR with older participants. Still, few research studies have used PAR to assess media practices of older adults and no study that we know about employed PAR to research the way older people are using social and interaction applications (e.g. Facebook, WhatsApp).

Older people’s use of Facebook: building a PAR design

Following the literature review, we worked on a research design that could be fitted and resourceful in revealing the way older people depict their experience in using Facebook as an interaction tool, by turning to Participatory Action Research.

The emphasis was put on the ethnographic approach, using groups’ techniques and participant observation notes. The research procedure involves the following steps:

Step 1. Initial evaluation. Semi-structured group interview will be conducted with 10 to 12 participants, 60 years and above that are going to take part in a training session about the use of Facebook in everyday interactions. Here, the aim is to assess the initial level of participants' knowledge, familiarity, and interest to use this application, as well as motivation, incentives to use social networks, perceived advantages and disadvantages.

Step 2. The training session. We use students as trainers to assist participants in improving their skills in using Facebook. One trainer is assigned to each participant and works according to his/her own level of knowledge, familiarity, and motivation. Participants could be assisted in creating their own Facebook profile, or/and content changes in the old Facebook profile or in personalizing their profile. Here, open discussion is employed by the trainer to identify participant interests, type of communication and the social network structure, preferred topics of discussion and content, concerns about issues regarding privacy and decency. We will use observational notes over the interaction between trainers and trainees and recorded materials from the training sessions to be used in further analysis.

Step 3. Intermediate evaluation. Group discussion in which participants share their experience during the training session, the meanings they associate with the process and the type of "social media product" they created. Participants will discuss over the difficulties, opportunities they perceived benefits and constrains during the training process and their intention regarding the use of Facebook after the session.

Step 4. Facebook group co-creation. Participants will discuss and create a Facebook group to be used by themselves in further interactions. The structure, type of group, layout, and other personalized details are constructed in interaction, trainers having a supportive role. Observational notes and video materials will record the process. Inspired from the Photo Voice strategy, each participant will be asked to take a photo that represent the experience of working together and post it on the group. They will also have the possibility to reflect on the choice they made – the photo they have selected and the meaning of it.

Step 5. Final evaluation. Individual semi-structured interviews with each of the participants will be conducted. Details about the subjective meaning of each of the previous steps and the overall assessment of the methodologic design will be critically discussed. Limits of this research design, as well as opportunities would be critically discussed in this stage. The intention of each participant to continue to use communication via Facebook through his/her own profile and group profile will be assessed and the participants' estimation about their future involvement and empowerment in using social networks will be recorded. Further on, we will objectively measure their level of involvement on their Facebook profiles and group profile, during three months' time period.

This approach is meant to provide an in-depth understanding on the dynamics of the PAR workgroup, as well as on the emerging social learning process, the individual's research experiences, and their post-hoc ones.

Practical implications

Our research design is part of a wider perspective concerning the so-called *grey-haired market*, whose needs are starting to be taken into consideration. Seniors have been "rediscovered" for some time by both policy makers, entrepreneurs and the society at large. Even more, *grannies* are making their way into pop culture, being followed on social media as style

advisors or being included by their grandchildren in YouTube tutorials. The trend is visible in all domains, from ordinary senior graffiti-creators in Portugal encouraged by LATA 65, an organization that aims to connect generations through contemporary art manifestations to famous people such as US Supreme Court justice Ruth Bader Ginsburg who, through her continuous activity, has become a model for all generations and also a pop icon. The United States, France, China and most nations have introduced programs that envision a better life for the elderly, mostly through technology innovations that can prove useful for seniors. A clear example that such initiatives have a real echo is offered by Brazilian CNA English School and their Speaking Exchange program, which connects young people who want to learn English and seniors through the Internet in an attempt to improve learning by making it real and human.

It, thus, becomes imperative to understand how elders perceive and employ such technologies and how they approach new media and innovation in a broader sense. The PAR approach could prove useful in this regard, mainly because it offers a greater level of involvement from senior participants than other research methods and because of its collaborative, performative and contextualized nature. Most participatory research designs offer closer-to-reality results that can be used in practice, therefore helping entrepreneurs achieve their business goals and even improve society. Our declared objective is to obtain results that can be included in areas like software development, device creation, program implementation etc. We expect that our findings will be of use especially to the new business rising stars, social entrepreneurs that aim to offer solutions to society's most pressing problems. Furthermore, insights such as these can also prove useful to businesses that center around collaboration and co-creation with consumers, concepts that have undisputedly demonstrated their efficiency in product research and development.

Conclusions

The need for a more action-oriented research that could provide real opportunities for developing research processes *with* people rather than *for* people (McIntyre, 2008) lead to an increasing interest and use of Participatory Action Research approach in addressing a wide variety of topics coming from different fields of action.

We focused our discussion on the particularities of Participatory Action Research in the area of technology creation and appropriation, first as a model of involving users in co-creation of the designing product, in all stages of the research process, and then as a way to involve end-users of different type of technologies in research and development areas. Moreover, focusing on the Ethnographic approach and Photo Voice, we find both PAR techniques to be highly relevant and resourceful in studying (social) media practices among older generations.

Although studies which implement PAR to address ICT use and appropriation are scarce, we argue that such methodological option could be valuable when researching the overlapping process of active ageing and technology adoption among older people, especially when it comes to new media and the new social practices they brought along. This could not only help in understanding the reasons and positions that are to be found among older people when it comes to communication and information technology, as compared to other generations, but also the in terms of the actual content that is generated by them in and through this medium. In this regard, the Photo Voice could be implemented as a successful technique in building a PAR design. Moreover, the benefits of using PAR with old participants need to be discussed

and related to aspects regarding their familiarity with different platforms and their level of self-confidence. In the end, the participatory research design that we have built for studying the way older people are using Facebook and the experience of learning from younger others needs to be further developed, tested and redefined based on the actual research experience from the field.

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Sustaining social and rural entrepreneurship towards hybrids

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Abstract: Social entrepreneurs focus on creation of social value because of the existence of residual values taking non financial forms and possibility of investments for support to economic growth and social progress. Social enterprises tend to behave as hybrid organizations that tend to combine different and multiple logics. Rurality as dynamic concept and multi-faceted process helps define a specific territorially and entrepreneurial milieu shaping the entrepreneurial process as autonomous source for driving development. Multi-functionality in agriculture and rural development as new emerging paradigms seem to drive rural entrepreneurial organizations to behave as hybrids managing multiple logics of doing business jointly with creating social value within territories and for communities. European rural development policies should contribute to support farm sector and rural areas sustaining the competitiveness of agriculture, ensuring the sustainable management of natural resources, the climate action and the balanced territorial development of rural areas and programs oriented to assign to agriculture a strategic and social role to preserve and protect landscapes, environment, natural asset and biodiversity by opening up new spaces and opportunities for driving entrepreneurship bridging rural and social aspects and components leading to hybrid organizations managing different logics and working for creation of social and economic value for society and communities.

Keywords: social and rural entrepreneurship, rural development policies, hybrid organizations

Introduction

The aim of this study is to elucidate that multi-functionality and rural development as new emerging paradigms are leading the entrepreneurship in agriculture to actively contribute for cultural and social development of society by sustaining and bridging social and rural aspects. The study relies on archival and qualitative data drawn by review of literature on social entrepreneurship, on the role of rural economies and entrepreneurship for sustaining economic growth and development of communities and territories. Rurality as an entrepreneurial milieu tends to shape the entrepreneurial process (Stathopoulou, Psaltopoulos & Skuras, 2004).

In the last decade, the European institutions tend to design and implement public policies concerning social and economic development of rural areas and economy in the attempt to

reconcile economic growth in terms of generation of income and rate of employment in areas traditionally disadvantages, providing environmental protection against pollution, facing negative externalities and diseconomies, for promoting cultural and social development of rural communities. Promoting rural development tends to emerge as driver for social and economic growth within territories and communities providing a template for doing business coherently with linking profit, financial gains, economic and social value for consumers and citizens. Rural development policies seem to drive new entrepreneurial ventures to bridge social and market aspects related to the market and economic business by promoting wealth, environmental and social benefits or gains for countries and people living in rural territories.

Towards Hybrid Organizations

Organizations tend to achieve greater legitimacy conforming to the expectations of the key stakeholders in their environment by enhancing credibility of their actions for survival. Legitimacy as constitutive belief can be embedded in organizations gaining legitimacy by the adoption of new models of action actively cooperating to promote new logics of social reality (DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Suchmann, 1995). Developing innovative ways of doing business that align profit and social impact is leading to social business hybrids as organizations that bridge commercial and economic activities with addressing social problems by adopting a social or environmental mission. Social business hybrids are facing the challenge of aligning the activities that generate profit, to be intended as the value captured by the organization for its owners with the activities that generate impact as the value created by organization for society in terms of environmental and social benefits. Hybrid organizations tend to innovate by reconciling competing expectations promoting coherence between value capture and value creation (Santos, Pache & Birkholz, 2015). Hybrid organizations tend to incorporate and reconcile competing elements drawn from different institutional logics (Pache & Santos, 2013) to secure endorsement from field-level actors managing heterogeneity of logics for ensuring the organizational functioning and reinforcing organizational actions (Besharov & Smith, 2014). Hybrid organizing seems to be related to activities, structures, processes and meanings by which organizations tend to combine aspects of multiple organizational forms (Battilana & Lee, 2014).

Understanding the role of social entrepreneurship

Social enterprises tend to behave as hybrid organizations combining the organizational forms of business and charity (Battilana & Lee, 2014). Social entrepreneurs playing an important role in economy and society focus on creation of social value because of the existence of residual values taking non financial forms and possibility of investments for economic growth and social progress (Auerswald, 2009). Social entrepreneurship seems to refer to an ability to leverage resources that address social problems (Dacin, Dacin & Matear, 2010) creating social value without being important the value generation occur from within or outside the organization's boundaries. The distinction between social and commercial entrepreneurship can proceed along a continuum ranging from purely social to purely economic element. The types of activity that fall under the social entrepreneurship chapter are significantly heterogeneous (Austin, Steven-

son & Wei-Skillern, 2006). Social entrepreneurs face the challenge of performing a social mission as explicit and central in their business in order to create superior value for customers (Dees, 1998). Social entrepreneurs as agents of change tend to create and sustain social value recognizing and pursuing new opportunities to serve that mission. Social entrepreneurs operating in markets that are not perfect behave as reformers making profit as means for achieving a social mission looking for a long term social return on investment following a vision about how to achieve real social improvements for beneficiaries and communities by a continuous tension for innovation, adaptation and learning gaining attractive return to their investors, being able to do more with less and using efficiently scarce resources (Dees, 1998). Social entrepreneurship is deeply rooted in the social mission of an organization embedded in a wider cultural and institutional context, its drive for sustainability influenced and shaped by the environmental dynamics. Social entrepreneurs tend to pay attention to external resources to overcome environmental barriers leveraging on relational, cultural and institutional resources. Social entrepreneurs should be able to collect, understand and leverage cultural knowledge as key resource explaining what is permitted by social and cultural standards in order to successfully develop strategic and operational plans. Social entrepreneurs tend to identify gaps in the social system as an opportunity to serve and address new needs in entrepreneurial ways showing a high social responsible orientation. Social entrepreneurs utilize strategically their social mission as source of legitimacy to access to other needed resources (Dacin, Dacin & Mateor, 2010). Social entrepreneurship occurs where significant cultural, economic and environmental problems emerge, comprising the innovative use and combination of resources in order to catalyze social change addressing social needs (Mair & Marti, 2004). Thereby, social entrepreneurial organizations have to adopt a corporate culture oriented to innovative, proactive and risk management behaviors constrained by the desire to achieve the social mission to maintain a sustainable organization (Weerwardena & Mort, 2006).

The role of rural economy as source for sustaining entrepreneurship

In the post-fordist scenario the agriculture plays a central role for diffusion of cultural values and beliefs within rural economies that imply an own system of social, economic and productive relationships embedded in the territories. The countryside tends to emerge as an asset of rural economies based on: productive differentiation, coordination and integration between industrial sectors and territory. Endogenous rural development is based on differentiation and integration of economic activities in the same territory relying on rural local system being able to improve the use of resources employed in agriculture. Rural and local systems imply the collective organization of communitarian resources. The countryside as the pillar of rural economies imply decentralization and dispersion of economic and productive systems and functions, entrepreneurial activities and ventures, a weak inhabitancy density within territories (Basile & Cecchi, 2001). The rural economy should be considered as social and economic system completely integrated within capitalistic growth. The rural differentiation seems to be a signal of structural transformation. The rural economy tends to represent the evolutionary issue of productive relations in the countryside. The rural space is fully integrated in a restructuring process comprising an increasing range of inter-sectorial and international relationships (Basile & Cecchi, 1997).

Rural resource comprises a wide range of economic, social, political and environmental meanings. Sustainable development in the rural context relies on re-conceptualising rural resources as 'countryside capital'. Investing in countryside capital may benefit the local community by improving the quality of the rural environment and communities (Garrod, Wornell & Youell, 2008). The entrepreneurs in rural environment tend to play a relevant role as partners for driving local economic development in the effort to achieve community-determined (Bryant, 1989). Rurality as an entrepreneurial milieu tends to shape all the stages of entrepreneurial process. The main characteristics of rurality concern: physical environment in terms of location, natural resources, landscape (Stathopoulou, Psaltopoulos & Skuras, 2004). Sustaining rural economy serves for developing regional landscapes and overcoming crises and decline of agriculture. The task of public institutions should be that of promoting the sustainable development of rural entrepreneurship encouraging communities to participate and benefit from entrepreneurial opportunities in rural areas (Garrod, Wornell & Youell, 2008). Rural development relies on local diversities emerging for enforcing local identity and culture for reconstructing the eroded economic base of both the rural economy and the farm enterprise (Douwe van der Ploeg & Roep, 2003). Rediscovering both social and economic values and the strategic role of agriculture helps to build the sustainable development and management of territories and rural areas in long term. Enhancing culture and identity of rural and local communities as productive resource and asset (Doria, 2002) relies on encouraging the construction of rural districts for enhancing and implementing the rural development paradigm (Arzeni, 2008). Economic and productive activities should acquire an added value within rural systems or areas emerging as sites of community and place potentially rich and adequate for building and maintaining satisfying material infrastructures (Esposti & Sotte, 2001).

Changing rural development: an evolving path

Rural development tends to emerge as an important carrier for maintenance and revitalization of rural economies and communities by creation and consolidation of new linkages between agriculture and society, offer of new responses to the income squeeze, opening up to new multifunctional enterprises and networks bridging rural and urban realities (Douwe van der Ploeg & Roep, 2003). Redistribution of value between economic sectors, expectation of people and consumer with regard to rurality tend to change over time. Rurality can be seen as a dynamic concept and analyzed coherently with an evolutionary approach in which three stages of rurality are elucidated; in the agrarian rurality the rural as synonym of agriculture is the white between the dots and refers to marginal and disadvantaged areas characterized by situations of unemployment, economic crisis and depression. Rural development depends of development of agriculture; in the stage of industrial rurality there is an increasing decline in the role of agriculture which contributes to economic and social stability by transferring work force, capital, land and entrepreneurial skills to industrial district and economies; the characteristics are the following ones: production capital intensive, productive specialization and mono-cultivation, standardization of process and outputs, methods and techniques for work efficiency; in the post-industrial rurality the preservation of the environment, security and quality of food tend to become the main priorities of policy agenda; there is an integration between economic activities, within territory between natural and social

aspects, between local and global markets. The agriculture plays an autonomous and relevant role not merely accessory to manufacturing and services activities. Rurality becomes synonym of diversity as opposite to homogeneity of urban societies and slack of bio-diversity, landscape, historical and heritage asset, tradition and values related to agriculture, and natural asset (Sotte, 2008).

Rural development emerges as a new paradigm in which the agriculture is at the interface between actual and potential rural and non rural activities for constructing viable rural livelihoods (Ellis & Biggs, 2001). Rural development as a multi-level, multi-actor and multi-facetted process for building and sustaining a new developmental model for the agricultural sector implies the global interrelations between society and agriculture realigning to meet the rapid and changing needs and expectations of European society by producing public goods such as beautiful landscapes and natural values (Douwe van der Ploegg *et al.*, 2000).

Rural development implies a redefinition of identities, strategies, interrelations and networks as to reconsider new nature values, agri-tourism, organic farming, production of high quality with region-specific products. Rural development concerns with the reconfiguration of rural resources in terms of land, nature, eco-systems, animals, plants, town-countryside relations and networks to be reshaped and recombined. Rural development requires to create new products and services associated to new markets concerning cost reduction through new technological trajectories and the production of specific knowledge bases.

A new paradigm 'multifunctional' for agricultural sector

Agriculture as relevant and fundamental activity in rural areas and interface between community and the environment tends to be considered as multifunctional activity when it has one or several functions in addition to its primary role of producing food and fibre. «Beyond its primary function of supplying food and fibre, agricultural activity can also shape the landscape, provide environmental benefits in terms of land conservation, sustainable management of renewable natural resources and the preservation of biodiversity as to contribute to the socio-economic viability of many rural areas» (OECD, 2001, p. 9).

Since the Cork declaration in 1996 that refers to multi-functionality in agriculture the farmers tend to hold a responsibility as stewards of the natural resources in countryside. Multi-functionality as activity-oriented concept refers to an economic activity and to production process characteristics having multiple outputs as to contribute to several societal objectives at once. The key elements of multi-functionality are the following ones: the existence of multiple commodity and non-commodity outputs that are jointly produced by agriculture; some of the non-commodity outputs exhibit the characteristics of externalities or public goods, with the result that markets for these goods do not exist or function poorly (OECD, 2001). Multi-functionality of agriculture is related to new farm-related activities and new markets as expression of new relations between agriculture, society, city and countryside to for maintenance of rural landscape and reinforcing of rural economy as part of the social fabric of the countryside (Knickel, Renting & van der Ploeg, 2004). In the concept of multi-functionality the social and environmental significance of agriculture is emphasized. Multi-functionality permits to integrate the goals of competitiveness and sustainability even if different interpretations of multi-functional agricultural policies tend to emerge: multi-functional as an adaptation

to traditional and unsustainable agricultural policies; transformation seems to open up a positive reading of rural development policies as a potential to spend towards a sustainable development (Mölders, 2013).

Developing a multifunctional agriculture in rural areas represents a social, ecological and economic challenge. Multifunctional agriculture implies to integrate plant and animal production with environmental care in terms of management of water, soil and air, conservation of nature and agro-historical landscape, control of climate and the effects of global warming. Conflicting conditions are required to drive transition from conventional to multifunctional agriculture requires both that farmers have to reduce environmental effects of plant and animal production to minimum and consumers or authorities have to create a market for the variety of rural products in the region itself: European and national authorities tend to support a sustainable production whilst farmers tend to increase the scale of production (Vereijken, 2002).

Multi-functional agriculture is characterized by various public aspects: environmental effects in terms of landscape and open space amenities, enhancement of biodiversity, recreation and aesthetics; pollution, food security, food safety rural economic viability, prevention of natural hazard, cultural heritage, enhanced food security as local supply and short chains, and groundwater recharge (Knickel, Renting & Douwe van der Ploeg, 2004).

The common objectives for the agricultural sector are to be sustainable, viable and innovative, to contribute to sustainable management of natural resources and quality of the environment, to contribute to the socio-economic development of rural areas (OECD, 2003). Maintaining a multi-functional activity, as not merely a characteristics of the production process, takes on a value in itself becoming a policy objective because multiple roles are assigned to agriculture as an activity fulfilling certain functions in society (OECD, 2001).

Mardsen and Sonnino (2008) recognize that three interpretations of the concept of multifunctional agriculture are explained: multifunctional agriculture as an adjustment for those producers unable coherently with an agro-industrial paradigm that emphasizes the notion of pluri-activity related to multifunctional character of agriculture; multifunctional agriculture is interpreted as spatial regulation of the consumption countryside coherently with a post-productivist paradigm that implies rural areas as consumption spaces and emphasizes the need of local environmental protection. Agriculture losing centrality in society is conceived in terms of landscape value as a consumption good. There is a farmland diversification. Multifunctional agriculture as part of an emerging rural development paradigm should add income and help sustain employment opportunities; contribute to the construction of a new agricultural sector sensible to the needs and expectations of the society; redefine radically rural resources beyond the farm enterprise.

Multi-functionality emphasizes economic, social and environmental functions assigned to agriculture as provider of rural environmental goods, cultural heritage and related to contribute to safe food, environmental conservation and landscapes amenities as to support the economic growth, and contribute to revitalize viability of rural areas, by providing environmental values and conserving agro-ecological systems (Van Huylensbroeck, Vandermeulen, Mettepenningen & Verspecht, 2007). Multi-functionality tends to emerge as unifying concept in which productive role and land management tend to contemporarily coexist in agriculture encouraging a joint relation between farming and rural landscapes. Multi-functionality as a new policy paradigm implies a different content of policy choices in terms of preserva-

tion of countryside, keeping family business viable through environmental subsidies, protection against mono-functional agriculture, new institutional arrangements and rural development plans. Policies multi-functionality oriented should facilitate new rural coalitions or networks based on new arrangements between the private and public sector to stimulate the most efficient providers of local public goods (Van Huylenbroeck, Vandermeulen, Mettepenningen & Verspecht, 2007).

European rural development policies: the challenges ahead (2014-2020)

The rural development concept has received an increasing attention over recent decades to become a relevant policy in the European Union where rural areas represent centers of renewable energy production and contain most of the water resources and contribute to biodiversity preservation. The need of an economic and social cohesion, the unavoidable adjustment of farming for the rural economy and the commitment to protect the environmental resource and conserve natural assets of European Community seem to drive the approach to rural development and lead to the first formal statement of rural policy (Com, 1988). In the Cork Declaration (1996) it is stated that the need of preservation and improvement of quality of rural environment should be integrated into all policies that relate to rural development sustaining the quality and amenity of Europe's rural landscapes in terms of natural resources, biodiversity and cultural identity coherently with a multi-disciplinary and multi-sectoral approach. In the Agenda 2000 the integration of environmental goals and the development of the role farmers should play in terms of management of natural resources and landscape conservation are increasing and important objectives of policies for European agriculture.

The areas predominantly rural represent 52% of European Union territory with a population of 112.1 million people or 22,3% of the EU-27 population. Today, rural development policy as one of the two pillars of the Common Agricultural Policy (CAP) should contribute to their sustainable development of the EU's farm sector and rural areas retaining the long-term strategic objectives in terms of competitiveness of agriculture, ensuring the sustainable management of natural resources and climate action and the balanced territorial development of rural areas. Rural areas, traditionally seen as areas of production and places of work tend to actively support the economic and social development through the integration between economic sectors and environmental resources. The objectives of rural development concern: to increase employment, to promote agricultural modernization, to maintain rural populations, to reduce rural poverty, to improve infrastructure for building social capital, seeding local enterprises as to support organic agriculture, reducing environmental pressures on the countryside, improving the sustainability of rural communities, maintain the multifunctional role of agriculture, promoting economic restructuring and sustainable development of farming (Baldock, Dwyer, Lowe, Petersen & Ward, 2001).

Rural development policies tend to appear as relevant and autonomous initiatives because of being born as consequence and appendix of more wide and common agriculture policies that have ensured minimal financial resource for rural development but have impeded to fully offer opportunities for understanding strength and weakness of developing rural economies and growth of territories as productive areas for income and wealth of living communities. Rural development policies based on territories should comprise a unitary and coherent framework including every policy focused on development of the same territory that are vertically

organized by different institutions as European, regional and local governments concerning specific policies (industry, health, tourism, transport, agriculture) (Sotte, 2009).

The European policies for support to rural development (2007-2013) were focused to achieve at least three objectives (Regulation (EU) No 1698/2005): improving the competitiveness of the agricultural and forestry sector by supporting restructuring, development and innovation; improving the environment and the countryside by support for land management; improving the quality of life in rural areas by encouraging diversification of the rural economy.

The European model of agriculture tends to reflect the multi-functional role that farming should play in the richness and diversity of landscapes, food products, cultural and natural heritage. The future of rural development policy seems to focus on three key areas: the agri-food economy, the environment and the broader rural economy and population (Council Decision, 2006).

For future CAP three main objectives tend to emerge: a viable food production; a sustainable management of natural resources and climate action; balanced territorial development (Com, 2010). Three long-term overarching strategic objectives for EU rural development policy in the 2014-2020 period are identified (Article 4 of Regulation (EU) No 1305/2013): fostering the competitiveness of agriculture; ensuring the sustainable management of natural resources, and climate action; achieving a balanced territorial development of rural economies and communities including the creation and maintenance of employment. These objectives are translated into six European Union priorities for rural development: 1) fostering knowledge transfer and innovation in agriculture, forestry and rural areas: by fostering innovation, cooperation and the development of the knowledge base in rural areas; by strengthening the links between agriculture, food production and forestry and research and innovation for improved environmental management; by fostering lifelong learning and vocational training in the agricultural and forestry sectors; 2) enhancing the viability/competitiveness of all types of agriculture, and promoting innovative farm technologies and sustainable forest management: by improving the economic performance of all farms and facilitating farm restructuring and modernization increasing market participation and orientation as agricultural diversification; by facilitating the entry of skilled farmers and generational renewal; 3) promoting food chain organization, animal welfare and risk management in agriculture by improving competitiveness of primary producers by better integrating them into the agri-food chain by supporting farm risk prevention and management; 4) restoring, preserving and enhancing ecosystems related to agriculture and forestry by enhancing biodiversity and improving water management, preventing soil erosion and improving soil management; 5) promoting resource efficiency and supporting the shift toward a low-carbon and climate-resilient economy in the agriculture, food and forestry sectors; 6) promoting social inclusion, poverty reduction and economic development in rural areas by facilitating diversification and creation of small enterprises and job creation, fostering local development in rural areas, enhancing the accessibility and use of information and communication technologies in rural areas. Member States will have to build their Rural Development Plans based upon at least four of the six common EU priorities.

Discussion and conclusions

Bridging social and rural dimension of business helps the successful design and implementation of new entrepreneurial ventures. European rural development policies seem to drive farmers and entrepreneurs in agriculture to reconsider their own social and economic role and contribution for society and communities in order to bridge social and economic perspective in doing business and affairs in rural economy and context. Rural development policies help sustain and enhance rural entrepreneurship coherently with a mono-functional and conventional development of agricultural sector. With the advent of a multi-functionality in agriculture traditional public policies that support agricultural sector seem to be no more adequate to offer new opportunities for entrepreneurial venture proceeding in transition toward a political and regulatory context more favorable to reconsider the rural areas as asset and source of social and economic gains beyond the traditional activities. Rural development and multi-functionality in agriculture as new emerging paradigms tend to reconcile and combine profit orientation, doing business, territorial identity, creation of social value and benefits for communities driving strategic, productive and organizational choices of entrepreneurs living in rural areas. European rural development policies seem to lead to new entrepreneurial ventures and hybrid organizations able to manage multiple and different logics combining commercial, profit and social dimension coherently with an evolving path following different trajectories of development concerning alternative policy paradigms for agriculture, rural areas and countryside in relation to different strategic and productive orientations about the role of agriculture. The study is descriptive. The scope is only explorative. Future research perspectives should imply to better understand how rural development policies are influencing behaviors and strategic choices of entrepreneurs within Italian Regions designing rural development plans in relation to European and National rural development policy for 2014-2020.

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Exploring the role of entrepreneurship in the growth and development of the smaller state

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Abstract: The median sovereign state size in the world has a population of 6.2 m with 73 per cent of the states having a population under 20m (World Bank, 2014). Despite this, the mainstream literatures in most academic disciplines have chosen to neglect the *unique* determinants of smaller state growth and development. The purpose of this exploratory paper is to investigate whether smaller developed states actually perform better than other states and why? More specifically it investigates the role that entrepreneurship plays in this performance.

This paper utilises an exploratory ‘cross-case’ analytic approach (Yin, 2014) in attempting to identify cross case patterns in comparative global indices. This approach can help identify the key influences and determinants on smaller state performance with particular emphasis on the role of entrepreneurship.

The analysis shows that innovation-driven smaller states can be differentiated by their high investment in knowledge generation and diffusion, lower knowledge filters and higher levels of entrepreneurial capital (Acs *et al.*, 2004). These states – which are predominantly Scandinavian and European – score highly on economic, non-economic and composite indices. These growth-oriented states help create and accumulate entrepreneurial capital by providing their citizens with a conducive institutional and governance environment which supports entrepreneurial learning opportunities. There are significant policy learning opportunities for smaller developing states and regions with policy autonomy.

Keywords: smaller states, global indices, entrepreneurship, cross-case analysis, economic growth, wellbeing

Introduction

Half of all sovereign states in the world have a population below 6.2m (World Bank, 2014). The mainstream literature in most academic disciplines has chosen, by accident or design, to neglect the unique determinants of smaller state growth and development (Armstrong & Read, 2003; Read, 2014). These are extraordinary omissions when the collective evidence on the performance of smaller states on a wide range of economic, political, cultural and social indices are considered. Apart from the disproportionate representation that small states enjoy in the

World Banks Upper-Middle and High Income categories, many smaller states also feature in the higher reaches of the World Banks Human Development Indicators (HDI) (Read, 2014). Indeed, smaller developed states, particularly northern European ones dominate the top rankings in the more specific development indices such as those in Knowledge economy, peace, contribution to the planet, wellbeing and globalisation. The evidence is suggesting that there is something unique about the growth and development model of the smaller state. Kearney (2008) ponders:

So, why do small countries rank so high? Because, when you're a flyweight, globalizing is a matter of necessity. Countries such as Singapore and the Netherlands lack natural resources. Countries like Denmark and Ireland can't rely on their limited domestic markets the way the United States can. To be globally competitive, these countries have *no choice* [author emphasis added] but to open up and attract trade and foreign investment – even if they're famously aloof Switzerland.

What then are the criteria for inclusion 'as a flyweight'? Not surprisingly categorisations of state sizes are problematic and there have been many attempts over the years to define what is meant by 'small' or 'smaller' state (Crowards, 2002). For the purposes of this paper the categorisation adopted by the UNDP is utilised. There are 206 sovereign states – 193 full UN members, 2 observers and 11 others categorised by the UN (UNDP 2015). Table 1 outlines the prevalence of small(er) states in the world. Whilst not reflecting the global population spread, it is important to note that 73 per cent of the UN recognised states in the world have populations under 20m in 2013 with 46 per cent having populations between 1m and 20m. It is difficult to understand the lack of focus on the importance of smaller states in academia until it is understood that the discourse around states and statehood tends to be dominated by academics, policy makers and commentators from larger states.

Table 1: The Importance of Being Unimportant*

Category (Population)	States	% of states	Cumulative %
10,000 – 1m	Tuvalu – Fiji	27	27
1m – 20m	Cyprus – Romania	46	73
20m – 1.3bn	Cote d'Ivoire – China	27	100

Notes to Table: *The median sovereign state is Libya (6.2m). The mean population size is circa 35m (Canada, 2013). Clearly the states in each category will change as the global population grows from 7.1 billion + (2013) to 10.1bn by 2100 (UN) (Dicken, 2015). However the distribution is likely to skew further in favour of small(er) (1m – 20m) states as homogenous regions in larger states may seek self-determination. (Source: Adapted from UNDP). * Armstrong & Read (2002).*

Within each category in Table 1 there are states in various stages of development. GEDI (2016) and GEM (2015) provide a useful categorisation in terms of those states that are factor driven, efficiency driven or innovation driven. Innovation driven sovereign states can be differentiated from other categories in terms of their high investment in knowledge, low knowledge filter and high levels of entrepreneurial capital (Acs *et al.*, 2004). Thus in states where high levels of entrepreneurial capital have been created, entrepreneurial learning and behaviours diffuse across other value creating areas in society such as the social, community, family, education and government sectors (Audretsch, 2009). Baumol (1996) reminding us that 'the entrepreneur is always with us' and that entrepreneurial thinking and behaviour may be largely influenced by the opportunity and incentive structures provided in the state. Entrepreneur-

ship within the state can therefore be productive, unproductive or destructive. Supportive entrepreneurial and innovation ecosystems (Edquist & Hommen, 2008; Lundvall, 2010) encourages citizens to be more enterprising by providing them with the opportunities to develop the knowledge, skills and abilities (KSAs) (Mincer, 1958; Becker, 1964) relevant to value discovery, creation, capture and evaluation. Individuals living in such a supportive entrepreneurial environment can therefore *learn* to be more enterprising (Kuratko, 2005; Drucker & Drucker, 2007). In this context, Garavan *et al.* (2010, p. 243) note that:

Growth is partially explained by the creation of new ventures, the question of whether it is possible to teach entrepreneurship has become redundant. The more pertinent question focuses on what should be taught and how entrepreneurship programmes should be structured and delivered to ensure a sufficient supply of entrepreneurs and the development of entrepreneurial thinking (Garavan *et al.*, 2010, p. 243).

This paper is structured as follows. Firstly, a literature review is undertaken on small(er) states. This highlights the theoretical underpinning of the small state case. This review is followed by the cross-case analysis of relevant global indices (treated as ‘cases’) and a discussion of the tentative findings. The paper ends with a conclusions section.

Literature review

One of the key distinguishing factors between small and larger states is population size. This is frequently used as a proxy for both domestic market size and the local labour market. In the 1970’s the UN institutions adopted a benchmark of one million; the Commonwealth Secretariat (ComSec) (1998) uses 1.5 million, Easterly and Kraay (2000) use one million and Armstrong and Read (2000) use three million in their respective analyses to classify small states. There remains much debate in the area over the most appropriate measure(s) (Crowards, 2002). Other measures such as GDP or GNP, geographic area, terms of trade and composite size and characteristics measures have been used (Armstrong & Read, 2003; Baldacchino & Bertram, 2009) but population appears to offer a better approximation of what constitutes a small(er) state. Although ‘smaller’ developed states like Ireland (population 4.6 million), New Zealand (population 4.1 million), Finland (population 5.3 million) or even Denmark (population 5.4 million) for example fall above the maximum threshold of population size discussed above they face similar economic development issues to small states of approximate size. Baldacchino and Bertram (2009) sum up the uncertainty in the literature over small state size categories when they note that smallness is essentially an arbitrary term – the median sovereign state in the world for example has a population of 6.2 million (Libya, 2013). ComSec (2006) and Qureshi & Te Velde (2008) recently adopted an upper threshold of 5 million. For comparative analysis purposes, this paper adopts a categorisation – set out and explained in Table 1 – by dividing all the UN recognised states in the world into three categories – Small < 1m population, Smaller < 20m and Large < 1.3bn. The issue, irrespective of population size, is whether ‘small’ or ‘smaller’ states suffer from a growth and development viewpoint from their ‘smallness’?

In terms of their explanatory power the Endogenous growth models (Romer, 1986; Lucas, 1988; Barro & Martin, 1995; Jones, 2002; Mankiw, 2003, Armstrong & Read, 2003) and the Export-Led hypothesis (Obstfeld & Rogoff, 1986; Sharma & Panagiotidis, 2004) seem to offer

appropriate explanations for the small(er) state case. Orthodox economic growth theory (Lewis, 1955; Solow, 1956) implies that due to scale issues (i.e. smaller domestic market, limited domestic demand, smaller firm size, higher unit cost, limited firm numbers etc.) that this would favour a tendency towards natural monopolistic and oligopolistic market structures and therefore ‘sub-optimal’ (Armstrong & Read, 1998). Further, this suggests that small states are at a perpetual disadvantage in growth and development terms when compared to larger states. Empirical evidence however seems not to bear this out and smaller states have outperformed their larger counterparts in economic growth terms in many regions of the world. This indicates that despite their smaller size and considerable constraints, smaller open states in particular, are poised for growth if they are open to trade and investment, invest heavily in human capital and/or are well-endowed with natural resources (Easterly & Kraay, 2000; Baldacchino & Bertram, 2009).

The unique characteristics of smaller states

Compared to larger states then, there are a number of dimensions on which small states display unique characteristics, these are:

A small domestic market – this implies an inability to achieve critical mass in terms of supply and demand making the cost of production higher in smaller states than larger states. This is particularly so in industries and sectors where scale economies are important. Indeed, the small domestic market further threatens the development of indigenous technologies and also the emergence of fast growth hi-tech industrial sectors (Kuznets, 1960; Briguglio, 1995). Technological innovation is by its nature limited because local firms can’t invest in large scale R&D. Smaller states therefore tend to rely on technologies produced abroad (Milner & Westway, 1993). Thus success in attracting inward investment can be particularly important in helping ‘seed’ host country R&D stock. Local indigenous industry can then benefit from these R&D spillovers – given certain conditions (O’Gorman & Kautonen, 2004; Read, 2004).

Lack of natural resources – Another disadvantage frequently attaching to smaller states is the lack of natural resources (Armstrong & Read, 2002). This leads to the states dependence on imports of key natural resources for domestic consumption and as key inputs for their internationally trading sectors. Conversely an overabundance of natural resources can create its own problems for other sectors of the economy. This can lead to ‘Dutch disease’ (Resource Curse Thesis) – the so called ‘Paradox of Plenty’ (Auty, 1993). This is illustrated in Corden and Neary’s (1982) seminal article on the subject. The term ‘Dutch Disease’ is a double misnomer as the term refers to what essentially is a positive exogenously derived event for the host state (Ebrahim-Zadeh, 2003). But Matsen and Torvik (2004) remind us that ‘some Dutch disease is always optimal’ in the sense that a positive fraction of the resource wealth should be consumed in each period. Therefore, to foster economic growth it is important for smaller states invest the rents earned from their natural resource endowments or FDI into knowledge-driven internationally tradable sectors or low growth may persist (Armstrong & Read, 2002; Jansen, 2004).

Sectoral specialisation – Given the relatively small scale of the state in global terms, sectoral concentration can be expected in indigenous industry in smaller states. Indeed, there is strong empirical evidence to support the presence of niche specialisation in indigenous firms in small states (UNCTAD, 1977; Armstrong & Read, 2002; 2003). The sectoral specialisa-

tions found generally in smaller states are predominantly tourism, financial services and natural resource exports.

Openness to trade – Another distinguishing characteristic of small states is their high degree of openness to trade. Given the differences between consumption and production (sector specialisations) mentioned above, domestic demand can only be met by high levels of imports. These imports need to be paid for and so the small state needs to export to help fund the imports thus providing an intuitive rationale for the export-led growth thesis (Kuznets, 1960; Armstrong & Read, 1998; Read, 2003).

There are other endogenous factors which will affect the small states' ability to grow economically. These relate to the internal policies pursued, the strength of the institutions of the state and the competitiveness of firms in the economy.

The vulnerabilities of smaller states

Easterly and Kraay (2000) maintain that smaller states have received excessive attention in the literature as special cases calling for special policy measures. They point out that smaller states have higher per capita income than others in their respective regions and do not differ in growth performance from larger states. However, they do point out that smaller states are more vulnerable to growth volatility due to terms of trade shocks and other environmental threats. While this is related to their trade openness – on balance – the benefits of trade openness to growth are positive. Nevertheless, inherent vulnerability is reflected in the higher costs attaching to the growth path of smaller states which consequently leads to greater risk exposure (UNCTAD, 1988).

There are thus significant structural differences between smaller and large states – with both on different paths to achieving growth and the creation of wealth and wellbeing (Katzenstein, 1985, BCG, 2015). In so far as both groups are capable of growth, the issue then becomes one of managing and maximising the benefits from the drivers of growth whilst minimising and reducing/eliminating the constraints on growth at both a macro and micro level (Baldacchino, 2007). Indeed, Armstrong *et al.* (2003) maintain that the sources of vulnerability for smaller states can be categorised into those relating to economic, political, strategic and environmental issues.

As small states can be regarded then as *structurally different* from other larger states, these differences have clear implications for the states' ability to grow. The export-led growth thesis and endogenous growth theories highlight two further significant structural issues which affect economic development.

Firstly, the export-led thesis highlights the impact which the degree of openness to trade – the so-called trade multiplier effect (Ashoff, 1989) has on smaller states. Whilst this openness can increase the smaller states economic growth prospects, it also raises the smaller states vulnerability levels to exogenous shocks. Briguglio's (1995) vulnerability index is useful in this regard in highlighting the issues faced by smaller states. However, its cross sectional nature has been criticised by some researchers (Armstrong & Read, 2002). UNCTAD (1997) and the Commonwealth Secretariat (1998) have also developed indices of vulnerability for smaller economies. Baldacchino and Bertram (2009) argue that vulnerability and its antidote in the literature – 'resilience' represent essentially a 'structurally deterministic' view of the issues facing smaller states. These authors advocate a 'strategic flexibility' model as a coun-

terpoint to the determinism of the vulnerability/resilience approach (see also Breznitz & Zimmerman, 2008).

Human capital development

Secondly, the endogenous growth models of human capital show the comparative advantage that investment in education, training and learning by doing (LBD) can bestow on a smaller state (Armstrong & Read, 2003). The development of the concept of human capital theory is attributed to Becker (1964) and Mincer (1974). This can be defined as the knowledge, skills and abilities (KSAs) embodied in people (Coff, 2002). It includes not just factual, 'how to' KSAs but also tacit KSA's which are difficult to articulate (Polanyi, 1966 *cited in* Crook *et al.*, 2011). The appeal that human capital development can have for a smaller state becomes evident when it is unable to generate significant investment in physical capital due to market size constraints. The appeal increases when it is further realised that human capital – in terms of knowledge creation and diffusion – is not only *not* size constrained but is also *not* subject to diminishing returns. Human capital investment, in these circumstances, will increase the collective 'absorptive capacity' (Cohen & Levinthal, 1990) in the economy, thus compensating for the smaller state's lack of investment or scale in R&D (Briguglio, 1995; Armstrong & Read, 2003).

Indeed, human capital development is of such importance to small state growth that the states relative size, far from being an impediment to growth, sometimes can act as a further stimulant of human capital development. As greater social cohesion is expected to exist in smaller states (compared to larger states), this social cohesion can lead over time to the development of considerable social capital (Putnam *et al.*, 1993; Baldacchino, 2005). However, this increased cohesion can also have some negative side effects leading on occasion to increased levels of cronyism, corruption, insider dealing and inefficiency. This is likely if the appropriate democratic, legal and regulatory frameworks (governance structures) are not sufficiently independent and robust (Transparency International, 2009; Kaufmann *et al.*, 2010).

Income volatility and terms of trade volatility

Related to the degree of openness of the small economy is the volatility that attaches to the state's income. This can be particularly acute in developing countries (Ramey & Ramey, 1995). The equation for growth for the small economy then must ensure that the *positive effects* of openness to trade and the high levels of human capital investment *overcompensate* for the negative effects of income and terms of trade volatility in the medium to long term. The effects of the trade multiplier can be seen most starkly in smaller states with high degrees of trade openness (Ashoff, 1989).

Another issue that impacts income in the smaller, open economy is its ability to affect its terms of trade (Easterly & Kaay, 2000; WTO, 2003, Jansen, 2004). This is particularly true for states which depend heavily or exclusively on indigenous industry to develop international trade. Those small states hosting significant foreign direct investment (FDI) face different issues around the structure of their exports and thus their terms of trade. Positive local linkages and spillover effects however would be expected to emanate from this mobile for-

eign direct investment into the host small states economy (Read, 2004). However, the local impact of these spillover effects depends on the MNCs strategic rationale for their investment in the small state (resource seeking, efficiency – seeking, market seeking or strategic–asset seeking). The technological development of indigenous industry and its absorptive capacity levels are also an important factor in the leveraging of positive linkage and spillover effects (Forfas, 2005). The effects of FDI however are expected to be positive – employment and technology wise – but limited in other respects given the narrowness and shallowness of domestic economic activity (Read, 2004).

As niche players and primarily price takers in the global economy then – severe fluctuations in trade levels can adversely affect income stability and economic growth in the smaller state. In global terms the smaller, open state typically has a limited number of markets, which can lead to export concentration, increased instability and economic growth retardation in turn (MacBean, 1966; MacBean & Nguyen, 1987). If an exogenous economic shock is severe enough to a smaller, open economy then this can ultimately lead to balance of payments problems further impeding its growth and development (Jansen, 2004).

Location, location, location

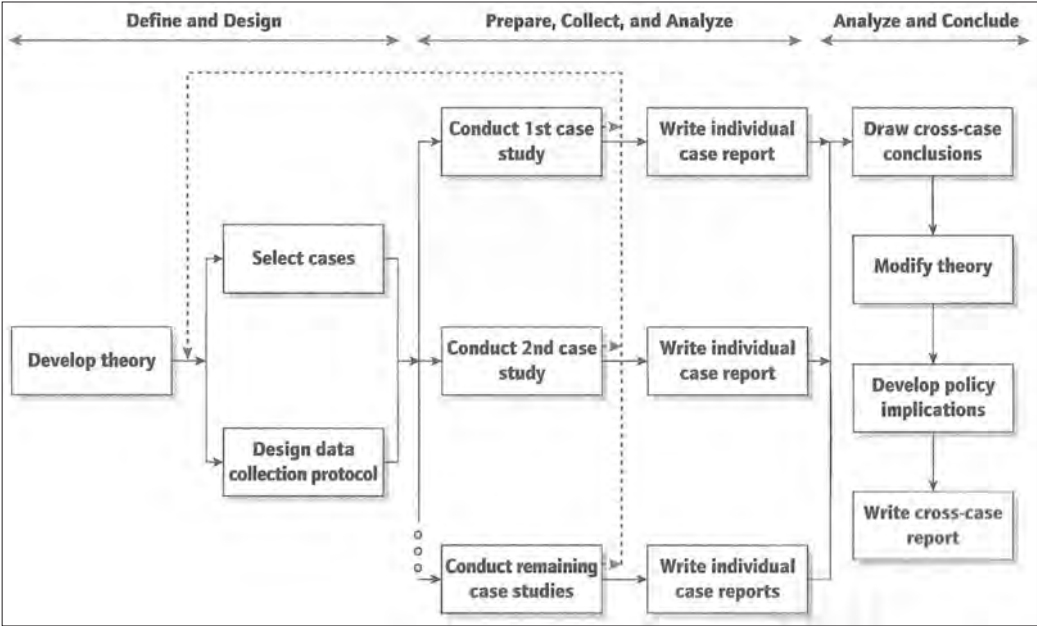
In addition to trade shocks (and FDI export levels) outside of its control, the smaller state may have to contend with the effects of natural disasters. This, of course, depends on a particular state's geographic location. In relation to locational effects, Read (2003) contends that whilst the growth of any country is likely to be influenced by the prosperity and dynamism of the broader region to which it belongs, little attention so far has been paid in the literature to the impact of location on the growth of smaller states. Indeed, membership of a 'regional convergence club' can contribute significantly to the economic growth of a small state particularly if the smaller state is located within a wealthy and dynamic region and in close proximity to larger markets (Armstrong & Read, 2003). Even for smaller states outside regional convergence clubs, geography (and history) are not necessarily destiny and the endogenous policies pursued can have a major impact on the smaller states growth trajectory (Acemoglu & Robinson, 2012). However smaller states with populations below a threshold of one million tend to exhibit extreme specialisation termed 'economic speciation'. This involves a decision – conscious or otherwise – to embrace 'crowding-out' or 'Dutch disease' as a growth strategy (Bertram & Poirine, 2007).

Methodology

Many supranational organisations – both governmentally funded (World Bank, International Monetary Fund, Central Intelligence Agency, United Nations, OECD, EU etc.) and non-government (Institute for Economics and Peace, Good Country Index, Reputation Institute, Boston Consulting Group, Economist Intelligence Unit, INSEAD etc.) produce indices to evaluate areas of interest to their specific organisations and agendas. These indices then feed into the policy process at sovereign state or regional level as benchmarks or targets or both. Many of the indices cited in this study draw on the same datasets produced by the reputable supranational organisations highlighted here. However individual indices need to be treated with

caution as they are in many cases crude summations of disparate measures. In some cases, the measurement of variables is contentious and the interactions between the measured variables are in most cases not considered either. This study addresses some of these concerns raised by considering each index as a ‘unique case’ thereby allowing for a ‘cross – case’ analysis to be conducted (Yin, 2014) on the outcomes of the indices. This approach allows then for the identification of patterns in the collective indices which can then be further researched.

Figure 1: Cross case analysis approach for indices



(Source: Yin, 2014)

Findings

The findings of this study are summarised in tabular form below, the indices (cases) analysed being profiled in Table 2 with the smaller state rankings on the particular index highlighted in column three.

Table 2: Cross Case analysis of Smaller State performance on key Macro Growth & Development indices

Index name/ Source	Categories	Comparative Small State Rankings
Income indicators – IMF, World Bank, CIA and UN	High, Upper-middle, Lower-middle, Low. Measure: Gross National Income	Top 10 IMF (8 Smaller States) WB (7 Smaller States) CIA (8 Smaller States) UN (9 Smaller States)
Human Development Indicators – World Bank	Weighted index of economic and non-economic development indicators – Four indicators – Life expectancy, education, expected education and GNI per capita (Across Health, Education and Living Standards dimensions) Two further indices developed from HDI – one without GNI per capita values (Non-income index – 186 countries) – second is inequality – adjusted index (IHDI – 132 countries).	Top 10 HDI (In very high group 24 – 16 are Small & Smaller States) Top 10 – IHDI (7 of top 10 are smaller states) Non-income HDI rankings (6 out of top 10 are smaller states)
Knowledge Economy Index – World Bank	World Bank – Four pillars – Education, Innovation, Governance and ICT infrastructure Surprisingly no Quality of life measure (Florida, 2004). See: OECD Better Life Index for composite QoL measure (7 of top 10 are smaller states).	Top 10 (6 are smaller states)
Global Peace Index IEP	162 Countries > 1m pop. Institute for Economics and Peace (Killelea, 2015)	Top 10 (8 smaller states)
Good Country Index (Anholt, 2016)	125 countries Simon Anholt 35 datapoints from UN data (generally), international agencies and NGO's – 7 categories Categories – Science & Tech/knowledge, Culture, International peace and security, World order, Planet & climate, Prosperity & climate, Health & wellbeing	Top 10 (9 Smaller States)
World Happiness (Wellbeing) Index – UN	UN 150 countries Gallup conduct survey – 2010-12 Complements HDI Six key factors explain variations in annual national average scores over time and among countries Real GDP per capita, healthy life expectancy, having someone to count on, perceived freedom to make life choices, freedom from corruption and generosity	Top 10 (8 are smaller states)
World Governance Indicators – World Bank	World Bank – 212 states in index Voice & Accountability, Political stability & Absence of violence, Government effectiveness, Regulatory quality, Rule of law, Control of corruption (Kaufmann <i>et al.</i> 2010) Correlation with non-income HDI indicators Good governance and institutional quality act as countervailing factors to smaller size	Top quartile (86%+ smaller states) (Read, 2014)
Global Entrepreneurship Monitor (GEM)	62 countries participated in the 2015 survey. Countries are not categorised by stage of development and so rankings are not relevant here.	NA
Global Entrepreneurship Development Index (GEDI)	130 countries included in its survey for the global entrepreneurship index. Countries are divided into factor – driven, efficiency – driven and innovation –driven based on their stage of development	Top 10 4 out of top 10 13 out of top 20

Global Innovation Index – INSEAD, Cornell & WIPO	The Global Innovation Index 2015 (GII), in its 8 th edition this year (2015), is co-published by Cornell University, INSEAD, and the World Intellectual Property Organization (WIPO, an agency of the United Nations). The core of the GI Report consists of a ranking of world economies' innovation capabilities and results. Over the last eight years, the GI has established itself as a leading reference on innovation. 140 countries are in the index.	Top 10 8 out of top 10
Global Reputation Index – Reputation Institute	The Reputation Institute's Country Reptrak report "measures the reputation of 55 (largest by GDP) countries based on levels of trust, esteem, admiration and respect based on an online panel of more than 27,000 people representing the G8 countries." The report looks at 16 attributes for each nation. Evaluations include the country's safety, whether the residents are welcoming, whether the government is effectively progressive socially and economically, and even the beauty of the countryside.	Top 10 8 out of top 10
BCG- Sustainable Economic Development Assessment (SEDA) index	BCG's Sustainable Economic Development Assessment (2015) evaluates how effectively countries convert wealth into well-being relative to other countries – and raises important questions in the field of development. SEDA's measure of well-being is based on three elements that comprise ten dimensions with 43 indicators gleaned from publicly available sources (WB, UN, OECD etc). The data set covers 148 countries plus Hong Kong, which is an administrative region of China.	Top 10 7 out of 10 on current score

In summary, best performing smaller states perform better on a host of indices compared to larger states or very small states. Citizens appear to have higher levels of well-being but prosperity is more vulnerable to the globalisation process. Strategic flexibility is reflected in the inclusive and responsive political and economic institutions and nearness of the governed to government. Effective (optimal) policy design and implementation is crucial as the margins for error are finer in smaller states. Equality of opportunity, property rights and rule of law are also necessary for success. Supportive entrepreneurial and innovation ecosystems (Edquist & Hommen, 2008; Lundvall, 2010) encourages and incentivises citizens to be more enterprising by providing them with the opportunities to develop their knowledge, skills and abilities (KSAs) (Mincer, 1958; Becker, 1964) relevant to value discovery, creation, capture and evaluation – particularly in the international context. Individuals living in such a supportive entrepreneurial environment can *learn* to be more enterprising (Kuratko, 2005; Drucker & Drucker, 2007) and are therefore more likely to engage in productive entrepreneurship (Bau-mol, 1996). Indeed, the rootedness of enterprise in these best performing smaller states is demonstrated by their performance on the knowledge economy index (6 out of top 10), Innovation index (8 out of top 10) and on the GEDI index (13 out of top 20).

Discussion

The cross-case findings above clearly indicate that smaller states are the top performing category on most indices above. In particular, it is Scandinavian and smaller European countries which consistently appear in the top ten placings across most indices. These states seem to have managed 'over time' to respond successfully to changes in their external environments (strategic flexibility) whilst fostering a domestic environment which supports inclusiveness,

provides institutional quality and proximate governance, encourages entrepreneurship and innovation and thus ultimately improve the well-being of its citizens. The SEDA index in particular (BCG, 2015) demonstrates how a state translates wealth generated into well-being relative to other nations. Seven out of the top ten ranked states are in the smaller state category. Whilst much work remains to be done in validating the robustness of the respective indices, this exploratory paper has identified a consistent patterns of high achievement by smaller states across the majority of the indices – suggesting that the smaller states category is worthy of further study. Close analysis of the influences and determinants of development in these states can provide valuable insights to developing regions and states of all sizes. There are therefore significant future research opportunities in this area. Comparative analysis techniques such as QCA (Ragin, 1987) or decision trees (Breiman *et al.*, 1984) may prove particularly useful for identifying deeper cross –case patterns in the comparative index data.

Conclusions

Smaller states are unique in the issues that they face. They are *structurally* different from larger states. These differences have implications for the smaller state's ability to grow economically and to provide for the well-being of its citizens. The equation for growth then for the small state must ensure that the positive effects of openness to trade and high levels of human capital investment overcompensate for the negative effects of income and terms-of-trade volatility in the medium to long term.

In addition to the structural characteristics it is important to note that the internal policies pursued, institutional strength and the competitiveness of the firms in the economy also have a bearing on sustainable growth and well-being. Thus it is the combination of exogenous and endogenous factors which determine the small state's ability to grow economically.

The knowledge, skills and aptitudes developed in the citizens through entrepreneurial is a fundamental building block of economic growth in smaller states.

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Strategic management for SMEs in a changing environment

Knowledge management challenges: The case of SMEs in a competitive business environment

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Abstract: Knowledge is one of the enterprise's most important assets that influence its performance and competitiveness. In a competitive business environment, small and medium-sized enterprises (SMEs) should focus their attention on using knowledge management (KM) to obtain competitive advantage. Different innovative KM strategies and practices should be implemented to respond to the increasing customer expectation and market changes. Concentrating on KM and knowledge-based view (KBV), the systematic organizational management of knowledge can be created, utilized, transferred and shared to develop competitiveness, innovativeness and productivity.

The paper uses a methodology that follows some steps. Firstly, it is based on a quantitative research to identify the attitude and the perception of SMEs' managers from Romania according to KM. Secondly, it used the Analytical Hierarchical Process (AHP), a method used in strategic decision-making processes. Thirdly, it used Monte Carlo simulations based on Wiener generalized process. The results offer valuable information.

The aim of the paper is to offer SMEs managers a useful study that helps them to implement, develop and sustain KM by emphasizing the barriers and the success factors which should be taken into consideration in the strategic decision-making process.

Keywords: knowledge management (KM), small and medium-sized enterprises (SMEs), analytical hierarchical process (AHP), Monte Carlo simulation.

Introduction

Nowadays people discuss more and more about a globalized economy, in which organizations integrate innovative technologies and develop sustainable businesses based on different mechanisms to survive in highly competitive markets. Disruptive technological progress and the integration of new dynamic capabilities offer businesses new benchmarks of performance and an agile response to consumer demands. Knowledge “has been treated systematically much like other tangible resources and many organizations are exploring the field of

knowledge management (KM) in order to improve and sustain their competitiveness” (Wong, 2005, p. 261). Competition requires small and medium-sized enterprises (SMEs) to examine external and internal knowledge. The importance of knowledge is recognized in the world since centuries because it fuels innovation. The new “knowledge-based economy is built on information technology and the sharing of knowledge and intellectual capital” (Alawneh, Abuali & Almarabeh, 2009, p. 101). In such a knowledge-based economy, “competitive advantage will be with those enterprises that have the capacity to deliver fast and have innovative forms of processes that raise productivity” (Alawneh et. al., 2009, p. 102). An organization’s performance and its survival is “indicated by the speed at which the organization develops knowledge-based competencies” (Daud & Yusoff, 2010, p. 135). Knowledge and intellectual capital are considered the SME’s knowledge-based competencies; “the major competitive advantage of a SMEs lies in its knowledge” (Daud & Yusoff, 2010, p. 135). The aim of the paper is to offer SMEs managers a useful theory-based framework and a research that helps them to implement, develop and sustain KM by emphasizing the barriers and the success factors which should be taken into consideration in the strategic decision-making process. Using the results of the study, managers can obtain business performance.

Background – Towards knowledge and knowledge management in Small and Medium-Sized Enterprises (SMEs)

Today’s organizations have to deal with uncertain business environments. In order to be successful, they “should actively look for opportunities to exploit their strategic abilities, adapt and seek improvements in every area of the business, building on awareness and understanding of current strategies and organizations must be able to act quickly in response to opportunities and barriers” (Papulova & Papulova, 2006, p. 2). SMEs are an important “part of modern economies, providing employment, generating innovation, creating wealth, reducing poverty, enhancing the standard of living and contributing to the areas in which they operate” (Saini, 2013, p. 578). They are considered as a “backbone” of economic growth in most countries over the world even if they face different challenges such as: globalization, international competition, the knowledge-based view, technology, market liberalization, customers, suppliers, competitors etc. SMEs are characterized by “simple and less complex structure managed in most cases by its owner, flexible and adaptable business processes, modest human resources and expertise and smaller customer base” (Gourova, 2010, p. 640). According to Gourova (2010), SME’s management features suggest few decision makers because mostly started and dominated SMEs are by entrepreneurs with modest management skills and competences. “The structure has few layers of hierarchy that present limited and unclear division of activities. SME’s organizational culture is unified and it has few interest groups because the operations and the behaviour of employees are influenced by managers’ ethos and outlook. The planning and control system is simple in SMEs. The evaluation system is informal. Managers focus more on operational processes than on strategic processes and the activities are less governed by formal rules and procedures” (Gourova, 2010, p. 639). Also, SMEs have low degree of standardization and formalization, less expert professionals because the know-how is modest, low degree of resistance to change and informal working relationship. They have a small customer base and activate in general on local and regional market (Gourova, 2010, p. 640). SMEs present difficulties in “motivation, internal networking, tacit

knowledge in unique skills, shorter informal communication, less bureaucracy and greater proximity to market” (Saini, 2013, p. 578).

It is very important to clarify three concepts (data, information and knowledge) to understand what knowledge management (KM) represents. According to Davenport and Prusak (1998), data represents “a set of discrete, objective facts about events, the raw materials used in organizations

for the purpose of creating information” (Doan, Rosenthal-Sabroux, & Grundstein, 2011, p. 307). Information becomes knowledge once “it is processed in the mind of individuals” (Alavi and Leidner, 2001, p. 109). Knowledge represents a “fluid mix of framed experiences, values, contextual information and expert insight that provides a framework for evaluating and incorporating new experiences and information” (Davenport & Prusak, 1998; Doan et al., 2011, p. 307). Knowledge is recognized as a “key organizational asset and its creation, dissemination and application as a critical source of competitive advantage” (Alawneh et al., 2009, p. 98). The concept “knowledge” is “apparently consisting of data, information, intelligence, skill, experience, expertise, ideas, intuition or insight in the context in which it is used” (Gao, Li & Clarke, 2008, p. 4; Tan, 2010, p. 74). SMEs should focus on knowledge and on KM because small businesses have developed “innovative ideas and technological breakthroughs” to the society (Davidson, Wood & Griffin, 2009, p. 20).

According to KM theorists, knowledge can be explicit, tacit, critical or knowledge retention (Davenport & Prusak, 1998; Pan & Scarborough, 1999; Doan et al., 2011). Explicit knowledge is “knowledge that has been or can be articulated, codified, and stored in certain media and can be readily transmitted to others” (Doan et al., 2011, p. 307). Tacit knowledge “is found embedded in action, commitment, involvement in a specific context and it is also derived from personal experiences; it is subjective as well as difficult to formalize” (Nonaka, Toyama & Nagata, 2000, pp. 2-5). Critical knowledge is important to the business to successfully fulfill its mission (Kaplan, 2010). Grundstein and Rosenthal-Sabroux (2008) introduced the concept of “crucial knowledge”, which is the knowledge that is essential for decision-making and the progress of value-adding processes because it involves “vulnerability, scarcity, accessibility, cost and delay of acquisition and also it has influence on the company’s life, markets and strategy” (Grundstein & Rosenthal-Sabroux, 2008; Doan et al., 2011, p. 307). Knowledge retention is about “focusing on the critical knowledge that is at risk of loss, prioritizing what is at risk based on potential knowledge gaps and their impact upon overall organizational performance and then developing actionable plans to retain that knowledge” (Kirsch, 2008; Doan et al., 2011, p. 308). A key source for performing knowledge retention is “to grow the institutional memory of the organization” because in this case “employees can learn from past successes and failures to ensure positive results” (Liebowitz, 2009, Doan et al., 2011, p. 308). In a dynamic business environment, knowledge, capabilities and resources are important sources to gain sustainable competitive advantage. Knowledge-based capabilities are strategically important to create and develop sustainable competitive advantage (DeNisi, Hitt, & Jackson, 2003, p. 4). After using them in SMEs, resources decrease, while knowledge assets increase with their use. Knowledge is considered the only resource that is difficult to imitate (Evans, 2003; Tiwana, 2002).

KM has attracted the attention of various companies all over the business world. The multinational companies’ practices have shown that knowledge could drive them to innovate faster than their competitors, to increase the productivity and to increase organizational knowledge capital etc. The tools and methods of KM should be recognized to be important as well for

SMEs. The process of accepting KM in SMEs supposes some steps: “building KM awareness, determining its intended outcomes, auditing and valuing knowledge assets and resources, and finally, developing and implementing those KM solutions that have the best potential to enhance knowledge and add value” to the organization (Gourova, 2010, p. 640).

KM is becoming an “essential and significant component in business strategy” (Iyer & Ravindran, 2009, p. 415) since the “value of workers and organizational data have become more critical to the organization’s outcomes and competitiveness” (Tan, 2011, p. 74). The SME’s core competencies can be developed through the use of KM (Choong & Wong, 2010, p. 257). Specialists consider KM a strategy that “creates, acquires, transfers, brings to the surface, consolidates, distils, promotes creation, sharing and enhances the use of knowledge in order to: improve organizational performance; support organizational adaptation, survival and competence; gain competitive advantage and customer commitment; improve employees’ comprehension; protect intellectual assets; enhance decisions, services, and products and reflect new knowledge and insights” (Alawneh et. al., 2009, p. 102). According to Hansen *et al.* (1999) there are two strategies that focus on KM practice: codification and personalization strategy. In general, the codification strategy is based on explicit knowledge and personalization strategy is based on tacit knowledge. The most important goal of a KM strategy is to help the SMEs to achieve their corporate strategy and to manage knowledge portfolio. In this context, it is essential to focus on “how to take advantage of future market opportunities, how technology might facilitate new product/process developments, what currently untapped resource or competencies will enable the business to meet these opportunities, how to enhance current or future operational performance etc.” (Gourova, 2010, p. 645). The implementation of KM should be based on an action plan that involves some KM methods and techniques: “knowledge survey to identify the actual situation of the problem; intellectual capital inventorying to identify the knowledge; knowledge landscape mapping to determine the initially KM practices; knowledge maps creating to indicate the sources and nature of knowledge assets, flows of knowledge and its application in business processes; competitive knowledge analysis to identify areas of expertise and intellectual capital assets providing competitors strengths and opportunities; knowledge flowcharting and analysis to improve knowledge flows; knowledge diagnostics to understand knowledge-related mechanisms and processes in order to analyse situations and to conceptualize KM actions; critical knowledge function to identify critical operational, professional or managerial functions, determine the potential value of their knowledge-related improvements and analysis KM benefit assessment” (Gourova, 2010, p. 646).

Research methodology

The paper uses an innovative methodology that follows some steps. Firstly, it is based on a quantitative research to identify the attitude and the perception of managers according to KM and to identify the barriers that SMEs from Romania face in the process of developing and implementing KM. Secondly, it uses the Analytical Hierarchical Process (AHP), a method used in strategic decision-making processes that allows the synthesis of hierarchies by decomposing the case (Saaty & Vargas, 2013, p. 5). Thirdly, it uses Monte Carlo simulation based on Wiener generalized process to describe the time evolution of some variables in a probabilistic approach (Kroese, 2014, p. 387). This methodology is very useful in the decision-

making process. Hence, it helps SMEs from industry sector to understand the importance of KM, to develop, to implement and to sustain KM strategies.

Step 1. Quantitative research

The quantitative research was conducted among 320 managers of SMEs. The research sample selected was based on a probabilistic method that generates representative samples in terms of population statistical investigated (German & Nechita, 2015, p. 157). It is based on 320 managers of technological and automotive industry sectors from different zones of Romania that have different age, education, gender and job position.

The research objectives

The questionnaire has twenty questions focused on the attitude and the perception of managers according to KM. The research objectives for the research purposes are: to identify the perceptions of the managers according to KM, to identify the barriers that affect the implementation of KM in Romanian SMEs and to determinate the success factors that conduce to a successful implementation of KM in Romania.

The research design

The research design is based on the next aspects (Lefter, 2004; Funaru, 2013, p. 47): the type of the research is a descriptive one; the questionnaire design contain closed questions with answers such as yes or no, open questions and questions with multiply answers; the population researched consists of managers of SMEs and to determine the sample size for the random sampling, a level of error of $\pm 5\%$ was considered and a confidence level of 95%. According to the z distribution table, the value of 1.96 corresponds to these values (Funaru, 2013, p. 47). Due to the lack of information about the p value, it will be considered 50%, which leads to the maximum standard deviation that can be obtained for percentages (binary scale). The size of the sample is represented by 320 managers of SMEs.

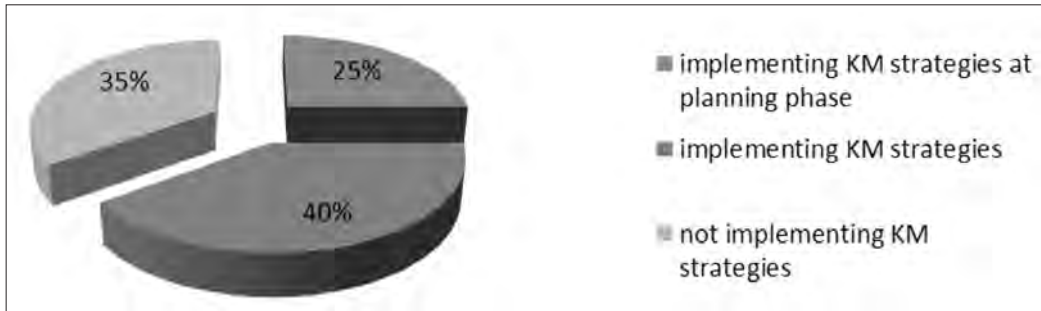
Data analysis and processing

The statistical analysis and processing focus on "the primary data obtained consisted of the following: main questions statistics; estimation of population parameters for two important variables of the research; hypothesis testing; connection between variables" (Funaru, 2013, p. 33).

Research findings, conclusions, limits of the quantitative research and further research

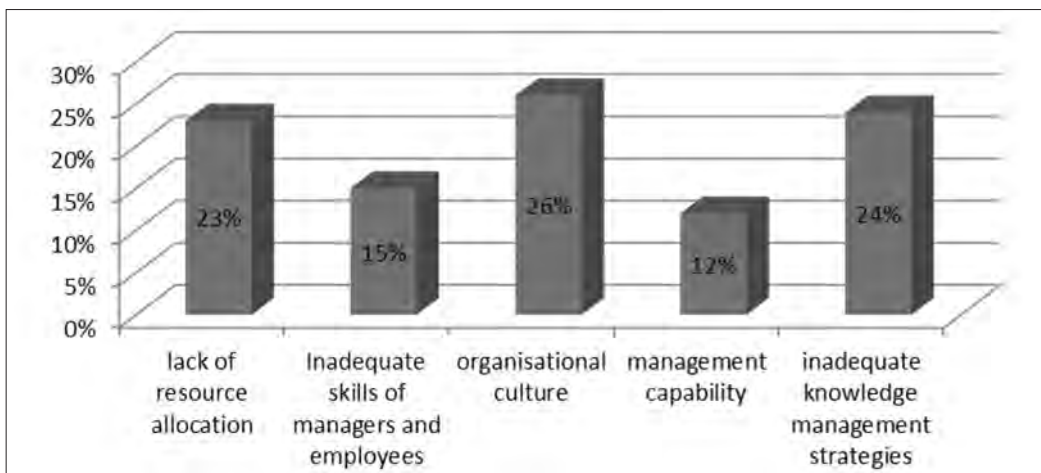
After analysing and processing the data, there are some important conclusions that we will address further.

Figure 1: The actual situation of using KM strategies in SMEs



Only 25% of the surveyed respondents indicated that they had not yet implemented the KM strategies in their SMEs but the activities were at planning phase. They anticipate the implementation of the programs over the next period. 40% of the respondents indicated that KM programs and activities were in active implementation and the results are very good. 35% of the SMEs managers do not have a KM strategy in their business strategy.

Figure 2: Barriers to knowledge management implementation in SMEs



Managers' perceptions suggest that there are some barriers in the process of the implementation of KM in SMEs. Only 26% of the surveyed respondents indicated that organizational culture represents for them a barrier in the implementation of KM. 24% of the respondents indicated that they do not have adequate KM strategies, 23% of the managers considered that they do not have all the necessary resources to implement KM in SMEs, 15% of the respondents indicated that the problem in implementing KM consists in their inadequate skills and 12% of the surveyed respondents considered management capability as a real barrier.

In a dynamic business environment, SMEs face with different difficulties. The results of the quantitative research suggest that there are some success factors that were used to implement KM and KM strategies in SMEs. The factors are: management, leadership and support; restructure of the organizational culture; IT and technology; resources based view; infrastruc-

ture; human resources and evaluation systems. It is essential to focus on these factors to implement KM in SMEs and also, these factors could represent key elements to gain and enhance competitive advantage. The management, the leadership and the support plays a key role in the success of KM (Horak, 2001, p. 9) because these elements focus on the strategy, activities and processes of SMEs. Investment decisions in KM “should be based on a sound consideration of resources ... financial support is inevitably required if an investment in a technological system is to be made. Human resources are needed to coordinate and manage the implementation process as well as to take up knowledge-related roles. Time is also a consideration” (Wong, 2005, p. 272). Organizational culture “defines the core beliefs, values, norms and social customs that govern the way individuals act and behave in an organization ... In general, a culture supportive of KM is one that highly values knowledge and encourages its creation, sharing and application” (Wong, 2005, p. 267). IT and technologies that support KM refer to “business intelligence, knowledge base, collaboration, content and document management, portals, customer relationship management, data mining, workflow, search and e-learning” (Luan & Serban, 2002, pp. 87-88; Wong, 2005, p. 269). All the activities and processes need an evaluation system to identify their performance.

The implementation of KM in a turbulent business environment is governed by different factors. This research provides a perspective of the barriers and the success factors for implementing KM in the SME sector. The findings and results of this survey offer a framework of the actual situation of KM and KM strategies in the SMEs from Romania.

The quantitative research offers relevant results but it has some limit: high costs, long research duration, insufficient data and erroneous data (Funaru, 2013, p. 33). Further research should focus on different tools and instruments to identify the attitude and the perception of managers according to KM.

Step II. Analytical Hierarchical Process (AHP)

AHP is a method used in strategic decisions, allowing the synthesis of complex hierarchies by decomposing the problem (Saaty & Vargas, 2013, p. 5). Subjective evaluations are converted into numerical values and processed for ranking each alternative on a numerical scale and the implementation is easy and intuitive. AHP is a “benefit measurement (scoring) model that relies on subjective managerial inputs on multiple criteria. These inputs are converted into scores that are used to evaluate each of the possible alternatives” (Handfield, Walton, Sroufe, & Melnyk, 2002, p. 75). The three concepts underlying the AHP are: the analytic feature (which provides a logical structure and assists in an intuitive decision-maker); hierarchical decomposition of the natural process of reducing complexity and the fact that defines a decision-making process (Bhushan & Rai, 2004, pp. 11-20). The AHP is a “powerful management science tool that has proven useful in structuring complex multi-person, multi-criteria decisions in business and economics” (Handfield *et al.*, 2002, p. 75). The AHP makes “complex decision processes more rational by synthesizing all available information about the decision in a system-wide and systematic manner” (Handfield *et al.*, 2002, p. 76).

In this analysis, the authors use the critical success factors obtained in the quantitative research to identify strategic decisions that managers implement in SMEs. The factors are:

Table 1: Success factors

Factor	Name
F1	management, leadership and support
F2	restructure of the organizational culture
F3	IT and technology
F4	resources based view
F5	infrastructure;
F6	human resources
F7	evaluation systems

Forwards, the authors applied the AHP method. Summarizing the results of AHP for comparing pairs of the factors, there are revealed the following weights for three strategic decisions that are implemented in SMEs. The strategic decisions include the order of the factors according to their importance.

Table 2: AHP results

Strategic Decision ₀	Strategic Decision ₁	Strategic Decision ₂
$W_0 = \begin{pmatrix} 0.267 \\ 0.0865 \\ 0.37 \\ 0.146 \\ 0.04 \\ 0.067 \\ 0.0244 \end{pmatrix}$	$W_1 = \begin{pmatrix} 0.1634 \\ 0.0212 \\ 0.3724 \\ 0.11 \\ 0.06 \\ 0.2455 \\ 0.0332 \end{pmatrix}$	$W_2 = \begin{pmatrix} 0.147 \\ 0.0336 \\ 0.4 \\ 0.253 \\ 0.054 \\ 0.09 \\ 0.022 \end{pmatrix}$
The value of the obtained consistency index is: $CR=6,66\% < 10\%$ The order of the factors is: $F_3, F_1, F_4, F_2, F_6, F_5, F_7$.	The value of the obtained consistency index is: $CR=5,44\% < 10\%$ The order of the factors is: $F_3, F_6, F_1, F_4, F_5, F_7, F_2$.	The value of the obtained consistency index is: $CR=7,47\% < 10\%$ The order of the factors is: $F_3, F_4, F_1, F_6, F_5, F_2, F_7$.

In the first case, the results suggest that when managers take strategic decision₀, they focus on the success factors following the next order: IT and technology; management, leadership and support; resources based view; the restructure of the organizational culture; human resources; infrastructure and evaluation systems. In the second case, when managers implement strategic decision₁, they use the following order of the factors: IT and technology; human resources; management, leadership and support; resources based view; infrastructure; evaluation systems and the restructure of the organizational culture. In the third case, the results suggest that when managers implement strategic decision₂, they focus on the success factors following the next order: IT and technology; resources based view; management, leadership and support; human resources; infrastructure; the restructure of the organizational culture and evaluation systems.

Step III. Monte Carlo Simulation

Monte Carlo simulation based on Wiener generalized process describes the time evolution of some variables in a probabilistic approach (Kroese, 2014, p. 387). Monte Carlo simulation “refers to a procedure of generating artificial data, based on a specific statistical model that is defined in terms of a stochastic generating mechanism” (Noreen 1989; Chin, Marcolin & Newsted, 2003, p. 200). Data is created so that “conforms to specifically stated model parameters, such as structural paths (e.g., main and interaction effects), factor loadings, and error terms ... In the Monte Carlo approach, the implied covariance matrix of the observed variables is computed for given values on the parameters in the model and then data are generated on the observed variables from a multivariate distribution having this covariance matrix; data are only generated for the observed variables and not for the construct level” (Chin *et al.*, 2003, p. 200).

Taking into account the evolution of the profit achieved by the SMEs in three different periods of the year (initial moment, after 6 months and after 1 year), the normalized values are the following:

T₀

T₁

T₂

$$W_1 = \begin{pmatrix} 100 & 102 & 105 \\ 100 & 99 & 104 \\ 100 & 103 & 105 \end{pmatrix} \tag{1}$$

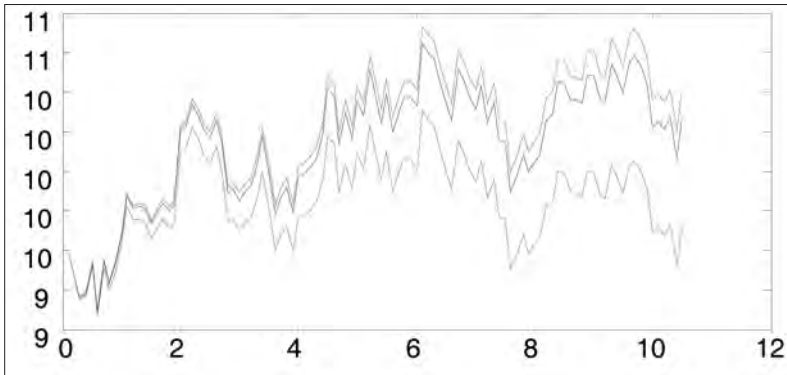
Using the matrix data (the evolution of the SMEs’ profit), it was made a forecast for the next two years based on Monte Carlo Simulation. The index was calculated using mobile average.

Figure 3: Monte Carlo Simulation with 20% volatility

The red trend represents the evolution of the strategic decision₂ that focus on this order of the factors: IT and technology; resources based view; management, leadership and support; human resources; infrastructure; the restructure of the organizational culture and evaluation systems. The blue trend represents the evolution of the strategic decision₀ in which the order of the factors is: IT and technology; management, leadership and support; resources based view; the restructure of the organizational culture; human resources; infrastructure and

evaluation systems. The green trend represents the evolution of the strategic decision₁ that focus on this order of the factors: IT and technology; human resources; management, leadership and support; resources based view; infrastructure; evaluation systems and the restructure of the organizational culture.

Figure 4: Monte Carlo Simulation with 10% volatility



The strategic decision₁ is more sensitive when the volatility is 10%. In addition, the Monte Carlo simulation suggests that a good evolution of the variables is in the case when the volatility is 20%. It is a powerful tool that has proven useful.

Conclusions and directions for future research

In a dynamic business environment, the technological progress is not sufficient. SMEs need a capable management to respond to the additional issues. The integration of knowledge and KM together with other paradigms that contain flexibility elements represents an interesting instrument to gain competitive advantage. The way toward a better understanding of knowledge and KM conduce to performance, efficiency, effectiveness, competitiveness, innovation and to enrich the knowledge “pool”. KM strategies allow SMEs to share knowledge as part of their daily business activities and processes and represent a key source in decision-making and production processes.

The paper offers an exploration of knowledge and KM perspectives in SMEs. Through an innovative methodology that contain firstly, a quantitative research to identify the attitude and the perception of SMEs’ managers from Romania according to KM; secondly, the AHP method and thirdly, the Monte Carlo Simulations based on Wiener generalized process, the paper offers some new research directions for the development and implementation of KM strategic decisions. The study offers valuable information and provides an integrative perspective of the barriers and success factors that contribute to the strategic decision-making. The barriers that exist in the process of knowledge management implementation in SMEs are the following: the lack of resource allocation, the inadequate skills of managers and employees, organizational culture, management capability and inadequate KM strategies. To eliminate this barriers, SMEs managers focused in their strategic decision-making process on some success factors such as: management, leadership and support; restructure of the organizational

culture; IT and technology; resources based view; infrastructure; human resources and evaluation systems. This paper enlightens the importance of knowledge management by means of which innovation and business performance can be brought in industrial SMEs. The innovative aspect of this paper is the complex conceptual framework focus on KM and the practical studies that knowledge management elements are incorporated simultaneously through the three steps methodology to examine their impact on industrial SMEs. Moreover, this research represents an important tool for decision makers, researchers and practitioners.

Further studies will focus on the development of a hybrid model necessary to an efficient knowledge management and an assessment procedure of the model because knowledge brings innovation and innovation brings competitive advantage and performance. Also, for future research the attention will be on separate studies on large national and international organisations.

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Factors promoting competitiveness in tea manufacturing firms: case study of tea low grown areas in Sri Lanka

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Abstract: This study aims to explore the factors promoting competitiveness in tea manufacturing firms by studying the six leading tea manufacturing firms located in tea low grown areas in Sri Lanka. The objectives of this study are; to understand how external and internal factors such as external relationships, owner/managers competencies, entrepreneurial orientation and innovation enhancing the competitiveness of tea manufacturing firms and to develop theoretical model of the factors promoting competitiveness in tea manufacturing firms. The model was developed in two steps. First, by appraising the existing literature, a preliminary model of the factors promoting competitiveness in tea manufacturing firm was developed. Then, the principle model was evaluated by using comparative case study methodology with experiences of six tea manufacturing firms that have engaged in developing their factors promoting competitiveness. Finding of this study confirmed that tea manufacturing firms are emphasizing two main strategies as quality and quantity to gain the competitive advantage of their firms. Accordingly, four main variables could be identified as factors of competitiveness namely external relationships, owner/managers competencies, entrepreneurial orientation, and innovation. Therefore, better understanding about the factors promoting competitiveness make clear path for development programs by directing those factors.

Keywords: competencies, entrepreneurial orientation, external relationships, factors of competitiveness, innovation

Introduction

Entrepreneurial behavior is crucial for firm's survival and performance (Barringer & Blue-dorn, 1999). Innovation is concerned as main activity of entrepreneurship (Drucker, 2002). According to Lumpkig and Dess (1996) key concern of an entrepreneurial orientation (EO) is an emphasis on innovation. Therefore, there is a strong interrelationship between entrepreneurial behavior and innovation. Many scholars have argues that innovation is critical for

competing in global and domestic market (Hitt *et al.*, 2001). Hamel (2000) argues that innovation is the most important component of firm's strategy. Further, findings of Robert (1999) show relationship between high innovation and superior performance.

As emphasized in literature, there are several factors influenced on firm's performance to different extent. Competitiveness is the concept often related to long-term performance of firms and economies (Man *et al.*, 2002). Improving firm competitiveness not only benefits the firm itself, also direct impact on the competitiveness of an industry (Sirikrai & Tang, 2006). Competitiveness can be defined as the ability to increase market share, profit and growth in value-added to stay competitive for a long duration.

To promote the competitiveness of tea manufacturing firms in developing countries like Sri Lanka it is important to conduct theoretical and empirical research on the factors promoting competitiveness of tea manufacturing firm's that shows integrate framework of both internal and external factors. According to the literature, this study argues that external relationships, owner / managers competencies, EO and innovation affect the business performance of tea manufacturing firms.

This study aims to explore the factors promoting competitiveness in tea manufacturing firms by studying the several tea manufacturing firms located in tea low grown areas in Sri Lanka. It is decided to start the analysis of cases by emphasizing the key role of each factor (external and internal factors) in promoting competitiveness of tea manufacturing firms. Therefore, specific objectives of this chapter are as follows:

- To understand how external and internal factors such as external relationships, entrepreneurial competencies, entrepreneurial orientation and innovation enhancing the competitiveness of tea manufacturing firms.
- To explain the relevance of using each variable to overcome the current problems faced by tea manufacturing firms.
- To develop theoretical model of the factors promoting competitiveness in tea manufacturing firms from the empirical cases of low country tea manufacturing firms.

The model will be developed in two steps. First by appraising the existing literature, a preliminary model of the factors promoting competitiveness in tea manufacturing firm will be developed. Then, the principle model will be evaluated by using comparative case study methodology with experiences of six tea manufacturing firms that have engaged in developing their factors promoting competitiveness. By that attempt to develop a clear and more empirically grounded theoretical model.

Theoretical background and conceptual framework

Importance of entrepreneurial orientation

Many scholars argue that entrepreneurial behavior is crucial for firms to prosper in competitive environment (e. g. Miller, 1983; Lumpkin & Dess, 1996) and economic prosperity of the nation. EO stands for key entrepreneurial processes that answer the question of how business is undertaken. In this manner, EO contributes to higher performance by facilitating a firm to identify innovative opportunities with potentially large returns and obtain first mover advantage (Lumpkin & Dess, 1996). It is grounded in strategic choice point of view and considers the "intension and actions of key players functioning in a dynamic generative process"

(Lumpkin & Dess, 1996, p. 136). This study concerns three dimensions of EO (innovativeness, risk taking and pro-activeness), as suggested by Miller (1983) and adopted by several other studies.

When concerning the individual dimensions of EO, previous studies have shown that each dimension has tendency of positive influence on performance. Innovative firms can create unexpected economic performance by producing new products and technologies (Wiklund & Shepherd, 2005). Proactive firms as market leaders, target finest market segments, charge high price and “skim” the market ahead of rival firms (Zahra & Covin, 1995). They try to dominate the market by establishing brand recognition. The relationship between risk taking behavior and performance is less obvious. However, some studies have shown that risky strategies leading for performance variation since some projects fail while others succeed and may be more profitable in long term (McGrath, 2001).

Therefore, it is important to strengthen the EO of any industry to respond the globalization and changing environment. To face the increasing competition experiencing by Sri Lankan tea industry, tea manufacturing firms must review practices and actively search for new ways to increase its capacity of innovations and be more competitive. Drucker (2002) argues that today’s enterprises will not even survive with this rapid change unless they do not maintain entrepreneurial proficiency.

External relationships and entrepreneurial orientation

Entrepreneurs may benefit from building strong relationship with external parties (Kotabe & Swan, 1995). Literature suggested that information acquired from the external environment is an important factor of firm’s innovation. Gumusluoglu and Ilsev (2009) findings reveal that technical and financial support received from external institutions can be key contextual influence in improving innovation. Therefore, external relationships supposed to be essential since they open up entrepreneurial possibilities providing access to useful, reliable, exclusive, less redundant information (Bruéderl & Preisendoérfer, 1998). Further, external relationship facilitates to overcome some constraints that faced by entrepreneurs, by enhancing the accessibility of knowledge and resources outside the firm.

In this context, focus on the external relationships, and consider the relationship with both upstream and downstream partners since entrepreneurial behavior of firm may be affected by suppliers, customers, supporting system and government agencies etc. This study focus on the relationships with supply chain partners (green leaf suppliers and tea brokers companies), government facilitating institutions (Tea Small Holder Development Authority and Tea board), educational and research institutions (Tea research institution, Universities, and National institute of plantation management) and other tea factories. Strength of each relationship was operationalized as a compound of three measures; intensity, frequency and reciprocal services (Granovetter 1985). Maintaining quality relationship with right partners enhances the competitive advantage of the firms (Dyer & Singh 1998). By this means, firms would able to enhance their entrepreneurial behavior and able to compete effectively in the market place.

Entrepreneurial competencies and entrepreneurial orientation

Entrepreneur is known as the person behind the successful performance and caliber required to carry on business successfully under competitive environment is called his competency.

Behavioral approach of entrepreneurial competencies describes competencies as person's behavior and actions which correspond to the characteristics of competitiveness (Man *et al.*, 2002). Entrepreneurial competencies are defined as fundamental characteristics possessed by a person that result in effective performance of business (Bird, 1995). This study defines entrepreneurial competencies as, attitudinal and behavioral characteristic of owner/manager which enables to accomplish and sustain the business success. Consequently, six competency areas; opportunity, organizing, strategic, relationship, commitment and conceptual competencies were considered as categorized by Man *et al.* (2002). Those competencies are supposed to play different roles in process of firm's EO.

Opportunity recognition and exploitation are considered as the focal concept of entrepreneurship (Shane & Venkataraman, 2000). Opportunity competencies facilitate for scan the environment and identify promising opportunities. Organizing competency is related to the management of internal and external resources (Man *et al.*, 2002). Strategic competencies lead to be visionary; goal oriented, and set the direction for the firm in order to ensure long-term performance of the firm. Relationship competency helps to interact with environment to acquire and utilize the resources. An entrepreneur also needs to acquire strong commitment competencies which providing the needed drive and initiative to sustain the efforts. Conceptual competency is facilitating for understand the complex issues; thereby enhance the decision making skills (Man *et al.*, 2002).

The process of achieving competitiveness is strongly influenced by the key players or entrepreneurs (Horne *et al.*, 1992). Entrepreneurial competencies are important to catch the innovative business opportunities and formulate strategies for new directions of the business while imagining one or more realistic scenarios for competition (Chandler & Jansen, 1992). Slevin and Covin (1995) suggested that competitiveness of firm is positively influenced by founder who is responsible for business operations. Further, Miller (1983) explained that owner/managers competencies facilitate to succeed difficulty for successful realization of firm's business strategies. Therefore, entrepreneurial competencies are important to meet the arising challengers in tea industry and this study concerns the influence of entrepreneurial competencies on EO of the firm.

Entrepreneurial orientation and innovation

Innovation is an essential component for sustained the success of business firm and it protects both tangible and intangible assets against the erosion of market. Hult *et al.* (2004) defines innovation as the capacity to introduce of some new process, product or idea in the firm. The degree of newness can be used to distinguish the generation of innovation from its adoption (Damanpour & Wischnevsky 2006). Operational definition of innovation concern in this study is developing new product, process, or market or slight improvement of existing product, process, or market.

Successful firm demonstrated more adaptability, and higher level of innovation and entrepreneurial behavior under unstable conditions than their less successful counterparts in the same industry (Miller & Friesen, 1983). Tajeddini (2010) found that higher level of EO and innovation are associated with improved business performance. Further, Hult *et al.* (2004) argued that EO as incremental process within the firm through which innovation results. Zhou *et al.* (2005) found that EO positively affects breakthrough innovations which facilitates for both technology and market base innovations.

One of the challenges face in today's business is to remain constantly innovative since capacity of firms' innovation is a crucial factor to succeed in the business. Therefore, tea manufacturing firms may benefit from adopting EO strategies and thereby would able to enhance the innovation adoption which is fundamental of gaining competitive advantage.

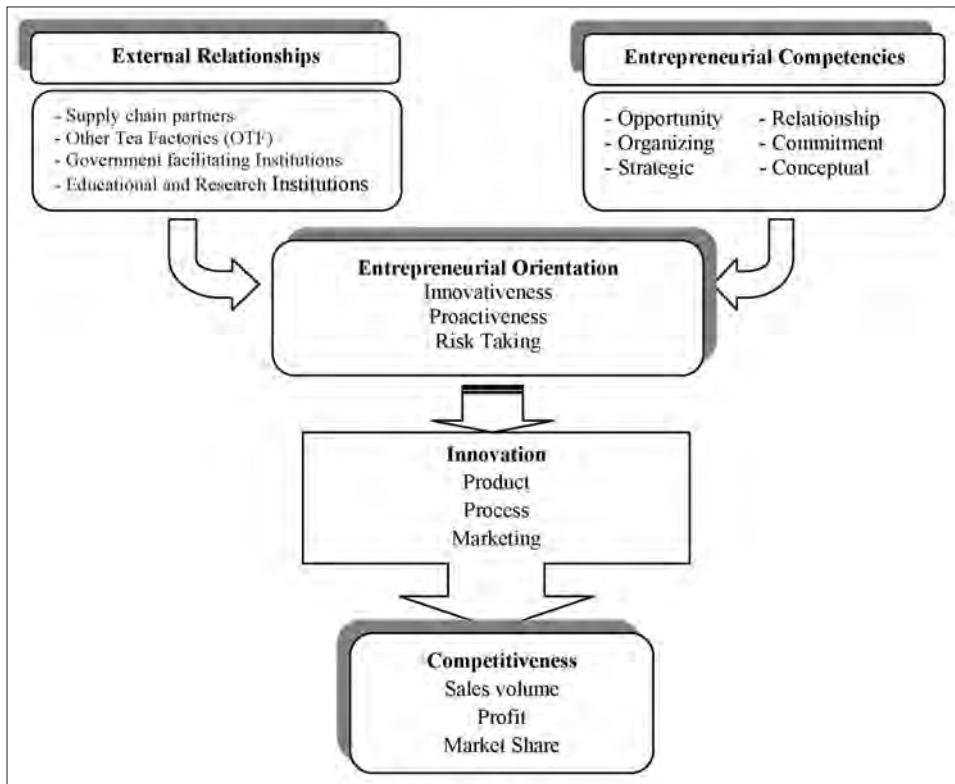
Conditions for competitiveness

At firm's level, competitiveness is generally understood by reference to the ability of a firm to increase in size, market share and profitability. In traditional economic theory, a firm level competitiveness is determined by comparative cost of production. On the other hand, recent studies have pointed out non-price underlying determinants of competitiveness. They include; human resource endowments, ability to adopt and use technologies, and managerial factors that internal to the firm and external relationships with other parties (Clark & Guy, 1998). Accordingly, Porter's diamond model can be used to understand the firm level conditions for promote the competitiveness. He argued that nation's success in a particular industry is driven by four interrelated determinants namely; factor conditions, demand conditions, firm's strategy, structure and rivalry, and related supporting institutions.

Besides these factors, Porter added two additional elements to his model, namely they are government and chance (exogenous influences). Accordingly, "Chance" and "Government" are two factors that influence the four determinants, but are not determinants themselves. Based on above theoretical background this study proposed external relationships, entrepreneurial competencies, EO and innovation as factors promoting competitiveness since as those factors determine the ability of a firm to attain and maintain a competitive advantage of firm as explained above sections. Additionally, previous research findings imply that positive relationship between innovation and the business performance (e. g. Avlonitis & Salavou, 2007; Hult *et al.*, 2004; Subramanian & Nilakanta, 1996).

Based on existing literature this study proposed integrated model to analyze the factors promoting competitiveness in tea manufacturing firms in Sri Lanka as shown in Figure 1.

Figure 1: Preliminary theoretical model of factors promoting competitiveness in tea manufacturing firms



Research methodology

This study adopted a case study research approach to understand the factors promoting competitiveness of tea manufacturing firms in Sri Lanka. Under developing economic context like Sri Lanka, the theories describing sources of competitiveness especially in tea industry is still immature and required for richness. The case studies are preferred strategy when investigator has little control over events and when the focus is on a contemporary phenomenon within some real-life context (Yin, 2003). Case study research enables the study of the factors promoting competitiveness in tea manufacturing firms in its natural setting, therefore it yields richer insights through observing actual practice in its context. The study is explorative in nature. According to Eisenhardt (1989) tying the emergent theories to existing literature enhance the internal validity and generalizability.

Case selection

This study adopted the selection methodology suggested by Miles and Huberman (1984). Six tea manufacturing firms were selected as case studies to compare against the preliminary model shown in Figure 1. For case studies, the generalizability is determined by the strength

of the description of the context. Therefore, the firms were selected through purposive sampling as suggested by Patton and Appelbaum (2003).

Data was collected mainly from two regions of tea low grown areas namely; Southern and Sabaragamuwa province. Three tea manufacturing firms were selected from each region. Selection was done using the records of tea manufacturers issued by the Tea Board. The criteria were leading tea manufacturers which having high net sales average (NSA) in each region and continued for different types of innovations (Appendix 1).

Data collection

Unique strength of case study method is its ability to deal with variety of evidence for evaluation (Eisenhardt, 1989; Patton & Appelbaum, 2003; Yin, 2003). Structured interviews, documents and observation were used as main data sources of this study. Structured interviews were conducted by personal visit by the researcher at each company location. For further clarifications, some interviews were conducted by over the phone as required.

Filed work was carried out during one month period and time duration of interviews was range from one and half to two hours. In addition to the interviews process, documents and other data were gathered in each time. Further, plant visit was done in order to observe the consistency of production process and management with data gathered through interviews.

Data analysis

Analytical induction method was adopted for analyzing six cases, which is a method of extending or refining exiting theories by constantly comparing them with typical cases (Yan & Gray, 1994). In the study context, this method engages with investigative the data from the six cases of tea manufacturing firms and determining if they in shape with preliminary theoretical model or whether the model required to modified. As explained by Parkhe (1993), analysis was started with the preliminary model and then compared each case with preliminary model and modified the model in view of the findings for each successive case.

Results and discussion

In this section, the revised model of factors promoting competitiveness of tea manufacturing firms in Sri Lanka will be presented. The model was developed in stepwise manner by starting with preliminary model and then revising the model as shown in Figure 2 after analysis of each case. As a result, revise model represents the empirically grounded theoretical model of factors promoting competitiveness of tea manufacturing firms in developing country like Sri Lanka. English letters A to F were randomly allocated to identify the tea manufacturing firms and to maintain their anonymity.

Innovation as key of competitiveness

The adoption of innovation is intended to contribute the organization's effectiveness and competitiveness thereby helps to adapt the new conditions in its external environment. All tea manufacturing firms in these case studies understand that innovation is very imperative

to advance their ability to compete in the market and they were adopted innovations in various areas such as product, process and marketing.

Related to product innovations, Company B and A have been developing unique tea grades called “Jayachakra” and “Sun Pekoe” respectively. Further, company B and D are working on designer teas and producing designer teas for international exhibitions. A Company produces different flavored tea and White tea. B and D Companies produce teas mainly in three ranges. C, E, and F tea manufacturing firms are also producing flowery tea grades such as silver tips, special teas and extra special teas. Additionally, C and E Companies are producing CTC tea grades and owner of E firm mentioned:

In global market there is increasing demand for CTC tea since now trends towards the more convenience type of teas. CTC tea is more suitable for tea bags therefore we shifted to dual manufacturing method to gain competitive advantage.

A, B, and D Companies are producing different types of attracting tea packets for foreign market and B firm produces tea bags too. E and F firms are producing different sizes of tea packet for local market.

As process innovations, all Companies except C Company were acquired quality certificates to comply with food factory concept and to be competitive in global market. All companies were semi automated the orthodox production process to maintain the consistency of production. Further, C and E Companies were adopted dual production by implementing fully automated CTC production line. Implementing computerized weighing system for green leaf by B, C, and D firms and further B and D Companies are ensuring the traceability which is a requirement of some buyers. Company B, D and F are implementing different strategies to minimize the post harvest loss of green leaf. While F Company is implementing energy conserving withering trough fans to reduce the cost of production.

To face the competition tea manufacturing firms are adopting market innovations as follows. A, B and D Companies do direct export under their own brand name other than main marketing channel of tea auction. They are serving to foreign niche markets. B Company performs as the leading and fast growing tea manufacturing firm in Sri Lanka and it is registered as exporting company and increases their direct export up to 5 % of total production. While A, and D Companies direct exports are 1 % of their total tea production. The owner of A Company said:

We always try to introduce new products based on the buyer’s requirement and try finding niche markets for those products.

Further, B Company owner mentioned; “our main objective is promoting “our own brand” in the global market by 2018”. They established tea centre in the premises of tea factory through that allowing visitors to taste the tea where it produce. Locally sell the product through special outlet such as supermarkets and hotels. Thereby try to dominate distribution channels and establishing brand recognition. As market innovations, E and F Companies are introducing their own brand to local market additional to tea auction which accounts 2 % and 1% of their total tea production respectively. In order to developing C Company’s market, they are planning to introduce their brand to local market. The owner said:

We identified there is big demand for our teas locally therefore we working on launching our brand to local market and finding opportunities for direct exports by participating international tea trade fairs.

The experiences of above cases of tea manufacturing firms imply that adoption of innovations is desirable since innovations energize the adopting organizations and enhance their organizational performance (Dos Santos *et al.*, 1995). Table 1 illustrates the performance level of each tea manufacturing firm. Based on the experiences of case A to F it appears that innovation plays an important role for improving competitiveness. Further, it implies that B and D tea manufacturing firms adopted more innovations and comparatively they are performing well since innovation is fundamental in gaining competitive advantage. This finding is in line with Miller and Friesen (1982) posit that entrepreneurial organizations try to obtain a competitive advantage by routinely making innovations. Thereby it emphasizes that innovation adoption of tea manufacturing firms is leading to firm’s performance as argued by theoretical model.

Table 1: Level of Performance

Company	Level of Performance			
	Profit (Pretax)	Market share growth	Sales growth	Average monthly sales
A	Increase slightly	1 – 3 %	5 – 10 %	33 000 kg
B	Increase moderately	More than 5%	More than 15 %	65 000 kg
C	Increase slightly	3 – 5 %	10 – 15%	200 000 kg
D	Increase moderately	More than 5%	More than 15 %	180 000 kg
E	Increase moderately	More than 5%	More than 15 %	250 000 kg
F	Increase slightly	3 – 5 %	10 – 15%	100 000 kg

Source: Survey data, 2014

The importance of entrepreneurial orientation

To deliver something better to customer than rival firms’ tea manufacturing firms need to develop their EO behavior. EO reveals the firm’s tendency to engage in the search of new market opportunities and the renewal of existing areas of operations (Hult & Ketchen, 2001). Further, EO highlights the spirit of rejuvenating the business, which is often accomplished through the introduction of innovations. Therefore, Table 2 shows the business strategies that utilized by tea manufacturing firms which leading for innovation adoption and competitiveness.

Experience of above six cases implies that tea manufacturing firms are emphasizing two main strategies as quality and quantity to gain competitive advantage for their firms. Accordingly, A, B, D and F Companies are emphasizing more on quality in their business strategies while C and E companies emphasizing more on quantity. Therefore, EO of all tea manufacturing firms intended to enhance the product, process and marketing innovation adoptions depending on their main focus. These ideas point to EO’s antecedent role to innovation as highlighted by preliminary model. It means that innovation is a significant tool for sustain in the competitive market. This reality verifies that EO is imperative for developing competitiveness through innovation.

Table 2: Business strategies

Business strategies	Company					
	A	B	C	D	E	F
Strategies for product innovations						
Produce tea in different rangers		X		X		
Produce different types of tea – Flavored tea ^a , CTC tea grades ^b	X ^a	X ^a	X ^b		X ^b	
Research and development activities to produce new tea grades ^a – produce unique tea grades ^b	X ^a	X ^b		X ^a		
Produce special tea grades	X	X	X	X	X	X
Produce different types of tea packets – Foreign market ^a , Local Market ^b	X ^a	X ^a		X ^a	X ^b	X ^b
Produce tea bags		X				
Maintain higher % (more than 50%) of best leaf count when buying green leaf		X		X		X
Maintain direct relationships with main buyers		X		X		
Strategies for process innovations						
Adopted food factory concept and 5 S system	X	X		X	X	X
Maintaining own plantation		X		X	X	
Conduct extension and training for small holder farmers to obtain quality green leaf		X		X	X	
Introduce insurance scheme for small holder farmers in first time.	X		X	X	X	X
Implement computerized system to maintain daily information			X			
Implement CTC production process (dual production)		X		X		
Establish friendly business environment for small holder farmers			X			
Implementing energy conservation technology in dyers				X	X	
Inventing new technologies; fire wood splitter and aerodynamically designed new energy saving withering trough fan			X		X	
Maintain clean and unpolluted environment		X				X
Strategies for market innovations						
Promoting own tea brand – Foreign market ^a , Local Market ^b	X ^a	X ^a		X ^a	X ^b	X ^b
Resister as tea export company to increase the direct export		X				
Participating for international tea trade fair and exhibitions		X	X	X		X
Find niche markets – Foreign market ^a , Local Market ^b	X ^a	X ^a , X ^b				
Invest on direct export	X	X		X		
Expand local market					X	X
Develop direct relationship with foreign buyers					X	X
Strategic Focus; 1= Quality, 2= Quantity	1	1	2	1	2	1

* They implement dual production process and expand the production capacity. Thereby E Company becomes the second largest single quantity producer in the country. Owner of the C Company acquire another 10 tea factories to expand the market share and they become the second largest quantity producer as a group in the country.

The role of external relationship

One way to overcome some of constraints that entrepreneur may face is acquiring knowledge and resource by tapping into an extended pool, which exist outside the business. Generally, it is accepted that good external relationships bring additional advantages of diffusion of industrial skills which encourage entrepreneurship. Based on the interview with owner, it shows that all tea manufacturing firms in this research recognize the value of external relationship and have relationships with institutions related to tea industry namely tea brokers, green leaf suppliers, other tea factories, government facilitating institutions and education and research institutions.

The evidence generated across the case studies suggests that relationship with institutions related to tea industry facilitating to enhance the EO of tea manufacturing firm by providing range of entrepreneurial facilities such as raw materials, financial assistance, information sharing, human resource development, education and training, consultation and professional assistance and innovation development support. Additionally, as proactive measure all tea factories tend to develop their green leaf suppliers to ensure the quality and quantity of raw material supply. The supplier development support offers to their green leaf suppliers seem focus in three types; quality, price and welfare. Accordingly, they are developing loyal relationship with small holder farmers. Therefore, entrepreneurial infrastructure and supplier development makes the interface of relationship between external institutions and EO of tea manufacturing firm as illustrated in revised model (Figure 2).

The importance of entrepreneurial competencies

It is important that entrepreneurs must react with the environment proactively in order to minimize the negative effect of the challenging business environments. Entrepreneurs are therefore challenged to deploy a set of competencies to succeed in their entrepreneurial endeavors. Entrepreneurial competencies have been identified as a specific group of competencies relevant to the exercise of successful entrepreneurship. In the case of entrepreneurs, different levels of entrepreneurial competencies are exhibited by owners carry out changes in tea manufacturing firms. Accordingly, all owners exhibited strong managerial capabilities, hard work and dedication to task.

Experience of all cases implies that all entrepreneurs are having strong competency in committing, determining and work positively towards accomplishing tasks. They always drive to see the end results of their business actions. All cases highlighted the opportunity competency. That express through owners' ability to scan the business environment and recognize opportunities. As experience of these cases, owners use different means such as, international exposure, keen on market and global trends and aware about new technological advances. However, not all owners are equally likely to recognize same entrepreneurial opportunities and it depend on the knowledge already processed. Thereby they developed the business strategies

Except C Company other cases are highlighted owner's strategic competency. It means these firms are formulating, implementing and evaluating business decisions that enable them to achieve their main targets. For instance, B Company expresses that they work towards their ultimate objective of "promoting own brand in global market" and formulating business strategies accordingly. Experience of B, C, D, E, and F Companies highlighted that how relationship competency enhances the organizational business strategies. C Company is obtaining

required capital from banks to acquire additional tea factories by maintaining trusted relationships. B, D, E and F firms emphasize that they work as a team and maintain good relationship with employees and their main suppliers. Further, B Company communicates their daily target with employees every day and F company implements open door policy.

As experience of A, B, D, E and F Companies, owners of those firms organize the human, technological and other resources effectively to facilitate the business strategies. In order to overcome the skilled worker problem and upgrade the workers' capabilities, periodically send them for trainings. Experience of E and F Companies explains how owners used their conceptual talents to solve the problems and dealing with uncertainties. Owners of those firms monitor the main aspects of the company and tackle the problems in more effectively. All entrepreneurs of this study have been awarded by entrepreneurial awards. Further, it confirms that entrepreneurial competencies influence on EO of their firms.

As explain in six cases, they would able to develop better organizational capabilities such as the firm's innovative capability, cost-saving ability, quality and flexibility. Thereby can plan and work towards a firm's long term performance. Thus it can be confirmed that entrepreneurial competencies influence on EO strategies of tea manufacturing firms in Sri Lanka. This is in line with previous studies that several studies have demonstrated that organizational strategies are influenced by personality traits of CEOs (Miller & Toulouse, 1986; Miller *et al.*, 1982). Further, above experience of B Company implies that opportunity, organizing, strategic, relationship and commitment competencies of owner highly influence on strategies focus of quality. While experience of E Company shows that relation, commitment and conceptual competencies are more important for strategic focus of quantity.

Presence of entrepreneurial parents

The experience of five case studies out of six were highlighted that presence of entrepreneurial parent had influence on the business strategies of their tea manufacturing firms. A, B, D and F Companies were founded by the fathers of present owners and E was established by grandfather. Study conducted by Dyke, *et al.* 1992 found that presence of entrepreneurial parent's impact on the performance of food manufacturers.

In discussing about the impact of entrepreneurial parent on the business strategies, owner of A Company stated that emphasis of values and discipline of his father embedded in their current business strategies by conserving traditional art of making tea which preserves intrinsic aroma, taste and quality. The owner of B Company mentioned; that "Our passion for producing high quality tea has been initiated by father". Therefore, over the years they built reputation for their own teas and maintain the consistency in quality. For instance, owner of D Company stated that his father emphasized in integrity of doing business and upholding the prestigious "Pure Ceylon Tea" image. Therefore, they adopted business strategies to offer optimal quality and healthiest teas in freshness. According to F Company owner, they give emphasis to produce hygienically fine quality tea from the day of establishment. For continuation, now factory is equipped with some of modern machinery in tea manufacturing to improve productivity and quality under good hygiene conditions. The owner of E said;

Art of making black tea has been refined through experience and pass down generations. Present, we combine age old traditions and experience with modern technology to be one of the single largest privately owned producer of tea in Sri Lanka.

Further, they mentioned that hand on experiences obtained from their parent's impact on their success due to the exposure they received to enrich their business strategies. This finding is in line with previous study of Duchesneau and Gartner (1990), that successful business owners were more likely to have entrepreneurial parents.

Conclusions

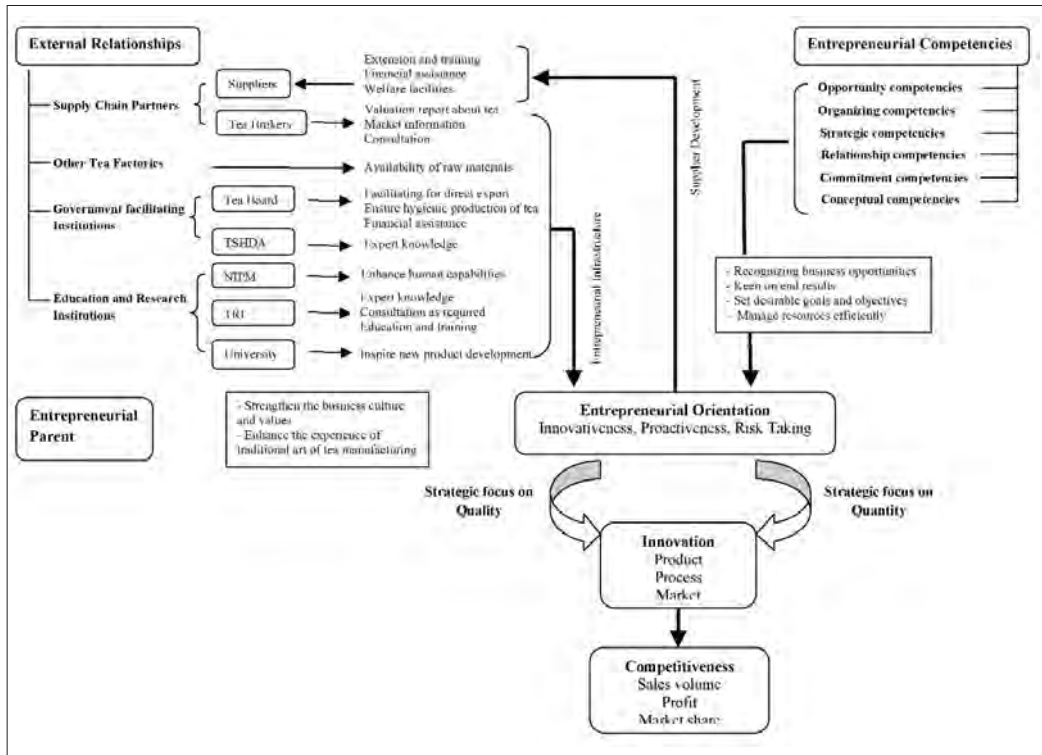
Under developing economic context, Sri Lanka has concern to enhance the tea manufacturing sector by recognizing the factors promoting competitiveness precisely. Since better understanding about the factors promoting competitiveness of tea manufacturers make clear path for government interventions. Thereby government can design the development program by directing those factors.

Finding of this study confirm that tea manufacturing firms are emphasizing two main strategies as quality and quantity to gain the competitive advantage of their firms. Accordingly, four main variables could be identified as factors promoting competitiveness namely external relationships, entrepreneurial competencies, entrepreneurial orientation, and innovation. The evidence of six case studies implies that institutions related to tea industry providing range of entrepreneurial infrastructure to enhance the EO of tea manufacturing firm. Further, tea manufacturing firms develop their suppliers to ensure the quality and quantity of raw material supply. Therefore, entrepreneurial infrastructure and supplier development serve as the interface of relationship between external institutions and EO firm. Additionally findings illustrated that presence of entrepreneurial parents facilitating for enhance their business strategies. The conceptual model is thus modified considering the findings of the study and it is depicted in Figure 2.

In conclusion, findings suggest that adopting innovative strategies, depending on the firm's EO and owner/manager competencies rather than just it happened by default. Further adopting different types of innovations are vital for the tea manufacturing firms to face the market competitiveness as well as contribute substantially to the Sri Lankan economy. Therefore, this study confirms that the reasonability of the proposed approach, which could be tested in the future research. External relationships, entrepreneurial competencies, EO and innovation have been confirmed in this study as factors promoting competitiveness of tea manufacturing firms.

The model presented in Figure 2 provides a contribution to the entrepreneurial literature by illustrating the importance of variables consider as factors promoting competitiveness. Further, revised model provides important point for the researchers to conduct further research. Future studies could use this model to examine the applicability of this model for both service and manufacturing firms from various industries.

Figure 2: Revised Model of factors promoting competitiveness in tea manufacturing firms in Sri Lanka



Implications

At present, competitiveness of Sri Lankan tea industry has been declined due to high competitive pressure in the global market and several internal supply issues. Integrated frame work that combining internal and external determinant of EO and innovation can be implemented to overcome the problem of tea manufacturing firms and enhance the competitiveness of tea industry in Sri Lanka. Therefore, to improve competitiveness of tea manufacturing firms in Sri Lanka, it would better to strengthen the external relationships and owner/managers competencies. Thereby enhance the EO and innovative behavior of the firm.

As revealed by case studies it is important to enhance the quality of tea by protecting the image of "Ceylon Tea". Further, it is vital to encourage tea manufacturing firm to expand their product strategies by producing different kinds of innovative teas. To assure the best quality in keeping with international standards, tea manufacturing firms needs to adopt "Food factory concept" and obtaining international quality certificates. It is important to automate the production process and implementing energy conservation technologies to cut down the production cost in long run. Further, implementing computerized weighing system, strategies to reduce post harvesting loss of green leaf and maintaining computerized data base to ensure the traceability would help to upgrade the production process as process innovation adoptions. As marketing innovation it is important to encourage tea manufacturing firms to

promote their own brand and cater for niche markets in local and foreign and finding alternative marketing channels.

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Appendix – Profile of Tea Manufacturing Firms*

Characteristics	Company					
	A Company	B Company	C Company	D Company	E Company	F Company
Establishment	Establish the tea factory in 1967 by farther Takeover the management in 1990	Establish the tea factory in 1984 by farther Takeover the management in 2002	Acquire in 1998	Establish the tea factory in 1940 by farther Takeover the management in 1981	Establish the tea factory in 1930 Takeover the management in 1987	Establish the tea factory in 1991 by farther Takeover the management in 1997
Main products	Black tea as bulk Flavored teas White tea Tea packets Tea Bags Unique tea grade – "Sun Pekoe"	Black tea as bulk Flavored teas Tea packets Tea Bags Unique tea grade – "Jayachakra Tea" Green Jayachakra	Black tea as bulk	Black tea as bulk Tea packets	Black tea as bulk Tea packets	Black tea as bulk Tea packets
Production method	Orthodox	Orthodox	Orthodox CTC	Orthodox	Orthodox CTC	Orthodox
Main Market	Foreign market	Foreign market Local market	Foreign market	Foreign market	Foreign market Local market	Foreign market Local market
Marketing Channels	Tea Auction Direct export (1% of production)	Tea Auction Direct export (5% of production) Tea Centre Resellers	Tea Auction	Tea Auction Direct export (1% of the production)	Tea Auction Though reseller locally (1% of the production)	Tea Auction Though reseller locally (3% of the production)
Monthly sales (kg of Made tea)	33 000 kg	65000 kg	200 000 kg	180 000 kg	250 000 kg	100 000 kg
Production capacity (green leaf per day)	6000 kg	12 000 kg	40 000 kg	25 000 kg	40 000 kg	20 000 kg
Number of employees	55	90	300	250	350	160
Quality certifications	ISO 22000 : 2005 TASL Certification SLS Certification CQC Two star Ethical tea partnership	ISO 22000-2005 ISO 9001-2000 CQC Three star Ethical tea partnership	Working for HACCP	ISO 22000 -2005 CQC Two star Ethical tea partnership	ISO 22000 -2005 CQC Two star Ethical tea partnership	ISO 22000 -2005 CQC Two star Ethical tea partnership
Diversification	None	Having own tea plantation	Hydro Power Project Installation of metal crusher	Having own tea plantation	Having own tea plantation Diversified to other crops	Diversified the business to other sectors

* English letters A to F were randomly allocated to identify the tea manufacturing firms and to maintain their anonymity. TASL – Tea Association of Sri Lanka, CQC – Ceylon Quality Certificate, SLS – Sri Lanka Standards

Effect of core competence on sustainable competitive advantages of batik Banyumas Small and Medium Enterprises

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Abstract: Core competence of Banyumas batik small and medium enterprises (BBSMEs) as one way to gain sustainable competitive advantage. This study aims to examine effect of firm's core competence on competitive advantage and performance of small and medium enterprises. Survey conducted on 58 owner and manager of small firm of Banyumas batik in Banyumas Region. The study used convenience sampling method. Respondents in this study were owners and managers of Small to Medium Sized Enterprises of batik industry in Banyumas Region, Central Java, Indonesia. A questionnaire be administered to the sample chosen for the study.

Data was analysed by multiple regression analysis. The testing result showed that effect of relationship competence, adaptation competence and innovation competence has significantly effect on firm's innovativeness. Competitiveness significantly effect on small and medium industry business performance. The ability of entrepreneurs to build business network has eased an information exchange and also to make a social relatedness in order to improve the competitive advantage. The result of the study provides contribution to Resources-Based View (RBV) theory, where the companies were able to improve all their capabilities in enhancing the competitive advantage and small and medium firm's performance.

Keywords: core, competence; competitive; batik; Banyumas

Introduction

The role of small medium enterproses (SMEs) in economic development and growth is crucial, and its contribution is not only in developing countries but also in developed ones. SMEs is considered as the exceptional industry since this kind of industry does not only absorb the larger sales force compared to the larger industry, but it also provides the most significant contribution to the national gross domestic product (GDP) (Tambunan, 2009). In the frame of national economy performance, SMEs has contributed 56 percent to the total GDP of Indonesia. This facts indicates that more than half of the Indonesian's economy has been sup-

ported by the SMEs (The State Ministry of Cooperative and Small and Medium Business Enterprises, 2014). The development and SMEs role is not minor, since they can provide huge contribution in worker absorption. Many efforts have been performed by SMEs to create competitiveness, such as building a relationship with a larger industry, create a proper management, convenient technology, and continuous innovation.

Based on the data from Badan Pusat Statistik (Bureau of Statistics), Central Java Province (2014), textile industry has provided the largest contribution to the economy of Central Java. Batik is one of the work of art and it becomes the famous heritage of Indonesia. Batik has been known by many countries. Batik has also been acknowledged by the United Nations Educational, Scientific, and Cultural Organization (UNESCO) as "Intangible World Heritage" in October 2009. The similar label was also given to "keris" (traditional personal sacred weapon) and "wayang kulit" (puppets). In Central Java province, there are many batik industry clusters i.e. Solo, Pekalongan, Lasem, Banyumas and Sragen. Compared with batik from Solo, Pekalongan and Yogyakarta, Batik Banyumas still unknown. Batik Banyumas is one of competitive craft commodity in Banyumas Regency, therefore Banyumas Government try hard to promote Batik Banyumas to penetrate international market and as icons of Banyumas City. In order to encourage SMEs to enter the global market, SMEs actors should maintain their competitive advantage and business performance. The ability to access government's support, adaptability on business environment and the ability to build business relationship will be the most important factors in maintaining batik's competitive advantage in the market (Meutia, 2012). Cooperation between government, SMEs and academicians in Triple helix frameworks has contributions on competitiveness of Banyumas Batik Small Medium Enterprises (Rahab, Anwar & Priyono, 2016).

Small and medium-sized enterprises (SMEs) sector has an important role to play in developing economies not only in economic development, but also in poverty alleviation and job creation. The sector faces a number of constraints especially in accessing finance, markets; training and technology. The sector faces both problems and opportunities that affect their competitiveness. However, research carried earlier on small-scale enterprises reveal that the performance of a number of them is less than satisfactory. Various local studies have been conducted by Rahab, Najmudin and Istiqomah (2013) who study about strategy to develop local economic through industrial core competence. Another study, Anwar, Rahab and Priyono (2015) who did a study problems and challenge to create sustainable competitive advantage of Banyumas Batik Small and Medium Enterprises (BBSMEs). Rahab, Anwar, and Priyono (2015) researched on the significance of value chain up grading to support competitiveness of Banyumas Batik Industry. Meutia (2013) explore about role of innovation creativity, business network and adaptability on competitive advantage. There is limited empirical evidence on effects sources of core competence on competitive advantage and performance of Batik Banyumas industry. This study seeks to fill the existing research gap by conducting a study to determine the relationship between core competence, competitive advantage and performance of BBSMEs in Banyumas region.

Unfortunately, some literatures show the lack of consistency on main factors to reach the success of SME (O'Regan & Ghobadian, 2004). The studies have found mixed views; some experts stated that SMEs success is heavily influenced by the individual itself that is the entrepreneur and also the parties who explain the importance of external factors and internal factors coming from the outside environment such as economic condition, government's policy. On the other hand, the availability of financial support and the nature of infrastructure

support (Yusuf, 1995) has also found to explain that entrepreneurs as the owner of the business plays an important role in deciding the success of a business (Baum & Locke, 2004; Che Rose *et al.*, 2006; Man & Lau, 2005). External network is one succeeding factor in business because through the business network an industry will be able to share the information; exchange the useful information benefited both sides (Flora & Flora, 1993; Malecki, 1996; Woolcock, 1998). Even though there is a positive evaluation in social capital's role in firm's development, yet some researchers argued that social relationship would not always push the process of innovation development, on the contrary it will create belief, community development, higher tolerance to the external side and the creation of new ideas (Glaeser *et al.*, 1995; Putzle, 1997). An entrepreneur who has high social capital (based on extensive social network, status, personal relatedness, and existing reference) will tend to accept more funds from the investor compared with another entrepreneurs who has lower rate in these dimensions (Shane & Cable, 1998). External network provides a support such as access to the opportunity and resources; as a result, it will finally influence the micro-business performance (Burt, 1992; Johannisson, 1996).

The ability to build business network will enable the SMEs owner to reach any business information, particularly for the information that comes from the outside of his company. Keats and Hit (1998) stated that dynamic environment significantly related to the performance. The result of this is hoped to show an influence of business environment on the company's performance (Hansen & Wenerfelt, 1989). There have been two factors that triggered the company's performance. The first is the role of external factors in determining the company's success; meanwhile the second one highlights the internal aspects of MSE, especially the entrepreneurs' characteristic. Study which focuses on external factors, generally observed the government's role in creating a conducive environment to reach the small business' success (Hazlina, 2007). Meutia (2013) find that business network significantly affected competitive advantage.

Innovation Capacity is another factor contributing to the SMEs competitiveness. Wahyono (2002) stated that continuous innovation in an organization was the basic needs to reach the competitive advantage. Conventionally, innovation can be expressed as a breakthrough in adapting the dynamic environment, which is related with new products. Nevertheless, simultaneously with the development of a company, innovation caters new ideas and new process application. Innovation is also viewed as company's mechanism in adapting with dynamic environment. Any changes in business environment have forced the companies to create any new thoughts, new ideas, and to offer the innovative products. Innovation has an important part in SMEs improvements because it will not only be the important tool to maintain the company's survival, but it also to win the strenuous competition. Batik is a product of high innovation, which becomes one of the Indonesian cultures that need to be maintained its existence. Innovation competence, ability to adapt with business environment change (adaptation competence) and relationship competence will be the important variables in improving competitiveness and the SMEs business performance. These variables have partially been investigated by previous researches on the SMEs, but they have been no study performed to explore the competitive advantage of batik industry, especially batik banyumas small medium enterprises in Banyumas region. Based on these explanation, this study aim to investigate effect of core competence dimensions (innovation competence, adaptation competence and relationship competence) on sustainable competitive advantage.

Literature review and hypothesis development

Firm core competence

The definition of core competence varies among researchers. According to Selznick (1957) and Porter (1986), a core competence allows a firm to be different from its competitors in the same field of activity. Hamel and Heene (1994), Dosi and Teece (1998) state that a core competence is defined as the skills and the resources that allow a firm to achieve its goals. According to Hamel and Prahalad (1990), a core competence is the knowledge of the company. The resource-based view (RBV) approach to firm core competence argues that firms possess resources, a subset of which enables them to achieve sustainable competitive advantage, and a further subset which leads to superior long-term performance (Barney, 1991; Grant, 1991). The question of what drives the performance of a firm is a central issue in contemporary research on strategy that applies the of strategy (Barney, 2001; Farjoun, 1998). The resource-based theory is considered as a useful framework to research and understand the dynamics of firms in their attempts to attain sustainable competitive advantage.

Sustainable competitive advantage

The idea of a Sustainable Competitive Advantage (SCA) surfaced in 1984, when Day (2004), suggested types of strategies that may help to sustain the competitive advantage. The actual term SCA emerged in 1985, when Porter discussed the basic types of competitive strategies that a firm can possess (low-cost or differentiation) in order to achieve a long-run SCA. Interestingly, no formal conceptual definition was presented by Porter in his discussion. Day and Wensley (1988) admit that there exists “no common meaning for „SCA” in practice or in the marketing strategy literature”. In achieving sustainable competitive advantage in organizations, Barney (1991) argues that valuable, rare, and inimitable resources are necessary but not sufficient to facilitate better outcomes. Firms must also have an appropriate organization culture in place to take advantage of these resources.

Performance of small and medium enterprises

SMEs growth is often closely associated with firm overall success and survival. Growth has been used as a simple measure of success in business. Growth is the most appropriate indicator of the performance for surviving SMEs. Moreover, growth is an important precondition for the achievement of other financial goals of business. From the point of view of an SMEs, growth is usually a critical precondition for its longevity. Young firms that grow have twice the probability of survival as young non-growing firms. It has been also found that strong growth may reduce the firm’s profitability temporarily, but increase it in the long run (Parker, 1989). However, there are several conceptual and empirical challenges in the study of firm growth. Firm growth in general refers to increase in size

Relationship between core competence and competitiveness

Network theory shows that the ability of the SMEs owner to get access into rare sources could economically be secured through a competence to build relationship with others, and this in turn will contribute to the business success (Zhao and Aram, 1995). Florin (2003) stated

that relationship with others provides added value to their member by letting them to gain access to social resources which are implanted in a relationship, where the relationship itself provides a means to the SMEs owner to get external resources which are needed by the organization (Jarillo, 1989). Granovetter (1983) stated that individual who has business relationship, consist of relatives and colleague will likely gain an access to larger information compared with the individual who does not link to a network. Based on this reasoning, Fischer and Reuber (2003) stated that company owner needs to develop and improve its relationship with external environment to enhance their business growth. Network can improve social capital of SMEs owners (Coleman, 1988) since an access to the information is implanted in retrieved network. Therefore, Granovetter (1983) concluded that individual who has business relationship consist of family and friends (strong relatedness) will likely gain an access to larger information compared with the individual who have no kind of this relationship with others. Based on this logical reasoning, Fischer and Reuber (2003) stated that the owner of an organization needs to improve their relationship with external environment to enhance the business growth. Based on these empirical evidences, it can be generated hypothesis,

Hypothesis 1. Relationship competence have a positive impact on firm's competitiveness

Environment is the entire condition of external environment, which influences an organization. Environment consists of internal and external environment. Internal environment is closely related with the entire condition of an organization such as resources, capability, and core competence, which are owned, by an organization (Hitt *et al.*, 2001). Meanwhile, the external environment includes the general environment, type of industry and competitors. The lack of market power and dynamic environment surrounds the company as a consequence of new emerged markets faced by the SMEs makes it to be susceptible to any external influence compared to the toughness of a bigger company (Man and Lau, 2002). Baringer (1997) found that an organisation, which has a rapid growth enable to operate in a friendlier environment, compared to the organisation that has a slower pace. This clearly indicates that there is a positive influence of the environment's opportunity on the business competitive advantage.

According to Amit and Schoemaker (1993), organization has to be able to adapt itself with a fast changing environment and technology to achieve its competitiveness. The previous studies (Beal, 2000; Sinkovics *et al.*, 2004; Barokah, 2009) stated that adaptation competence affects the competitiveness. The competence of entrepreneurs in adapting themselves to business environment becomes an internal source, which is hard to be imitated by other companies, and this in turn will create competitiveness for the organization itself. Based on the above explanation and previous empirical findings, the second hypothesis can be generated,

H2: Adaptation competence have a positive impact on firm's competitiveness

Environment that is characterized by a rapid changing of customers preference, technology, and competition, a company must create competitive advantage to survive. The ability of an organization to innovate, keep its organisation learning, market orientation and entrepreneurship have been considered as the main capability of a company to reach its competitive advantage (Hult and Ketchen, 2001; Hurley and Hult, 1998; Ireland *et al.*, 2001). These capabilities also help the company to reach its competitive advantage and create a trend in the market. Former study explained that each of the four capabilities has adequately provided a power, although it does not give enough strength to develop a continuous competitive advantage. Competitive advantage is closely related with the developing generation of innovative product, and it in turn provides an advantage for the companies to win the competition. Accord-

ing to Chiarvesio (2004), a leading company is characterized by dynamic strategic behaviour in their ability to innovate, have a proper relationship management with market, suppliers, internationalize the process, organize and manages the business network by creating a new value for the customer (Mizik and Jacobson, 2003). Based on this explanation and previous empirical findings, hypothesis can be constructed,

H3: Inovation competence have a positive impact on firm's competitiveness

Relationship between competitiveness and business performance

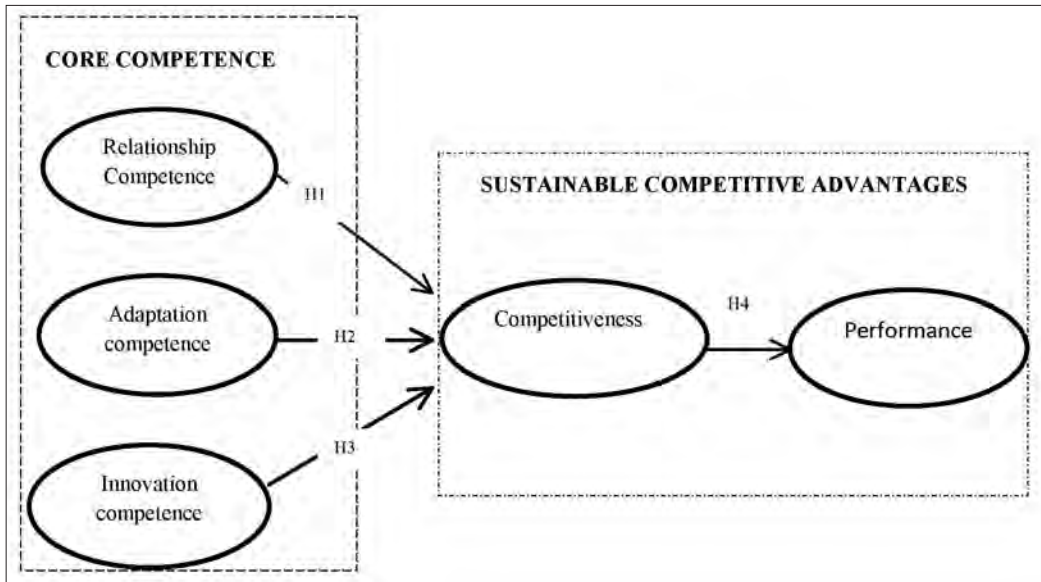
The result from Diosdad (2003) study shown that competitiveness can be viewed from company's position compared to their competitors' weaknesses and strengths. Competitiveness was derived from the ability of a company to keep their source superiority and its capability. Competitiveness indicates the company's skill and source superiority viewed by the customers or based on the lower cost attainment, market share and portability performance. Competitiveness can also be viewed from the amount and source of capital accumulated by the company.

According to Barney (1991), a company can be identified as a company that has mutual competition when it applies to value creation strategy, which is not simultaneously applied by their competitors (Sinkovics *et al.*, 2004). (Jennings and Lumpkin, 1992) stated that there is a lack of study focusing on the SMEs, as a matter of fact; environment and strategy strengthened the company's performance. Strategic approach has a potent to improve competitive ability, which provides a contribution to the company's performance improvement (Sinkovics *et al.*, 2004). Respatya (2001) stated that a company that produces goods and service has basically started paying attention on its competitive advantage to keep its surviving to earn profit. Competitive advantage pushes the SME's business performance through profit generation, sales development, and increasing the number of customers. Lisman *et al.*, (2004) and Ariya (2003) states that competitive advantage has positively influenced the organizational performance. In batik industry context, Meutia (2013) found that competitiveness affect on firm performance. Based on these explanation and previous empirical findings, the hypothesis can be generated,

H4 : Competitiveness have a positive impact on firm's performance

Based on the proposed hypotheses, a theoretical framework could be developed as shown in Figure 1. Dimension of core competence (relationship competence, adaptation competence and innovation competence will effect on competitiveness of firm and competitiveness directly effect on firm performance. We assume that competitiveness and performance are a part of sustainable competitive advantage.

Figure 1



Research method

This study uses quantitative approach. Population of this study is the owner and manager of batik banyumas small and medium enterprises (BBSMEs) of batik banyumas in 5 (five) regency. Data collection was done through directly survey in Juni until Juli 2015 using purposive sampling technique. The BBSMEs selected based on the purposive sampling technique with the following criteria: (i) it has at least 3 years working experience. This is to evaluate trend and the dynamic of batik market, (2) it has permanent workers which means that the company is relatively stable and able to continuously produce, (3) it involves not only distribution activities, but also production activities, (4) and it covers marketing nationwide.

Total of 67 BBSMEs were included in the study. In total (67) questionnaires were distributed to the managers or owners. The number of usable returned questionnaires was (58) giving response rate 86 percent, a rate that is regarded as good. The survey was administered directly. The Questionnaire was in Indonesia, which is the communication language in Indonesia. A majority of the respondents (83 percent) were male. Fifty five percent of the respondents were (40–60) old and the majority of respondent (63 percent) with job experience between (4–8) years.

Measurement and data analysis

To test hypothesis, we used regression analysis by SPSS software 20. Two steps of detailed statistical analysis of data were involved. At the first stage, descriptive statistic analysis was performed to extract the mean and standard deviation of underlying study variables core competence, competitive advantage, organizational performance and their dimensions. At the second stage, multiple regression analysis was performed to understand the relationship among

these variables. To measure the variables investigated in the study, few indicators are used based on previous researches and theories. As for the variable relationship competence, three indicators were used, namely: (i) the amount of network with production sector; (ii) the amount of network with the supplier; (iii) the amount of network with distribution channel. The second variable of the study is the adaptation competence on business environment. It is defined as the ability to adapt with dynamic uncertain environment such as the adaptability with the changes in customer's preference, market changes, competition, and the government's policy alteration and technology speed (Covin & Slevin, 1989; Stamp, 2008; Hazlina, 2010; McGinnis, 1993). Innovation competence are measured by three indicators: (i) design innovation (ii) motif design innovation (iii) technology innovation. Meanwhile, competitiveness is the government's ability to provide an added value to win the competition. It is the result of product differentiation between competitor and it is not only a product of differentiation (Coyne, 1997). competitiveness indicators include: (i) the creation of better customer loyalty compared to the competitor, (ii) the creation of better product development compared to the competitor, (iii) the creation of better technological development compared to the competitor, (iii) and the creation of more various product development compared to the competitor. Finally, the business performance was measured by four indicators, namely: (i) sales development, (ii) working capital growth, (iii) customer growth, and (iv) profit development (Wiklund, 1999; Wiklund & Shepherd, 2005; Stamp, 2008).

Analysis and results

Table 1. shows summary statistics of the metric variables in the study. A check of correlations among the metric dependent variables found few significant correlations, and none that reached as high as 0,5, indicating that there were no problems with multicollinearity between variables.

Table 1: Mean of metric variable

Variable	Mean	SD
Relationship Competence		
REL1	1.83	0.22
REL2	1.95	0.22
REL3	1.96	0.21
Adaptation competence		
ADAP1	1.69	0.22
ADAP2	1.92	0.22
ADAP3	1.87	0.21
ADAP4	1.87	0.22
ADAP5	1.90	0.22
Innovation competence		
INNOV1	1.96	0.21
INNOV2	1.93	0.22
INNOV3	1.88	0.21
Competitiveness		
COMP1	1.82	0.22
COMP2	1.90	0.20
COMP3	1.68	0.24
COMP4	1.86	0.21
Performance		
PERF1	2.77	0.15
PERF2	2.84	0.13
PERF3	2.60	0.18
PERF4	2.91	0.17

Internal reliability for the adapted scale was compared to that reported in the developmental literature. Scales as presented in table 2 showed a good internal consistency. As can be seen in table 2 Cronbach alpha reliability coefficients are at acceptable levels and fall between 0,813 for performance scale and 0,851 for relationship competence. The overall questionnaire presented a Cronbach alpha of 0,97. Nunnally (1978) indicated 0.7 to be an acceptable reliability coefficient.

Table 2: Reliability analysis of core competence, competitive advantage and organizational performance

Variable	Number of items	Cronbach alpha
Relationship Competence	3	0,851
Adaptation competence	5	0,819
Innovation competence	4	0,838
Competitiveness	4	0,819
Performance	4	0,813

Table 3 show effect of Core Competence dimensions (Relationship Competence, Adaptation competence and Innovation competence) on competitiveness of Banyumas Batik Industry.

Table 3. Summary of regression results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.864	.276		3.133	.002
REL	.234	.075	.223	3.100	.002
ADAP	.220	.068	.231	3.219	.002
INNOV	.299	.067	.309	4.444	.000

* Dependent variable: Competitiveness, the impact is significant at level (0.05)

Summary of regression results that explain effect of competitiveness on business performance of BBSMEs on Table 4.

Table 4. Summary of regression results

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.871	.263		7.121	.000
1 Comp	.478	.066	.472	7.247	.000

* Dependent variable: Business performance, the impact is significant at level (? ? 0.05).

Discussion

This study found that relationship competence significantly effect on competitiveness (sig: 0,002, t value: 3,100). This finding indicates that the entrepreneurs who is too responsive with the changes in an environment will be beneficial for the company since their wills a bulkiness of unsold inventory and at the same time there has been a new model of fashion in the

market. It needs more fund to create new designs because the changing trends in fashion can get easily booming and fading. Empirical results showed that respondents were aggressive in dealing with any changes that happened in a business environment, because they viewed it as an ordinary phenomenon. Most respondents were able to predict the changes that take place in a business environment; therefore, they were adapted to dealing with the changing trends, as they have already known how to deal with it.

In addition, the study found that adaptation competence significantly effect on competitiveness (sig: .002, t value: 3,219). BBSMES continuously adapted themselves with the changing customer's preference, there would be no gain for their business. If the designs of fashion become outdated, most of the products will be unsold, their warehouse will be full by unsold goods, and it will be disadvantageous for the company. In order to avoid the unsold product, the Batik companies need to create a new design and material that are always searched by the customers, as Batik Banyumas has been known as the leader in the industry. Accordingly, the ability to continuously adapt with business environment will cause the additional of investment value such as keeping up the technological change and market changes, but in reality, the result has not fulfilled their wishes. Thus, the companies stated that they produce a design, which is specially ordered by customers.

Furthermore, the study also show that innovation competence significantly on competitiveness (sig: 0,000, t value: 4.444). Innovation competence will continuously burden the small firm to keep the change of new technology, including new design, batik motif and material. Based on the data in the field, creativity is needed in Batik industry and will be significant factor to attain the competitive advantage. Innovation competence, particularly in computer usage is aimed to create new design and new motives. Respondents do not pursue the seasonal product since it includes in uncertain demand. Based on the data, the entrepreneurs or creativity teams often observed the worldwide trend to create the new design that will be launched into the market. They usually exchange their information with national designers. Handwritten Batik usually has unique design and traditional characteristic and it is mainly intended to serve exporting needs. Be creative in responding the changes in product development and customer's preference will improve the competitive advantage, especially when the respondents are able to improve a better quality of product.

Finally, the study show that the competitive advantage significantly influence on the business performance (sig: .000, t value: 7.247). This finding indicates that the greater the competitive advantage will lead the higher the SMEs business performance. This finding is supported by the studies of Lisman *et al.* (2004), Ariya (2003) and Meutia (2014) which explain that competitive advantage positively influenced the firm performance. One major factor in competitive advantage that the SMEs should maintain is the difficulty rate of design and motives, so as to make it hard to be imitated by the competitor. Although the competitor can easily imitate the design, but the end products can be different in quality because of the perfect Batik making process. High creativity in Batik processing could easily make the Batik entrepreneur in Banyumas to be the leader both in the national and international Batik markets. The result of this study is also in line with the Resources Based View (RBV) theory, which stated that an organization would maximally empower their capabilities to improve their relationship in increasing business network. The result from this study also explains that competitive advantage will be reached if innovation creativity is continuously employed since innovation is one of the major capabilities in an organization.

Conclusion

This study provides empirical evidence of the relationship between core competence, competitive advantage and organizational performance. We consider core competence to be a vital determinant of competitive advantage and organizational performance. The study provides empirical evidence of the effects of core competence on competitiveness of batik banyumas industry. Study confirm that all three dimensions of core competence (relationship competence, adaptation competence and innovation competence) were significant in explaining firm's competitiveness. This current study also find that competitiveness of batik indutry effect on firm's performance. Therefore, BBSMEs owners can use the current findings to develop strategies that deepen competitive advantage and enhance organizational performance. The current findings may be used by managers to differentiate themselves in a competitive batik banyumas industry marketplace. To remain competitiveness and obtain sustainable competitive advantages, owners of BBSMEs can try to increase organizational performance by managing each dimension of core competence i.e. relationship competence, adaptation competence and innovation competence in the context of BBSMEs.

This implies that the BBSMEs could improve their sustainable competitive advantages by enhancing its competitiveness and its performance following the resources based view theory. In designing strategy for improving the SME business performance, limitations of the study should be noted. Further studies on these issues are hoped to taken care of these study limitations. This study only investigated variables from internal side of a company, while none of the external variables such as business environment and governmen's support was investigated. Another limitation of this study is we only used limited BBSMEs in Barlinmascakeb area, so its finding cannot be generalization for batik industry in another place and country.

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Exploring the factors that affect employees non-financial motivation in Moldova's private sector

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Abstract: The purpose of the research was to explore the non-financial factors that affect employees motivation within organizations in private sector. Moreover, how all these factors influence employees performance. Based on academic literature were found fifteen motivational factors and discussed correlation among them. Additionally, in order to obtain clear picture, all factors were presented in one research model. The research model was proposed based on literature review, linking motivational factors with employees motivation and employees performance. Based on the correlations presented in the research model were proposed 27 hypotheses that were tested using data from 133 questionnaires collected among employees in private sector. In the study participated more than thirty private sector SMEs that are located in the biggest cities from Moldova. The survey results were analyzed through SPSS statistical tools. The study showed that all employees who have participated in the research have positive perception about non-financial motivation factors. All hypotheses tested in the research model have been accepted. According to results, motivational factors with stronger contribution on employees performance are promotion, teamwork, sense of achievement, empowerment, and job engagement. Employees empowerment is the most significant predictor of employees performance. The research contributes with knowledge in managerial motivation process, presenting fifteen non-financial factors incorporated in one research model. In the study has presented comparative data which in perspective can contribute to the academic literature, especially in emerging countries, such as Republic of Moldova.

Keywords: non-financial motivators, extrinsic motivation, intrinsic motivation, employees performance.

Introduction

Every company has aim to be successful and get a constant progress in their business (Manzoor, 2012). Nowadays, companies are facing unpredictable environment where technological changes require talented and qualified employees (Chew and Chan, 2008). Based on this, companies should develop strong and positive relationship with employees (Manzoor, 2012).

Organizations are interested to attract and keep skilled employees, leading companies to high results (Danish & Usman, 2010). Moreover, motivated employees become one of the critical factors that bring competitive advantages (Lockwood, 2007).

According to Ciorbagiu-Naon, (2010) there are small number of organizations that pay attention to their human resources. However, until employees of any organizations are not satisfied, encouraged and motivated none of them can achieve success and progress (Kuvaas & Dysvik, 2009).

The purpose of the research is to examine the contribution of non-financial motivation on employees performance in private sector, which according to Morrell (2011) became a timely one during the current economic recession and lack of financial resources. Furthermore, what motivational factors have greater impact in the context of an emerging country, in our case the target population are employees from Republic of Moldova. There are differences of managerial practices between emerging countries and developed countries. The reason could be different, on the one hand managers in developing countries are not aware with new managerial practices or they are not applicable. On the other hand, motivational factors that have great impact in developed countries do not have the same value in emerging countries. According to Chen and Huang (2009) managers that work in emerging countries are not trained and familiar with new practices, or the economic environment do not allow them to use these practices. In addition to this, employees have different values in countries with diverse level of development. As result, the research finds out motivational factors that are more suitable for private sector SMEs and employees perceive them as the most important.

The research is organized as follow: the second chapter discusses theoretical framework and based on that are proposed the research hypotheses. The third chapter provides information about methodological approach of the research and questionnaire design. In the fourth chapter presents the findings and results. While last section includes final conclusion and research limitations.

Theoretical framework and hypotheses

Generally, motivation plays a significant role in employees performance (Drake *et al.*, 2007). This area has been researched over the years, as result, has been adopted numerous definitions and theories regarding employees motivation (Martin and Dowson, 2009). According to Sheers (2014), employees motivation is something on what the company efficiency and results depends on, therefore maintaining a high level of motivation is one of the most critical and difficult task.

Motivation comes from the word “motivate”, which means to influence or push someone to achieve a want (Manzoor, 2012). Kumar (2011) affirms that the term of motivation is one commonly used but its meaning is poorly understood. It is quite important to know what motivation is, because it explains how and why employees behave at the workplace (Kong, 2009). Achakul and Yolles (2013) show that motivation is an individual phenomenon. Moreover, according to Kong (2009) employees are not the same, and they have different needs, values and of course different tasks, meaning that motivation process is individual one and may differ according to the person.

The first approach regarding motivation makes distinction between two types of motivation, intrinsic and extrinsic (Achakul and Yolles, 2013). The motivation that comes from inside,

the pleasure of doing a task and the satisfaction after its performing is attributed to intrinsic motivation (Patall *et al.*, 2008). Intrinsically motivated employees perform tasks enjoying them. The rewards that they obtain are participation, experience, and opportunity to acquire new knowledge (Dysvik *et al.*, 2010). Isen and Reeve (2005) and Gagné and Deci (2005) report that intrinsic motivation can be measured as period of time that an individual is engaged to the task, without being rewarded for it.

Although intrinsic motivation is considered efficient type of motivation, there are many situations when employees are not enough intrinsically motivated to accomplish some specific tasks (Patall *et al.*, 2008). Moreover, according to Reiss (2005) intrinsic motivation might be difficult to achieve, and require a long period of time that could affect short-terms goals. In this case, they are more motivated by external factors that move them forward. This type of motivation is known as extrinsic and Clendenen (2012) defines it as motivation centered on the receiving of outcomes for performed task. For instance, it is based on what employees obtain as result of the work they accomplish (DeTienne *et al.* 2008). Employees are not concentrated on the action itself, they are interested by rewards that managers will give them (Stoeber *et al.*, 2009).

Rogstadius *et al.*, (2011) report that extrinsic motivation positively affect employees desire to perform a task faster, however researchers claim that the quality of the work remain the same or even worse. Gagné and Deci (2005) claim that extrinsic motivation comes in the contrast to intrinsic motivation, where satisfaction appears not from activity itself, but from some rewards as result of task accomplishment. Although, in the research conducted by Stoeber *et al.*, (2009) extrinsically motivated employees might bring desired results in short time, and usually require a little knowledge in order to motivate employees.

Usually managers look for the easiest ways to motivate employees, appealing to monetary stimuli. However, this type of motivation often creates a competitive environment within the company, and instead of having a common purpose, the employees tend to defend their personal interests (Ciobargiu-Naon, 2010). Furthermore, Ciobargiu-Naon (2010) claim that non-financial incentives are highly appreciated by employees, because they offer possibility to develop employees skills and abilities, in contrast to monetary rewards that according to Morrell (2011) represent short-term motivation.

According to Ciobargiu-Naon (2010) promotion represents one of the best ways to recognize employees for their professional development. Aarabi *et al.*, (2013) support the idea that promotion opportunities provided to employees represent efficient external motivator. According to Dockel *et al.*, (2006) and Danish and Usman (2010) organizations that have career-oriented vision, such as, promotional opportunities, recognition and developmental training have positive impact on employees loyalty. Therefore, the following hypotheses are proposed:

H1: Promotion is positively related to extrinsic motivation

H2: Promotion is positively related to organizational loyalty

According to the research conducted by Ciobargiu-Naon (2010) work itself should be taken into consideration as one of the most important non-financial factor that affects employees motivation. Moreover, Carmeli *et al.*, (2007) claim that employees could be intrinsically motivated by challenging and meaningful job. Therefore, the following hypothesis is proposed:

H3: Work itself is positively related to intrinsic motivation

According to Baker *et al.*, (2006) team involves a group of employees that have common goals. Teamwork enhances employees to collaborate, to provide constructive feedback, and

to create friendly environment (Jones *et al.*, 2007). Additionally, in this research has been proved positive relationship among teamwork and employees engagement (Kalisch *et al.*, 2007). Based on the above, the following hypothesis is proposed:

H4: Teamwork is positively related to job engagement

According to Johnston *et al.*, (2007) managers need to have communicational skills that help them to deliver important information to their employees. Efficient communication could be used as one of the most important motivation tools (McPhee and Zaug, 2009 and Gilley *et al.*, 2009). In the research conducted by Johnston *et al.*, (2007) was studied how communication within a team affects tasks performance. Based on above, the following hypothesis is proposed:

H5: Communication is positively related to teamwork

Employees that have high sense of achievement are those who bring value to work they do. Liu *et al.*, (2009) show that employees who appreciate mentoring as chance to develop their skills and abilities are more oriented to achieve job objectives. Based on the academic literature has been observed the correlation between mentoring and employees promotion (Katana *et al.*, 2013; Katane, 2014). Furthermore, with mentor support employees could develop their skills that directly affect their professional growth. According to Geister *et al.* (2006) the quality of feedback provided by mentors affects employees performance. Based on the academic literature, there are reason to test correlation between mentoring and feedback (Allen *et al.*, 2010). Thus, the following hypotheses are proposed:

H6: The mentoring is positively related to sense of achievement

H7: The mentoring is positively related to promotion

H8: The mentoring is positively related to feedback

Sense of achievement represents the desire of employee to perform successfully a difficult or challenging task (Lin and Huang, 2011). In the research conducted by Dysvik and Kuvaas (2008) was claimed relationship among sense of achievement and intrinsic motivation. Therefore, the following hypothesis can be proposed:

H9: Sense of achievement is positively related to intrinsic motivation.

Dysvik and Kuvaas (2008) claim that trainings give employees opportunity to fulfill developmental needs, orienting their effort toward tasks achievement (Burke and Hutchins, 2007). According to Chang (2005) employees loyalty toward organization increase when they feel that company concerns about them and gives opportunity to develop their skills. Based on the above, following hypotheses are proposed:

H10: Training is positively related to employees performance

H11: Training is positively related to organizational loyalty

Özaralli (2015) supports the idea that empowerment leads employees to new and creative task solutions. According to theoretical model developed by Saks (2006) and Chen *et al.*, (2011) psychological empowerment influence employees engagement to work. In addition to this, if empowered employees feel their job meaningful they will spend more time to understand the problem and to find solutions. Therefore, based on theoretical support and previous findings we propose the following hypotheses:

H12: Empowerment is positively related to creativity

H13: Empowerment is positively related to job engagement

Employees get motivated performing challenging and meaningful task that allow them to use creative approaches (Gagné and Deci, 2005). According to West and Richter (2008) job environment that provides employees creativity is flexible, giving them opportunity to apply their own vision. Therefore, the following hypothesis can be proposed:

H14: Creativity is positively related to intrinsic motivation

Feedback represents information provided to enhance employees current and future performance (Geister *et al.*, 2006). According to Kaymaz (2011) for employees are important to see their results and to know if their goals are reached. Moreover, Kaymaz (2011) claims that feedback has positive impact on employees intrinsic motivation. Therefore, the following hypothesis can be proposed:

H15: Feedback is positively related to intrinsic motivation

Job security for an employee refers to how difficult is to keep the job or to find a new one. Especially now, during economic recession, job security has become one of the most important extern motivational factors for employees (Joe-Akunne *et al.*, 2014). The following hypothesis is therefore, proposed:

H16: Job security is positively related to extrinsic motivation

Despite the lack of researches in the area, theoretically, might be established correlation among leadership and empowerment (Ahearne *et al.*, 2005; Zhang and Bartol, 2010). Empowering leaders offer autonomy to their employees and encourage them (Avey *et al.*, 2008). Muñoz-Doyague and Nieto (2012) claim that high-quality relationship among leaders and employees involve mutual respect, trust, support, and collaborative environment. Additionally, in order to increase employees performance leaders try to promote communication among employees (Hambley *et al.*, 2007). Dewan and Myatt (2008) state that efficient leaders should encourage ideas sharing and open discussing. Therefore, the following hypotheses are proposed:

H17: Leadership is positively related employee empowerment

H18: Leadership is positively related to communication within organization

Employees dedicated to their work are more resistant to difficulties that may appear, and have enough energy and flexibility to perform their work (Bhatnagar, 2012). Langelaan *et al.*, (2006) show that employees devoting to their job have higher level of involvement, because they are inspired by the task they perform. Thus, the following hypothesis is proposed:

H19: Job engagement is positively related to employees performance

According to Bloemer and Odekerken-Schröder (2006) loyalty is characterized as employees attitude and their commitment to the organization and its objectives. Battistelli *et al.*, (2013) claim that motivational behavior can be internal or external, however both of them are oriented toward goal achievements. Based on the academic literature have been established relationship among organization loyalty and motivation (Moynihan and Pandey, 2007; Johnson and Yang, 2010; Battistelli *et al.*, 2013). Therefore, the following hypotheses are proposed:

H20: Organizational loyalty is positively related to employees intrinsic motivation

H21: Organizational loyalty is positively related to employees extrinsic motivation

Danish and Usman (2010) affirm that employees are demotivated when they perform well, but the work is not recognized. In this situation employees performance is low, if they do not see the difference between doing the task well or not (Ciobargiu-Naon, 2010). In Abdullah and Wan (2013) work is supported the idea that recognition is an important external motivation used by supervisors. Moreover, recognition might be more efficient if supervisors apply

it frequently, in short time after employees action that should be recognized (Abdullah and Wan, 2013). Therefore, it is reasonable to test the following hypotheses:

H22: Employees recognition is positively related to organization loyalty

H23: Employees recognition is positively related to extrinsic motivation

Christian *et al.*, (2011) support the idea that external factors could positively influence employees autonomy and responsibility. Moreover, in this research is claimed the correlation between extrinsic motivation and job engagement. Additionally, Manzoor (2012) supports the positive relationship among extrinsic motivation and job performance. Based on the above, following hypotheses are proposed:

H24: Extrinsic motivation is positively related to employees performance.

H25: Extrinsic motivation is positively related to job engagement.

According to Zhang and Bartol (2010) intrinsically motivated employees enjoy the work and have desire to perform tasks at the highest level. Additionally, employees perform well, when they receive pleasure and satisfaction from their work (Bhatti and Haider, 2014). Gagné and Deci (2005) found that intrinsically motivated employees have higher interest and are more engaged to the task than employees with low level of motivation. Thus, we proposed the following hypotheses:

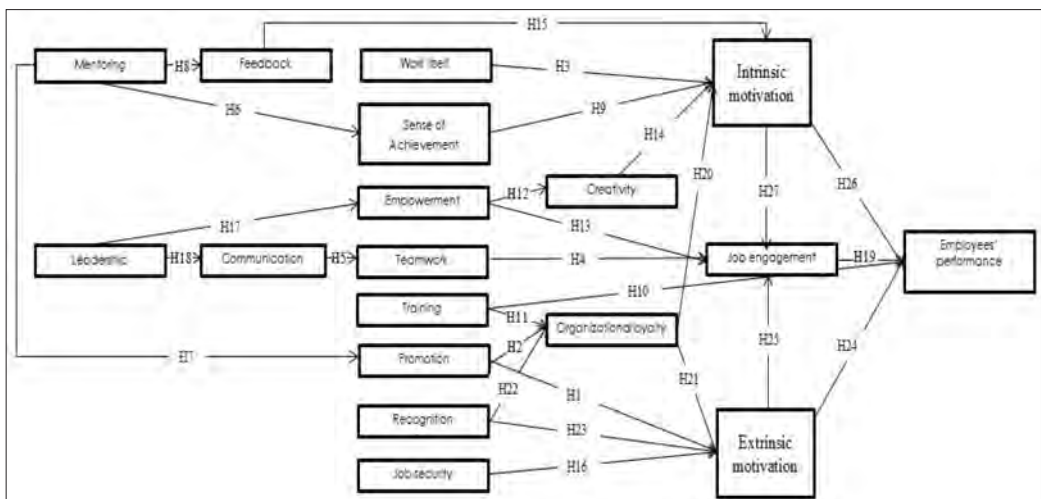
H26: Intrinsic motivation will be positively related to employees performance

H27: Intrinsic motivation is positively related to job engagement.

Based on the hypotheses above, were created the research correlation model that shows the relationships that will be examined further. Figure 1 demonstrates in detail, correlation between:

- the non-financial motivation factors (mentoring, feedback, work itself, sense of achievement, leadership, communication, empowerment, teamwork, creativity, job engagement, training, promotion, organizational loyalty, recognition, job security);
- intrinsic and extrinsic motivation; and
- employees performance.

Figure 1: Research correlation model and hypotheses



Research methodology

In this study participated employees from approximately 30 SMEs from Moldova's private sector located in the biggest cities Chisinau, Cahul, and Balti. These cities were chosen in order to receive more generalized and representative information. The 150 employees participated in the research, most of them are first line employees or middle level managers. However, just 133 questionnaires were fully completed and returned. The response rate of 88,7 per cent shows the high results.

Table II presents the main characteristics of the participants. The research sample consists of well-educated participants (undergraduate – 60,1%, postgraduate 25,6%). Moreover, the sample represents small and medium sized firms from divers industries, mostly representing services (62,4%). Further, as can be noticed, 50,2% of respondents have work experience 1-3 years, whereas 27,1% have 4-7 years of professional experience.

The questionnaires were distributed generally direct to employees. This approach allowed to explain the research objectives to correspondents. According to Schutt (2011), individuals that do not respond may affect the quality of the research. Creswell and Clark (2007) state that those who do not respond could have different opinion compared to those who participate. However, Gray (2013) claims that those who participate are more interested in the topic.

The questionnaire was developed appropriate to the researched topic, based on the previous findings. The items were taken from other studies and proved to be a good tool to measure motivational factors. The questionnaire is divided in two sections. First section includes consent form for correspondents who participate in the survey. Second section includes the items itself and is divided in twenty sections. The first section includes personal information of the correspondent, the second section contains organizational information where correspondent works, while other sections have questions that measure motivational factors presented in the research model: promotion and growth opportunities, work itself, teamwork, communication, mentoring and supervision, sense of achievement, training, empowerment, creativity, feedback, job security, leadership, job engagement, organizational loyalty, recognition, extrinsic motivation, intrinsic motivation, and employees' performance. All items (a total of 55) are measured using five-point Likert scale, form 1 – strongly disagree, 2 – disagree, 3 – neither disagree nor agree, 4 – agree, 5 – strongly agree. The Table I presents factors measured in questionnaire, their operational definitions and related academic literature.

Table 1: Research factors

Factors	Definition	Items	References
1. Promotion and growth opportunities	Promotion represents opportunity to have career growth that increase level of responsibility and social position.	3	Rich, B. L., Lepine, J. A., & Crawford, E. R. (2010)
2. Work itself	Work itself means the perception of employees about their work.	3	Rich, Lepine and Crawford (2010)
3. Teamwork	The group of people that collaborate in order to achieve a specific goal.	3	Mitrache and Ciorbagiu-Naon (2009)
4. Communication	Information sharing between employees within a company.	3	Rich, Lepine and Crawford (2010)
5. Mentoring and supervision	Training system where more experienced person (mentor) provide support to trainee.	3	Rich, Lepine and Crawford (2010)
6. Sense of achievement	Sense of accomplishment that employees have about their work.	4	Mitrache and Ciorbagiu-Naon (2009)
7. Training	Teaching process that develop employees skills and knowledge.	3	Dysvik and Kuvaas (2008)
8. Empowerment	A practice where employees are involved in managing process.	3	Zhang and Bartol (2010)
9. Creativity	Ability to perceive things in a new way, generating innovative solutions.	3	Zhang and Bartol (2010)
10. Feedback	The tool that provides an analysis of employees effort and also an image of how well the purpose and strategy of the company is performed.	3	Guo <i>et al.</i> , (2014)
11. Job Security	Employees assurance that they will keep their job.	3	Noble (2008)
12. Leadership	The process of leading a group of employees.	3	Camilleri and Van Der Heijden (2007)
13. Job engagement	Emotional connection between employees and organization.	3	Rich, Lepine and Crawford (2010)
14. Organizational loyalty	Employee align with company's vision and mission.	3	Camilleri and Van Der Heijden (2007)
15. Recognition	The process through which supervisor encourage and recognize employees for their work.	3	Danish and Usman (2010)
16. Extrinsic motivation	Motivation that appear as result of external rewards	3	Rich, Lepine and Crawford (2010) Mitrache and Ciorbagiu-Naon (2009)
17. Intrinsic motivation	Motivation that comes as result of internal desire to perform a task	3	Cho and Perry (2012) Dysvik (2013) Zhang and Bartol (2010)
18. Employees performance	The level of how well employees perform tasks	3	Dysvik (2013)

The data analysis of the study were done using more reliable SPSS tools, such as descriptive, correlation and multiple linear analysis. Further, was developed the construct validity table where was included means and standard deviation for each item and motivational fac-

tor. Also, in order to prove the hypotheses proposed in the literature review were used correlation analysis. Finally, the last SPSS tool is multiple linear regression, which was applied to explore motivational factors that have greater contribution on employees performance.

Data analysis and results

In order to validate the factors that were included in the research model were composed construct validity (Table III). According to Williams *et al.*, (2012) the Kaiser-Mayer-Olkin (KMO) measure of sampling adequacy and Barlett's test of sphericity are two tests recommended to be used in construct validity. Additionally, Tavakol and Dennick (2011) claim that Cronbach's alpha test is commonly used when research is based on Likert items in questionnaire, and it measures reliability. Moreover, the total variance explained (TVE) shows the percentage of the common variance.

As it can be observed from Table, all factors have KMO equal or above the 0.5. Moreover, Cronbach's alpha is above the 0,6 for almost all factors, just work itself and teamwork are under 0.6, having 0.427 and respectively 0.534. Also, the Barlett's test of sphericity is satisfactory, being below the threshold of 0.05. The TVE shows acceptable results, having percentage above 50. During the analysis only four items out of 55 items were dropped, showing that factor loadings for all items are at satisfactory level. Table III presents the means of all factors, and these means vary from 3.5 to 4.5 on five-point scale. Therefore, it can be generalized that participants in the survey are satisfied or have positive perception about motivational factors within their organizations.

Further, it can be said that employees are mostly motivated being involved in teamwork. According to Kalisch *et al.*, (2007) employees appreciate opportunity to work in a team. Communication within organization represents other important motivator for employees, which claim that organizational goals are clear and fully explained. Additionally, the sense of achievement shows high overall mean, supporting the idea that employees get motivated when they acquire new knowledge that help them in tasks accomplishment (Dysvik and Kuvaas, 2008). Creativity is other factor that has significant influence on employees motivation, especially employees are satisfied when managers allow them to come up with new and practical ideas to improve performance. Moreover, the high mean of job engagement shows that employees who participated in the research devote a lot of energy and enthusiasm to their work, as Langelan *et al.*, (2006) state.

Table 2: Study sample – descriptive statistics

Participant characteristics	Statistics	%
Education	Postgraduate	25.6
	Undergraduate	60.9
	High school	13.5
Work experience	More than 10 years	7.5
	8-10 years	9
	4-7 years	27.1
	1-3 years	50.4
	Less than 1 year	6
Industry	Manufacturing	9
	Services	62.4
	Banking	3
	Retailing	11.3
	Construction	3.8
Numer of employees in a company	10-25	39.1
	26-49	12
	50-200	48.9
Note: Sample size = 133		

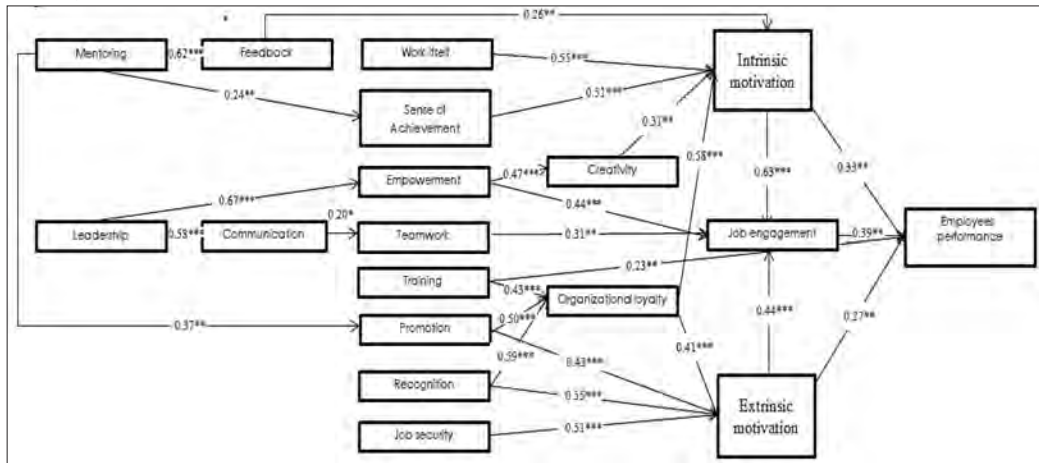
Table 3: Construct Validity

Factor	Mean	SD	Statistics	Item	Mean	SD	Loadings
Promotion and growth opportunities	3,43	0,86	KMO =0,598	C1	3,74	0,999	0,686
			Bartlett's sig. =0,00	C2	3,09	1,131	0,759
			TVE =58,721	C3	3,45	1,246	0,846
			Cronbach's α =0,648				
Work itself	3,73	0,80	KMO =0,500	D1	3,10	1,392	dropped
			Bartlett's sig. =0,00	D2	4,09	0,981	0,896
			TVE =80,239	D3	4,01	1,097	0,896
			Cronbach's α =0,427				
Teamwork	4,66	0,51	KMO=0,590	E1	4,29	1,049	0,607
			Bartlett's sig. =0,00	E2	4,83	0,525	0,867
			TVE =52,356	E3	4,87	0,378	0,866
			Cronbach's α =0,534				
Communication	4,18	0,93	KMO=0,687	F1	4,10	1,043	0,793
			Bartlett's sig. =0,00	F2	4,33	1,085	0,871
			TVE =72,383	F3	4,13	1,151	0,885
			Cronbach's α =0,809				
Mentoring and supervision	3,73	0,80	KMO=0,500	G1	4,08	0,926	0,887
			Bartlett's sig. = 0,00	G2	4,01	1,041	0,887
			TVE = 78,653	G3	3,11	1,426	dropped
			Cronbach's α =0,725				
Sense of Achievement	4,53	0,55	KMO=0,686	H1	4,14	0,894	0,578
			Bartlett's sig. =0,00	H2	4,60	0,768	0,757
			TVE =53,760	H3	4,70	0,651	0,737
			Cronbach's α =0,693	H4	4,69	0,720	0,804
Training	3,68	1,09	KMO=0,744	I1	3,74	1,147	0,891
			Bartlett's sig. =0,00	I2	3,65	1,225	0,923
			TVE =83,248	I3	3,67	1,235	0,923
			Cronbach's α =0,899				

Empowerment	3,96	0,91	KMO=0,682 Bartlett's sig. = 0,00 TVE =64,359 Cronbach's α =0,714	J1 J2 J3	3,96 3,68 4,23	1,157 1,293 0,934	0,801 0,807 0,798
Creativity	3,96	1,07	KMO=0,742 Bartlett's sig. =0,00 TVE =86,305 Cronbach's α =0,920	K1 K2 K3	3,88 4,03 3,97	1,181 1,107 1,174	0,913 0,949 0,924
Feedback	3,66	1,02	KMO=0,537 Bartlett's sig. =0,00 TVE = 64,169 Cronbach's α =0,685	L1 L2 L3	3,83 3,89 3,26	1,143 1,241 1,502	0,848 0,915 0,607
Job security	3,48	0,80	KMO=0,500 Bartlett's sig. = 0,00 TVE =77,055 Cronbach's α =0,701	M1 M2 M3	3,98 3,88 2,58	1,145 1,219 1,504	0,771 0,771 dropped
Leadership	3,74	0,97	KMO=0,683 Bartlett's sig. =0,00 TVE =64,691 Cronbach's α =0,720	N1 N2 N3	4,07 3,47 3,70	1,009 1,368 1,249	0,793 0,813 0,807
Job engagement	4,28	0,78	KMO=0,595 Bartlett's sig. =0,00 TVE =67,271 Cronbach's α =0,752	O1 O2 O3	4,47 4,25 4,12	0,812 0,941 1,087	0,639 0,903 0,894
Organizational Loyalty	3,89	0,96	KMO=0,580 Bartlett's sig. =0,00 TVE =66,640 Cronbach's α =0,740	P1 P2 P3	3,89 3,84 3,95	1,182 1,127 1,227	0,680 0,908 0,844
Recognition	3,47	1,07	KMO=0,617 Bartlett's sig. =0,00 TVE = 69,007 Cronbach's α =0,760	Q1 Q2 Q3	3,29 3,55 3,57	1,401 1,276 1,227	0,685 0,887 0,902
Extrinsic motivation	4,04	0,81	KMO=0,609 Bartlett's sig. =0,00 TVE =51,683 Cronbach's α =0,521	R1 R2 R3	3,65 4,59 3,89	1,250 0,779 1,287	0,751 0,666 0,737
Intrinsic motivation	4,24	0,82	KMO=0,664 Bartlett's sig. =0,00 TVE =74,903 Cronbach's α =0,830	S1 S2 S3	4,10 4,25 4,36	1,007 0,972 0,856	0,843 0,919 0,832
Employees performance	4,03	0,62	KMO=0,500 Bartlett's sig. =0,00 TVE =78,069 Cronbach's α =0,710	T1 T2 T3	4,56 3,02 4,50	0,678 1,593 0,831	0,884 dropped 0,884

Notes: Significance at the * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$, N=133

Figure 2: Research correlation model



Notes: Significance at the * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$, $N = 133$

Table 4: Hypotheses testing results based on correlation analysis

Hypothesis	Path	Correlation score	Remarks
H1	Promotion ? Extrinsic motivation	0.43***	Accepted
H2	Promotion ? Organizational loyalty	0.50***	Accepted
H3	Work itself ? Intrinsic motivation	0.55***	Accepted
H4	Teamwork ? Job engagement	0.31**	Accepted
H5	Communication ? Teamwork	0.20*	Accepted
H6	Mentoring ? Sense of Achievement	0.24**	Accepted
H7	Mentoring ? Promotion	0.37**	Accepted
H8	Mentoring ? Feedback	0.62***	Accepted
H9	Sense of achievement ? Intrinsic motivation	0.51***	Accepted
H10	Training ? Employees performance	0.23**	Accepted
H11	Training ? Organizational loyalty	0.43***	Accepted
H12	Empowerment ? Creativity	0.47***	Accepted
H13	Empowerment ? Job engagement	0.44***	Accepted
H14	Creativity ? Intrinsic motivation	0.31**	Accepted
H15	Feedback ? Intrinsic motivation	0.26**	Accepted
H16	Job security ? Extrinsic motivation	0.51***	Accepted
H17	Leadership ? Empowerment	0.67***	Accepted
H18	Leadership ? Communication	0.58***	Accepted
H19	Job engagement ? Employees performance	0.39**	Accepted
H20	Organizational loyalty? Intrinsic motivation	0.58***	Accepted
H21	Organizational loyalty? Extrinsic motivation	0.41***	Accepted

H22	Recognition ? Organizational loyalty	0.59***	Accepted
H23	Recognition ? Extrinsic motivation	0.55***	Accepted
H24	Extrinsic motivation ? Employees performance	0.27**	Accepted
H25	Extrinsic motivation ? Job engagement	0.44***	Accepted
H26	Intrinsic motivation ? Employees performance	0.33**	Accepted
H27	Intrinsic motivation ? Job engagement	0.63***	Accepted

Notes: Significance at the * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$, $N = 133$

As it can be seen from Figure 2 and Table IV all hypotheses proposed in literature review are accepted, and most of them have significant correlation.

Promotion opportunity has significant positive relationship with extrinsic motivation (*H1*) and organizational loyalty (*H2*) (0.43*** and 0.50***, respectively). In consequence, both hypotheses are supported, as Danish and Usman (2010) and Dockel *et al.*, (2006) state. Additionally, these correlations also were supported by Aarabi *et al.*, (2013), affirming that promotion opportunity is efficient external motivator for employees. Moreover, Dockel *et al.*, (2006) state that companies that support promotion and growth opportunity have positive impact on employees organizational loyalty. The work itself has significant positive correlation with employees intrinsic motivation (*H3*, 0.55***). The same positive findings were provided in the research conducted by Danish and Usman (2010). Additionally, our results supports the idea provided by Tella *et al.*, (2007), where is stated that employee are motivated if they know how task performance affects company results.

Moreover, mentoring positively correlates with promotion (0.37**) and feedback (0.62***), as is stated in *H7* and *H8*. According to Katane *et al.*, (2013) mentoring and supervision create productive relations among mentor and mentee that enhance employees growth and development. Based on previous findings stated by Allen *et al.*, (2010) is seen strong positive correlation of mentoring with feedback provided to employees, as the results obtained in our research. According to Allen *et al.*, (2010) mentors are those who take responsibility to provide constructive feedback to mentees, that influence their performance.

Focusing on Table III, it can be noted the significant positive relationship between sense of achievement and intrinsic motivation (*H9*, 0.51***). According to Danish and Usman (2010) this correlation exists because employees with developed sense of achievement try to perform their work at the highest level. Moreover, training is positively related with organizational loyalty (*H11*, 0.43***), as Dockel *et al.*, (2006) state. Additionally to this, the similar relationship was reported in the research conducted by Chang (2005). Conforming to author, employees loyalty increase when they feel that company cares about them.

Employees empowerment positively affects creativity (*H12*, 0.47***) and job engagement (*H13*, 0.44***). The results obtained in the research support previous findings conducted by Zhang and Bartol (2010) and Jiang (2010). According to Özaralli (2015) empowered employees feel themselves as a part of company, having opportunity to participate in its managing process, that frequently lead to new and creative solutions. As Jiang (2010) reports, empowerment gives employees the perception that they can directly influence company results.

Furthermore, Şenol (2011) states that job security is positively related to extrinsic motivation. The similar results were obtained in our research, where *H16* is accepted, showing

significant positive correlation (0.51***). This correlation exists employees cannot be motivated if they are not sure about their future in organization (Jandaghi *et al.*, 2011).

Focusing on Table III, it can be seen that leadership is positively correlated with empowerment (*H17*, 0.67***) and communication (*H18*, 0.58***). The strong positive correlation between leadership and empowerment signifies the fact that leaders are those who give employees autonomy to find new and creative solutions for work (Zhang and Bartol, 2010; Muñoz-Doyague and Nieto, 2012). This correlation with communication exists because leaders are responsible for the atmosphere within organization and its performance, whereas empowerment and communication are two motivational factors managed by leaders.

Other positive correlations, which support previous findings conducted by Johnson and Yang (2010) and Battistelli *et al.* (2013) are between organizational loyalty, intrinsic motivation (*H20*, 0.58***) and extrinsic motivation (*H21*, 0.41***). The first correlation indicates that employees feel the strong relationship between them and organization, which positively influence their internal desire to work for the company's prosperity (Bloemer and Odekerken-Schröder, 2006). The second positive correlation exists because employees committed to their organization feel external support that affect their motivation (Battistelli *et al.*, 2013).

Concerning the recognition, it has positive significant correlation with organizational loyalty (*H22*, 0.59***) and extrinsic motivation (*H23*, 0.55***). According to Danish and Usman (2010) the first relationship exists because employees feel that all their performance are seen and appreciated by supervisors. Further, the second correlation shows that the appraisal received by employees for their performance influence external motivation (Abdullah and Wan, 2013).

Extrinsic motivation has positive significant association with job engagement (*H25*, 0.44***). This correlation exists because externally motivated employees feel that managers treat them fairly and all their results are recognized, influencing their engagement to the job (Dysvik *et al.* 2010).

Finally, the intrinsic motivation is strongly related to job engagement (*H27*, 0.63***). Zhang and Bartol (2010) imply that internally motivated employees enjoy their tasks, and have internal willingness to perform them at the highest level.

The basic objective of the research is to define which motivational factors have strongest contribution on employees performance, proving the relationship among dependent and independent variables through SPSS linear regression analysis.

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,568 ^a	,322	,222	,58911

Predictors: *Promotion opportunity, teamwork, sense of achievement, employees empowerment, job engagement.*

Table 6: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1,523	,583		2,611	,010
Promotion	,149	,077	,193	1,918	,058
Teamwork	,168	,114	,129	1,476	,143
Sense of Achievement	,196	,123	,162	1,596	,113
Empowerment	,246	,095	,335	2,582	,011
Engagement	,165	,103	,192	1,594	,114

Dependent variable: *Employees performance*. ** $p < .001$, $N = 133$

The results of multiple regression analysis presented in Table V and VI show that the R squared is 0,332, meaning that variables used in regression analysis predict 32% of employees performance. Based on the regression analysis were chosen the factors that indicate greatest amount of changes in employees performance. According to the column of standardized coefficients, the Beta coefficients show the strength of the factors within the model, as it can be seen in the research the strongest predictors of employees performance are promotion ($\beta=0.193$), teamwork ($\beta=0.129$), sense of achievement ($\beta=0.162$), empowerment ($\beta=0.335$), job engagement ($\beta=0.192$). For instance, every one standard deviation of promotion will lead to 0.193 standard deviation increase of employees performance. According to the results, empowerment in the model has the strongest contribution on employees performance ($\beta=0.335$).

Conclusion

Regarding employees perception toward non-financial motivation factors, it can be concluded that employees get motivated especially when they activate in a team where communication between members, members and supervisors are clear. Moreover, employees have high sense of achievement, being interested in acquiring the latest information about their job, considering that the work should be done at the highest level. In addition to this, other important motivational factor that correspondents scored highly is job engagement, employees feel themselves dedicated to their work.

The research correlation model proposed 27 hypotheses, and all of them were accepted. However, some of the correlations are weak, whereas others are strong and significant. The leadership has strong correlation with empowerment and communication. Moreover, mentoring is significant correlated with feedback, and strong correlation has observed between motivational factors such as, work itself and organizational loyalty with intrinsic motivation. Further, intrinsic motivation has strong positive relationship with job engagement.

The results of the research show that there is no difference between the research and academic literature regarding the role of motivation on employees performance. Managers should carefully choose motivational policy and factors that could motivate employees.

The purpose of the research was to explore what motivational factors have the greatest contribution on employees performance. Using SPSS linear regression analysis has been observed five non-financial motivators that might explain employees performance. The research results show that promotion opportunity, teamwork, sense of achievement, employees empowerment, and job engagement are more appropriate motivation factors that predict employees performance. As result, it can be said that improvement in these factors could probably increase overall organizational performance.

Practical implication for the managers derived from the research suggest that employees should be fairly treated, and have professional growth according to their achievements. Moreover, being part of the team employees tend to get new information and experience which enhance their performance. Additionally, company performance could increase when managers empower their employees, and those are engaged to the work.

Research limitations

One of the most important limitation is a small sample size, however was covered three biggest cities of Moldova, the results are non-representative for a whole country. This limitation appears as the result of limited time of the primary data collecting, being five weeks.

Further, other limitation of this study is the questionnaire language. The data was collected through employees that know English. As result, some of items were unclear for participants, but they showed unwillingness to ask for explanation. In order to diminish this issue, was prepared a small introduction for participants that explain critical questions, however this remain to be a significant limitation of the study.

This study was done in Republic of Moldova, the sample was chosen randomly from three biggest cities from Moldova. Taking into consideration, the small sample size that participated in the study was tried to cover main cities, the future studies could explore in deep motivational factors based on organizational industry. Furthermore, might be investigated the demographic differences such as, gender, age, educational level, and work experience.

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Identifying the forces beyond state employees' self-reported attitudes towards performance related rewards

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Abstract: Performance-related pay (PRP) is used by many private and public organizations. Although its effect on company outcomes is generally viewed as positive, when used in public organizations, the results are rather negative. Despite the growing debate about the effectiveness of PRP in the public sector, the Greek government plan to adopt PRP schemes in public administration in the near future. Within a climate of strained relations between civil servants and government due to the severe income reductions and the ongoing economic crisis, the latter aspire to improve the performance of public employees by reforms including PRP schemes. The purpose of this research is first, to study the perceptions and attitudes of Greek Public Sector employees towards the introduction of PRP systems and secondly, to investigate whether job status could mediate the acceptance of the aforementioned implementation. This study uses a unique questionnaire of 600 observations which was designed by the authors to address the questions outlined in the preceding lines. Our econometric results indicate that workers have heterogeneous attitudes and hold heterogeneous beliefs on others' expectations regarding a successful implementation of PRP. Specifically, individual perceptions are less skeptical towards PRP than are beliefs on others' attitudes. Additionally, we found that managers do not tend to be significantly more optimistic than lower rank employees regarding the correct implementation of the PRP systems in their jobs.

Keywords: Performance-related pay, public sector, qualitative interviews, Greece.

JEL Classification: J28, J33

Introduction

The improvement of public administration performance has attracted attention by both academics and practitioners for many years (Dahlström & Lapuente, 2009). Employees have a central role in this improvement process, since their performance contributes considerably to the attainment of the organizational objectives. Employee performance is viewed as a com-

bination of motivation and ability (Rynes *et al.*, 2005). Based on experience gained by many companies, pay can be a powerful means of motivation. The choice of a pay system is considered critical to organizational success, because it may influence employee behaviour and provide information about the organization values (Brown, 2001). In order to maximize employee performance and link it to corporate goals more effectively, many organizations adopt flexible pay systems that relate employee performance with monetary rewards.

Assuming that these systems could also be applied in public administration successfully, many governments around the world have pushed public organizations to follow the private sector and initiate performance-related pay (PRP) schemes (Brown, 2001; Weibel *et al.*, 2010; Harrison *et al.*, 2014). According to OECD studies, approximately two-thirds of OECD countries have introduced PRP in some form (OECD 2005). The United Kingdom, Switzerland and the Czech Republic apply PRP more extensively than countries such as New Zealand, Austria and the Netherlands. In Finland, for example, the proportion of the basic salary that PRP represents may amount to over 40%. In the US, while PRP is of limited use in the core public administration, it is at the center of efforts to improve teacher accountability over the past decade in the context of the No Child Left Behind Act. The literature suggests that there are similar movements underway in middle income countries and, perhaps more sporadically, in lower income countries where PRP is more often encountered in the health and education sectors than in core administration.

These schemes are part of wider efforts for administrative reforms in the public sector aiming at reducing cost and increasing productivity, service quality and other key organizational outcomes (Reilly, 2003; Dahlström & Lapuente, 2009). Evidence shows however, that the effect of PRP on employee motivation and organizational performance is rather doubtful or even negative (Marsden & Richardson, 1994; Perry *et al.*, 2009; Weibel *et al.*, 2010; Schmidt *et al.*, 2011). The introduction of a PRP system entails the danger of being seen as an implicit attempt for wage cuts or a signal of less tolerance towards low productivity (Lazear, 2000, p. 1355). However, the implementation of a PRP system usually coincides with improvements in management practices, e.g. clearly defined goals, training and so on. Hence, it is rather difficult to determine its net contribution to the achievement of organizational outcomes (Glassman, *et al.*, 2010). This has sparked an extensive debate on whether the public sector could adopt PRP schemes successfully, under which conditions and which effects they could have on employee motivation and relations.

While this debate continues, the Greek government plans to reform public administration and initiate PRP schemes over the next period. The extensive reform of the enlarged and under-productive Greek public sector is part of the obligations of the memorandum signed between Greece and the debt granting institutions, the International Monetary Fund, the European Commission and the European Central Bank (Hope, 2010). At the kernel of the expected reforms is the core administration that seriously underperforms, intensifying further the country's economic and social problems.

This study aims at investigating how public sector employees perceive the forthcoming introduction of a PPR system. It is the first of its kind in the country, since PRP schemes have never been used in the Greek public sector before. Although most studies focus on the impact of PRP on employee motivation and organizational outcomes long *after* the adoption of PRP, this study is conducted *prior* to its introduction. It is a quantitative attempt aimed at exploring in depth employees' perceptions on the initiation of PRP schemes in a public organization. It results may be valuable to academics and practitioners. The study may help scholars

to understand employees' views, concerns or even fears, and suggest ways of better initiating a PRP scheme. Relevant studies have been largely quantitative, paying insufficient attention to employee idiosyncratic views with respect to PRP systems (e.g. Marsden & Richardson, 1994; Marsden & French, 1998; Brown, 2001). Practitioners may incorporate employees' perceptions, opinions and concerns to create an effective PRP system. As Schmidt *et al.* (2011) point out, the acceptance of a PRP system is more likely if employees are involved in the design of this system. More specifically we first investigate whether there are differences in workers' perceptions about the effective implementation of the PRP system. Apart from heterogeneity in first order beliefs ("my own beliefs"), our results indicate that workers do not perceive others' attitudes ("my beliefs on others' beliefs", or second order beliefs) equally. That is, while they report a rather favorable or optimistic attitude for themselves, they anticipate others to be more skeptical and less positive towards PRP.

Secondly we examine whether managers' perceptions are different than those of employees holding lower rank (clerical) positions. It could be assumed that managers are more positive towards the implementation of a PRP system, because it will facilitate their jobs in many ways. However, a recent study by Griffith & Neely (2009) found that only experienced managers performed better as they were able to effectively allocate effort within the team. Until now, managers are unable to reward a better performer more than a poor performer. Salary raises are automatic based on the length of service. The only way to reward top performers is through promotion to a higher rank, which generally means being transferred to a position involving another set of tasks. On the other hand, clerks in public sector could be more reluctant to the implementation of an PRP system due to the fact that employees have to deal with multiple principals, a common feature of public service hierarchies. If different principals value different outputs, have different information and have little ability or incentive to coordinate, separately designed incentive schemes are likely to fail (Dixit 1999).

The remaining part of the article includes a literature review of the key concepts used. Thereafter, the results of a national survey are presented and analysed with a view to eliciting economic attitudes and motivations amongst public servants. Finally, we conclude with theoretical and practical implications.

Theoretical underpinnings of PRP

PRP can be defined as a compensation that is linked to the performance of individuals and/or group of employees and is usually awarded as a form of monetary incentives, such as merit pay or gain sharing (Millkovich & Wigdor, 1991). PRP is based on the assumption that individual outcomes improve when they are related to monetary rewards. The issue of improving organizational outcomes through improving employees' motivation and performance lies in a simple microeconomic principal-agent model. In order to avoid moral hazard and adverse selection, situations where naturally arise in both private and public sectors, incentive schemes are provided. Therefore, this model proposed reward systems which induce employees to act in the firms' interest (Mirless, 1976; Holmstrom, 1976).

The assumption of the agency analysis, however, that monetary rewards automatically increase individual performance and induce employees to act in the firms' interest has received criticism for being oversimplified and difficult to evaluate, especially in a "multitasking" working environment (Holmstrom & Milgrom, 1991; Baker, 1992). Besides, PRP has been blamed

for several unanticipated effects that could have hidden costs for an organization. Illustratively, disadvantages of PRP include the possibility of turning employees' focus on those activities directly linked to financial incentives (Reilly, 2003), concentrating on ends rather than means or even lead them to engage in unethical behaviour (Glassman *et al.*, 2010). As Prendergast, (1999) points out, non-observability of all aspects of worker behavior leads to "centrality" or "leniency" bias which gives rise to rent-seeking behavior by workers who may receive a favourable treatment by their bosses. According to Courty, Heinrich, *et al.* (2005) a problem related to the multi-tasking argument deals with the issue of gaming or cheating. Typical examples are outright manipulation of results, cream-skimming, i.e. the manipulative selection of clients to improve program effects (Heckman, Heinrich, *et al.* 1997) In the public sector, an additional problem that could arise is that employees have to deal with multiple principals, a common feature of public service hierarchies. If different principals value different outputs, have different information and have little ability or incentive to coordinate, separately designed incentive schemes are likely to fail (Dixit 1999).

The literature on gift exchange has also contributed to the debate, showing that a reliable worker would reciprocate to a generous employer in a way which does not require the performance-contingent, ex ante establishment of compensating incentives rules like PR contracts (Akerlof, 1982). In the Akerlof model, higher pay always leads to higher effort (though firms clearly would not wish to pay for unbounded effort) and if worker effort depends on a reference wage, then it may be logical for firms to pay a wage above that level to obtain extra effort.

However standard economic theory fails to account for the fact that extrinsic incentives may "crowd out" intrinsic ones, yielding the contrary effects to the pretended increased motivation and higher effort (Frey & Jensen, 2001; Schmidt *et al.*, 2011). Behavioural economists recognized that extrinsic incentives (rewards) positively affect individuals only in the short run, but in the long run decrease motivation (Bénabou & Tirole, 2003). They explain that extrinsic motivation has a limited impact on current performance and reduces the agent's motivation to undertake similar tasks in the future. Their idea is as follows: once a reward is offered, it will be sought by the worker every time the task has to be repeated. Whereas when rewards are discretionary, they are likely to increase intrinsic motivation and thus be of more benefit to the individual. Baron & Kreps (1999) conclude in their article that "there is no doubt that the benefits [piece-rate systems or pay-for-performance incentive devices] can be considerably compromised when the systems undermine workers' intrinsic motivation.

A variety of psychological theories have been used to designate the role of pay in motivation. Nevertheless, expert opinions for the effectiveness of pay as a motivator have historically been divided. Motivational theories can be classified in two groups, according to the importance they assign to pay as a motivator (Rynes, *et al.*, 2005; Glassman, *et al.*, 2010). The first group of theories, including Maslow's need hierarchy theory, Herzberg's motivation-hygiene theory and Deci and Ryan's (2000) self-determination theory, questions the contribution of monetary rewards to performance enhancement. It mainly emphasizes internal motives and intrinsic rewards, such as recognition, social relations, self-actualization, job enrichment or autonomy. It asserts that money helps employees to meet only 'basic needs' and prevents dissatisfaction; however, pay cannot promote satisfaction. Hence, the motivational effect of financial incentives may be not only limited, but also negative (Rynes, *et al.*, 2005; Weibel *et al.*, 2010; Glassman, *et al.*, 2010).

On the contrary, the second group of theories, including reinforcement theory, expectancy theory, equity theory or goal setting theory, mainly concentrates on the process by which

desired behaviour is stimulated and enhanced, and advocate that there is a strong, positive pay-motivation relationship (Mellor & Harris, 2003; Rynes *et al.*, 2005; Perry *et al.*, 2009; Glassman *et al.*, 2010). In general terms, these theories argue that individuals are motivated when they are challenged and reinforced to attain clear, measurable and demanding but reasonable goals with valued and fair rewards. They imply that for most employees, money is the primary reason for working; therefore, pay is potentially a very effective means for improving performance (Pfeffer & Sutton, 2006; Glassman *et al.*, 2010).

Data and measures

Respondents and procedure

The National Centre for Public Administration and Local Government (EKDDA)¹ and more specifically its decentralized annex in Thessaloniki (PINEPTH) are involved in the study. PINEPTH covers the northern part of Greece and serves a population approaching 40% of the public servants in Greece. Approximately 600 questionnaires were returned for analysis.

The primary data for our assessment of PRP traits took the form of questionnaire responses indicating personal perceptions of, and attitudes towards, general practice in the context of the forthcoming adoption of PRP in the Greek public sector. It must be stressed that the definition of PRP incentives and their precise characteristics are still subject to debate. As no standard instrument for the assessment of PRP traits being available for this context, we designed our own, as follow.

Each respondent was confronted with 11 questions, on each of which he/she was invited to express his or her degree of agreement with a given statement on a 5-point scale. The scale was strongly disagree (1), disagree (2), unsure (3), agree (4), and strongly agree (5). Frequency distributions of responses to each of the 11 attitudinal statements appear in Table 1 in the appendix. The questions are numbered according to their appearance in the original questionnaire.

The questionnaire additionally requested the respondents' personal information (such as gender) and on job characteristics (position in service and job satisfaction).

Measures

Research in the field of social psychology has identified that people often misperceive the behavioural norms for their peer group. According to Epley and Dunning (2006) such differences in how people see themselves versus others are systematic and predictable, and rooted in basic processes of human perception. It is almost axiomatic that as long as people are in a position to perceive themselves and to perceive others, differences in those perceptions will exist and will engender disagreement, misunderstanding, and conflict. Therefore, we produce the questionnaire allowing for questions about "*me*" versus "*others*" in order to investigate the role of such misperceptions in PRP implementation in public sector.

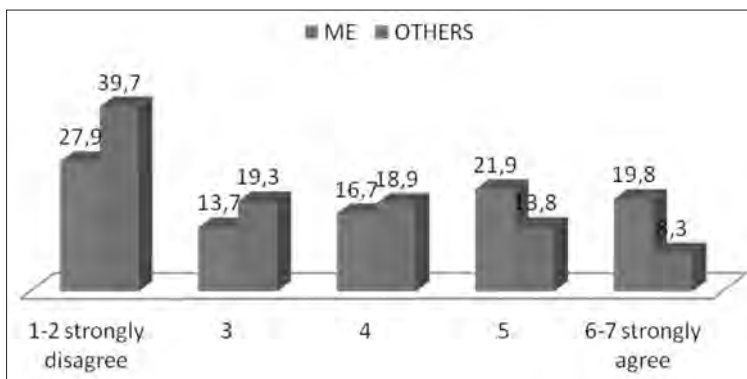
Due to a variety of reasons, people see themselves differently from how they see others. They are immersed in their own sensations, emotions, and cognitions at the same time that their experience of others is dominated by what can be observed externally. This basic asymmetry has broad consequences. It leads people to judge themselves and their own behavior differently from how they judge others and others' behavior (Pronin, 2008). These differences

in how you perceive yourself from how you perceive others are systematic and predictable, and rooted in basic processes of human perception (Perkins, Perkins, & Craig, 2010). Studies have revealed some differences, generally suggesting that “closer” others are perceived in more self-like ways than more “distant” others (Ames, 2004).

There is question about employee’s own behavior (e.g. “*In your opinion, could an introduction of a PRP system be effectively implemented in your job (section)?*”), and a question about perceptions of others’ attitudes (e.g. “*In your opinion, how could your colleagues’ reaction be towards the introduction of a PRP system?*”). Responses are provided on a scale from 1 (completely disagree) to 7 (completely agree). These two are the dependent variables to be explained by a set of personal perceptions of, and attitudes towards, the introduction of PRP.

Figure 1 shows that approximately 20% of workers believe in a very successful implementation of the PRP system in their division. Interestingly, it appears that the perception the workers have for their coworkers’ reaction to the likelihood of a PRP system would be different. In terms of coworkers expectations regarding PRP implementation only 8,3% of workers believe that others’ acceptance of a PRP system could be positive. On the other hand for those who believe that a PRP system could be unsuccessfully implemented, 39,7% believe that this would arise due to their coworkers’ reaction and only 27,9% due to their own.

Figure 1: Me vs others in the introduction of a PRP system



Additionally, in Table 1 we present descriptive statistics of “own perception”, “others perceptions” and “me-vs-others misperceptions”. Misperceptions of others’ attitudes are calculated by subtracting the median of the behavior for each group employee from each respondent’s reported perception of their employee’s behavior. Therefore, each respondent has a misperception score which, if positive, indicated that they thought that other employees would be more negative towards the implementation of a PRP system in their job than their own attitudes. On average employees underestimate peers’ reaction on the successful implementation of the PRP system with an own mean of 3.17 versus a mean of 3.86 for others. To test whether there were significant misperceptions across the sample we conducted one-sample t-tests comparing the mean misperception for each category with a value of zero. All misperceptions were significantly different from zero.

Table 1: Mean ‘own perception’, ‘others perceptions’ and ‘me-vs-others misperceptions’

		Own perception		Others perception		Misperception		t-test
		Mean	S.D	Mean	S.D	Mean	S.D	
All	569	3.86	1.85	3.17	1.60	0.82	1.60	12.17***
Clerks	338	3.76	1.87	3.08	1.59	0.91	1.59	10.55***
Managers	229	4.00	1.81	3.31	1.62	0.68	1.62	6.32***

Manager-clerks differences

Research suggests that job status influences behaviour with respect to work. Therefore, we conduct our research on status differences (REF) in order to highlight whether there are job status differences in terms of the perceived implementation of the PRP system. Therefore, we split the sample into two groups, those with a clerical position and those with a managerial position.

Table 3 in the Appendix presents summary statistics of the responses. The average numerical answers of 18 out of 20 attitudinal traits from both managers’ and clerks’ responses are greater than the midpoint of the scales (2.5). This indicates that, on average, both managers and clerks tend to be positive rather negative with respect to the introduction of a PRP scheme in their job. The *t-statistics* for these job status differences indicate for 10 out of 20 attitudinal traits high statistical significance. Managers are more optimistic than clerks that a PRP system will help managers to set clear and measurable goals in their job, establishing an organizational culture oriented in performance, attract high-skilled employees and discourage low-skilled employees, positively influence promotion prospects, and total pay. On the other hand, clerks believe more than managers that a PRP system will reduce the creativity and innovation in the public sector, demotivate public servants that are intrinsically stimulated, whereas it will produce fewer tensions in work. Summing up, we show that managers tend to be more optimistic than clerks in the successful implementation of PRP systems.

Empirical methodology

This study followed the methodology for measuring self-vs.-other discrepancies between attitudes by asking employees to form an opinion on what others *think* regarding a possible implementation of a PRP scheme in their job.

The methodology employed is based on regressions that relate the likelihood of PRP system to a set of attitudinal statements.

Own perception of the effective implementation of a PRP system: $P_i = \vartheta X_i + \delta S_i + \varepsilon_i$ (Model 1) where P_i is the own perceived implementation of the PRP system in the public sector stated by individual i , X_i are the attitudinal variables, S_i is a vector of control variables and ε_i is the error term.

The regression was re-run for the coworkers’ perception to identify differences in the explanatory factors of own and others’ perceptions.

Others perception of the effective implementation of a PRP system: $L_i = \alpha X_i + \lambda S_i + u_i$ (Model 2)

The results of the regressions are presented in Tables 2 and 3.

Results

This section presents: a) the results of the employee' perception about the successful implementation of a PRP system in the public sector (Table 2, column 1), b) the estimation results for perceptions on others' attitudes (Table 2, column 2) and c) the estimation results disaggregated by job status (Table 3, column, 1-4).

Differences

In general, respondents perceived their colleagues' attitudes towards a successful implementation of a PRP system to be less positive than their own perception. More specifically, they assume that their colleagues' perceptions about a PRP system could prompt public servants to be interested solely in tasks that are directly related to financial incentives while for themselves this factor is insignificant. Moreover, they believe that their colleagues' do not recognize that a PRP system will help public servants to better understand the organization values and priorities, whereas for themselves this factor counts a lot. In addition, workers who believe for themselves that such a reward system could not lead a public servant to an unethical behavior they do not have a clear opinion about what others think of these issues.

Similarities

There are also some similarities of perceptions across the "*me vs others*" dimension. For example, this study shows that employees believe both for themselves and for their coworkers that a PRP system will help the workforce to improve its productivity. Probably in employees' perception performance improvements coincide with improvements in management practices, e.g. clearly defined priorities and values. However, this is in contrast with Weibel *et al.* (2010) and Schmidt *et al.* (2011) who find that the effect on employee performance is less clear and could be also negative.

Table 2

VARIABLES	Own perception	Norm
	(1)	(2)
A PRP system help the workforce to improve its productivity	0.292**	0.270**
A PRP system help public servants to better understand the organization values and priorities	0.678***	0.246
A PRP systems in public administration discourage low-skilled applicants	-0.168	-0.254
A PRP system prompt employees to be interested in tasks related to financial incentives	0.0416	-0.394***
A PRP system lead a public servant to an unethical behavior	-0.359**	-0.224
A PRP systems demotivate public servants that are intrinsically stimulated	-0.457**	-0.374*
A PRP system influence positively: supervisor-employee relationship	-0.0121	-0.160
A PRP system influence positively: relationships with colleagues	0.328	-0.0111
A PRP system influence positively: total pay	0.555***	0.396***
A PRP system influence positively: sense of job security	0.135	-0.136
A PRP system influence positively: tensions in work	0.423***	0.188
Job satisfaction	0.156*	0.302***
Male	0.171***	0.130***
Constant cut1	-0.806***	-0.828***
Constant cut2	-0.285***	-0.0881
Constant cut3	0.112	0.414***
Constant cut4	0.586***	1.010***
Constant cut5	1.347***	1.662***
Constant cut6	1.912***	2.157***
Observations	520	518

Job tasks and responsibilities are usually complex in public administration. This so-called ‘multitasking problem’ (Weibel *et al.*, 2010) creates additional difficulties in the precise measurement of performance. Performance appraisal systems have proven problematic in public organizations. The existence of quotas in extrinsic rewards and favoritism create feelings of unfairness among employees (Brown, 2001; Schmidt *et al.*, 2011). Public sector employees are more risk averse and intrinsically motivated than those of the private sector (Brown, 2001; Weibel *et al.*, 2010, Lucifora, 2015). Thus, PRP may affect their efforts negatively. This study shows, in line with the above literature, that a PRP system could demotivate public servants that are intrinsically stimulated.

Studies on PRP show that constraints in funding of public sector organizations restrict the level of monetary rewards. As a consequence, the price effect of PRP is rather limited, since employees may not value monetary rewards (Brown, 2001; Reilly, 2003; Weibel *et al.*, 2010). However, this study doesn’t confirm these findings. We show that the wage effect positively influences the successful implementation of a PRP scheme.

Evidence also shows that the application of PRP in the public sector undermines employee morale and teamwork (Marsden & Richardson, 1994; Brown, 2001) and private sector culture with profit/loss criteria is often unfamiliar to civil servants (Susseles & Magid, 2005; Perry *et al.*, 2009). However, our study shows that there will not be a significant effect on a worker's relationship with a supervisor and with colleagues.

Additionally, those who are more satisfied with their job are more positive to an introduction of a PRP system. Job satisfaction, which would include all monetary and especially non-monetary features such as the amount of discretion that is exercised, how challenging or stimulating the job is, the degree of skill utilization etc., suggests that workers have a preference for financial rewards based on performance. Since more satisfied workers are likely to be more productive (Wright *et al.*, 2002), hence affecting their likelihood of receiving PRP in the future (Kahn & Sherer, 1990). Males are more positive towards PRP wage systems. In contrast, age, and position in the section do not seem to be correlated with pro-PRP attitudes.

Clerk-manager differences

We now report the results on similarities/differences once we control for position hierarchy.

According to Holmstrom (1976), the underlying premise behind all such schemes is that workers are motivated primarily by monetary rewards and that an increase in remuneration based on performance will invariably lead to an improvement in performance along the lines desired by management. In this study we find that all workers believe that pay, per se, is not necessarily a potential motivator. However, clerks believe for others that pay could probably demotivate other employees in the same hierarchical position.

For clerks, the belief that a PRP system will help public servants to improve their productivity has a positive effect on the perceived likelihood of a successful implementation of a PRP scheme, whereas for managers this effect is insignificant. Contrary, managers believe that their colleagues do recognize that a PRP system will help public servants to improve themselves.

Many workers could probably become very concerned about their level of job security. In a survey of American workers both in the public and private sectors, for example, found that many workers were very concerned about their level of job security (LeBlanc & Mulvey 1998). However this study, in line with Pouliakas & Theodossiou (2009), finds that contingent rewards don't affect job security. This effect could arise because public sector jobs in Greece still provide long term employment stability.

In pay-for-performance schemes managers can exactly set the values and priorities that employees must achieve and this helps managers to focus on what is central to their operation. We found that clerks believe for themselves and for their coworkers that a PRP can indeed help them understand the desired outputs.

Finally, it is found that managers who believe that pay-for-performance schemes could discourage and lead public servants to an unethical behavior are more negative to an introduction of a PRP system. This could probably be explained by the fact that PRP schemes give managers more flexibility to reward the best workers, but also provide systems to label the least effective ones.

Table 3: Me vs others and hierarchy position

VARIABLES	(1) Clerks_own	(2) Managers_Own	(3) Clerks_Norm	(4) Managers_Norm
A PRP system help the workforce to improve its productivity	0.364**	0.259	0.154	0.444**
A PRP system help public servants to better understand the organization values and priorities	0.586**	0.895***	0.452*	0.0683
A PRP systems in public administration discourage low-skilled applicants	0.175	-0.525**	-0.242	-0.245
A PRP system prompt employees to be interested in tasks related to financial incentives	-0.00892	0.148	-0.533***	-0.194
A PRP system lead a public servant to an unethical behavior	-0.298	-0.456*	-0.204	-0.177
A PRP systems demotivate public servants that are intrinsically stimulated	-0.554**	-0.418	-0.185	-0.872**
A PRP system influence positively: supervisor-employee relationship	-0.237	0.187	-0.173	-0.0931
A PRP system influence positively: relationships with colleagues	0.349	0.574	-0.130	0.125
A PRP system influence positively: total pay	0.666***	0.374**	0.466***	0.280
A PRP system influence positively: sense of job security	-0.0149	0.0996	0.0293	-0.404
A PRP system influence positively: tensions in work	0.730***	0.185	0.0975	0.114
Male	0.163	0.164	0.255**	0.336**
Job satisfaction	0.242***	0.0881	0.118*	0.151*
Constant cut1	-0.832***	-0.790***	-0.816***	-0.875***
Constant cut2	-0.177*	-0.470***	-0.0673	-0.144
Constant cut3	0.162	0.0207	0.403***	0.412***
Constant cut4	0.640***	0.507***	1.033***	0.963***
Constant cut5	1.399***	1.312***	1.722***	1.602***
Constant cut6	1.852***	2.069***	2.197***	2.135***
Observations	307	213	306	212

Conclusions

During the last decades, governments in most developed countries have adopted PRP schemes in the public sector (Schmidt *et al.*, 2011; Weibel *et al.*, 2010). Nonetheless, relevant studies observed that PRP schemes in the public sector have generally been unsuccessful, triggering a debate whether PRP works in public organizations (e.g. Kessler, 1994; Marsden & Richardson, 1994). This failure is attributed to the fact that public organizations were coerced to mimic private organizations' practices for political and communicational purposes (e.g. Brown, 2001; Reilly, 2003). For some politicians, the introduction of PRP schemes signals

a departure from an outdated, bureaucratic public management and an attempt of gaining legitimacy across society (Risher, 1999; Perry, 2009; Bellé, 2010).

Contrary to what one would have thought, public sector employees in Greece are far from unanimously negative regarding the adoption of performance contingent pay. However, they seem to “delegate” the opposition to others around them, in an apparent effort to signal a pro-efficiency own attitude but a more conservative view on this by others. This could be explained as the wish to comply with some objectively correct measure, which would face objections by others.

The explanatory factors of own attitudes towards performance contingent pay are similar from beliefs on others’ attitudes in the following ways: that a PRP system will help the workforce to improve its productivity, it will have a positive effect on wage, however it could demotivate public employees that are intrinsically stimulated.

Moreover, workers have heterogeneous attitudes and hold heterogeneous beliefs on others’ expectations regarding that a PRP system will help public employees to better understand the organization values and priorities, and that after the implementation of such schemes public servants will be interested solely in tasks that are directly related to financial incentives.

Note

¹ EKDDA is the national strategic agent for the development of the Human Resources of the Public Administration and Local Government. One of his missions is to provide life-long learning and certified training on knowledge and skills on public servants.

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Appendix

Table 1: Questionnaire responses, Descriptive statistics

Questions	Responses (%)				
	Strongly disagree	Disagree	Unsure	Agree	Strongly agree
Attitudinal traits					
In your opinion, to what extent does a PRP system in public service help the workforce to improve its productivity?	7.2	9.5	16.6	47.8	18.7
In your opinion, to what extent does a PRP system help public servants to better understand the organization values and priorities?	11.6	18	19.3	41.7	9.2
In your opinion, to what extent do PRP systems in public administration discourage low-skilled employees (applicants)?	18.75	21.53	22.74	27.26	9.72
In your opinion, to what extent do PRP systems prompt public servants to be interested solely in tasks that are directly related to financial incentives?	2.7	6.4	20	51.2	19.5
In your opinion, to what extent may a PRP system lead a public servant to an unethical behavior?	12.6	20.3	24.6	32.2	10.1
In your opinion, to what extent may PRP systems demotivate public servants that are intrinsically stimulated?	21	21.9	25	24.3	7.5
<i>Scale from 1 (negative) to 5 (positive)</i>	1	2	3	4	5
In your opinion, in which way could an introduction of a PRP system influence: supervisor-employee relationship	12.8	20.2	34.6	21.9	10.3
In your opinion, in which way could an introduction of a PRP system influence: relationships with colleagues	21.5	31.3	31.5	11.4	4.4
In your opinion, in which way could an introduction of a PRP system influence: total pay	3.6	6.1	22.4	41.1	26.6
In your opinion, in which way could an introduction of a PRP system influence: sense of job security	17.8	19.8	33.2	20.5	8.5
In your opinion, in which way could an introduction of a PRP system influence: tensions in work	16	19.3	23.2	26.8	14.4
Control variables					
Male					
Clerk					
Your Job satisfaction from 1 to 7	11.1	13	22.4	31.3	22

Table 2: Questionnaire responses, Descriptive statistics, Dependent Variables

Dependent Variables	Scale 1-2	3	4	5	6-7
In your opinion, could an introduction of a PRP system be effectively implemented in your job (section)?	27.94	13.5	16.7	21.9	19.8
In your opinion, how could be your colleagues 'reaction to the introduction of a PRP system?	39.7	19.1	18.9	13.8	8.3

Table 3: Summary statistics of the attitudinal traits towards the introduction of PRP scheme

Attitudinal traits		Mean (range 1-5)	Std. Dev.	t-stat.
In your opinion, to what extend does a PRP system in public service help the workforce to improve its productivity?	Managers	3.70	1.13	1.61*
	Clerks	3.54	1.10	
In your opinion, to what extent does a PRP system help public servants to better understand the organization values and priorities?	Managers	3.25	1.22	1.12
	Clerks	3.14	1.15	
In your opinion, to what extent do PRP systems in public administration discourage low-skilled employees (applicants)?	Managers	2.98	1.29	2.75*
	Clerks	2.80	1.24	
In your opinion, to what extent do PRP systems prompt public servants to be interested solely in tasks that are directly related to financial incentives?	Managers	3.81	0.93	0.64
	Clerks	3.76	0.92	
In your opinion, to what extent may a PRP system lead a public servant to an unethical behavior?	Managers	2.99	1.21	1.19
	Clerks	3.11	1.18	
In your opinion, to what extent may PRP systems demotivate public servants that are intrinsically stimulated?	Managers	2.54	1.23	3.28***
	Clerks	2.89	1.23	
In your opinion, in which way could an introduction of a PRP system influence: supervisor-employee relationship (from 1 negative to 5 positive)	Managers	3.04	1.18	1.42
	Clerks	2.90	1.14	
In your opinion, in which way could an introduction of a PRP system influence: relationships with colleagues (from 1 negative to 5 positive)	Managers	2.56	1.07	2.04**
	Clerks	2.37	1.08	
In your opinion, in which way could an introduction of a PRP system influence: total pay (from 1 negative to 5 positive)	Managers	3.90	1.03	1.78*
	Clerks	3.74	0.99	
In your opinion, in which way could an introduction of a PRP system influence: sense of job security (from 1 negative to 5 positive)	Managers	2.84	1.15	0.38
	Clerks	2.80	1.22	
In your opinion, in which way could an introduction of a PRP system influence: tensions in work (from 1 negative to 5 positive)	Managers	3.19	1.30	2.26***
	Clerks	2.93	1.28	
In your opinion, could an introduction of a PRP system be effectively implemented in your job (section)?	Managers	4.00	1.81	1.48
	Clerks	3.76	1.87	
In your opinion, how could be your colleagues 'reaction to the introduction of a PRP system	Managers	3.31	1.62	1.69**
	Clerks	3.08	1.59	
Your Job satisfaction from 1 to 7	Managers	4.48	1.35	1.03
	Clerks	4.36	1.43	

There is a significant difference of the response in managers and clerk for the way

*** p<0.01, ** p<0.05, * p<0.1

Service quality and brand personality in hotel and hospitality the case of Romanian hotels

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Abstract: Hotel service quality and hotel brand personality are very important constructs that hotels must master and understand in order to stay competitive in business and grow in market share. It is also important for companies to know how to measure these constructs so that they acknowledge customer needs and desires and hence satisfy them. Nevertheless, innovation plays a key role in this respect. Entrepreneurs build innovation either by introducing new products, technological change, new market opportunities or by developing new brands. In the case of hotel brands, constantly improving services and being up to date with technology keeps them on the right track. The main purpose of this study is to understand how hotel guests evaluate and perceive service quality and brand personality in the hospitality industry. In order to do so, the proposed strategy is to design a model which incorporates brand personality scale measurement and service quality measurement, with the purpose of analyzing the effect these variables have on brand value and brand loyalty. The method of analysis uses structural equation modelling and investigates the impact of service quality and brand personality on hotel brand loyalty. The results confirm the existing literature and indeed certifies the fact that brand personality significantly impacts brand value and loyalty and that perceived quality impacts brand loyalty and brand value. This research contributes to the already existing studies examining service quality and brand personality, but it also brings original value considering that it deals with the Romanian hospitality industry. Also, the originality of this study consists in the proposed study methodology, which uses structural equation modeling for analyzing the relationship between the constructs. Hopefully, this research paper will shed light on the existing literature about service quality and brand personality, but it will also clarify its relationship with brand value and brand loyalty.

Keywords: perceived service quality, brand value, brand loyalty, brand personality, Romanian hospitality

Introduction

In today's competitive business world, service quality is essential to long-term business success and it is mandatory in order to guarantee a minimum level of customer satisfaction. There is even strong evidence in the literature that service quality is an antecedent of cus-

tomers satisfaction (Eshghi *et al.* 2008). The actual consumer is more knowledgeable and educated and requires much more attention than the past one. From an entrepreneurial perspective, the hotels need to constantly innovate in order to stay competitive and relevant for the final customer. Innovation translates into doing things in a different way, in a way which has not been done before. When an innovation is a success, it will be easily mimicked by others and in this way economic growth will be generated.

Brands are intangible assets that are essential for a firm's survival. This leads to the emerging importance of brands and their effective management that is necessary for maximizing the value and the profit of the company.

Today's marketplace has suffered changes in the sense that we have evolved from selling and promoting products and services to selling and attracting customers via experiences. Without carefully analyzing customers' needs and desires, companies cannot meet the increasing demands of consumers. In order to do so, service companies must ensure they deliver qualitative services as a mean of survival on the market. According to Brakus *et al.* (2009), a brand related stimulus evokes "sensations, feelings, cognitions and behavioral responses". Consumers use brands in order to minimize their effort when purchasing goods or services and these brands encompass a set of functional and emotional associations (Brakus *et al.*, 2009). "Brands are powerful entities because they blend functional performance based values with emotional values". (Anana & Nique, 2010). Branding is a very sensitive topic and in the same time an important one for establishing marketing strategies and plans, as a cause and an effect of these, any marketing strategy should investigate consumers' behavior in relation with various brand dimensions such as brand awareness, brand perceived quality, brand loyalty and brand associations (Moisescu, 2009).

Analyzing the two concepts together, perceived quality and brand personality should yield interesting insights for brand managers. Since they are responsible for positioning a given brand, their aim is to develop a unique and distinctive personality of their brand and to find a positive reflection of personality on brand value and brand loyalty.

Theoretical background

Service quality

The most important factor that affects customer's choice of company is service quality, according to Frank *et al.* (2007). When considering analyzing perceived quality in a service context, one should think about the connections between expectations about that particular service and the perception of the way that service has been performed (Caruana, 2002). Gonzales *et al.* (2007) analyzed the tourism industry in the context of the influence of service quality and customer satisfaction on behavioral intentions. The authors have identified that the most used definition of perceived quality integrates consumer experience of the service and perceptions of the company providing the service.

Hotel industry faces nowadays challenges in terms of ensuring a sustainable competitive advantage in the marketplace. In this competitive environment, hotel brands should target safeguarding a high reputation and the focus and all the efforts should be placed primarily on understanding how consumers perceive the quality of services. Many researchers have analyzed this subject, and more, they have emphasized different aspects of service quality, but

what they have all in common is the fact that the focus should be on customers. Thus, according to Zeithaml (1988), perceived “service quality is the extent to which a firm successfully serves the purpose of customers”. Only the customer has access to the respective service and has the power to decide whether his experience with the product was a valuable one and if he was entirely happy with the service delivered.

Brand personality

Brand personality is one of the most studied constructs of brand association and a construct that gained a lot of researchers’ attention in the 1990s. The American Marketing Association defines a brand as “a name, term, sign, symbol, or design, or combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of the competitors”.

The liaison between “brand” and “personality” brings us to the “brand personality” term. Anana & Nique (2010) consider that “brand personality is a metaphoric way of portraying a brand that facilitates the attribution of emotional values to brands, especially when advertising involves celebrity endorsement”. Thus, consumers have become used “to assigning personal qualities to inanimate brand objects, to thinking about brands as if they were human characters or to animate products of their own” (Aaker, 1997). The association between a brand and a person or an endorser is very strong since that person’s spirit is evoked in one’s mind when using the brand, and it also overshadows the human qualities, like emotion, thought and volition, according to Anana & Nique (2010).

Many authors have intended to measure the concept of brand personality. Aaker (1997) used factor analysis to develop a five dimensional scale in her attempt to measure brand personality. Factor modeling has been extensively used in brand personality research in order to size the dimensions of brand personality.

Brand equity is defined as “the added value which a brand provides to the product”, whereas “brand personality dimensions are used by consumers as a significant determinant of this added value represented by brand equity” (Ahmad & Thyagaraj, 2014). Brand personality and brand equity are therefore two interconnected concepts; whose interaction needs to be understood when designing brand management strategies.

In her popular “Dimensions of brand personality”, which remains an important work of brand personalization, Jennifer Aaker develops a theoretical framework by identifying five dimensions of brand personality (sincerity, excitement, competence, sophistication and ruggedness) using a factor analytical approach.

Geuens *et al.* (2009) developed a new brand personality scale, consisting of personality items only. Their scale has three clear objectives: “one is to exclude all non-personality items, the second one is to assess the generalizability of the scale across research purposes and countries and the third one is to test the reliability and validity of the scale” (Geuens *et al.*, 2009). The new brand personality measure developed by Geuens *et al.* (2009) consists of responsibility (down to earth, stable, responsible), activity (active, dynamic, innovative), aggressiveness (aggressive, bold), simplicity (ordinary, simple) and emotionality (romantic, sentimental).

Brand loyalty

Brand loyalty holds great importance for market researchers, marketing managers and marketing academics. A loyal customer is one who repurchases a service or product from a particular provider. It represents a great issue and companies spend millions of dollars each year in order to track brand loyalty levels through marketing research organizations. Customers' loyalty plays a crucial role in a company's growth and in its performance and it is linked with repeat business. Customer loyalty is linked to the company's survival and to its future growth. Once a customer is satisfied with a company, it is very likely that he/she will remain with that company and this will lead to future revenues for the company. Business theory tells us that customer retention leads to profitability. More, it is well known that the cost of acquiring new customers is higher than the cost of retaining existing customers. Therefore, the aim of a service company is to satisfy its customers with the purpose of stimulating customer retention and repeated purchases. Positive attitudes about a brand generate a certain commitment, which is required in order to establish long-term business relationships.

In the academic literature, loyalty is also referred to as commitment and retention. Some even say that brand loyalty is a measure of the health of the company. "The advantages that brand loyalty offers are allowing marketers to charge a premium price, reducing the cost of doing business through decreasing acquisition and promotion costs, in this attempt increasing shareholder value and hence profitability" (Bennett & Rundle-Thiele, 2001).

Many researchers have tried to identify the relationship between service quality and brand loyalty or customer loyalty. Several studies have analyzed this connection and some of them did identify a relationship, whereas some others have not. In a study by Cronin & Taylor (1992), "service quality did not appear to have a significant and positive effect on repurchase intention, having in mind that customer satisfaction positively impacts repurchase intention". On the other hand, Lenka *et al.* (2009) found that service quality does impact positively customer loyalty in a study of Indian commercial banks.

Brand value (Brand equity)

Brand equity and customer equity constitute the value provided by brand and customer portfolios to companies or to the firm's offering. They are metrics of marketing performance in the long term, as well as key factors in firm valuation processes. In an exploratory study, "Relating brand equity and customer equity", Romero and Yague (2015) analyze the interaction between brand equity and customer equity. Their result suggests, "the value of brands and customer portfolios should be jointly measured so as to obtain trustworthy assessments of firm value" (Romero & Yague, 2015).

Stewart (2009) states that since "marketing consists of 20-25% of a firm's expenditures, it is imperative to establish the linkage between marketing investment and product or service performance". This should be done considering a thorough understanding of all the alternative measures. Thus, in terms of measurement, Mizik (2014) state that "the aggregate analyses indicate that brand equity, as measured by customer mindset metrics, positively affects current financial performance". The author observed "the much greater impact of brand equity on the firm's future financial performance so as that only a small portion of the total financial impact of brand equity is reflected in current year profits, whereas a larger amount of the profitability impact is realized in the future".

Service quality and brand personality

According to Boo *et al.* (2009), “the combination between brand quality and brand personality will be significantly associated with brand value and brand loyalty”. In order to study more about these two constructs and their connection, we first have to study a bit more the hotel and hospitality industry. Hotel and hospitality have become a mature industry and have evolved from the places where we only eat and sleep away from home. Their services involve more than offering the basic services of a hostel and have evolved nowadays to offer a full-package of services. Tourism plays an important role in any economy and it represents a big part of the gross domestic product of any country. Even if Romania has a very big potential in the area of tourism, the fact that it is not being fully exploited is a tremendous critical point and disadvantage. This leads to the necessity of analyzing how do consumers perceive service quality in Romanian hotels and hospitality industry, how do consumers evaluate brand personality as a measure of brand value and brand loyalty and whether consumers are satisfied with the service quality offered by Romanian hotel brands and last, but not least, the relationship between service quality and brand personality in regards with enhancing brand value and brand loyalty.

Many researchers and authors have studied the interaction between service quality and brand personality (Tran *et al.*, 2013; Siavoshani *et al.*, 2014; Correia Loureiro *et al.*, 2014). Tran *et al.* (2013) explored “the relationship between hotel brand quality and hotel brand personality in order to find an effective way for hotel managers to increase brand value and loyalty”. According to Tran *et al.* (2013), “the generation of brand value and loyalty is created when hotel brand managers (1) increase high-assurance performance for a competence hotel brand, (2) strengthen tangibles for an excitement hotel brand, (3) develop empathy performance for a sincerity hotel brand, (4) escalate reliability performance for a sophistication hotel brand, and (5) advance responsiveness for the ruggedness hotel brand”.

Methodology

Choice of study

Hotel industry has evolved from offering a place people use in order to sleep overnight when they are traveling to creating incredible experiences. People choose hotels when they are traveling in another city or in another country. The choice is very much related to the budget they afford when choosing a certain destination. This has created a huge industry that offers lodging possibilities in relatively cheap hostels up to seven star hotels in exclusivist destinations. Hotels are establishments that provide lodging paid on a short-term basis. This pinpoints the importance of hotel industry and the role they play in the economies of countries. The hotel industry has suffered major changes due to the technological changes and the changing in consumers’ characteristics, not to mention the evolution of Internet. Because consumers do change continuously, there is a constant need for hotel innovation. Hotels should study the market and try to adapt to these changes and to identify their needs and satisfy them. The outstanding development of technology plus the other global challenges make it very hard for the hospitality industry to offer their services to their customers in a profitable way. Since hotels offer very similar conditions, this generates a big amount of competition and it becomes hard to strive in this industry. The scope is to achieve higher levels of customer sat-

isfaction, and in order to do so, any brand should focus on delivering high quality services. As buyers become more aware of service quality dimensions, they also become more and more price sensitive and value oriented. This does impact service quality in the hospitality industry. It is extremely important to measure service quality and find out how consumers perceive it in order to be able to improve it in the case in which weaknesses are found. In order to analyze brand value, many authors have identified that it is important to measure the combination between perceived service quality and brand personality (Boo *et al.*, 2009, Tran *et al.*, 2013, Siavoshani *et al.*, 2014, Correia Loureiro *et al.* 2014).

This is why we choose the SERVPERF in order to measure service quality and Geuens *et al.* (2009) brand personality scale to enable us analyze brand personality associations. SERVPERF, developed by Cronin and Taylor (1992) is a measurement instrument enabling the researchers to evaluate the difference between consumers' expectations of how content are consumers with the level of service quality and their perceptions in terms of performance using five dimensions (tangibles, reliability, responsiveness, assurance and empathy).

Research questions

The main research questions the study tries to answer are the following:

1. How do consumers perceive service quality in the Romanian hotels?
2. How do consumers evaluate brand personality as a measure of brand value and brand loyalty in the Romanian hotels?
3. Is the relationship between service quality and brand personality enhancing brand value and brand loyalty? Or does the interaction between service quality and brand personality directly affects brand value and brand loyalty?
4. Are consumers satisfied with the service quality offered by Romanian hotel brands?

Design of questionnaire

The questionnaire is measuring perceived service quality using SERVPERF or Cronin and Taylor (1992) survey. In the second part, we identify the brand personality dimensions. Brand personality will be measured using Geuens *et al.* (2009) scale. The following part consists of the evaluation of brand value, and then we estimate the brand loyalty levels. Brand value is measured after Boo *et al.* (2009) main survey. For all these constructs, we used the seven-point Likert scale, where the respondents are asked to choose the most appropriate number that corresponds to the extent to which they agree with a statement and in the case of the brand personality scale, to an extent they appreciate certain adjectives. The scale is 1, corresponding to strongly disagree and 7, corresponding to strongly agree.

The self-completion questionnaire is developed from the SERVPERF (Cronin & Taylor 1992) instrument and from Geuens *et al.*'s brand personality measure and will be distributed to hotel guests in big four star-hotels in a Romanian ski resort to determine their perceptions about quality standards and brand personality.

Data analysis method

The data will be analyzed using quantitative research techniques, with the help of statistical tools. There are several statistical packages that perform these kinds of analyses, but in

this study, Statistical Package for Social Sciences (SPSS) will be used, together with AMOS (Analysis of Moment Structures). In order to test the relationship between variables and in order to find the statistical significance of the hypothesized proposed model, structural equation modeling, more specifically confirmatory factor analysis will be used.

Results and data analysis

Exploratory factor analysis

The Exploratory Factor Analysis (EFA) has the scope of discovering the structure of a relatively large set of variables and the initial assumption is that any indicator is associated with any factor. The factor analysis initially identifies seven factors. The value of KMO is 0.939, very close to 1, so this means that the correlation models are relatively compact and the factor analysis will establish trustworthy and distinct factors. If this would not have been met, we could have said that distinct and reliable factors cannot be produced. Communalities table reveals values smaller than 0.30.

Total Variance Explained table determines the number of significant factors. Only extracted rotated values are meaningful for interpretation. The factors are arranged in the descending order based on the most explained variance. We choose the rotation method Promax with Kaiser Normalization.

The extraction refers to the process of determining how many factors best explain the observed covariation matrix within the data set. 71.518% of the total variance is explained by the seven factors, only the first factor is explaining 50.698% of the total variance, followed by 5.485%, 4.889%, 2.194%, 2.423%, 2.391% and 2.437% (all the remaining six factors).

Pattern Matrix table indicates the factors which can be used in the study. After eliminating the questions for which the average value is less than 0.70, we obtain four factors and we start over the analysis. We apply Kaiser-Meyer-Olkin and Barlett tests. The KMO test value is 0.945, very close to 1, so the correlation models are relatively compact and the factor analysis will establish trustful and distinct factors. Sig. value is less than 0.01, so we can say that the factor analysis is adequate in this case. Analyzing the Communalities table, we observe that all the values in the second column are greater than 0.30, which is a good sign. Afterwards we analyze Total Variance Explained table. Total variance explained indicates how much of the variability in the data has been modeled by the extracted factors.

The first four factors are meaningful since they have Eigenvalues greater than 1. The Total Variance Explained table shows the actual factors that were extracted. The section labeled "Rotation Sum of Squared Loadings" show us only those factors that met our cut-off criterion (the extraction method). In our case there were four factors with eigenvalues greater than 1. The "% of Variance" column tells us how much of the total variability (in all of the variables together) can be accounted for by each of the summary scale of factors. We observe that 69.053% of the total variance is explained by the four factors, only the first factor explaining 58.372%, followed by 4.096%, 2.992% and 3.593% (the other three factors). The value 69.053% is less than in the case of the seven factors, but in this case we have a better and cleaner Pattern Matrix, so we can continue with the study. In the second Pattern Matrix, we can see that variables group into factors; more precisely they load onto factors. We can observe a very clean factor structure in which convergent and discriminant validity are evident by the high loadings within factors, and no cross-loadings between factors.

Table 1: Final KMO Test

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.945
Bartlett's Test of Sphericity	Approx. Chi-Square	4441.553
	df	406
	Sig.	.000

Table 2: Final Communalities Table

Communalities		
	Initial	Extraction
q1	.795	.728
q2	.585	.441
q3	.733	.692
q4	.817	.830
q5	.756	.743
q6	.758	.496
q7	.774	.566
q8	.671	.564
q9	.641	.541
q11	.635	.583
q12	.810	.684
q13	.800	.714
q14	.831	.811
q15	.746	.718
q16	.788	.755
q17	.820	.739
q18	.779	.740
q19	.793	.728
q20	.856	.816
q21	.859	.822
q23	.734	.581
q25	.831	.739
q26	.854	.898
q27	.816	.837
q33	.843	.539
q34	.840	.494
q36	.546	.476
q41	.850	.887
q43	.846	.864

Extraction Method: Maximum Likelihood.

Table 3: Final Total Variance Explained

Factor	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total
1	17.288	59.613	59.613	16.928	58.372	58.372	15.154
2	1.619	5.583	65.196	1.188	4.096	62.468	13.583
3	1.419	4.895	70.090	.868	2.992	65.461	12.771
4	1.080	3.722	73.813	1.042	3.593	69.053	10.879

Extraction Method: Maximum Likelihood.

The factors and the variables that they determine are the following:

Service quality: 2, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21

Employee quality: 1,3,4,5,6,7,8,9

Brand personality: 23, 25, 26, 27, 33, 34

Brand value and brand loyalty: 36,41,43.

Initially, the perceived service quality was measured by questions from 1 to 22, brand personality was measured by questions from 23 to 34, brand value was measured by questions from 35 to 39 and brand loyalty was measured by questions from 40 to 43. After analyzing the four factors obtained from the exploratory factor analysis, we can find the remaining questions in the below table.

Table 4: Factors and variables

Service quality	Employee quality	Brand personality	Brand value and Brand loyalty
Q2	Q1	Q23	Q36
Q11	Q3	Q25	Q41
Q12	Q4	Q26	Q43
Q13	Q5	Q27	
Q14	Q6	Q33	
Q15	Q7	Q34	
Q16	Q8		
Q17	Q9		
Q18			
Q19			
Q20			
Q21			

At this stage we can say that the exploratory factor analysis makes sense because the factor structure fits with the one proposed by the theory.

Reliability analysis (running the Cronbach Alpha scores) refers to the consistency of the item-level errors within a single factor. Reliability means that a reliable set of variables will

consistently load on the same factor. The way to test reliability in an EFA is to compute Cronbach's alpha for each factor. Cronbach's alpha should be above 0.7. Each factor should aim to have at least 3 variables.

Thus, we calculate the Cronbach Alpha index for each of the four factors. For the first factor the Cronbach Alpha is 0.965, which is greater than 0.7, a very good result and each factor has at least three variables. Cronbach Alphas are greater than the baseline value of 0.8, we can say that the exploratory factor analysis is reliable and we can trust the obtained value and we can go on to the confirmatory analysis.

Confirmatory factor analysis

Confirmatory factor analysis (CFA) is a multivariate statistical procedure that has the scope of checking how and in what terms the constructs are represented by variables. We conduct CFA in the next step of the analysis because in comparison to exploratory factor analysis (EFA) it allows specifying the number of factors and it also let us decide which measured variable is related to which latent variable. In EFA all measured variables are related to every latent variable, because EFA explores the data and provides information about the number of factors that are represented by the data. We choose CFA to study the relationship between observed variables and continuous latent variables because it is a useful tool, given the fact that it confirms or rejects the measurement theory or the causal relationship that explains the comprehensiveness of a phenomenon.

The confirmatory factor analysis depicts four factors. The latent variables are the variables that are inferred, not directly observed, from other variables that are observed.

From the obtained output, all hypotheses are confirmed with a Sig. smaller than 0.01, showing a level of significance of 99%, which reveals a good model fit. Questions 2 and 11 to 21 directly affect service quality, questions 1 and 3 to 9 directly affect employee quality, questions 23, and 25 to 27 and 33 and 34 directly affect brand personality and questions 36 and 41 and 43 directly affect brand value and brand loyalty.

Structural equation modeling

Structural equation modeling (SEM) is a comprehensive and complex statistical procedure that is used to represent, estimate, and test a theoretical complex structure of relationships between variables, measured variables and latent constructs.

We base our study on the following hypotheses:

H5: Service quality does positively and significantly influence brand value and brand loyalty.

H6: Employee quality does positively and significantly influence brand value and brand loyalty.

H7: Brand personality does positively and significantly influence brand value and brand loyalty.

According to the values obtained in the Regression Weights table, we observe that service quality (Factor 1) influences factor 4 (brand value and brand loyalty) with a significance level of 99%, employee quality (Factor 2) does not influence factor 4 because the Sig. value is 0.204, and lastly, Factor 3 (brand personality) influences Factor 4 with a probability of 0.034, a significance level of 96.6%.

Table 5: Regression Weights Final

Hypothesis	Estimate	S.E.	C.R	P	Decision
H5 (4←1)	0.752	0.205	3.667	***	√ Accept
H6 (4←2)	0.215	0.169	1.271	0.204	Deny
H7 (4←3)	0.370	0.174	2.125	0.034	√ Accept

Thus, we have to eliminate Factor 2 (employee quality) since the hypothesis is denied.

Figure 1: SEM 2

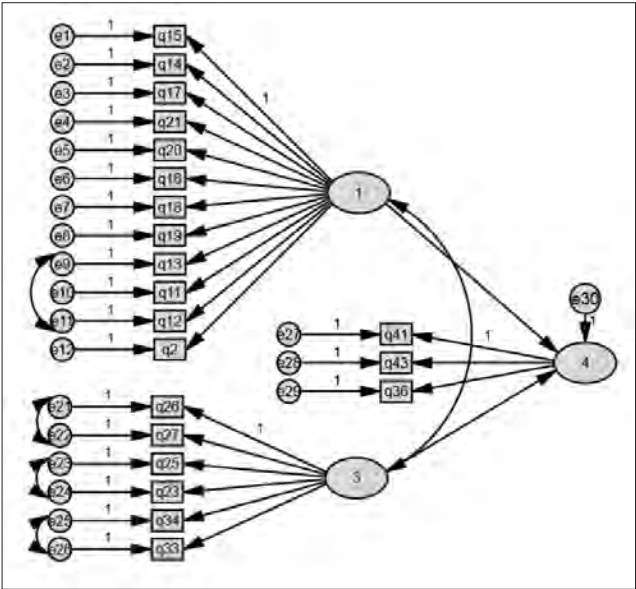


Table 6: Model Fit

NFI (Normative Fit Index)	RFI (Relative Fit Index)	IFI (Incremental Fit Index)	TLI (Tucker-Lewis Index)	CFI (Comparative Fit Index)
0.911>0.0	0.897	0.962>0.9	0.956>0.9	0.962 > 0.95

In order to estimate the model fit, we have to look at comparative fit index and root mean square error of approximation. The Comparative Fit Index (CFI) is equal to the discrepancy function adjusted for sample size. CFI ranges from 0 to 1 with a larger value indicating better model fit.

Root Mean Square Error of Approximation (RMSEA) is related to residual in the model. RMSEA values range from 0 to 1 with a smaller RMSEA value indicating better model fit. Acceptable model fit is indicated by an RMSEA value of 0.06 or less (Hu & Bentler, 1999).

For a final check we verify that CMIN/DF (1.672) is less than 2 and that RMSEA (0.068) is close to the value of 0.06, in order to decide how good is the model. Regarding model fit, we should look at the following indices: TLI (Tucker-Lewis Index), which should be greater

than 0.90 (actual value is 0.911), RFI (Relativ Fit index), NFI (Normed Fit index), IFI (Incremental Fit index) and CFI (Comparative Fit index), all of them should be greater than 0.90. All values are greater than or very close to 0.90: TLI (0.956), RFI (0.897), NFI (0.911), IFI (0.962) and CFI (0.962).

Concluding the data analysis section, we can say that the model fit is a good one and that the obtained results are in agreement with the theory.

Conclusions

Hotel chain entrepreneurs can manage brand loyalty through a better understanding of perceived quality and brand personality. This paper tries to bridge a gap in the literature by investigating the mediating effect of brand personality and service quality on brand value and loyalty in the Romanian hospitality context.

We have tried to identify the relationship between service quality, brand personality and brand value and brand loyalty. The four factors that were identified are: service quality, employee quality, brand personality and brand value and brand loyalty. Perceived service quality can be split into two different and heterogeneous constructs: service quality (referred to as technical quality) and employee quality (referred to as the human capital abilities).

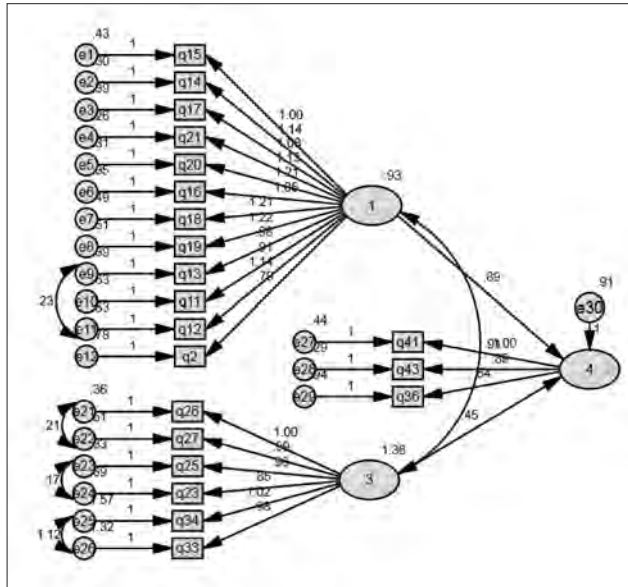
The result of the structural equation modeling revealed that indeed service quality does positively and significantly influence or drive brand value and brand loyalty. There was no finding such as employee quality influences brand value and brand loyalty, since the significance level could not be accepted as relevant. As Correia Loureiro *et al.* (2014) noticed, perceived service quality is split into physical quality and staff quality or employee quality, as proposed by our study (the first two identified factors by our EFA).

Brand personality does positively and significantly influence brand value and brand loyalty. Thus, marketing managers in the hotel industry should carefully assess service quality and pay attention to evaluating brand personality, since these two elements are driving the value of a hotel brand and they also enhance the loyalty towards a certain hotel brand. This result also gives an insight into how important service quality is, and that the focus should not be into improving employee quality, but into enhancing the service per se. This does not mean that employee quality should be totally neglected, but only that it does not influence brand value and brand loyalty as much as it would have otherwise been expected.

As predicted by theory, perceived service quality and brand personality both contribute to the creation of brand value and brand loyalty (Aaker, 1997).

The final model is exemplified in the following diagram with the specification that the first hypothesis is that service quality positively and significantly influences brand value and loyalty and the second hypothesis that brand personality influences brand value and loyalty in a positive and significant way.

Figure 2: Final Structural Equation Modeling



The proposed four research questions were strictly answered by the analysis of the data, through which we established that indeed the perception of the tourists regarding the Romanian hotel brands is quite good, but we should take in account their affinity to the perfection of the services from the first time, instead of focusing on the employees quality as per se. Brand personality is helpful when analyzing the power of a brand and we should give importance to all the dimensions of it, may they be responsibility, activity, aggressiveness, simplicity or emotionality.

Further studies should take into consideration conducting the same study in a non-service industry. Future studies could make a set of improvements in order to enhance the present study, in the sense that they could choose a larger sample, improve the questionnaire by better framing the questions and they could choose to study more hotel brands, from different environments, in order to obtain a much better and more representative sample. A forthcoming research could be extended to other types of brands or between other industries, so as to facilitate comparisons between sectors. They could extend the study for other countries or regions, as the current study does limit itself to Romanian hotel brands only.

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Tourist production and regional development

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Abstract: The dominant place on the Georgian market belongs to the tourist service export, the inbound tourism. The development of local tourism, which must serve as a basis to develop the national tourist industry with its volume to exceed that of the international tourism, is of an irregular, unscheduled and instable nature. The goal of the study of the paper is to describe and characterize the tourist resources and means in different regions of Georgia and show their role in the economic development of the regions.

The methods of the study were a systemic approach to tourist industries in the regions of Georgia and to the evaluation of the outcomes of the tourism development generally, and induction, deduction and statistical methods. The paper describes the cultural heritage of the regions of Georgia, which are the major tourist destinations and studies the prospects to develop the tourist production industries and infrastructure in the regions of Georgia. Based on the analysis of the mentioned resources and statistical data about the existing prospects, the importance of extending the role of tourist policy in the regions of Georgia to ensure the engagement of the local communities and settlements in the processes is shown. For the study we used the materials provided by the National Statistics Office of Georgia and Georgian National Tourism Administration.

Keywords: tourist product, regional development, tourist policy, local communities, cultural heritage.

Introduction

The Social-Economic Development Strategy of Georgia “Georgia-2020” considers the priorities and problems to be solved to achieve long-term, sustainable and inclusive economic growth of the country. On the other hand, the regional development plays an important role in achieving the inclusive economic development. The international experience evidences that inclusive economic growth greatly depends not only on the efficient planning and realization of the general national, but regional development policy, too, and on the strong and competitive regions. The regional development is considered as a very important factor to achieve the general national success.

We have recognized the comparative advantage and specifics of the region and identification and optimal use of the existing potential of the region as the priority of correct plan-

ning and realization of the regional development policy. Besides, further putting the local infrastructure into order and developing it is the main precondition to diminish the inequity between the regions of the country, secure and stimulate the local economic growth, attract direct foreign investments and make another step towards the European Union (Dredge & Jenkins, 2011).

The main objective of achieving the economic growth is identifying the most critical problems hampering the economic progress of Georgia and correctly planning the measures to solve them. The growth diagnostic method used during the strategy development allows identifying these critical problems. The study revealed the low competitiveness, underdeveloped human capital and limited access to the financial resources in the private sector seen as some of the critical problems (Metreveli, 2011).

Generally, the economic growth is achieved through the development of local transfers, tourism and domestic and local road infrastructure of the country, putting them in compliance with the international requirements and correct planning of the maintenance works to secure long-term exploitation of the said infrastructure.

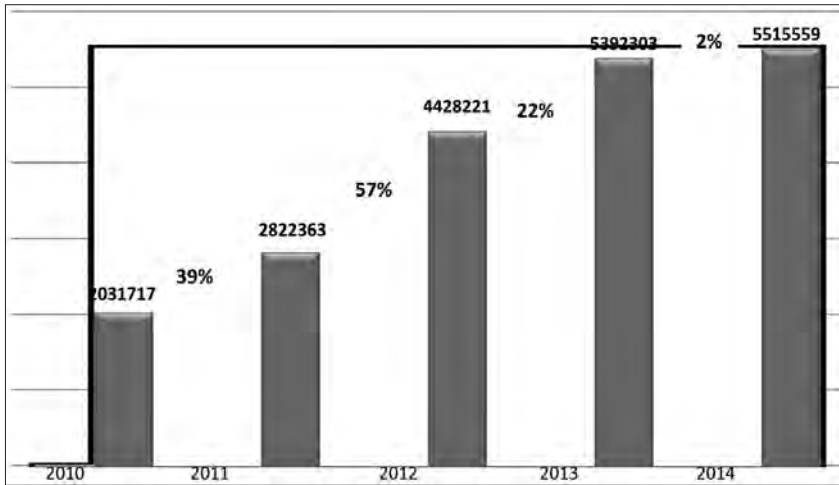
The Government of Georgia supports the tourism development in the regions, what is one of the important sources of the economic growth and improved opportunities of incomes and employment.

The primary goal of tourism development is to secure the economic and social development. Today, many countries consider tourism as the important and integral part of the country's development strategy, as tourism plays a special role in the development of world economy. The countries with developed tourism use this branch to successfully develop local trade and services, thus improving the currency incomes and employment and supporting the preservation of the national traditions and cultural heritage and most importantly, achieving the financial security (Hall, 2011).

Trends of tourism development in Georgia

The state policy for tourism development must be oriented on the development of competitive advantage of the Georgian touristic product on the global market. International arrivals to Georgia have been growing rapidly over recent years. In 2014, these reached the record number of 5,515,559, representing annual growth of 2%, but if taking 2010 as a reference year, we will see that they have grown by almost 2,5 times (Figure 1.).

Figure 1: International Arrivals by Years



Source: National Statistics Office of Georgia

In addition, it should be noted that the reducing growth rate of the number of tourists from 2012 was the result of the economic and political processes taking place in the world, but in our view, it was also greatly influenced by irrational and irregular realization of the tourism policy in the country.

Table 1: Foreign Currency Revenues from Incoming Tourism 2011-2014 (Thousand USD)

	2010	2011	2012	2013	2014	Change % 2013-2014
Total	659,245	994,909	1.410.902	1.719.700	1.787,140	3,9
Including						
I.Q	100,685	163,990	235,931	302,818	315,461	4,2
II. Q	136,565	222,250	330,827	426,524	429,690	0,7
III.Q	231,913	326,569	487,721	604,202	649,775	7,5
IV. Q	190,081	242,100	356,423	386,156	392,214	1,69

Source: National Bank of Georgia

The expenditure of foreign guests in Georgia has a huge effect on the national balance of payments. Approximately 59% of Georgia's service export revenues come from tourism (Transport – 32%, other – 9%). In 2014, the foreign exchange income from foreign tourism in Georgia amounted to 1.79 billion USD. Compared to 2013, this indicator increased by 3,9% (Table 1).

According to Figure 1. and Table 1., the incomes from tourism have increased by 271% from 2010 to 2014, while the incomes have increased by 261%. The priority for Georgia, as for a small country with unique historical and natural resources, is to reduce the number of tourists and increase the incomes. This principle must be used to identify the target tourist markets and to realize the advertising campaign of the tourist product and consequently, to accomplish the measures for advancement. Based on the analysis of the given empirical data, it may be said that the advertising policy needs a review, particularly if considering that the

major activity of the National Tourism Administration is oriented not on the management of the branch (National and Regional) policy, but on the advertisement and promotion of the Georgian tourist product abroad (what must be done by an advertising company), in proof whereof we can name the budget of the Administration. For about last 10 years, over 90% of the State Treasury has been allotted to realize the marketing measures. On the other hand, the National Tourism Administration with its functions and activity must first of all, must discharge the function of identifying the branch priorities and realizing the state policy related to the priorities (updating the outdated Law and branch regulatory acts, developing the regional and national strategy as a whole, stimulating and protecting the branch participants, etc.).

Between 2013 and 2014, the total value added in the tourism sector increased by 10% and reached 1.52 billion Gel due to increased demand. As a result, tourism's gross value added, as a proportion of GDP, increased from 5.9% to 6%. The additional value added in the tourism industry in 2014 was mainly driven by accommodation (an increase of 15%) and passenger traffic (air transport increased by 9% and other transport by 11%).

The precondition to improve the tourism competitiveness on the global tourist market of Georgia is to efficiently enforce the legislation to promote and protect the competition on the local market and against the power-abusive companies on the market. The changes on the basis of the competition protective legislation must transform the Georgian tourist market into a market with a monopolistic competition (the one with various tour-operators), mostly with small and medium businesses operating on it.

Tourist resources of the regions of Georgia

Tourism and resorts for such a country, as Georgia is, are indispensable. There is no tourist route in Georgia bypassing the resorts or spas, and similarly, it is impossible having one's holiday at the resort, having spa cure or treatment or improving one's health without being engaged in cultural-recognition, nature perceptive or other kinds of tourism. There is hardly any other country in the world combining almost all types of curative factors, such as climate, waters, muds, caves, etc. as Georgia.

At present, there are 102 resorts and 182 spas in Georgia (up to 2400 natural mineral water springs with 13000 million liters output a day, with 65% of them being acid or sulphuric) registered in the country.

The country started to develop local resorts in the first half of the XIX century. In the second half of the XIX century, such resorts, as Borjomi and Abastumani were developed and Kojori was made a holiday area. By the end of the XIX century, Georgia started to develop the resources of the Black Sea resorts, while the scientifically proved planned development started in 1926.

Until the 1990s, the major source of Georgian tourism was mineral waters and treatment whilst on holiday. By then, Georgia received up to 4 million tourists, and tourism used the state facilities, hotels or guesthouses owned by the trade unions to accommodate the tourists. The tourist flows were organized to the mineral water or spa resorts in a centralized manner during the year. The tourist trips in Georgia were mostly based on holiday-making and recreation on the resorts of the country (Metreveli & Timothy, 2010).

The tourist-recreational resources of the country are divided into 6 zones:

1. Seaside resorts (Georgia has a 315-km-long sea coastal line). There are wonderful climatic resorts along the Black Sea coast in Georgia: Gagra, Bichvinta, New Athons, Gudauta and Sokhumi in Abkhazeti; Batumi, Kobuleti, Makhinjauri and Green Cape in Ajara, Ureki in Guria and Maltakva and Paliastomi in Samegrelo, where the sea-holiday season lasts for 5 to 6 months.
2. Balneal-medical resorts at 700 m above sea level (Nabeghlavi, Akhtala (412 m asl), Nunisi, Tskaltubo, Zvare, etc.).
3. Balneal-climatic resorts at 700-1000 m above sea level (Sairme (950 m asl), Surami (800 m asl), Borjomi (850 m asl), Betania (900 m asl), Utsersa, etc.).
4. Mountain-climatic resorts at 1000-1500 m above sea level (Abastumani (1500 m asl), Kojori (1400 m asl), Manglisi (1200 m asl), Tsaghveri, etc.).
5. Zone of mountain-climatic resorts and mountain tourist routes at 1500-2000 m above sea level (Bakuriani (1700 m asl), Shovi (1600 m asl), Bakhmaro (2000 m asl), Lebarde, etc.).
6. Zone of mountain tourism and alpinism above 2000 m above sea level.

Let us consider the tourist routes and tourist developmental potential in the regions of Georgia.

Ajara region

With its natural and cultural sights, Ajara gives good opportunities to develop a range of touristic trends (and consequently, tourist products and services). Let us consider some of those trends:

Eco-tourist product. There are two national parks functioning on the territory of Ajara – Kintrishi and Mtirala Parks. In addition to the protected areas, mountainous Ajara is also very interesting in respect of eco-tourism. The tourist service in this corner of the country includes horse-riding, fishing and hunting routes. Those interested in hunting tourism, are attracted by the birds of passage and swimming birds, wild animals and by watching them. The eco-tours to Kintrishi and Skhalta gorges are particularly attractive.

Religious tourism. It is known that in the I c. A.D., the Christianity in Georgia was spread from Ajara. The first preacher of Christianity in Georgia was St. Andrew the First-Caller, and the principal religious sanctity of Ajara is associated with this period – the body of Co-Apostle St. Matthias is buried in Gonio Castle.

Guria region

Historical-ethnographic tourism. There are a number of choruses and ensembles and Georgian and Gurian dancers and singers performing in Guria. The locals still adhere to many old traditions, like Kalanda, New Year's ritual, Alilo, "Aguna" – the wine-pressing ritual, Nadi (helping each other with labor), Chichilaki blessings, etc. Participation in handicraft, e.g. in honey-making, wooden lathing removal, making wooden and clay makes, etc. seems very interesting for tourists. Traditional derby is held in Bakhmaro every year, on the day of Transfiguration.

Eco-tourism. The subtropical nature of Guria has many miracles to show to eco-tourists: natural monuments, such as Chakukha, Mglis Natsoli, the sunrise and sunset mountains in Bakhmaro, Tavakjvari, copper ore deposit, Eshmakis Ghele, Gontimere, Tobachkho, Tskalambara, Eagle's Nest, Jaji Lake, Mepis Tskaro (King's Spring), Sakalmakhe, Korbude, etc., forests: Shemokmedi, forest massifs of Gomi mountain, Vakijvari, Korbude, Likhauri-Makvaneti forest, Bakhvi, Askana, Mdispiri, Vaniskedi, Ukanava, Nasakirali, Baileti, Jumati; waterfalls: of river Adigakva – a three-stage waterfall (Makvaneti), at river Natanebi – Korbude (Vakijvari), at river Bzhuzhi – Chakukha HPP headworks (Shemokmedi); lakes: Chin-chao Lake, Gomis Mta, Tamaris Sevda (Askana); caves: Korbude in village Vakijvari; rivers: Supsa, Natanebi, Achi, Bakhvistkali, Bzhuzhi; mountains: Gomi mountain (at 2200 m asl), Somlia mountain (at 2100 m asl), Vakijvari peaks (at 350-450 m asl).

Resort touristic product. Guria region has both, seaside and mountainous resorts: Ureki – a seaside resort with magnetic sand. It is ideal for people with ill organs of blood circulation and diseases of nervous system or breathing organs. Bakhmaro – a climatic mountain resort for the patients with chronic diseases of breathing organs, hypotonic, anaemic or neurasthenic patients or those with lymphadenitis. Nabeghlavi is famous for its mineral waters. It is good to treat digestive organs. The mineral water flowing on the territory of Nasakirali is used to treat the diseases of locomotor apparatus, peripheral nervous system and chronic gynaecologic and stomach diseases.

Kakheti region

Religious tourism, including pilgrimage, has great potential in Kakheti region, as every church and monastery here has very old traditions and its own festival. This is the best reason to attract the pilgrims or simply the tourists interested in cultural tourism.

Wine tourism. Kakheti has a great potential to develop wine tourism. The history of wine-making of Kakheti started in the III-II cc. B.C. and has been an important branch of economy for the region to date. Most of the wineries of Georgia are concentrated in Kakheti. They offer various services to tourists, including telling them about the process of wine-making and wine tasting and Georgian traditions in the specially designed ethnographic corners. Tourists can also taste wine in local traditional families. Here, a tourist can taste Kvevri wine (wine in clay pots) made with Kakhetian technology in either really, or imitatively old Marani (wine cellar) (Kvevri wine has been included in the UNESCO List of Non-Material Monuments Protection since 2015) and taste the traditional Georgian dishes (often, on the background of Georgian folk songs). A wine festival is held here every year.

Eco-tourist product. There are six protected areas on the territory of Kakheti: Batsara, Babaneuli, Mariamjvari and Vashlovani Reserves and Tusheti and Lagodekhi National Parks. Consequently, eco-tourism, scientific tourism and bird-watching are developed in the region.

As for the recreational tourism, there are 8 sites in Kakheti with the status of a resort (Arkhiloskalo, Akhtala, Lagodekhi, Ujarma, Tsivi Koda, Tetri Tskaro, Torghvas Abano, Kvareli), each of them with great potential to develop *resort tourism*.

Kvemo Kartli region

Region covers the south-eastern part of Georgia. Kvemo Kartli is interesting not only in a material-cultural respect (there are up to 650 historical monuments in the region), but also

with its landscape and natural climatic conditions. In particular, there are semi-deserts and dry steppes, as well as mixed forests and alpine zones combined in Kvemo Kartli.

Cultural tourism. The uniqueness of Dmanisi is resulted from its richest historical potential. The bones of the ancient European man found during the archaeological excavations on the territory of the ancient town site draw the world's attention to Dmanisi, and Dmanisi was included on the list of international tourist routes. Dmanisi houses the remnants of a feudal fortified town (palaces, bathes and other farming and military buildings), as well as Church of Dmanisi Sioni. All this treasure is found on the cape between the canyons of two rivers.

Samtskhe-Javakheti region

Owing to its favorable climatic conditions, there are a number of *holiday-making sites* in the region. The most famous resorts are Abastumani and Borjomi.

Owing to its special climate, Abastumani is recognized as a unique world resort (good for the patients with tuberculosis). There are thermal waters flowing in Abastumani used to treat locomotor apparatus, peripheral nervous system and gynecological diseases. Borjomi is mostly famous for its resorts (medical and winter resorts). "Borjomi" mineral water has been used as a cure since the 1840s. Borjomi gorge is known for its curing climatic zone, too.

Bakuriani, a *winter resort* of Borjomi is located at 1700 m above sea level. The climate and relief in Bakuriani mean wonderful developmental prospects. Winter is mostly sunny, with the snow cover reaching 50 cm and surviving from December till April.

In respect of natural monuments, the forest-park of lava plateau in Sadgeri and lakes: Tabatskuri, Kakhisi, Tsero, etc. are worthwhile. *There are routes and infrastructure developed for eco-tourism* in Borjomi-Kharagauli National Forest-Park.

Aspindza region is famous for its resorts and mineral waters. Aspindza itself is a *balneal resort*, and its thermal waters are used to treat the chronic diseases of locomotor apparatus, diseases of peripheral nervous system, rheumatism, and cardiovascular system, chronic gynecologic and skin diseases.

Shida Kartli region

Eco-tourism: the beautiful nature, natural monuments, gorges, waterfalls and many other sites in the region support the development of eco-tourism. Out of natural sites, Bateti Lake (a landslide lake), two lakes in Mokhisi, Bebnisi Lake, Dzama gorge, Trekhva gorge, Prone gorge, "Trekhvi baths" near village Trekhva (in Kareli region), Nacharmagevi Lake, Nadar-bazevi Lake, Ateni gorge, Danakhvisi, old silk road, Ateni gorge waterfall (in Gori region), Keli Lake and Kelitsadi Lake (in Akhalkgori region), Ustarauli waterfall (in Kaspi region) are worthwhile.

Imereti region

The karst caves and interesting geomorphologic formations support the development of *rock-climbing and adventure, as well as speleo-tourism*. The wonderful nature with its diversified flora and fauna are good preconditions to develop hiking, horse-riding and eco-tours in the region. 230 farms were selected in the villages of Imereti to develop *agro-tourism*.

Tskaltubo resort is a multi-profile balneal resort with unique thermal-radionic mineral waters, used to cure up to 60 different diseases (cardiologic, pulmonologic, neurological, tuberculosis and dermatological balneal treatment).

Numerous speleological monuments of the region: Sataplia (with its famous trace of a dinosaur), Kumistavi, Tetra, Tkaltubo, Satsurblia, Satsevetela, Patsristavi support the development of speleo-tourism and speleo-therapy. There are up to thirty historical monuments in Tskaltubo region, including Geguti Palace (dated by the VIII-XII cc.), the Church of John the Baptist in Derchi (XII-XIII cc.) and many others.

The major resort of Kharagauli is Nunisi with its unique waters curing skin diseases, and unique climate to cure bronchial asthma. Famous mineral water “Zvare” flows here. Following its local culture, Kharagauli region has wonderful prospects to develop *gastronomic and wine tourism*.

Vani region is known for its worldly important archeological excavations giving good opportunity to develop *archeological tourism* here. The principal resorts in Vani are Sulori and Amaghleba, efficiently used to treat tophus, and rheumatic and cardiovascular diseases (with thermal waters).

Mtskheta-Mtianeti region

The center of the region is the city of Mtskheta, which is on the list of the cities protected by UNESCO. The major *cultural tourist product* of the region is the Jvari Monastery, the sacred site of the Orthodox world, Shiomgville Monastery, Zedazeni Monastery, Ananuri fortified church, Korogho Church, Bodorni Church, as well as Shatili, Mutso, Chargali, remnants of ancient town of Zhaleti, Ochani Castle, Gergeti Church, Sioni, Sno Castle, Dariali Fortress, Dzaili site of ancient town, etc.

Racha-Lechkhumi and Kvemo Svaneti region

The geographical-historical peculiarities of Racha-Lechkhumi and Kvemo Svaneti, traditions and customs of the local communities give a good opportunity to develop almost any branch of tourism. These regions have almost all conditions to revitalize and successfully activate *mountain, alpinist, fishing, hunting, horse-riding, boating, rafting, hang glider, family, adventure pilgrim and agro- and eco-tourism*.

Kvemo Svaneti, owing to its geographical location, is the natural base for tourism development. The immense snowy mountain peaks and ridges are popular destinations for *those fond of alpinism*.

Another trend of priority is the development of *resort and spa tourism*. The medical profile of Muashi, the local *balneal-climatic resort* is the treatment of pulmonary, arthritis and gastrointestinal diseases. However, the resort does not function at present.

The tourist companies and local guides have developed a number of hiking tours allowing the tourists to take a delight in seeing the beauty of Svaneti nature.

Samegrelo region

Medical tourism. The marine air reaches the deep slopes of Egrisi Ridge through Tekhuri gorge, up to Dviri and Lebarde, creating a mix of the marine and mountain air. Resort Lebarde

is a balneal-climatic resort with its mineral waters being of a carbonic acid and iron water type with low mineralization, weak acid reaction and high content of carbonic acid and iron.

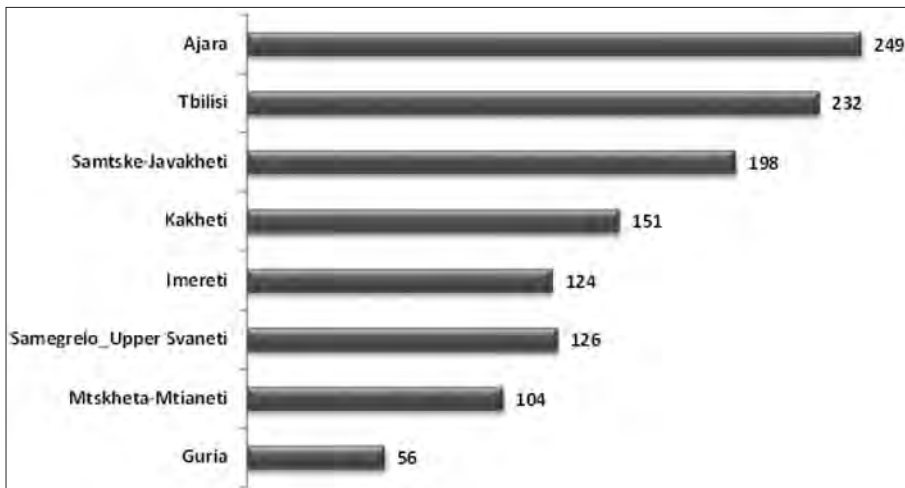
The historical architectural monuments in Martvili create favorable conditions to develop *cultural tourism* here. The unique monuments of art in the region are the Kukiti Church in Kvaiti (XIII c.), Tamakoni Church (XIII c.), Nogha Castle (XVI c.), Dgoma Fortress (XVII c.), Abedati fortified town (XVI c.), etc. The visitors will see the remnants of King Tamar's fortified town at location called "Namantsvari" in Inchkhuri.

Accommodation market in regions

The number of accommodation units registered in the database of the Georgian National Tourism Administration equals 1,332, with a total of 47,012 beds.

The Ajara region boasts the largest number of beds, 10,793 (23%), followed by Tbilisi with 10,714 beds (23%).

Figure 2: Number of Accommodation Units by Regions



Source: Georgian National Tourism Administration

The classification of accommodation units by number of rooms showed that the room category five rooms and less was the largest at 447 (34%).

Tbilisi boasts several international hotel brands: the Radisson Blue Iveria, the Tbilisi Marriott, the Courtyard Marriot, Sheraton, Holiday Inn and Citadines Apart hotel. In 2014, Best Western Tbilisi was added to this list. As regards Batumi, the existing hotels brands Sheraton and Radisson Blu have been joined by the Divan Brand. A number of brand hotels are also starting operations in the spa resorts of Georgia.

There are currently several planned and ongoing constructions in Georgia. The construction of the following brand hotels is planned in Tbilisi: Kempinski, Radisson Park Inn, Millennium hotel, Rixos Tbilisi, Hyatt Regency and Hualing Hotels & Preferences. In Batumi, the construction of the Hilton Garden Inn, Babillon Tower and Crown Plaza Intercontinental are planned.

Several international chains are also expanding in Georgia. The construction of a Sheraton hotel is planned in Gudauri. The majority of hotels being constructing are located in Tbilisi and the Ajara, Samtskhe-Javakheti, Imereti and Kakheti regions.

Factorial analysis of tourism development in Georgian regions

The branch of tourism has been a priority of the economic development of Georgia for the last 20 years. Since the 1990s, much has been done to rehabilitate and reconstruct the branch of tourism what is evidenced by the statistics. Despite the evident positive changes, to date Georgia has used only little of its tourism potential.

The goal of the economic policy of tourism development is the maximization of the incomes in the regions gained from tourism. This goal is a part of the goal of economic growth and development of the country. There is no contradiction, but a harmonious and complimentary association between them. At the same time, the interim goals are specified and formed in a different way, as objectively, it is their realization allowing the tourism development in the regions of the country and improving the well-being of the locals (Metreveli & Gogorishvili, 2015).

The implementer of the tourism policy in Georgia at the federal level is Georgian National Tourism Administration at the Ministry of Economics, and regional tourism management services at the regional level. Despite its 20-year-long existence of the tourist body on the executive authority, it failed to develop and submit the government a long-term concept of tourism development (what is particularly true for the individual regions), which must be in compliance with the long-term developmental perspective of economic development of Georgia (the latter is also deficient).

The present-day opportunities to develop tourism in the regions of Georgia are as follows:

- Rich natural and cultural heritage;
- Growing trend of building high-standard small hotels.
- Offering new organized tourist service packages.
- Supporting the improvement of the tourist service quality.
- Opening high-quality catering and tourist facilities.
- Improving tourists' awareness and popularization through relevant marketing campaigns.
- Developing joint trans-boundary and inter-regional tourist routes (with Ajara).
- Developing a single tourist system of the region and preparing the guide-book.
- Developing new tourist products.
- Establishing information centers in the regions.
- Arising the community's interest in tourist business.

The advantages of tourism development are as follows:

- Growth tendency of the number of tourists in the regions.
- A great number of hotels and family guesthouses.
- Realization of the tourist infrastructure rehabilitation and construction projects.
- Making tourist routes in the national parks.
- A great number of historical-cultural monuments.
- Diversified landscape, flora and fauna
- Folk trade traditions.
- Mountain resorts of the world importance.

The disadvantages of tourism development are as follows:

- Lack of two- and three-star hotels.
- Outdated tourist infrastructure.
- Low quality of tourist service.
- Lack of tourist agencies in the regions.
- Poor condition of the local roads and access roads to the historical monuments.
- Lack of entertainment.
- Lack of high-quality catering facilities and souvenir/hand-made thing trading objects.
- Absence of the strategy to use tourist potential.
- Deficient management of tourism development.
- Poor level of tourist routes marketing.
- Lack of tourist information centers.
- Low service quality at guesthouses and lack of guesthouses.
- Lack of local guides.
- Lack of cultural and entertainment arrangements.

The threats of tourism development are as follows:

- Pollution of tourist zones and decline in the tourist potential owing to the deficient waste management system.
- Decline in the forest fund and environment degradation.
- Political instability and decline in the number of foreign tourists in the country.
- Increased prices of energy carriers.
- Near location to the border.
- Natural calamities.

Deriving from the hereof analysis, we can clearly see that weaknesses of tourism development in Georgia are mainly linked with scarcity of tourism infrastructure. Despite of the economic and climatic crises in the country, the sector of tourism of Georgia shows some progress and the future prognosis is also quite optimistic based on the volume of recent investments to the tourism infrastructure in the regions of the country (Table N2). Correspondingly, increasing investments facilitate to international incomes, higher number of employed in tourism sector and increase of income from tourism, which is evidenced with higher assignments to the State Budget. The undertakings provided by the Government in view of stimulation of development of tourism are as follows: development of tourism infrastructure, improvement of service quality, wide-scale marketing campaigns on internal and international markets, introduction to the new markets and promotion of touristic products.

Table 2: Foreign Direct Investment in Tourism Infrastructure by Region (Thousand US dollars)

	2011	2012	2013	2014	2015
Regions	22 705,6	17 652,3	-13 360,1	124 851,8	160 982,4
Tbilisi	10 825,0	18 509,9	-11 983,6	84 889,4	120 825,6
Adjara	12 624,8	1 195,5	-1 325,0	23 280,2	39 677,6
Kakheti	—	-	284,0	725,4	-3 043,9
Samtskhet-Davakheti	19,7	-	4,2	15 447,0	-321,5
Qvemo Kartli	-	-86,9	-23,2	-99,9	125,4
Samegrelo-Upper Svaneti and Guria	-766,7	-219,8	-14,1	107,7	-43,2
Imereti, Racha-lechkhumi and Qvemo Svaneti	-	105,3	91,1	356,7	2 530,3
Shida Qartli and Mtckheta-mtianeti	2,9	-1 851,6	-393,6	145,3	1 232,1

Source: National Statistics Office of Georgia

It should be noted that in 2014, Georgia was among the top-50 best tours according to the “National Geographic Traveler” accenting the Georgian cuisine, wine and culture. The list also named the tourist trends of such countries, as France, Italy, Portugal, Scotland, Switzerland, Sweden and Denmark. In addition, Georgia is among the top-10 of some international ratings as the safest country for travel.

Conclusion

By considering the country interests, tourism must be one of the priorities in the national economic development of Georgia. In addition, the national and regional objectives must be dominant, with the local and sector interests subordinate to them.

Based on the right tourism development policy in the regions of Georgia, the gross demand for touristic products and tourist service must increase (a competitive market must be established) what will improve the quality of touristic products and will make them competitive on the global market.

The development of the tourist market of Georgia, mostly in the regions, must be based on the development of touristic products and trends. Touristic product can be developed through the development of production technology (production culture: transport industry, roads, communication lines, service standards, distribution and diversification of accommodations, wet points and pictograms along tourist routes, etc.).

The successful export and establishment of the unique tourist products from the Georgian regions both, on the local and global markets needs intense advertisement and promotion and target marketing studies to identify the target tourist markets and potential tourist groups.

The state must realize large-scale advertising campaign to popularize the tourist opportunities of the regions of Georgia, what will contribute to the increased flows of both, international and local tourists. At the same time, the advertising campaign must consider the world trends, i.e. orientation not only on the growth of the tourist flows, but also on the incomes

gained from them. For the state with so little territory and unique natural and cultural resources, as Georgia is, the priority is gaining the economic efficiency not at the expense of the growing number of tourists, but increased expenditures of the tourists. This can be reached by such means as diversification of the tourist product, improvement of the service quality and making the seasonal periods longer.

Sustainable development of tourism in Georgia is very important not only in a foreign economic view, but also to popularize the history of the state and nation and many-century-long traditions of the Georgian people and protect the cultural heritage of the country.

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Social entrepreneurship

Social entrepreneur: Does literature match reality?

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Abstract: Social enterprises have emerged as a way to address answers to social, cultural, economic and environmental needs to which governments cannot make a timely and effective response. The social economy is considered a fundamental pillar for societies to achieve progress. In recent years, the increasing number of established social enterprises has been accompanied by a growth in the number of publications on this topic. Several definitions for the term “social entrepreneur” can be found, nevertheless it is considered important to ensure that what the literature says is consistent with what the players feel and think.

This study aims to explore and to analyse the vision of stakeholders from the social economy and check points of agreement and divergence between theory and practice. The study addresses a sample of 46 respondents from five European countries – Cyprus, Italy, Poland, Portugal and Romania, which joined the Erasmus+ Project Social Entrepreneurship Support Europe.

Regarding the definition of “social entrepreneur”, results show that interviewees’ opinions are consistent with literature. A match was found between personal and transversal characteristics referred by practitioners and literature, although a gap was found regarding social attributes, since respondents put a bigger emphasis on such features.

Keywords: Europe, social entrepreneur, social economy, stakeholders.

Introduction

Supporting social, cultural, economic and environmental causes with the intent to create social value has always been a concern of people, both individually and collectively. Recent literature addresses the increasing importance of social economy initiatives, regarding its role as a means for solving societal problems that demand urgent and innovative solutions (Rey-Martí, Ribeiro-Soriano & Sánchez-García, 2015). To this end an increasing number of social enterprises is emerging as one of the ways to answer these questions (Bikse, Rivza & Riemere, 2015).

International entities, such as the Organization for Economic Co-operation and Development (OECD) and the European Commission had raised attention on the need to face the problems resulting from a world in constant change (Buckingham & Teasdale, 2013; European Research Institute on Cooperative and Social Enterprises, 2013).

During the past few years, there has been a sharp increase in the number of publications under the topic of social entrepreneurship, revealing the importance of social entrepreneurs, perceived by authors and journals from several fields of study (Tiago, Faria, Couto & Tiago, 2015). Studies suggest definitions, theories and also a set of features that characterize social entrepreneurs (e.g. Certo & Miller, 2008; Zahra, Gedajlovic, Neubaum & Shulman, 2009). Authors agree that a social entrepreneur has the mission to improve the world supporting the resolution of social problems and satisfying basic human needs, as opposed to a profit-seeking motivation of commercial entrepreneurs (Bikse *et al.* 2015; Certo & Miller, 2008; Light, 2005; Sekliuckiene & Kisielius, 2015). These individuals are even described as “new engines of reform” (Gergen, 2006), which involves the recognition, evaluation and exploitation of opportunities (Austin, Wei-Skillern & Stevenson, 2006).

Nonetheless, whether theoretical conceptualization received significant attention (Certo & Miller, 2008; Zahra *et al.*, 2009), empirical perspectives deserved less emphasis. Although there is a growing number of initiatives promoting social entrepreneurship (Sekliuckiene & Kisielius, 2015), the key actors of the sector do not seem to have the opportunity to clearly state what are their concerns, which are their needs or even what they might think would make them successful social entrepreneurs.

Aiming at bridging practice and theory, the main objective of the current study is to explore whether the visions of stakeholders from the social economy do encounter theoretical studies. Considering the visions of practitioners, project evaluators, mentors and other stakeholders of the social economy, the research puts forward an attempt to understand the match between literature and reality.

Social entrepreneurship & social entrepreneurs

Entrepreneurship has gained increasing importance due to its strong relationship and role for the development of regions and communities'. According to the Schumpeter examination, entrepreneurship is a key process through which the economy, as a whole, advances (Schumpeter, 1934).

The practice of entrepreneurship is strongly influenced and shaped by the context in which it stems, resulting from the combination of a number of factors. The entrepreneurship ecosystem, is a combination of conditions such as: financing, government policies and programs, taxes and bureaucracy, school-level entrepreneurship education and training, post-school entrepreneurship education and training, R&D transfer, access to commercial and professional infrastructure, internal market dynamics and burdens, access to physical and services infrastructure, and social and cultural norms (Kelley, Singer & Herrington, 2015).

The business management literature characterizes entrepreneurship as an exceptional set of activities carried out by individuals with distinctive characteristics, with the ultimate goal of maximizing financial profit (Abu-Saifan, 2012). Several characteristics of the entrepreneur have been identified, such as innovator and creator (Schumpeter, 1934) locator, and implementer of ideas through leadership (Baumol, 1968). Over time, entrepreneurship has been studied by several researchers, and its definition has followed the trends of the new economies.

As a sub-discipline of entrepreneurship, arises social entrepreneurship (Certo & Miller, 2008), and its concept emerged within the Social Economy. As in entrepreneurship, over time, social entrepreneurship has received contributions from education and research, with several

definitions emerging from diverse authors (Zahra *et al.*, 2009). Social entrepreneurship has been subject of interest by governments, practitioners, academics and by the society in general (Sekliuckiene & Kisielius, 2015). Notwithstanding, over the past few years and after the financial crisis in 2008, this issue has acquired greater relevance (Tiago *et al.*, 2015).

According to Defourny and Nyssen (2010), the concept of Social Enterprise appeared in 1990 associated with the cooperative movement and linked to the third sector. One year later, the Italian parliament was the first to approve a law that recognized the legal form of social cooperatives. Also in the early 90's, the United States gave great visibility to the concept. Although around the years of 2004-2005 some connections on the theme of social entrepreneurship across Europe and the United States have started being developed (Defourny & Nyssens, 2010), there are still some differences on this issue between the two sides of the Atlantic. Parente *et al.* (2014) distinguish between three theoretical approaches: (1) the European Schools, which have seen the social entrepreneurship as an action promoted by new generations and renewal movements which have occurred within the traditional social economy; (2) the Anglo-Saxon approach, that has considered these practices as businesses or companies that are distinguished by their social mission and (3) the Latin American perspective, which has linked entrepreneurship to a solidarity activity of popular base.

Currently in literature, both in books and scholar articles, there are several definitions for social entrepreneurship and social entrepreneur (Zahra *et al.*, 2009).

For the present study, a set of definitions commonly accepted and most cited in publications referenced in the Scopus database will be considered. In order to list the most relevant definitions, a search under keywords with the term "social entrepreneur" was undertaken. A summary of the social entrepreneur definitions found in literature is presented in the below Table 1.

Table 1: Definitions of social entrepreneur

Source	Definition
Leadbeater (1997)	Social entrepreneurs are entrepreneurial, innovative, and "transformatory" individuals who are also: leaders, storytellers, people managers, visionary opportunists and alliance builders. They recognize a social problem and organize, create, and manage a venture to make social change.
Thake & Zadek (1997)	Social entrepreneurs are driven by a desire for social justice. They seek a direct link between their actions and an improvement in the quality of life for the people with whom they work and those that they seek to serve. They aim to produce solutions which are sustainable financially, organizationally, socially and environmentally.
Dees (1998)	Play the role of change agents in the social sector, by: (1) Adopting a mission to create and sustain social value (not just private value), (2) Recognizing and relentlessly pursuing new opportunities to serve that mission, (3) Engaging in a process of continuous innovation, adaptation, and learning, (4) Acting boldly without being limited by resources currently in hand, and (5) Exhibiting heightened accountability to the constituencies served and for the outcomes created.
Bornstein (1998)	A social entrepreneur is a path breaker with a powerful new idea who combines visionary and real-world problem-solving creativity, has a strong ethical fibre, and is totally possessed by his or her vision for change.
Reis & Clohesy (1999)	Social entrepreneurs create social value through innovation and leveraging financial resources... for social, economic and community development.
Thompson, Alvy, & Lees (2000)	Social entrepreneurs are people who realize where there is an opportunity to satisfy some unmet need that the state welfare system will not or cannot meet, and who gather together the necessary resources (generally people, often volunteers, money, and premises) and use these to "make a difference".

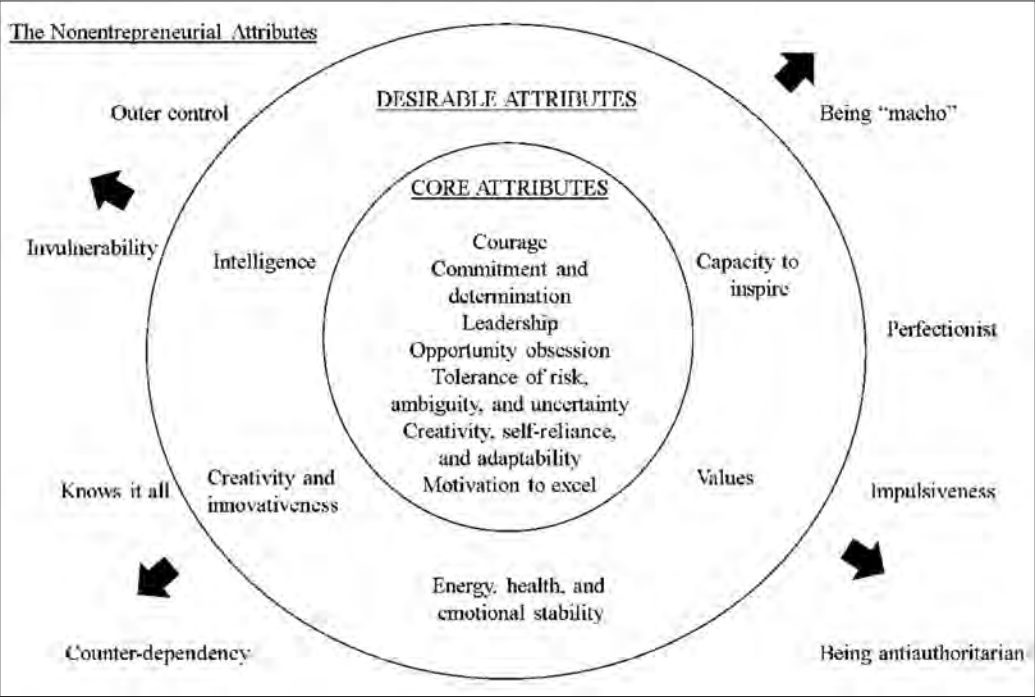
Brinkerhoff (2001)	Individuals constantly looking for new ways to serve their constituencies and add value to existing services.
Brinckerhoff (2009)	A social entrepreneur is someone who takes reasonable risk on behalf of the people their organization serves.
Mort <i>et al.</i> (2002)	A multidimensional construct involving the expression of entrepreneurially virtuous behaviour to achieve the social mission the ability to recognize social value creating opportunities and key decision-making characteristics of innovation, pro-activeness and risk taking.
Drayton (2002)	A major change agent, one whose core values centre on identifying, addressing and solving societal problems.
Alford <i>et al.</i> (2004)	Creates innovative solutions to immediate social problems and mobilizes the ideas, capacities, resources and social arrangements required for social transformations.
Harding (2004)	Entrepreneurs motivated by social objectives to instigate some form of new activity or venture.
Peredo & McLean (2006)	Social entrepreneurship is exercised where some person or persons (1) aim either exclusively or in some prominent way to create social value of some kind, and pursue that goal through some combination of (2) recognizing and exploiting opportunities to create this value, (3) employing innovation, (4) tolerating risk and (5) declining to accept limitations in available resources.
Certo & Miller (2008)	Social entrepreneurs have an acute understanding of social needs, and then fulfil these needs through creative organization.
Zahra <i>et al.</i> (2009)	Social entrepreneurship encompasses the activities and processes undertaken to discover, define, and exploit opportunities in order to enhance social wealth by creating new ventures or managing existing organizations in an innovative manner
Abu-Saifan (2012)	The social entrepreneur is a mission-driven individual who uses a set of entrepreneurial behaviours to deliver a social value to the less privileged, all through an entrepreneurially oriented entity that is financially independent, self-sufficient, or sustainable.
Ashoka (2016)	Social entrepreneurs are individuals with innovative solutions to society's most pressing social problems (...). They are both visionaries and ultimate realists, concerned with the practical implementation of their vision above all else.

Considering the above definitions, it seems that authors agree that social entrepreneurs aim, through innovative solutions and initiatives, to solve social, cultural, economic and environmental problems (Sekliuckiene & Kisielius, 2015). The ultimate goal of a social entrepreneur is to create social value to benefit individuals, communities and groups, in order to obtain justice in society and to ensure that all people have a decent quality of life (Austin *et al.*, 2006; Rey-Martí, Ribeiro-Soriano & Palacios-Marqués, 2015; Sekliuckiene & Kisielius, 2015).

Despite the range of definitions found, they all seem to converge to the main features identified above. Nevertheless, all definitions are based on theoretical studies, and therefore are likely to miss the perspective of stakeholders involved in the social economy in a closely way, that may lead to confirm whether in practice a social entrepreneur meets the characteristics identified by literature.

In a chapter concerning the mind of entrepreneurs, Spinelli & Adams (2012) listed a number of characteristics, based on a deep review of literature, considered the core attributes for an entrepreneur to be successful (see Figure 1 below).

Figure 1: Core and Desirable Entrepreneurial Attributes (Spinelli & Adams, 2012, p. 40)



The list of attributes established comprises a set of personal characteristics and transversal skills (Spinelli & Adams, 2012), that encounter both essential skills for traditional entrepreneurs and social entrepreneurs, under analysis in this paper. The model created by the authors (Spinelli & Adams, 2012) consider, in addition to the core attributes, a list of attributes considered desirable, such as intelligence, creativity and values, also applicable to social entrepreneurs, and even “nonentrepreneurial attributes”, a group of characteristics that may be unfavourable for entrepreneurship.

Considering the specificities of social entrepreneurs, other characteristics are of particular relevance for their success. Abu-Saifan (2012) builds a comprehensive analysis in the main authors of social entrepreneurship to define the following list: *Mission leader, persistent, emotionally charged, social value creator, change agent, highly accountable, dedicated, socially alert, opinion leader, manager, leader, innovator, initiative taker, opportunity alert, visionary and committed.*

Given the methodology used to define this set of characteristics, they are considered a mirror of literature on the key aspects for social entrepreneurs to be successful. Thus, they reveal the theoretic perspective which matters to the present study and which may be used in further comparison of the field work results.

Methodology

This paper is based on an exploratory study, that aims to analyse and compare the opinions and perspectives of stakeholders in the social economy sector with theoretical studies already published, regarding the definition of what is a social entrepreneur and which are the characteristics of their success.

To put forward the comparison between the perspectives, it was firstly conducted a scientific literature collection and analysis in international databases with the keywords “social entrepreneur”, and a group of the most cited and used definitions was listed. Focusing on the European reality, a total of 46 interviews was then conducted via phone and face to face from April 17th to July 17th, 2015 in five countries of the European Union – Cyprus (8), Italy (5), Poland (13), Portugal (10) and Romania (10), in order to get the practitioners perspective.

Interviews were undertaken by the partner entities of the Erasmus+ Project Social Entrepreneurship Support Europe (SES-EU), which aims to contribute to develop critical competences in the social entrepreneurship domain (Social Entrepreneurship Support Europe-SES EU, 2016). Representatives of organizations and institutions with important knowledge about the experiences of social entrepreneurs were asked to answer the following questions: *How would you define a social entrepreneur?* and *What are the key characteristics that you believe are determinant for the successful social entrepreneur?*

Data collected was further analysed considering each answer individually as well as aggregated data according to each country, in order to allow a comparison both within and between countries. Results were finally confronted with literature so the objective of the article could be achieved.

Exploratory study: practitioners’ perspective

This section presents the results of literature analysis regarding two topics: (1) definition of “social entrepreneur” and (2) successful characteristics of a social entrepreneur. In the first topic, the answers to the question “*How would you define the social entrepreneur?*” are analysed. The purpose is to identify what traits a social entrepreneur has, i.e., the definition that each respondent assigns to the term “social entrepreneur”. Right after, a comparison between the responses of the sample and the definitions found in the literature is presented, highlighting the main similarities and differences detected. In the second topic, it is presented an analysis concerning the characteristics that make a social entrepreneur successful, considering the opinions of the inquired stakeholders regarding the question “*What are the key characteristics that you believe are determinant for the successful social entrepreneur?*”. As in the previous topic, the analysis comprises the comparison with the literature, standing out the match between both approaches. In both topics it is also presented an overview over the answers by country, revealing the different realities across the EU member states inquired.

Definition of “social entrepreneur”

The large majority of the interviewed emphasized the fact that a social entrepreneur is an individual with particular attention to others’ problems and that has social responsibility. Respondents agree that their main mission is to create social impact, promoting a better quality

of life to people and a more equal and fair society. The social entrepreneur is als characterized as having a special civil sensitivity, responding to problems through innovative and creative solutions that result in effective social change.

The 46 answers were analysed both individually and aggregated by country, in order to draw conclusions both within and across countries. Table 2 presents a summary of the responses of the inquired sample in each country, given the homogeneity of data within countries and the relevance of comparing the visions of each EU member state.

Table 2: Definition of social entrepreneur according to practitioners

Country	Definition
Cyprus	A social entrepreneur is a person who establishes an enterprise with the aim of solving social problems and effecting social change with innovating solutions to society’s most pressing social problems.
Italy	The social entrepreneur strongly believes in his social mission and he is able to build an innovative and effective business model.
Poland	Social entrepreneur is a driven, ambitious leader, inspiring others to do more and become more and live better. He drives social changes, addresses social problems, has strong responsibility for others and is focused on common wellbeing. He is an active person who takes the matters into his own hands, changes the reality of local communities for better while applying modern solutions. His company is more people-oriented than profit-oriented (meets both economic and social criteria). Its success is measured by social change.
Portugal	A social entrepreneur can be defined as someone who finds an opportunity in a social situation/problem with which is not conformed and creates a business solution to answer to it. His main mission is to create social impact and, thus, he promotes social transformation, towards a more equal and fair society. Although he does not see profit as the main goal, the social entrepreneur keeps in mind the importance of sustainability.
Romania	The definitions of the interviewees seem to vary, but all revolve around being similar to any entrepreneur with an added extra element which makes the situation more difficult but also more rewarding.

The table above offers a summary of the sample answers, revealing the main features of the concept of social entrepreneur, given by the respondents with knowledge and experience in the area.

Despite the common features identified across countries, respondents from Romania seem to have a different vision. For them, the social entrepreneur is seen as someone who can take advantage of opportunities, with one of the respondents even stating that this type of entrepreneur is an “*Opportunist who sees a chance to do good for himself in a way that is socially beneficial*” and another individual stating that he can be defined as “*A fantastic manager who can turn a disadvantage into an opportunity*”.

Similarly, to the analysis carried out, the next point of this article examines the respondents’ answers, regarding the characteristics/traits that make a social entrepreneur a successful person.

Characteristics of success

According to the practitioners’ perspective, there is a clear importance given to personal and social characteristics, as opposed to hard skills. In fact, although referred across the majority of respondents, only management skills are identified as critical technical skills for the

success of social entrepreneurs across the five countries. However, in Poland practitioners seem to attribute more importance to technical skills, particularly the ones related to knowledge about laws, financials and funding sources.

The social skills identified by respondents include having a good network and to be capable of establishing and maintaining strong human relationships, dialogue and good communication skills.

Personal skills also received big attention, including features such as ethics, innovation, creativity, initiative, adaptability and open to changes, determination, commitment, dedication and passion.

Country	Characteristics of success
Cyprus	Ability to be accountable, locally and ethically sourced, environmentally conscious, non-discriminatory, agile to respond to local needs, having tenacity and global awareness, and leadership, IT, communication and networking skills.
Italy	Strong ethic; managerial competences skills; innovation and ability to understand what social challenges must be solved throughout alternative business initiative.
Poland	Motivation, determination and ability to create real, social impact through actions. Very good leadership skills (management, team work, communication, accurate allocations of tasks, decision-making, etc.). Personality traits: charisma, creativity, resourcefulness, persistence, sense of rightness of his actions, determination in pursuing goals, etc. Knowledgeable about laws, financials, funding sources, and first and foremost. Very good knowledge of the target group really – their needs, problems, expectations. Ability to create extensive contact network of collaborators, volunteers, supporting institutions, local authorities and other entities.
Portugal	Personal characteristics, with hard skills staying apart from this characterization. Commitment, dedication, passion and motivation towards the project, resilience and perseverance regarding difficulties and barriers, an active, optimist and creative attitude, and vision and/or to be open to the new and to change. Social skills: capability of dialogue and to communicate effectively.
Romania	Skills related to people and interaction, management skills and good ideas, luck.

Table 3: Characteristics of social entrepreneurs' success

The table above (Table 3) shows the main characteristics identified according to country, revealing the most valued characteristics in each member-state, in a similar manner to the analysis undertaken in the previous topic. Despite the referred features commonly considered the most important across countries, it is important to address some features especially important in certain countries. In Cyprus, the “local” was given particular focus, namely the importance of society sensitivity and respond to local needs. In Romania, ambition and luck were referred as of special relevance, opposing the other opinions.

Discussion

The use of the “social entrepreneur” concept seems to be increasingly embedded in the daily life of governments, populations and society. When comparing the resulting definitions from literature (Table 1) with the perspectives of the interviewees (Table 2), there is a high level of agreement between them. This conclusion should be considered of high importance taking into account that, although there is no consensual legal framework for social enterprises in all countries of the sample, there seem to be accordance on what is understood as a

social entrepreneur among practitioners and the advocated by literature. Both perspectives consider that the social entrepreneur is a visionary person that makes the difference, focuses his attention on others and aims to help and solve social issues through innovative, creative and unique solutions. His ultimate goal is to create and generate social value in a non-profit way.

Although it was interesting to note that Romanian respondents considered social entrepreneurs opportunists, this view goes in line with one of the oldest definitions analysed in this study, that belongs to Leadbeater (1997).

Practitioners from different countries identified some common key features for successful entrepreneurs. Though, some characteristics were identified only in some countries, highlighting the importance of the context in social entrepreneurship, as stated in literature (Kelley *et al.*, 2015). The main characteristics considered important regard to personal attributes and transversal skills, encountering literature (Abu-Saifan, 2012; Spinelli & Adams, 2012). In general, most characteristics that distinguish social entrepreneurs from others and that make the difference in their success appear both in literature and stakeholders' perspectives (e.g. creativity, determination, initiative or adaptability).

Notwithstanding, social attributes seem to stand out in practitioners' perspective, especially networking and communication. Such characteristics are less present in literature, revealing a small gap between theory and practice.

Conclusions

Social entrepreneurship has recently emerged as an area of emphasis for the society and at the same time aroused great interest in the academic world. The exploratory study leads at concluding that the definition of "social entrepreneur" present in literature is supported by the opinion of experienced people in the area. Also, the main features that make the social entrepreneur successful seem to be supported by data collected in the field. Therefore, the study shows a general match between literature and reality. It is important, nevertheless, to note that social skills are particularly seen as relevant for social entrepreneurs' success by practitioners and less highlighted by theory, putting in evidence a new point of interest for researchers.

Regarding the targets inquired, data collected allowed not only to compare theory and practice, identifying differences and similarities, as it provided an unique opportunity to look at the different perspectives from five European countries, with different realities. Indeed, differences found reinforce the importance of the context, already stated by literature. The analysis also leads at raising questions in what concerns the relevance of constructing a consensual framework for a common definition across the European Union, comprising the special features of each economy and context. The study suggests further research to build on this issue, allowing supranational entities to define guidelines to a clearer definition and perhaps legislation on social entrepreneur throughout European countries.

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Networked social enterprises

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Abstract: The study at hand has as general objective to investigate the type of networks common in the social entrepreneurial sector in Romania. Networking is considered in the academic literature as an important means of information, of social capital creation, of competitive advantage, as well as of increasing resources. The qualitative research developed shows that the Romanian social enterprises tend to be part of small informal networks. The results also show that the main benefits associated with these networks are information and sharing of experience. Although willing to cooperate, social enterprises are oriented more on every-day activities, on solving the various problems they have.

Keywords: social enterprise, social network, Romania

Introduction

Social enterprise is a concept still evolving. Social enterprises could create and enforce a common identity by adopting common governance structures and working for a shared definition presenting distinctive features of a social enterprise. The way social enterprises operate faces many challenges too. Some of them are related with the inner environment and the relatively new practices in the field, some others are related with the forces manifest in the external environment and the connections with the nonprofit, economic and public sectors. Networking was one of the first answers to these common problems, and it proved to be effective, but more effort is required in the direction (Borzaga & Defourny, 2003, p. 340).

Within a community, for social enterprises, the creation of external relations with other interested parties is important in establishing their legitimacy. The networks connect organizations/ groups/ persons and create a feeling of belonging. By interacting with other actors and through experience sharing, social enterprises are supported in their activity. Access to a network creates new development opportunities for a social enterprise.

Considering this framework, the present research investigates the way social enterprises in Bucharest take part in networks and how do they perceive the outcomes.

Literature review

Social enterprises are private organizations dedicated to solving social problems, serving the disadvantaged and providing socially important goods that were not, in their judgment, adequately provided by public agencies or private markets. These organizations have pursued goals that could not be measured simply by profit generation, market penetration, or voter support (Dees, 1994 apud Mair & Martí, 2004, p. 4).

Social enterprises are organized as businesses that trade for a social purpose. Their legal status could be a business, a NGO or could be a productive venture of a NGO. They combine innovation, entrepreneurship and social purpose and seek to be financially sustainable by generating revenue from trading. Their social mission prioritizes social benefit above financial profit, and if and when a surplus is made, this is used to further the social aims of the beneficiary group or community, and not distributed to those with a controlling interest in the enterprise (Haugh & Tracey, 2004 apud Mair & Martí, 2004, p. 4).

A social enterprise is a specific piece of the market economy, placing its goals and missions outside the market. A social enterprise is the glue that connects attributes of the social economy with free-market principles (Hausner, Laurisz & Mazur, 2007 apud Wronka, 2013, p. 596). Social enterprises, by means of the activities performed, bring added value to the economy, but also to society in general (Cornelius & Wallace, 2013).

Social innovation should be vital for social enterprises' development (Praszkier & Nowak, 2012, pp. 17-18). It is one of the major dimensions that characterizes such a venture, together with social value creation, market orientation or entrepreneurial spirit (Choi and Majundar, 2010, p. 372).

Social enterprises find, most times, solutions for social problems, especially through their social innovation capacity. These solutions, as well as the forms of social economy developed by them could be more visible and with a greater impact, if they would be part of social economy networks capable of influencing policies at local, regional, national and/or European level.

Largely, a social network refers to a set of actors and to the connections between them (Wasserman & Faust, 1994, p. 9 apud Hâncean, 2014, p. 20). Marin and Wellman (2012, p. 11 apud Hâncean, 2014, p. 20) define the concept of social network as a set of socially relevant intersection points, connected through one or several relations (the intersection points may include actors, organizations, departments, computers, web pages, articles, countries, communities, vicinities, social positions etc.).

The network activity is considered an essential method for exchanging relevant information, for mutual learning, for working with competent staff, as well as for fighting for common causes (Frank & Thompson, 2010, pp. 102-103). Networks could be either informal, or formal. The dimensions associated with a social network are density of connections, distance between participants, and structural cohesion (Praszkier & Nowak, 2012, pp. 90-94).

The network activity is that activity of development and maintenance of relations with other organizations, which have the potential to offer work or career assistance (Wong & Tse, 2015, p. 29). It is important that social enterprises develop a network management strategy (Forret & Dougherty, 2004).

Networks help social enterprises, but also other actors involved – companies, universities, individuals etc. – to develop connections and collaboration partnerships which may offer

competitive advantage (Freeman, Edwards, & Schroder, 2006). For instance, practically, these networks offer the possibility to the social enterprises to engage in business partnerships.

Formal networks are made up of at least three enterprises that sign a common collaboration contract in order to start a pre-established activity, in a determined time frame. These business networks have varied characteristics and may be in the form of sub-contracting, strategic alliances, technological transfer agreements etc. (Dictionary of basic terms in entrepreneurship, 2013, p. 20).

The establishment of a network is undertaken due to the initiative of a social enterprise that takes over the role of coordinator, accepted by all network members. The following step is to determine its objective and to find social enterprises that wish to cooperate. The collaborators may belong to a similar sector (horizontal collaborations), may be from different sectors of the same chain (vertical collaborations) or may come from complementary sectors of the branch (collaborations in diagonal). In any of the situations, the basic element for the success of the network objective is building trust between the partners. After the partners have been determined, the time horizon and the collaboration type are established. Some networks can be built on the basis of verbal agreement and others on the basis of a contract, signed by all network members. After creating the network, the actions to be implemented are decided, as well as their financing manner. In this stage, essential are the resources and competences held by the collaborators, which must be complementary, in order to be efficiently used in the network promotion. When the network was created, the existence of an active management is necessary for its efficient functioning. The persons participating in the network management are decided by the member enterprises (Adapted after the Dictionary of basic terms in entrepreneurship, 2013, p. 20). An effective network leads to the creation of rewards to its members and social capital (Praszkier & Nowak, 2012, pp. 99-102).

The social enterprise networks created for the achievement of certain target objectives have varied forms and are characterized by the creation of a social capital, regarding the capacity of civil society to consolidate the economic efficiency and to create social added value by means of developing interpersonal and collective commitment networks (Putnam, 1993). Social capital contributes to our study regarding social enterprises, through its structural and relational dimensions.

Social capital is widely described by different authors as: features of social organization such as networks, norms, and social trust that facilitate coordination and cooperation for mutual benefit (Putnam, 1995, p. 67); the ability of people to work together for common purposes in groups and organizations (Fukuyama, 1995, p. 10); the ability of actors to secure benefits by virtue of membership in social networks or other social structures (Portes, 1998, p. 6.); Social capital is defined by its function. It is not a single entity, but a variety of different entities having two characteristics in common: they all consist of some aspect of social structure, and they facilitate certain actions of individuals who are within the structure (Coleman, 1990, p. 302).

The theorists (Liao & Welsch, 2003 apud Mair, & Martí, 2004, p. 11) have elaborated three highly interrelated dimensions of social capital: structural capital – the structure of the overall network of relations (Burt, 1992 apud Mair, & Martí, 2004, p. 11); relational capital – the kind and quality of an actor's personal relations (Granovetter, 1992, pp. 25-26 apud Mair, & Martí, 2004, p. 11); and cognitive capital – the degree to which an individual shares a common code and systems of meaning within a community (Nahapiet & Ghoshal, 1998 apud Mair & Martí, 2004, p. 11).

The structural dimension refers to the general model of the connections between the actors (Burt, 1992). More specialty authors underlined the importance of networks for social entrepreneurship. The ability to develop a network of relationships and contacts has been described as a key capability and critical skill of social entrepreneurs (Prabhu, 1999; Thompson, Alvy, & Less, 2000). Structural capital defines the potential or possibilities that the social entrepreneur has to access information, resources and support.

The relational dimension of social capital is focused on the quality of relations, such as trust, respect and friendship. There is increasingly more evidence that when trust is built between the parties, they are more eager to engage in cooperation activities, by means of which trust can continue to be generated (Fukuyama, 1997; Liao & Welsch, 2003 apud Mair & Martí, 2004, p. 11).

Given the above-mentioned, we can underline the characteristics of networks (Dictionary of basic terms in entrepreneurship, 2013, p. 5):

1. Common strategy: The network members must have a common strategic objective.
2. Fundamental competences: Each enterprise that is part of a network adds value to the final result, depending on what it knows to do best.
3. Clear agreement: The type of agreement concluded between enterprises may vary from a contract in very clear terms, until a verbal agreement.
4. Trust: The basic condition of collaboration is trust. More specifically, there must be a conviction that each business action is performed in the common interest and not only in personal interest.
5. Technology: Technology development allows the immediate transfer of information from one enterprise to another and reduces very much the time and cost of transactions, allowing the enterprises in the network to behave as a single entity.

As benefits of the networks, we can identify the contribution to the dissemination of information and to the development of knowledge, to the consolidation of the social enterprise infrastructure (Mawson, 2010) and to the generation of their innovations (Boso, Story, Cado-gan, Micevski & Kadic-Maglajlic, 2013). Networks that bring together the institutions of civil society at regional and national levels are important, not least because they facilitate the bridging which is very important to small organizations at the local, community level. Networking, if done well, can impact on levels of social capital in society (EU research on social sciences and humanities, 2003).

Networking with resource competitors to share resources and maximize mission achievement, networking with complementors to increase compatibility and share resources, networking with customers to streamline service delivery and reduce resource requirements are all viable ways to deal with resource scarcity and competition, and position the social venture for future growth (Kickul & Lyons, 2016).

Methodology

The main objective of present study is to understand what collaboration forms are functional in the case of Romanian social enterprises. The investigation also permits to spot the most common forms of networks set up, as well as to comprehend how they function.

The research is a qualitative exploratory one, based on interviews made with Romanian social entrepreneurs. During the first stage of the study, aiming to grasp better the investigated phenomenon as well as to calibrate the interview guide, four entrepreneurs were interviewed. Since the social entrepreneurs are extremely busy and time is a very limited resource for them, the interview was designed to last up to an hour. Some of the interviews were taken using Skype.

Social enterprises

MamaPan is a social endeavor of the Foundation CPE (Center Partnership for Equality) launched in August 2015, in Bucharest. It is not an independent juridical entity. MamaPan is a bakery. The main characteristics of this social enterprise are the offer and the employees. The bread is produced using traditional recipes, using leaven and without commercial yeast. The employees of the bakery are single mothers facing financial difficulties.

Social Sports Club Association operates in Braşov. It promotes sports, especially tennis. The club offers free tennis training and equipment to disadvantaged children, as well as professional development for individuals in need. It was founded in December 2014. It has six employees, among which four are part of vulnerable groups. The funding comes mainly from the clients who use the sports base.

Impact Plus is the first social enterprise in Neamţ County, established in 2007 by Speranţa (Hope) Foundation for Local Development from Târgu Neamţ. It has its own accounting but no juridical personality. It was the result of a European project financed by the Netherlands. The enterprise hires more than 20 individuals, half of which being persons with disabilities. The enterprise manages a workshop producing various items from clothes to advertising products.

Auto Control is an association established in September 2015 in connection with an European-funded project called “SOCEC – the network of social economy”. It provides repair services for cars, as well as periodical inspection (ITP). It operates in Gruiu village, in Ilfov county. It has seven employees, among which four come from vulnerable social environments.

Networking among social enterprises

The most connected social enterprises seem to be the oldest ones, benefiting from previous partnerships and experiences. Considering the declarations of the respondents, in all cases, the main partners in terms of relevance are the business partners. “*The functional relations – processual ones – are the most important*” (I.S., president, CPE/MamaPan). Other organizations with which social enterprises mainly cooperate are nongovernmental organizations that were involved in previous projects in which social enterprises were also a part. It seems that joining forced in previous successful projects is a good drive to continue relations. The importance of a relation is tightly related with its lengths in time.

Keeping in touch with other social organizations is related mainly with “*learning from one-another*” (E.C., president, Speranţa/Impact Plus), or being informed. These two aspects seem to drive the online presence of the organizations. The main source of information is the internet for most organizations, as well as various partners – including the commercial ones.

The social enterprises might receive newsletters or be part of Facebook groups, but also having in mind the need of information, to find out about *“the relevant events for us”*. (I.S., president, CPE/MamaPan)

Overall, there are two types of relations – with other NGOs and with businesses. Both of them are considered important, from different perspectives. The first ones could induce better practices and open new ways to develop the activity, while the second ones are necessary for better results – as well as identifying new business opportunities. The networks in which the interviewed social enterprises activate are informal. Only one of the enterprises, Impact Plus, is member of a federation of nongovernmental associations providing social services, called FONSS. As part of this federation, the organization is being informed and could take part in various projects. In the specific situation of Impact Plus, which is a relatively new member of this federation, which is mainly active and makes lobby in another county close to the one of Impact Plus, the benefits are not so concrete up to this moment: *“We did not see direct benefits, but we do not want to be egotistic. (...) One has to be patient, they come in time.”* (E.C., president, Speranța/Impact Plus)

The main reasons why social enterprises are not part of various partnerships and networks seem to be the need to focus on operative aspects of their activity, to face challenges and be successful in business. E.C., the president of Speranța/Impact Plus, states that *“there are all sorts of networks, but we have not contacted by them and we have not gone towards them either. (...) We have been too concentrated on our own activities”*. These practical aspects also guide the social enterprises in establishing relationships. *“We cooperate with other social economy structures when we have to organize large events.”* (I.S., president, CPE/MamaPan)

In general, the respondents poorly evaluate the cooperation among the members of the social economy. *“From my point of view, the relationships between the members of the social entrepreneurial sector are not developed; unfortunately there is a lack of understanding of the importance of the social economy”*. (G.G., manager, Auto Control) The sector itself is not developed according to the respondents: *“the same organizations are (taking part in various events), but there are not so many overall...”* (I.S., president, CPE/MamaPan)

Largely, respondents observe a lack of cooperation. Some are actively trying to connect, as it is the case of Impact Plus, but with poor results: *“we opened the gates towards all that wanted to see us. (...) We tried to cooperate with universities... with students. It did not work... too small town...”* (E.C., president, Speranța/Impact Plus)

The contacts between the members of social entrepreneurial sector are poor due to many reasons: lack of time, lack of resources – including human ones, *“they are not persons oriented towards networking, (...) everyone is preoccupied with internal problems and less inclined towards relating with external environment”*. (I.S., president, CPE/MamaPan) Sometimes, rivalry is also perceived: *“I would not see cooperation. Sometimes there is competition... immoral one by stealing clients or through dumping prices”*. (E.C., president, Speranța/Impact Plus)

Networking seems to be low among the interviewed organizations, but the need and the desire to cooperate is high. E.C., the president of Speranța/Impact Plus, confesses that *“I love when people in the sector succeed to connect with one-another”*. Considering the prospects, some respondents are positive: *“I have observed that in other countries the social economy is a network pretty well organized, the social enterprises cooperated quite close; this phenomenon does not happen in Romania, for the moment”*. (A.B., manager, Social Sports Club)

Conclusions

Although being part of a network is beneficial and positively perceived by social enterprises, the Romanian organizations of such type are more oriented towards overcoming operative challenges than actively developing relationships with other organizations. The networks of which they are part of would be mainly informal in nature and would not benefit from a development strategy. In this way, these networks could hardly offer a competitive advantage.

The study suggests that, especially at the beginning of their existence, social enterprises related with other (similar) organizations in an inertial way. If previous successful cooperation had been registered, those organizations would stay in touch, mainly to share information and maybe for sharing experiences. Therefore, the main benefit associated with these networks is a somewhat increased cognitive social capital.

These informal networks would generally be small, comprising only a few organizations. The social enterprises established in the context of European-funded projects would tend to cooperate with other organizations part of the same project.

All the respondents agree that the cooperation inside the social entrepreneurial sector is poor. They would all be eager to establish partnerships. Other social enterprises are points of reference, but contacts with them are scarce. They join the same events and make some exchange of information, but each organization tends to be more focused on their own activities and on ensuring the necessary funding to operate.

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How to create a social enterprise: a case study

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Abstract: Social entrepreneurship and social enterprises are considered as promising approaches to many current problems in society. This article takes process perspective and analyses how social venture aiming to create a social enterprise was carried out. Our study raises interesting insights of entrepreneurial processes that are guided by innovative communities instead of individual entrepreneurs. We discovered that the social venture process was similar to user entrepreneurship –model that emphasizes extensive interaction with user community. Therefore policy initiatives such as living labs could be potential instruments for fostering social entrepreneurship.

Keywords: Social entrepreneurship, user entrepreneurship, living lab.

Introduction

Social entrepreneurship can be seen as alternative approach to sustainable economic development that emphasizes entrepreneurial behaviours and practices within the context of social rather than personal gain (Kraus, Filser, O'Dwyer & Shaw 2014; Chell, Nicolopoulou & Karatas-Özkan, 2010; Shaw & de Bruin, 2013). Social entrepreneurship and its outcomes social enterprises are expected to be a source of new and innovative solutions to the persistent problems of society and to produce social innovations at the local or community levels.

Social entrepreneurship and social enterprises have not been extensively researched and little is known, how for example, social entrepreneurship can be supported by means of innovation policy instruments. Living labs are among those few practical concepts have been suggested to support and stimulate social entrepreneurship (Lundström & Zhou, 2011) and as form of open innovation highly important for new venture creation (Eftekhari & Bogers, 2015; Chesbrough & Bogers, 2014). Living labs can be defined as intermediaries of open innovation (Almirall & Wareham 2012) and their role for social innovation has been acknowledged (Edwards-Schachter, Matti & Alcántara, 2012; Battisti, 2014) Therefore this study aims at increasing understanding on how social entrepreneurship can be fostered?

In this study we take a process perspective on social venture and empirically study a process that was carried out in order to establish a social enterprise and this way, solve a social problem concerning employment of disadvantaged persons.

Literature review

Social entrepreneurship and social enterprises

The central driver for social entrepreneurship is the social problem being addressed in an innovative and entrepreneurial way (Chell *et al.*, 2010). Current academic discussion however has not been able to create single definition for social entrepreneurship (Kraus *et al.*, 2014; Seelos, 2014).

Social enterprise can be seen as outcome of social entrepreneurship (Maír & Marti 2006). They are seen as something new and distinct from classical for-profit business and traditional non-profit activity, combining elements of the social purpose, the market orientation, and financial performance standards of business (Young 2008; Galera & Borgaza, 2009). Social enterprises combine business logic and social goals and usually tackle the wicked problems of our society such as environmental problems, injustice, poverty and social exclusion, that traditional private, public, voluntary or community mechanisms have not been able to solve (Shaw & Carter 2007). As such, social enterprise formation can be seen as innovation. (Kirkman, 2012).

Korsgaard (2011) suggested that social entrepreneurship is a process of mobilisation and transformation. Mobilisation means involvement of new actors and that consequently transforms the venture. Phillips, Lee, Ghobadian, O'Regan and James (2015) suggested that social innovation systems are sub-sets of individual and independent actors, but by means of collective learning solve and address social issues.

Although social entrepreneurship exists in traditional, profit maximizing organisations, social entrepreneurship and social enterprises are considered as possible solution to non-profit organisations financial and operating problems and therefore highly relevant approach for non-profit sector. Hull and Lio, (2006) studied differences between non-profits and for-profit organisations regard to innovation and found out that non-profits particularly focus on process innovation instead of product innovations because process innovations may yield immediate results beneficial to the organization's cause, making it less risky and less expensive.

Living Labs as innovation policy tool

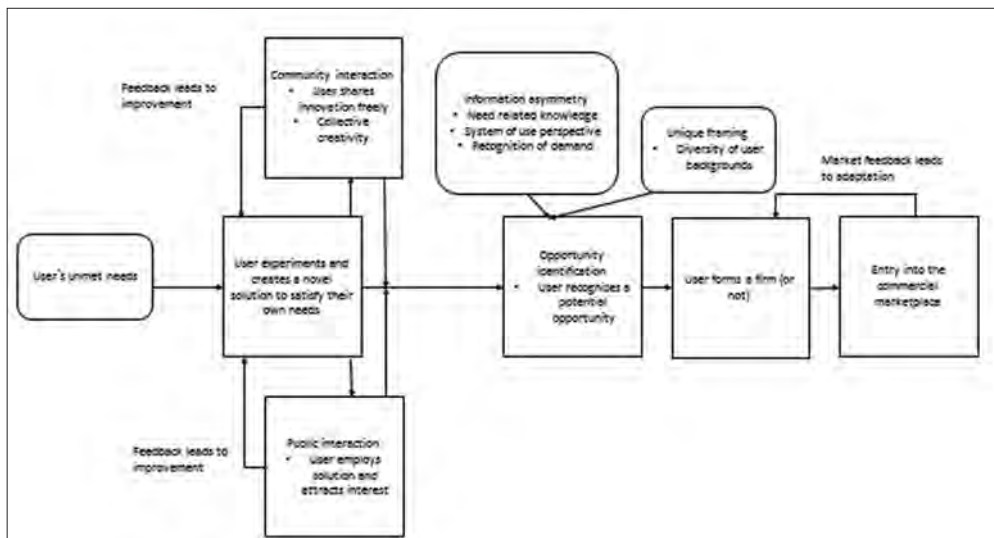
Policy-wise more and more focus has been targeted to the public or crowd as a group of actors that influence every national innovation system and as a key part of promoting knowledge-based economy. The need for Quadruple Helix cooperation between university, industry, government and public instead of the traditional Triple Helix cooperation (university-industry-government) has been brought out in several publications (see, e.g. Markkula, 2014; MacGregor, Marques-Gou & Simon-Villar, 2010; Lindberg, Lindgren & Packendorff, 2014) and is also strongly promoted by EU through the Smart Specialisation concept (Foray, Gobbard, Beldarrain, Landabaso, McCann, Morgan, Nauwelaers, & Ortega-Argilés, 2012).

Living lab can be considered as an example of quadruple helix – cooperation. Living lab is an innovation approach that emphasize user involvement to innovation process (Schuurman, 2015; Dekkers, 2011; Bergvall-Kåreborn & Ståhlbröst, 2009). Almirall and Wareham (2012) describe typical Living lab as a collaborative project engaging companies, academia, government and technological centres, in which users are involved in several stages of innovation process. They also argue that Living labs are “intermediaries of open innovation”, that focus on mediation between different actors capturing and codifying users insights in real-life environments.

Schuurman (2015) has identified Living labs as potential concept for entrepreneurship. The connection between entrepreneurship and user-involving activities is yet rather unexplored. However, there are some examples in empirical cases that imply that user-led innovation could have some impact to entrepreneurship. Hienerth, Keinz, and Lettl (2011) found in their study that for example Lego fostered entrepreneurship-academia for its innovative users, whose inputs Lego was utilizing in its innovation activities. Another hint can be found from crowd-sourcing initiatives that are defined as problem solving with bounty. A study conducted around T-shirt company Threddless, the users’ motivation to send their designs to Threddless, was occasional freelancer work and even change a hobby to full-time employment (Brabham, 2010). Autio, Dahlander and Frederiksen (2013) studied user entrepreneurship in online communities. They found out that the individual’s exposure to technological information increases the likelihood that he or she will recognize “third-person opportunities” whereas exposure to information about user needs exhibits significant influence on first-person opportunity beliefs. They found proof for earlier studies that opportunity evaluation and entrepreneurial action are regulated by different external stimuli. Therefore, it seems that user related information plays very important role for fostering entrepreneurship.

Shah and Tripsas (2007) described the process of user entrepreneurs, where user entrepreneurs developed and validated solutions (or prototypes) with communities prior to commercial opportunity and firm formation (See figure 1). Shah and Tripsas (2007) model describes information inputs as ovals and actions taken by entrepreneur by a rectangle.

Figure 1: End-user entrepreneurial process model (Shah & Tripsas, 2007)



Shah and Tripsas (2007) also set four propositions for conditions when user entrepreneurship is more likely to dominate classic sources of entrepreneurship. First, when user provides enjoyment opposed to solely economic benefit. Second, when users have relatively low opportunity costs. Third, when industry is small scale, niche with high variety of demand and peripheral. And finally fourth, when market is turbulent, product is new, there are high levels of uncertainty and evolving user needs.

The user entrepreneurship models takes in to account interaction among different actors that Korsgaard (2011) identified important for social entrepreneurship. User involvement is emphasized by Svensson and Bengtsson (2010), who showed through their two case studies that people with social problems can innovate new social services for themselves. They concluded that the superior knowledge about the problems and solutions possessed by users could explain the varying frequencies between service types (such as banking services, surgical instruments or social services) of user generated innovations. They also found that legitimacy played significant role in this process. Internal legitimacy within the group helps to diffuse the social venture and make it attractive to potential users of its services. External legitimacy of the venture is dependent of project leaders and organisations. (Svensson & Bengtsson 2010).

Methodology

A qualitative single case study methodology was selected to report the studied process and its results. Yin (2009) defines a case study as an empirical inquiry that investigates a phenomenon within its real-life context. The main reason for using the case study approach is the desire to understand particularly complex phenomena either by learning something about the case itself or by using the case to achieve a more general understanding (Stake, 1995; Yin, 2009). Within management studies, the case study approach has traditionally been used, especially when there has been a need for new theory development (see e.g. Eisenhardt, 1989).

The research project started when the first author of this paper was contacted and asked, if researchers could provide expertise concerning participatory business idea generation. Data was therefore collected from a real-life process between autumn 2012- spring 2014. Data consisted researchers observations from pre-board meetings and idea generation workshops and they were recorded as a field notes. Besides these events, there were frequent informal interaction with key informants, namely the pre-board members. Through this interaction updates about recent events were received, researchers observations were discussed and validated. These were also recorded as field notes. Blog texts, project presentations and evaluation report produced by informants were included to data. The quantitative description of data is presented in table 1.

Table 1: Data description

Data type	Number	Length
Project presentations	2	44 pages
Blog texts	3	5 pages
Evaluation report	1	17 pages
Interviews	1	2 hours
Field notes	6	23 pages
Case description	1	5 pages

The analysis was conducted manually. Typical to qualitative research, analysis and data collection overlapped. The analysis did not base on formal coding procedure but on more direct interpretation of research materials (Stake, 1995). Analysis started so that case description was constructed based on chronological process presented in figure 3. After the first case description was written, the usefulness of the user entrepreneurship –theory was noticed and lead us to investigate the corresponded phases. After this, two hour open interview with the process leader and participated researchers was conducted in order to validate results.

The first author of this paper participated in the data collection and made the analysis. In order to avoid researcher bias, there were constant interaction between other participated three researchers so that meaning-making, interpretations and subjectivity (Mabry, 2008 p. 222) could be handled.

Findings

Case description

Foundation A is a non-profit organization operating in Southern Finland. It produces services such as housing and rehabilitation services to mental health and substance abuse rehabilitees. A newly recruited employee of Foundation A decided to start a process that would lead to the establishment of a social enterprise. The reason for doing so was the fact that work is considered an important aspect of rehabilitation and a step towards “normal life”. However, the general working life in Finland is considered rather rigid and on-off: either you are capable of working fulltime or not at all. There are no suitable working conditions or opportunities for rehabilitees who are able and willing to work but in terms of their current capabilities. The following quote from the projects blog illustrates well the problem that was to be tackled:

“Comparing the objectives of “Bee of social economy” and yesterday’s TV-programme titled “Who would hire a person, who is partly fit to work?, can be said that our venture is so right and justified! Or what do you say, pre-board members, about the next quotes from the programme: “Finnish labor market suffers from on/off- problem”, “I think it is a shame, if a person can’t utilize all his cards in his hand”. The interview of Finnish labor minister Lauri Ihalainen is also very interesting and encouraging. Or what do you say about his comment that employing by social cause has bigger influence of national economy than raising a retirement age.” (*Source: Blog text, freely translated from Finnish*)

The primary focus of social enterprise was to fit capabilities of its employees and secondary focus is to be financially viable, preferably without any financial support from gov-

ernment. This idea was presented for three other non-profit organisations operating with the rehabilitees. They agreed gladly with the idea and formed so called “pre-board”, that would be the steering group of the process.

The community of rehabilitees possess different competencies and skills, “from a grave digger to a lawyer”. For the new venture, the business plan had not been drafted, the legal form of venture was not decided nor were there any concrete business ideas for the activity. In order to generate the business ideas and to find the potential from the whole community, it was decided that an idea generation workshops would be implemented in collaboration between the community and researchers/facilitators. The process was called ‘Bee of communal economy’ and it is illustrated in figure 2. Business ideas would be collected through co-creation and co-learning to find out about what services and products the social enterprise could offer.

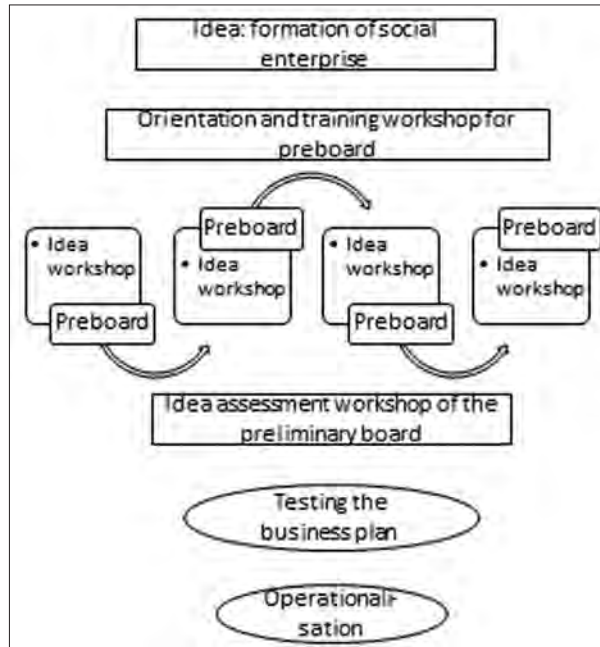
The idea generation sessions were planned and facilitated by a researcher. The starting point of the idea generation was the capabilities and skills of individuals in the community, instead of the market opportunities or any other outside trigger. The facilitation focused on finding participants’ strengths and to acknowledge meaningful experiences of work. The philosophies of improvisational theatre as well as playfulness and meditation awareness were used as methods of creation in the workshops.

Four workshops were organized in each of these four organisations. Workshop participants, i.e., rehabilitees, their relatives and social workers, were mainly from these four partner organizations. Workshops were open and targeted at anyone interested. Altogether about 140 people participated in the workshops – about 120 rehabilitees and 20 social workers.

More than 100 business ideas were created in four open idea generation workshops. After the idea generation workshops, two business idea concepts were selected by the pre-board for further development. The first idea concerned a new social service and the second idea was built around ICT-services. The latter one however did not reach enough interest and enthusiasm among the community nor resources so that the development work would have continued. The social service idea was in the other hand developed further, because there was interest in the community and the idea served the community so well. In order to develop the concept further, a new development team was recruited from the rehabilitees.

The social service concept was piloted together with local public mental healthcare unit. The pilot was also evaluated and results were very positive and encouraging showing that there were clear benefits for all stakeholders: the patients, the local mental healthcare unit and the employed rehabilitees. Currently, the service is ready to be commercialized and negotiations ongoing. The development process concerns two distinct business opportunities and neither of these is enough for the establishment of a new firm as such. In terms of institutionalization, there are two alternatives: The first one would be joining a local cooperative and thus the process would not lead to the emergence of a new organization. The second alternative would be to run the service as part of the focal organization. In this case, the company would be created and it would be strongly supported by the Foundation A.

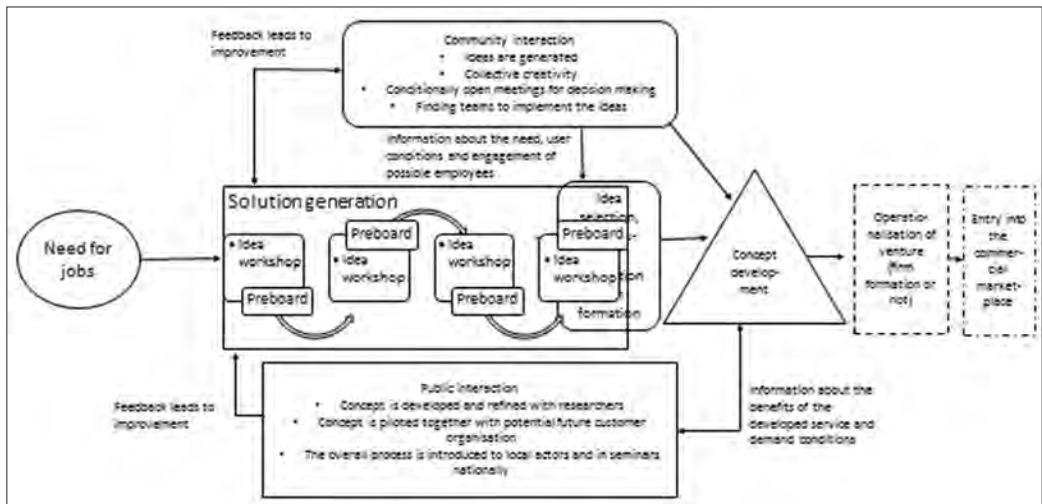
Figure 2: Case as an innovation process



Analysis

Entrepreneurial processes almost always have a central person or a group pushing the process forward. In this case the entrepreneurial person was a new employee within a foundation A. After initializing the process by inviting the other non-profit organisations, the community of service users were invited to take over the process in terms of identifying the business ideas and developing the business concept for the emerging organization. The community in this case consisted the rehabilitees and non-profit organisations. The rehabilitees had two roles in this process. First, they were considered as potential employees of the future firm. Second, they were seen as potential customers or end-users of the future firm. The whole process is illustrated in figure 3 according to the user entrepreneur model of Shah and Tripsas (2007). In their model, the starting point is an unmet user need and the focal actor is a single user. In this case, the starting point was a generally acknowledged social problem that touched particularly the community at hand. In the figure, rounded rectangle presents actions where community played significant role. Rectangles are actions, where the pre-board is playing the leading role. Triangle illustrates phase, where a development team (recruited among the rehabilitees community) lead the venture. Circle presents the initial need.

Figure 3: Case process according to user entrepreneurship model (adapted from Shah & Tripsas, 2007)



Solution generation, selection, and opportunity recognition

The solution was a social enterprise that would provide employment for the rehabilitees. In this point, the employee identified that they could just establish a new firm and then, develop a set of services and products to sell. This path would have required financial capital and decisions about the firm structure and ownership before the actual business ideas were invented. This would have required a lot of resources and it would have taken the focus off from the community and the actual problem.

For the involvement of community, “the bee of communal economy” -initiative was launched as joint activity of the four non-profit organisations and a research unit, that hosts Lahti Living Lab.

In order to manage and steer the process, the so-called pre-board was established. The necessary ecosystem (cf. Moore, 1993) or social innovation system (Phillips *et al.*, 2015) around the solution (i.e. social enterprise) started to take shape. This corresponds to idea of mobilisation (Korsgaard, 2011). Before the actual idea generation workshops, the pre-board members had their own orientation workshop, so they could learn how to manage these type of collaborative idea generation workshops themselves. The learning and activation of community by idea generation workshops provided those important benefits for non-profit organisations that process innovation generates (Hull & Lio, 2006).

Pre-board made and agreed on the rules that were openly communicated to everyone involved. All the pre-board meetings were public and anyone could join. However, in order to secure decision making effectivity, outside-board participants had only right to comment in the pre-board meetings. The pre-board adopted the role of the leader for the entrepreneurial process. The important task was the selection of potential ideas, which took place in the open pre-board meetings. Pre-board were responsible for the opportunity recognition and that activity took place constantly during the idea generation phase. Viability of idea or opportunity was constructed from pieces: whether the ideas fit for previously determined “good idea criteria” and if there was found enough potential people to develop the concept further. These

enthusiastic and entrepreneurial people had to be found from among the rehabilitees – not from the organisations and among their employees.

Community interaction

Besides the open pre-board meetings, the idea generation phase consisted four public workshops (see figure 3). In workshops, all emerging or existing ideas for business were collected. If someone came to workshop with an idea, it was written to a post-it note and placed to a “wall of ideas”. Otherwise, ideas were generated in the workshops. Method-wise, the idea generation process followed user co-creation and participatory design domains in Living lab methodology landscape (Pallot *et al.*, 2011) and relied strongly on socio-emotional intelligence. Social and emotional intelligence refers to the competencies linked to self-awareness, self-management and social awareness. The methodological starting point was to focus on participants own strengths and meaningful experiences of work. By doing so, the diversity and heterogeneity of participants backgrounds and skills could brought to use (Shah & Tripsas, 2007; Autio *et al.*, 2013). Thus, the potential employees were guided and supported to generate first-person opportunities (Autio *et al.*, 2013) instead of scanning outside opportunities or possibilities for someone else.

Concept development

Two ideas proceeded to concept development phase but only one proceeded further and caused entrepreneurial action during the time period under investigation. The idea that survived was very much tied to the community members’ own experiences as patients and rehabilitees and thus, improved the current services. This corresponds to Autio *et al.*, (2013) as their study suggests that use information is important to stimulate entrepreneurial action. Therefore, it was no surprise that this idea prompted entrepreneurial action among individuals from the community. A team of four people was found among the community of rehabilitees and they developed the concept further. This also meant shift in management of the process. The team took over and the initiator together with the pre-board stepped aside. This event presents transformation where the project became more focused.

Public interaction

As distinction to Shah and Tripsas (2007) model, there were different kind of public interaction models. Through the public interaction, the venture process was introduced for local authorities and for local entrepreneurial community: Science- and Business Park, City council and Centre for Economic development, transport and the environment (TE), to name but a few. This was done in order to raise awareness about the social problem and about the social enterprises in general. The feedback received was mainly positive although one authority doubted the concept of social enterprise saying “These ventures usually are not viable...” These interactions however brought the process to the awareness of local entrepreneurial environment (Audretsch and Keilbach, 2004) and gained acceptance locally.

In concept development phase, the selected team utilized business model canvas (Osterwalder and Pigneur, 2009) in order to shape the offering. The team chose to visit one of the researchers, who had a strong background in business but had been absent from the idea generation workshop phase, to test their ideas and to have feedback about the planned venture.

Public exposure took place as the service was introduced and piloted together with a potential paying customer, the local mental health service unit (open ward). This unit was very

familiar for the rehabilitees and there were strong ties between the open ward and non-profit organisations. Social capital was the main instrument here (Mueller 2006) and collaboration in order to organize the service pilot was easy to arrange. This pilot committed the potential customer (the public social- and health services) to the process and demonstrated the positive impact of the service in practice. There was also an impact investigation study and report made which supported the overall positive impact of the new service.

Discussion

Theoretical implications

This study contributes for one's part to the development of understanding about social venture creation and social entrepreneurship on several ways: First, it suggests that social entrepreneurship process operate and have similar characteristics as user entrepreneurship model suggested by Shah and Tripsas (2007) that emphasizes extensive interaction with user community and local business environment prior to formal firm formation. This supports and deepens Korsgaards (2011) view that suggested that social entrepreneurship is a process of mobilisation and transformation. Through mobilisation of community the process as such created social value that is important for non-profit organisations engagement in innovation. This corresponds with earlier studies by Hull and Lio (2006) and Verschuere *et al.*, (2014) who suggested that non-profit organisations are more likely to engage in innovation processes that directly benefits the social mission.

We built our analysis on the model by Shah and Tripsas (2007) who formulated four propositions for conditions when user entrepreneurship is more likely to dominate classic sources of entrepreneurship. They suggested, that user entrepreneurship is likely to dominate when user provides enjoyment opposed to solely economic benefit and when users have relatively low opportunity costs. In our case the user community engaged in the venturing process from the perspective of creating a new service for themselves. The process itself generated value as it provided meaningful employment for rehabilitees, activated the community and provided co-learning, and therefore generated process innovation benefits (Hull and Lio 2006). The basic idea is about lowering the risks of idea generation and selection through user engagement is central. Thus, being able to pilot the developed concept themselves, the user entrepreneurship model clearly dominates.

User entrepreneurship is likely to dominate in cases where industry is small scale, niche with high variety of demand and peripheral (Shah and Tripsas, 2007). In our case we find support for this proposition, as the lack of available service concepts was evident in the early stages of the process and social enterprises are not a mainstream and often tackle local issues.

For living lab research, this study provides empirical evidence on how new innovation approaches such as living labs can foster social entrepreneurship. This study raises the question if user communities could be more than idea generators and evaluators (cf. Dutilleul *et al.*, 2010) for existing innovators and user companies. Particularly, if user community interacts with each other, not just individual user with innovator organisation, exposure to use knowledge can take place (Autio *et al.*, 2013). Basing on the findings in our case study, we suggest that living lab-approach may secure the value creation process of the new venture,

and in that sense could actually provide a competitive advantage for entrant businesses, as proposed by Eftekhari and Bogers (2015).

Practical implications

The case presented here has practical implications by illustrating the possible routes for supporting business ventures stemming from user communities and/or third-sector organisation or civil society. The case and particularly user entrepreneur framework could also offer practical method for start-up venture quality improvements, for example in those hundreds of living lab settings around the globe.

Limitations and further research

This study obviously bears some limitations but in the other hand, offers several interesting avenues for further research. First, the methodology of this study places limitations to generalizations of this study. In other countries, the definitions and roles of social enterprises, for example, are different and findings as such are not easily transferred. Also the rigid working life may stem from the national circumstances and in that sense be nation-specific problem. However, this study could be continued by for example developing hypothesis and testing, whether this model applies to process of social enterprise creation in third sector in general. The need for studying processes instead of actors is still highly relevant (Phillips *et al.*, 2015).

Second, this study leaves cost and financial related questions outside the scope. It is acknowledged that in this case, the rehabilitees participated in voluntary bases. The terms of financial social security might cause some obstacles and therefore cause a major personal risk for participation in entrepreneurial ventures. Moreover, the social and economic value that is generated along the social entrepreneurship process needs to be studied in detail. We think that more research should be undertaken to uncover the potential, role and impact of open innovation approaches, especially living lab-approach to the social entrepreneurship.

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Social entrepreneurship and co-creation for sustainable business

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Abstract: The aim of this paper is to establish a link between co-creation and social entrepreneurship in the process of transforming businesses towards sustainability in today's competitive market environment. The analysis provides a theoretical background of the main principles of both social entrepreneurship and co-creation. In addition, the literature review highlights the necessity for transformation of business practices in order to focus on the centrality of the individual consumer as well as the need to satisfy social needs through entrepreneurship and co-creation. Furthermore, the analysis introduces a new model of interaction between individuals, organizations and communities. The term "social co-creator" is introduced and used to demarcate the role of social entrepreneurs engaged in the process of value co-creation.

Keywords: sustainability, social entrepreneurship, co-creation, business transformation.

Introduction

Business today needs new forms of value creation in order to survive in a constantly changing and competitive environment. The various challenges like climate change, unemployment, inequality, resource scarcity, financial uncertainty and risk, etc., create an impediment for transforming business processes in order to include other values of social and environmental nature in the overall process of product creation. Thus, all of these transformations lead to the establishment of new forms of sustainable business, which stretch beyond the profit maximizing function.

This is particularly relevant to entrepreneurial undertakings in their strive to achieve and sustain market competitiveness (Creamer & Amaria, 2012). The impetus for business transformation is not only a result of the need to contribute to prevention against environmental degradation and social injustice, but also arises as a necessity to preserve competitive advantage on the market through transformative changes (Doppelt, 2010). Moreover, modern day challenges comprise not only of the scarcity of resources and the social problems resulting from income inequalities. Companies need to meet the expectations of the stakeholders (clients, suppliers, investors, employees, or society in general) and manage these challenges to ben-

efit from the transformational power, thus making sustainability a key success factor. Hence, a number of models have been proposed and implemented for transforming business practices towards sustainability (Dobрева, 2015; Edelkraut, 2014).

Although the environmental aspect of business sustainability has been widely analyzed, the social dimension needs further research, especially with regard to the identification and introduction of new paradigms. Particularly, there are two basic approaches to business transformations towards sustainability which deserve to be further explored – co-creation and social entrepreneurship.

On the one hand, social entrepreneurship is an innovative form of business, which successfully combines social aims and commercial practice (Koleva & Dobрева, 2015). Every entrepreneurship is to a certain extent social entrepreneurship, and social entrepreneurship has as a goal to show the public sector how to be more effective and efficient. It has emerged as a response to chronic social problems: unemployment, poverty, community fragmentation, etc. The field has gradually expanded to include the promotion, support, and network of those committed to make the world a cleaner, more-equitable, healthier, and a better-educated place (Masseti, 2008). Social entrepreneurship works where the government cannot work due to the lack of funding, and the business does not want to because of low profitability. In most cases social entrepreneurship is about the resourcefulness and the intelligence of the entrepreneurs to do something good or something needed by society.

In addition, companies experience a common trend of value creation that combines both the vision for business expansion and the necessity to meet the ever changing needs and expectations of the clients (Ind, Iglesias & Schultz, 2013). The modern idea of co-creation derives from three areas. *First*, the emergence and widespread adoption of digital communications from the 1990s onwards has enabled individuals to connect themselves in networks and communities. *Second*, in an attempt to become close to customers and to understand better their behavior, organizations have recognized that they can become part of the customer experience. *Third*, the increasing emphasis within marketing thinking on the exchange of intangibles has changed the focus from the act of purchase to usage. When individuals approach a co-creation process, they do so with an existing perception of the brand that frames their expectations, and as the process develops, it influences how they create and evaluate ideas.

The aim of this paper is to explore the role of social entrepreneurship and co-creation for achieving sustainable business transformations. It provides an overview of the two concepts and their importance for the development of today's enterprises. Furthermore, the analysis establishes a link between different forms of social entrepreneurship and co-creation and elaborates on their contribution to the development and implementation of sustainable business practices. To build a sound interrelation, the analysis introduces a new model of interaction between individuals, organizations and communities, as well as the concept of "social co-creation". It suggests that this hybrid form has the potential to both encourage business to build value together with clients and at the same time to engage entrepreneurs in contributing to social causes.

Section 2 provides a brief methodology and explains the methods undertaken to identify the findings. *Section 3* of the paper discusses the role of social entrepreneurship and its contribution to the overall business transformation towards sustainability. In *Section 4* the analysis outlines the main characteristics of co-creation and its contribution to developing sustainable business practices. The correlation between social entrepreneurship and co-creation is established in *Section 5*. Finally, the conclusion summarizes the main points of the analysis.

Methodology

The analysis has been built by providing extensive literature review on the concepts of social entrepreneurship and co-creation and their importance for the sustainable development of enterprises. On this ground, through the deductive method of inferring and comparing similarities and complementarities, the analysis establishes a link between different forms of social entrepreneurship and co-creation. At its final stage, the paper builds a new theoretical model of interaction between individuals, organizations and communities and introduces the concept of “social co-creation”.

Social entrepreneurship as a form of sustainable business transformation

Social economics takes a major part in the European economy – approximately 2 million social enterprises employ over 14 million workers, which represents almost 6,5% of the European workforce. The concepts of social enterprise and social entrepreneurship are making amazing breakthroughs in EU countries and the United States (Defourny & Nyssens, 2010). What is more, it has been widely acknowledged that social enterprises are sustainable and effective in times of crisis. Their social effect is mainly measured by the integration and reintegration of marginalized and disabled people. Therefore, we should consider social economics as a necessary factor in transforming the numerous deformities of society and economy today. It assists in the process of establishing new business units, increasing the number of participants on the market, creating new working places for people with disabilities and marginalized groups.

There is certainly no consistency in definitions and little comparative analysis has been done on the terms “entrepreneurship” and “social entrepreneurship” (Cukier, Trenholm, Carl & Gekas, 2011). Therefore, strengthening the precision of definitions, exploring measures of success, increasing the rigor of empirical research, and drawing on related disciplines would strengthen the field of social entrepreneurship overall (Cukier *et al.*, 2011), including clarification of definitions and boundaries. Yet, it will also build a solid ground on which hybrid models can be developed and implemented to join the efforts of both entrepreneurs and social entrepreneurs. Such hybrid model is proposed in this analysis, which can further contribute to the process of social value creation.

Abu-Saifan (2012) proposes the following definition for social entrepreneurship:

The social entrepreneur is a mission-driven individual who uses a set of entrepreneurial behavior to deliver a social value to the less privileged, all through an entrepreneurial oriented entity that is financially independent, self-sufficient, or sustainable.

This definition combines four factors that make social entrepreneurship distinct from other forms of entrepreneurship:

1. *The social entrepreneurs are mission driven.* They are dedicated to serve their mission of delivering a social value to the underserved.
2. *The social entrepreneurs act entrepreneurially* through a combination of characteristics that set them apart from other types of entrepreneurs.
3. *The social entrepreneurs act within entrepreneurially oriented organizations* that have a strong culture of innovation and openness.

4. *The social entrepreneurs act within financially independent organizations* that plan and execute earned-income strategies. The objective is to deliver the intended social value while remaining financially self-sufficient.

Mair and Marti (2004) put forward a view of social entrepreneurship as a process that catalyzes social change and/or addresses important social needs in a way that is not dominated by direct financial benefits for the entrepreneurs. Social entrepreneurship is seen as differing from other forms of entrepreneurship in the relatively higher priority given to promoting social value and development versus capturing economic value.ⁱ One of the *major advantages of social entrepreneurship is that it contributes to overcoming the ineffectiveness of governments in performing their social function, especially in healthcare and education.*

However, along with the popularity this new form of entrepreneurship gains, there are certain concerns with regard to its definition and differentiation from other traditional social forms. Martin and Osberg (2007) claim that any definition of social entrepreneurship must start with the word “entrepreneurship”ⁱⁱ and the central Schumpeterian concept of value creation through innovation and creative destructionⁱⁱⁱ. As theoretically entrepreneurs are associated with opportunity, they are believed to have an exceptional ability to seize upon new opportunities as well as willingness to bear all inherent risks.

There is a unique set of *five personal characteristics* which an entrepreneur brings to such opportunities, which are fundamental to the process of innovation (Martin & Osberg, 2007) – *inspiration, creativity, direct action, courage, and fortitude*:

1. Entrepreneurs are *inspired* to alter the unpleasant equilibrium and they might be motivated to do this because they are frustrated users or because they empathize with frustrated users and they possess a desire to demolish the status quo.

2. Entrepreneurs think *creatively* and develop a new solution which dramatically breaks with the existing one; they do not optimize the current system with minor adjustments but find wholly new ways of approaching the problem.

3. Entrepreneurs take *direct action* after being inspired by the opportunity and the attainment of creative solution, which is done through the creation of a new product or service and the venture to advance it.

4. Entrepreneurs demonstrate *courage* throughout the process of innovation by bearing the risk and failure; they are required to take big risks and do things others think are unwise and undoable.

5. Entrepreneurs possess the *fortitude* to drive their creative solutions to fruition and market adoption. They must find creative ways around the barriers and challenges that arise.

Hence, considering these five basic characteristics of entrepreneurship, it is important to discern social entrepreneurship from the pure, for-profit form. For the entrepreneur, the value proposition anticipates and is organized to serve markets that can comfortably afford the new product or service, and is thus designed to create financial profit. On the other hand, the social entrepreneur neither anticipates nor organizes to create substantial financial profit for his/her investors (typically government organizations). The social entrepreneur aims for value in the form of large-scale, transformational benefit that accrues either to a significant segment of society or society at large. *The entrepreneurial value proposition assumes a market that can pay for innovation, while the social entrepreneur's value proposition targets an underserved,*

neglected, or highly disadvantaged population that lacks the financial means to achieve the transformative means on its own.

In fact, every entrepreneurship should be classified as responsible, regardless of whether it is for-profit or non-for-profit. Therefore, it is expected that the notion of “*responsible*” should contain elements of social and environmental in terms of business practices and policies. Yet, what distinguishes social entrepreneurship per se from the traditional forms of responsible entrepreneurship is the distinctive characteristics of the very essence and nature of products and services offered and the fact that their inherently social cause is expected to be prevalent in all major production approaches.

Martin and Osberg (2007) define social entrepreneurship as having the following three components:

1. Identifying a stable but inherently unjust equilibrium that cause the exclusion, marginalization, or suffering of a segment of humanity that lacks the financial means or political clout to achieve any transformative benefit on its own;
2. Identify an opportunity in this unjust equilibrium, developing a social value proposition, and bringing to bear inspiration, creativity, direct action, courage, and fortitude, thereby challenging the stable state’s hegemony;
3. Forging a new, stable equilibrium that releases trapped potential or alleviates the suffering of the targeted group, and through imitation and the creation of a stable ecosystem around the new equilibrium ensuring a better future for the targeted group and even society at large.

This distinguishes social entrepreneurship from social service provision and social activism. The successful social entrepreneur takes direct action and generates a new equilibrium; the social activist influences others to generate a new and sustained equilibrium; and the social service provider takes direct action to improve the outcomes of the current equilibrium.

Co-creation – the new paradigm of sustainable business transformation

A specific trend in mass production is that individuals do not participate in the design of a product or service, they are only presented with an offering designed for them by the respective companies. However, with the wide spreading of information technologies and social media, consumers have become more interested in engaging in product design or service delivery and thus they are more demanding on the variety of sustainability aspects which these products and/or services incorporate – social, environmental and economic. Hence, *co-creation* is gradually turning into a must for businesses in their efforts to transform and appropriate a more sustainable pattern, regardless of whether their profile is for-profit or non-for-profit.

Businesses in today’s economy have to continuously reinvent themselves in order to adapt to increasingly complex and dynamic market realities. Standardization makes it difficult for companies to differentiate themselves from competitors. Markets are more fragmented than they used to be; and consumers have unprecedented access to information and networks. Meanwhile, technologies have created new modes of production and innovation that enable and encourage greater degrees of participation and collaboration. It is doubtless that co-creation cannot be safely ignored by companies who want to succeed in today’s marketplace (Rosier

& Samson, 2009). Innovation recognizes the value of forethought and intuition as well as the collective intelligence of consumers. Consumer knowledge, derived from experience, is increasingly being viewed as a key asset while companies are designing and marketing products in ways that appeal more to the emotional side of consumers. Additionally, the concept of “*co-creation of value*” has become a dominant idea, which occurs when customers interact with companies or products and therefore have an active role in the shaping of their experience and value perception.

Moreover, going beyond consumers, networked individuals around the globe are no longer passive and docile recipients of supply, thanks to digitization, globalization, the World Wide Web, advances in interactive communications and information technologies, social media, and connectivity. Individuals today are highly connected and networked, sharing their experiences with products and services. They want to help design the value of the products and services they use, they want an ongoing conversation with the companies they do business with and with one another, and they want their voices heard. Propelled by advances in global communication and information technologies, the nature of interactions among individuals and their environments has been changing rapidly, driving an ongoing metamorphosis of value creation in business, economy, and society (Ramiswami & Ozcan, 2014).

Ramiswami and Ozcan (2014) claim that the main principles of the co-creation paradigm require a shift in thinking in order to:

1. engage stakeholders personally and collectively in creating value together and expanding how the enterprise connects value creation opportunities with resources;
2. conceive platforms of engagements as purposefully designed assemblages of persons, processes, interfaces, and artefacts, which afford environments of interactions to intensify co-creating actions and generate mutually valuable outcomes;
3. recognize that actualized value is subjective and varies as a function of individuated experiences of co-created outcomes;
4. leverage the capabilities of meshwork of social, business, civic, and natural communities in which individuals are embedded to virtualize new co-creative capacities of value creation;
5. build ecosystems of capabilities together with other private, public, and social sector enterprises to expand wealth-welfare-wellbeing in the economy and in society as a whole.

Some research work has been done on brand experience, brand satisfaction and brand loyalty. Nysveen and Pedersen (2014) apply a service logic approach in which co-creation participation refers to co-creation of customer value together with the brand, co-creation of new value with the brand and co-creation of value together with other customers within the context of the brand. The authors discuss the influence of co-creation on sensory, affective, cognitive, behavioral and relational brand experience dimensions, revealing a rather detailed picture of how co-creation can influence brand experience. Furthermore, Hollebeek (2011b) looks at brand experience, satisfaction and loyalty as potential consequences of customer-brand engagement.

Nysveen and Pedersen (2014) also claim that in order to create positive sensory, affective and cognitive brand experiences, co-creation participation has to stimulate consumers in interesting and preferably appealing ways, and engage customers in the brand. On the first place, co-creation has a positive influence on the strength of sensory brand experiences. Due to the fact that the physical surroundings and/or the user interface developed for interaction

in co-creation are perceived through the customers' senses, the design of co-creation systems (Kohler, Fueller, Matzler & Stieger, 2011) provided by brands becomes important for stimulating sensory brand experiences.

Secondly, cognitive customer-brand engagement – stimulated through co-creation activities – has the potential to stimulate the cognitive brand experiences of the co-creating participants. The cognitive stimulations, which include learning and understanding of product-related solutions, are important for co-creation participation (Nambisan & Baron 2007, 2009). Hollebeek (2011a) highlights the importance of the cognitive dimension of customer-brand engagement. The cognitive challenges of co-creation activities stimulate customers' cognitive engagement with the brand.

Prahalad and Krishnan (2008) claim that there is a fundamental transformation of business underway, forged by digitalization, ubiquitous connectivity, and globalization, this transformation will radically alter the very nature of the firm and how it creates value. No industry is immune to this trend which will impact traditional industries such as education, insurance, health care, automobiles, and footwear, as well as emerging industries such as video games, search engines, and social networks. This transformation is built on two basic pillars:

1. Value is based on unique, personalized experiences of consumers. Firms have to learn to focus on one consumer and her experience at a time, even if they serve 100 million consumers. *The focus is on the centrality of the individual.*

2. No firm is big enough in scope and size to satisfy the experiences of one consumer at a time. All firms will access resources from a wide variety of other big and small firms – a global ecosystem. *The focus is on access to resources, not ownership of resources.*

The key elements of the required business transformation are five:

1. Value is shifting from products to solutions to experiences. In this new world B2B (business-to-business) and B2C (business-to-client) will converge.

2. No company has all the resources it needs to create unique personalized experiences. All companies will therefore have to access talent, components, products, and services from the best source.

3. Internal management systems can become an impediment. Flexible systems are a prerequisite and must be developed.

4. Resources in the ecosystem must be continually configured.

5. Specific models must be developed to enable organizations to focus on one consumer from the millions.

There is also a need to develop new principles for innovation. *The primary principle* is that the *individual is "at the heart of experience"*. If the locus of value is shifting from products and services to experience, then, almost by definition, value creation must focus on the individual consumer. This principle goes beyond mass customization, as it is about misunderstanding the behavior, needs and skills of individual consumers and co-creating with them a value proposition that is unique to them. Another characteristic of this principle is *flexibility*. Part of the flexibility is the ability to reconfigure resources on the fly. The focus is on continuity in balancing the load and the nature of the task with appropriate resources to maximize the experience of customers. Also, the level of quality must be high – consumers will not accept poor quality, nor will they accept a service that is not of "good" value. Furthermore, the prod-

uct has to be made affordable to the poor as well. This all requires a collaborative network of big and small players. As the organizations expand across the globe, the diversity of languages, customs, and norms must be matched with the sheer scale of operations.

Another principle refers to the approach of understanding the nature of the resource base of large firms and learning how to access high-quality resources at low costs. Historically, firms accumulated all the resources they needed in-house. Today firms have moved away from this model of vertical integration and have initiated programs to access specialized, global suppliers. This goes along with speed and the need for the continuous scaling and downsizing of operations, requiring the building of new infrastructures.

Recognizing individuals as unique in all their roles (consumers, employees, investors, suppliers, and citizens) will become a prerequisite for success in value creation. Similarly, recognizing that resources are highly distributed – within the global firm, among suppliers, in customer communities, and among people at large – is critical. Managers must build systems that selectively pull together teams that are uniquely capable of providing high-quality, low-cost solutions rapidly. This transformation is about the centrality of the individuals, their choices and their co-created experiences.

Social entrepreneurship and co-creation for sustainable business

Although co-creation has interesting antecedents in literary theory, organizational development, and software design, the modern idea of co-creation derives from three areas (Ind *et al.*, 2013). *First*, the emergence and widespread adoption of digital communications from the 1990s onwards has enabled individuals to connect themselves in networks and communities. *Second*, in an attempt to become close to customers and to understand better their behaviour, organizations have recognized that they can become part of the customer experience. *Third*, the increasing emphasis within marketing thinking on the exchange of intangibles has changed the focus from the act of purchase to usage. When individuals approach a co-creation process, they do so with an existing perception of the brand that frames their expectations, and as the process develops, it influences how they create and evaluate ideas.

According to Ind *et al.* (2013), the emphasis on community leads to a working definition of co-creation as “an active, creative, and social process based on collaboration between organizations and participants that generates benefits for all and creates value for stakeholders.” This definition builds on the description of co-creation as something that “aims to provide an idea, share knowledge, or participate in the development of a product or service that can be of value for other customers” (Witell, Kristensson, Gustafsson & Löfgren, 2011).

Ind *et al.* (2013) claim that co-creation is not purely an organizational opportunity or simply a place where consumers interact, but instead it is a way of organizations and individuals working together in a process of discovery that delivers benefits for participating individuals (such as fulfillment and socialization) and for the organization (such as insight, idea generation and development, and marketing platforms). This idea of co-creation is distinct from some other terms such as mass collaboration, crowdsourcing, and mass customization that get conflated with it. Co-creation is different from mass customization (such as NIKEiD), because it involves the participant in a process that creates value not only for the individual, but also for others. Co-creation is different from the crowdsourcing of ideas (such as competitions and polls) because it implies an active intellectual participation in a process, and it

is different from mass collaboration (such as YouTube) because of the two-way flow between the organization and the participant.

Individuals not directly involved in the co-creation process may benefit from products and services developed by those that do participate (fig. 1). For their part, organizations can absorb learning from the co-creation space, but only if the knowledge generated with consumers is shared inside the organization.

Some research shows that what is needed to achieve good sustainable development practices is: (1) a mix of social entrepreneurship and management capacity, and (2) institutional innovation, in terms of implementation of new networks, which are understood as polycentric and decentered processes of collective decision (co-decision) and action (co-creation) (Barutiaa & Echebarria, 2012). In effect, the principles of social entrepreneurship, which establishes a bond between the business and social groups, and co-creation, which also brings together individual needs and thus supports the business units in the process of value creation, could be brought together to provide grounds for introducing new hybrid categories for further research. Here we propose that this interrelation could be identified on three levels – *individual, organizational and communal* (fig 1). Thus, the entrepreneurial efforts could be basically attributed to the level of the organization (business unit), the social element is inherent in satisfying community and individual needs, and the co-creator functions as an intermediary between all three levels.

Figure 1: Participants in the co-creation process – own model



Hence, Figure 1 demonstrates the interaction of three major categories of participants in the co-creation process, which we suggest to distinguish as the category of the *individual co-creator*; the *social co-creator*; and the *community co-creator*. All of them can be found in the area where the three circles intersect in the suggested Venn diagram.

The *individual co-creator* is so far the most commonly discussed category in existing literature on co-creation. This is the person who establishes a connection between the business unit (the organization) and the consumers. Individual co-creators could interact as single company advisors or in networking initiatives. They are typical representatives of the business-to-client relation in the process of value creation.

The next category, the *social co-creator* could be defined as the one who creates social value for the community through interaction with for-profit and non-for-profit organizations.

The role of the social co-creators has a larger scope than the one of the individual co-creator, as they could be engaged both in social service provision and also in designing products for companies which bear the qualities and elements of social products, such as healthcare, education and basic community services. *Hence, the social co-creator can be defined as an entrepreneurial co-creator, targeting social benefit by establishing a more satisfactory market production equilibrium.*

Finally, *the community co-creator* is one who functions as an intermediary between the larger community and the business unit. The community co-creator could participate in value co-creation for a particular community or several communities by engaging in various activities with social as well as business value. Such interaction could be established particularly in reviving cultural and historical objects, in creating habitats for the marginalized social groups and in building infrastructure for community purposes.

The development and application of the suggested hybrid model can bring further implications for research in the field of social entrepreneurship and co-creation in their joint effort to contribute to alleviating individual and communal social problems. Moreover, this model has the potential to tighten the relation between the genuinely business-oriented goals of entrepreneurial undertakings and their involvement in activities with social impact. Finally, considering the close interrelation between the three distinguished forms in the hybrid structure, it is expected that they can be well combined and coordinated to transform towards sustainability the practices of a single business unit or a group of such private undertakings.

Conclusion

Although environmental issues have been broadly discussed in the context of developing sustainable business practices, the social dimension needs further research both in terms of definitions and effective models.

This paper aimed to explore the role of social entrepreneurship and co-creation as new paradigms in business transformation towards sustainability and thus to provide a solid ground, on which hybrid models can be developed and implemented to join the efforts of entrepreneurs, co-creators and social entrepreneurs. The analysis proposed such a hybrid model, which has the potential to further contribute to the process of understanding and developing social value creation. The new model provides a ground of interaction between individuals, organizations and communities and introduces the concept of “social co-creation”. It suggests that this hybrid form has the potential to both encourage businesses to build value together with clients and at the same time to engage entrepreneurs in contributing to social causes with individual as well as community impacts.

Notes

ⁱ Mair, J. & Marti, I. (2004). Social Entrepreneurship Research: A Source of Explanation, Prediction, and Delight. Working Paper No 546. IESE Business School, University of Navarra.

ⁱⁱ Martin, R. L. & Osberg, S. (2007). Social Entrepreneurship: The Case for Definition. *Stanford Social Innovation Review*. Retrieved from www.ssir.org

ⁱⁱⁱ Creative destruction – a state at which the new venture and its related ventures effectively render existing products, services, and business models obsolete.

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Social enterprise as the initiator and coordinator of community health awareness campaign

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Abstract: Tackling social problems such as poverty, health, hunger, education, safety etc. does not only require innovative approaches but also finding ways to size initiatives up to the scale of the problem. Social problems are usually in a large-scale. Solving them requires holistic approach with the participation of several actors or stakeholders. They form a cluster of actors that collaborates together. In case when there are many sectors involved, collaboration becomes cross sector collaboration. This paper describes social entrepreneurship initiative, obstacles and concerns in solving the problem of excessive noise exposure among seven to nine grade students and proposes a theoretical basis for studying difficulties faced by groups confronting a collective action problem. Many studies have documented a high incidence of hearing loss and tinnitus in adolescents after recreational noise exposure. The prevalence of noise-induced symptoms is in contradiction to the low preventive use of hearing protection. The public needs to be educated about noise-induced hearing loss to protect themselves from hearing loss. Children especially need to be protected because noise-induced hearing loss can cause permanent hearing damage, and it can be completely prevented.

Key words: social enterprises, cross sector collaboration, community health, collective action.

Introduction

Pollution experts and environmental toxicologists warn us constantly about chemical and other air-born factors that can be a danger to health, but one problem that is rarely mentioned in the context of environmental hazards is noise induced hearing loss (Harrison 2008). Particularly vulnerable and in many cases neglected target group are middle and high school students, aged 14 to 18 years old young. In addition of being exposed to community noise, they are also exposed to noise in discos and other entertainment facilities. At the same time, they use phones and listens loud music through headphones on regularly basis. Noise-induced hearing loss is a significant public health risk, even in non-occupational settings (Martin *et al.* 2006, p 20). Little has been done on the national or international level to increase public aware-

ness of the issue or to implement appropriate, proven interventions to equip the public to protect their hearing and insure long-term hearing health and quality of life (Martin *et al.* 2006).

As it was shown by many scholars, young people are usually not aware of excessive noise risks (Gilles & Paul 2014, Hendershot *et al.* 2011) which could impact significantly on hearing loss. This is an institutional void which can simultaneously enable development of new incentives such as those by social enterprises. The paper highlights a practical example of social enterprise activities in rising of young people awareness through partnership of various stakeholders such as commercial enterprises, educational institutions and social enterprise. For the purpose of this paper, we define SE as a creation of new sustainable business enterprise solutions that leads to social wealth enhancement so that society benefit while the profits generated from market activities are used exclusively to advance the purpose of the organization. Nature of social enterprise is definitely an important factor that motivates collaboration of various partners with social enterprises. In their search for new resources, SE adopt strategic alliances and cross-sector collaboration as a potential survival strategy (Millar, Choi, & Chen 2004). SEs deal with those issues by employing appropriate business strategies. A common strategy consists of engaging in collaborations with organizations in the private and governmental sectors. Positive effects of collaboration have been well received and embraced by entrepreneurs. Core arguments are that organizations collaborate because they lack critical competencies they cannot develop on their own or in a timely fashion (Child & Faulkner, 1998) and because their environments are more uncertain. From the perspective of social enterprise, cross sector collaboration becomes even more important when social enterprise takes the leading role. This work is concerned particularly with the role of social enterprise that can present a leading role in cross sector collaboration tackling noise related risk problems. Collaboration will most likely include governments, commercial businesses, non-profit organizations (NPO), foundations, education institutions and different community groups as well. Collaboration occurs in the midrange of how organizations work on public problems (Bryson, Crosby, & Stone 2006). Rather than working separately or fully merging their capabilities and authority, organizations in collaboration share information, coordinate activities, and share decision-making to address problems together. It is to believe that collaboration between the different agents in the social engagement network results in partnerships and resources exchanges that are often transformational in impact (Meyskens, Carsrud, & Cardozo 2010). Examples of such resources are technical know-how, management skills, capital, and reputation (Eisenhardt & Schoonhoven 1996). Resources provide both the needs and the opportunities for alliance formation (Eisenhardt & Schoonhoven 1996). Cross sector collaboration presented in this paper was established in Ljubljana, Slovenia. It was encouraged and established by the social enterprise, which linked together technologically advanced commercial enterprise, university institution and social enterprise. The main part of the campaign was training workshops which were organized in primary schools in Ljubljana. In the preparation and implementation of workshops, SE created cross sector collaboration with commercial enterprise and educational institution. This paper also suggests applying theory of collective action to analyze relationships between partners involved in the cross sector collaboration. Theory of collective action argues that any group of individuals attempting to provide a public good has troubles to do so efficiently.

Noise related health problems

Young people are likely to experience noise-induced hearing loss (NIHL), as the use of personal listening devices and other damaging factors (e.g., video games) increases (Hender-shot *et al.* 2011; Gilles & Paul 2014). The U.S. National Institute on Deafness and Other Communication Disorders reports approximately 28 million Americans have lost some or all of their hearing, including 17 in 1,000 children under age 18 (Rydzynski & Jung 2008). Noise exposure is increasingly common in the age of iPods and other personal music players (Haller and Montgomery 2004). WHO estimates that 1.1 billion young people worldwide could be at risk of hearing loss due to unsafe listening practices (Krug *et al.* 2015). Nearly half of all teenagers and young adults (12 – 35 years old) in middle- and high-income countries are exposed to unsafe levels of sound from the use of personal audio devices and some 40% of them are exposed to potentially damaging sound levels at clubs, discotheques and bars (Krug *et al.* 2015). Analysis of data from the National Health and Nutrition Examination Survey in the United States suggests that, between 1994 and 2006, the prevalence of hearing loss among teenagers (12-19 years old) rose from 3.5% to 5.3%. Another study from the USA indicates that the number of individuals listening to music through headphones and earphones increased by 75% between 1990 and 2005 (Haller and Montgomery 2004). A 2008 European Commission report noted that personal audio devices are being used by an increasing proportion of the population; from 2004 to 2007, unit sales within the European Union are estimated to have been between 184 and 246 million (Rydzynski & Jung 2008). In recent years, music players have been increasingly replaced by smartphones. Worldwide sales of smartphones in 2015 amounted to 1.424 million units, and this figure is rising. A study by Judy Montgomery (Haller & Montgomery 2004) found that 7% of second-graders, 15% of eighth-graders, and 13% of twelfth-graders and 26% of high school seniors who played in the band had a measurable hearing loss. As early as 1972, David Lipscomb studied 1,000 sixth, ninth, and twelfth graders and found that 3.8% of sixth graders, 11% of ninth graders and 10.6% of twelfth graders failed the hearing screening. A follow-up study by David Lipscomb in 1972 studied the hearing of college freshmen and found that 32.9% of one group and 60.7% in a second group had a measurable high-frequency hearing loss. In a more recent study (1996), the Center for Hearing and Communication found that 10% of ninth graders failed a hearing screening and that these students had never before been identified as having hearing difficulties. Furthermore, their teachers reported that these students exhibited learning and behavior problems in the class. The results show that 14.1% of 18- to 35-year-old Australians may be at risk of hearing damage from excessive leisure noise exposure at nightclubs and pubs/bars, fitness classes, sports events, and music concerts/live music venues (Beach, Williams, & Gilliver 2013).

Current solution

Noise related problems are currently solved in many different ways. In most cases, children are left to themselves and the awareness level of their parents. Usually the approach towards addressing the problem is with the new focused regulations and prevention activities on several levels. Universities, health organizations, industries, government agencies, and different not listed organizations also produce materials that could be used as part of a hearing prevention curriculum (Folmer, Griest, & Martin 2002). It is important that the programs

start very early, preferably at the beginning of primary school. Depending on particular country and community, a number of prevention strategies can be employed to preserve hearing. The chosen approach will depend on the source of loud sound (e.g. personal audio device or rock concert) and the motivation of the individual (Krug *et al.* 2015). Motivation, in turn, often depends on the individual's perception of the health threat; understanding this is important for the development of effective prevention strategies. According to Olson only a separate and "selective" incentive will stimulate a rational individual in a latent group to act in a group-oriented way (Olson, 1971).

Recently the attention of the European Commission services has been drawn to the need to reassure itself that sufficient preventive measures are in place to prevent hearing damage among children and adolescents from the noise of personal music players and radio communication devices including such a facility (Rydzynski & Jung 2008, Krug *et al.* 2015).

Well-designed health communication activities help individuals better understand their own and their communities needs so that they can take appropriate actions to maximize their health (Martin *et al.* 2006). In raising children awareness on the noise related topic, there is usually a lack of public awareness about how excessive sound exposure damages hearing and the consequences of hearing loss (Folmer *et al.* 2002). In general, people tend to take hearing for granted until their own hearing loss becomes so severe that it interferes with communication. Because most teachers, school administrators, and parents are not aware of the problem, hearing prevention programs and the preventability of NIHL are given a low priority if they are considered at all (Folmer *et al.* 2002). A relatively small number of teachers, audiologists, nurses, or trained volunteers presented hearing prevention curricula in selected classrooms. However, if the person who implemented the program retires, moves, or stops making such efforts for other reasons, hearing conservation education in those schools usually diminishes or ceases completely (Folmer *et al.* 2002). Described background corresponds to situation in Slovenia. The problem of exceed noise is governed by the state regulated health system, where kids are exposed to a preventive medical examination in the 1st, 3rd, 6th, and 8th grade of primary school and in the 1st and 3rd year of high school. Hearing tests that can determine what kind of hearing loss kids may have are carried out in 6th grade only. This is not sufficient for the monitoring of various impacts on the hearing of children. Several sources recommend regular check-ups as a method to identify the onset of hearing loss (Krug *et al.* 2015). High-risk populations (secondary school pupils or college students) should be encouraged to have regular hearing checks. Schools, offices and communities should be encouraged to organize hearing screening (Krug *et al.* 2015).

Social enterprises as a service provider

Recently, socially motivated forms of entrepreneurship, that is social entrepreneurship (SE), have gained attention due to their promise of alleviating social problems such as poverty, discrimination, or exclusion (Estrin, Mickiewicz, & Stephan 2013, p. 249). On the other site, SE have emerged as significant organizational players in market economies (Di Domenico, Haugh, & Tracey 2010). For the purpose of this paper, I adopt the definition of SE as a sustainable business enterprise solution that leads to social wealth enhancement and benefits society, and in which profits generated from market activities are used exclusively to advance the purpose of the organization (Leadbeater, 1997; Thake & Zadek, 1997). Social enterprises

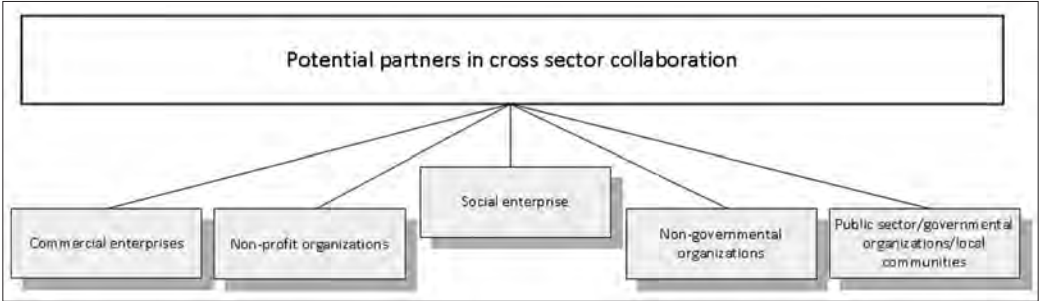
have proliferated to address the growing social problems and the increased demand for their services (Sakarya *et al.* 2012). This is definitely an important factor that motivates collaboration of other partners with social enterprises. In their search for new resources, SE adopt strategic partnership and cross-sector collaboration as a potential survival strategy (Millar *et al.* 2004). Although the number of SEs is increasing, these organizations still face several challenges such as limited networks, governance problems, and often poorly understood or misrepresented social missions. SEs deal with those issues by employing appropriate business strategies. Based on literature review I believe a common strategy for SE consists of engaging in collaborations with organizations in the private and governmental sectors. In case of social enterprise involvement, partners will try to fulfill an important social enterprise mission. SE mission can be related to collective goods that can only be defined with respect to some specific group (Olson, 1971).

There is a reason to believe that any kind of collaboration is usually questionable and subjected to a series of factors that affect the CSC performance. However it is important to find a status quo when we dealt with partnership. Besides countless obstacles, partnership can provide with several benefits: presents strongest position in the market, increased number of resources, new channels and network for partners. At some point every social enterprise will try either to create new or join different partnerships. Partners in CSC will work cooperatively while trying to solve a problem. Each firm or partner will try to leverage the value of its own resources by accessing complementary resources of an alliance partner (Lavie 2006). Despite of their common goal, each partner will try to fulfill their own goals and interests, what can cause a tension in a CSC. For the best positive outcome it is wise to create opportunities for synergy between collaborating organizations. Bryson (2006) defines initial organizational framework for CSC including sections on initial conditions, process dimensions, structured and governance dimensions, contingencies and constraints, outcomes and accountability issues. Structure will vary depending on types of partners, scope of the project and geographic location of the project implementation. These multi-sector, multi-stakeholder experiments entail creation of new structures to aid joint decision-making that can help harmonize diverse participant interests. They also represent an important form of cross-sector collaboration with learning potential that could offer multinationals lessons in diffusion of social quality standards (Arya *et al.* 2006).

Social enterprise mission success will mainly depend on proper strategies and methods that they will apply while collaborating with partners. Social value manifests itself as benefits to society in the form of work, employment, community, and personal development (Southern 2001, 265; Nicholls 2005) at the beneficiary (individual) as well as the community level of analysis. When sufficient social value accumulates in a certain area in the form of enhanced standard of living, a community or region improves. Thus the social value generated by social entrepreneurship can facilitate in the growth and development of communities or regions (Peredo & Chrisman 2006; Meyskens *et al.*, 2010). For the social enterprise this will be the major goal when looking and entering the cross sector collaboration.

For the organizational purpose I define 4 different partners, which are most frequently participating in CSC: commercial enterprises, non-profit organizations, non-governmental organizations and governmental organizations (Fig.1).

Figure 1: Potential partners in cross sector collaboration



Corporations gain access to potential clients, fulfill regulatory obligations and also increase self-reports of perceived legitimacy (Meyskens *et al.* 2010). By showing how each actor gains resources from these inter-organizational relationships we can better understand the social engagement network itself and how to foster better future collaborations (Meyskens *et al.* 2010).

Non-profit organizations (NPO) are valued because they provide services that address unmet needs (Tan 2010). Social problems have grown in magnitude and complexity, and NPO have proliferated to address these (Austin 2000). The nonprofit sector in most developed countries is known for the provision of services that are not provided for by the free market (Tan 2010). Nonprofit organizations who engage in social entrepreneurship augment their contributions through the new services, programs, enterprises and revenue generated (Tan 2010). Scholars found that nonprofits are more likely to use informal coordination mechanisms and fewer formal controls than businesses or governmental entities (Selsky & Parker 2005). In some cases NPO will have their own incentives to start social enterprise. Nonprofit organizations are not known to be risk-takers (Tan 2010). They are more likely to prefer certainty and be conservative (Tan 2010). The social mission focus of a nonprofit organization may influence its social entrepreneurship intention. If its focus is on developing a volunteer network and a donor base, there might be less inclination to start a social enterprise (Tan 2010). Conversely, social entrepreneurship might offer an opportunity for the nonprofit an alternative to fundraising or to achieving its social agenda through business activities reducing the reliance on volunteers (Tan 2010). Hence it is unclear whether the nonprofit organizations' focus on the social mission would influence social entrepreneurship intention positively or negatively (Tan 2010). Nonprofit organizations will have strong interest to collaborate with social enterprise if they feel that they can fulfill their social mission with collaboration.

Proposition 1: Defining a social mission is a crucial process for obtaining the CSC positive outcome.

Social mission has to be commonly agreed among CSC partners. Social mission represented within the NIHL initiative was raising the awareness among youth about potential music-induced hearing loss risks. The experts share the opinion that it is not feasible that adolescents in general will perform protective behaviors to prevent music-induced hearing loss (Bockstael *et al.* 2015). In case of NIHL, established partnership was focused very narrowly. Narrowly focused partnerships are relatively easy to develop, require a relatively small resource and time commitment, and produce results that are probably immediately visible to all partners (Waddock, 1988). The partnerships needs to be structured in such a way that its goals,

organization, staff, and systems are adaptive to changes imposed by changing goals (Waddock 1988). During the established NIHL partnership, commercial enterprise raised the importance of social responsibility and recognition. Companies look to collaborate with local organizations to get the message out to the larger community that we are helping the community. They want to show that they are part of the community so they can maintain their positive brand' (Meyskens *et al.* 2010). Firms in highly competitive markets have vulnerable strategic positions because margins are low and product differentiation is difficult. The resources such firms acquire through alliances can enable them to share costs or to gain differentiable product technologies which outweigh the disadvantages of alliance formation (Eisenhardt and Schoonhoven 1996). In contrast, if the market is munificent or the firm is pursuing a strategy for which it has extensive resource capabilities, there is much less incentive to cooperate (Eisenhardt & Schoonhoven 1996). Firms are more likely to continue alone. Thus, CSC formation occurs when firms are in vulnerable strategic positions such that the payoffs to cooperation are high (Eisenhardt and Schoonhoven 1996). Resource scarcity may also encourage cooperation and lead to emergence of mutually supporting relationships between organizations, as in the case of strategic alliances (Sakarya *et al.* 2012).

Nongovernmental organizations (NGO) such as Amnesty International, CARE, Greenpeace, Oxfam, Save the Children, World Wide Fund for Nature and hundreds of other smaller examples that engineer campaigns with the goal of advancing specific causes have become important actors in the global political, social, economic and business environment (Dahan *et al.* 2010). Collaboration with a non-profit nongovernmental organization (NGO) may provide a partial solution to developing appropriate, bespoke business models for developing countries. In these joint efforts, NGOs and firms contribute complementary capabilities – both intangible assets such as knowledge, reputation, and brand, and tangible resources, such as human capital, production capabilities and market access e along each stage of the value chain and affecting many aspects of the business model (Dahan *et al.* 2010).

Governmental organizations tend to collaborate with SEs to improve access to social programs' target beneficiaries. The morally driven social entrepreneurial activity is quite demanding but crucial for sustainable community development (Dhesi, 2010; Malunga, Iwu, & Mugobo, 2014). The government supports many initiatives in the community according to the needs and demands of constituents (Meyskens *et al.* 2010). The government also partners with corporations to generate jobs in communities (Meyskens *et al.* 2010). Social ventures often apply for government contracts or grants together and later share human capital and intangible knowledge (best practices) in order to comply with a contract or grant (Meyskens *et al.* 2010). Government agencies are able to attain a means to access additional human capital to serve constituents through collaboration with social ventures (Meyskens *et al.* 2010). Governments, in some instances, play a role in promoting cross-sector learning. On other occasions, they may espouse goals that work at cross purposes with the stated and desirable social goals of cross-sector alliances and voluntary codes of conduct (Arya *et al.* 2006). Noise-induced hearing loss Social enterprise initiative in Slovenia was composed of social enterprise, high-tech commercial enterprise, and educational institution. While social enterprise served as an initiator, main role of the commercial enterprise was to support the initiative with noise measuring equipment and noise measuring app. Also their know-how was communicated throughout all involved partners. The main role of the higher education institution was knowledge and research findings transfer to CSC partners.

Proposition 2: Educational institutions can contribute significantly in CSC performance.

Important outputs of cross sector collaboration are educations and trainings where CSC can train the trainers in different areas of CSC activities. Educational institutions role in CSC can be significant. They can provide learning/training within CSC and wider outside of CSC. Surveys of junior high and high school students identified large deficiencies in their knowledge about normal hearing as well as about hearing loss, and they knew little about the damaging effects of noise exposure (Martin *et al.* 2006). Firms that are able to infuse their decision-making with learning from proactive cross-sector alliances (for ex. from educational institutions) can be expected to better understand social issues and sustain integration of this newly acquired vision of responsible practice into overall corporate strategy (Arya *et al.* 2015). It was shown by researchers and scholars that university collaborations with industry, government and community (i.e. cross-sector or multiactor) could significantly contribute to a local or regional transition to sustainability (Trencher, Yarime, & Kharrazi 2013). Corporations adopt schools and work with colleges and universities to train the skilled end entry level workers they needed (Waddock 1988). Firms often enter alliances with the expectation of learning new knowledge and acquiring external rent generating resources (Lavie 2006). At the university level, cross sector sustainability alliances may be initiated and driven by a combination of any of the following: faculty/researchers, administration, students and ‘bridging organizations’ (Trencher, Yarime, & Kharrazi 2013). There are two major motives that forces educational institutions to cooperate in CSC: funding and scientific research. In order to remain competitive, universities are constantly faced with the need to obtain funding while individuals or universities initiate or become involved in collaborations aimed at generating solutions to urban sustainability issues for scientific or scholarly reasons (Trencher *et al.* 2013). I believe that with the participation at CSC, each partner will try to achieve its own objectives via the partnership, furthermore partners and their employees will learn from CSC.

Proposition 3: Cross sector collaboration will be more feasible if different degrees of collaboration will apply for different purposes.

Nocon (1994) sees a continuum of collaboration as encompassing three broad options. First, networks, involving either a structured or loose system of contact, but with no specific expectations or commitments to joint working. Second, Nocon defines coalition of federative working. This might initially involve only the sharing of information, but could develop into matching separate service plans, producing a joint strategic plan. Third, the unitary model, which a total pooling of resources to serve a single set of objectives – though this must be limited to partial pooling, otherwise the best description would be merger. Successful cross-sector alliances entail creation of new intra and inter-organizational knowledge structures to facilitate information flow among partner organizations (Arya *et al.* 2006). I believe that SE can contribute to CSC feasibility. Upon the feasibility analysis, social enterprise can continue CSC activities with licensing a product/service, create joint venture, run a start-up, create a franchise or lastly continue with CSC. It was shown by several scholars (Rydzynski & Jung 2008, Gilles and Paul 2014) that feasibility of NIHL risks campaign can be substantially improved by raising public awareness about hearing and how hearing can be damaged by excessive sound exposure. Target group must become aware of the consequences and permanent nature of hearing loss, and how and why NIHL can and should be prevented. It is important to inform teachers and school administrators about existing hearing conservation programs, curricula, and materials that can be used in classrooms. Educational interventions can increase knowledge about

NIHL issues. One study, which evaluated the effectiveness of hearing conservation education in high school students, showed an average increase of 16% correct responses following the educational program (Martin *et al.* 2006). A second study presented an educational program on hearing conservation to elementary school children and found that their knowledge regarding NIHL improved by an average of 23% (Martin *et al.* 2006).

Proposition 4: Due to diverse natures of CSC partners, relationships in CSC are very important and sensitive in many cases. Performance and behavior of one partner can interact other partners as well and has a strong influence on CSC.

It was found that the partnerships are strengthened when the parties think continually about value creation. This involves scrutinizing each organization's resources and capabilities to see how they can create value (Austin 2000). In CSC, it is more likely that positive change will take place if both partners are able to overcome or at least lessen these costs (AL-Tabbaa, Leach, & March 2014). Poor communication and partner understanding can lead to various problems including expectations and requests that the company managers view as inappropriate. These can become self-defeating for the alliance (Berger, Cunningham, & Drumwright 2004). Partnership can be obstructed due to the power imbalance. It can result from a situation where one party is perceived to be in a stronger position than the other, which is typically caused by a perceived unequal flow of benefits between the partners (e.g., control of resources by one partner) (AL-Tabbaa *et al.* 2014). Established NIHL partnership was governed through joint meetings where all the involved partners have equal rights.

Conclusions

An incentive for the present study was noise related hearing loss awareness prevention campaign, initiated by social enterprises that form cross sector collaboration. According to several scholars (Babiak & Thibault 2007, Murphy *et al.* 2012) there is no doubt that CSC is well known and established method of solving local, national and international problems. Authors believe that besides other positive effects, CSC connects partners, improves efficiency, reduces duplication etc. Cross sector collaboration can contribute to all partners involved NIHL awareness campaign. Various interest collaborations that exceed one sector can be found in different areas such as health, environment, social services, safety and security. Collaboration will develop when partners will seek for critical competencies that they cannot develop by their own. For the fulfillment of social mission, social enterprise will try to find and partner with potential investors and partners that will support and help social enterprise. It is wise from the social enterprise perspective to evaluate potential partners by which they want to cooperate. Literature and this case suggests that social enterprise will have to find the right way to introduce social mission and values to potential partners with different goals, missions and risk perception. To date, there is only limited number of publications that covers social enterprises and CSC. Opposite, cross sector collaboration where commercial enterprises are involved is analyzed and described extensively. The question arises whether CSC to commercial enterprise studies can be applied in CSC to social enterprise problems. The difference between commercial and social enterprise is significant – while the commercial enterprise will focus their activities on revenue streams, social enterprise will try to fulfill their social mission.

Partnership project must be feasible to all partners and there is a support for this argument. With regard to commercial CSC it was find support where social CSC can use traditional commercialization models to analyze market feasibility, development stages and exit strategies. Argument applies certainly for commercial enterprises, but the question is how will social enterprise involvement into CSC affects the social enterprise performance. Social enterprise will try to address social problems like poverty, hunger, education etc. They will seek for added social value and fulfilment of defined social mission. Under the Austin (2000), the more centrally aligned the partnership purpose is to each organization's strategy and mission, the more important and vigorous the relationship appears to be. The greater the mission mesh, the richer the collaboration (Austin, 2000). High-performance collaborations are about much more than giving and receiving money; they are about mobilizing and combining multiple resources and distinctive capabilities to generate benefits for each partner and social value for society (Austin, 2000).

There will be a mutual impact between governments and social enterprises. As the social enterprises will benefit from government (founding, network), governments (and local communities) will benefit from social enterprises. Influence of social enterprise on governmental policies needs more careful research in the future. NIHL awareness project lacked of cooperation with public sector. The reasons for this are many; one is certainly a negative perception and overall opinion about social entrepreneurship. These disparities would not be removed by collective action promoted by the government unless pressure groups forced through the necessary reforms, since machine politicians and men of wealth controlled the legislatures (Olson, 1971).

The impact of individual factors and their relationship to CSC hasn't been described and studied significantly hitherto although there is a need for such survey. It would be unrealistic to discuss about CSC activities in isolated environment. Collaborations are actually subject to both competitive and institutional pressures that significantly affect their formation as well as long-term sustainability (Bryson *et al.* 2006). In particular, the formation and sustainability of cross-sector collaborations are affected by driving and constraining forces in the competitive and institutional environments (Bryson *et al.* 2006). Our campaign was soon followed by different competitors what we accepted as a tribute to our prevention awareness efforts.

Theoretical justification and explanation for the described CSC can be introduced with theory of collective action. Future study of CSC from the perspective of collective action will potentially answer the call for empirical, reproducible research within social entrepreneurship literature (Dacin, Dacin, & Tracey 2011). Specifically, research topics were described with four propositions. It is hoped that through the theoretical discussion offered here the impetus to investigate CSC characteristics on a deeper level has been established.

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Business ethics:
practices, boundaries and outcomes

The state's influence on the development of corporate social responsibility in Russia

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Abstract: The paper aims to provide stimulation methods used by the state to develop corporate social responsibility (CSR) in Russia. The study is based on the identification of characteristics of CSR development in Russia; it subsequently concludes the most appropriate methods for the Russian state and business interaction in this sphere. Determination of the level and stage of the development of CSR in Russia is carried out by multivariate statistical (cluster) analysis. The results of the study of international experience in the development of corporate responsibility and the results of the cluster analysis were used for the further improvement of the state policy in this field in Russia. This paper proposes a number of measures aimed both at improving conditions for socially responsible companies and at increasing the disclosure of information in the field of CSR and improvement of its quality.

Keywords: corporate social responsibility, state regulation, tax benefits, public reporting, business ethics.

Introduction

Over the past few years a growing interest in the phenomenon of corporate social responsibility (CSR), is observed as in the scientific literature (Dahlsrud, 2008; Lee, 2008; Bayoud, Kavanagh & Slaughter, 2012), and in the business community. In the study of the consulting company Accenture jointly with organizations of the UN Global compact in 2010, a survey was conducted among 766 CEOs, 93% of which noted the CSR as “important” and “very important” factor for the future success of their companies (Accenture Report, 2010, p. 8).

The state is an important stakeholder of the company. The role of the state in modern conditions largely determines the growth and development of CSR. The creation of an enabling environment for CSR may prove to be the beginning of an effective cooperation of government and business in solving social problems. Various methods of state policy in promoting CSR is widespread in both developed and developing countries. Russia is making only first steps in this direction; therefore, the development of methods to promote CSR for Russia now is becoming increasingly important.

The discussion of the phenomenon of corporate social responsibility in the scientific literature began in the 70-ies of the last century with the publication of Friedman (Friedman, 1970), the basic idea of which was “the only responsible organization is making a profit”. Many economists (Marcoux, 2003; Jensen, 2002; Henderson, 2009) adhered to this theory (the theory of shareholders). Differences remained between proponents of shareholder and stakeholder theories that support the concept of CSR (Guthrie & Parker, 1989) for a long time, however, in recent years, the compromise was found in favor of the theory of strategic responsibility (Seglin, 2002), which equals the company’s investment in CSR to the usual notion of investment and insists that social investments in the long term with a balanced strategic approach brings benefits to both society and the company itself.

As to the interaction between the government and business in the field of CSR, the issue is not well defined yet in the scientific literature. The main research is focused on the relationship between company’s CSR and its financial performance (Székely & Knirsch, 2005; Sotorrío & Sánchez, 2008; Bayoud *et al.*, 2012). However, there are a number of studies considering the impact of macroeconomic factors on the volume of CSR companies: a positive influence of the business climate (Ioannou & Serafeim, 2011), tax incentives (Cai & Huang, 2011) and mandatory requirements for information disclosure (Ioannou & Serafeim, 2012).

The development of concepts of CSR

Over the past decades, CSR is actively discussed and is the subject of many discussions in the economic environment (Lee, 2008). Still there is no complete and commonly accepted definition of CSR (Dahlsrud, 2008); however, among the diversity of opinions we can distinguish three main theories of socially responsible business behavior. The classical approach to the definition of CSR is the so-called theory of corporate egoism that preaches the existence of one single area of responsibility of the firm: to maximize its profit. The main argument of the opponents of this approach is its focus on short-term results, while the implementation of social programs is capable to ensure the company’s sustainable growth in the long term.

In parallel with the concept of corporate selfishness the so-called theory of corporate altruism is formed. It is the complete opposition of Friedman’s theory and insists that corporations are required to make the significant contribution to improvement of the quality of life of the population (Guthrie & Parker, 1989). As the company is an open system and is involved in lobbying laws and other state decisions, it should care not only about the growth of earnings, but also to make the maximum contribution to the solution of social problems, improvement of the quality of life of citizens and in the preservation of the environment.

Finally, the third position concerning the corporate social responsibility presents a theory of “rational egoism”, which is based on the idea that CSR is a profitable investment for the company (Seglin, 2002). If we compare this concept with the earlier (Table 1), it may be noted that this theory is more visionary version of the theory of corporate egoism, but it does not include CSR responsibilities of the company, unlike the concept of corporate altruism.

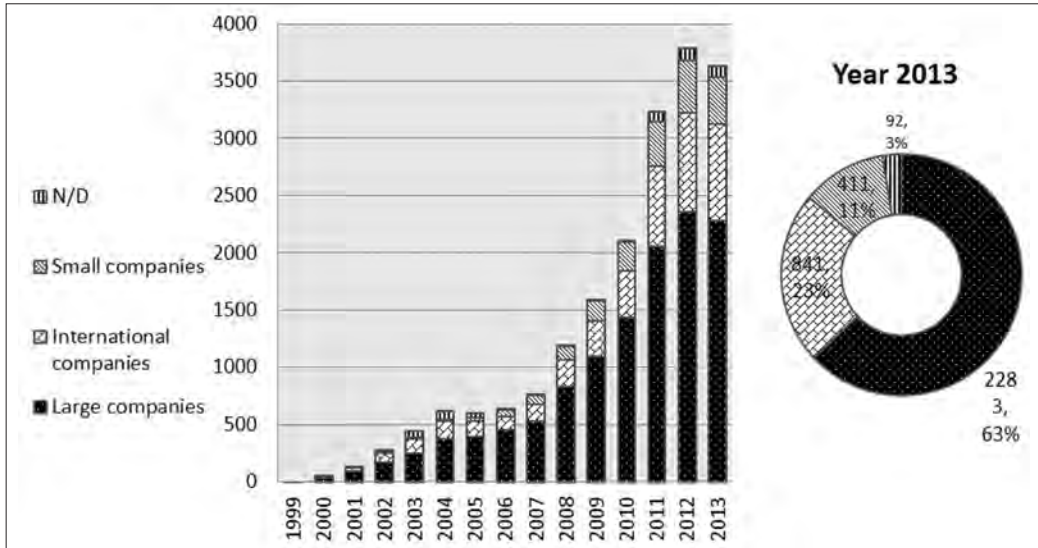
Table 1: Comparative analysis of the concepts of corporate social responsibility

	<i>Theory of corporate egoism</i>	<i>Theory of corporate altruism</i>	<i>Theory of “rational egoism”</i>
<i>Obligations of the company</i>	Profit maximization	Profit maximization, improvement conditions life of society	Profit maximization
<i>Attitude to CSR</i>	Sharply negative	The obligation of the company	Positive
<i>CSR Benefits</i>	Negative	Not the main purpose	Positive in the long term

As we develop the concept of strategic CSR, companies are increasingly focusing on reporting on the results of their social activities. Previously, the reporting was carried out by a relatively small number of companies, and the reports contained information mostly about the reducing of the negative impact on the environment and promoting of the development of local communities. Currently the practice of the publication of social reporting is widespread, and the contents of the reports, like the social activities of companies involve the interests of a larger number of stakeholders. The data about the performance of companies related to environmental protection which the social reports contain, social engagement and corporate governance (Environmental, Social and Governance, ESG), are to become of the object of analysis for the investors and to be the determinant of their decision to buy/sell the stock. Being based on the data of social reporting special stocks are calculated, measured in accordance with the standards of CSR.

Over the past 10 years the number of companies producing social reports increased 8 times. Reporting in sustainable development publish 95% of the 250 largest in terms of revenue companies (GRI, 2013, p. 29), but the trend is supported not only by large corporations. Yearly reports are published by thousands of companies, including small companies (GRI Database). In all 3627 companies’ prepared social reports in 2013, among them – 11% small companies (see Diagram 1). And in 2013, as we can see from the graph, the number of published reports has decreased. Most likely, this is due to the fact that a number of companies do not publish reports annually, but, for example, every 2 years, so this effect reflects not so much the decline in the popularity of reporting on sustainable development, but the incompleteness of the data for 2013 due to its recent graduation at the time of writing this study. So 2013 will not be considered as the last reporting period but 2012.

Diagram 1: The increase in the number of companies publishing social reports, 1999-2013 (Sustainability Disclosure Database)



The role of the state in CSR promotion

The decision of companies about the level of involvement in social issues depends on many factors. It is possible to allocate three groups of factors: financial performance of the company, the specific industry which it the company operates, and institutional factors of the country in which the company conducts business.

The influence of micro-and meso – and macro-factors on the level of social responsibility of companies is confirmed by numerous studies in this area. So, according to the 2010 survey (Ioannou & Serafeim, 2011), based on 2248 companies in 42 countries over a seven-year period, the combination of these factors was able to explain 41, 46 and 63% of the variance of the results of social and environmental activities of companies and activities in the field of corporate management, respectively.

Another study conducted in 2012 by the group of scientists (Bayoud *et al.*, 2012), identifies the relationship between the level of disclosure of CSR (expressed in the fullness of publication indicators and international standards) and financial performance of the company. The authors find a positive relationship between the dependent variable, age and size of the company's assets. The authors also found an industry effect: companies related to manufacturing and the extractive sector, in general, provide more complete information in the field of sustainable development. It is reasonable in this study to concentrate attention on the macro factors, i.e. the factors that characterize the influence of the state on the development of CSR.

Forms of state influence on the development of corporate social responsibility can be divided into implicit and explicit.

To implicit forms of influence include such institutional factors as the level of corruption, business freedom, quality of enforcement and protection of property rights. In the study by Ioannou and Serafima (2011) factors describing country characteristics (the level of corrup-

tion, the severity of left-wing ideology) account for 17.4%, and 14.3%, and 54.8% of the variance in social, environmental and governance activities for the entire sample of companies, while for the sample limited to the largest companies in each country, a similar model explains of 31.3% and 35.6%, and 57.3% of the variance respectively. To identify institutional effects, the authors use indicators of such groups of institutions, like legal institutions, political institutions, labor market institutions and financial institutions.

Analyzing the influence of the first group of institutions the authors concluded that countries with a regulatory framework conducive to the development of competition in the business environment, companies are paying less attention to social and environmental activities. On the other hand, the authors found that the lower the level of corruption in a country, the companies in this country shows the higher level of social and environmental engagement, compared with countries with higher levels of corruption. As for the labor institutions, companies in countries with higher density of trade Union organizations show a higher level of CSR development in social and environmental areas, while the level of development of corporate governance in such countries is on average lower. Finally, in countries where the capital of companies is formed mostly in the form of shares, rather than in the form of debt obligations, the level of social and environmental engagement is lower. This fact is probably due to the fact that such a capital structure says about the companies focusing for shorter-term a policy that is at odds with the concept of CSR.

One of the limitations of the study (Ioannou & Serafima, 2011) is the fact that a large number of companies in the sample are international, whereas the explanatory variables characterize the development of the institutions of the country in which the company was formed.

Explicit forms of the state influence on development of CSR are divided into practices awareness raising, partnership, voluntary norms, legal norms. The state also can combine several types of interventions aimed at effectively addressing social problems. In practice, different types of state intervention can comfortably co-exist and be complementary.

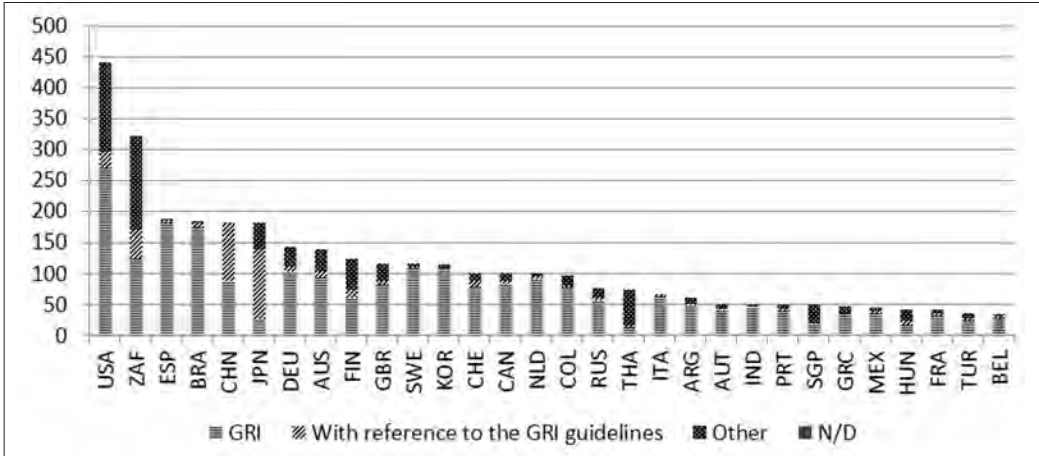
As a result of studying relevant literature and review of practices which promote CSR, we can conclude that the most popular practices of state intervention are the tax incentive, and promotion of accountability in CSR. These areas will then be reviewed more detailed according to the example of the countries with the highest activity of companies in CSR.

International comparison of trends in the development of CSR

Due to the fact that data on costs of companies in the field of sustainable development are not published in the public domain, in this study the level of development of corporate social responsibility in the country will be evaluated from the data on activity of companies on the issue of reporting on sustainable development (Sustainability Disclosure Database). Diagram 2 presents the 30 most active countries in publishing of data reports, among them Russia is ranked 18th in 2012, 77 companies reported to the CSR, 62 reports of which are made in accordance with the GRI guidelines. The share of Russia was 2% in the total number of reports in 2012, while the share of the leader in reporting – the USA – is 11.7%. The proportion of companies reporting which is in conformity with the GRI guidelines, is about the same in different countries and, as noted is above, 80%, except Japan and China, where 61,5% and 51% of reports respectively published only with reference to the main provisions of the Guidelines and not in accordance with it, and with the exception of the USA and South

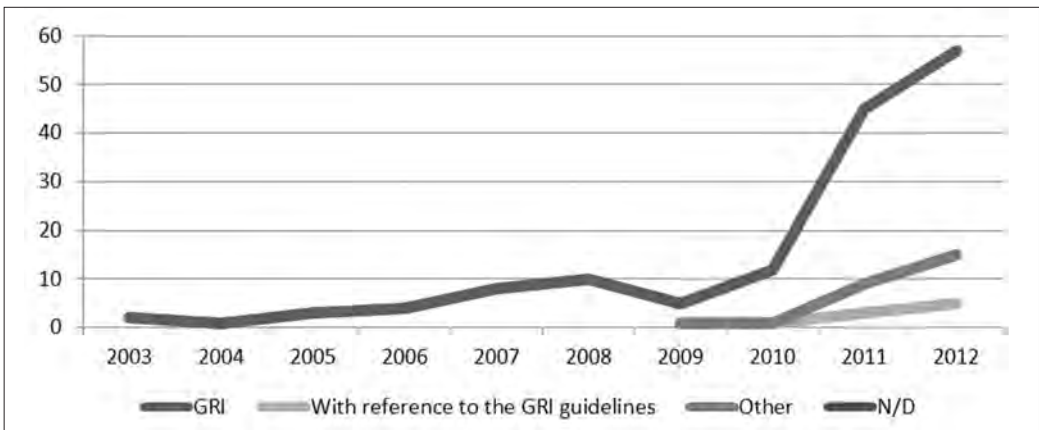
Africa, where a relatively high proportion of reports published in accordance with the standards that is different from the GRI Guidelines (32,4 and 46.9 per cent respectively).

Diagram 2: Top-30 countries in terms of disclosure in sustainable development area (Sustainability Disclosure Database)



It is noteworthy that the activity of Russian companies to publish reports on sustainable development has increased dramatically in 2011 (Diagram 3). The graph also shows how the level of disclosure decreased in 2009, which is a consequence of the economic crisis of 2008, which resulted in the activity of companies in CSR has faded into the background.

Diagram 3: The increase in the number of Russian companies that publish social reports, 2003-2012 (Sustainability Disclosure Database)



In general, the quality of reporting in Russia is in line with global trends: a fairly large proportion (18%) have the highest report application level of GRI Guidelines. It is A+, and the world the share of such reports is 21%. The most popular level of implementation in Russia is the level of B+. Its share in Russia among all the reports is 25%. Global reports B+ make up only 12% of all reports, and the most popular are the levels B and A+. In the U.S., in connection with the distribution of the standards of reporting which differ from GRI, the

picture is significantly different. The reporting level A+ accounts for only 6%, while most often, companies publish reports of levels B (24%) and C (24%).

Assessment of the level of CSR development, based only on the number of published reports would be incomplete. It is necessary to consider the proportion of companies that publish social reports in the total number of companies in the country. So, if according to the number of companies disclosing non-financial information, Russia ranks 18th, then according to the share of such companies in the total number of registered organizations in the country, Russia ranks only 43rd place in the world. The number of companies registered in each country in 2012 is an estimated value calculated by the author based on data from World Bank indicator (Total businesses registered (number)), published until 2007.

The estimate for 2012 is calculated from the number of companies registered in the last available year and the average pace of growth in the number of companies. The last is calculated according to the following formula (Formula 1):

$$k_{cp} = \sqrt[m]{n_{t+m-1}/n_t}$$

where k_{cp} – average rate of growth for the year

m – the number of available reporting years,

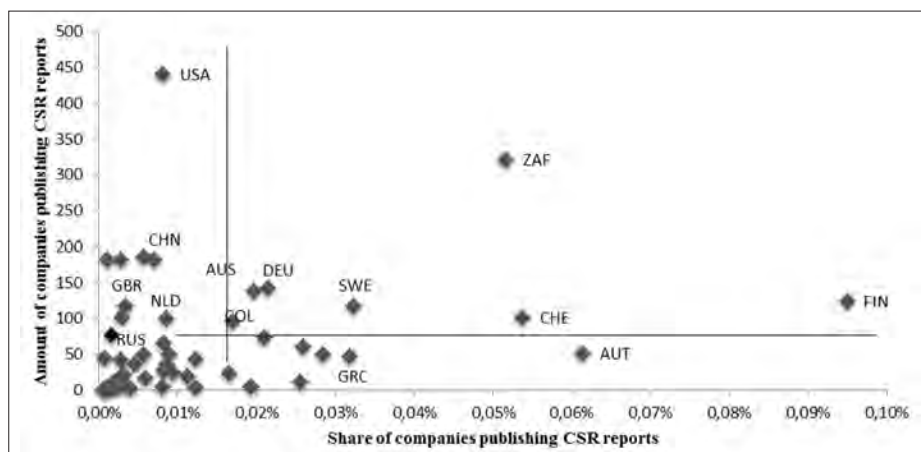
n_t and n_{t+m-1} – number of registered companies on the first and last available year, respectively.

Thus, the number of companies registered in 2012 (n_{2012}) as well (Formula 2):

$$n_{2012} = n_m * k_{cp}^{2012-t-\bar{m}}$$

In figure below, the horizontal axis shows the share of companies that publish a social report in the country, on the vertical axis – the number of published reports. The dotted line in the diagram indicates median values of the relevant indicators. Thus, the graph area was divided into 4 quadrants. Denote the quadrants in Roman numbers clockwise, starting lower left quadrant.

Diagram 4: The distribution of countries according to the number and concentration of companies publishing CSR reports, 2012 (GRI, 2013, p. 18)



As can be seen from the graph, Russia was in the second quadrant of countries with a relatively large number of companies producing social reports, but still a low proportion. It is noteworthy that in this quadrant there were also such countries as USA, UK and Canada, which are considered the countries with the most developed level of CSR of companies. In the quadrant of countries with the highest level of CSR includes such countries as the USA, South Africa, Finland, Australia, Germany, etc. It is noteworthy that these countries are, at the same time, high indicators of quality of life (According to the World Bank, GDP per capita (2012)).

Thus, from the point of view of studying of the international experience of regulation of CSR, the most interesting is to consider the practices of countries with the highest level of its development. However, it is also taken in account the countries, which at the moment only on the path of state incentives for CSR, but actively take steps in this direction. International experience of interaction between the government and business in the field of CSR, studied by the author on the example of countries such as UK, USA, Canada, Australia, several countries in Western Europe, Brazil, China, etc., is summarized in Table 2.

Table 2: International practices to stimulate the development of CSR

<i>Incentive for CSR</i>	<i>Description</i>	<i>Countries</i>
General mandatory requirement of the state to non-financial reporting	Compulsory publication of non-financial reporting in accordance with international standards	Argentina, Brazil, China, Colombia, India, Thailand, Indonesia, Australia, Belgium, Germany, Ecuador
	Integrated reporting	Denmark, South Africa, USA, Sweden, France
	Mandatory disclosure of environmental information	Australia, Ecuador, Brazil, Canada, UK
Recommendation the provisions on public non-financial reporting	Guidelines on disclosure of CSR, the development of the recommended disclosure indicators	Australia, China, Brazil, Argentina, Netherlands, India, etc.
Tax stimulation	Benefits payroll taxes (social tax)	Russia
	Tax deduction	USA, Brazil, Canada, China, Thailand, India, France, Spain, Colombia, Russia, Hungary, Netherlands, UK
	Reduced or zero-rated VAT	China, Malaysia, USA

The methodology of classification

To make an informed decision on methods of stimulation of CSR in Russia it is necessary to understand the level and stage of CSR development, taking into account the urgency of social problems, because it recognizes the need to stimulate CSR. Further classification of countries on the level and growth of activity of companies in CSR, based on the publications of non-financial reporting, and based on the indicator of the living standards is GDP per capita. The classification is a multivariate statistical method – cluster – analysis. Observations which got into one group are characterized by the same level of CSR development in the country on a level with the standard of living. The use of cluster analysis for solution

of this problem is the most effectively. In the general case, the cluster analysis is designed to combine some objects into classes (clusters) so that in one class got the most similar objects, and the objects of different classes will be the most different from each other. The quantitative index of similarity is calculated by the specified method on the basis of data that characterize the objects.

Clustering is performed on the basis of three indicators in 2012, two of which characterize the level of CSR development:

- 1) The percentage of the number of companies publishing social reports, in the total number of companies registered in 2012, %;
- 2) The rate of growth of the first indicator over the past year, %;
- 3) GDP in purchasing power parity terms, per capita, \$ /people.

As a result of data collection a sample was drawn from 35 data (the sample excluded countries with a value of first index <10 to avoid biased results, and Argentina, because the data on GDP per capita of this country missed). Finland and Singapore were also excluded from the sample, since the analysis of these countries has a heterogeneous structure of clusters: Finland and Singapore are highlighted in a separate point clusters, while the remaining 16 from 35 countries are combined into one cluster.

All data were previously standardized. At the first stage of the analysis we will determine whether the country form “natural” clusters that can be conceived. This hierarchical classification has been conducted, the results of which are shown in Diagram 5. The results of hierarchical classification most clearly can be represented in the form of dendrogram. The choice of metrics made in favor of the Euclidean distance because there is no need to consider any sign with more weight – we wish to take into account the differences for each symptom equally. The measure of closeness defined by the Euclidean distance is the geometric distance in n-dimensional space can be computed as follows (Formula 3):

$$d(x, y) = \sqrt{\sum_{i=1}^n (x_i - y_i)^2}$$

where n is the number of observations

x,y – the variables analyzed

As the clustering algorithm Ward's method is selected as the most versatile for the analysis of quantitative indicators.

sen observations (in our case $K=5$), which become the centers of groups, then the composition of the objects changes in clusters to minimize variability within clusters and to maximize variability between clusters. Each next observation ($K+1$) belongs to the group, similarity measure of which with the center of gravity is minimal. After changing the composition of the cluster, the new center of gravity is calculated, often as a vector of averages for each parameter. The algorithm continues, until the composition of the clusters stops changing. When the classification results obtained, it is possible to calculate the average for each cluster, to see how they differ. In the Table 3 the analysis of variance of the variables in the result of cluster analysis is presented.

Names of rows correspond to the analyzed indicators, where:

- tshare – share of total reports, the number of companies publishing non-financial reports in total number of the companies registered in the year 2012;
- tsgrowth – share of total reports growth, the growth of rate of the first indicator over the past year;
- gdppc – gross domestic product per capita, indicator of the level of living in the country.

Table 3: The results of variance analysis data

Between – SS	df	Within – SS	df	F signif. – p
tshare 18,42	4	5,51	30	25,09 0,000000
gdppc 16,09	4	5,32	30	22,70 0,000000
tsgrowth 13,05	4	2,00	30	48,92 0,000000

A value of $P < 0.05$ is for all variables, which indicates significant difference between clusters. Also the table shows that more clusters were formed around the growth in the number of companies publishing CSR reporting, since the distance inside the minimum of this indicator compared to other indicators.

The analysis of obtained results and development of recommendations

As a result of the cluster analysis of the data about the level of CSR, 35 countries were divided into 5 clusters, which are characterized by different set of values for each of the four variables. There is a graph of the average values for each cluster and each variable below (Diagram 7). Using the graph we can interpret the results:

- Countries which fell in the first cluster, characterized by the average proportion of companies producing sustainability reports, a high rate of growth in the number of companies publishing non-financial reports, however, low standard of living. It can be argued that companies in countries of this cluster actively participate in society and trying to answer social problems.

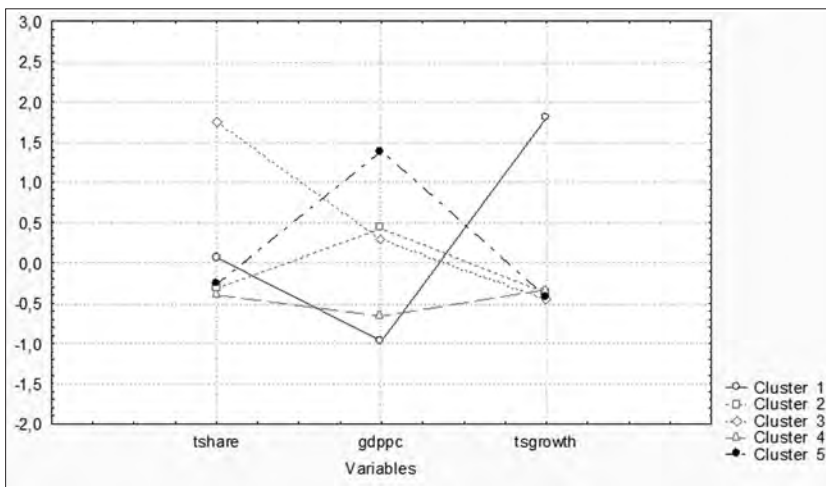
- The second cluster represents countries with a low level of activity of the companies in CSR, a low growth of rate, together with relatively high standard of living. We can say that these countries do not need the help of business to solve social problems, because the cost of living is quite high there.

– The third cluster consists of countries with a high proportion of companies engaged in CSR, comparatively high quality of life and low pace of development of CSR. The idea of CSR is very widespread in the countries of this cluster, and is already a well-established phenomenon.

– Countries that comprise the fourth cluster are distinguished primarily by low life, low level of CSR, as well as a fairly weak pace of development of CSR. These are countries with poor CSR culture, but beginners gradually to realize it.

– The fifth cluster on the level and pace of development of CSR is similar with the second cluster, however, is characterized by a lower standard of living.

Diagram 7: Graph of the average of the standardized values of traits in the classes, obtained by the Ward's method



The analyzed composition of the clusters can be studied in more details in the Table 4.

Table 4: The composition of the clusters selected by the Ward's method

The cluster number	The number of objects in the cluster	The cluster
1	3	Colombia, Indonesia, Thailand
2	13	Australia, Belgium, Canada, Germany, Denmark, Spain, France, Great Britain, Israel, Italy, Japan, Netherlands, New Zealand
3	5	Austria, Switzerland, Sweden, Greece, South Africa
4	11	Brazil, China, Ecuador, Chile, Hungary, India, Mexico, Poland, Portugal, Russia, Turkey
5	3	Hong Kong, Norway, USA

Thus, Russia got into one cluster together with Brazil, China, Poland, Mexico, Turkey and several other countries characterized by a low level of CSR development and low living

standards according to GDP per capita. From the point of view of the obtained results the most interesting is the experience of Colombia, Indonesia and Thailand, where at a comparable level of living standard and the pace of development of CSR the results are much higher than the figures of Russia. For example, a fairly wide range of tax incentives for various kinds of participation in society are provided in Colombia and Thailand: from recruitment of disadvantaged levels of the population to contributions to maintaining of national parks. At the same time the stimulating measures are backed up by active implementation of social reporting among companies. In Indonesia, for example, there is the most developed institution of social reporting among these countries: the state sets requirements for mandatory publication but not only to large companies, which the most countries make, but also to all limited liability companies (LLC).

According to available data it is impossible to calculate the volume of spending on CSR in monetary terms, so assessment of the success of the state policy in the field of CSR development is not quite exact. Thus, the countries of the second cluster is traditionally considered the most socially responsible, however, data reporting the percentage of socially responsible companies in these countries is low and is comparable to cluster 4. If we return to the experience of the state policy on CSR development in the countries of cluster 2, we can see that in these countries, special attention is paid to environmental issues, and the state imposes the obligation to publish indicators of environmental productivity/efficiency on companies, that does not require to release the social responsibility report, on the preparation of which companies have to spend a lot of money. Accordingly, the activity of the company in CSR in these countries is likely to be explained not only by the presence of the social report.

According to the results of the cluster analysis and the study of international experience of development of corporate responsibility, to improve public policies in this field in Russia, we can suggest the following measures:

- Expanding of the list of tax exemptions in favor of external CSR practices. Currently, the tax benefits under the current Russian legislation aimed at stimulating of the social responsibility of companies in the field of employment. Thus the emphasis is shifting on this issue, and the CSR development takes place in only one narrow direction. According to the survey conducted by the Russian Union of Industrialists and entrepreneurs (RSPP), most of the companies consider tax incentives for responsible entrepreneurs the state support of CSR.

- The right to transfer deductible expenditure on CSR for future periods for companies, financing long-term socially-oriented projects, to ensure that the right for the tax privilege is not lost because of the lack of taxable income. This measure will enable companies to refuse to carry out their long-term social programs, will increase the attractiveness of long-term social investments and generally will direct the development of CSR in a more strategic direction, which is an advantage for the companies described earlier. However, there is a risk of deliberate delaying of the project.

The formation of normative-legal base in the field of CSR and NGOs. The legal concepts and types of corporate social responsibility in accordance with international standards. The legal requirements for a product corresponding to the GRI and other international standards.

- The introduction of mandatory reporting for companies using tax benefits, for the monitoring of their funds allocated for CSR and used by companies, and evaluating of their effectiveness. Compilation of a list of mandatory publication of the indicators. The introduction of audit requirements reporting is mandatory for publication of the indicators.

It is expected that the proposed measures will have a positive impact on both the quality of social investments and on the amount and quality of disclosure on CSR. However, these measures require careful consideration on the basis of international experience, taking into account Russian specifics.

Conclusion

In this article, the objective was to propose specific public policy measures aimed at the development of CSR in Russia. That was done by a multivariate statistical analysis to compare the level of CSR of the Russian companies on the background of the companies in other countries and select the most suitable for our country practices of state regulation in the field of CSR. The classification of countries was carried out as for the indicators, characterizing the level of development of CSR and social problems in the country.

Being based on the results of the cluster analysis and study of international experience of the development of corporate responsibility, a number of measures aimed at improving conditions for the socially responsible companies have been proposed, to improve public policy in this area in Russia, and increase the disclosure of information in CSR and improving its quality.

First, the expansion of the list of tax benefits is proposed. Currently, the tax incentives that encourage CSR in Russia is provided mainly to facilitate the employment of people with disabilities. The expansion of the list of incentives will direct social investment in other problem areas of society.

Secondly, it is proposed that the right to transfer deductible expenditure on CSR for future periods for companies financing long-term socially-oriented projects, with the aim of developing a strategic approach to CSR and to focus their attention on long-term projects. Taking into account the above measures require the formation of a normative-legal base in the field of corporate social responsibility and the legal requirements for public non-financial reporting, the relevant international standards (such as GRI, ISO26000, etc.).

Finally, the introduction of mandatory reporting for companies using tax benefits, for the purpose of monitoring of funds allocated for CSR used by companies, and evaluating their effectiveness, and establishing audit requirements reporting is mandatory for publication of the indicators.

In the article, as already noted, the assessment of the level and stage of CSR development based on the disclosure of companies of non-financial information was carried out. Thus, conclusions about the success of the policy in the field of CSR development in a country are not quite accurate. However, available sources do not provide information about the costs of CSR, therefore, in terms of available data; the assessment of the level of CSR by the number of published reports is the only possible method of assessment.

Further research can be devoted to a more detailed discussion of recommendations with detailed list of benefits. In addition, the effect of the proposed measures on the Russian economy remains unexplored. As part of the development of the topic it is advisable to analyze the influence of the tax incentives on the activity of companies in the field of CSR, which expressed as the increase in social investment companies, and the distribution of non-financial reporting.

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Rediscovering ethics and the importance of human resource management for entrepreneurship in emerging economies

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Abstract: Entrepreneurship playing an important role in the life of society has received less attention as ethical and economic phenomenon. Sustaining entrepreneurship seems to rely on rediscovering the ethical dimension for building organizations by managing ethically human resources. Human resource systems contribute to build an ethical culture within organizations seeking legitimacy conforming to the expectations of the key stakeholders in their environment. Human resource systems help organizations move toward an ethical approach, values and culture in doing business. Organizations effectively facing the challenge of survival and competitiveness have to promote behaviors of employees able to deal with ethical issues in daily working. Rediscovering the importance of ethics helps support the entrepreneurship within emerging economies facing the challenge of overcoming obstacle to social and economic development. Governments tend to sustain the entrepreneurship by encouraging the adoption and diffusion of ethical behaviors in business by enhancing transparency, free access to information and accountability and help the entrepreneurs to behave managing ethics for creating and maintaining social and economic value. Developing and sustaining entrepreneurship in emerging economies should require that entrepreneurs and managers are able to consider and take in account the ethical dimension in the strategic decision-making process concerning the building of organizations by managing human resources.

Keywords: ethics, transparency, entrepreneurship, emerging economies, human resources

Introduction

The aim of the paper is to elucidate that the development of entrepreneurship seems to rely on rediscovering the ethical dimension in doing business through government promoting transparency and organizations managing ethically human resources. Rediscovering the importance and relevance of managing ethics for enhancing entrepreneurship and building organization can help the emerging economies to advance towards a sustainable growth solving the challenge of overcoming some barriers like corruptive behavior as obstacle to social, political and economic development of society and business. Ethics and entrepreneurship tend to be closely aligned. Entrepreneurs are responsible in building a good society developing

activities for advancing social and economic freedom (Harris, Sapienza & Bowie, 2009). Human resources contribute to the success of entrepreneurship (Altinay, Altinay & Gannon, 2008). Human resource systems help organizations move toward an ethical approach, values and culture in doing business. Organizations effectively facing the challenge of survival and competitiveness have to promote behaviors of employees able to deal with ethical issues in daily working. The entrepreneurs should behave coherently with ethical practices based on fairness, integrity, decency and sustainability. Institutions tend to shape human interaction (North, 1990) and contribute to support the entrepreneurship as opportunity to enhance social and economic growth within emerging economies. Governments contribute to development of entrepreneurship by designing policies for opening up to opportunities for entrepreneurs and influencing the ends of entrepreneurship within society (Gnyawalli & Fogel, 1994; Smallbone & Welter, 2009). The study relies on analysis and review of literature in the field of the relationships between entrepreneurship, ethics, human resource management coherently with promoting transparency to sustain ethical behaviors in business and in daily working. Institutions and governments can exert influence on entrepreneurship and legitimize new ethical and business behaviors enhancing transparency to redesign business relationships driving entrepreneurs and organizations to develop an ethical culture relying on managing strategically human resources. The main contribution of this study is to elucidate that sustaining entrepreneurship in emerging economies relies on entrepreneurs and managers being able to consider and take in account the ethical dimension for driving the strategic decision-making processes for building organization and managing human resources.

The need of entrepreneurship for driving the economic growth

Entrepreneurship contributes significantly to generate new employment and stimulate wealth creation, social and economic growth and development. Entrepreneurship is considered to be as resource and process by which individuals have the market opportunity to create new business firms (Gries & Naudé, 2011). Entrepreneurship is likely to promote the search for competitive advantages by bringing products, processes and innovations to market and contribute to sustain the economic development in long-terms (Havinal, 2009). The entrepreneurs have to identify and understand where the opportunities and threats lie and focus their attention on those spheres which affect the organization and require strategic attention (Papulova, 2006). Entrepreneurship tends to be considered as a multi-dimensional concept embracing individual, strategic and corporate aspects. Thurik and Wennekers (1999) tend to define the entrepreneurship as a behavioral characteristics of persons in terms of ability and willingness of individuals to perceive and create new economic opportunities, introduce new market ideas making decision on location and use of resource and institutions. Understanding the entrepreneurship implies to elucidate what happens when entrepreneurs act, why and how they act in order to explain that some people have the opportunity to use different modes of action in order to discover and exploit entrepreneurial opportunities (Shane & Venkataraman, 2000; Cuervo, Ribeiro & Roig, 2007). Entrepreneurs tend to act as effective agents of change and innovation as support to strategy (Hitt, Ireland, Camp & Sexton, 2001). Strategic entrepreneurship seems to rely on firms able to identify and exploit valuable opportunities to develop and sustain competitive advantages over time (Hitt, Ireland & Sirmon, 2003). Developing entrepreneurship requires organizations able to focus on human resources capa-

bilities and innovation and implies to design and implement public policies to encourage job creation and provide social security (Naude, 2013).

Understanding the role of entrepreneurship within emerging economies

Within emerging economies two interrelated conditions occur in the same time: a rapid pace of economic development; government policies open up to economic liberalization and the adoption of free-market systems. In emerging economies, a low-income and rapid-growth characterize countries committed to use economic liberalization as primary driver and engine of growth (Hoskisson, Eden, Lau & Wright, 2000). Within emerging economies, the role of the entrepreneurship is to contribute to exploit business opportunities create new firms or make the existing firms more dynamic as to improve the economic growth and enhance the well-being of society (Cuervo, Ribeiro & Roig, 2007). Entrepreneurship contributes to develop emerging economies by providing immediate large-scale employment and reducing unemployment in the country as to stimulate the equitable redistribution of wealth, income and even political power in the interest of the country. The entrepreneurship permits to encourage effective resources mobilization of capital and skill otherwise unutilized and also induces backward and forward linkages to stimulate the economic development and the export trade in the country. Some barriers to entrepreneurship development concern: the lack of a viable concept, market knowledge and technical skills, the lack of seed capital and business know how, lack of motivation, the social stigma, the legal constraints and regulations (Havinal, 2009). The role that central and local institutions exert jointly with lack of emphasis on motivation and weak leader's orientation to management delegation tend to be considered as an obstacle to entrepreneurial and business development (Krasniqi & Kume, 2013).

The role of institutions and government for sustaining entrepreneurship within emerging economies

Entrepreneurship is considered as a way to facilitate social and economic growth in developed countries giving life to former planned economies even if there is a limited understanding about factors associated with high rates of entrepreneurship in terms of government policies to be designed and implemented to sustain and promote entrepreneurial ventures (Spencer & Gómez, 2003).

Within emerging economies a significant organizational heterogeneity occurs in virtue of some elements: incumbent firms (primarily business groups, state-owned enterprises and privatized firms; entrepreneurial start-ups; foreign entrants (Wright, Filatotchev, Hoskisson & Peng, 2005). Governments contribute to entrepreneurship by designing policies and procedures opening up to opportunities for entrepreneurs. Within countries having low propensity/high ability to enterprise, government have to develop policies that help improve the socioeconomic dimension of the environment and enhance the entrepreneurial business skills (Gnyawalli & Fogel, 1994).

Since the fall of Berlin's Wall and the collapse of communist regimens leading to progressive abandoning of socialist economies new entrepreneurial ventures started and increased. Since the 1990s the transition from central planning to market based economies within the

countries of Central and Eastern Europe has implied economic, social and political changes. A new group of rapid-growth countries in Central and Eastern Europe as transition and emerging market economies have begun to strengthen their market mechanisms through liberalization, privatization by fostering and encouraging the birth and growth of new private enterprises. Government policies contribute to exert a dominant influence in the social embeddedness of entrepreneurship, on the nature and extent of the businesses that are created. The task and challenge of post-socialist economies was to develop a reform process creating a policy context for creation and growth of new businesses driving change moving from dismissing public ownership to acquisition of private ownership. Fostering institutionalisation of entrepreneurial policy helps to develop productive entrepreneurship (Smallbone & Welter, 2010). In particular, the role of State seems to be as relevant to foster the development of small and medium enterprises with regard to the ways of intervention by influencing macroeconomic environment. The state should exert influence on the value related to role of enterprise and ends of entrepreneurship within society by encouraging to develop businesses by cooperation of government officials in dealing with entrepreneurs, by modifying the institutional conditions that affect business conduction as to permit to entrepreneurship to contribute to social and economic development (Smallbone & Welter, 2009).

Institutions shaping social and organizational behavior tend to provide formal and informal rules of game that bound organizations and permit to enterprises to play a more active role in the institutional environment (Hoskisson, Eden, Lau & Wright, 2000). Institutional frameworks interacting with individuals and organizations tend to exert influence on the cognitive and ethical considerations that shape human behavior (Tonoyan, Strohmeier, Habib & Perlitz, 2010). Strategic choices tend to reflect the formal and informal constraints of particular frameworks (Peng, Wang & Jiang, 2008). Institutional environments tend to address the conditions and contingencies leading organizations to seek legitimacy (Spencer & Gómez, 2003; Suchmann, 1995; Meyer & Rowan, 1977). Within Eastern and Central Europe, the institutional environment seems to exert significantly influence on the shape and pace of entrepreneurship having a powerful influence on trajectories of entrepreneurial initiatives. Thereby, differences tend to emerge with regard to different regulatory, cognitive and normative pressures driving entrepreneurship in the emerging economies reflecting idiosyncratic cultural norms and values, traditions and institutional heritage (Manolova, Eunni & Gynoshev, 2008). Thereby, despite of power of institutional and cultural forces constraining the action, the entrepreneurs can act to shape their institutional environment encouraging activities that facilitate the entrepreneurial initiatives. Entrepreneurship is considered to be as the engine pushing the emerging economies forward and growing to be as a major economic force in the world. Public policies tend to become market-oriented. Governments are opening the domestic market space to foreign markets. Privatization tends to put pressure on public enterprises and implies new joint ventures (Bruton, Ahlstrom & Obloj, 2008).

Promoting transparency against corruption as obstacle to entrepreneurship development within emerging economies

Corruption as form of behavior violating the official ethics of public service tends to have a negative effect on the growth and development of public and private sector economies (Mauro, 1998) and a negative impact on economic issues and development of emerging

economies (Tonoyan, Strohmeier, Habib & Perlitz, 2010). Corruption is one of the main obstacles for transition economies harming economy and society by making transactions more costly and encouraging unofficial economy, tends to discourage domestic and foreign investments (Krasniqi, 2007). Corruption tends to affect entrepreneurship when the economy is not heavily regulated. When regulations abound corruption increases entrepreneurial activity. Thereby, strict regulations tend to reduce entrepreneurial activity in the absence of corruption, while do not reduce entrepreneurial activity with more corruption (Dreher & Gassebner, 2013). The efforts to control corruption are likely to increase levels of trust in the ability of the state and market institutions to enforce law and rules of trade. A better control of corruption will be associated with rising levels of innovation and entrepreneurship (Anokhin & Schulze, 2008). Enhancing transparency as a panacea for enabling good governance entered in the agenda of public sector reforms as a tool for increasing government accountability, preventing and reducing corruption. Transparency can reduce political and public corruption by helping politicians and administrators to behave more accountable with public (Kolstad & Wiig, 2009).

Rediscovering the ethical dimension of entrepreneurship

Entrepreneurship has received less attention as ethical and economic phenomenon. Entrepreneurial traits as knowledge and creativity, ambition, initiative, perseverance, trial and error, productivity, trade value for value seem to emerge coherently with moral virtues like rationality, pride, courage, integrity, independence, objectivity including honesty, productiveness and justice (Hicks, 2009). Ethics deals with the distinction between what is right and wrong. The ethical climate within organization tends to evolve as a new venture develops and grows with the entrepreneur actively playing an important role in defining the ethical climate in the early stages of the life cycle. The nature of entrepreneur and venture, the stage of business development are assumed to influence the introduction of mechanisms guiding the ethical environment of the firm (Morris, Schindehutte, Walton & Allen, 2002). Entrepreneurs playing an important role in the life of society develops and perform business risk activities for increasing employment, creating new organizations, discovering new production processes and by improving the well-being of communities and individuals. Today, entrepreneurs tend to encounter and confront with uniquely the challenge of solving ethical problems even if they not always are able to adequately consider the ethical consequences of their own decisions and their firm's activities. The need of innovation and competition tends to put in crisis moral thinking and behavior in entrepreneurial environments. Successful entrepreneurs behave as agents of change producing innovation in existing economic structures moving from obsolescent to sustainable patterns for action and benefit for society and economy. Entrepreneurial innovation can bring negative externalities that require society and communities to reconsider certain norms and values.

Environmental business factors offer opportunities potentially conflicting with disposition of entrepreneurs to ethical decision making. Thereby, the entrepreneurs performing necessarily business tasks tend to keep moral obligations in front of the society because of importance of and economic functions (Hannafey, 2003). Ethics and entrepreneurship tend to be closely aligned. Entrepreneurs are able to play an overarching role in building a good society as to develop activities which are connected with public policies for advancing social and economic freedom. Entrepreneurs are aware of their own role in advancing social inter-

ests and change appealing to diverse stakeholders through means not always related to market logic (Harris, Sapienza & Bowie, 2009). The relationship between ethics and entrepreneurship seems to be problematic and contradictory. The entrepreneurs are regarded as creative innovators and praised for their contribution in developing society by creating new products and employment opportunities, spreading new ideas and values. Thereby, stakeholders and observers tend to criticize the entrepreneurs because of being willing to compromise moral values. Some ethical issues tend to emerge in the context of entrepreneurship: the organizational norms that offer moral guidance should drive ethical judgement capabilities of the entrepreneurs; developing new business can drive the entrepreneur to do almost anything to succeed. According to the principle of beneficence that prescribes to actively do good emphasizing the responsibility to contribute positively to social change, the entrepreneurship is necessarily linked to ethics because of being part of the solution with regard to social and environmental issues (Fisscher, Frenkel, Lurie & Nijhof, 2005).

Managing human resources for developing entrepreneurship and organization

The achievement of competitive advantages relies on human resources, on the legs and capabilities of people involved to contribute for entrepreneurial project. Human resource systems may be a means to promulgating an ethical culture in that ethics pervade selection and staffing, performance appraisal, compensation, and retention decisions (Buckley et.al., 2001). Human resource systems should serve some strategic objectives influencing employee knowledge, skills and abilities, employee motivation and effort, the opportunities for employees to contribute (Lepak, Liao, Chung & Harden, 2006). Human resources play a significant role by helping creation of Ricardian rents, as component of organizational capabilities that generate nontraditional Ricardian rents, and source of technological and managerial innovation as to contribute to produce entrepreneurial rents (Chadwick & Dabu, 2009). New organizational forms tend to create new roles enhancing the status of human resource management (Miles & Snow, 1980). Human resources management practices support to build an environment encouraging cooperation and development of human and social capital. Human resource management practices should link coherently with business needs of the firm. Human resource policies and practices should be conceived and interpreted as behavioral patterns for sustaining human resources capabilities (Kamoche, 1996). Successful entrepreneurship also requires specific skills to organize and manage the activities associated with innovation and change. Human resources help to sustain the competitive advantage being strategically significant as components of organizational capabilities that help to generate entrepreneurial rents and source of technological and managerial innovation. Corporate entrepreneurship relying on the ability of an organization to learn through exploration of new knowledge and exploitation of existing knowledge involves organizational learning and implies collaboration and individual commitment that human resource management practices can influence and increase as an important driver of success. Firms seek to fit human resource management practices, employee skills, and employee behaviors to the immediate competitive needs of the firm as dictated by the strategy. These practices and systems exert influence on innovation and tend to encourage internal and external knowledge acquisition and integration, contributing to growth and survival of new firms. For example, the incentive compensation is used in high tech firms

operating in the early stages of their product life cycle. Human resources management practices contribute to build a supportive environment of cooperation by promoting the development of human and social capital. Some success factors link human resources practices to corporate entrepreneurship: the use of rewards, the provision of management support for innovation, the availability of resources, an organizational structure leading to learning, cooperation and individual risk taking. Selection, training, performance management, rewards and career development practices tend to encourage entrepreneurial behaviors and corporate entrepreneurship (Hayton, 2005).

Developing an ethical culture within organizations

Entrepreneurship tends to look at the organizational forms the entrepreneurs must create or use in order to realize products, projects or handle the opportunities emerging from the context (Brenkert, 2008). Thereby, organizations following their ends and affairs should solve internal conflicts between business and higher levels of morality (Carroll & Smith, 1984). Integrating ethics formally and explicitly into daily business life, decision-making and work practices for all employees should appear as a useful mission and task of entrepreneurs building both new businesses and organizations (Weber, 1993). The ethical climate of an organization is defined as a shared set of norms, values and practices of organizational members regarding appropriate behavior in the workplace. Building an ethical culture requires to have at disposal an ethical leadership driving the employees to recognize ethical issues in their work and develop cognitive capacities to make the right choice (Treviño & Brown, 2004). The organizational ethics is the capacity for an organization to reflect on values in the corporate decision-making process as to establish how managers tend to use these observations in the management of the organization (Carroll, 1987). Organizations that support the spread and interiorizing of ethics consider as important the building and maintaining of psychological contracts, reinforcing the organizational commitment and sustaining the organizational culture as ethically-oriented by seeking employees that aspire their own career compatible with the desire to eliminate unethical behaviors.

Organizations tend to enhance the institutionalization of ethics by managing the psychological contract between employees and the organization utilizing different means and policies to foster and encourage ethical standards (Sims, 1991): avoiding to employ people with personalities prone to unethical behavior blocking unethical tendencies; making public statements that ethical behavior is important; developing organizational policies that specify ethical objectives and a code of ethics describing the general value system of the organization, defining the organizational purposes. Human resource systems help organizations move toward an ethical approach in conducting business coherently with most successful organizations following and embracing necessarily ethical values and culture. Organizations effectively facing the challenge of survival and competitiveness have to promote behaviors of employees able to deal with ethical issues in daily working. Organizations facing the challenge of integrating ethics within daily behaviors of employees and corporate culture should not promise what cannot be delivered, choose values that represent the views of employees, open up to understanding of diversity and dissent, encouraging whistle-blowing behaviors, provide ethics training programs, integrate ethical decision-making in processes of performance appraisal fostering the awareness of ethical issues managing codes of ethics grounded in specific role-

based situations (Sims, 1992). Leaders should represent a key resource in order to drive organizations towards ethical ends and provide ethical guidance for employees. Ethical leadership is related to honesty, trust in leader, interactional fairness and socialized charismatic leadership (Brown, Treviño & Harrison, 2005). Transformational leaders exert influence on ethical performance of organizations as to develop the organizational mission and policies, reward systems for encouraging ethical behaviors (Carlson & Perrewe, 1995). Ethical values and awareness should be institutionalized at individual, subunit, organization, industry levels of analysis. The individuals should be accountable for means and ends. Effective sanctions should occur in order to encourage ethical behavior and contrast corruptive behaviors (Ashforth & Anand, 2003). Managing ethics in business organizations implies to behave ethically, develop and reinforce ethical behavior by providing ethical training, by developing a meaningful code of ethics as the most visible sign of a company's ethical philosophy accepted by the employees who are required to implement it (Stead, Worrell & Stead, 1990). Organizations fostering ethical values tend to prescribe clear ethical norms encouraging a strong ethical climate in order to successfully deal with ethical problems and issues (Bartels, Harrick, Martell & Strickland, 1998). Human resource function should play an important role in integrating ethics programs into the design of performance appraisal systems and management training (Weaver & Treviño, 2001). Organizations should develop and communicate their ethics codes because the ethics code awareness is believed to exert influence on the level of organizational commitment of employees (Valentine & Barnett, 2003). High levels of ethical behavior seem to be positively associated with more organizational citizenship behaviors desired by organizations (Baker, Hunt & Andrews, 2006). Selection, organizational socialization, training and mentoring seem to ensure the continuity of a strong ethical culture existent within organization (Sims, 1991). Organizations that integrate principles of ethical leadership with a strategic approach to human resource management tend to achieve appreciable results in terms of values and outcome in long term. Institutionalizing the ethics within organizations should affect or change behaviors by introducing ethics into daily business life (Weber, 1993) by positively influencing the job satisfaction, the organizational commitment and the esprit de corps leading to a more positive organizational climate (Vitell & Singhapakdi, 2008).

Discussion and conclusions

In mature and developed market economies the state tends to appear as the main institutional actor able to exert influence on the development of entrepreneurial ventures acting indirectly on the external environment in which business activity can develop than direct interventions (Smallbone & Welter, 2009). Rediscovering the importance of ethics and managing ethically business and human resources jointly with public policies to prevent and contrast corruptive behaviors could help and support emerging economies to develop and accelerate the transition towards more industrialized and modern economies. Entrepreneurship can develop in order to create economic and social value relying on building ethical principles with government fostering a culture of transparency in doing business. Governments and entrepreneurs contribute to develop successful entrepreneurship by widening and embracing principles of ethical and honest behavior. Promoting privatization of state-owned enter-

prise and opening up to liberalization of markets and services helped the entrepreneurs to confront with developing new business advancing often without rules and equity.

Governments enhancing and fostering culture based on transparency help the entrepreneurs to behave honestly relying on assumption of ethics as guide value and paradigm driving market forces creating social and economic value for society and community. Linking human resource systems and ethical corporate culture permits to create a sustainable competitive advantage in long term. Organizations managing strategically human resources and personnel tend to adopt an ethical culture and build an ethical organization institutionalizing ethics by designing human resources policies focused on the adoption of ethical behaviors as embedded in the corporate culture as distinctive factor. Organizations surviving in long run tend to create and maintain an effective organizational culture encouraging the ethical behavior and discouraging unethical behavior (Sims, 1992). The ethical challenge the entrepreneurs have to face by building a new organization concerns the need to clarify the terms and future expectations about the psychological contract between employees and organization (Sims, 1991) leading to different human resource strategies and policies design (Lepak & Snell, 1999). Governments encouraging the initiative of private economies by privatization of state enterprise and fostering liberalization of markets tend to sustain the entrepreneurs to develop new business ideas for building organizations successfully proceeding by discovering the strategic role of managing human resources. Various stakeholders and governments put increasingly pressure on organizations reducing unethical and illegal behaviors of individuals (Treviño, Weaver & Reynolds, 2006). Governments sustaining the diffusion of entrepreneurship by encouraging the adoption and diffusion of ethical behaviors in business by enhancing transparency, free access to information and accountability tend to prevent and contrast corruptive practices and unethical behaviors driving entrepreneurs to select ethics values as guiding principles for doing business and management choices leading to build and implement an ethical organization. The social and economic growth of emerging economies proceeding towards developed economies relies on government enhancing transparency and promoting accountability and bridging business affairs and the rediscovery of ethics as principle driving entrepreneurship and private firms to design human resource management for building ethical organizations. Future research perspective require to further investigate the relationship between human resource management and ethical management within new businesses and organizations.

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Ethical aspects of accountancy and audit professions

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Abstract: The aim of this paper is to analyse the existing international regulations in the European Union and the United States regarding the accounting and external audit professional ethics. The methodological approach is an analytical argumentative research paper. The approach is systematic, because each category of international regulations is presented sequentially, i.e. the regulator, the evolution in time of the relevant fundamental principles and also, several practical recommendations for the future are made. Some case studies debating the ethics codes for Romanian professionals in accountancy and audit are presented.

Keywords: ethics, audit, corruption.

Fundamental principles of ethics in the accountancy and external auditing profession

A financial scandal publicized in November 2014 by a journalistic enquiry conducted by the International Consortium of Investigative Journalists (Luxembourg Leaks), based on private information about Luxembourg's tax rulings set up by PricewaterhouseCoopers audit firm from 2002 to 2010 to the benefits of over three hundred clients-multinational companies based in Luxembourg. This investigation contributed to the implementation of measures aiming at reducing tax dumping and regulating tax avoidance schemes advantageous to multinational companies. (Wayne & Carr, 2014)

The Panama Papers (11.5 million leaked documents that detail financial and attorney-client information for more than 214,488 offshore entities) has raised recently many questions about the ethical behaviour of professional accounting and audit entities worldwide. The leak claims illegal operations of affluent individuals and public officials, with the help of attorneys and accountants, who covered frauds, tax evasion, and international sanctions.

The aim of this paper is to analyse the existing international regulations in the European Union and the United States regarding the accounting and external audit professional ethics. The methodological approach is an analytical argumentative research paper. The approach is systematic, because each category of international regulations is presented sequentially, i.e.

the regulator, the evolution in time of the relevant fundamental principles and also, several practical recommendations for the future are made.

IFAC (International Federation of Accountants) is the global organization for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies. IFAC is comprised of over 175 members and associates (which are primarily national professional bodies) in more than 130 countries and jurisdictions, representing almost 3 million accountants in public practice, education, government service, industry, and commerce. One of the standard-setting boards of this organization is the International Ethics Standards Board for Accountants (IESBA) that develops and promotes ethical standards and guidance for professional accountants.

According to the above-called code of ethics, a professional accountant should comply with the following fundamental principles: (1) integrity; (2) objectivity; (3) professional competence and due care; (4) confidentiality; (5) professional behaviour.

The principle of integrity requires the professional accountant to be straightforward and honest in all professional and business relationships. The objectivity requires impartiality and absence of any conflict of interest or undue influence that may intervene in professional or business judgments. Professional competence refers to permanent professional accountant duty to maintain professional knowledge and skills. According to the principle of confidentiality, a professional accountant shall not disclose information acquired as a result of professional and business relationships to third parties without a specific authorization and must not use them for the benefit of its staff or third parties. Also, the professional accountant must demonstrate professional conduct in all circumstances, to comply with relevant laws and regulations and avoid any action that discredits the profession.

The International Federation of Accountants has signed a statement condemning dishonesty alongside professional accountancy organizations. IFAC President Olivia Kirtley said: "Defeating corruption – and thus immeasurably improving the lives of citizens – can only be achieved through re-energized collaboration between, and commitment of, leaders from both the public and private sectors. Both sectors require transparent, consistent and robust anti-corruption measures, and effective internal controls that are critical to good governance and holding officials accountable."

Audit is a profession that has taken shape over the years, always seeking to meet the changing needs of the organizations. The audit focused at its inception more on accounting issues, but now it has become a powerful tool for the detection of the main risks of organizations. An audit is a systematic and independent examination of books, accounts, documents of an organisation to ascertain how far the financial statements present a true and fair view of the concern. It also attempts to ensure that the books of accounts are properly maintained by the concern as required by law. Its objective is to determine, among other things, whether the accounting records are accurate and complete, prepared in accordance with certain specific accounting principles.

Audit has evolved over time from an exhaustive check of transactions in order to detect fraud to a check that uses statistical methods, in order to express the auditor's an opinion whether the financial statements have been prepared in all material respects, in accordance with a the law.

In the Certified public accountants (in US and other Commonwealth countries) or external auditors (in EU) are the only authorized non-governmental external auditors who may perform audits on an entity's financial statements.

Internal audit differ from external audit-is a function that, although operating independently from other departments and reports directly to the audit committee, resides within an organisation. Internal auditors who are members of a professional organization would be subject to the same code of ethics and professional code of conduct as applicable to external auditors. Internal auditors, are employees of the organization they audit, and report to management, although in some cases the function may be outsourced. The internal auditor's principal responsibility is appraising an entity's risk management strategy and practices, management, IT, systems security, and governance processes, helping the organisation to achieve its objectives.

"Accountants and the accountancy profession exist as a means of public service; the distinction which separates a profession from a mere means of livelihood is that the profession is accountable to standards of the public interest, and beyond the compensation paid by clients." (Love, 2008)

An important event in changing investor's perception towards the role of auditors was the adoption in the US of the Sarbanes -Oxley Act (2002) which is a reaction to the great financial scandals that rocked renowned companies in America (Enron , WorldCom , Global Crossing, Tyco, Adelphia), which led to loss of public confidence in practice expertise in accounting , external audit and the figures reported by companies. Due to corporate collapses, attention has been drawn to ethical standards accepted within the accounting profession (Beverly, Cooper, Leung).

Sarbanes – Oxley establishes rigorous standards on accounting, auditing and responsibilities of boards. The law also requires foreign companies listed on US financial markets to strengthen its internal audit.

Auditors cannot obtain absolute certainty that the proofs they obtain are always safe and that all errors in the financial statements will be detected. Knowing the inherent limitations of the audit, there is an unavoidable risk of not detecting false financial statements.

The responsibility for the prevention and detection of fraud and error rests with management. Although the auditor is not and cannot be held responsible for preventing fraud and error, – audit can play a positive role in preventing fraud and error by deterring their occurrence.

In recent decades, audit concept has been refined more and more, leading naturally to a domain, with its own objectives, methods and techniques, the use of which to ensure the achievement of these objectives.

Auditor's role is mainly to enhance the user's trust in the accounting information, to bring added safety to the fact that the accounting information was obtained, treated and presented in accordance with generally accepted accounting standards and principles.

The auditor is often in a position to make important decisions, we should not be influenced by external factors, like a judge. The power of decision must, in these circumstances, be matched by an exceptional personality to withstand any external pressure that would follow the auditor's opinion change at the expense of truth.

No auditor can provide absolute assurance that the financial statements do not contain significant errors or fraud. There may be errors due to incorrect accounting data processing or because the use of a wrong judgment in the selection and application of accounting standards. There is a risk that the auditor will not be able to detect, regardless of the rigor with which auditing standards apply.

Regardless of the legislation adopted by each country or the provisions of international auditing standards, there are some common characteristics due to both the internationalization of business and the influence of American standards in the field or of the large audit firms.

Responsibility for the prevention and detection of fraud and error rests with both those charged with governance and management of an organization.

The management, with the oversight of those charged with governance, must establish a suitable climate to create and maintain a culture of honesty and high ethics, and establish appropriate controls to prevent and detect fraud and error within the organization. The management of an organization is responsible to establish a control environment and maintain policies and procedures to help achieve the objective of ensuring, as best as possible, the orderly and efficient conduct of the organization's activities .

This responsibility includes implementing and ensuring the continued operation of accounting and internal control systems which are designed to prevent and detect fraud and error. Such systems reduce but cannot eliminate the risk of misstatements, whether caused by fraud or error. Accordingly, management assumes responsibility for any remaining risk.

An auditor cannot obtain absolute assurance that material misstatements in the financial statements will be detected. Due to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements or other auditable areas will not be detected, even though the audit is properly planned and performed in accordance with international auditing standards. An audit does not guarantee that all material misstatements will be detected because of such factors as: the use of judgment, the use of testing, the inherent limitations of internal control and that many of the available evidence in nature auditor is persuasive rather than conclusive.

The fraud character of a transaction can be resolved in the court. Thus, since the auditor has no responsibility to prove fraud in legal terms, his concern is directed to discover any proof that is suspected to be a fraud. Therefore, the auditor must distinguish between fraud and presumed fraud.

Regulations in the European Union and the USA

In the European Union, the Directive 2006/43 / EC state that “Statutory auditors and audit firms should be independent when carrying out statutory audits. They may inform the audited entity of matters arising from the audit, but should abstain from the internal decision processes of the audited entity. If they find themselves in a situation where the significance of the threats to their independence, even after application of safeguards to mitigate those threats, is too high, they should resign or abstain from the audit engagement. The conclusion that there is a relationship which compromises the auditor's independence may be different as regards the relationship between the auditor and the audited entity from that in respect of the relationship between the network and the audited entity.”

The Directive 2014/95/EU on disclosure of non-financial and diversity information require around 6,000 large European companies to disclose information at least on environmental, social, and employee-related matters, as well as on the respect for human rights, anti-corruption, and bribery issues. The Federation of European Accountants (FEE) has just issued a position paper on this Directive, which should be transposed into Member States' national laws by 6 December 2016. The Federation of European Accountants is an international non-profit organisation grounded in Brussels that represents 50 institutes of professional accountants and auditors from 36 European countries, including all of the 28 European Union (EU) Member States.

In the United States, the audit was performed first by the American Institute of Certified Public Accountants (AICPA), established in 1887. Following the collapse of North American stock markets in 1929, which was triggered in part by deficiencies in financial reporting obligations of listed companies, AICPA established in collaboration with New York Stock Exchange, a committee responsible for developing measures to correct this situation. Consequently, rules were issued on the first registration and quotation of securities (Securities Act 1933 – SA) and on the marketing of securities (Securities Exchange Act 1934 – SEA). Concomitantly, it has been established the Securities and Exchange Commission (SEC) as an independent supervisory authority in the stock market. In response to scandals in financial accounting, particularly following the Enron case, in 2002 was issued Sarbanes-Oxley Act of 2002 (SOA). The objective of this legislative initiative was to counteract the causes of accounting scandals by auditors involved in self-regulation and corporate governance of companies listed on the New York Stock Exchange. The scope of SOA includes all issuers of securities that are submitted to SA and SEA and their auditors. Relevant in this context is the Independence Standards Board (ISB), established in May 1997 to develop a conceptual framework to translate into unified disparate standards of the SEC. Another committee, set everything straight SEC subordinate committee and supervised by the so-called Public Company Accounting Oversight Board (PCAOB).

Most of the fundamental principles underlying principles are found in the Code of Professional Conduct issued by the AICPA. It consists of two parts: principles and rules. The principles provide the framework for rules governing the performance of professional services for AICPA members.

Among the principles of the Code of Professional Conduct issued by the AICPA are: integrity, objectivity, and independence and due consideration.

The ethics codes for Romanian professionals in accountancy and audit-theory versus reality

In Romania, the Body of Expert and Licensed Accountants of Romania is the organization which manages the accounting profession at national level and represents it in all worldwide structures. In 2006, it has issued the most recent edition of the National Code of Ethics for Professional Accountant, elaborated according to the IFAC Code of ethics published in 2005. The Code recognizes that the objectives of the accounting profession are set to meet the highest standards of professionalism, to achieve the highest levels. Four requirements have to be observed by accountants in order to achieve these goals: credibility, professionalism, quality of services, reliability. There are several sections in the Code that refer to integrity, objectivity, professional competence, prudence, confidentiality and professional behaviour of experts and certified accountants.

However, the Body of Expert and Licensed Accountants of Romania does not disclose publicly on its website any infringement of the Ethical Code by the members of this professional body, at least with acronyms of the natural or juridical persons that infringed the Code. Such an initiative would contribute to the transparency of this organization.

The Chamber of Financial Auditors of Romania was established in 1999. The financial auditor profession has a well-defined place in Romania, since it plays an essential role in the market economy, serving the public interest. Through his activity, the auditor ensures the nec-

essary benchmarks for a proper development within a climate of trust and lawfulness of business, thus meeting a significant social role. The body has issued a Code of Ethics for Financial Auditors and posted on its website sanctioning decisions of those auditors who infringed the Code, but they only refer to sanctioning financial auditors who have not paid the fixed mandatory fee. There are no other sanctions published on the website, which raises question marks about the transparency of this professional body.

However, these professional bodies are sometimes sued by different entities. A simple search on the Justice Portal of Romania (a project financed by E.U. <http://portal.just.ro/>) returns 32 items regarding litigates in which the Financial Auditors Chambers is part of. Similarly, by searching “auditor financiar” (financial auditor in Romanian language), 34 results are obtained; meaning that there are 34 litigates in the archives, where financial auditors are part as either defendant or plaintiff. For expert accountants, there are 835 results, but it is impossible to define the casuistry, unless each case is analysed separately and search the physical archives of the courts. There are 214 results for the Body of Expert and Licensed Accountants of Romania as either defendant or plaintiff.

Ethical dilemmas raised by the audit of Romanian public hospitals

The national policy on waste management in Romania must be in line with the European policy objectives in terms of waste prevention; as a member state of the European Union, Romania must include between its priorities, the alignment with the EU standards of environmental protection.

In Romania, in 2002 there were a total of 346 crematoria placed within health units, of which a total of 31 plants were in Bucharest. Their closure was achieved gradually, in the first stage being closed very small crematoria and the waste generated was transferred to those remaining in operation. The old crematoria were not authorized anymore to destroy the medical waste their work being taken over by authorized modern incinerators. Therefore, the activity of the dismantled 346 crematoria is replaced by companies authorized for disposal by incineration.

In order to implement the obligations that Romania has assumed, EU allocated from the Environmental Fund the sum of 34 million lei (approx. 7,5 million euro) in the form of grants, reimbursable or mixed for the construction of incinerators and sterilisers. The Ministry of Health has purchased in 2005, a total of 67 medical waste disinfection systems MEDISTER 160 type. MEDISTER 160 system is used for disinfection of infectious waste and those containing liquid infectious waste, microbiological laboratory waste, dialysis systems, waste from wards, etc. The devices are operated via an integrated touch panel. Each disinfection cycle operates fully automatically. Moreover, cycle data are stored electronically and can be easily read using a USB or an Ethernet connection.

These facilities were acquired in 2005 with credits guaranteed by the Ministry of Finance for the Ministry of Health, totalling \$ 8,017,488 (67 plants x \$ 119.664 / installation).

7 public hospitals subordinated to the Ministry of Health that have in their patrimonies Medister 160 systems are the following:

1. Spitalul Universitar de Urgență București (Emergency hospital)
2. Institutul Oncologic “Prof.dr. Al. Trestioreanu” București (Oncologic institute)

3. Institutul Clinic de Urologie și Transplant Renal Cluj (Urology and Kidney transplantation)

4. Institutul Oncologic “Prof. Dr. I. Chiricuță” Cluj (Oncologic institute)

5. Spitalul Clinic Județean de Urgență Timișoara (Emergency hospital)

6. Spitalul Județean de Urgență “Sf. Pantelimon” Focșani (Emergency hospital)

7. Spitalul Clinic Județean de Urgență Târgu Mureș (Emergency hospital)

In March 2016, the Romanian Court of Accounts published the performance audit report on the management of waste from medical activities of the Ministry of Health and subordinated units for the period 2012-2014. The conclusion of the report was that the Ministry of Health has not complied with the national legislation relating the waste management, by neglecting to approve the National Strategy and the National Plan of waste resulting from medical activities. The necessary financial resources for the management of waste arising from medical units were not evaluated according to the real needs to dispose the medical waste and to train the personnel involved in this activity.

In most health units the equipment never functioned, but there was, hopefully, a good example-Clinical Emergency County Hospital Târgu-Mureș. It used treatment plant type MEDISTER 160 and submitted the statements on the quantities of medical waste treated with their own installation and operation and maintenance costs of the plant during 2012-2014.

By analysing the statements submitted by County Hospital Emergency Târgu-Mureș, it was revealed that in the period 2012 – 2014, the quantities of medical waste treated by the plant’s own equipment were 8460 kilograms in 2012, 8880 kg in 2013 and that 8700 kg 2014.

The annual costs arising from the use and maintenance of plant type MEDISTER 160 were in the amount of 30.880 lei in 2012, RON 30 950 respectively in 2013 and 30.975 lei in 2014. So, for one kg of treated waste using the own facility, Clinical Emergency County Hospital Târgu-Mureș spent 3.65 lei / kg in 2012, 3.48 lei / kg respectively in 2013 and 3.56 lei / kg in 2014, as shown in the table 1.

The quantity of waste treated with the own equipment and annual costs generated by using and maintaining the equipment in the Clinical Emergency County Hospital Târgu-Mureș, in the period 2012-2014.

Table 1

Years	Quantity of Waste (kg) treated with Medister 160 equipment	Annual costs for using and maintaining the equipment (lei-Romanian currency)	Cost/kg of waste (lei-Romanian currency/kg)
0	1	2	3=2/1
2012	8,460	30,880	3,65
2013	8,880	30,950	3,48
2014	8,700	30,975	3,56

“Prof. dr. Al. Trestioreanu” hospital in Bucharest did not use MEDISTER 160 installations. If we take into account as cost of reference-the cost / kg waste produced by the Clinical Emergency County Hospital Târgu-Mureș in 2012 (3.65 euro / kg waste treated) and taking into account a quantity of 60,347 kg of waste, “Prof. dr. Al. Trestioreanu” Bucharest has paid a unit price of 5.45 lei / kg of waste to a private company. If we compare it with the refer-

ence cost of 3.65 euro / kg that would have been obtained if it used their own equipment, it results that the savings obtained would have been worth approx. 108.624 lei.

In conclusion, the lack of a National Strategy regarding the medical waste led to the loss of funding from European funds of EUR 17,331,994 (approx. 77,683,730 lei). If all health units would have treated the quantities of waste, with the facilities provided by the state, they would have achieved during 2012-2014 estimated savings of 1,853,946 lei (approx. 413.633 euro).

In the spring of 2016, the press revealed that in the Romanian health system was widely used diluted disinfectants, purchased from Hexi Pharma Company. Investigative journalists have ordered a laboratory test of a disinfectant product Hexi Pharma. The test, conducted in the laboratory ICECHIM the Ministry of Education, revealed a lower concentration than the one specified. The diluted disinfectants crisis in Romania in 2016 arose as a result of researching nonconformities in relation to legal rules, parameters of disinfectant products purchased and used in medical institutions in Romania.

These cases raise the issue of professionalism and integrity of public hospitals managers in Romania and also the effectiveness of internal controls, internal audit. These losses of public funds were signalled by internal controllers or internal auditors? These alerts have been taken into account? Were there whistleblowers who report possible violations of the law from managers? It is clear that public procurement audit was either impaired or totally nonexistent; otherwise, the internal auditors would have pointed out deficiencies of the internal control systems in their reports. They could also alert the Central Unit for Internal Audit within the Ministry of Finance. Unfortunately, in Romania, the performance audit is rarely exercised, mainly from lack of knowledge, lack of performance indicators and especially due to the lack of involvement of managers in this process, sometimes for reasons related to corruption. The above mentioned cases raise question about the degree of independency, objectivity, professionalism of internal auditors operating not only in public hospitals, but in many other public institutions.

Conclusions

Accountancy and auditing profession have to face ethical challenges in latest years. Disclosures made in the press related to corruption scandals, tax evasion, even collaboration between auditors and criminals (Enron – Arthur Andersen case) have attracted the attention in the last decade on ethical issues often neglected to the detriment of professional competence. Internationally, there is a need of revising the rules of ethics, but especially of changing tax legislation and strengthening the fight against fraud based on judicial cooperation between countries. Without a change in approach conjugated governments around the world, national budgets will suffer losses, because citizens will suffer from poorer quality of the public services and professional auditors will lose their prestige. In Romania, a young democracy, professional audit and accountancy bodies have to increase their transparency by disclosing cases of infringement of the ethical codes and contributing, accordingly, to the awareness of the public regarding such incidents. Recent disclosures of the National Anticorruption Department are a good practice in this regard. Focusing on performance audit on public spending is essential for strengthening the state authority and restore citizens' trust in public institutions.

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Matrix-based model for promoting the ethics principles in Romanian banking industry

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Abstract: Practically, this paper-work has as main objective creating a bivalent calculation model (Matrix), able to offer support to any bank that would like to enter the Romanian market. This new coming player on the local market will have the opportunity to use this Matrix, meaning that it will introduce the indicators that are characteristic for its own activity in the last 5-10 years and will get an overall image and a perspective of how it will succeed in adapting itself to the Romanian business and banking environment, observing the ethics rules. We consider the Matrix to be “bivalent” because it relies both on the statistical (historical) comparison and also on analysis and forecast. On the other hand, the calculation system used within the Matrix is bi-dimensional, combining the results of the analysis upon the new coming bank characteristics (prudential ratios, quantitative and qualitative indicators) and the ones of the economic, business and banking environment in the host market. If the newcomers decided to use our proposed methodology in making the decision about if and how to enter the local banking market in Romania, they should analyze a series of at least 18 indicators and their evolution trends in time. This becomes possible by using a working instrument called Matrix and using the calculation outcomes for avoiding the failure on a new banking market. But not only this, as the newcomers must understand the local perspectives of this market, and by the way they will act here, they will have to promote and to respect the principles and the ethics rules. By doing their job in a safe manner judging from the prudential indicators’ point of view, the bank will not jeopardize the economic interest of its clients, of the economy in the host country and thus we can state that this way, the new coming bank will perform with professional ethics.

Keywords: ethics, risk management, qualitative and quantitative ratios, banking analysis, financial stability

Introduction

There are many models for analyzing the financial risks, models that can be used by the universal banks, as institutions that attract the saved resources for investments, as it was demonstrated (Benink, 1995).

The novelty element that this paper really brings is the pragmatic and efficient combination of 13 quantitative indicators and other 5 qualitative indicators (that may promote the pro-

fessional ethics principles of the banker) that, by their results, indicate the how big the adhesion to the ethics principles is, when we speak about the activity that one bank will develop on a market, as a newcomer. The set of quantitative indicators offers a clear image upon the bank's capacity to make profit, to be efficient, to develop its assets and its capital, in one word, to face the prudential requirements that the banking authorities impose the moment when one bank requires entering on a new banking market.

It is absolutely fine and without any doubt that, these financial quantitative indicators must look good, both from their value point of view, as registered at the moment of presenting the request to entry the Romanian market and also from their dynamics perspective, starting from the bank establishing until the present moment.

But in a nowadays economy that is subject to globalization and that is not avoided the both the good and the bad effects that the foreign banks and other foreign corporations bring while entering the Romanian market, a major role must be played by the compliance with the ethics principles.

Respecting the best practice and ethic promotion rules for the banking business, will be subject to monitoring by means of the indicators that are proposed in the Matrix, within the chapter Qualitative indicators. Namely, these are the quality of the shareholders and of the executive managers and the strategy, all having to promote ethic principles in what the future activity development concerns.

It is extremely important to be able to evaluate, by the proposed instruments in this paper, the transparency level of the accounting papers. The accounting reports must be reliable, without any doubts, without hidden annexes and not to allow acknowledging possible misleading towards the authorities, in future.

The banking market conditions where the bank comes from and the way it activated there are also crucial. All these indicators that we frame as qualitative indicators must be evaluated in the light of the ethics code and of the banking best practices as admitted by the law and also by the banking and business environment to be deontological, legal and ethic.

How we will achieve this goal by using the important help of the Matrix analysis instrument, we will better understand by guiding ourselves with Certo's words (2002) that stated that "...the ethics is our preoccupation for a better behaviour, our obligation to have in view not only our own welfare but also the others". Or, in our opinion, this is exactly what the banks must do. The response to the question how can the banks namely take care about the general welfare, of the ones around is the CRS (Corporate Social Responsibility). CRS represents the totality of actions, principles and practices by which a company, in our situation the bank, involves itself for a community and for the society, with the purpose of granting a positive impact of its activity and of contributing to the development of that society. At a first sight, this may seem as a sophisticated term, that is frequently used in the business strategy language, but our paper tries to demonstrate that the CSR is more than an instrument within the business world. It is the closest concept to an ethic code or even to an ideology, within a field in which it is supposed that the profit the shareholders are targeting is, in fact, the final objective. Moreover, as Zbucnea stated (2013), "Many researchers consider corporate social responsibility (CSR) a key element in developing sustainable businesses today."

The corporate behaviour based on responsibility is an ethical one. This because the ethics is facing what is good and what is bad. It is a code of unwritten rules that governs us in the attitudes we have towards the others, as Cordoneanu (2007, p. 35) stated. The meaning of the words "right", "correct" and "just" find its determination in what we name ethics. To

be ethical means to live and to behave in a certain way, namely to act fair, correct and just. It is impossible not to acknowledge that the notion of ethics has the same meaning with the notion of moral, having the same roots in Latin and also in the old Greek, referring to the habits, customs and the manners of one society or to its knowledge. This is why, the concept of applied ethics is often used, and by this we understand, as explained by Popa & Filip (1999, p. 250) “the moral analysis of some concrete situations in the social or professional practice, in the perspective of some decision making acts”.

But to be ethic in the banking field does not make to assume obligations; the ethics is rational but not an external imposition. To be ethic means to respect certain values that represent nothing else but the people’s benefit and welfare and certain moral principles. Yet, not in all cases the ethical principles help in reaching the profit targets that the shareholders fix for the banks’ management.

For a better understanding, by analysing the Table no. 1 underneath, we synthesized, by using the generally statements made by Corduneanu (2002, pp. 45-46) on business issues, the levels at which the ethics is expected to be applied, the non-values of the ethics, the interdictions that correspond to the deviation from the values of the ethics and in opposition with the non-values, what real values must be promoted.

Table 1: Non-values vs. real values that are worth to be promoted inside the banks

Levels	The Non-Values of the Ethics and Interdictions	The Real Values That Are Worth to Be Promoted
1. Ethics in business, in general	<ul style="list-style-type: none"> • not to cheat, steal, not to break the promises, not to seek vengeance; 	<ul style="list-style-type: none"> • honesty, loyalty, truth, tolerance, rigor, respect for the others and for the other’s work;
2. Professional ethics of the managers and employees, also for the banks’ case	<ul style="list-style-type: none"> • not to break: <ul style="list-style-type: none"> – the rules in right; – te confidentiality of information; – the others’ freedom; 	<ul style="list-style-type: none"> • clients’ satisfaction; • respecting the colleagues, the rules and the secrets; • normal hierarchic relations; • cooperation, transparency, team spirit;
3. Banking ethics strategy	<ul style="list-style-type: none"> • to avoid any strategy based on: <ul style="list-style-type: none"> – abusive marketing; – small and short-term advantages; – short-term benefits; – coalitions and corruptions; – privileges offered to some persons; 	<ul style="list-style-type: none"> • strategies of competitiveness on a long term, based on: <ul style="list-style-type: none"> – efforts for progress; – calculated risks; – investments, research and development, personel formation and improvement, innovation, communication;
4. The ethics of the market, in general and of the banking field, as a special case	<ul style="list-style-type: none"> • to eliminate: <ul style="list-style-type: none"> – violence, intimidation; – fraud, corruption; – privileges, monopolies; – anti-social practices. 	<ul style="list-style-type: none"> • transparency, justice; • liberalization; • supprot granted to the persons that are affected by the recession or crisis.

Romanian banking ethics awareness. A comparison between the ethic codes in Romania and in other countries

By the particularities it presents, the banking activity involves the existence of some well implemented and delimited regulations, to grant its developing in optimal conditions. The aspects related to the ethics in the bankig activity occupy an important place both in the competent supervisory and regulation authorities' preoccupations and also in the banks' concerns.

The banks have ethical obligations both towards their clients and towards the entire society. There is an undisputable interdependence between the ethics department and the professional quality of the staff of one bank. As the banking system developed, the involved decision factors are more and more aware – forced also by the increasing competition, by the more demanding and more informed clients, but also by the changes in the financial-banking system at an international level – of the necessity of building a bank-client relation based on already established principles end ethics rules.

The ethics is approached under two aspects, one – of the fiancial – banking legislation, at a national and international banking level, and also – of the own rules of banking behaviour and practice. The unification of the banking codes and of the banking practice at a national level and, particularly, at an international level are trends that manifest in the respect of banking ethics.

At a national level, we can mention the ellaboration of some codes of banking practice and behaviour that are issued by the banking associations in cooperation with the banks in the system. These, considering the legislation in force and also the own banks' conditions, come to strengthen the preoccupations of harmonizing the ethics principles al the level of the banking activity, as stated by Capraru (2009, pp. 91-92).

As an example, we can speak about the “Banking Ethics Code” of Romania that was adopted on 21st of May, 2009 by the General Meeting of the Romanian Banking Association (ARB) and entered into force 90 days later. The members of the Romanian Banking Association (ARB) decided to adopt the Banking Ethics Code based on a wider set of reasons, out of which we are selecting the most important ones as listed in the Table no. 2, below:

Table 2: Reasons for implementing the Ethics Code in the Romanian banks

Reasons that hastened the implementation of the Ethics Code in the banks	Objectives
– the particular importance of the activities developed by the banks and lending institutions;	– to promote an adequate behaviour for the employees in the lending institutions towards the clients, authorities, banking environment, the business community, colleagues, etc.;
– the banks and the lending institutions must organize their activities in accordance with the rules of a prudential and healthy banking practice, for this having procedures and mechanisms to provide the identification and monitoring the risks they are, or could be exposed to;	– to strengthen the clients' trust in the financial-banking system, as a whole;
– the banks and the lending institution play an important intermediation role between the clients requesting funds and the clients placing funds, fact that leads to strictly respecting the banking ethics principles;	– to promote the public image according to which the lending institutions and the banking staff offer high quality products and services to their clients;
– admitting the importance of respecting the social values of the human rights, of integrity, objectivity, social and corporate responsibility, trust, transparency, liberalization, protection of the confidential information, respecting the legal regulations in the field;	– to promote the public image according to which the lending institutions and the banking staff offer high quality products and services to their clients;
– aiming to create an instrument to support the balance among the clients' interests, the lending institutions' interestes and also their shareholders';	– to support a fair competition on the financial – banking market, according to the market conditions;

The Banking Ethics Code is applied to all the banks and lending institutions, that are members to the Romanian Banking Association (ARB). The stipulations of the Banking Ethics Code, transposed into internal rules for the ARB member institutions, are mandatory for all the persons that develop their activities within lending institutions. The stipulations of the Banking Ethics Code, mainly refer to the relation between the banks, lending institutions and their clients, the relation between the banks and authorities, the relation among the lending institution, the relation between the banks and employees, and finally to the relation among the employees in the banks.

The fundamental principles that must be respected by all the employees of the Romanian lending institutions in their professional relations with the clients or authorities, and also with the employees in the other lending institutions or inside, are the following:

– *the moral integrity*, principle according to which the employees are forbidden to request or to accept, directly or indirectly, for them or for others, any advantage, benefit for their position or to abuse of such position in any way;

– *fairness and non-discrimination*, principle according to which the employees in the banks and lending institutions are obliged to have an objective attitude, neutral towards any political, economic, religious interest or of any other nature, in performing the tasks related to their jobs;

– *confidentiality*, principle that states the obligation for the employees of the banks and lending institutions, not to transmit confidential information about the facts, data and information that refer to the developed activity, and also to any facts, data or information con-

cerning the person, the property, the activity, the business, the personal or business relations belonging to the clients, towards unauthorized persons to receive such information.

- *preventing and fighting the corruption facts*, money laundry and financing terrorist acts, by reporting any transactions that may be linked to these and avoiding the completion of such transactions, according to the legal stipulations in force;

- *the social responsibility*, principle that aims the involvement in solving the various social problems and also supporting the promotion and the accomplishment of some humanitarian initiatives;

- *avoiding the denigration*, principle according to which all the employees in the lending institutions will develop their activity with good will, according to honest practices, with respecting the interests of the involved parties and the requests of the loyal competition, in concrete and real market conditions;

At an international level we can take the Banking Practice Code of the Great Britain as an example, code that was introduced starting with 1992 and improved in 2008. The code was established at the initiative of three banking associations that represented the interests of the British banking system and aimed to fix some minimal standards referring to the banking system, to the banking practices and to the relation client-bank. As acknowledged by Capraru (2009, p. 91), the Banking Ethics Code in U.K. states that the banking institutions:

- will act correctly and reasonably in their relations with the clients;

- will help their clients understand how their accounts operate and also the banking services they can access;

Aligning the internal norms and procedures in accordance with the new requests and completing some extended programs for personnel training in order to provide a correct implementation of the measures, were the first actions that were taken following the Banking Ethic Code endorsement.

Introducing the Banking Ethic Code in Greece, in 1997, may represent another example. The Code was elaborated by experts working in the Greek banks in cooperation with The Greek Banks Associations. The progressive liberalization of the Greek financial system from a strictly reglemented system, led to the necessity to adopt certain behaviour rules, able to regulate the relations among the banking institutions, between these and their clients, and also the relations with other participants to the economic life. The scope of the Code was: increasing the transparency and the openness degree within the banking system, consolidating the mutual trust between the banking institutions and their clients, encouraging the healthy competition among the banking institutions, based on the indisputable legislation of the market and on the continuous growth of the quality of the banking products and services, to the clients' interest. This Banking Ethics Code aimed to harmonize the best practice principles and of banking behaviour, as depicted from the European Union regulation, from the own internal regulations belonging to the regulation authorities and also to the legal principles in force, both at an internal level and also at an international one.

Every bank has, in its turn, a Banking Ethics and Practice Code that guides their own activities. The content of the banking ethics code carries on with approaching the banking ethics principles at the level of the relations the bank has with the other banks, with their clients, with the own personnel or with third parties (authorities, public institutions, suppliers, etc) or at the level of operation types that a bank may perform (traditional operations: depositing, lending, funds transfer, value boxes, letter of warranty etc.), as shown by Stoica, Căpraru and Filipescu (2005, p. 176).

The behaviour rules that may occur in relation with other banking institutions, mainly concern the exchange of information, the human resources policies, the loyal competition and ethics publicity.

In their relations with the clients, the banks must watch to the confidentiality of data concerning the clients, the quality of the products and services, the clients' complaints, the safety of the operations and the protection against frauds.

In relations with the employees, the banks must offer equal chances for recruiting and promotion for the employees, promote a proper and pleasant working environment, motivate the work and performance, avoid personal earnings of the employees that may occur due to the positions they occupy (receiving presents from the clients, facilitating some services for the clients based on affinities, using some information for personal interest, etc.).

Relating to the authorities, the banks must manifest and offer the correct and complete information, within the limits that are stipulated by the legislation and regulations in force and to avoid the politics pressures, when these exist.

How to promote the principles of banking ethics by using the information within the Matrix

We know that the traditional banking analysis is based on a range of quantitative supervisory tools regarding the liquidity, the solvency, the loan portfolio quality, the large exposures and the open foreign exchange positions (van Greuning & Bratanovic, 2009). In order to respond to the public interest, worried about the viability of one or another bank in a certain market, this paper tries to develop a Matrix, a complex system of technical methods for making a financial diagnosis of the lending and savings institutions, also to ensure compliance with the ethics regulations in force for the general activity of the banking system.

The Matrix calculation relies on the multiple criteria analysis model as elaborated by Altman (1968), this being in fact a correlation function in which the value of the variable is determined in relation with the value of 18 independent variables (quantitative and qualitative ratios) and with the correlation with 5 measurement coefficients that are assigned to each criterion.

The Matrix that we are furtheron introducing is an analysis instrument that, once in the hands of specialists within the prudential supervisory field, may be extremely valuable.

We called it Matrix because it is capable to evaluate the reliability for a new banking investor on the Romanian market on one hand, but also, on the other hand, to provide a good image about its capacity to be compliance with the ethics code and with the best practices within the social responsibility field.

Therefore, taking into account the settled prerequisites, this paper proposes – within the Tables no. 3 and 4 a management framework model for analyzing the complex banking risk when a bank invests in Romanian market.

The Matrix gives us a realistic solution and could indicate that, the substandard indicators can forecast future loss and distortions in terms of long-term competitiveness of the banking market. Or, if a bank is accepted by the prudential supervisory authority to activate on the Romanian market, the future performance of this bank will decisively influence the economic relations and will also affect all the stakeholders (positively or negatively).

Table 3: MATRIX

MATRIX	Specif. Weight	CR 1	CR 2	CR 3	CR 4	CR 5
Quantity indicators with a normal increasing trend (the formulae explanations in the Annex)		Increasing trend within the last 5-10 years	Increasing trend within the last 2-4 years	Increasing trend compared with the previous financial year	Constant values and even a slight decrease towards the previous year	Significant decrease of the indicators value towards an average historic period along the last 10 years
ROA	0.08	X				
ROE	0.09		x			
Rr	0.09					x
L	0.03				x	
Lr	0.06			x		
E	0.06		x			
C	0.1		x			x
Ca	0.07			x		
Rpc	0.01			x		
Quantity indicators with a normal decreasing trend (the formulae explanations in the Annex)	Specif. Weight	Significant decrease of the indicators value towards the average historical period within the last 10 years	Significant decrease of the indicators value towards the average historical period within the last 2-5 years	Maintaining the same values or even a slight decrease towards the previous year	Increasing trend compared with the previous financial year	Significant increase of the indicators value towards the average historic period within the last 2-10 years
Cr	0.05		x			
Cra	0.05		x			
Crc	0.05		x			
Pcv	0.01	x				
Qualitative indicators (ethics)	Specif. Weight	The appreciation degree is of over 80%	The appreciation degree is between 60–79.9%	The appreciation degree is between 40–59.9%	The appreciation degree is between 20–39.9%	The appreciation degree is under 20%
The quality of the shareholders	0.02	x				
The management	0.07	x				
The shareholder's strategy	0.02		x			
The ethics and trustiness of the accounting reports	0.09	x				
The conditions of the market where the bank develops its activity	0.05			x		

The calculation formula proposed by Matrix is: $= \sum (SW \times Cr1 \dots 5)$, $i=1$

Whereas:

RE = rating equation, where the most valuable rating is 1 and the worst is 5

SW = the specific weight assigned to every criterion [Quantity (counting 13)/quality (counting 5)]

Cr1,...,Cr5 = the value of the obtained rating criterion.

After applying the calculation formula based on the Matrix model, the result of the rating equation (RE) that was obtained is compared with the values in the Table no. 4 and indicates, with a probability of 95% – calculated by VaR method – that, a lending institution that will invest on the Romanian banking market has reasonable chances to succeed in falling in the A or B performance criteria. Speaking of C and D performance criteria, here the risk is substantial, while in the E category, the risk is unavoidable.

Table 4: Results Evaluation

The rating equation evaluated by applying MATRIX	The overall performance of the bank, on a yet unapproached market
1,00-1,75	A
1,76-2,50	B
2,51-3,40	C
3,41-4,20	D
4,21-5,00	E

Rating example as calculated by MATRIX, based on the values marked with X in the Table no. 3:

$$0.08*1+0.09*2+0.09*5+0.03*4+0.06*3+0.06*2+0.1*2+0.07*3+0.01*3+0.05*2+0.05*2+0.05*2+0.01*1+0.02*1+0.07*1+0.02*2+0.09*1+0.05*3=0.08+0.18+0.45+0.12+0.18+0.12+0.2+0.21+0.03+0.10+0.10=1.77$$

As we can observe, the A and B categories are for investments, meaning that a bank may invest in opening a new branch in a market where it has never functioned before, without facing a significant risk to fail or to be without etics standards. All the other rating categories are not recommended, thus being possible or even probable that, this newcomer will induce economic and even ethical hazardous elements within the economic system of the host country.

Conclusions

This paper outlook may be used for highlighting and eventually solve a macroeconomic paradigm, for recognizing a good and appropriate environment for administrating the banking investments, for overcoming the difficulties and for improving the corporate social responsibility in the banking governance. And more than everything it's about trust. There exist researchers' findings that indicate a low level of youths'trust in Romanian banks (Andrei, Zait, & Vatamanescu, 2015, p. 25). The reason of lack of trust it derives mostly from consumer doubt regarding banks' intentions to develop win-win relationships with their clients.

Using the proposed Matrix, the banking supervision authorities could solve at least the lack of trust issue. Another plus of the current paper is the construction of a new calculation model that coherently combines the quantitative criteria, evaluated on a scale from 1 to 5, whereas 1 is the best rate and 5 the poorest, with other criterias that, traditionally were not quantified.

We would like to herewith refer to the criteria that we called “qualitative”, as they monitor the evaluation of the shareholders’ and managers’ moral and ethic commitments, while coming to invest in Romania for activating here and obtaining profits. It is true that the profit is considered by the investors as their main objective, but still, the profit may not be obtained in any way but also following the ethical ways. The host country must permanently watch for maintaining a healthy climate for business, that to be equally competitive but based on healthy ethical principles. The strategy of one country to keep its business environment clean and ethic will be also appreciated by future local or foreign investors and only this way, these investors will be attracted to invest their money in such an economy – competitive, clean and ethic.

Acknowledgment: As previously stated, creating this Matrix was one of the targeted objective of an on-going wider research, initially presented by Treapăt & Ivan (2015) at Strategica International Conference, the 3-rd. edition, in Bucharest. This objective is now completed with a new research conducted towards a new direction, namely how much we are able to evaluate the future involvement of the banking investors in the CSR policies and how much the banking investors are willing to respect the deontological and ethical codes of their profession.

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Annex – The minimum set of Quantity Indicators used by Matrix

1. $ROA = \text{Profit After Taxes} / \text{Total Assets}$ (The Return On Assets)
2. $ROE = \text{Profit After Taxes} / \text{Own Capital}$ (The Return On Equity)
3. $Rr = \text{Total Operating Income} / \text{Total Operating Expenses}$ (The Profitability of the Main activity)
4. $L = \text{Total Loans Portfolio} / \text{Deposits from Clients}$ (The Liquidity)
5. $Lr = \text{Net Assets} / \text{Total Debts}$ (The Quick Liquidity)
6. $E = \text{Own Capital} / \text{Total Assets}$ (The Leverage Effect)
7. $C = \text{Own Capital} / \text{Social Capital}$ (The Capital Adequacy)
8. $Ca = \text{Total Loans Portfolio} / \text{Total Assets}$ (The Quality of Assets)
9. $Cr = \text{Impaired Loans} / \text{Total Loans Portfolio}$ (The Impaired Loans Ratio in The Total Loans)
10. $Cra = \text{Impaired Loans} / \text{Total Assets}$ (The Impaired Loans Ratio in Total Assets)
11. $Crc = \text{Impaired Loans} / \text{Own Capital}$ (The Impaired Loans Ratio in Total Capital)
12. $Pcv = \text{Personnel Expenses} / \text{Operating Income}$ (The Personnel Expenses Ratio in the Operating Income)
13. $Rpc = \text{Profit After Taxes} / \text{Personnel Expenses}$ (The Profitability of the Personnel Expenses)

Networks and open innovation

Living Labs (LILA): A community driven approach to technology transfer and internationalising entrepreneurship

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Abstract: The collaboration between cross-border networks for technology diffusion has embraced innovation, which includes systematic, dynamic and strategic processes of the product development. Although a similar concept was embraced by various private and public organisations (e.g. google glasses) to produce real value and sustainable products from their investments; they have struggled to do that. A response to this is the concept of Living Labs (LILA) as an open real staged environment for experiments and developing innovative products in collaboration with community users. The participation of university campuses as living labs in these projects gives high importance in relation to innovation capabilities and long-term investment plans. This research explores an understanding of living labs as an arena for innovation based on collaborative networks and user-centric project development methods. Project initiations in open based environments, supporting cross-border collaborations, accelerates the acceptance and development of innovations internationally since it has the potential to meeting the needs of users from diverse cultural backgrounds. Researchers of BlindX Ltd. at Birmingham City University (BCU) generated an idea of designing and building a cane with facial recognition, GPS navigation and obstacle detecting sensors up to 10 metres distance in the environment. This cane would help blind and visually impaired people in their day-to-day life. This innovative project which will be used as a case-study to review and evaluate our approach. It was accomplished at the BCU campus through the use of a living lab where students, computer scientists, researchers, local community representatives and electronics engineers collaboratively participated. During the compilation phase of this project, we learned that there is a need for thorough understanding of actors, each stakeholder's objectives, opens and collaborative culture establishment, operational processes of technology transfer when adapting the living labs development approach for internationalisation the entrepreneurship.

Keywords: community, technology transfer, internationalising, entrepreneurship

Introduction

The concept of cross-border technology transfer is embryonic and entails a variety of views (Smith *et al.*, 2015). The study carried out by Dechezleprêtre *et al.*, (2008) classified the innovation process as being of three type: bottom-up innovation, user-led innovation and living

labs. The industry has put considerable effort into reducing the gap of technology transfer and refining the services and products by taking account of user's perspective. The central theme of various research forums is focused on integrating the real needs of a community with the research and development which would help directly with solving the issues and social demands through real world experiments (Jerzmanowski, 2008). The modernisation of product systems, enhancements to public services, urban renewables and healthcare transformations are amongst current societal challenges. Technological innovations adoption can address these challenges through open and systematic innovation in a broader context (Bruton, 2008; Draca, 2013; Stua, 2013). Systematic innovation ranges from, interrelated technologies, through organisational adoptions of legal and financial aspects to community involvement from human practices and behaviours. It is often very difficult to accomplish innovation and change in complex systems due to competing interests and priorities of the actors involved. The identification of interventions, causes, dependencies and interactions are quite difficult to discover in hyper-complex innovative systems (Wielemaker & Gedajlovic, 2011). Therefore, understanding and addressing the requirements of community users, systematic nature of cross-border interventions in complex systems development leading to change and innovation is particularly important.

Systematic innovation through cross-border collaborative innovative networks is being developed to deliver the "XploR" smart cane project. Different roles and responsibilities were assigned to all living labs participating in this project because a phased approach is required to develop such networks addressing both operational and strategic issues are shared and resolved with a common vision. The smart cane is designed for the blind and visually impaired, so when developing the cross-border collaborative platform to develop this project, the ecosystem was built with great care and to ensure none of the requirements or details are missing. The collaborative agreement was defined among three living labs which include contractual agreements, business proposition, intellectual property rights and business model. As this project was funded by Interreg IVB North West Europe (NWE), the initial phase of technology transfer was piloted amongst partner located in England, France and Luxemburg, so there were no restrictions if any partner living labs chose to drop-out at any stage of the co-innovation. In general, it is always better to take precautionary measures to avoid participants exiting from any phase of the project.

To avoid any delays in the project completion, all roles and responsibilities were allocated to all participant living labs. It was also discussed and encouraged to one contact point for each living lab, to reduce the existence of conflicts at a later stage. Each living lab is held responsible for possessing required skills, competencies and expertise to develop this project. Before this networked project was initiated, all stakeholders supported the business case to avoid potential difficulties in the future. The goal, objective, outcome and time frame were discussed and expectations were clearly defined. In the case of the development life cycle of "XploR" project, opportunities were disseminated to all stakeholders to support advance the product and target clear business opportunities after the project ends. Adequate project management and planning was ensured through a cross-border collaborative online platform as complex infrastructure. The communication tools and collaborative workspaces were intended to facilitate the commitment, interaction and intra-communication. Through the development of the "XploR" project it was established that the same technology could not be diffused to France and Luxemburg, requiring different options for them; additionally, legal, cultural, social,

and organizational issues may hinder the adoption of a technology solution in a different context than originally envisaged.

Systemic innovation for internationalising entrepreneurship

The spectrum of innovation activities is consistently growing; motivating the innovative cycles for reshaping products and services, leading management through internationalising entrepreneurship (Webster, 2004). The ongoing competition and globalisation forces have backed a systematic approach to innovations, connecting trends of global markets and networked-based philosophy for economic and societal developments (Moon, 2008). These developments and networks lead to innovative ecosystems with a range of collaborations, exchange of ideas, skills and interactions. Actors sharing their competencies, resources and facilities practice innovation and further their presence in the ecosystem (Finley, 2007). Innovative ecosystems are governed by open business models, which amplify the complex nature of technology transfer and internationalisation process. There is a need for catalysers of systematic change to show off the systematic nature of innovations reflected through the instruments of smart innovations (Foray, 2009). Within this context, the concept of living labs offers user-centric, open and real environments to accomplish the innovation. Collaborative innovation is offered in living labs for experimentations, research, development and product innovations using specific tools (modelling) and methodologies (SDLC and Prototyping) through collaborative platforms (Dechezleprêtre *et al.*, 2008). These projects based in real life user-centric environments help community building through innovative ideas and product developments and their disseminations (Abdel, 2011).

The prime focus of living labs is to operate within the market, maturing developed services and technologies for the betterment of the community; consequently raising the acceptance of integration of community-driven development approaches (Abdel, 2011). Various initiatives have been taken through the concept of living labs during the last half decade and the real life methodologies are demonstrated, experimented and developed in a series of European Commission Framework Programmes. The European Network of Living Labs (ENoLL) has further institutionalised the concept and by 2015 noted 388 labs operating in the whole world for community development projects (Wendin *et al.*, 2015). Although the concept of living labs has gradually been maturing and has generated valuable products through conceptual and methodical streams of ideas; it still requires more empirical tests on its effectiveness, impact and methodologies to understand the cross-border requirements (Van *et al.*, 2007). The role of innovation network catalyser is required to be fulfilled by the methods, practices and processes by demonstrating a specialised and professional outlook. The articulation of proposed product valuation requires strong integration with the innovation ecosystems in living labs (Buckley & Casson, 2009; Tawney *et al.*, 2013). The living lab project “XploR” demonstrates the requirement of strong collaboration of innovation networks through systematic innovation paradigm. The development of project “XploR” has also shed light on how systematic innovation could effectively accelerate the internationalising of entrepreneurship.

Cross-disciplinary systematic innovations cannot be produced by autonomous activities of a single organisation due to the various demands of users’ needs and its use in diverse cultures (Arora, 2002). The collaborative platform for cross-culture product development requires a systematic overview of users’ needs, demands, experimentation with their help and keep-

ing them involved in the development life cycle (Cockurn, 2007; Ståhlbröst *et al.*, 2015). The open collaboration networks are driven by the innovation processes enabling stakeholders to share risks, resources by strategic pooling and leveraging the competitive positions of the product in the market. Industry partners contribute to the process of internationalising entrepreneurship through the involvement of enterprises and entrepreneurs (Foray, 2009). Previously project development through living labs has tended to neglect to manage, designing and steering processes for cross-culture needs and shown less focus on understanding cross-cultural project needs of internationalising entrepreneurship (Haite *et al.*, 2006). Modern living labs have defined detailed processes for collaborating in the networks for co-innovation in the form of intellectual property management, agreement definition, negotiation on product features and partner selection (Xie & Zhang, 2015). There is growing evidence of a need for a framework for living labs to identify the tools, methods and processes when orchestrating the role of living labs in cross-culture product developments.

Innovation networks and systemic change

Project initiation and catalysing change should be considered as a backbone when systematic innovation is considered within open innovation networks. Living lab methodologies are supported by transition management, which helps resolve complex issues through catalysing change and focusing on sustainable solutions for societal problems (Comin, 2008; Xie & Zhang, 2015). The concept of transition management is based on the pillars of transition arena, regime and niche notions. The idea of “niche” is very similar to the concept of disruptive innovation where new innovations incubate and learning takes place (Manuelli & Ananth, 2003). The emergence of dominant policies, rules and business structures through the continuous growth “of niche” could be classified as a regime. The third factor of transition management is the “transition arena” which constitutes the identification of large-scale system change strategies and conditions. As a comparative analysis of living labs and transition management, the methodologies and processes involved in living labs are more user-centric with settings of the most open-innovative mode of play (Athreye & Cantwell, 2007). Consequently, a valuable framework is provided that is suitable for action research paradigms through living labs.

Transition management helps create a dialogue between end-users, developers and stakeholders to shape the practical implementation of the project (Correa, 2007). Within this context, partnerships and innovation communities are created in the living labs development life cycle enabling practice and strategic dialogues between the involved stakeholders which are called “transition arenas” (Wielemaker & Gedajlovic, 2011; Lewis, 2013; Ståhlbröst *et al.*, 2015). The dialogues effectively catalyse the systematic innovation and form the basis of institutional change. Different conceptual frameworks and numerous theoretical approaches regarding service innovation have been studied and not only been failed to adapt the product change adequately in the ecosystem but also in recognising the importance of existing organisational environments (Yiu, 2007). The neutrality and impartialness of the existing living lab environment are focused on this research along with the change and dynamism of the demands and needs of cross-cultural users. There should be appropriate adjustments in arrangements of processes, user-centric product logics, values within the regimes of socio-technical systematic innovations (Watts & Peter, 2007). The interdependencies and characteristics of ecosys-

tems are considered through a living lab approach along with resolving the technology adoption sources of resistance and potential barriers.

Birmingham City University (BCU) Campus: Living Lab as innovation catalyst

The formation of living labs as an innovation catalyst is important requiring an understanding and recognition of the systematic character of innovation, which involves stages of adapting the collaborative network, tools, methods and processes for the product development (Correa, 2007; Lewis, 2013). The organisational inertia is overcome by community building-based transition arenas reflecting living labs acting as open-innovation cycle. The stakeholders have access to user-driven innovations, product trials and competencies through the comprehensive platforms of living labs. The focus of living labs is quite dynamic entailing, user-acceptance, integrating to prevailing systems, investing in services and infrastructure to producing mature technologies; but pilot outcomes are intangible and less predictable.

University campuses are the best way of forming the open real living labs for innovating new technologies. For this purpose, various students, researchers, engineers and lecturers brought an idea to design and prototype a cane “XploR” for the blind and visually impaired. The idea had many potential features (e.g.; facial recognition, GPS navigation and obstacle detection from the 10-meter distance, and 5 different pulses of haptic touch) to be integrated within one cane. Birmingham City University (BCU) used its living lab, where end-users, researchers, developers and lecturers all collaborate to evaluate and progress the development of the project. As part of the Interreg NWE Living Lab Application (LILA) project, the team had various discussions and trials with a diverse range of users and conflicting demands on internationalisation of entrepreneurship when discussed with France and Luxemburg. Birmingham City University living lab partners in Luxembourg mentioned that their users did not find the facial recognition feature particularly useful for them but they emphasised the importance of scanning the obstacle from 10 metres. Whereas when working alongside the France living lab, they emphasised facial recognition features more rather than the Global Positioning Support (GPS) navigation that was the preferred function emphasised by England users. During the life cycle of this project, it was realised that there should have been a discussion on this project with all the partners, stakeholders and end user’s experience, in order to form the basis of internationalising the entrepreneurship. The development of “the project through the living labs supports business model innovation, user-behaviour transformation and crowd-sourcing. The simulating business models are created through living labs environments penetrating in real-life and low-risk markets. The “XploR” cane project also identified the need for defining the roles and relationships between all the stakeholders yielding a more competence development eliminating the cultural barriers as well smoothing the internationalisation of entrepreneurship process. The development of XploR in the BCU campus (Living Lab) is amplified as catalyst and has broadened industrial and societal transformations.

Technology transfer through networks of Living Labs (BCU, France and Luxemburg)

Technology transfer has been the integral challenge of the “XploR” project where different users from different domains have diverse demands; consequently, wide range of issues emerges when internationalising entrepreneurship through market creation. LILA enables and establishes living labs in cross-border collaboration this is very important when the product development is themed for various parts of the world, so to be aware of the options to be made available in the product when launching. The diffusion of new technology within the same country is different than developing a product which satisfies the cross-border user’s requirements. The aspects are not limited to regulatory settings but also entail cultural, contextual factors including service and product innovation. During the phase of cross-border collaboration for “XploR”, we decided to define the storylines so to identify the collaboration needs, planning, setting up and maturing needs of the users.

The network development process of living labs starts with the emergence of the international opportunities for an entrepreneur, business and organisations to contact living labs. The living lab establishes the collaborative relationship with cross-border living labs and foreign partners. The next step is the setup of collaboration agreements which are the arrangements for defining the market development and product innovation. The implementation and management of collaborative networking project take place before the final phase of conclusion. In regards to technology transfer and co-innovation development, the following phases are identified as the core for collaboration e.g.; analysing, connecting, planning, support and testing. Table 1 represents the five dimensions of a framework model for cross-border collaboration issues.

The framework presented by Schaffers and Turkama, (2012) depicted three dimensions of the project internationalising phase such as; connecting, planning and support. This model does lack an analysis phase in which it is required to understand the existing market requirements, look through the demand curve, as well as the viability of the product. Their model also lacked a testing phase, where it could confirm that the designed and built product has matured the users’ needs failing which it needs to come back for re-development (Ståhlbröst, 2015). Similarly, the “XploR” project requires the understanding of the needs of the collaboration of various stakeholders involved and then developing a process to design, build, develop, evaluate and adopt the technology as per the users requirements. The focus of the “XploR” project is to experiment with the new innovative product and diffuse the technology in real life. Since the smart cane idea was generated by Birmingham City University students and this project was initiated, there was a need for close interaction with the real-life users so to validate the technology transfer and rules presented in Table1 were backed to form the co-innovation. The collaboration for market creation and technology transfer has witnessed wide range of issues form and execute the innovative projects.

Table 1: Framework of Cross-Border Collaboration Issues

Analysing	<ul style="list-style-type: none">• Finding the gap in the market.• How it would help the users?• What barriers are there?
Planning	<p>Finalizing the contracts and agreements, planning and building a network and defining responsibilities and roles.</p> <ul style="list-style-type: none">• Business model design• Organisation of cross border living lab planning and development process• Contracting frameworks and partnership structuring• Elaboration of the common plan• Defining roles and responsibilities• Details of processes, procedures and planning• Methods or tools used for collaborating (e.g.; shared workspace, etc.)
Connecting	<p>Identifying collaborative innovation opportunities, market development and potential market and partners selection.</p> <ul style="list-style-type: none">• Potential partners finding and their requirements• Agreement on approaches and common goals• Principles of intellectual-property• Negotiation support and dialogue building• Collaboration procedures• Tools for communication among cross-networks
Support	<p>Conducting collaborative testing, innovation, and market-development activities.</p> <ul style="list-style-type: none">• Structuring living labs operations• Governance models• Support for collaboration in the network• Defining the project management and co-ordination tools• Co-ordination among cross-border living labs during support phase (e.g.; web conferencing etc.)
Testing	<p>The product should be tested through pilot testing to ensure it has transferred the technology through internationalizing the entrepreneurship.</p> <ul style="list-style-type: none">• Facial recognition is required in France product model.• 5-zones obstacle detection is required in Luxembourg product model.

Adapted from: Schaffers and Turkama (2012).

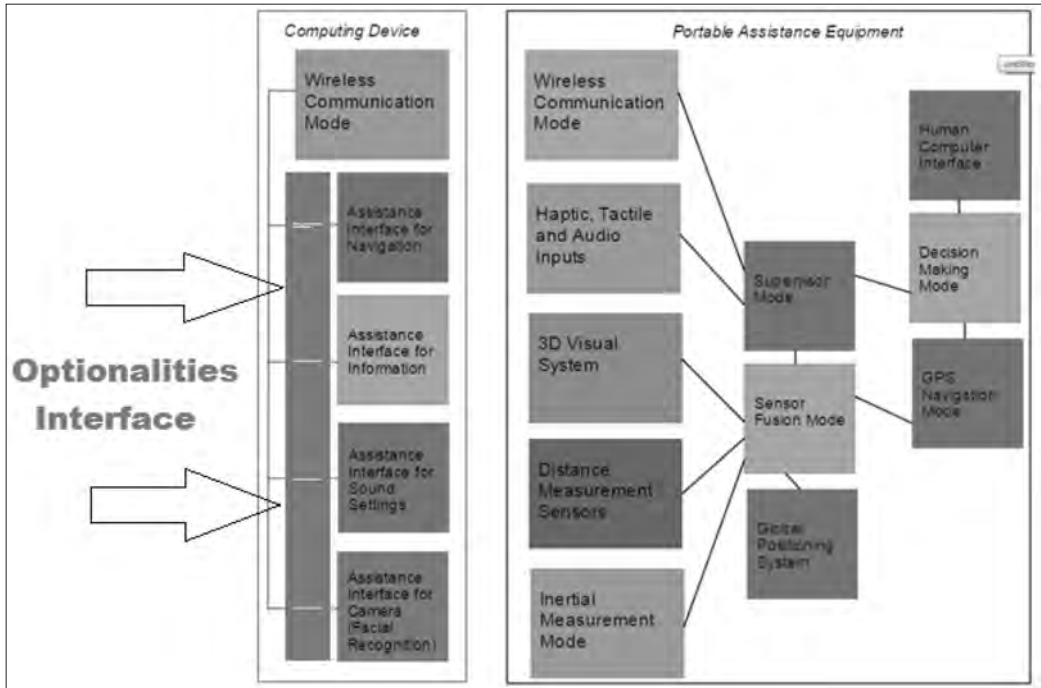
“XploR” Project: a proposed systematic innovation framework

While the “XploR” smart cane has embedded features of GPS navigation system in it for aiding the user’s mobility, it this has raised many questions from a user’s perspectives. The questions range from the adoption of this technology to appropriate route selection, obstacle detection and avoidance of objects. The adoption of this technology raised questions when it was introduced in France and Luxemburg to see the potential of internationalising the product. During the internationalising phase of “XploR” in France, the users were more interested in the facial recognition system but less interested in 10-meter distance recognition with the haptic touch. Whereas in Luxemburg, users were less interested in facial recognition and seem more interested in 10-meter obstacle detection and the haptic touch. The designed technology requires more advancement and has to stay in the development phase since all stakeholders could see the full potential of this product as per their needs and requirements. Although the “XploR” cane assists users in navigating through a GPS navigation system and facial recognition through assistive technology in normal as well as unusual situations, the users involved in the internationalising entrepreneurship evaluation have their particular needs to be met. The traditional tools used for navigation in the past have been enhanced with the embedding of ultrasonic sensors and signal processing capabilities. The proposed framework depicts the

sense of any emergency and uncertain situation to the user as appropriate. The integrated monitoring system within the cane ensures that the user would reach their destination with the re-routing capabilities of module path. The human-computer interface attached to this cane helps blind and visually impaired people in their everyday lives.

A model is presented in Figure 1, used to base the “XploR” project.

Figure 1: The Proposed System Block Diagram



The proposed model in Figure1 elaborates the combined working of various modes together through the communication mode. This device has embedded different modes such as Assistive Interface for Navigation, Assistance Interface for Information, Assistance Interface for Sound Settings and Interface for Facial Recognition. All these modes are specialised in their respective controls and assistances for the users. The interface for facial recognition would recognise the family and friends faces and check those pictures through the stored database in the smart cane. As soon as it matches any records, the assistance interface for sounds would be activated and those details would be informed to the user through the Bluetooth earpieces. The navigation interface would help the user in navigating their journey’s along with the re-routing capabilities if the cane detects any obstacle on its way.

An extra layer of “Optionalities Interface” has been proposed in this model to meet the demands of internationalising entrepreneurship. The demand outcome from France was highly in the favour of using facial recognition in contrast to Luxemburg users. The embedded interface would have the options to facilitate the user to use or nor use the camera. Similarly, if the users in Luxemburg, have demanded 4-meter obstacle detection instead of 10-meter, it could be changed from the interface. This interface of technology is designed with a view to internationalise this product throughout the world eliminating the technology adoption bar-

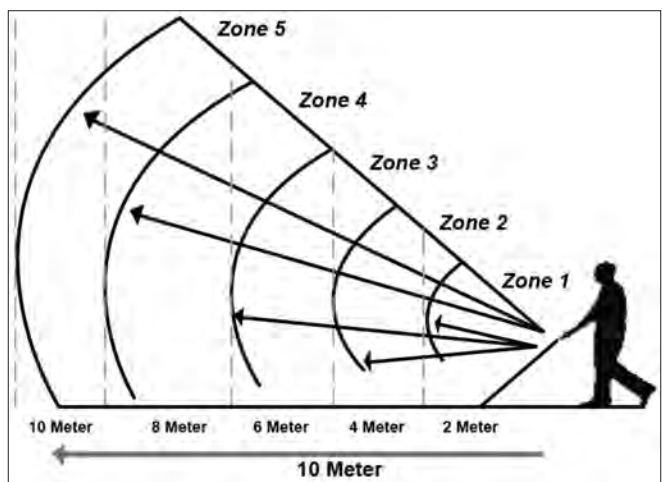
riers. Along with this new interface layer, the movement sensors are used within the GPS navigation system which helps to locate and tracking the trajectory of the user. The smart cane would help in locating the actual position of the user but there may be a little error in the distance measurement due to the low frame rate sampling of the sensors. To produce the better results, the magnetic compasses are used within accelerometers and gyroscopes. This integration would also help to reduce the errors in locating the user’s exact place. The smart cane would not only be beneficial for the outdoor journeys but also be useful for the indoor movements. The complex computational processes are required since this cane is made up of various types of sensors. The sensor fusion module is responsible for the cross collaboration and communication among other sensors and interfaces of the cane. The Kalman Filer has been embedded in the smart cane to resolve noise, distance measurements and assistive technology issues in “XploR”.

Proposed system design

The current research aims to design and build a new smart cane with the features of facial recognition, obstacle detection from 10-meter, haptic touch and GPS navigation. Although there have been many canes available in the world but none of them has the above-mentioned features in them. The sensing capability of the cane of up to 10-meter was divided into 5 zones leveraging different pulses. Each zone would facilitate the obstacle detection through the Mowat sensor motor and Nottingham Obstacle Detector (NOD) to sense the objects and alert the user. The “XploR” smart cane is one of its own kind and a new innovation for the visually impaired and blind people in navigating their day to day lives.

The proposed structure is presented through Figure 3.

Figure 2: Detection Zone and Angular Coverage



This initiative included participation by students, lecturers, electronics engineers and community users at Birmingham City University Campus (BCU). During the discussions held with partners (France, Luxemburg) to internationalise entrepreneurship this co-innovative prod-

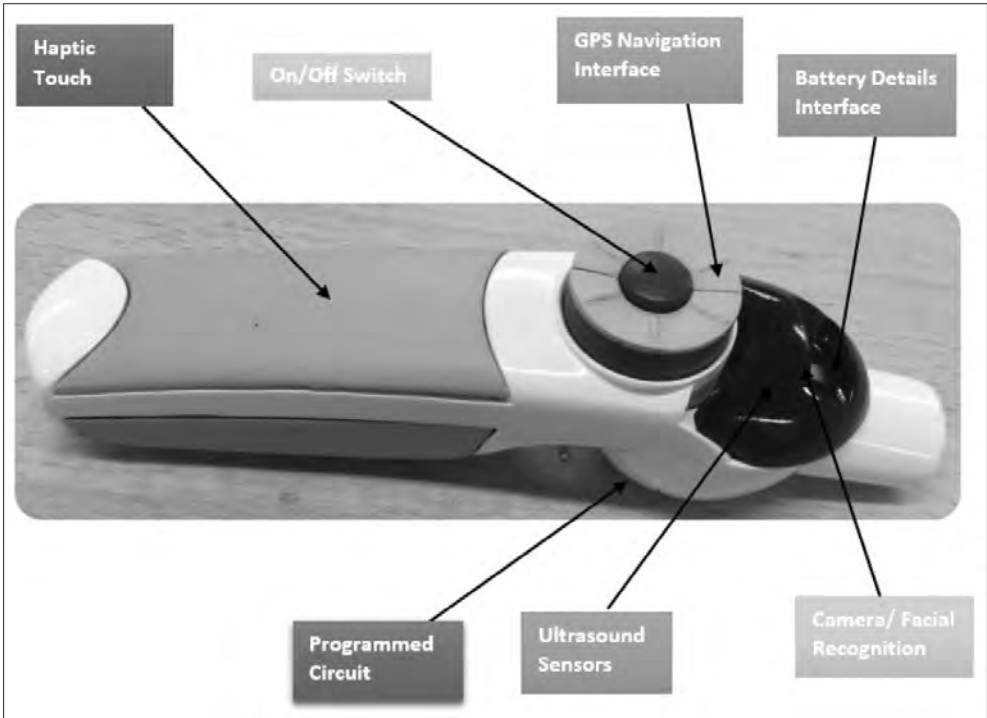
uct, different requirements from them came on the scene. The partners in France mentioned that the survey was conducted in regards to this new technology adoption, it came to attention that facial recognition feature is highly liked by the blind and visually impaired people living there, but they did not like the 5-zone sensing capabilities. And when Luxemburg partners communicated the same pilot test with their users, the outcome suggested the use of facial recognition was highly liked, whereas 5-zones obstacle detection was not highly liked by their users. Since the project is in the experimentation phase of technology transfer, so there has to be the embedding of features, which are important to internationalizing the concept.

Sustainable product: “XploR” Smart Cane

The designing and development of new technologies does not solely reflect sustainable innovation but considers minimising the negative impacts on the economy, social and environment collectively. The economic growth necessitates product innovation as an integral part of the sustainable product. Competitive advantage is achieved through sustainability and successful innovation that has informed the methodology of the “XploR” project. The different levels of innovations are engaged in developing as well as developed countries to enhance strategic growth, so “XploR” has been designed with a wide range of functionalities those could be applied and tailored to improve the system, services, efficiency and social qualities of products. The “XploR” project has encompassed the approaches of radical and incremental innovation targeting development of new a product enhancing the existing canes patterns and features. A complete re-thinking approach has been applied for “XploR” development keeping in view the user’s needs. The “XploR” cane is designed to create a successful solution not only for the developed countries but also for the developing countries with the help of local communities.

The working and features of “XploR” is elaborated through various parts of this paper. This sustainable product is designed having multiple features of facial recognition, haptic touch, sensing capabilities and GPS navigations. A usability interface “Options Interface” has been added to the design to ensure meeting the requirements of international market demands regardless of the facts, they want to use some features or not. The users would have the options to choose from. A detachable handle is used to make the cane length adjustable. This device runs on rechargeable batteries eliminating the inconvenience caused for visually impaired and blind people to open battery pack and change them.

Figure 3: “XploR” Cane (Real Design)



The cane developed in the “XploR” project is designed and developed with a pair of receivers for both the ears. The Ultrasonic sensor will sense the environment, the camera will take the pictures of people within the 10-meters radius and scan through the database for recognition purposes, haptic touch would alter the user through the various set of vibrations and embedded GPS would navigate the users within that environment to determine the obstacles and their ways. The crux of the whole concept to design “XploR” was to help blind in their day-to-day mobility using navigation through instructions using pathfinder system. The cane determines the presence of the object through Nottingham Obstacle Detector (NOD), measuring the distance and inform the user through Bluetooth and haptic touch.

Assistive technologies are developed in various countries but still remain unreachable by the blind and visually impaired due to the cost of high-tech, the lacking of digital navigation support and detection features and the fundamental essence of the physical cane being the fall-back mechanism for the user. The navigation support and facial recognition have always been a challenging problem for blind people along with finding the precise location of the obstacle. The already developed assistive technologies (e.g.; EyeCane, White-Cane...etc) did not have facial recognition features as well as no ability to sense the external environment through the auditory stimuli.

Conclusion

In a real world, the development of new products is always a challenge due to bringing new and useful products in the market. Development of new products is classed as the transformation of a market opportunity keeping in view the needs of customers. It is also important to know the competitive environment success factors of newly developed products. Quality, time, cost and usability are the main variables that drive the needs of the market and ultimately customers. Aimed at these three variables, companies develop continuous practices and strategies to better satisfy the customer requirements and increase their market share by a regular development of new products. Modern organisations achieve this through collaboration. Similarly, the concept of living labs is comprised of collaborative innovative networks to accelerate systematic innovation. In “XploR”, the living labs have acted as catalysers and initiators of systematic innovation due to the diversified nature of users requirements. The concept of this new innovation was thoroughly analysed, discussed, planned and implemented with the co-operation of living labs in France and Luxembourg. The technology was devised with the facial recognition, GPS navigation and 5-zone obstacle detection features. Due to the requirements of users in France, they wanted to have the facial recognition system and on the other side, they disliked the idea of 5-zones obstacle detection. The “XploR” is designed and developed through a systematic innovation embedding a new layer of “Optionality Interface”. It would lead to satisfying the cross-cultural and cross-border conflicts on using this product. The systematic innovation of “XploR” while assigning the responsibilities to various labs has shown the integration of regional innovation ecosystems.

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Development expenditures towards firm's turnover and firm's market valuation: evidence from Portugal and Spain

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Abstract: Countries and firms became a very heavy spender on R&D and on education and training with an increasingly focus based on innovation. It is associated to changes by introducing new methods, ideas, or products. It also translates the ability to produce and transform knowledge, contributing to potential economic inflows. The current research, in the scope of business enterprise R&D intensity policy and European Union strategy 2020, aims to identify whether development expenditures in business enterprises have a significant impact on Portuguese and Spanish firms' economic returns and firm's market valuation, as well as to provide an overview on the convergence with European innovation strategy. Based on 68 Iberian non-financial listed companies, all of them with active development projects on innovation, an econometric framework was regressed. Without convergent R&D main funding source and national targeting rates, Portugal and Spain are significantly aligned on the impact of development expenditures on firm's turnover and on firm's market valuation. If managed together, firms can generate high value-added flows, from those innovative intangible resources.

Keywords: innovation; R&D; Europe strategy 2020; development expenditures; Iberian countries.

Theoretical background and objectives

The last two decades have been driven by a new techno-economic paradigm (Freeman & Louçã, 2001). The old “Fordist” style has been replaced by an “*Information and Communication Technology*” (ICT) networking style, driven by information-intensive mechanisms, by computer-added designs, by concurrent engineering, strongly customized, supported by flexible production systems, embedded in distributed intelligence procedures, based on multi-skilling, and supported by government information, coordination and regulation. Countries and firms became a very heavy spender on Research and Development (R&D) and on education and training – its focus has increasingly based on innovation. It embodies an action or process of innovating. It is associated to changes, with a certain level of novelty, by introducing new methods, ideas, or products. It translates the ability to produce knowledge, it contributes

to potential inflows, and it is widely recognized as one of the primary driving forces of growth and profitability. Over the last decades, researchers tried to identify the sources that drive individuals and groups to innovate and contribute to value creation and sustainable development across firms and nations (Deschryvere, 2014; Fontana, Nuvolari, Shimizu & Vezzulli, 2012; Chen, Hu & Yang, 2011; Malerba, 2005; Breschi, Malerba & Yang, 2000; Malerba & Orsenigo, 1995, 1996; Pavitt, 1984; Jewkes, Sawers & Stillerman, 1958). In these different approaches towards the identification of innovation drivers, Schumpeterian patterns have been stated as the most robust findings across the literature. Thus, innovative activities differ across industries along several dimensions, in particular the knowledge intensity embedded in those activities, the type of actors and institutions involved in innovative activities and policies, and the economic effects of innovations (Malerba, 2005). Those patterns are structured around four dimensions: 1. Concentration and asymmetries among innovating firms in each particular sector; 2. Size of the innovating firms; 3. Changes over time in the hierarchy of innovators; and 4. Relevance of the entry of new innovators. Fontana *et al.* (2012) explore the most recent literature about Schumpeterian patterns of innovation and contribute to identify the sources of breakthrough inventions by extracting new outcomes on the base of the mentioned old patterns. Broadly, a turbulent environment rather than a more stable is conducive to a higher probability of the occurrence of breakthrough inventions and creation national and regional ecosystems, understood as the way firms and agencies capture the complex synergies among a variety of collective efforts involved in bringing innovation to market. Thus, at a national level, an innovation ecosystem is made up of a network of local innovation ecosystems, built on: 1. Competencies with attention to regional strengths; 2. The identification of research strategies; 3. Regional environment; 4. Forming regional partnerships; and 5. Funding the machinery, which consists of facilities, people and organizations (NAS, 2007).

R&D is probably the most known and used proxy to measure the innovation intensity across entities and nations. According to *International Accounting Standard 38* (IASB, 2004), “*Research*” relates to the original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding while “*Development*” is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems, or services prior to commencement of commercial production or use. From an accounting point of view, costs incurred in the research phase are expensed immediately while costs incurred in the development phase are capitalized (IASB, 2004). Thus, R&D expenditures could lead entities (public and private) to growth, to increased returns, and subsequently into financial and strategic achievements. These knowledge based expenditures are the basis of innovation, driving companies to potential economic benefits (Tahinakis & Samarinas, 2013). According to Chen *et al.* (2011), most nations have gradually devoted more efforts to R&D and have tried to create a favorable innovation environment by enforcing intellectual property rights to promote innovations. However, literature does not provide unanimous evidence about the relationship between innovation and turnover (Lopes & Ferraz, 2016; Deschryvere, 2014; Lopes, 2011; Chan *et al.*, 2003; Lev & Sougiannis, 1996). Deschryvere (2014) found that large firms that are continuous innovators have significant positive two-way associations between R&D growth and sales growth; however in small continuous product innovators that association is clearly stronger than for large ones. Furthermore, relating the occasional process and product innovators, he found a positive and significant association between sales growth and subsequent R&D growth. Concerning the effectiveness of R&D intensity, Lopes (2011) did not achieve

a significant correlation between those expenditures and turnover. This result seems consistent with evidences achieved by Chan *et al.* (2003) relating to the stock market valuation derived from these expenditures, not supporting a direct relationship between R&D expenditures and future returns. Different evidences were obtained by Lev and Sougiannis (1996) relating insider gains. These gains in R&D inside intensive companies are significantly higher than insider gains obtained in firms not strongly engaged in innovation expenditures. Although the complex relationships between R&D and subsequent economic benefits, if efficiently and productively used, R&D can serve as a major source of competitive advantage (Chen *et al.*, 2011). According to Akinwale, Dada, Oluwadare, Jesuleye and Siyanbola (2011), it is not enough to increase the expenditures on R&D and innovation when countries have weak institutions and networks, and poor coordination systems. Building a creative high performance R&D culture is required (Skerlavaj, Su & Huang, 2013; Stock, Six & Zacharias, 2013; Newman, 2009; Ambos & Schlegelmilch, 2008). This creative culture combines customer focus, risk tolerance, entrepreneurship, alignment with strategies, innovation, virtual organization and networking, and efficient execution. Thus, building a creative winning R&D culture is embedded on values, expertise, short and long term orientation, and effective policies.

The age of ICT has definitely marking the new ways to transform knowledge. The business to business use of the internet is probably turned out to be the most important source of productivity gains (Freeman & Louçã, 2001). Over the last decade, the efforts on R&D in all funding sources (business enterprise sector; government sector; higher education sector; and private non-profit sector) have increased across European and Non-European countries. These efforts have been settled as a key policy component of the EU strategy 2020 for economic growth (Eurostat, 2016a), despite the intrinsic multicultural differences (Hofstede, Hofstede & Minkov, 2010). Broadly, European Union sets a 3% objective for R&D intensity and most Member States (e.g. Denmark, Germany, Slovenia, Estonia, France, Belgium, and Portugal) have adopted, at a national level commitment, that intensity target. Nordic countries (Finland and Sweden), pursuing its historic and progressive effort over time, set its target on R&D above 3%. Non-European countries, such as United States, Japan, South Korea and China, have settled a R&D intensity target of 3%, 4%, 5%, and 2.5%, respectively, despite in some cases without a defined deadline. Although the desired convergence on European strategy, challenges across European countries on R&D do not require the same intensity effort. Some of them already reached their national targets, others are still on track, and others did not settled ambitious efforts, both in the public and private funding sources. Hence, R&D expenditures are influenced by several economic and social factors, including the funding policies implemented by Member States. According to Eurostat (2016a, 2016b), the policy failures are categorised as follows: 1. Insufficient or inadequate public funding of the science base and higher education system; 2. Inefficient public incentives to stimulate business R&D; 3. Poor match between supply and demand side measures; and 4. The need to identify and address the bottlenecks that restrict the growth of firms in innovative sectors. Although the impact of macroeconomic trends at the firm's level, organizations include in their innovation strategies important R&D efforts towards the achievement of systematic and sustainable profitability and performance standards (Tahinakis & Samarinas, 2013; Lopes, 2011; Freeman & Louçã, 2001; Lev & Sougiannis, 1996).

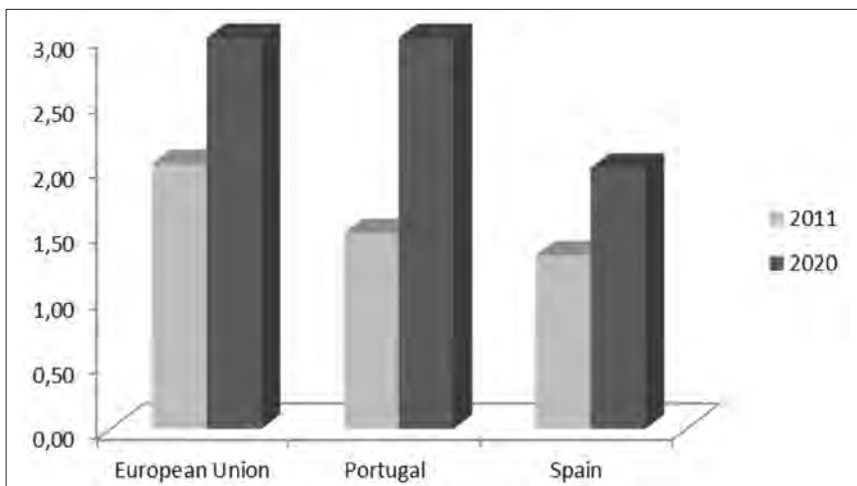
This research aims to add complimentary evidences to previous researches (Lopes & Ferraz, 2016; Lopes, Ferraz & Martins, 2016; Tahinakis & Samarinas, 2013; Akinwale *et al.*, 2011; Lopes, 2011; Chan *et al.*, 2003; Lev & Sougiannis, 1996) and to identify whether the

intangible resource “*Development Expenditures*” has, in the Iberian countries (Portugal and Spain), a significant and positive impact on regional firms’ economic returns and market valuation. Furthermore, it also aims to provide an integrated overview about the convergence and alignment of those countries with the EU strategy 2020 on R&D efforts.

Overview of R&D policies in Iberian countries

At a macroeconomic level, and relating the Iberian geographic cluster, Portugal is integrated in the Member States group which needs to substantially raise their rate of increase in R&D intensity in order to comply with its target, and whose required efforts exceeds the EU average. As illustrated by graph 1, the national target (2%) of Spain is below the EU strategy 2020 target. Thus, this country is not aligned with EU target, needing additional efforts in order to raise its own national target. Over the period 2000-2011, Portugal observed a negative average annual growth on R&D intensity (-0.2%) while Spain observed an increase of 3.6%. In order to achieve the targeted rates set for both countries, an increase of 8% and 4.6%, respectively for Portugal and Spain, is required for the period 2011-2020.

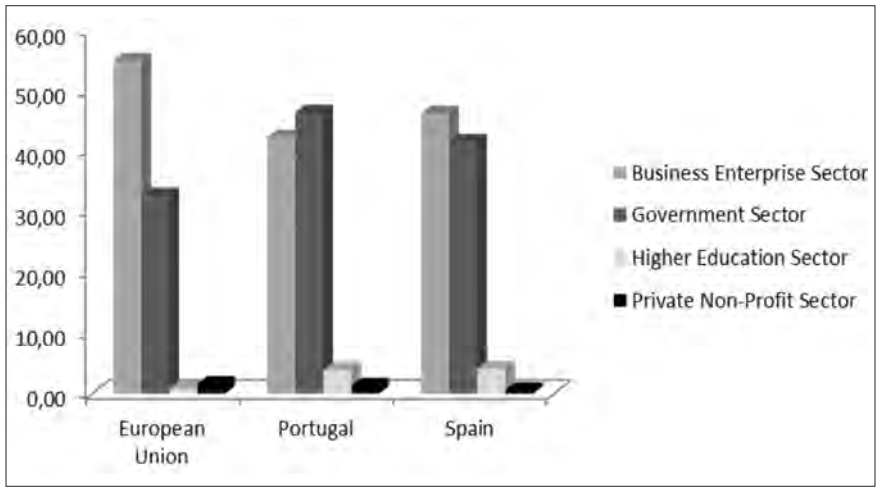
Graph 1: R&D intensity as a % of GDP (2011/2020)



Source: Eurostat (2016a)

In European Union, 55.0% of R&D expenditures are funded by business enterprise sector and 32.7% are funded by government sector. Higher education sector and private non-profit sector, as sources of R&D funding, still evidence a marginal impact (0.8% and 1.6%, respectively). As illustrated by graph 2, Portugal and Spain observe opposite trends: in Portugal, government sector is responsible for funding 46.4% of R&D projects while in Spain 46.3% of similar projects are funded by business enterprise sector.

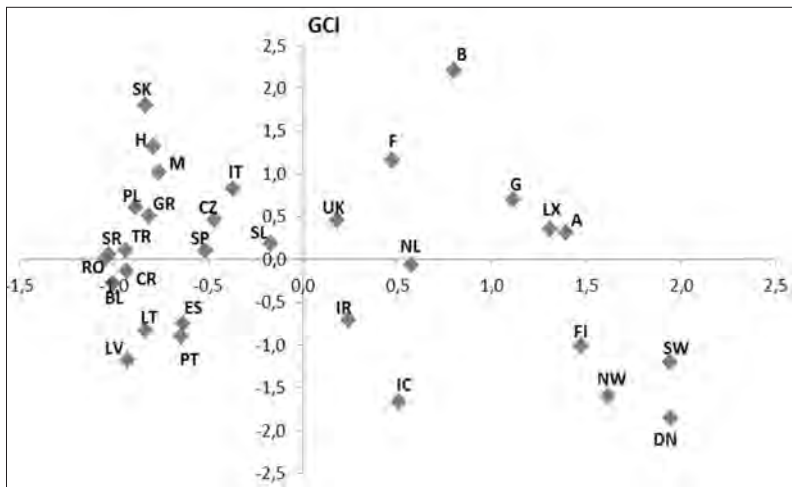
Graph 2: R&D by funding source (2013)



Source: Eurostat (2016b)

Using the cultural dimensions of Hofstede *et al.* (2010) and the R&D intensity, an overview of European counties can be provided as follows:

Graph 3: Culture and R&D across Europe



Source: Adapted from Hofstede *et al.* (2010) and Eurostat (2016a)

At a microeconomic level (firms’ level), this research is based on Development Expenditures, capitalized in the statement of financial position (balance sheet), of the non-financial Iberian listed firms (Portugal 24; Spain 44). The 68 firms with active development projects on innovation were categorized according the “*Standard Industries Classification*” (SIC): *Energy* (production and alternative energies) at 10.3%; *Basic materials* (forestry, paper; metals, mining) at 13.2%; *Industrials* (construction, materials; aerospace and defense; electronic

and electrical equipment; transportation) at 20.6%; *Consumer goods* (automobiles, parts; beverages, food producers; household goods; residential construction; leisure goods; tobacco) at 17.6%; *Consumer services* (food/drug retailers; media; travel; leisure) at 20.6%; *Telecommunications* (fixed-line, mobile) at 4.4%; *Utilities* (gas, water, electricity, multi-utilities) at 2.9%; and *Technology* (software/computer services, technology hardware/equipment) at 10.3%. The data relates to economic year 2014 for the dependent variables and to economic year 2013 for the independent variables. Data was extracted from the annual management reports, yearly disseminated to stakeholders as required by the financial markets regulators and taxation authorities.

As previously described, this research, in the scope of business R&D intensity policy, has the objective to identify whether development expenditures funded by business enterprise sector have a significant impact (isolated or aggregated effects) on Portuguese and Spanish firms' economic returns (measured through firm's Turnover) and market valuation (measured through firm's Market Value). Thus, we formulate two econometric models with the following core specifications:

Model 1 (*Isolated effect of Development Expenditures*)

$$Y_{it} = \beta_0 + \beta_1 DEVEXP_{it} + \beta_2 OTHINT_{it} + \beta_3 BOARD_{it} + \beta_4 LEV_{it} + \beta_5 SIZE_{it} + \beta_6 COUNT_{it} + \beta_7 SEC_{it} + \varepsilon_{it} \quad (i = 1, \dots, n ; t = 1, \dots, m)$$

Model 2 (*Conjoint effect of Development Expenditures*)

$$Y_{it} = \beta_0 + \beta_1 (DEVEXP * OTHINT)_{it} + \beta_2 BOARD_{it} + \beta_3 LEV_{it} + \beta_4 SIZE_{it} + \beta_5 COUNT_{it} + \beta_6 SEC_{it} + \varepsilon_{it} \quad (i = 1, \dots, n ; t = 1, \dots, m)$$

Where:

- Y_{it} is the logarithm of firm's turnover (*TURN*) at the end of economic year t , and average firm's market value (*MVALUE*) per common share over the economic year t .
- $DEVEXP_{it}$ is the logarithm of total development expenditures (e.g. patents; software projects, technical design, etc.) capitalized by firm i in economic year $t-1$.
- $OTHINT_{it}$ is the logarithm of total other intangible assets (goodwill; brands and trademarks; licenses; alliances; etc.) recognized by firm i in economic year $t-1$.
- $BOARD_{it}$ represents the number of members of the board of directors of firms in economic year $t-1$.
- LEV_{it} is the debts to assets ratio (financial leverage) of firm i in year $t-1$.
- $SIZE_{it}$ is the logarithm of total assets, evidenced by firm i at the end of economic year $t-1$.
- $COUNT_{it}$ expresses the country and stock exchange: Portugal – PSI; Spain – IBEX.
- SEC_{it} represents the activity sector, according “*Standard Industries Classification*”.
- ε_{it} is the residual of firm i in period t or $t-1$.

Hence, model 1 captures the isolated effect of development expenses and other intangibles on firm's turnover and on firm's market value while model 2 captures the effect of those resources through an aggregated approach.

MVALUE can also embody all the intangibles (e.g. firm's reputation; stakeholders' satisfaction; strategic alliances; etc.) whose capitalization in the statement of financial position is not supported by accounting rules, or complimentary information is not disclosed in the management reporting notes (Tahinakis & Samarinas, 2013; Akinwale *et al.*, 2011; Chan *et al.*, 2003; Lev & Sougiannis, 1996). Thus, we formulate the model 3 as follows:

Model 3

$$TURN_{it} = \beta_0 + \beta_1(DEVEXP*OTHINT)_{it} + \beta_2BOARD_{it} + \beta_3MVALUE_{it} + \beta_4LEV_{it} + \beta_5SIZE_{it} + \beta_6COUNT_{it} + \beta_7SEC_{it} + \varepsilon_{it}$$

(i = 1,...,n ; t = 1,...,m)

Variables were simultaneously introduced in the models in order to identify whether development expenses and intangible assets are predictors of economic returns and firm’s valuation (rejection of H₀: β₁=β₂=...=β₇=0; p<α). Thus, based on the literature theoretical background, we formulate the following four hypotheses:

- H₁: Development expenditures have a positive impact on Iberian firm’s turnover.
- H₂: Development expenditures have a positive impact on Iberian firm’s market valuation.
- H₃: Development expenditures and other intangibles have a positive aggregated impact on Iberian firm’s turnover.
- H₄: The impact of development expenses on firm’s economic returns and on firm’s market valuation is convergent within Portugal and Spain.

The phenomenon under analysis is complex and has multivariate causes and effects. Although the lack of literature on the linkage proposed for analysis, R&D (IASB, 2004) as an intermediate stage of conclusive innovation, has the power to embody a set of skills, abilities, knowledge, expertise, and strategic decisions, towards the dynamic transformation of tacit knowledge into explicit knowledge (e.g. patents, software, alliances, rights, trademarks, technical design, etc.). Thus, our assumption is that only proactive and dynamic institutions, strongly oriented to efficient knowledge transformation mechanisms, can support strong R&D expenditures efforts (Skerlavaj *et al.*, 2013; Stock *et al.*, 2013; Newman, 2009; Ambos & Schlegelmilch, 2008).

The means, standard deviations, and other descriptive measures, for the sample as a whole on the various measures of interest are shown in Table 1. The simple correlations (Pearson’s coefficients) between the variables of interest are shown in Table 2.

Table 1: Descriptive measures

Variable	N	Min.	Max.	Mean	Std. Deviation	Skeweness	Kurtosis
TURN	68	16.8394	25.1566	20.8279	2.02110	0.266	-0.428
MVALUE	68	0.0045	98.8500	11.6291	21.0786	2.743	7.361
DEVEXP	68	10.2751	23.3293	16.7073	3.2554	0.181	-0.833
OTHINT	68	10.7579	24.6361	18.9763	2.7583	-0.430	0.438
BOARD	68	3	30	11	4.492	1.156	3.516
LEV	68	0.0732	1.2805	0.6664	0.2238	-0.252	0.929
SIZE	68	16.8093	25.5891	21.3260	2.0902	0.125	-0.412

Table 2: Pearson's correlation coefficients

VAR.	TURN	MVALUE	DEVEXP	OTHINT	BOARD	LEV	SIZE	COUNT	SEC
TURN	1								
MVALUE	<u>0.221</u> 0.070*	1							
DEVEXP	<u>0.572***</u> 0.000	<u>-0.027</u> 0.826	1						
OTHINT	<u>0.715***</u> 0.000	<u>-0.094</u> 0.444	<u>0.638***</u> 0.000	1					
BOARD	<u>0.529***</u> 0.000	<u>-0.116</u> 0.344	<u>0.489***</u> 0.000	<u>0.504***</u> 0.000	1				
LEV	<u>0.194</u> 0.114	<u>-0.155</u> 0.206	<u>0.111</u> 0.367	<u>0.088</u> 0.474	<u>0.040</u> 0.749	1			
SIZE	<u>0.865***</u> 0.000	<u>0.265**</u> 0.029	<u>0.510***</u> 0.000	<u>0.653***</u> 0.000	<u>0.529***</u> 0.000	<u>0.123</u> 0.319	1		
COUNT	<u>0.185</u> 0.130	<u>0.290**</u> 0.016	<u>-0.032</u> 0.797	<u>-0.032</u> 0.796	<u>-0.014</u> 0.911	<u>-0.085</u> 0.490	<u>0.143</u> 0.244	1	
SEC	<u>-0.246**</u> 0.043	<u>-0.162</u> 0.186	<u>0.017</u> 0.889	<u>0.011</u> 0.929	<u>0.069</u> 0.578	<u>0.002</u> 0.986	<u>-0.246**</u> 0.043	<u>-0.365***</u> 0.002	1

*** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$

Based on the bivariate analysis, TURN is significantly correlated with DEVEXP ($r=0.572$; $p=0.000$), OTHINT ($r=0.715$; $p=0.000$), BOARD ($r=0.529$; $p=0.000$), SIZE ($r=0.865$; $p=0.000$), and SEC ($r=-0.246$; $p=0.043$). These evidences, corroborating the achievements provided by Lopes & Ferraz (2016), are aligned with the assumptions of *International Accounting Standard 38* (IASB, 2004) that intangible assets are associated to expected future benefits, flowing for the owner, over a certain useful life period. However, we didn't find any significant correlation between MVALUE, and DEVEXP ($r=-0.027$; $p=0.826$) and OTHINT ($r=-0.094$; $p=0.444$). Thus, customers seem to incorporate more easily the power of intangibles through turnover instead of adjusting it on firm's market value. The unexpected negative signal supports the need for additional developments about the information asymmetry between intangible resources recognition and measurement basis, and shareholders perceptions. This result is consistent with outcomes provided by Chan *et al.* (2003), in respect to stock market valuation derived from R&D expenditures. Those results do not support a direct relationship between development expenditures and firm's market valuation.

Table 3: Regression model equations (Model 1)

TURN				MVALUE				
	β	t	Sig.	VIF	β	t	Sig.	VIF
Intercept	3.188	2.227	0.030**		-72.594	-2.525	0.014**	
DEVEXP	0.050	1.086	0.282	1.827	0.337	0.361	0.719	1.827
OTHINT	0.179	2.884	0.005***	2.340	-3.032	-2.433	0.018**	2.340
BOARD	0.025	0.802	0.426	1.610	-1.377	-2.170	0.034**	1.610
LEV	0.871	1.714	0.092^	1.033	-16.940	-1.660	0.102	1.033
SIZE	0.571	7.016	0.000***	2.309	6.768	4.143	0.000***	2.309
COUNT	0.390	1.544	0.128	1.181	8.761	1.727	0.089^	1.181
SEC	-0.063	-1.193	0.238	1.296	0.869	0.822	0.414	1.296
Adj. R ² =				0.795	Adj. R ² = 0.239			
F=				38.008	F= 3.999			
Sig.				0.000***	Sig. 0.001***			
DW				1.849	DW 1.387			

*** $p<0.01$; ** $p<0.05$; * $p<0.1$

The above mentioned remarks are consistent with Model 1 outcomes: 79.5% of variance is explained when regressed against TURN while only 23.9% of variance is explained when regressed against MVALUE. In both cases, DEVEXP is not statistically significant, contradicting the evidences provide in the bilateral correlations analysis. Thus, although the positive expected signal, our hypotheses 1 and 2, are rejected. As expected, other intangible resources can be used to predict TURN and MVALUE, however in this case with an unexpected signal (Lopes & Ferraz, 2016; Lopes & Martins, 2016; Deschryvere, 2014; Lopes, 2011; Chan *et al.*, 2003; Lev & Sougiannis, 1996). The size of the board of directors, as an embodiment of strategic expertise and strategic directions, is not statistically significant ($p>0.05$) with TURN, however statistically significant with MVALUE ($p<0.05$). These evidences confirm its indirect impact on turnover and its direct impact on shareholder’s perceptions (market approach) as signaled by Lopes *et al.* (2016). As expected, the control variable SIZE is significant in both cases at 1% significance level.

Table 4: Regression model equations (Model 2)

TURN				MVALUE				
	β	t	Sig.	VIF	β	t	Sig.	VIF
<i>Intercept</i>	4.967	3.273	0.002***		-87.620	-2.837	0.006***	
<i>DEVEXP*OTHINT</i>	0.005	0.263	0.001***	1.900	-0.044	-1.370	0.176	1.900
<i>BOARD</i>	0.026	0.800	0.427	1.597	-1.398	-2.152	0.035**	1.597
<i>LEV</i>	0.841	1.634	0.107	1.030	-16.191	-1.546	0.127	1.030
<i>SIZE</i>	0.608	7.682	0.000***	2.125	5.675	3.524	0.001***	2.125
<i>COUNT</i>	0.358	1.402	0.166	1.175	9.396	1.807	0.076**	1.175
<i>SEC</i>	-0.058	-1.090	0.280	1.292	0.690	0.636	0.527	1.292
<i>Adj. R²=</i>				<i>0.789</i>	<i>Adj. R²= 0.196</i>			
<i>F=</i>				<i>42.711</i>	<i>F= 3.716</i>			
<i>Sig.</i>				<i>0.000***</i>	<i>Sig. 0.003***</i>			
<i>DW</i>				<i>1.924</i>	<i>DW 1.328</i>			

*** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$

This model is globally adherent ($\text{Adj. } R^2 = 0.789$; $F = 42.711$; $p = 0.000$), and the conjoint effect of DEVEXP and OTHINT is statistically significant ($p = 0.001$) as turnover's predictors. Based on these outcomes, development projects capitalized in financial statements have an aggregated effect on performance, corroborating the evidence provided by Lopes & Ferraz (2016). This evidence is also aligned with the findings achieved by Macerinskiené & Survilaitė (2011), which when parts of intellectual capital are managed together, business organisations can generate high value-added flows. This reflects the effect of the synergy between intangibles and their conjoint impact on the turnover of businesses. Thus, when parts of intellectual capital are managed together, its synergetic effects increase the performance and profitability of businesses. Among the research, however, several, incorporating a single typology of intangibles, have found a significant relationship between these intangibles and performance (Lev & Sougiannis, 2003). However, the robustness of the model is not significant, considering the prediction of MVALUE ($\text{Adj. } R^2 = 0.196$; $F = 3.716$; $p = 0.003$).

In model 3, we aimed to identify the effect of firm's market price (MVALUE) on turnover generation, considering the conjoint effects of development expenditures and other intangible assets. This model is globally adherent ($\text{Adj. } R^2 = 0.789$; $F = 36.769$; $p = 0.000$), and the key variables (DEVEXP and OTHINT) are statistically significant ($p < 0.01$) as turnover's predictors. Results summary are evidenced in table 5.

Table 5: Regression model equation (Model 3)

TURN				
	β	t	Sig.	VIF
Intercept	5.524	3.422	0.009***	
DEVEXP*OTHINT	0.006	3.525	0.008***	1.959
BOARD	0.034	1.040	0.303	1.718
MVALUE	0.006	0.011	0.316	1.365
LEV	0.944	1.800	0.077*	1.070
SIZE	0.572	6.588	0.000***	2.557
COUNT	0.299	1.139	0.259	1.238
SEC	-0.062	-1.169	0.247	1.300
			Adj.R²=	0.789
			F=	36.769
			Sig.	0.000***
			DW	1.976

*** $p<0.01$; ** $p<0.05$; * $p<0.1$

We can conclude, therefore, that intangibles recognised in financial statements have an aggregated effect on turnover, corroborating our hypothesis 3, and also supporting the evidences provided by Lopes & Ferraz (2016). This outcome is also aligned with the findings of Macerinskienė & Survilaitė (2011), which when parts of intellectual capital are managed together, business organisations can generate high value-added flows.

Relating the robustness of both models, we run the multicollinearity diagnosis, the residual analysis, and the heteroscedasticity tests. The Variance Inflation Factor (VIF) assesses the degree of multicollinearity in the models. Thus, we found that none of the independent variables of the current research has a VIF value close to 10, concluding that the analysis does not observe a severe problem in multicollinearity. Towards analysis of independence of residuals, we used the Durbin-Watson (DW) test. Based on this statistics, we noted that a null hypothesis is not rejected, which means that residuals describe a normal distribution, confirming that those errors are not auto correlated. Relating heteroscedasticity, we used the test of White, not rejecting the null hypothesis ($p>0.05$). Thus, the evidences provided by the current econometric model can serve as an important contribution to theory and practice.

Table 6: Comparison between Iberian countries

Variable	Equality of Variances (F)	Sig.	Equality of Means (t)	df	Sig.	Mean Dif.
TURN	0.038	0.846	-1.533	66	0.130	-0.7783
MVALUE	16.283	0.000***	-2.463	66	0.016**	-12.7024
DEVEXP	0.366	0.547	0.259	66	0.797	0.2152
OTHINT	2.834	0.097*	0.260	66	0.796	0.1834
BOARD	7.057	0.010**	0.112	66	0.911	0.1290
LEV	1.338	0.252	0.694	66	0.490	0.0396
SIZE	0.286	0.594	-1.174	66	0.244	-0.6212

*** Null hypothesis rejected at 1% ($p < 0.01$); ** Null hypothesis rejected at 5% ($p < 0.05$);

* Null hypothesis rejected at 10% ($p < 0.1$)

Null hypothesis states that the distribution between variables is the same across both countries (Portugal and Spain). Relating the equality of means, null hypothesis cannot be rejected for TURN, DEVEXP, OTHINT, BOARD, LEV, and SIZE, which confirms that observations do not differ across countries (H_4 is not rejected). We consider it an expected outcome because firms are integrated in a globalized market, are affected by macroeconomic externalities, such as the European Union common policies (Europe Strategy 2020) and the sovereign debts effects. In respect the equality of variances, the null hypothesis is rejected for MVALUE, OTHINT, and BOARD. These results can be supported on cultural issues (Hofstede *et al.*, 2010), on scale effects, and on differences associated to the national corporate governance codes (Lopes *et al.*, 2016).

Concluding remarks and directions

Research and Development, as a key pillar in the micro and macro level innovation policies, are sources of value by fostering markets' development with new innovative products and services. Primarily embodied by individuals and groups, knowledge is transformed and embedded in the innovation cycles, driving companies and nations towards an increased labour productivity, the industrial competitiveness, the development of efficient resources, and the sustainable growth (Eurostat, 2016a). Based on the main objective of this research – to identify a geographic Iberian cluster based on innovation – our analysis can provide some evidences at a macro and microeconomic level, such as:

- Iberian countries are not convergent in terms of R&D targets in the scope of European Union strategy 2020. Portugal needs to substantially raise their rate of increase to reach their target while Spain requires lower efforts, however with a national target below the 3% fixed in EU strategy 2020 on R&D intensity target.

- In Portugal, R&D is mainly funded by government sector while in Spain similar projects are mainly funded by business enterprise sector. Funds from higher education sector and private non-profit sector are still marginal, however in line with EU average trends.

– Development expenditures have a statistically significant conjoint effect as predictors of firm's turnover. Intangibles recognised in the financial statements have an aggregated effect on firm's turnover. If managed together, firms can generate high value-added flows.

– Although the global adherence of the econometric models, we achieved a weak results for firms' market value variances. In the scope of market valuation, other intangibles seem to be directly perceived by customers with a significant and direct impact on turnover, however negatively correlated. Investors seem to privilege primarily the technical analysis of stocks rather than supporting their decisions on a fundamental analysis.

– In the scope of innovative intangibles, Portugal and Spain are significantly convergent. This evidence is supported on culture, economic and social issues, and on European common directions, such as the European strategy 2020 and the Eurozone convergence commitments and requirements.

Some limitations of the current research are acknowledged, principally the range of time under analysis and the sample size. However, as the current approach is replicable over time, it can be based on other countries and be structured on different metrics and approaches.

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Impact of risk capital on stimulating innovation: case of Azerbaijan

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Abstract: This paper analyzes the impact of risk capital on innovative potential of businesses. It discusses types of risk capital including angel investments and venture capital. It presents the current risk capital landscape in Azerbaijan and develops recommendations on improving the financial infrastructure for startups in the country. Given that diversification of the national economy is a priority for Azerbaijan which is heavily dependent on natural resources, the government of Azerbaijan is striving to develop innovation based start-ups. Despite the high entrepreneurial spirit among founders of startups in Azerbaijan and the emerging ecosystem which is reflected by the small number of techno-parks as well as venture capital firms established recently, there is a need to improve the financial infrastructure with a specific focus on the availability and accessibility of risk capital.

Key words: risk capital, innovation, startups, venture capitals, angel investors.

Introduction

Azerbaijan has experienced a fast growing economy over the past decade. This growth corresponded to an increase in the share of oil industry in the national economy, which increased almost two fold from 31.7% to 61.8% between 2000 and 2007 (Kuriakose, 2013; Hasanov, 2013). The economic growth fueled by the boom of the oil sector led to significant increases in government spending on infrastructure, education, healthcare and other important sectors. However, the government has started taking measures to develop non-oil sectors to ensure the sustainable growth of the national economy.

Developing innovative entrepreneurship is a crucial component of developing non-oil sector is stimulating and supporting innovative entrepreneurship as outlined in the Development Concept of Azerbaijan Republic approved by the President in 2012, “Azerbaijan 2020: Look Into The Future”. Similar to Azerbaijan, other emerging economies in the post soviet region also view economic growth based on innovation as crucial for sustainable growth in the 21st century. In light of this, governments of Caucasus and Central Asian countries have adopted state programs on stimulating innovation among small and medium businesses. The resource

rich developing countries in the region including Azerbaijan, are trying to develop new technology based firms (NTBF) since policy makers in these countries have increasingly realized that economic development based on exports of natural resources, such as oil, natural gas, gold, etc., is not sustainable.

This paper analyzes the financial infrastructure required for technology based startups with a specific focus on risk capital. Authors analyze the theoretical framework with regard to the types of risk capital and access of startups to risk capital at various stages of their lifecycle. The paper also takes an attempt to assess the current condition of the financial infrastructure for startups in Azerbaijan.

The rest of the paper proceeds as follows: the second section of this paper discusses the theoretical framework of risk capital. The third section analyzes financial infrastructure in Azerbaijan with the purpose of developing a model for Azerbaijan. The concluding remarks and recommends are given in the last section.

Literature review

Literature is in consensus on the importance of the financial framework for successful functioning of technology based start-ups. Three main reasons for why startups need financing are: 1) Cash flow needs; 2) Capital Investments; 3) Product development phases (Lerner, *et al.*, 2012). Cash flow is vital for any business. Mainly, cash needed for inventory purchase, salary payments, and advertising expenses before revenue is generated from sales. Secondly, a capital investment in terms of buildings, equipment and other facilities exceeds the budget of start-ups and necessitate additional funding. Thirdly, especially in some industries, firms have to finance product development for a couple of years before realizing profit.

Start-up firms in their early life face so called “valley of death” which means various impediments such as funding gap that is per se main restriction to product development and for marketing firms’ products and services (Hudson & Khazragui, 2013) Other research (Wong, *et al.*, 2009) indicate that angel investors, who provide early stage funding, act as complement to venture capital. Despite the small amount invested by angel investors it constitutes more risky investment in younger firms. That is how angels help them grow until they are big enough to apply for venture capital.

Venture capitalists seek to invest primarily in technology-oriented private companies (Paglia & Harjoto, 2014). The main features of these startup firms such as lack of funding, poor business development knowledge, risk and uncertainty, management issues regarding human and capital resources broaden the depth of “valley of death”. Rebel and Sokolyk (2015) argued that since start-up firms do not have cash flow record, are not able to raise funds through debt or equity markets they are mainly not subject to capital structure theories. Firms utilize personal funds for early-stage financing and external financing as they grow and expand business. (Berger & Udell, 1998). Moreover, some studies (Rebel & Sokolyk, 2015) concluded that start-ups which get business credits take an advantage of the selection and monitoring by bank lenders and in the end achieve better outcomes compared to start-ups which get personal credits to their owners.

Kelly and Hankook (2013) suggest that during five-year period of study venture capital-backed startup firms achieve higher sales growth accompanied with employment and wages growth in comparison to non venture capital-backed startups. Other studies that focused on

the VC funding have concluded that this type of financing positively effects firms' innovation and R&D focus and is highly likely to lead patenting as well (Engel & Keilbach, 2007; Da Rin & Penas, 2007).

Asta *et al.* (2015) argues that in addition to providing much needed funding to startups, VC-backed firms increase in professionalism in human resource management, in innovation creation potential and gain an upward trend in firms' performance indicators such as number of employees, turnover and, solvency ratios. Moreover, selection of early-stage funding is quite crucial for entrepreneurs.

Schwienbacher (2012) highlights some important reasons to watch out during early-stage investor selection process for the startups and argues that specialist investors outperform generalist investors in this stage of funding.

In the case of Azerbaijan startup ecosystem, very little risk capital is available. The National Fund for Entrepreneurship Support which is founded to provide financing for nonoil business, ICT Fund, and Azerbaijan Investment Company that is to support nonoil business by equity investments are the only government initiatives available for businesses. Lack of financial resources brings about weak financial system where companies have limited access to financing opportunities. As a result startups face difficulties in raising capital for expansion. Surveys show high interest rates, heavy collateral requirements as well as lack of risk capital are often listed as one of the main issues companies face while borrowing in Azerbaijan (Kuriakose, 2013).

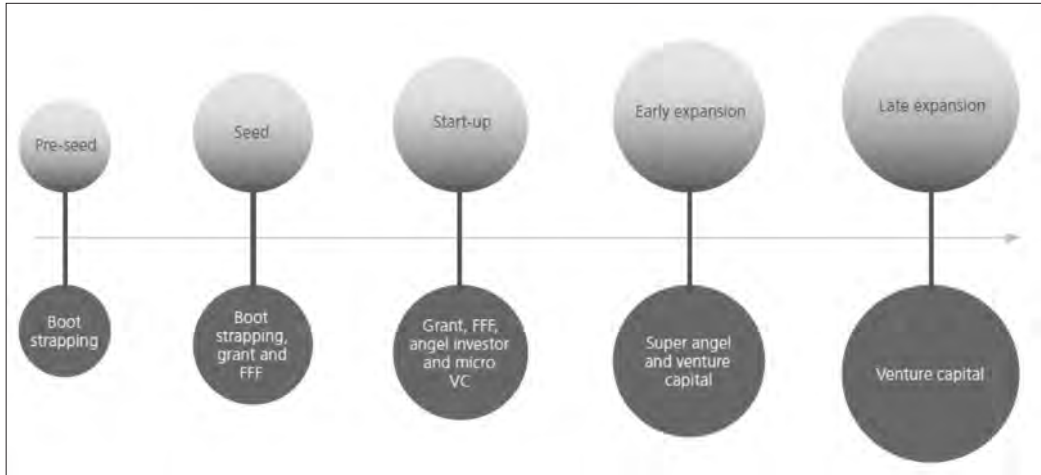
Lerner and Kortum (2000) analyzed the impact of venture capital on innovation and how legislative change led to an increase in funding opportunities of VCs in the United States. They analyzed 1979 policy change regarding Employee Retirement Income Security Act in US that enabled pensions to be invested in VC which after 8 years accounted for over 50 percent of total VC fund supply. Prior to this change, pension funds could not be invested in high-risk ventures. Venture capitals have been credited to be more effective than traditional corporate R&D in terms of their impact on innovation.

After brief review of reasons why startups need financing and a brief literature review what challenges they encounter during fund raising we overview the source of financing available for them in the next section.

Sources of funding

Current trend once again proved that share of the risk capital is growing very rapidly in financing start-ups worldwide (0). Different sources of funding in start-up lifecycle are given in Figure 1 in the ascending order according to the amount provided at each stage of start-up.

Figure 1: Sources and stages of financing



Source: WB Report on Enhancing Access to Finance for Technology Entrepreneurs, 2014

Sources of risk capital ranges from accelerators to venture capital firms with varying amounts of capital they offer. Accelerators, also referred to as incubators, provide seed or pro-seed financing as well as workplace along with some juridical and accounting services. In case a start-up is not able to raise money, it must rely on the founders' own funds. Personal financing is categorized into three types as personal funds, friends and family and bootstrapping (Lerner, *et al.*, 2012).

Personal funds are comprised of founder's own financial resources and sweat equity. The latter includes all effort and time which owner puts into a start-up. Friends and family are the second type of financing which usually includes loans, gifts, free or reduced rent and etc. For instance, Cisco system's first workplace was the house of one of the cofounder's parents (Lerner, *et al.*, 2012). However, there are some rules of thumb worth to remember with the second type of personal funding. Firstly, potential and risk associated with the business idea has to be described. Secondly, if the funding is a loan from friends and family, it is an accepted practice to prepare promissory note with a repayment schedule. Thirdly, funding provider should be in a legitimate position and interested in providing the requested amount. It may negatively affect a person's relationship in case he is not able to repay the loan.

Bootstrapping involves different ways to minimize the costs in order to avoid extra funding. This method includes cost-cutting means as leasing equipment instead of buying, purchasing used instead of new equipment and so on. The main disadvantage of this method is delaying the firm's growth and even preventing the start-up from obtaining its full potential.

When abovementioned personal funding means is not sufficient to finance the expenses at the initial stage of the startup, raising debt or equity financing are most widely used methods of funding. At this point entrepreneur must decide the amount of external financing the firm needs and sources of finance. Toward this end, first of all, it is very important to determine the exact amount of money the firm needs by developing a pro forma cash flow statement. Otherwise the founders can either run out of money very quickly or may pay for capital it does not need. Afterwards, entrepreneur may choose the most suitable type of funding

between debt and equity financing. Since the focus of this paper is equity financing, debt financing will be left out of the discussion.

Equity financing is raising money at the expense of giving away some shares of ownership of the firm. Equity funding differs from debt funding in that it is not a loan to be repaid when it is due. In contrast, equity investors share ownership of the firm and they may liquidate their investment in either when firm goes public or find buyer and when merges with another firm. Some widely-used types of equity funding include angel investors, venture capital, initial public offerings and private placement (Lerner, *et al.*, 2012).

Angel investors come next after accelerators with relatively greater funding opportunities, who are interested in investing on startups within their field of domain (i.e. where they can offer expertise to founders), due diligence and act as mentors for the entrepreneurs. They may invest both individually and in groups by pooling their resources for joint investment. Super-angels, who are considered the third type of angel investors, resemble venture capital firms since they invest their own funds as well as funds pooled from other investors (Lerner, *et al.*, 2012).

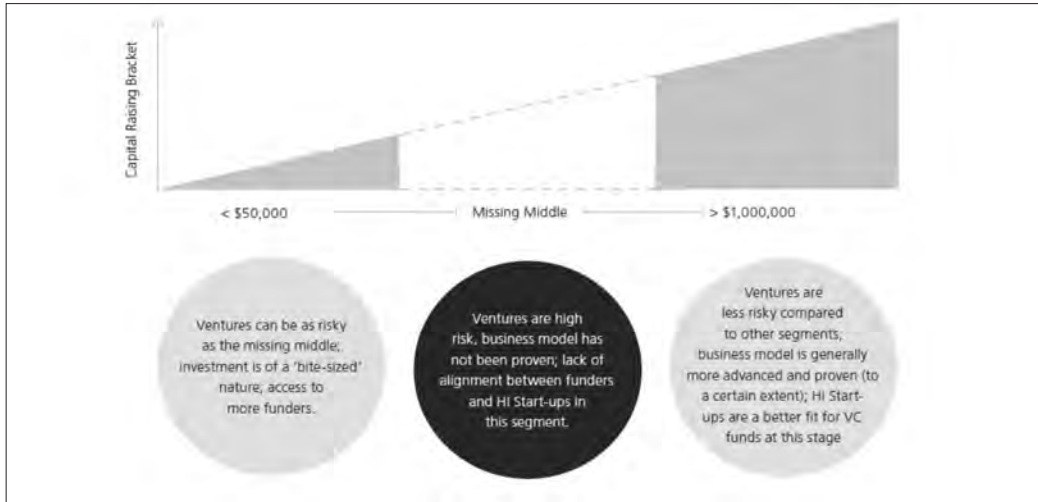
It is difficult to estimate the total size of angel investment since majority of angel investments are personal and therefore not disclosed to public. However, research indicates that total angel investment was greater than venture capital investment in size in 2014. Moreover they influence positively on the firms growth, performance, and existence (Lerner, *et al.*, 2015).

Since angels are early-stage investors, they may face a high risk of expropriation. Investors usually seek to protect their investment from expropriation through the use of control rights – the methods accorded to investors to allow them to oversee the entrepreneur's management of a company's affairs. Three control mechanisms commonly used by venture capitalists are board rights, staging investments, and contracting mechanisms (Wong, *et al.*, 2009).

Much funding is necessary as startups grow bigger wherein venture capital firms come on stage. Venture capital firms are very important source of capital, which operate in the form of limited partnerships, and pool funds from institutional investors such as university endowment funds, pension funds, and other investors in exchange for a share in a startup and growing firms (Lerner, *et al.*, 2012). The investors investing in venture capital funds are called limited partners and managers of the venture capital funds are referred to as general partners. The income of the fund manager comes from management fee and carry, 20-25 % of the fund's profit (Lerner, *et al.*, 2012). Most of the fund invested in a firm is spent on follow-on funding which are paid at the different stages of the company lifecycle. Main advantage of venture capital is the network of venture capitalists in the business world which enables them to support firms professionally as well.

Majority of startups in developing countries encounter financing issues when they seek funding for the seed stage. The main reason behind this problem is a risk associated with the unapproved business model of startups. This funding gap between pre-seed and startup funding stage is often called missing middle (Figure 2).

Figure 2: Funding gap in high-tech startups



Source: WB Report on Enhancing Access to Finance for Technology Entrepreneurs, 2014

Access to risk capital by startups in Azerbaijan

Azerbaijan has launched some initiatives in establishing an ecosystem that supports technology based startups. Some projects intended to stimulate innovative entrepreneurship have been launched by both international organizations and the government agencies. One of such initiatives was High-Tech Park of Azerbaijan, which was established in 2012 to serve as a seedbed for new technology based startups. It currently serves as a business incubator and provides legal and accounting support to startups.

Although emerging ecosystems like Azerbaijan are trying to establish an environment supportive of new technology-based businesses, financial infrastructure for startups is still in its early stages. Risk capital market, which was completely inexistent a few years ago is now starting to emerge. However, it is worth to note that the risk capital is currently limited to pre-seed and seed stage investment offered by accelerators.

Our analysis revealed that there are currently ten incubators in Azerbaijan – three of them private, one established by the government, and three incubators opened by universities and two incubators initiated by telecom companies – Azercell and Bakcell. It is encouraging to see that in addition to government, academic institutions as well as private sector have also been actively contributing to establishing an ecosystem that supports technology entrepreneurship. Description of the incubators/accelerators initiated by government and private sector is given below.

“High Tech Park Azerbaijan” (HTP) was launched in 2012 through the Decree of the President of the Republic of Azerbaijan. Main goal of HTP is the development of a sustainable and competitive environment for the high tech economy in Azerbaijan. Business Incubation Center of HTP is a pilot startup incubator of High Tech Park. Center started operations in February 2014 with induction of its first cohort of startup companies. Since its opening,

70 teams have been admitted to HTP. Currently there are 26 teams at the incubator of HTP. In addition to startups, HTP also houses five resident companies from the technology sector.

Teams admitted to HTP Business Incubation Center can benefit from mentorship as well as legal, accounting and HR support provided by the administration of HTP. HTP also facilitates networking opportunity for startups and resident firms as well as entrepreneurs, investors and international experts who are invited as guest speakers to HTP. Although HTP does not offer any form of financing to startups, it helps founders to find and engage with investors locally and internationally by supporting their trips to pitch days internationally. Some of the startups at HTP have received investments to develop alpha and beta products. Founders have also received grants through ICT Fund of the Ministry of Communications and High Technologies of Azerbaijan. Success cases of startups from HTP include Nuush.az (an online food ordering service), Code Academy (coding bootcamp), Neuron Technologies (provides ICT based innovative solutions), Bilikli.net (online test preparation service). Moreover, internationally known startup company WeTravel (wetravel.to) is managed from Silicon Valley, but much of its development takes place at HTP.

QU Techno Park – the incubation and acceleration center was founded at Qafqaz University in 2013. In addition to startups it houses around 10 residents. It admits new cohorts of startups once a year through the so called “New Idea Competition” which was launched in 2013. It was the first incubation center established at a university. Qafqaz University supports winners of the competition by providing seed capital, and other facilities like office, internet, and laptop for one year with no stake in return. Mentorship and training schemes consists of trainings and seminars on both entrepreneurship and innovation by both local and international experts. Resident firms also provide mentorship and exchange experience at all possible circumstances.

Once startup proves to evolve into a new firm they also receive help to raise additional funds and access to the necessary network to start operating in the market. NIC has admitted 22 projects to the incubation center out of 410 applications since its foundation. A number of successful startups like Emedia (provides experts’ video answers to the questions), BethClip (synchronizing clipboard with multiple devices, enabling you to have access to the same data) already have started traction.

Next Step Innovation Center: Founded by three entrepreneurs, Next Step is a private incubator that invests in new technology ideas. The founders of Next Step include three established businessmen in Azerbaijan. Given their significant business experience, the founders bring valuable experience to the accelerator. Next Step has recruited two mentors – serial entrepreneurs with experience in Silicon Valley. The accelerator started operating in 2015 and has selected 5 teams to its accelerator program. New cohorts are admitted three times a year. Applicant teams must fill out an online application. Selected teams are invited for a pitch and successful teams are invited for an interview with the mentors. Teams are not required to submit business plans.

Teams chosen for Next Step are offered a free office space, laptops and seed capital in the amount of 2000 AZN monthly (exchange rate as of 20.03.2016 is 1 USD=1.6 AZN). In return, Next Step asks for an equity share in the range of 3-9%. The accelerator also provides legal support to founders – to register the business as well as in applying for patents. Mentors work with teams on a weekly basis and monitor progress. At the end of three month incubation period, graduating teams pitch to investors on Demo Day.

Next Step is open for both software and hardware based startups. One of the startups housed at Next Step, “Ustam” has started generating traction and has registered as a legal person.

Baku Business Factory is a private accelerator started operating in 2015. Baku Business Factory (BBF) provides free space and mentoring for startups. Applications to BBF take place on rolling bases. Online applications go through an initial screening. Promising applications are invited for an interview and those who pass the interview stage are admitted to the accelerator. Although all admitted teams can benefit from the resources and network of BBF, not all of them receive seed capital. Teams interested in receiving investment need to develop a business plan and pitch their business idea in front of the BBF management team.

Currently there are 19 teams in the BBF incubator. Some of the successful startups include BrandCream (offers exclusive way of brand promotions in the public) and Keepface (social influencer marketing company) which have started generating cash flow. All of the startups housed at BBF can benefit from media exposure.

Besides the four incubators analyzed in the article, there are three more incubators/accelerators in Baku supporting startups (table 1). In addition to the government funded accelerator (HTP), and the university based incubator (QUTechnopark), there are accelerators owned and funded by businesses such as Barama and AppLab funded by Azerbaijan’s two largest mobile operators Bakcell and Azercell.

Table 1: Incubators and accelerators in Azerbaijan

Name	Founder	Year Founded	Field of startups	Investment	Equity/revenue sharing
Barama	Azercell	2009		Seed capital to selected startups	Revenue sharing
High Tech Park (HTP)	Government (Ministry)	2012	web app, mobile app	No investment	No equity sharing
QU Technopark	Qafqaz University	2013		Seed capital to all startups	No equity sharing
AppLab	Bakcell		Mobile apps	No investment	No equity sharing
Baku Business Factory	Private	2015	Web/mobile app	Seed capital to selected startups	Equity sharing
Next Step	Private	2015	Web/mobile app	Monthly stipend	Equity sharing
Sup.az	Private	2015	Web/mobile app	Seed capital to selected startups	Equity sharing

Source: Prepared by the authors

While it is promising to see that a number of accelerators have started operating in Azerbaijan, their support is limited to seed or pre-seed stages of a startups life cycle. Concluding remarks on the present situation of risk capital in Azerbaijan and recommendations on how to improve the financial infrastructure for startups are given in the next section.

Conclusion and recommendations for Azerbaijan

Based on our analysis, it has been determined that currently risk capital is emerging in Azerbaijan in the form of seed and pre-seed capital. The next step innovation center, Baku business factory, High Techno Park, QU Techno Park and other private accelerators are investing seed stage capital to innovative startups. While this is promising, it is important to focus on establishing the next stage financing mechanisms. In particular, it is critical to establish angel investing as the next stage of risk capital for technology-based startups in Azerbaijan.

The field analysis and interviews with aforementioned incubation and acceleration centers revealed that startups have very limited access to risk capital, both angel and venture capital funds. A current record-low oil price in the global markets makes it hard for the government of Azerbaijan to allocate additional investment for the improvement of conducive financing mechanism of startups. Due to the fact that only few incubation centers provide seed and pre-seed capital and remaining need for funding is met through personal funding (as well as friends and family) existing financing gap need to be bridged by state and private funds and financial intermediaries before startups fall into “valley of death”.

In addition to recommendations aiming to advance risk capital financing, it is worth to mention the importance of reforms with regard to legal and regulatory framework. Because developing legal, regulatory and tax framework of startup is as important as financing methods. US experience in the field of startup financing shows the importance of establishing a venture capital system as seen by the level of impact of venture capitals on innovative capacity of businesses. The change to the Employee Retirement Income Security Act in 1979 freed pension funds to invest in venture capital. This indicates that government can play an important role in eliminating constraints to formation of venture capital system. A law analogous to the 1979 law in the US, which allowed pension funds to avail their funds to venture capital firms, might be considered for Azerbaijan as well.

Furthermore, dissemination of information about incubation and acceleration centers, success cases and available funding opportunities should be more frequently promoted through mass media means. Although startup firms, by large have cooperative relationship among each other, they have little information about current services run by various private and government-backed incubation centers. The government can also take steps to facilitate closer and mutually beneficial partnership opportunities for existing accelerators in order to benefit from the synergy effect.

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In search of balance. Managing ambidexterity in a fast growing techno-SME

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You always need a two-sided policy. One is that you have to win today, the second one is that you need to make sure that you also win tomorrow

(Johan Crujff, Dutch football player and philosopher)

Abstract: Managing the short term and the long term is crucial to the survival of companies. It can be done in different ways but it is more difficult for SMEs than for large companies, because, among other things, they have fewer tools at their disposal. For Ampelmann, the case we focus on in this study, at company level, only contextual and leadership-related ambidexterity are appropriate solutions. However, at project level, all five forms can be recognized and implemented to deal with exploration and exploitation. This means a shift in the discussion about ambidexterity in SMEs from company level toward project level. Furthermore, we found that, to manage the contradictory demands between exploration and exploitation, the explorative activities first need to be brought to a higher level, since innovation is divided among different units, and some components (e.g., project evaluation) are missing all together.

Keywords: ambidexterity, innovation, off-shore industry, techno-starter, exploitation, exploration

Introduction

To remain successful, companies must reap the benefits of existing products and at the same time look for new opportunities. Organizations face many challenges in reconciling these two different activities. This challenge is referred to as balancing exploration (innovation activities) and exploitation (operational activities), which are seen as contradictory activities, since they are based on opposing principles (March, 1991), operate on different timescales (i.e., short term versus long term) (Marginson & McAulay, 2008; McCarthy & Gordon, 2011)), require different organizational forms (Raisch & Birkinshaw, 2008), and create conflicting task demands (Chang & Hughes, 2012). Balancing exploration and exploitation is known as organizational ambidexterity which, in short, means being equally skilled at two contradic-

tory activities. Literature has amply examined how these solutions apply to large firms, but there is a gap with regard to this topic specifically for small and medium-sized enterprises (SMEs), in particular for techno-starters. SMEs differ from large firms in terms of resource availability (in the form of human/financial capital), managerial expertise, bureaucracy, structure, formality, obstacles in knowledge processes and the role of (top) managers in managing knowledge flows (Chang & Hughes, 2012; Lubatkin *et al.*, 2006). For instance, when it comes to leadership ambidexterity (see section 2.2), it would appear that the human resources department can play a vital role. However, SMEs lack the resources, administrative systems, and diversity of organizational architectures that can help them manage ambidextrous demands and implement a structural type of ambidexterity (cf. Lubatkin *et al.*, 2006; Tushman, Anderson & O'Reilly, 1997). This means that approaches to ambidexterity that work for large organizations may not fully or differently apply to SMEs (see also McNamara & Baden-Fuller, 2007), which is why, in this paper, we look at the various forms of ambidexterity in relation to SMEs. So, the research objective is to further develop the theory on ambidexterity by focusing on SMEs, to provide recommendations on how to manage the conflicting demands between operational and innovation activities, and to make these recommendations specific to Ampelmann (the case in this paper). To realize this objective, the following research question has been formulated: How can the conflicting demands between explorative and exploitative activities be managed in high-growth tech SMEs? We apply this research question in particular to Ampelmann Operations, an offshore access provider that operates about 28 systems worldwide. As a young company, Ampelmann faces many of the challenges involved in pursuing exploration and exploitation in their rapid growth.

Theory

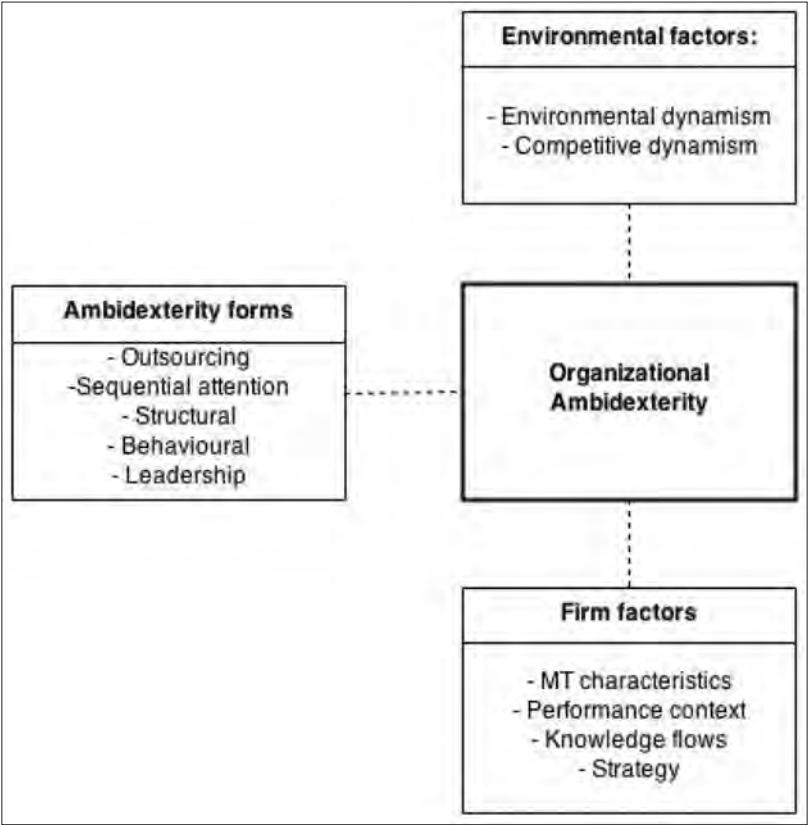
Theoretical framework

When a firm is good at both exploration and exploitation activities, we can say that it is ambidextrous (He & Wong, 2004), which means that it has the ability to pursue two contradictory activities, such as exploration and exploitation, efficiency and flexibility, alignment and adaptability, or global integration and local responsiveness (Simsek, 2009; Gibson & Birkinshaw, 2004). Organizational Ambidexterity (OA) is the term used in literature to describe the ambidexterity dilemma facing firms. It is defined by Raisch & Birkinshaw (2008, p. 375) as “an organization’s ability to be aligned and efficient in its management of today’s business demands while simultaneously being adaptive to changes in the environment”, while O'Reilly & Tushman (2004) describe ambidexterity as an important trait for a firm to stay in business in the long run.

Based on reviewing the main organizational ambidexterity research, Raisch & Birkinshaw (2008) developed a framework that integrates the antecedents, environmental influences, moderators and performance outcomes of organizational ambidexterity. The aim of this framework is to understand research on Organizational Ambidexterity, but in this paper, we use it as a basis to explore the antecedents to and influences on organizational ambidexterity in the Ampelmann case study (see figure 1). It shows the organizational forms through which ambidexterity can be achieved (organizational antecedents) and which factors influence or trigger ambidexterity (environmental and firm factors). In this paper, we do not use the frame-

work to test relations but merely as a conceptual map concerning the various forms of ambidexterity and influencing factors or boundary conditions to explore ambidexterity in SMEs. Based on this map, we explore what the most appropriate form of ambidexterity is for Ampelmann and which influencing factors are relevant.

Figure 1: Conceptual map, based on by Raisch & Birkinshaw (2008)



Approaches to ambidexterity

Five different approaches are proposed on how to realize ambidexterity in a firm: 1) outsourcing one of the two activities; 2) paying sequential attention to both activities; 3) paying simultaneous internal attention to both activities, 4) letting every employee be active in both activities, 5) making (top) management responsible for developing ambidexterity. Several (sub-)variants or different names can be found in literature, such as structural, architectural, behavioral, reciprocal and strategic ambidexterity (Raisch & Birkinshaw, 2008; Lin & McDonough, 2011; Simsek, 2009; Wang & Rafiq, 2014). Also, the various approaches can be classified according to different (organizational) tensions relating to differentiation versus integration, individual versus organizational levels, or static versus dynamic perspectives (or sequential versus simultaneously) (Raisch et al, 2009).

Outsourcing

When outsourcing (or externalizing) one of the two activities, the firm focuses on one activity and outsources the other activity or organizes it in an alliance (Raisch & Birkinshaw, 2008). For example, large firms who spin-out R&D projects acquire new technologies via a corporate venture capital model (Trott *et al.*, 2015; O'Reilly & Tushman, 2004)) and thereby achieve higher innovative performance (Michl, Gold & Picot, 2012). An advantage of this approach is that the firm in question only needs to focus on one activity. A disadvantage is that difficulties may arise in realizing strategic integration across independent organizations (Benner & Tushman, 2003). Furthermore, the exploiting firm is in danger of being unable to respond adequately to environmental changes (competency trap), while the exploring firm may end up trapped in an endless cycle of search and unrewarding change (Raisch & Birkinshaw, 2008). An example of a company outsourcing one activity is Xerox, which, for example, developed user-interface and software technologies, but left it to Apple and Microsoft to implement or exploit them (Tushman, 1996).

Sequential attention

A second approach is paying sequential attention to exploration and exploitation, which is also called a punctuated equilibrium or organizational vacillation (Boumgarden, Nickerson & Zenger, 2012). It means focusing on, for example, exploration for a certain period and then focusing on exploitation for the next period. The advantage of sequential attention is that it is far less complex to manage one consistent strategy at a time than two inconsistent alignments simultaneously in the same organization (Gupta, Smith, & Shalley, 2006). While some scholars describe a punctuated equilibrium as only doing one activity at a time (Gupta *et al.*, 2006), others see it as emphasizing a certain activity in a certain period (Venkatraman, Lee, & Iyer, 2007). An example of the punctuated equilibrium is described by (Venkatraman *et al.*, 2007) with regard to software firms that sequentially focus on developing new software and then on exploiting this software. An example of this approach is the famous Spanish restaurant El Bulli which every year is closed for a couple of months to think about and work on the next new menu.

Structural ambidexterity

This approach proposes dual organizational structures and strategies to separate exploration and exploitation in the same firm (also known as architectural ambidexterity) (Andriopoulos & Lewis, 2009). Structural ambidexterity not only proposes dual structures, but also different competencies, systems, incentives, processes and cultures (Benner & Tushman, 2003; Simsek, 2009). Using different approaches for exploration and exploitation is essential, since the two activities involve different learning activities. Exploitation is based on refining knowledge, while exploration is about finding new knowledge (March, 1991). An advantage of structural ambidexterity is that structural independence ensures that the distinctive processes, structures and cultures of exploratory units are not overwhelmed by the culture of the exploitative units. At the same time, exploitative units can focus on serving existing customers and engaging in exploitation without the distraction and pressure associated with exploration (Simsek, 2009). A downside is that separating structures and cultures may divide the firm, isolate units or reduce the coordination between shared efforts (Andriopoulos & Lewis, 2009; Birkinshaw & Gibson, 2004). Furthermore, units may lose their connection to the firm's core business, although this can also be seen as an advantage when units are working on radical

innovation, which is why O'Reilly & Tushman (2007) argue that OA can be achieved best via structural means through distinct units held together by a common strategic intent, an overarching set of values and targeted structural linking mechanisms to leverage shared assets.

Contextual ambidexterity

Gibson & Birkinshaw (2004, p.209) describe contextual ambidexterity as “the behavioural capacity to simultaneously demonstrate alignment and adaptability across an entire business unit”. Although some scholars use the notion ‘behavioral ambidexterity’ to refer to essentially the same approach (Simsek, 2009), the context refers to the systems, processes and beliefs that shape individual-level behaviors within an organization, and this context should then be designed to enable and encourage everyone to make their own decisions on how best to divide their time between conflicting activities (Raisch & Birkinshaw, 2008). Gibson & Birkinshaw (2004) note that contextual ambidexterity is potentially a more sustainable model than structural ambidexterity, since it facilitates the adaptation of an entire business unit and not just the separate units or functions responsible for new business development. This is an important point of view in relation to ambidexterity in SMEs, since business units may be far more like SMEs than large firms, which is why this approach can be very helpful in dealing with ambidexterity in SMEs.

Contextual ambidexterity can be achieved by building a set of processes or systems that enable and encourage people to make their own judgments about how to divide their time between conflicting demands for alignment (coherence in processes and patterns) and adaptability (the capacity to reconfigure quickly to meet changing demands) (Gibson & Birkinshaw, 2004). The organizational context should be designed to encourage and support people in their effort to cope with conflicting demands (Simsek, 2009).

Leadership ambidexterity

Leadership ambidexterity is the ability of the senior team to balance existing and new activities, combine short-term and long-term thinking and craft emotionally engaging visions while remaining focused on execution (Probst & Raisch, 2011). This is sometimes also referred to as top-management-team-ambidexterity. Realizing structural and contextual ambidexterity requires strong leadership. In a structural solution, the leadership approach should ensure a strong overarching management to deal with the contradictions that arise from structural separation (Smith & Tushman, 2005) while, for the contextual solution, the leadership approach plays an important role in effectively shaping the organizational context (Gibson & Birkinshaw, 2004). Researchers from both structural and contextual perspectives recognize an indirect, yet crucial, role of senior management in the realization of OA (Simsek, 2009; Probst & Raisch, 2011), even describing a so-called ambidextrous-CEO (Tushman, Smith & Binns, 2011). However, other studies see leadership ambidexterity as an independent approach to organizational ambidexterity (Lubatkin *et al.*, 2006). Ambidextrous leadership is not just about having a single leader at the top; it is shared across organizational levels, which requires addressing tensions, managing contradictions throughout the organization, thereby establishing a high-performance behavioral context (Gibson & Birkinshaw, 2004; Probst & Raisch, 2011). Furthermore, ambidextrous leadership not only challenges business leaders, but HR leaders as well. HR executives and staff play an active role in promoting ambidextrous leadership and developing ambidextrous leaders (Probst & Raisch, 2011). Since ambidextrous

demands affect leaders as well as employees, HR should also pay attention to developing ambidextrous employees.

As said in section 1 SMEs have more difficulties in becoming ambidextrous than large firms due to the lack of resources, administrative systems, and diversity of organizational architectures. With regard to the five approaches it would seem that outsourcing, sequential, and structural ambidexterity are rather difficult to achieve since they are resource-intensive and need extensive organizational arrangements. Contextual and leadership ambidexterity seem to be more in reach for SMEs since they depend on direct influence from central management which is in SMEs often present due to the few management levels. The case study will provide more knowledge about the relationship between the approaches and SMEs.

The case: Ampelmann

Ampelmann Operations is a company operating in the offshore access industry. Its core technology is a motion compensation platform that enables easy, fast and safe access from a moving vessel to offshore structures. The system was built and developed in-house and then leased to clients. The leasing of the platform (including Ampelmann operators) allows the company to maintain control over the entire process. The company was founded in 2008 as a spin-off of Delft University of Technology (Ampelmann, 2014). The company's starting point was a method to cross to an offshore wind turbine that one of the founders came across during a conference in Berlin. Back in Delft, the method and its possible applications was discussed with others and one of the ideas was to improve the method by developing a system platform based on the kind of platform used in flight simulators. The discussion actually started during the conference on a terrace of a Berlin hotel called Ampelmann close to the famous Checkpoint Charley, hence the name of the company. The mission or motto of the company: "Offshore access as easy as crossing the street". After the first idea was developed in the summer of 2002, expert meetings took place throughout 2003 to discuss the feasibility of the concept. In the following years, several students did their bachelor and master theses on the Ampelmann concept. Three of these students and two PhD candidates (including the two founding fathers) formed the Ampelmann team and further developed, built and tested a demonstrator model. The team won several awards, wrote a business plan, gathered sponsorship, partners and financing, and worked hard to build the first prototype. On 14 December 2007, these extraordinary efforts resulted in the first successful transfer of Jan van der Tempel (one of the founding fathers) from the Smit Bronco, via the Ampelmann, to a windmill at the OWEZ wind park. Ampelmann Operations B.V. was founded in 2008. Between 2008 and 2011, they doubled the number of systems (A-type) each year. Also, many improvements to the original A-type were implemented, the E-type (bigger brother) was introduced, and 'add-ons' were developed, like a bigger gangway, Butler, KIB and ship-to-ship transfer. In July 2013, Ampelmann sold a majority share to IK Investment Partners, to finance the worldwide growth of the company. Four months later, Ampelmann acquired its Dutch competitor Offshore Solutions and was able to increase its worldwide presence. Currently, Ampelmann employs 350 people, has a turnover between 50 and 100 million Euros, and they have helped 2 million people safely moving from a moving vessel to an offshore structure, and back.

We think that Ampelmann is suitable for this research since it is an SME, it has a strong technical base, it is fast growing, and it faces the dilemma between exploitation and exploration.

Figure 2: A scale model of the A-type



Research methodology

We decided to do a case study due to the lack on (applied) ambidexterity theories on SMEs and because we want to investigate the process of Ampelmann coping with ambidexterity. Data collection took place over the course of approximately three months through questionnaires and semi-structured interviews with Ampelmann managers and employees, zooming in on the innovation process and the interplay between the explorative and exploitative activities. The questionnaire was used to identify proxies for certain factors influencing or determining ambidexterity, creating a better understanding of Ampelmann's situation, which could then be used as a more knowledgeable basis for the interviews.

Questionnaires

Literature provides multiple questionnaires with (validated) scales to measure ambidexterity and related antecedents (see: Mom *et al.*, 2007; Li, 2012; Jansen *et al.*, 2006; Birkinshaw & Gibson, 2004). The scales were combined in the Ampelmann-case and four questions on strategy were added. This resulted in separate questionnaires for the Management Team (MT), for managers and for employees. The three questionnaires consisted in part of the same scales, and in part of specific scales aimed at the target group. Each question was answered on a 7-point Likert-scale. Before distributing the questionnaires, the questions were tested on non-native English speakers (students) and words and sentences that were not clear were reformulated with the help of a native speaker of English. At the start of the questionnaires, respondents were asked to fill out their first name, position and the number of years they had worked at Ampelmann, and told that the results of the questionnaire would be processed anonymously. Questionnaires were distributed throughout the office on paper and in person to the respondents, to increase the rate of response and reduce response time. If people were out of office for a longer time period (as regularly happens at Ampelmann), they were asked to fill out the questionnaire via e-mail. All MT members (7), all managers (7) and employees from both engineering and operations were approached.

Interviews

The main source of data came from semi-structured interviews. Semi-structured interviews give interviewees the opportunity to freely associate, increasing the likelihood of receiving unexpected answers or data. The two main topics in the interview were the strengths and weaknesses of Ampelmann's innovation process and the conflicting demands between Ampelmann's exploitation and exploration activities. Two other questions dealt with the various forms of ambidexterity and the questionnaire results. Alongside these four questions, a list of control questions was used to ensure that all relevant subjects were discussed. The interview protocol was developed with the help of interview guidelines as formulated by Jacob & Furgerson (2012) and by conducting a test interview. Eight interviewees were selected from different positions in the company directly involved in either innovation or in the line business, including the innovation project manager, the innovation manager (MT member), the engineering manager (MT member), innovation technical advisor and the operations manager (MT member). All interviews were recorded and transcribed to ensure reliability.

To obtain a more representative view at the employee level, a panel discussion was organized with a small group of employees. A panel discussion was selected since individual interviews would be too time consuming within the scope of the research. For the panel interviews, employees were selected based on their position and their involvement with either innovation or line business. Also, questionnaire responses that showed more involvement (extra comments and questions) were taken into account in selecting committed or involved employees.

Data measurement

To gather information about the most relevant constructs of this research (see figure 1), specific measures were used, mostly based on a sample of both medium-sized and large enterprises (Li, 2012). Other measures came from a sample of large enterprises, although most measures appear not to be related to firm size. Only the measure on knowledge flows was related to firm size and indeed did not provide valid results.

Organization ambidexterity was measured on two 6-item scales, measuring firm level exploratory and exploitative innovation. This scale is based on the findings by (Jansen *et al.*, 2006) and also used by (Li, 2012). Organizational ambidexterity was then measured by adding the scores of firm-level exploratory and exploitative innovations.

Managers exploration and exploitation activities were measured on two 7-item scales developed by Mom *et al.* (2007), indicating that firm-level or unit-level exploitation and exploration may to a large extent originate from their individual managers' exploitation and exploration activities. Therefore, it seemed a relevant scale to use to find proxies on Ampelmann's ambidexterity level. "The exploration scale determines the extent to which a manager engaged in exploration activities last year while the exploitation scale determines the extent to which the manager engaged in exploitation activities last year" (Mom *et al.*, 2007).

Strategy Since no scale was available to measure this construct, four questions were formulated as a proxy, based on literature about strategy.

Performance management and social support was used by Birkinshaw & Gibson (2004) to diagnose the organizational context. For both measures, they used a 7-item scale. For each scale, the mean value was calculated and the results plotted in a graph, which described five types of organizational context.

Knowledge flows were linked by Mom *et al.* (2007) to explorative and exploitative activities. The scales they developed were used in the questionnaire. To measure top-down and horizontal knowledge flows, a 3-item construct was used, while a 2-item construct was used for the bottom-up knowledge flows.

MT characteristics were measured by (Li, 2012) through TMT diversity, shared, vision, connectedness, and trust. Since Li did not include the questions on how TMT diversity was measured in the respective article, these questions could not be used. Shared vision is measured on a 5-item scale, while connectedness and trust are both measured on a 4-item scale.

Market characteristics are measured by Li (2012) through a 4-item scale on environmental competitiveness, and a 5-item scale on environmental dynamism. The market characteristics can be an indication for a firm's incentive to innovate.

The constructs involving strategy and ambidexterity were included in all questionnaires, while MT characteristics and environment characteristics were only included in the MT questionnaire, and managerial exploration and exploitation activities, and knowledge flows were only included in the MT and managers questionnaire (since MT members are also unit managers). The performance management and social support constructs were only included in the employee questionnaire.

Data analysis

Questionnaire

The outcomes of the questionnaires were analyzed in SPSS, negative questions were re-coded and total scores were computed, after which Cronbach's alpha was checked on acceptability of the results, minimal, maximal, mean and standard deviation values were computed to obtain a better sense of the results and identify major differences. Next, scatter plots were drawn to further interpret the results and extract the information characterizing Ampelmann to be used during the interviews.

Interviews

Interviews were taped and the recorded audio files were uploaded in transcription software for easier (but manual) transcription. Next, the transcribed texts were uploaded in Atlas TI for interview coding, for which the following coding categories were identified:

- Strength (of innovation processes)
- Weakness (of innovation processes)
- Conflicting Demand
- Need
- Decision Moment
- Decision Maker

During the coding process, subcategories were added to represent the meaning of what was being said by the interviewee. Also, top level categories (innovation and exploration-exploitation) were added, to separate the strengths between the two categories. The weaknesses were coded only in relation to the innovation process, while the conflicting demands were coded only in relation to exploration and exploitation at company level.

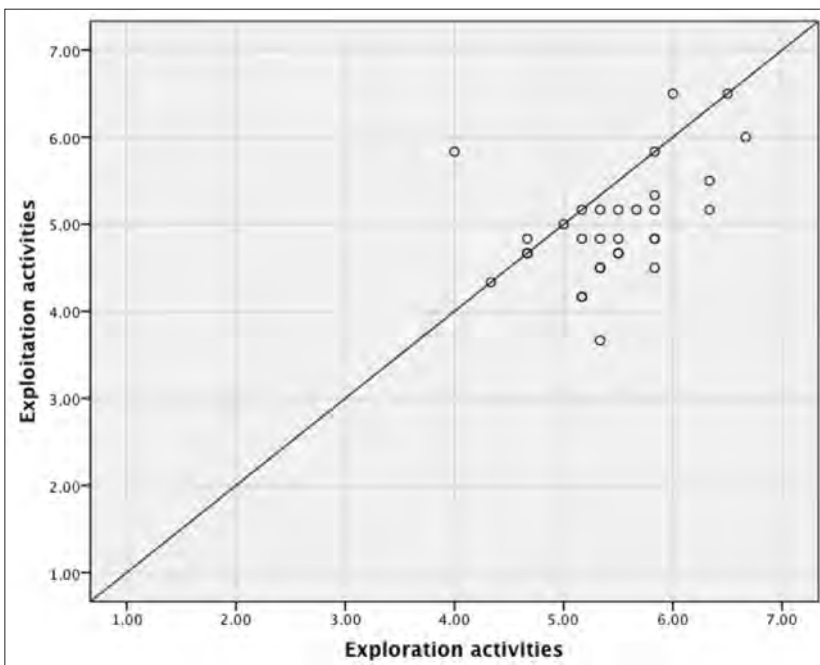
Results

It goes too far to provide all the results of the research, so we focus on the ambidexterity of Ampelmann, the ambidexterity of managers, the performance context, and Ampelmann's mission, vision and values.

The ambidexterity level of Ampelmann

Ampelmann's current balance between exploration and exploitation activities was measured based on how all the respondents viewed the extent to which and the balance in which Ampelmann explores new opportunities and/or exploits existing products.

Figure 3: Exploration and exploitation at Ampelmann

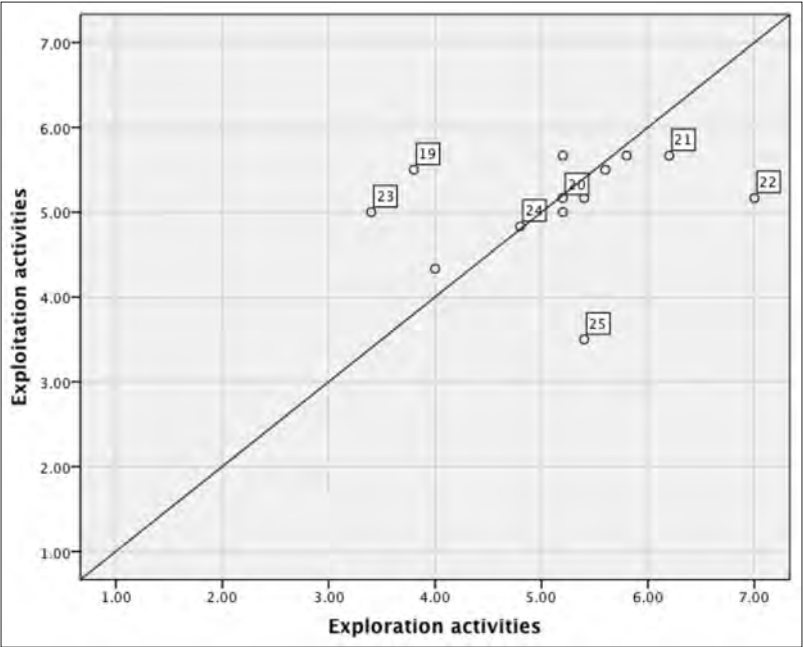


The results show that Ampelmann, according to its staff, is more explorative (average score 5.4) than exploitative (average score 5.0) in nature. However, with a .4 difference, the two values are relatively close to each other. The proxies for the level of exploration and exploitation show that Ampelmann has relatively equal levels of both. In that sense, Ampelmann can be seen as an ambidextrous firm. Since no measure could be found to indicate 'high levels of exploration and exploitation', it is more difficult to judge Ampelmann by this definition. Most scholars argue that truly ambidextrous organizations excel at both. When this would be interpreted as scoring 6.4+ (top 10th percentile of the highest possible score is then taken as the indicator of a high level) on both exploration and exploitation, Ampelmann is not (yet) a truly ambidextrous firm.

Managerial ambidextrous activities

Because managerial ambidextrous activities are seen both as a measure of ambidexterity and as an important precedent of ambidexterity (Mom *et al.*, 2007), this measure can be compared to, or is a check on, the previous measure. Managerial ambidextrous activities are measured through the managers' view as to what extent they are active in explorative and exploitative activities. The results show (figure 3) that on average, managers have more balance between exploration (average score 5.1) and exploitation (average score 5.1) than Ampelmann in general des. Since the largest difference between the scores of the two measures is only 5.5%, this difference is interpreted as small. What stands out is that innovation project managers (label 23, 24 and 25 in figure 3) score consistently lower than average (average score on exploration is 4.5 and on exploitation 4.4), while engineering managers (label 19, 20, 21 and 22 in figure 4) vary the most in the extent to which they engage in explorative activities (from score 3: 'not really' to score 7: 'to a very great extent'). The difference for the innovation project managers can be explained by observing that the innovation department's main task is project management. As a result, innovation managers may not really identify with either exploration or exploitation activities.

Figure 4: Managers exploration and exploitation activities at Ampelmann

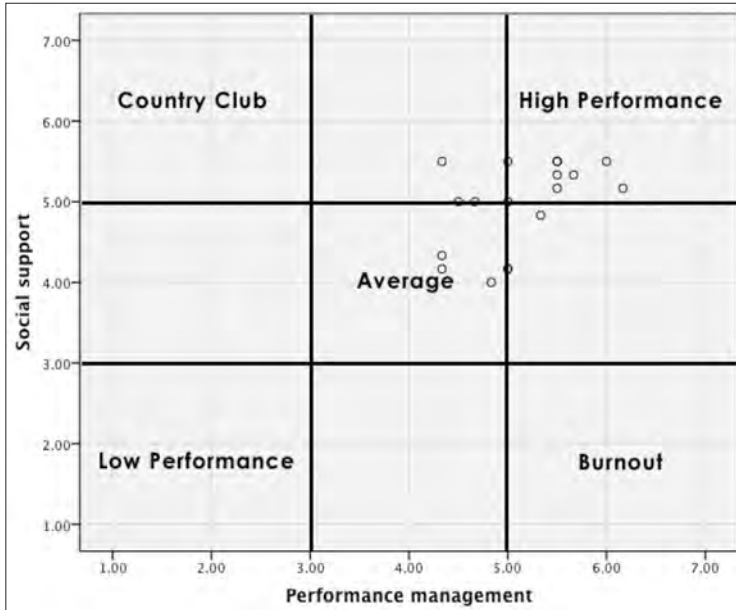


Performance context

The more a company emphasizes performance management and social support, the more likely are its employees to behave in an ambidextrous manner, and the more likely the organization is to perform well (Birkinshaw & Gibson, 2004). The results show that there are decent boundary conditions to create a true high performance context. Performance management (5: to some extent) and social support (4.9: to some extent) at Ampelmann score in the lower

left corner of the 'high performance' area, as can be seen in figure 5. It is positive to see that Ampelmann, according to its employees, is positioned in the correct area. However, some employees experience the performance context as average. Like the results on the level of ambidexterity, these results show that the performance context can be developed further to a true high performance context.

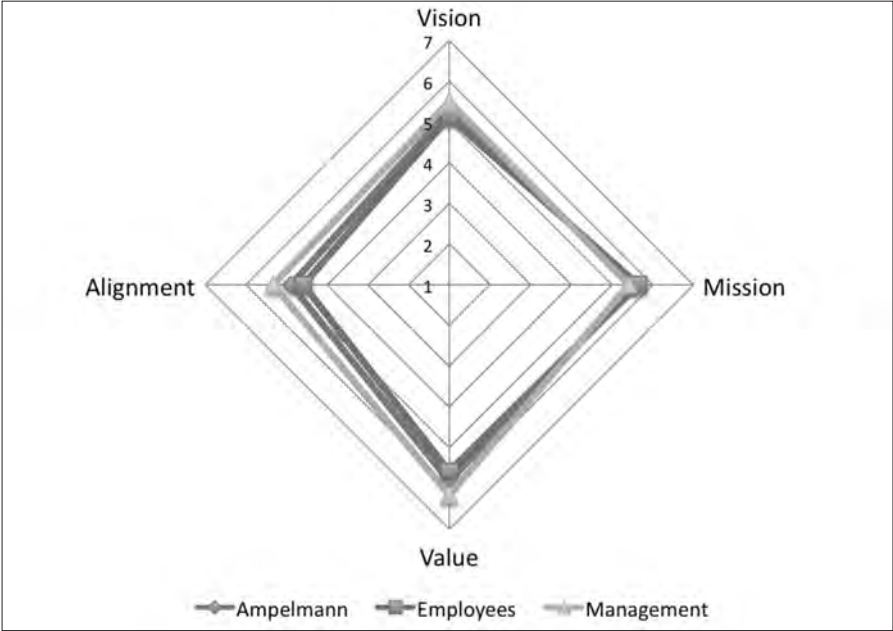
Figure 5: Performance context at Ampelmann



Ampelmann's mission, vision and values

A clear vision supports contextual ambidexterity (Raisch & Birkinshaw, 2008). Although the questionnaire results show that Ampelmann has quite a clear mission, vision and values (see figure 6), the observations and interview results indicate otherwise. The values (5.8 out of 7) are seen as being clearer than the mission (5.6 out of 7) and vision (5.3 out of 7). The results also show that the MT's view on the clarity of the mission, vision and values are consequently higher than that of the employees. However, although everybody indicated that the mission, vision and values are clear to them (and their work is aligned to them), very few were able to state the mission and vision. Only the values could be recapitulated. Furthermore, the innovation strategy was not clear to people working in innovation projects.

Figure 6: Clarity of vision, mission, values and alignment at Ampelmann



Conclusions

Given the various ways to achieve ambidexterity and the limitations (and possibilities) of an SME like Ampelmann, in this section, we discuss how they relate to the situation at Ampelmann.

Outsourcing

Although Ampelmann outsources many subtasks, such as the detailed engineering or production of components of the Ampelmann systems, this is not considered outsourcing in the sense of ambidexterity. However, such a model is not likely to be viable for a company such as Ampelmann, due to the tight cross-fertilization between the two activities. This close connection between the two activities may have to do with the fact that Ampelmann mainly innovates incrementally, which means that there is (and should be) a close link between exploitation and exploration. For instance, lessons learned during exploitation may feed the innovation processes (exploration).

Sequential attention

At the very outset, Ampelmann had a very distinctive sequential attention. With only one system, they were either in operation or in the workplace to improve or maintain the system, alternating sequentially between operations and (incremental) innovation. As the number of systems grew, this distinction faded. However, a sequential emphasis can still be noticed. At the moment, Ampelmann operates most of its systems in the European offshore market, a

market with a clear annual season (May-September) when weather conditions are optimal for maintenance work, and there is an emphasis on exploitation during the European offshore season. In that sense, there is sequential attention, although, in 2014, three big innovation projects (CTS, L-Type and GXXL) were also running during the offshore season, which also shows an emphasis on exploration. Furthermore, in other markets where Ampelmann is active, such as Asia, there is continuous activity throughout the year. As such, although there is a sequential emphasis, with Ampelmann's global growth, this may become less apparent. In addition, Ampelmann has the desire and ambition to answer all its clients' questions, regardless of the season in they are is being posed. In that sense, the company does not choose, nor can it choose to focus on exploration, but instead responds to market demand.

Structural Ambidexterity

Dual structures, as proposed by structural ambidexterity, are difficult to create (or even undesirable) for SMEs, due to their small size. At Ampelmann, this is expressed in the importance of the interchange of knowledge and experience between several units. A structural solution would diminish this knowledge exchange. Therefore, the alternative to realizing OA in SMEs would be to focus on contextual and leadership ambidexterity. These two approaches are also supported by several scholars focusing on ambidexterity for SMEs (Clercq *et al.*, 2013; Lubatkin *et al.*, 2006; Chang & Hughes, 2012; Havermans, 2014). Although there is no structural separation at Ampelmann, there is separation at a sub-level can be observed. Production, for instance, takes place in another location than where the offices are located, the most recently added office floor at their Dutch office is exclusively occupied by Business Development and Operations (while the other floors are more mixed), and sometimes project teams are given their own space.

Contextual and leadership ambidexterity

Lubatkin *et al.* (2006) emphasize that, for SMEs, top management has the greatest potential to affect the form and fate of an organization, while Clercq *et al.* (2013) emphasize leadership ambidexterity in the case of SMEs, arguing that firms need to acknowledge the importance of the ways in which their managers interact and communicate. Chang & Hughes (2012) use complex terms, such as balanced dimensions and combined dimensions of ambidexterity, to illustrate how this helps SMEs achieve ambidexterity. While these terms, in our view, are unclear, the point that Chang & Hughes make is that shaping the right internal environment and adopting the correct leadership methodologies helps SMEs deal with both exploration and exploitation. In addition, Havermans (2014) and Carmeli & Haveli (2009) explore the role of leadership in enabling contextual ambidexterity in project-based organizations, proposing many practices designed to stimulate exploration and exploitation. Havermans (2014) describes project-based organizations as a variety of organizational forms that involve the creation of temporary systems for the performance of project tasks. In that sense, Ampelmann can be seen as a project-based organization, since all operational and innovation projects fit this definition. As such, Havermans' findings are relevant to this case, since the results show leadership practices designed to stimulate exploration, including involving others in certain tasks and stimulating discussion, with the latter playing an important role, since discussion could surface conflicting beliefs and tensions that could then be resolved. Also,

boundary-spanning is described as a way to stimulate exploration, including using perspectives from outside the team to develop new solutions. Other practices include stimulating the adoption of values related to exploration, allowing people freedom in accomplishing of their tasks and encouraging people to work together. Practices designed stimulate exploitation are limiting discussion, adopting values related to exploitation, making decisions and rules to guide people's actions, and redirecting people's efforts when they drift away from the objective.

To conclude, Ampelmann is a fast-growing high-tech SME that pursues both exploration (innovation) and exploitation (operation) activities simultaneously. Since Ampelmann has a lot of in-house technical expertise, the company is able to respond to customer demands and provide solutions in a relatively short time. It was found that, when evaluating the five forms of ambidexterity for Ampelmann at a company level, only contextual and leadership ambidexterity are appropriate solutions. However, the main result of this study is that the case shows that, at a project level, all five forms can be recognized and implemented to deal with exploration and exploitation. Since this was not found previously in literature, this could mean a shift in the discussion about and research involving ambidexterity in SMEs from a company level to a project level. Furthermore, we found that, to manage the contradictory demands between exploration and exploitation, the exploitative activities first need to be placed on a higher organizational level (this is probably true for both activities, but this research emphasized exploration). In the Ampelmann case, it can be seen that the organization of innovation is still in a very early stage. Innovation is divided among different units and some components (such as project evaluation) are absent all together.

For Ampelmann, the organization of innovation first needs to be improved. Many of the weaknesses that were identified are mostly rooted in relative lack of organization regarding innovation. Although Ampelmann is committed to innovation, in most cases this commitment is directly driven by concrete customer demand. As a result, projects are placed on hold when a client withdraws or projects are restarted with a very tight deadline when a new customer is found. This behavior, together with many similar examples, results in frequent changes in resource demand and project priority, making it more difficult to manage the conflicting demands between operations and innovation. Therefore, after the organization of innovation has been moved to a higher level, the organization can start by managing the conflicting demands outlined above.

This research adds to our understanding how SMEs and the various approaches to ambidexterity are related. Outsourcing and structural ambidexterity are difficult to implement. Sequential attention seems to be possible for Ampelmann, but it should be noted that this is only so because of the specific industry in which Ampelmann operates. Contextual and leadership ambidexterity are the most suitable given that Ampelmann in particular SMEs in general are more under direct influence of their company leader(s). In addition, at SMEs realizing ambidexterity should be mainly focused on project level instead of organizational level.

Recommendations

There are three types of recommendations to Ampelmann: strategic recommendation, organizational recommendations and recommendations regarding the implementation of forms of ambidexterity.

Strategic

At a strategic level, there are three (sub-) recommendations. Firstly, to bring more continuity to innovation projects, placing them on hold or stopping them altogether when a client withdraws should be avoided. Instead, we would suggest using a system of opportunity evaluation so that, when an opportunity is positively evaluated (i.e., Ampelmann is convinced of its market potential), it should be easier to decide to continue a project even when a client withdraws. When the opportunity is thoroughly evaluated, Ampelmann itself can be convinced of its market potential and continue its development even without immediate market demand. This may also mean that Ampelmann must be able to say no to a client. At the moment, Ampelmann responds positively to every opportunity that present itself. However, by saying no to certain opportunities, the focus and consistency with regard to the company's strategic decisions and actions can be increased.

Secondly, Ampelmann could improve the formulation and communication of its strategy, vision, mission and values to make them more meaningful to employees, both in operation and in innovation. This study showed that Ampelmann's mission and vision are unclear to its employees and that they are directly associated with innovation. However, a clear and (relentless) communicated strategy (and mission, vision and values) increases a company's ability to behave in an ambidextrous way. One approach would be to use the so-called Monday morning meetings to consistently communicate the strategy, provide updates on projects, highlight their priorities, inform people of possible future to occur and inform them as to how these things fit the strategy.

Thirdly, when applying organizational models from Mintzberg *et al.* (2002) to Ampelmann, we see that one important characteristic from the entrepreneurial organization (i.e., dominant influence from the top manager) is (still) present, even though Ampelmann has already developed into a more mature organization. The current organizational form is more comparable to the innovative organization and, since these models suggest a different leadership style for these kinds of organizations, it may be worthwhile to discuss whether the current leadership style still matches the kind of organization Ampelmann is becoming.

Organization of innovation

The organization of innovation at Ampelmann is still in an early stage. The following recommendations should help the company identify starting points for further development. To begin with, Ampelmann's innovation process is still relatively narrow and to a large extent a project management process. There are many studies into innovation processes that can help Ampelmann develop a more complete innovation process, for instance adding opportunity identification and evaluation, project selection, project evaluation, etc., to the existing process.

Secondly, Ampelmann can start evaluating innovation projects, by formulating evaluation criteria to determine project success, index project determinants (i.e. team size, experience, innovation type, team work, etc.) to identify critical success factors for a project, and process evaluation to extract learnings. These project criteria, lessons and the innovation process mentioned earlier be assembled in a Ampelmann guide to project management.

Thirdly, Ampelmann can work on its definition of innovation. At the moment, innovation projects are seen as projects that run across multiple units. Distinguishing types of innovation can help determine how projects should be organized and managed. Both explorative

and exploitative innovation can be used to distinguish between different types of innovation, but other classifications can also be used.

Implementing ambidexterity forms

When forms of ambidexterity are implemented, at a company level, we would recommend focusing on contextual and leadership solutions, to create a genuinely ambidextrous organization, even though some structural solutions may be more appropriate later on as the company grows and becomes more complex. At the moment, the contextual solution appears to offer the best fit. However, in both cases, leadership solutions are essential to a successful implementation, and investing in leadership solutions also means investing in the possible future situation. At a project level, more research is needed to determine which form of ambidexterity matches certain projects.

In addition, we recommend involving employees in developing the organization of innovation. From the interviews, it became clear that many employees are highly committed to the organization and have ideas about how to develop the innovation process. Involving them not only provides the company with a potential idea generator, it also makes them feel involved and heard. Indeed, even at (work-) group level, ambidextrous mechanisms can work (see also Luo, Xu & Ling, 2015).

All this shows that adopting a multilevel approach, and looking at ambidexterity at different organizational levels, is a smart strategy (see also Chamdrasekan, Linderman & Schroeder, 2012; Andriopoulos & Lewis, 2009)).

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A methodology for collaborative performance estimation of industrial enterprises in furniture industry

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Abstract: This work expresses the opinion that there is a need for a new form of business innovation because traditional (closed) ways for innovation not contribute in quantitative and qualitative terms for business development and solving emerging in today's business environment problems. Although skills to build business networks are a prerequisite for improving operational and cognitive efficiency, trust is the core capabilities to perform collaborative innovations.

Subject of this work is intra organizational trust during the implementation of organizational interactions.

The aim of the work is to develop a model to assess the level of trust based on aspects of the process of information exchange.

After extensive literature research the author has developed a model to assess the Levels of maturity of trust. It was decided the model structure to be built up of three elements: Four levels of maturity of trust; Seven critical success factors for achieving Levels of maturity of trust; Organizational practices to reach critical success factors. In this model each of the critical success factors are evaluated to determine how well they are reached. This is the initial version of the model for assessing the trust maturity, which requires further improvement and evaluation in practical terms.

Keywords: collaborative innovations; trust estimation; collaboration; business networks; furniture industry

Introduction

Nambisan (2008) defines collaborative innovations as a collective approach to creating innovation and problem solving, which is based on harnessing resources and creativity of external networks and communities to strengthen and improve the innovation process and expand the scale and quality of innovative results. From this point of view can be determined and the main feature of collaborative innovations - open-ended innovation process, in which at an early stage actors of an organization, other organizations and firms are integrated in the innovation cycle (generating and choice of ideas; implementation; deployment). Therefore, the trajectory of the innovation should be determined by the availability of innovative assets and not by the formal boundaries of an organization. Moreover, the role of actors in smaller

extent is determined by formal rules, but rather by the degree of correspondence between the problems and the available innovative assets. Accordingly, the availability of innovative asset innovation cycle can be shared between players or be carried out by an organization. In this respect, significant is the role of information technology. The IT are the main means of building business networks and they ensure a continuous flow of ideas and information.

Although skills to build business networks are a prerequisite for improving operational and cognitive efficiency, trust is the core capabilities to perform collaborative innovations (Axelrod, 1984; Barney & Hansen, 1994; Chen, Daugherty, & Landry, 2009; Gulati & Nickerson, 2008). Trust is an essential element of the architecture of relationships between organizations in a business network, i.e. without forming a trust-based cooperative business networks can neither be build nor persist (Gulati & Singh, 1998; Richey, Roath, Whipple, & Fawcett, 2010; Wallenburg, Cahill, Knemeyer, & Goldsby, 2011).

An increasing number of collaborative business models are used by successful businesses in the world, but remains the question why many of competitors fail in attempts to copy or imitate these models. The main reason is trust. Only a limited number of business organizations manage to form a proper trust with its partners in business networks and benefit from collaboration.

Subject of this work is intra organizational trust during the implementation of organizational interactions. The author assumes that the assessment of trust should be based on the characteristics of the information exchanged between the participants in business networks.

The aim of the work is to develop a model to assess the level of trust based on aspects of the process of information exchange.

Cooperation in the implementation of innovations

In recent years, three drastic changes (technological, informational, institutional) revolutionizing the business environment in which it arises strategies of pusher type. Result of this sharp transition is the emergence of so-called “New Economy”. Taken together, these changes result in the escalation of competition, imposing strict imperatives of consumer-oriented strategies from pull-type by which to achieve quick response to changing consumer demand and greatly expanded product differentiation through which to meet user requirements. All these factors give rise to new imperatives that can be formulated generally as “pull innovation”. A key feature of these innovations is the cooperation between business organizations.

The emergence of pull orientation processes has a catalytic effect on business organizations to expand their concept of pull-type processes and increase the potential of their innovation processes. Pull innovations broaden innovation focus from internal vertical processes to building value creating systems (also known as value networks). They extend vertically and horizontally inside organizations and partly to external business organizations involved in delivery of products to consumers.

Major organizational change relating to pull innovation is cooperation between business organizations. Collaboration has long been considered as a valuable tool for enhancing innovation. The benefit stems from the sharing of knowledge and its consequences on innovation. In a so-called ‘New economy’ demand for cooperation and exchange of knowledge is a natural result of specialization and deserves special attention. But there is a second moti-

vational factor for cooperation. Cooperation is vital to realizing the design process of products that extends beyond organizational boundaries and reaches consumers.

Implementation of collaborative innovations for pull type business systems in the new economy is growing as organizations become more independent and specialized. Treating knowledge as organizational assets and clear separation of explicit by implicit knowledge force the notion to consider knowledge as limited resources. From this perspective, today businesses are forced to seek access to external sources of knowledge, rather than creating internal organizational knowledge. Thus, knowledge is becoming the most exchangeable resources, which is the catalyst for cooperation. While a significant portion of explicit knowledge can be found in finished products, the implicit knowledge that are crucial to understanding the processes that must be acquired. The need for acquisition of such knowledge to expand the cognitive areas of the organizations evoke efforts to create collaborative innovations.

Leadership and management of collaborative innovations

Barriers to collaborative innovations can be eliminated or minimized by applying appropriate leadership and management (Ansell & Gash, 2012; Sorensen & Torfing, 2012). In very complex processes of collaborative innovations lot of things can go wrong between intentions and implementation.

First, collection of relevant and committed actors in sustainable interactions can fail due to: lack of past experience and traditions in interaction; negative perceptions of past interactions; difficulties in motivating relevant actors to take the time and effort to interactive participation (Ansell & Gash, 2008).

Secondly, when the actors agree to interact, often it is because they recognize the need to share and combine ideas and resources to solve urgent or important issues. But interactions not always stimulate cooperation overriding by conflict of interest. Moreover, cooperation may fail because of prevailing of distrust and opportunistic behavior, availability of procedural uncertainty and the existence of incompatible and destructive cognitive models (Straus, 2002; Koppenjan & Klijn, 2004; Ansell & Gash, 2008).

Thirdly, when the actors engage in the cooperation process they can not contribute to innovation. Recurring events of cooperation in enclosed and sustainable business networks with the same actors who over time have developed similar views of the world will stifle creativity, will discourage the creation, prototyping and implementing new and bold ideas and will decrease the spread of innovation (Skilton & Dooley, 2010).

In summary, there is a risk different obstacles to disrupt the relationship between interaction, collaboration and innovation. Good intentions for communication and cooperation in order to study and exploit new ideas are not enough for the realization of collaborative innovations. In order to achieve sustainability of the process of collaborative innovations appropriate methods of leadership and management must be implemented.

Firstly, must be created a well-functioning interactive environment with active and committed actors, so leaders and managers must operate as organizers (Newman, 2011). The organizers aim to motivate, empower and unite actors to create and form interactive environment to determine the agenda of interactions to clarify the interactive processes and foster mutual adjustment of expectations (Ansell & Gash, 2008).

Secondly, leaders and managers need to promote and facilitate cooperation between stakeholders operating as mediators. The mediators aim to form or clarify mutual commitments to manage the process of cooperation through decomposition into different stages to form a trust and resolve disputes through coordination of interests based on common models and to remove obstacles to cooperation (Straus, 2002; Crosby & Bryson, 2010).

Finally, the progress of collaborative innovations can help if leaders and managers act as catalysts that apply entrepreneurial approaches to leadership and management. Catalysts help to reformat the problems giving new knowledge and new roles for actors benefit from existing and emerging constraints and opportunities, manage risk and promote transformative accumulation of knowledge and traditional thinking (Crosby & Bryson, 2010).

Nature of collaborative trust

In order to promote competitiveness in the contemporary business environment that is characterized by significant changes in demand and changing economic constraints, businesses increasingly tend to cooperation within certain business networks (Cheikhrouhou *et al.*, 2008). The success of such collaborations and improvement of organizational effectiveness are closely related to trust among participants in business networks, trust between organizational units within an organization and trust between collaborators (Mothe & Ingham, 2002; Kwon & Suh, 2004). Therefore, participants in business networks should assess the level of trust in each partner (potential partners) when making decisions about cooperation.

It is believed that in general the trust is made up of two main elements - goodwill and capabilities (Doney & Cannon, 1997; Johnston, McCutcheon, Stuart, & Kerwood, 2004; Jones, Fawcett, Fawcett, & Wallin, 2010). Performed in this work studies have shown that if goodwill underlying interpersonal trust, it is not the case in the relationship between business organizations. In business networks trust is based on abilities. In today's increasingly competitive business environment businesses can not afford partnerships based on goodwill. It is believed that requires two basic types of capabilities – performance capability; commitment capability.

It is important to note that each of these two capabilities is formed by two elements - intentions and skills. Participants in business networks should have a basic and a genuine desire to achieve an exceptional level of performance. This desire must extend beyond just reporting to partners what they want to hear in order to reach an agreement. Unfortunately formation based on trust relationships that create collaborative innovations takes time and intensive efforts.

Although unsynchronized incentives prevent both types of capabilities, they create more problems in the commitment capabilities.

The formation of commitment capabilities behind the formation of the performance capabilities. Commitment capabilities are demonstrated by openness of business organizations to exchange information, even partially confidential. Investing in commitment capabilities and expressions of empathy are significant signs of commitment to the interactions.

Even when the desire to achieve commitment is high, many businesses do not have the know-how, experience and resources to actively build lasting, trust-based relationships.

The assessment of the level of trust is an important issue when choosing a partners because it should be taken into account many other factors (Carney, 1998; Fischer *et al.*, 2004; Laaksonen *et al.*, 2009; Sarkis & Talluri, 2002; Wu & Su, 2005). Nevertheless, until now the trust is considered as a smoothing factor that unites a number of aspects such as perceptions of

contacts or successful outcome of past cooperation. On the other hand, the level of trust between businesses is closely linked with the exchange of information (intensity information exchange, quality of information exchanged, etc.) (Ming & Songzheng, 2008).

The literature offers different concepts of trust in relation to the conditions and objectives (Dyer & Chu, 2003; Mun *et al.*, 2009; Schmidt *et al.*, 2007). In this work the trust is defined as the degree to which each of the participants in the business networks tends to participate in certain ventures with specific counterparties, taking into account the associated risks and actions (Ruohomaa & Kutvonen, 2005; Bharadwaj & Al-Shamri, 2009). Importance of assessing the level of trust in partners is determined by a number of benefits arising from based on trust relationships in business networks (Zaheer *et al.*, 1998; Dyer & Chu, 2003; Johnston *et al.*, 2004; Laaksonen *et al.*, 2009; Panayides & Venus Lun, 2009). It's found out that the increasing of trust in partners is closely linked with increasing intensity of exchange of information on implementation of the relationship between the partners. Msanjila and Afsarmanesh (2008) showed that trust is a complex concept that is impossible to assess by one criterion or be interpreted as a simple indicator. Therefore, the assessment of the level of trust between partners should start with defining the perspective of the evaluation trust and then continue with the identification of the factors of trust. Finally, it should be developed methods to categorize the level of trust in terms of the identified factors. In the literature are found examples of conceptual models for identification of factors associated with trust between partners and their relative importance. Through such models and proved studies it is shown that the intensity of exchanged information between partners is one of the most significant factors related to trust (Kwon & Suh, 2004; Kwon & Suh, 2005; Tian *et al.*, 2008). However, very few publications have been devoted to the relationship between the level of trust and information sharing. One such example is the model developed by Ming and Songzheng (2008), which serves to analyze the impact of the intensity of the exchanges and the quality of information on the dynamics of trust and intent for cooperation in business networks. Nevertheless, the model does not address in detail the elements of the exchange of information that have an impact on the trust and the mechanisms of influence of each item.

Finally, it should be noted that the relationship between trust level and intensity of the exchange of information remains insufficiently studied and developed models do not provide sufficiently detailed picture of this relationship. There is no complete detailed classification of the elements of the exchange of information, which affect trust level. The models provide only a general idea of the relationship between those elements, but do not provide methods to quantify these elements.

Mechanism for building trust through cooperation

Some suppliers and customers have unique resources and capabilities that are prerequisite for closer ties and greater investment (Dyer & Singh, 1998; Fawcett, Magnan, & McCarter, 2008; Lai, 2009). The level of trust with stakeholders in business networks depend on competitive strategies and opportunities for replication trust to build unique capabilities (Lawrence & Lorsch, 1967). Performed in this work literary study shows that the majority of businesses have yet to develop organizational programs to define the intensity of interactions and to develop appropriate interactions.

It is too difficult building skills and motivation to evaluate the potential for cooperation, which determines the appropriate intensity of interactions and consequently the right level to trust. However, this is the initial step towards the use trust as a catalyst for collaborative innovations. To know the different levels of trust and to know the conditions when they are appropriate Fawcett *et al.* (2012) developed a model for a model of maturity confidence.

As businesses develop their capabilities, they increase levels of trust maturity, which increased possibilities for realization of collaborative innovations. To achieve cooperation based on trust, initiatives to build trust must meet the following requirements: have sufficient time for development; to generate sustainable positive results; to instigate appropriate investments to achieve synergies. If any of these conditions is not met, participants halt progress towards trust-building for the implementation of cooperation.

Although trust is based on experience, not time but intensity of interactions is key to maturity of trust. Some interactions that are oriented towards creating products and managing transactions does not need to evolve over the level of transactional trust. In other cases, businesses can meet potential partners who have unique products and technologies and speed should build relations based on a high degree of trust in order to benefit from being first to market.

Managers who are able to identify unique opportunities to inform about its potential to persuade partners to participate in joint activities and to motivate investors can contribute to the rapid progress of business organizations towards trust-based cooperation.

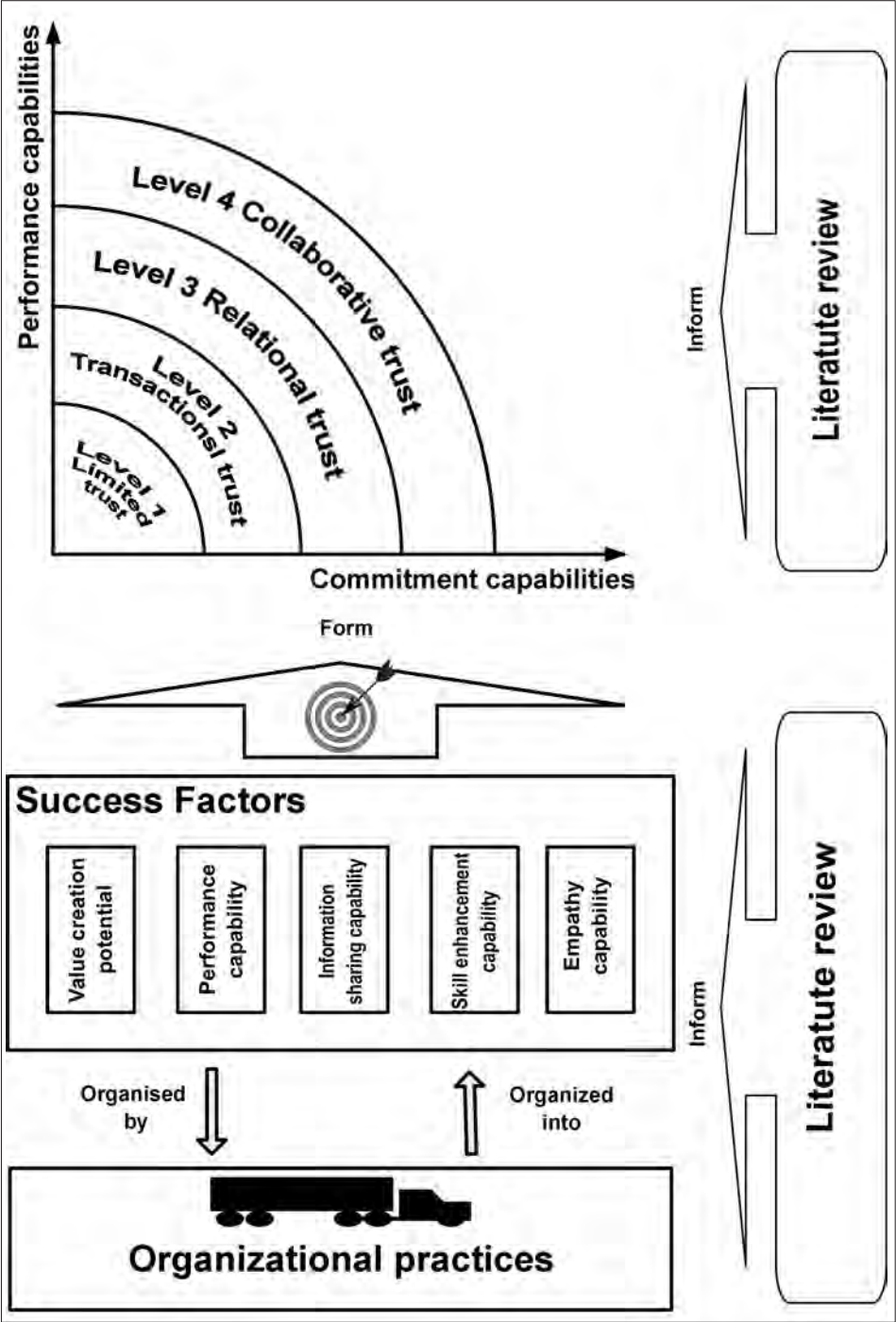
Model to assess the level of maturity of trust between businesses

After extensive literature research the author has decided to build a model to assess the Levels of maturity of trust.

It was decided the model structure is made up of three elements (Fig. 1):

- Levels of maturity of trust;
- Critical success factors for achieving Levels of maturity of trust;
- Organizational practices to reach Critical success factors.

Figure 1: Model for assessment of the levels of maturity of trust



Levels of maturity of trust

The high level of maturity of the trust is not always a prerequisite for business success. If the potential for generating value is limited investments to build collaborative capabilities simply do not make sense. High levels of trust provide marginal benefits of cooperation in building strategies for exotic and simple products. It is wrong to invest in building business relationships because they generate little value. Such wasted efforts are too harmful as destroying trust and make much more difficult the efforts of managers to achieve higher levels of trust and more intense relationships.

Level I. Limited trust. Driving goal of level I is in the short term to achieve the lowest cost and guarantee a certain level of quality.

Not all relationships of trust level I strategically can be defined as ventures with limited credibility. Some managers are willing to use trust as a lever to improve the capability to generate value, but their organizations have not made the necessary programs to build trust. Such organizations can improve efficiency or ignore the need for investment to build relationships.

Level II. Building trust based on transactions. Level II Relations are highly productive, close relationship that arise as a result of positive business operations and results. These relations are characterized by an emphasis on efficiency and on technological means. Often enjoy long-term arrangements, including conditions to improve performance. But since these relations do not include distinct abilities formation of conduct for participation in business networks, investment in building relationships of cooperation are minimal. In fact, Level II relations create effective order to achieve the results in terms of cost, quality and timeliness of deliveries. As economic conditions conducive to such relations, they will continue to exist and perform at a high level of confidence.

Unfortunately, many potential strategic relationships fail before reaching the Level II of maturity of trust. In some cases this happens because managers contacting businesses do not understand the nature of the investments that must be made to achieve the organization performance and to build capacities to engage in interactions. In other cases, managers do not have the necessary skills to help their partners to advance to Level II of maturity of trust.

Level III. Building trust based on relationships. Demand for distinctive advantages begins when participants in business networks have unique and complementary skills that incite cooperation. To take advantage of these opportunities to generate value are required larger investments for both types of processes and relationships.

Changes in the competitive environment required quick competitive reactions. The problem is to follow patterns including such complementary skills that allow creating trust collaborations in the interest of both parties. This problem is solved relatively easily if a business organization already has a reputation for reliability.

Two factors distinguish the relations in Level III and Level II trust maturity: a great potential for generating value; perception of trust and cooperation as a strategic protective weapon. These factors encourage investment in performance commitment capabilities.

On Level III of trust maturity occurs cooperation behavior as partners: agree to guarantee profitability for both parties; begin to share risks and benefits; show kindness in taking into account the needs of other countries.

Level IV. Building trust based on cooperation. Relationships that reach Level IV of trust generate shared conviction of the leading participants in the networks to consider the capa-

city and capabilities of the participants in the network as an extension of their own business activities. When such a situation occurs, businesses share resources with the desire to help its partners improve their processes and competitive positions. Increased engagement in interactions is not dictated by altruistic motives rather than depending on the competitive success thinking. It is expected the investments to rise to higher competitiveness and significant financial returns for all participants in the collaboration. Such cohesive interdependent relationships are implemented to major suppliers and customers and are characterized by: sharing all relevant information (including confidential details); joint planning and problem solving; focus on mutual prosperity and success. Intensive investment in relations are a prerequisite to initiatives for unique collaboration.

Critical success factors for achieving levels of maturity of trust

The potential for value creation express what needs to be assessed in order to determine the appropriate intensity of interactions and exact level of trust that must be built. Higher levels of potential for value creation arise when participants in business networks have different, complementary competencies that can be combined in a unique way to create superior value. So the potential for value creation incites to achieve higher levels of trust maturity.

Performance capabilities express opportunities to bid superior results and then to fulfill the promise. Performance capabilities arise when businesses invest in vital processes, systems and skills. These investments are improving the efficiency of business operations and increasing interdependence. High levels of performance capabilities create trust in the participants in the business networks in their quest to justify investments to achieve closer, more intense relationship (Chen, Tian, Ellinger, & Daugherty, 2010).

Commitment capabilities express the readiness and capabilities for efficient operation to retrieve the mutual benefit of the participants in business networks. Three specific forms of investment for building relationships are identified through which trust and superior cooperation are formed: sharing information; improvements of the skills of the partners; making of empathy. These investments contribute to better decision making and a greater willingness to initiate intensive interdependent relationships.

Value creation potential. On Level 1 (Limited trust), businesses do not have the ability to push activities to relationships. Improving the efficiency of operations not care management. The next Level 2 (Transactional trust) businesses do not yet have distinct abilities to push for closer relations. But Level 3 (Relational trust) they possess complementary distinct abilities that incite cooperation. The last Level 4 (Collaborative trust) builds mindset that success depends on the strength of the participants in the business networks. Efforts are being made to strengthen the complementary skills.

Performance capabilities. On Level 1 (Limited trust) business organizations do not have processes and systems in order to be able to always fulfill what they have promised. But the Level 2 (Transactional trust) began building the processes and systems for sustainable performance of what was promised. The next Level 3 (Relational trust) established processes and systems already allow to always deliver a high level. The last Level 4 (Collaborative trust) business organizations have processes and systems that always carry the promise of the highest possible level.

Information sharing capability. On Level 1 (Limited trust) too little information is shared outside organizations involved in business networks. But the Level 2 (Transactional trust)

began sharing histories orders and medium-term forecasts to help partners make more precise decisions. The next Level 3 (Relational trust) histories of orders and forecasts already freely shared through Web interactions. Shares are strategic information such as penetration of markets and plans to introduce the technology. The last Level 4 (Collaborative trust) has shared all relevant strategic information, including market penetration, ways to implement technology, studies the external environment and costs.

Skills enhancement capability. On Level 1 (Limited trust) does not provide investment to develop skills associated with building relationships. But the Level 2 (Transactional trust) are systematically investing to ensure the efficiency of transactions and achieve a fair relationship. The next Level 3 (Relational trust) make additional investments in technologies and processes to increase interaction between employees, pushing to improve decision making and generate ideas. The last Level 4 (Collaborative trust) partners can now consider the capacity and capabilities of others as an extension of their capacity and skills. Share is the intellectual and technological resources to enable each other to improve their competitive skills.

Empathy capability. On Level 1 (Limited trust) interactions are characterized by short-term benefits. Long-term survival and thriving is not a concern of management. But the Level 2 (Transactional trust) influential partners by facilitating payments and other behavior. Business organizations follow corrective actions when partners complain of unilateral decisions. The next Level 3 (Relational trust) efforts to create an atmosphere of empathy. The agreements are intended to ensure long-term profitability for all parties. Consumers always pay on time. Suppliers respond to the specific requirements of users to create added value. To share benefits and risks. Business organizations proactively take into account the needs and welfare of others when making management decisions. The last Level 4 (Collaborative trust) there are intense, deep interactions supported by the collective decision-making. This eliminates unilateral decision. This is achieved through inter-organizational development strategies and formation of teams to jointly develop new products. Relationships are characterized by collective problem solving. Business organizations actively evaluate and pursue opportunities for renewal in response to competitive changes in the external environment.

Assessing levels of maturity of trust

According to the author's four levels of maturity of trust related to collaborative innovations are sufficient for practical application of the model, because these levels take into account all the factors identified in the literary study of trust maturity.

In this model each of the critical success factors are evaluated to determine how well they are reached. In order to assess the maturity of trust associated with the collaborative innovations is developed specialized system for evaluation. With this system, is possible to test the current level of the trust among organizations realizing collaborative innovations and identify imperfect business processes that require improvement. The success factors are evaluated at ten point scale (1 to 10). Then, the results are averaged. The average scores lower than 7 are considered as weaknesses. The developed evaluation system includes three main criteria:

- *Approach.* In this aspect is estimated commitment of an organization and willingness of its management for the implementation of trust evaluation and organizational competencies for practical application of collaborative innovations;
- *Deployment.* In this aspect is estimated scope and progress of implementation of trust evaluation at various business actors;

– *Results.* Criteria here are the scope and significance of positive results that are achieved over time and at different business actors.

For each key success factor based on empirical studies have been developed groups of organizational practices.

The process for the evaluation must include the following steps:

– *Step 1.* At each business actor for all critical success factors selected leading stakeholders, managing collaborative innovations calculates score estimates in the aforementioned three aspects;

– *Step 2.* Assessments in the three aspects of each business actor are averaged and rounded and the results are plotted on registration cards;

– *Step 3.* The procedure is repeated for all critical success factors. The results for all business actors are averaged to obtain a comprehensive assessment of all critical success factors.

– *Step 4.* Connecting the obtained results with the implementation of trust maturity. Scores around 1 meet Level I trust maturity. Scores between 2 and 3 meet Level II trust maturity. Scores between 4 and 6 meet Level III trust maturity. Scores between 7 and 10 meet Level IV trust maturity.

Conclusions

As businesses begin its path to maturity of trust reliance on business networks, they should take into account the benefits and risks of this (Hansen, Hoskisson, & Barney, 2008). Experience shows that building a relationship based on trust (above Level II maturity) is difficult and involves considerable costs both in terms of investment and in terms of protection from vulnerability. So one might wonder whether the maturity of trust worth the effort and risk. For many businesses the lack of potential for generating unique value is grounds for a negative response and the lack of complementary skills or inability to find partners to share abilities for cooperation.

It is needed benevolent thinking and diligence to mitigate the consequences of the risk. Naive assessment of the partners may threaten businesses from unscrupulous behavior towards them. Before reaching the levels III and IV of trust relationships, managers must carefully assess partners, since they are carried out business operations, not simply formed cooperative ties.

In terms of benefits levels I and II of trust relationships generate costs and benefits that are needed for today's competitive environment. Most businesses feel comfort and pursue such benefits based on trust business operations. But it must not forget mentioned in this work considerations about incentives.

This is the initial version of the model for assessing the trust maturity, which requires further improvement and evaluation in practical terms.

It is envisaged that the validation of the developed model to assign an expert group of managers from businesses of Bulgarian furniture cluster. All participants in the group will provided with full information on the structure and characteristics of the model, accompanied by a questionnaire. The resulting feedback will be analyzed by the author and will be made refinements and adjustments. It is envisaged that with the advanced model to carry out a study of trust maturity in enterprises of Bulgarian furniture cluster based on specific inno-

vative solutions. The main objective of the intended study is to test the validity of the model and to identify areas in which it manifests imperfections.

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Triple Helix of University-Industry-Government relation

Quintuple Helix co-creation as a pillar for responsible (environmentally and socially) entrepreneurship

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Abstract: Success in the global competition is heavily dependent on the ability of the economy to produce innovative enterprises with high growth potential that can give stimulus to the actors of the socio-economic environment; can stabilize the labour market; can strengthen the small and medium size enterprise sector and can creatively work with all the actors that build up a future-oriented society. Creating a common framework and a unified entrepreneurial ecosystem requires a core engine of open innovation and co-creation among all the involved stakeholders in order for the inequality among regions to be decreased. More specifically, such co-creation and open innovation to foster proper entrepreneurial ecosystems has been achieved, traditionally, through boosting triple helix (university, industry, government) interactions within regions. However, in order to ensure the long-term sustainable development visions of nowadays society, there is much more situational depth to be considered. To this end the triple helix co-creation has been broadened towards becoming a quintuple helix co-creation where university, industry, government, society and the environment are core players that will ensure socially and environmentally responsible growth. In this context, this paper investigates the perceptions, intentions and related knowledge of responsible start-ups in relation to the quintuple helix approach. The results (n=20) show a strong interest and understanding of the necessity of the quintuple helix co-creation for properly enabling responsible (environmentally and socially) entrepreneurship, however, the results are influenced by a general lack of information and skills of the respondents in this area.

Keywords: quintuple helix, society, environment, entrepreneurship, co-creation

Introduction

Higher education institutions (HEI) must be able to produce independent, creative, entrepreneurial individuals, who understand inter- and multidisciplinary challenges of the socio-economic environment and as a result can contribute to (open) innovation (Burnett, 2010). Success in the global competition is heavily dependent on the ability of the economy to pro-

duce innovative enterprises with high growth potential that can give stimulus to the actors of the socio-economic environment; can stabilize the labour market; can strengthen the small and medium size enterprise sector and can creatively work with all the actors that build up a future-oriented society (EU, 2012). Creating a common framework and a unified entrepreneurial ecosystem requires a core engine of open innovation and co-creation among all the involved stakeholders in order for the inequality among regions to be decreased. Therefore, there is a wide literature debate on this topic (Ketikidis *et al.*, 2012; McDougall & Oviatt, 2000), however, a new trend is becoming more and more emphasized by scholars.

More specifically, such co-creation and open innovation to foster proper entrepreneurial ecosystems has been achieved, traditionally, through boosting triple helix (university, industry, government) interactions within regions (Etzkowitz, 2003; Etzkowitz *et al.*, 2000). However, in order to ensure the long-term sustainable development visions of nowadays society, there is much more situational depth to be considered. First of all, society and civic engagement are core pillars towards ensuring growth. Achieving an empowered society that co-creates together with the triple helix will provide a much proper context for growth, as society is the main driver of growth (Carayannis, 2012). Secondly, growth is no longer envisioned as a pure economic and societal outcome. Pierced by severe environmental concerns and eco-innovation, society pushes the triple helix actors (and vice-versa) for more innovative growth mechanisms that are more resource efficient and environmentally sustainable (Ketikidis *et al.*, 2013; Carayannis, 2012). Such shift not only that ensures long terms sustainability and societal development by improving living conditions, but it also drives the need for more innovation and knowledge exploitation towards finding unique solutions to growth.

To this end the triple helix co-creation has been broadened towards becoming a quintuple helix co-creation where university, industry, government, society and the environment are core players that will ensure socially and environmentally responsible growth. According to (Carayannis, 2012), the Quintuple Helix frames knowledge and innovation in the context of the environment (natural environments). Thus, the Quintuple Helix can be interpreted as an approach in line with sustainable development and social ecology. “Eco-innovation” and “eco-entrepreneurship” should be processed in such a broader understanding of knowledge and innovation (Carayannis *et al.*, 2010). Within the framework of the Quintuple Helix innovation model, the natural environments of society and the economy also should be seen as drivers for knowledge production and innovation, therefore defining opportunities for the knowledge economy. Thus, responsible entrepreneurship combines both environmental and societal concerns as a catalyst (or output) within a quintuple helix environment. Still, there is very little research about relating quintuple helix frameworks/co-creation towards supporting responsible entrepreneurship. As the quintuple helix model is the driving force of nowadays sustainable development and growth – it is of core importance for responsible entrepreneurs to properly integrate in this framework.

To this end, this paper aims to propose a suitable quintuple helix co-creation framework towards fostering responsible entrepreneurship by:

- Performing a literature review and state of the art analysis of the quintuple helix environment.
- Undertaking a survey with (responsible) entrepreneurs and assess their awareness in relation to the quintuple helix framework.
- Through the survey results, assess the necessity and requirements of a working quintuple helix environment for responsible entrepreneurship.

Literature review

From entrepreneurship to responsible entrepreneurship

Entrepreneurship – as a function, which involves exploring, and detecting new opportunities and establishing new economic activities usually through the foundation of a new organization (Reynolds, 2005) – entails the creation of new products and services as well as the establishment of new business processes, strategies, and markets (Shane & Venkataraman, 2000). The theory of entrepreneurship bases on the fact that different individuals have different beliefs on the value of resources (Alvarez & Busenitz, 2001). The traditional economic theory suggests that business activities aim primarily to the generation of profit. It also emphasizes the analogy between capital investment and profit rate. As stated by Say “The entrepreneur shifts economic resources out of an area of lower and into an area of higher productivity and greater yield” (Dees, 2006).

However, with the current global pressures, the notion of entrepreneurship has drastically changed towards becoming more socially inclusive. The social element in entrepreneurship was first presented last decade following the establishment of the link between entrepreneurship and innovation as well as the first with risk management by Drucker and Schumpeter (Martin & Osberg, 2007). Even more, environmental considerations become a key driving force of contemporary entrepreneurship. To this end, responsible entrepreneurship encompasses business processes and functions, which increase the positive impact of organization’s activities on society, while minimizing the negative consequences on individuals and the environment. It involves the generation of profits while providing solutions to social and environmental issues. Entrepreneurs fund and run organizations that are frequently based on the triple bottom line model. The triple bottom line model implies that business activities are conducted in a responsible manner in terms of finance, society and environmental sustainability. As stated by the World Business Council for Sustainable Development a responsible organization shows constant engagement to behave ethically and enhance the economic development while improving the quality of life of employees and their families as well as the local community and society in general (2008).

In 1997, Leon Sullivan introduced the framework for responsible entrepreneurship, which included several aspects such as human rights, discrimination in workplace, appropriate working conditions and environmental sustainability (Drayton, 2002). Still, the modern concept underlies that responsible entrepreneurship has at least two elements including the ethical choice and the ethical performance of business activities. Firstly, it is crucial that the company makes a decision that satisfies social needs, enhances public welfare, and raises profits for the organization while leaving a positive impact on the economy and adopts the appropriate business processes to implement and measure these decisions (Lee & Peterson, 2000). The proper implementation of responsible entrepreneurship requires institutional reforms, which comply with the international standards and principles as well as national legal regulations (Cingula, 2008) while complying to inclusive business ethics. Business ethics provides individuals within an organization with a framework on how to behave in such way that their conduct complies with generally accepted ethical codes and morals (Broni & Velentzas, 2010). It also entails guidelines to prohibitive behaviour in the workplace as well as legal governance of the organization (Jones *et al.*, 2005).

Drivers and barriers to responsible entrepreneurship

In line with the previous arguments, as social responsibility investment is increasing, managers are more than ever concerned with making decisions that promote societal welfare and reduce the negative impact on the environment that organization procedures and processes might have (Lindgreen & Swaen, 2010). Companies receive incentives from the government via policies and legislation as the latest aims to supplement its efforts. Furthermore, businesses are adopting responsible behaviour as a consequence of legal regulations that are becoming more society and environmentally concerned. Apart from attempting to avoid conflicts with the law, organizations adopt responsible conduct to satisfy their customers who are more eager to purchase products or services from responsible businesses (ethical consumerism) and the general public. Also, employees nowadays are more willing to work for companies with strong values and their performance is significantly affected by that (Vogel, 2008).

The main obstacle that organizations face when trying to adopt responsible conduct is the lack of financial resources (especially for start-ups). This issue is included under the cost and benefit ratio which also encompasses the trade-offs that might occur when pursuing profit and ethical behaviour at the same given time (Laudal, 2011). Furthermore, the company might lack internal control, which involves management's constant engagement to the internalization of responsible conduct throughout all levels within the business. Finally, the organization might lack external control, which encompasses the lack of knowledge with respect to the implementation of responsible entrepreneurship as well as the lack of ability to control the market environment (Doane, 2005). Finally, one of the core uncertainty elements and barriers towards implementing proper responsible entrepreneurship resides in the lack of proper cohesion of the quintuple helix actors in social ecosystems – which often lack the necessary co-creation and common vision.

From a triple helix ecosystem to a quadruple and then quintuple helix ecosystem

The triple helix model was thoroughly delimited by Henry Etzkowitz and later on, developed by Leydesdorff. This model illustrates the government relations, industry and university, which are core pillars to a knowledge society (Hohmann, 2016; Viale & Ghiglione 1998). In other words, innovation and knowledge will be combined with these three aspects. This model focuses on the interaction among institutions with the industry and the government in order to create proper growth strategies for businesses (Etzkowitz & Ranga, 2010). For instance, industry, which is the one of the sections of this model needs the government in order to ensure proper exchange and interactions among the other industries (Stanford University, 2016). Moreover, university is also a core element to the success of an industry as the industry will use the technology and the innovations that are development by the institutions. Also, employees that work in the industries are graduating from the academic institution, which bring the success to the businesses – becoming thus pertinent to have a clear goal alignment among these three actors (Stanford University, 2016).

Due to many changes that are occurring (economic, cultural, etc.), the triple helix model required an extension towards the consideration of civil society (Marcovich & Shinn, 2011). This model includes the society in the development of knowledge within the environment in order to properly address social challenges. For example, by doing so, the Women Resource Centres used the quadruple helix model in order to increase gender equality within the indus-

try in order to boost women's management skills (Lindberg *et al.*, 2011). Moreover, this model was extended to the development of knowledge environment by involving the civil society in the business world (Lindberg *et al.*, 2011). The quadruple helix model is basically an update of the triple helix model. It is crucial to include society within the development of any business strategy. Furthermore, using this model will boost entrepreneurs' innovation skills and will give an important advantage to the industry comparing to competitors and will thus result into "social policies and practices" (Carayannis & Campbell, 2011). Since the related literature realized that society is a crucial aspect of the business environment, it will bring the quadruple helix model to focus more on these aspects which are core pillars to the knowledge based society (Carayannis & Campbell, 2009).

Still, the quadruple helix approach did not manage to properly leverage the importance of environmental sustainability in societal growth engines. To this end, the quintuple helix model is an update of the quadruple helix model with the same elements and the addition of natural environments (Carayannis *et al.*, 2012b). This model focuses on the responsibility that one has for the ecosystem. The environment concern became a core concern for entrepreneurs that want to start a business especially due to increased customer pressure and regulatory conformance – which means that the quintuple helix approach is critical for responsible entrepreneurs. The quintuple helix model has to be followed in order to achieve success in the business world as environmental sustainability is with no doubt one of the core drivers of nowadays business environment (Al-Hallaj *et al.*, 2015). Good examples of companies that use the quintuple helix model are the Swedish Forest Industries. Sweden is the second biggest wood exporter after Canada (Bustamante, 2014). Europe has a strong strategy when it comes to green business. Since the forest sector is important for the Sweden economy, systems have been developed in order to boost innovation and knowledge by improving green systems (Bustamante, 2014). The forest industries have as goal to decrease the pollution by using the quintuple helix model that will boost the economy and by considering the environment.

Nevertheless, it is of core importance to transcend/replicate such practices (besides developing new ones) from the existing industries/corporations. For example, one global project relevant to this research is the REINVEST project (EU-India Collaboration for Advancing Sustainable Freight Transportation Across Both Continents) which operates in this quintuple helix context but focuses on already existing (transportation) industries. Throughout this project, a number of workshops with all the quintuple helix stakeholders at various locations (in EU and India) have been organized in order to help industries become more responsible (both environmentally and socially). These best practices emerged from REINVEST can easily be incorporated by future entrepreneurs (through proper scalability and more focused sector targeting). The EU market is highly dependent on start-ups to fulfil the regional gaps and thus, responsible practice replication can become a true enabler of responsible entrepreneurship. Key findings from REINVEST that can be replicated to start-ups are:

- Mechanisms for quintuple helix co-creation and dialog towards better interaction and effective policies.
- Environmental sustainability practices/techniques (focused on transportation mostly) that can be adopted in the business models of responsible start-ups.
- Inclusion of society in the decision making factors (and enabling an open dialog with society).
- Access to a global network of quintuple helix actors interested in responsible businesses.

Thus, future start-ups have to take into consideration the greening of business in order to boost the value of the company and base the company's strategy on the quintuple helix model goals. Besides, Canada, India and Europe, for instance, in the Asian countries this model has also been used in the economy in order to provide the development sustainably of business for environment purposes (Sindakis, 2015). Universities are core pillar because they provide the innovation required by companies in order to become green (Sindakis, 2015). As a result, the combination of ecology, society, government relations, industry and university are core aspects that entrepreneurs should take into consideration in order to develop a successful business model due to the requirements of today's society and to this end, this paper argues for a core adoption for a quintuple helix approach when performing responsible entrepreneurship. Still, there is very little research about relating quintuple helix frameworks/co-creation towards supporting responsible entrepreneurship.

Methodology

As primary research aims, this paper undertook a survey with (responsible) entrepreneurs and assessed their awareness in relation to the quintuple helix framework as well as assessed the necessity and requirements of a working quintuple helix environment for responsible entrepreneurship. In order to achieve this lead researcher was in charge of conducting a survey as well as of processing the data for the use of the other co-authors. More specifically, for preparing the targeted respondents, an information sheet preceded the survey (in order to present the main questions that will be asked during the survey – as well as the ethical considerations and guidelines – data storage, data processing, duration of the survey, ability to quit at any point, acceptance of the data to be stores, acknowledgement that the info will be used for research purposes only, etc). Additionally, the respondent was asked to tick a consent form (based on the information sheet) before proceeding to the survey questions. The primary data (raw) are stored in a secure location within the department's secured local ethics office and will be destroyed after 5 years. The lead researcher analysed, transcribed and anonymized then the raw data (ensuring that no private data is disclosed on the summary of the survey which was utilized during this research). The lead researcher undertook an ethics training under the EU & departmental standards. A departmental ethics approval was also performed on the intended survey questions and procedure (in order to ensure the ethical and unbiased nature of the content).

In order to create the survey questions, a secondary research was performed towards identifying valid scientific constructs. The secondary research was based on academic databases (Scopus, EBSCO, Elsevier, Springer, etc.) as well as on policy and R&D) databases such as the EU CORDIS portal. No access to any personal data was interfere at this stage. The survey was created online (via Google Forms) and was disseminated to a probability sample of 75 contacts. A valid response rate of 20 answers has been recorded (26% success rate). The findings of the surveys as well as the survey structure are presented in the next section.

Data analysis and discussion

Demographics

The valid respondents (20) range from 25 to 61 years old (60% women, 40% male), residing in the management field (entrepreneurs, managers of recent startups, administrators of recent startups, etc) as their main occupation – from the following countries: Greece (50%), United Kingdom (10%), United States (5%), Australia (5%), Canada (15%) and Germany (15%).

Construct analysis

The following constructs (1-5 Likert measurement scale) that have been tested reveal the following outcomes:

- Perceived usefulness of quintuple helix co-creation for enabling responsible entrepreneurship: 85% of the respondents perceive this as being important (60%) and very important (25%), while only 15% feel neutral about this concept.
- Perceived ease of implementation (and ease of respondents' integration) in quintuple helix co-creation: the distribution in this case is more linear in the sense that 30% of the respondents believe this will be very easy, 30% believe this is easy, 30% are highly neutral on unaware and 10% believe that this will be hard to achieve.
- Behavioural intention/willingness towards engaging in quintuple helix co-creation: 60% of the respondents will most likely engage in it, 20% are very keen/sure that they will engage in it, 10% are neutral/unaware and 10% believe that it is less likely they will engage in such quintuple helix co-creation.
- Perceived benefit of quintuple helix co-creation for institutional level capacity of implementing responsible entrepreneurship: 45% of the respondents believe there is some benefit/potential, 40% believe there is a high/strong benefit from this and 15% are neutral about this aspect.
- Possession of knowledge and skills to implement responsible entrepreneurship: 60% of the respondents feel confident that they have some skills, 15% believe that they have strong skills, 20% are neutral and 5% believe that they do not possess at all such skills.
- Barriers to responsible entrepreneurship (qualitative): industry infrastructure, financial, communication, misaligned vision, time, collaboration, lack of quintuple helix support.
- The extent to which quintuple helix co-creation takes place in respondents' entrepreneurial ecosystem: 50% of the respondents that it takes place to some extent, 5% – to a very good extent, 30% are neutral, 10% believe that it takes place but at a lower extent, and 5% believe that it does not happen at all.
- Who should lead quintuple helix co-creation: society (45%), government (35%), academics (10%), industry (10%), environmental organizations (0%).

Implications and limitations

Overall, the results show a good coherence of the quintuple helix model with the views of responsible entrepreneurs pointing towards the fact that this model/framework of co-creation could drive a harvesting responsible entrepreneurship ecosystem. Environmental sustainability and social awareness/impact become thus key shapers of modern entrepreneurship.

As also established in the global project (REINVEST), these two aspects are core shapers of industry and the best practices from industry can be replicated to future start-ups. However, in true alignment with the literature findings, the results of this study also show a great percentage of neutral/indecisive responds in relation to this topic which is primarily driven by the infancy stage of the quintuple helix model (meaning thus lack of awareness and access to information for the involved parties). Nevertheless, a core implication of this gap resides also in the perceptions of the respondents related to their skills in the area of responsible entrepreneurship – in the sense that by not having a proper/clear view over this topic, the perceived skills that they possess might not be the actual skills required to properly implement responsible entrepreneurship in a quintuple helix co-creation environment. Finally, given this bias, another limitation that may hinder the validity of the findings resides in the low number of respondents across a wide geographic span. Future research should focus on local/regional areas in an in-depth approach towards unveiling the coherence of the local/regional quintuple helix context that drives the overall growth.

Conclusion

Success in the global competition is heavily dependent on the ability of the economy to produce innovative enterprises with high growth potential that can give stimulus to the actors of the socio-economic environment; can stabilize the labour market; can strengthen the small and medium size enterprise sector and can creatively work with all the actors that build up a future-oriented society. In order to ensure the long-term sustainable development visions of nowadays society a quintuple helix co-creation approach where university, industry, government, society and the environment are core players of socially and environmentally responsible growth is required. Considering the infancy of this concept, this paper investigates the perceptions, intentions and related knowledge of responsible start-ups in relation to the quintuple helix approach. The results (n=20) show a strong interest and understanding of the necessity of the quintuple helix co-creation for properly enabling responsible (environmentally and socially) entrepreneurship, however, the results are influenced by a general lack of information and skills of the respondents in this area. The contribution of this paper is relevant especially for policy practitioners as well as for responsible entrepreneurs which need to be updated to these modern requirements of sustainable development and which must ensure a proper dialog with all stakeholders towards ensuring mutual co-evolution. Academically, this paper sustains the importance of the quintuple helix eco-innovation model. Future research in this highly necessary area should focus on researching these elements in a more regionally/locally focused environment as well as should consider how responsible models from exiting industries can be replicated to future responsible start-ups.

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Triple Helix principles and cultural barriers in a post-transition business environment

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Abstract: Sustainable development and innovation are not new concepts in developed countries. Global Innovation Index and Global Competitiveness Index systematically rank in top list most developed countries of the world such as Sweden, Switzerland, UK, USA, Japan etc. These countries are not simply developed, but they also take care on sustainable development. Referring to World Bank definition, sustainable development means “Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.” (World Commission on Environment and Development, 1997). It is difficult to talk about sustainable development without explaining the contribution of ‘Triple Helix’ concept in this kind of development. In general, Triple Helix means a strong cooperation between University, Industry and Government. (Etzkowitz and Leydesdorff, 1998). But what happens in a post-transition and developing country (such as Albania) seems to be quite different. In a developing country these three pillars: University, Industry and Government, operates very independent from each other. Furthermore, in some cases, one of them may become an obstacle for two others. The main reason why this happens is related with cultural barriers that come from a long process of being in transition. The paper is a critical analysis, mainly based on literature review. At the end of the paper, there are given some recommendations how to foster the cooperation between these three pillars (university, business, government) in order to offset the negative role of culture in this cooperation, improve the performance of Albania in future Global Indexes and moves the general economy of the country towards sustainable development. Open Innovation Model seems to be a good possibility for organizations in Albania in order to go beyond barriers of culture and to strength their cooperation.

Keywords: sustainable development, triple helix, open innovation, organizational culture.

Introduction

Organizational culture is considered as the entirety of values, beliefs, assumptions, common perceptions of a group, valid within a particular organization (Schein, 2004). Organizational culture and organizational climate is not the same thing. Culture is somewhat more abstract and long-term, while climate is related to daily activities of the organization and

changes frequently. Albania is currently in the second stage of development, an economy led by economic efficiency, with special focus on the columns 6 to 10, higher education and training, efficiency of goods and services market, labor market efficiency, development of financial market, technological development and market size. Countries such as Bosnia, Bulgaria, China, Ecuador, Egypt, Georgia, Guatemala, Indonesia, Jamaica, Macedonia, Montenegro, Romania, Serbia, Tunisia, Ukraine etc., are at the same stage as Albanian economy. Meanwhile, a great part of neighboring or regional countries, are one or two steps ahead our country, such as Croatia, Italy, Turkey, Cyprus, Greece, Slovenia, etc. Albania persists to have poor performance in most indicators of Global Competitiveness Index. On the other hand, referring to Global Innovation Index, during the period 2010-2015, the results are disappointing for Albania. In 2010, Albania was ranked in place 81/142, while in 2015 it was ranked in place 87/144, 6 positions lower than 5 years before. In this context, the cooperation between business, university and government can help Albania to have a better performance in these two indexes in the future. Actually, this cooperation is insufficient, mainly because of national and organizational culture. The main objective of this paper is to explain how culture affects the cooperation between main pillars in a post-transition society and how this effect becomes a strong barrier for successful competitiveness and sustainable development.

Research question, hypotheses and methodology

This paper is mainly focused on the triple helix principles and their applicability into Albanian context. The research question of this paper is: How does the organizational culture affect the implementation level of triple helix principles? To answer this question, the hypothesis is: Organizational culture in a post-transition country such as Albania has a negative effect in the level of triple helix principles implementation. This paper is mainly based on analytical and critical literature review. The main purpose of the paper is to understand the role of the culture to the level of cooperation between university, industry and government through a qualitative evaluation of this role in this cooperation. A specific objective of this paper is to open a debate about the specific indicators or instrument that might be used in order to collect quantitative data about the role of the culture to the cooperation level of Triple Helix pillars. Open innovation principles will be suggested as a good way to change the organizational culture and also to foster the cooperation between institutions in Albania.

Literature review: organizational culture and triple helix paradigm

Organizational culture itself is closely linked to the organization's structure and leadership style. A strong challenge arises nowadays in the field of organizational cultural is how to move from the traditional organizational culture to innovative culture in the organization? A study in 2014, conducted by the "Strategy &" (formerly known as Booz & Company) shows how this transformation must escalate into three main levels, which correspond to the three main elements of the culture of the organization.

The first level of change should start from the symbols. The idea is that they do not disappear completely, but on the other hand, they should not be seen as something rigid and unchangeable. For example, employee uniforms, regardless of the symbol that may have in

itself, if they lead to discomfort, this will have a negative effect at their creative and innovative skills. *The second level* refers to the change in organization behavior, which is directly related to the working culture. For example, formal communication and standardized one are not preferred from costumers, even if they include full courtesy to them. Customers are increasingly seeking for informal communication and individualized response. Having such behavior towards them, creates an important communication between the two parties, which in itself can generate new ideas for the organization. After this, it is the responsibility of them to translate these ideas into concrete innovation projects. *The third level* of change means changing the way of thinking, feeling and confidence. Changes at this level have the highest difficulty, because it is difficult to change the way of thinking or believing. This kind of change requires a systematic conviction process by the leaders of the organization.

Despite the fact of talking about organizational culture, basically culture involves the whole behaviors, feelings and thoughts of individuals in the organization. For this reason, the change may not involve the whole organization at the same time. It needs to start from the individual level. Change should start from those individuals who have more influence on the rest of the group than the others.

Creating the right climate for innovation development, cooperation and sustainability within a certain company or environment is a necessary element for the future of all organizations (public or private one). In 1996, Scheider *et al.*, analyzed the nature of interpersonal relations in the organization as one of the main dimensions of the organizational climate. Their focus was whether the relation was based on belief, cooperation and reciprocity or not. Also, at this point they discussed how the organization reacts to newcomers on staff, if there is a ground support and socializing or should any new member of staff independently make the road to success. Another important question that arises at this point is whether members of the company feel appreciated by their supervisors or not.

Another factor that favorable climate conditions for the development of innovation within a company is the reward scheme in company. At the core of this factor is to identify the aspects of performance to be evaluated and rewarded, types of projects and activities / behaviors that find support. All these elements affect overall organizational climate for innovation development. Unlike the organizational climate which is somewhat comprehensible in organizational practices and policies, organizational culture, and moreover, the culture that favors innovation in the organization, is somewhat invisible because the concept of culture in itself is abstract and mainly refers to values, beliefs and organizational behavior. Innovative culture directly depends on factors related to individual characteristics of staff within an organization. Elements associated with personality such as attraction to complexity, high energy, self-confidence, intuition, taking an interest in the unknown etc., positively affect the tendency of a person to be more innovative than other people within the company that do not exhibit these traits (Amabile, 1988). Also, various factors of personal motivation, such as intrinsic motivation, expertise, technical skills etc., are promoters of innovative ideas.

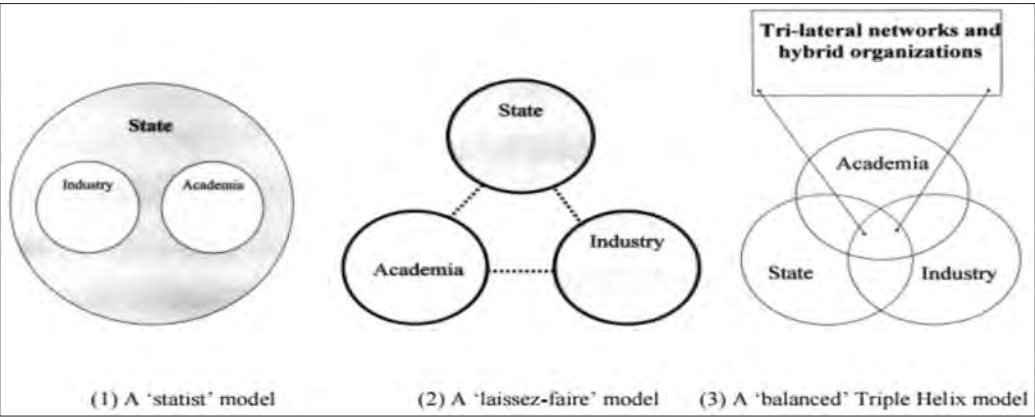
In the era of globalization, where the interaction and interdependence between the different organizations has turned into a necessity, talking about isolation of an organization is almost impossible. The traditional model of innovation (closed innovation model) is not the best way how different organizations can develop their innovative ideas and project. The reason is simple; this kind of innovation do not appreciate the cooperation between organizations. Nowadays, regardless of their development, it will be very difficult for a company or institution to develop everything within its environment, and especially when it comes to secure and develop

innovative ideas. According to Wolpert (2002) even if a particular organization is able to generate innovative ideas, it will not be able to manage it alone, because the probability for success will be relatively low.

If we take into consideration the Open Innovation Model, innovative ideas do not necessarily need to be generated only within the organization. Different organizations should not only use ideas and technologies generated internally. Rather, they should seek to exploit the ideas and technologies that come from their external environment. In this way they will be able to develop more successful and long-term innovative projects (Chesbrough, 2003; Chesbrough, 2006). Organizational boundaries are not rigid and self-sealing. They should be more flexible and permeable, which enables organization wide communication and interaction with the external environment (Wolpert, 2002).

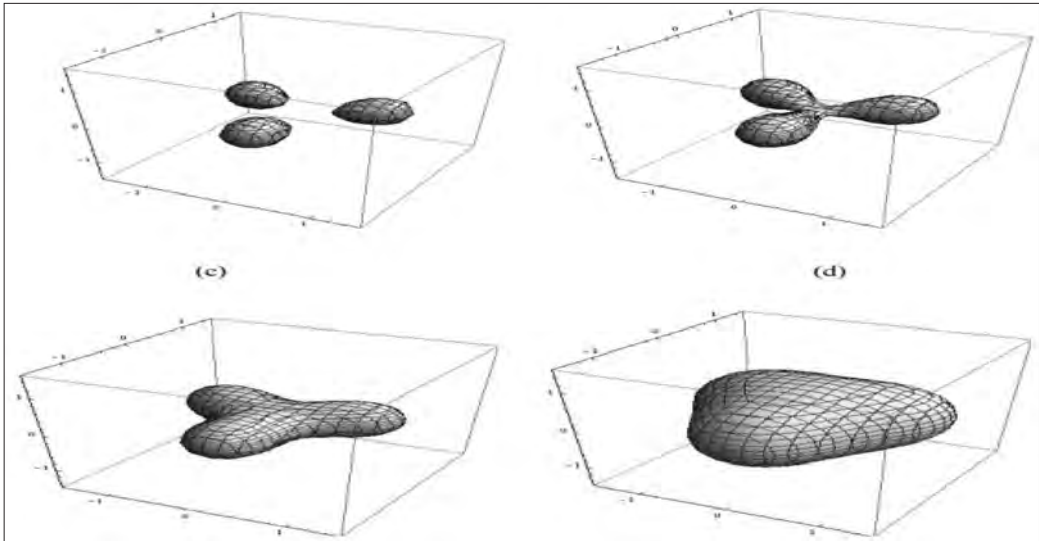
In this context, Triple Helix philosophy seems to give a great contribution to companies and institutions that implement the open innovation model principles and try to have a sustainable development in the future. The Triple Helix thesis is that “the potential for innovation and economic development in a Knowledge Society lies in a more prominent role for the university and in the hybridization of elements from university, industry and government to generate new institutional and social formats for the production, transfer and application of knowledge” (Ranga & Etzkowitz, 2012, p. 5).

Triple Helix Model



Source: Etzkowitz and Leydesdorff (2000)

Referring to Ranga & Etzkowitz (2012, p. 8) Triple Helix system is a set of: (i) Components: the institutional spheres of University, Industry and Government, each encompassing a wide-ranging set of actors; (ii) Relationships between components: collaboration and conflict moderation, collaborative leadership, substitution and networking; (iii) Functions: described as a set of activities specific to the “Triple Helix Spaces”: the Knowledge, Innovation and Consensus Spaces.



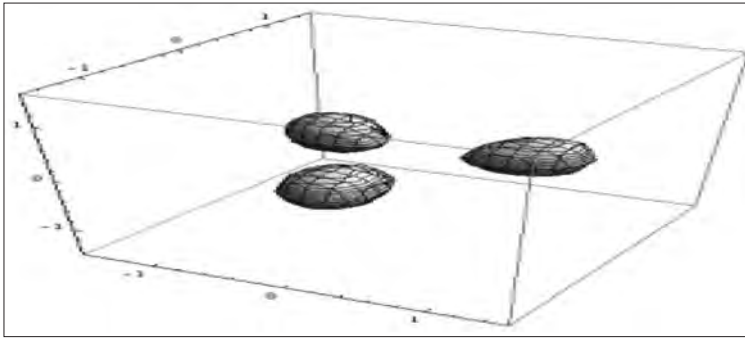
Source: Etzkowitz and Leydesdorff (2000)

The role of organizational culture in Triple helix principles implementation in Albanian context

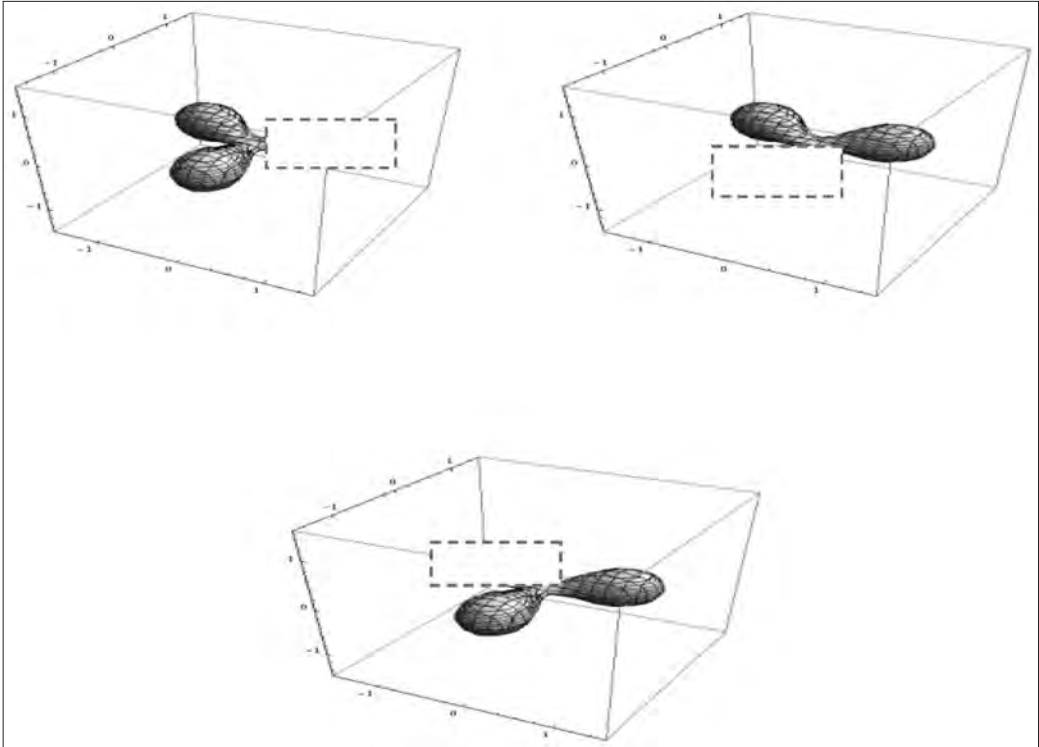
The transition of Albania from a centralized state to a free market economy, despite being realized through shock therapy, continues to have ramifications on the functioning of governmental and nongovernmental institutions and organizations in the country. In the early years of transition, when the first private ventures started their activities, the main goal for each of them was market survival. Later on, the main purpose changed and the objective was to improve competitiveness and to occupy most of the market but still too far away from the concept of sustainable development (Kates, Parris & Leiserowitz, 2005; Nafziger, 2006; Soubotina, 2004; Dernbach, 2003). Albania is a small country (about 3.2 million) and this fact somehow has forced organizations to focus on their internal development without taking care on cooperation with other stakeholders from external environment. Other organizations are systematically considered as ‘competitors’, and not as potential collaborators for the development of innovative ideas.

Although it has been 26 years since the communist regime in Albania fall, the isolation of organizations seems to have remained an integral part of the internal organizational culture for the majority of organizations operating in Albania. This isolation means very low level of interest in multilateral cooperation between universities, businesses and government. Each of these three pillars operates in very good order, but almost isolated from two others. There are also some positive cases when at least two of the three pillars come to a sufficient level of cooperation with the aim of initiating joint innovative projects. But there are very rare cases in which the three pillars cooperate with each other joint innovative projects. Such cooperation means implementation of Triple Helix principles and philosophy of (Ranga & Etzkowitz, 2012, p. 8).

The first element of Triple Helix means the components included in this collaboration: the institutional spheres of University, Industry and Government. These three factors are functioning in Albania and their performance from year to year, has been increasing. There is a large number of state and private universities in Albania. Some of them are well known in the country for quality of teaching, research centers, scientific activities etc. On the other hand, the industry has undergone an upward momentum after 1990. Free market economy caused the privatization of main sectors. There are approximately 1,000 large companies and more than 3000 SME operating in Albania. Finally, government institutions, because of political changes, corruption, poverty, unemployment, etc., have a moderate improvement of their performance level.



The second element concerns the relationship between these three components. This relationship appears to be relatively difficult to realize due to the impact of insulation culture prevailing in the internal organizational environments. Universities seem to be more interested to develop such a trilateral cooperation but the impact of organizational culture is still an open challenge. What we can say with certainty is that there is a considerable improvement of bilateral cooperation such as university-business and university-government. Business-government collaboration remains highly problematic, especially during the last two years where the change of the tax structure has fostered a high level of dissatisfaction among businesses.



The third element is focused on the way how specific activities such as the knowledge, innovation and consensus Spaces function, based on Triple Helix philosophy. The results of the study show that organizational culture in Albanian environment is a problematic factor that has a huge influence in the level of cooperation between three pillars: University, Industry and Government. Due to this, they are not able to realize the diffusion of innovation (Rogers, 2003). Almost all cooperation initiated in this direction are guided by long-term national strategies but without being able to finalize short-term or medium-term project, which may be initiated by the two other pillars, with their main focus on innovation or radical innovation (Little, 2014).

Conclusions and recommendations

The results of the study show that organizational culture plays an important role to the way how an institution function and cooperate with the external environment in Albania. Organizational culture closely relates to organization's structure and leadership style. Another challenge that arises today in terms of cultural discussion of the organization is how to move from traditional organizational culture toward innovative culture in the organization? A 2014 study, conducted by the "Strategy &" (previously known as Booz & Company), shows how this transformation must escalate into three main levels, which correspond to the three main elements of organizational culture.

Despite talking about organizational culture, culture involves the totality of behaviors, feelings and thinking of individuals in the organization. For this reason, the change may not include

all the organization at the same time as it begins at individual level. This way, the change should start from those individuals who influence on the rest of the group. Usually leaders of different groups in the organization are the focus of these changes, and then they transmit the same changing spirit to the rest of the group.

The approach to open innovation model can be considered as an essential factor for the whole process of bringing an innovation in the organization, its successful implementation, and adding value that brings within it. The following concluding part discusses the advantages and disadvantages of Open Innovation Model and the reasons why universities, government and industry in Albania, despite numerous criticisms made against it, should accept this approach as soon as possible. This section also discusses the reasons why this factor (approach to Open Innovation Model) should be considered as a strong indicator, in the list of indicators measuring the level of Triple Helix Principles implementation, and not just as part of organizational culture in general.

The Open Innovation model has been discussed after 2000, and in this point of view, it is a new approach among innovation theories and discussions. For this reason, the implementation of this approach by various scholars or company is often seen with skepticism, controversy and criticism, favoring the implementation of close innovation approach. What Open Innovation Model suggests is not 100% open organization, but an organization that balances the opening level to external environment with closing level and R & D in internal environment (Enkel, Gassman & Chesbrough, 2009). Despite the criticism towards this model, some of its principles remain extremely important for organization's level of cooperation and success. Moreover, many studies conducted after 2003 (the period when this model was discussed for the first time), criticize 'what is wrong in this model', without giving any real contribution on 'how to improve the model' in the future. In this point of view, criticism should be viewed cautiously because as a completely new theory it needs to be further developed, towards successful implementation of its principles in organization, in terms of indicators measuring its success etc. As long as criticism, do not bring concrete recommendations on how to improve the theory in the future, they do not encourage its progress.

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New perspectives in developing the relationship between the university and the business environment in light of the provisions of EU framework documents

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Abstract: In the current European context one of the most important challenges refers to the correlation between European policies on the development of the labour force market in a European identitarian space, and aspects regarding development and technological advances, which necessarily involve an increase in the field of employees' competences and abilities on this market. The economic consequences of the crisis require adaptive solutions for the educational field, the governmental policies and the business environment.

This paper wants to highlight the new development tendencies identified in the triple helix of university, industry and governmental policies. Also, this paper aims to identify how European policies and directives on the research and development of youth entrepreneurial abilities are applied, whether policies developed in universities take these European tendencies into consideration and which is the involvement of Romanian entrepreneurs in the development of a competitive academic environment. In this perspective, we want to conduct a sociological investigation based on 20 interviews with 10 academics and 10 representatives of the business environment. The analysis wants to highlight the joint perspectives and differences in the two groups on the themes presented above. The estimated impact of the paper: the analysis of the data will highlight useful data on the perception upon the application of European policies and directives in education, on the main impediments on the success of the youth's entrepreneurial activities and the way the business environment perceives the utility and adequacy of current curricula.

Keywords: high-skilled employees, development, education, EU policies, labour market.

High-performing educational system and its implications in the regions' economic development

There is a strong connection between governmental policies developed within the educational system and the governmental policies applied in economic development. In a limited

perspective, educational policies are defined as “a specification of principles and actions, related to educational issues, which are followed or which should be followed and which are designed to bring about desired goals” The author recommends to approach educational policies from the perspective of a process, of an ongoing interaction of all factors involved in their development, in order to permanently follow the effects versus results (Trowler, 2003, pp. 95-96) A high-performing educational system could be defined as that system which contributes to individuals’ personal development, leads to well-paid workforce and, equally important, contributes to the well-being of the local community through each individual’s civic involvement. This way, an educational system’s main contribution is to lead to the development of a strong economy (Winch & Gingell, 2004, pp. 11-12) The authors highlight the multiple forms a country’s strong economy can take: an economy which allows the country to exist and develop through its own resources, in which a variety of goods and services are produced or an economy which allows the country to become strong politically and militarily. For this reason the governments’ and local communities’ preoccupation lies in evaluating how investment in education leads to economic development, through local projects which stimulate those fields of study which lead to the country’s or region’s development in the desired direction. Following this line of thought, if there is a wish to develop a branch of industry which requires highly skilled and trained workforce, then educational policies will be directed at stimulating those educational programs which will produce qualified workforce. Thus, the permanent evaluation of educational performance aims at identifying whether adopted measures led to desired results.

The evaluation of graduates’ performances can be quantified on the one hand through results obtained during studies and on the other hand through the degree of future involvement in community development. (Winch & Gingell, 2004, pp. 65-68) The authors name this evaluation “the culture of responsibility”. This culture of responsibly using funds for education applies at the level of governments and of local communities as well. To demonstrate that the resources were efficiently used becomes a responsibility for both the educational system, and governments/local administration, which need to direct resources towards those programs of studies that focus on a certain country/regional development direction.

We firstly need to highlight that one of the constant preoccupations of the EU is the development of policies for ensuring EU competitiveness globally, this being connected to the promotion and financing of research and innovation projects, especially through provisions in Horizon 2020 strategy.

Such projects focus on strengthening the scientific and technological basis of European industry and encourage the participation of research institutions (universities, research centres) in partnership with enterprises/private companies and non-governmental associations for developing joint projects. The purpose of supporting such projects through EU policies is to stimulate EU economic growth through the creation of new workplaces (at http://www.europarl.europa.eu/atyourservice/ro/displayFtu.html?ftuId=FTU_5.9.6.html). The governments’ preoccupation for the development of educational policies to create new workplaces has deep roots, and their establishment is related to the development of mass education and development of the educational system in the modern states. (Green, 2013, pp. 35-81)

In developing educational policies with an impact on the labour market one needs to take into consideration that under the influence of globalization complex effects impact on the level of human resources qualification, as a result of technological development (Bell & Stevenson, 2006, pp. 41-58). This type of development is based on the technological prog-

nosis, which has a broad scope and is used at the level of both governments and big industrial firms (Băloiu, 1995, p. 150). These considerations involve, on the one hand, that within new industries or types of services new categories of human resources will be used (as a consequence of new technological prognosis), which translates into an increasing market. At the same time, a series of declining industries or services involving important changes in technologization and in markets will have less employees (Wolff, 2006, pp. 56-67) These effects can be felt in the educational system, and their mechanism is similar to any market's, where the request and offer dictate the future development track. An educational system under the influence of policies and the market offers educational opportunities for development through an increase in knowledge, abilities and competencies, which lead to an increase in the trust among individuals and the society as a whole in the system's functioning (Winch & Gingell, 2004, pp. 125-127) Thus, the main preoccupation lies in identifying the adequate knowledge to answer future employment requests; the responsibility for the way this system works lies with the three main actors involved in economic development: the state, through the policies it promotes, the educational institutions, through the development of adequate programs for training the workforce, and the employees, through their active involvement in forming the labour market and developing their various sectors.

The educational system seen as a link between the state's development directions and productivity in companies is perceived in terms of economic development efficiency, rather than in terms of personal development, which is considered a characteristic of community development, though the individuals' input. (Rizvi, 2007, pp. 398-399)

On the other hand, all these aspects concerning new challenges of a global market need to be placed in the context of educational system adaptation to new conditions brought about by post-crisis economy, with a direct consequence on the social field (Moeglin, 2003, p. 46). This adaptive concept of the education system needs to be equally correlated with the efficiency of learning, directly influenced by: the time given to assimilating information, learning opportunities, the quality of the educational process, as well as the influence of specific factors (Gherguț, 2003, p. 154). For the impact of the educational process on the labour market to be significant, the universities need to offer the graduates those qualifications which are demanded by the economy, correlated with the competences and abilities which are necessary to new employees and demanded by the employer. (Avis, 2007, p. 121) At the same time, some authors highlight that the increase of employment opportunities as a result of economic development increases the graduates' qualifications, as the result of a natural relationship between the workforce market and educational institutions (Muller & Wolbers, 2003, pp. 61-62) The authors also highlight that there are chances to integrate graduates in the countries where there is low request for unskilled employees and there is very high graduate integration in those countries where there is a high percentage of vocational qualifications or higher education qualifications.

The European workforce market in the context of productivity increase

Although it is difficult to identify a European workforce market in the current context of market globalisation, there are some distinctive traits of the European market.

In the first place, the European workforce market is focused on well-trained, highly -skilled workforce. Secondly, there is a redistribution of human capital among EU countries. People

trained in a European country frequently develop their activity in another European country, contributing to that country's economic development. At the same time, there is a migration of Indian and Chinese workers onto the European market (Brunello, Garibaldi & Wasmer, 2007, pp. 59-70) The authors have highlighted that the number of people trained outside the EU has increased from 4.1% of the total workforce in 1992 to 4.9% in the year 1999, this workforce contributing to a high degree to the economic development of the European space. Encouraging the migration of well-trained workforce towards Europe is considered an alternative measure to the investments in the educational system, meant to provide well-trained workforce on the European market.

The concept of labour market with a European identity needs to be correlated with an efficient policy to increase productivity in the knowledge-based economy, which also involves the need to identify and develop new knowledge, qualifications and abilities by employees on this market. (Rizvi, 2007, pp. 390-402) The concept of knowledge-based economy sees specialized knowledge as an important added value to the production of goods and services, which contributes to generating profit in the economy (Novelli & Ferus-Comelo, 2010, p. 49)

European states have something to gain from the experience exchange on good practices in the field of policies for macro-economic management, workforce employment and social protection. This form of cooperation, called "Open Method of Coordination", refers to the coordination of policies at the level of European states, rather than convergence of current policies in each member state (Mathers, 2010, p. 157)

Another track investigates the inclusive labour market, highlighting the European policies in the field, which encourage non-discriminatory conditions for filling in positions based on professional excellence, advancing the idea of a European identity on the labour market, as well. (Brooks & Waters, 2011, p. 86) At the same time, there is a lot of talk on the necessity to diversify programs for developing the competences and attitudes/behaviours of young graduates in developing their professional activity. Among the students' programs and activities, volunteering ranks high. Some studies highlight that because of this type of activity the students managed to develop abilities that they will use constantly as employees: writing reports, negotiating contracts or professionally managing information, as well as attitudes such as trust, patience and empathy, which lead to a change in attitudes and values, resulting in students becoming more responsible and involved in the life of the community: "... have more of a moral kind of culture to carry on to whatever career they may have". (Matthews, Green, Hall & Hall, 2009, pp. 162-163).

To conclude, we can highlight that all this data presented in the above-mentioned studies highlight beyond doubt the connection and the role played by students' developing abilities in a successful professional life.

Medium-term European policies and research programs. Horizon 2020 program

It is well known that medium and long-term development perspectives for various target audiences are included in various forms in specific European (or international) policies, and are applied through thematic development programs.

At European level, applying policies in research and development, as well as its impact on the business environment and the society as a whole, are accomplished through Horizon 2020.

Apart from complex research and development areas covered by thematic sectors, Horizon 2020 program also has the most important financial component in the EU, over 80 billion Euro being allotted for 2014-2020 (in conformity with the program's official site: <http://ec.europa.eu/programmes/horizon2020/en/>).

At the same time, the major instruments of the program show that Horizon 2020 is not only the main instrument of applying research and development policies at European level, but also a crucial landmark in ensuring stability in the area of Europe's global competitiveness.

Horizon 2020's objectives focus on societal changes and their challenges in the fields of research and development, scientific excellence, and industrial leadership (*ibidem*). The program's constitutive documents include a variety of thematic sections (ranging from nanotechnologies to special engineering). The interest of our study represents the "Societal Challenges" (with a sub area: Europe in a changing world – inclusive, innovative and reflexive societies) and Spreading Excellence.

In short, this Societal Challenge of the Horizon 2020 programme aims at fostering a greater understanding of Europe, by providing solutions and support inclusive, innovative and reflective European societies with an innovative public sector in a context of unprecedented transformations and growing global interdependencies (at <http://ec.europa.eu/programmes/horizon2020/en/h2020-sections>).

The research we present here will follow how academia and specialists in higher education in Romania, on the one hand, and private companies' managers, on the other, see the application of the provisions of Horizon 2020 in the academic field and the business environment in Romania, respectively.

Research methodology – Qualitative research

In order to evaluate to what degree national educational policies are correlated to European policies in the field (as they appear in Horizon 2020), to identify how far university curricula are synchronized with educational policies, as well as the requests of the Romanian workforce market, and to identify the employees' and academia's viewpoint on young graduates, we conducted qualitative research focused on semi-structured interviews.

Research objectives

The qualitative sociological research was based on a set of 20 interviews with 10 high-profile academics and 10 representatives of the business environment. Two interview guides were produced for the two publics: the managers of private employing organisations and professors or decision-makers in universities, respectively. In our analysis we wish to highlight the joint viewpoints but also the differences among the two groups on the themes presented above. The interview guide was projected to last for approximately 30-40 minutes. The discussions were audio recorded and were then transcribed.

Results' validity and fidelity

The research fulfils validity criteria from the perspective of group structure (selection criteria – 10 high-profile academics and 10 representatives of the business environment), ensur-

ing a diversity of opinions. The participants in academia and business environment were selected so as to be representative for the problems approached in the debate. The structure of the group of people from the business environment was as follows: 2 managing partner (young entrepreneurs); 1 manager in wood industry; 1 commercial director in an advertising production company; 1 financial director, multinational company; 2 general directors, software company; 1 product manager & developer, IT company; 2 managing partners, private PR companies. The group of people from academia was structured as follows: 6 teaching staff (1 senior lecturer, 1 associate professor, 4 professors), 1 schooling director, 1 dean, 1 Chief registrar, 1 counsellor Ministry of Education.

No (internal or external) perturbation occurred during discussions. The opinions expressed by each participant in the interview were constructive and based on arguments and examples.

The results of the qualitative research

In what regards the internalization of the transition from student to employee status, the persons interviewed had various perspectives. Out of the 10 employers, only two consider that this transition is easily made by the employees, 4 believe that this is a relatively easy transition, with some impediments, while 4 think that the transition from student to employee poses major adaptation difficulties.

Referring strictly to the group of people who appreciate the transition as easy, the most relevant opinions showed that: *“the transition was easy (the more difficult aspect was that I had to have patience with the business I started, to give it time, to invest trust and passion into it ...)”* (Managing partner, young entrepreneur).

In the group that considered this transition as relatively easy, but strewn with challenges, the most relevant opinions were: *“generally, there are two categories of students: first are those wishing to have a career generally start work while they are students; in this way, the transition is easy, they do not feel they are in a distinct stage of life, but rather continue their life as students, but with the added (material and status) satisfactions. The others do not wish to have a professional career, but a job and then a family ...they do experience a transition to employee status, which is not always easy or free of frustrations”* (General director, software company).

Another opinion reaches a similar conclusion: *“going from student to employee status differs among individuals, and is easily accomplished if the young person focuses on academic activity. Each individual is different, has different aims, and this transition varies with these aims”* (Managing partner, advertising production company).

There are persons among those interviewed who believe this transition is difficult. The most important viewpoints are:

“Transition is undoubtedly difficult. This state is generated by pressures triggered by getting employed for the first time” (Manager in wood industry).

“The transition is not very easy because of ‘student-like’ behaviour. We had students employed as juniors in the firm and they had problems assuming responsibilities, being punctual and meeting deadlines” (Commercial director, advertising production company)

Analysing the viewpoints, we can conclude that:

1) There is no convergence among employers' viewpoints on the young people's transitioning from student to employee.

2) The employers' experience about young employees is strongly contextual, and as a consequence it is difficult to draw conclusions based on divergent opinions on youngsters' behavioural changes.

3) The employers' opinions show that their opinions were formed based on concrete cases and situations, which they extrapolated on the larger group of youngsters. It is interesting to point out that when employers were dissatisfied, they signalled different aspects and characteristics of their discontent.

4) To summarize, we can add that when problems are identified about youngsters' transitioning from student to employee status, there is no determining cause, but a multitude of causes, of great variety, which call about a series of effects.

In what regards the sources that generate difficulties in youngsters' integration into the workplace, the interviewees' opinions were extremely different and varied. In three cases only the opinions pointed to "students' poor training" or the family's influence on the behaviour of the future employee in the workplace. The other opinions pointed to varying aspects, such as: "badly chosen field of activity", "the individual's discipline and personal ambitions", "employers' high standards", "students' burnout, with implications in time shortage for extracurricular activities".

The third question in the interview guide referred to employers' preoccupations for creating a good environment for youngsters' development in the workplace, the opinions converged towards coaching, training and specialized professional training, an idea expressed by 7 out of 10 interviewees. In this sense, one of the relevant opinions highlights the importance of youngsters' professional training upon graduation:

"...development and implementation of instruments for personal development through coaching (young employees lack soft skills at work), medium and long-term continuous training for hard skills" (financial director, multinational company).

Other viewpoints touched tangentially on "the organisation of open days in companies", "information campaigns in universities".

To conclude, we can highlight that most employers see training and coaching as the best methods to train employees in order to assimilate them easily into the organisation. These convergent opinions indicate a certain validation of the importance of these training instruments by the interviewees.

As regards the percentage of young graduates aged 25 and under, the interview groups were divided in three categories: no higher education graduates employed in the company – 2 companies, 25%-35% young graduates aged 25 and under – 4 companies, 80%-100% employees aged 25 and under – 4 companies.

Analysing the data, we cannot conclude upon a major tendency within the companies, and, consequently, cannot conclude that most companies hire or discriminate against young graduates. Yet is important to remark that certain profiles of employing companies encourage young employees – thus, IT and Advertising companies have the highest percentage of young graduates.

With reference to the question on the knowledge accumulated by employees during their studies, we can remark that the interviewees' opinions differ depending on the profile of the company and the field they majored in.

Only one of the people interviewed has a high opinion on the young graduates' training, while 5 believe that universities train them well, but professional training courses are needed to deepen theoretical and practical knowledge and facilitate integration in the workplace. There is a number of 4 persons interviewed who consider that the youngsters' training in school was insufficient and their competences do not meet the company's exigencies, as the youngsters are not connected to the market's realities.

In what regards the curricula being adapted to the company's development needs, the answers identified the following directions: 5 of the people interviewed said that the current curriculum implies theoretical approaches but insufficient practical aspects (which should test theoretical notions).

"The student needs to cease being anonymous, by participating in various events/trainings/by volunteering...something which shows the willingness to make efforts, to go outside the comfort zone...or else you will not be able to rely on him in project crises" (General director, software company).

Other answers are given by interviewees who believe that the curriculum is obsolete and does not answer the challenges of the work market. There is also a group of people who appreciate the quality of the curricula, but this group is represented by a mere 2 people.

"I believe it depends very much on a person's profile. With young people in IT, the level is generally, good, and they are supported in training well, but in other fields, it is more difficult" (Product Developer, IT company).

We need to highlight, however, that most employees have a positive opinion about the quality of the curricula (7 out of 10 appreciate it as good and very good, yet the most frequent criticism is that theoretical approaches are more frequent than practical ones). This aspect can be correlated with the employers' opinion about the employees' quality (treated above), where the company representatives made recommendations for trainings, to facilitate integration in the workplace (from employees), and the need to develop supplementary competences to the ones built during studies (from young employees). This shows that there is a need to find ways in which to go from theory to practice or from the general to particular.

In what regards the best ways to ensure collaboration between universities and private companies, 8 out of the 10 interviews specified explicitly the notion of internship. We can illustrate this by means of two opinions that we consider relevant:

"The very existence of a connection/collaboration between companies and universities is a step forward for both entities. No matter the form taken by this collaboration, while things work well and both parties are open to collaboration, everybody will have something to gain: companies (for image and easy access to the human resource), universities (to differentiate themselves from other universities, in terms of facilities offered to students), and last, but most importantly, students, who can get in contact with prospective employers while still studying" (Managing Partner, private PR company)

"Through internship, the student connects to the life as employee, learns a lot of things, is motivated – even if by an insignificant sum – and also has the possibility to know new people, trained in his/her field of interest. In this way, upon graduation, his will not be yet another CV in a stack of 1000 more, but the one who worked as an intern in company X and someone can tell me what sort of person s/he is" (Marketing specialist, representative of Embassy in Romania).

As to the intention to participate in joint research-development activities with universities, representatives of the business environment expressed a wish to collaborate. Apart from the three situations where the specificity of the field did not invite collaboration, all the other managers agreed (3 have on-going contracts). This data shows the preoccupation for obtaining highly – qualified expertise from universities, one of the development premises being the connection between advanced theories in the field and research results applied in businesses.

“Our company wants a strong connection with the universities, both us and our employees need to learn new things and develop. Joint projects are needed between companies and universities, both can increase the quality of their services” (Managing Partner, advertising production company).

One very interesting perspective is cast by the answers of interviewees on the question regarding the knowledge on European research policies as they appear in Horizon 2020. 9 out of the 10 persons interviewed answered that they were not aware of the European policies to stimulate research as they are outlined in Horizon 2020. Only one person was aware of the provisions of the program, but said that in his opinion this information *“is not reflected in the business environment in Romania”* (Manager, private company, wood industry).

Surprisingly, there is evident disagreement between the wish to develop research-development activities with the universities in Romania and the lack of knowledge on European policies regarding research-development activities.

The second part of the sociological study focused on interviews with specialists in higher education. The questions focused on correlating the two reference groups (specialists in universities, managers and recruiting specialists in the business environment, respectively). In what follows we will present the most significant answers to the main questions addressed to specialists in the academic field (teaching staff and management).

In what regards the transition of youngsters from secondary to higher education, 7 out of 10 participants showed that this is not quite difficult, and is characterised by several specificities. 3 out of 10 interviewees mentioned expressly that this is a difficult transition.

“The main difficulty that students face is the difference in “the mental turn” of PUPILS and STUDENTS. Pupils are formed/used to working under DICTATION. The lesson and knowledge are passed through dictation and the hard-working pupil writes down what is dictated. In the auditorium, the STUDENT discusses, thinks TOGETHER WITH THE PROFESSOR. DIALOGUE is the true spirit of universities” (Professor, project manager).

Unlike the managers’ answers about the transition from student to employee status, there are differences among the two groups, the business environment respondents believing the transition is more difficult, compared to the respondents in the academic group, who see the transition as more facile.

Regarding the satisfaction of academic staff and specialists in academia for the involvement of organisations in internships, in 6 out of 10 cases the interviewees mentioned that the business people are little involved in such activities.

“Organising the internship and making sure it is supervised by competent tutors supervising students is a major target. Internship is an efficient way of gaining experience and knowledge and building competences, if the hosting organisation has the time” (Professor, ARACIS evaluator, project manager).

The group of people who mentioned a significant involvement of the business environment in internships has also highlighted that their opinion is based on concrete cases. They also made observations and recommendations, invoking the constraints of an intensive academic program and conflicting programs.

“...there is increasing openness. But there is the question of program. The Bologna system does not really allow internship: students need to learn a lot throughout the 6 semesters, they cannot dedicate a semester to internship (which would have been possible in another system, but not in Bologna), the firms close in the afternoon when students finish classes ...” (Associate Professor, Dean)

In what regards professors' and academic specialists' perception on the curriculum meeting work market needs, 7 out of 10 respondents consider that the curricula follow the legal framework and are correlated to the necessities identified on the workforce market. There are opinions that the training necessities are correctly identified in the curricula, but legislative constraints lead to difficulties in updating curricula. In this situation, the result is slow adaptation of the curricula to the rapidly changing needs of the work market.

“The curricula approved by the universities' senates and confirmed by ARACIS based on standards can only be changed dramatically every 5 years, so adaptation to work market needs is slow. On the other hand, giving the university the freedom to decide on its own on the curricula is a risk that the Law of Education cannot accept” (Professor, ARACIS evaluator, project manager)

The opinions about “the most advantageous and efficient means of developing the relationship between the business environment and universities” were almost unanimous. 8 out of 10 favoured the creation of joint development programs, which would include both universities and the business environment.

“The partnership between school and businesses is based on the balance between the educational request and offer and it is important for the students' personal development and future graduates' socio-professional insertion” (Schooling director)

“Being aware of the role and advantages of involving the business environment in training, as it has been very clear in developed countries” (Counsellor – Ministry of Education)

There are other perspectives on the most efficient and advantageous methodologies for developing the relationship between universities and the business environment:

“...inviting prominent specialists to deliver presentations for students on a regular basis, organising joint events of the faculty and businesses, etc.” (Professor, ARACIS evaluator, project manager)

As regards the question about “the application of European policies and directives on research and the development of youngsters' entrepreneurial abilities in the university's policies”, only 4 interviewees mentioned that European policies and directives are applied.

At the same time, 4 interviewees mentioned that there are preoccupations in this respect, but did not confirm their firm presence in academia.

“There is a beginning” (Professor, project manager)

Conclusions

To summarize the above, we can underline several important ideas:

1) There is some differentiation between behavioural changes in youngsters graduating from high – school and attending university and the ones graduating from university and becoming employees.

2) The professors believe that transitioning from secondary education to university is more difficult, while employers believe transitioning from student to employee is more difficult.

3) About the relationship with the business environment, the academia denounces the poor involvement of the business environment in internships, while the business environment appreciates internship as one of the most important means of attracting students into companies.

4) Both the academic environment and the business environment appreciate as important the collaboration in joint projects of applied actions.

5) The perception on the curriculum is different among academic specialists and business environment representatives. While the academia consider that legal procedures are followed, involving an awareness of market needs and their transposition in the current curriculum, the business environment considers that the current curriculum encourages the development of theoretical, rather than practical competencies.

6) As regards the awareness of European policies on research and the development of these policies in Horizon 2020, there is a contradiction in that the business environment is determined upon participating in research along academia, only 1 out of 10 interviewees declared they know the provisions of these European policies. On the other hand, the representatives of the academia say that they are aware of such provisions, they are integrated in university policies but are poorly interconnected (being in incipient phases).

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Business environment and entrepreneurship

Mobility and youth employment in the EU. Addressing Romanian students' perspectives about future careers abroad

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Abstract: The present paper investigates how Romanian students would self-report impacts of their study abroad experience in relation to professional outcomes. Focusing on alumni who were engaged in both “organized” (i.e. “short-term”) mobility, such as Erasmus, and “spontaneous” (i.e. “degree”/ “diploma”) mobility, this study seeks to explore students’ perceptions with regard to the effects that the educational sojourn may have in their transition from education to employment. The main research questions that the paper has sought to answer were: *How do students perceive the impact of the mobility experience on their employability and future career opportunities?* and *To what extent and in what ways does international mobility stimulate students’ desire to get a job abroad?* In order to answer these questions, we conducted a qualitative research based on in depth interviews with BA students from different universities in Bucharest. The preliminary results show that most of the interviewees become more interested in finding a job or a traineeship abroad after their initial educational sojourn, although only some of them feel prepared to take the necessary steps in order to reach this goal.

Keywords: international mobility, student exchange, Erasmus, professional careers.

Introduction

Cross-cultural mobility programs for students are an important factor in internationalizing student learning and enhancing competitiveness on the labor market. The European Union supports mobility programs and youth employment initiatives to improve the quality of higher education services and create a single European labor market. Erasmus is the largest student exchange program in Europe and one of its goals is to facilitate the interaction among cultures and young European citizens, which might foster a European identity and increase the cohesion among the member states. The program was meant to lead to a self-sustainable European integration process as young Europeans would live, study or work together, and thus,

they would have a higher chance to cooperate in the future, to become aware of the similarities, of a common cultural pattern or of the things that unite them (Sigalas, 2010).

Student mobility is mostly based on a push-pull framework consisting in a series of factors (such as poor economic conditions, lack of appropriate educational opportunities, low level of focus on international interactions) that push students from their home countries, and pull them to a host country, considering here the political or economic ties between countries, available resources for mobility or quality of education (Beerkens *et al.* 2016). Students look for intercultural experiences and living abroad time, personal and academic development, language competence, openness to diversity, understanding of global affairs and better career opportunities. Both at the country level, and the EU, mobility is perceived to enhance international competitiveness, stimulate effective labor markets, reduce youth unemployment and enhance career paths (European Commission, 2014; Institute of International Education, 2011). However, long-term effects of student mobility, return rates or career outcomes are poorly investigated as former beneficiaries are difficult to trace (Wiers-Jenssen, 2012).

This paper addresses Romanian students' concerns and perspectives about future careers and employability in relation to academic mobility. We center our paper on recent experiences of young Romanian students who enrolled in a foreign educational system or took part in exchange programs to investigate how they perceive the impact of the mobility experience on their employability or future careers, and to what extent they consider a job abroad after finishing their sojourns.

Literature review

Youth employment at the EU level

The European Union is actively promoting intercultural exchanges to help youth employment and entrepreneurship. Along the years, the European Commission has supported several initiatives to address the concerns of young people in terms of employment and career opportunities. However, the economic crisis had a substantial impact on the European labor markets. The crisis led to high rates of unemployment, especially among youths, and with long term consequences as the reduction of lifetime earnings, high risk of unemployment in the future, insecure or improper jobs, low job satisfaction, or overall decreased well-being. Moreover, the flexibility of the labor market at the EU level led to unstable or short term employment, the migration became more extensive, and employers changed the requirements and skills demands (O'Reilly *et al.*, 2015; Heyes & Lewis, 2013). The regulation of the labor market also protects employed workers, disadvantaging the youths as entrants on the job market, the youth unemployment and the number of temporary jobs being higher in these conditions (Wolbers, 2007). The levels of education are usually not aligned with the requirements, taking mostly the form of over education and over skilling for a current position (O'Reilly *et al.*, 2015; European Commission, 2012).

EU mobility can constitute an efficient mechanism for reducing regional disparities in terms of unemployment and for efficient work allocation. However, EU migration takes place mostly from Central–Eastern states to Western Europe, a high share of migrants consisting in youths that despite their qualifications, get jobs with low earnings (OECD, 2014; Favell, 2008). Youth mobility can be stimulated by economic factors, proximity in terms of geography, culture and

language (Kahanec & Fabo, 2013). Youths' mobility can contribute to lowering unemployment rates and acquiring intercultural job experience. However, the benefits of work mobility can also be reduced if the youths have to go back to precarious economic conditions in their native countries after short-term contracts (O'Reilly *et al.*, 2015).

The EU promoted and invested in policies to support initiatives for solving the youth unemployment as well as for diminishing the job matching issues or disparities. Among the EU programs aiming at driving down youth unemployment, helping young Europeans to find a job or traineeship in other EU countries, strengthening the quality and supply of apprenticeships in Europe or at increasing the youth employment rate, we mention some of the most recent ones: *Your first EURES Job* (2014) – a mobility scheme aiming at helping young people up to 35 years old to find a job or an internship in another member state; *European Alliance for Apprenticeships* (2013) – a platform aiming at bringing together governments and key stakeholders to improve the offer of apprenticeships in Europe; *Youth Employment Package* (2012) – measures to reduce the levels of youth unemployment through offers of jobs, continued education and training; *Youth Opportunities Initiative* (2011) – measures addressed to help graduates acquire work experience, especially through the use of the European Social Fund, *Youth on the Move* (2010) – program aiming at improving youths' education and employability.

All these policy initiatives on education and employment for young people build on theoretical premises that stress the growing importance of mobility for personal and professional fulfilment, social cohesion, economic growth and higher quality of human resources (Papat-siba, 2009; Bracht *et al.*, 2006; Cross, 1981). At the level of EU-28, there are over 5 million unemployed youths, this aspect indicating a high need to restore the growth and employment rates. In this context, EU should propose and develop plans to improve mobility, education and employability of young people. In what concerns the educational area, the Europe 2020 Strategy has the target of diminishing the early school-leaving rates from 15% to 10%, and of increasing the number of higher education graduates from 31% to 40%. Another target is to reduce the risk of poverty for 20 million people and increase the employment rate to 75% (The EU's youth initiatives: focus on education and employment, 2014).

Considering the high rates of unemployed youths especially after the economic crisis, the risks associated with finding jobs in another country such as difficulty of achieving recognition for previous education and work experience, language fluency, unfamiliar social contexts or country-specific requirements, the high acceptance of lower-skilled jobs, EU should strive more to reduce disparities and risks related to work mobility. The European programs and initiatives could also encourage entrepreneurial initiatives at the EU level and a greater cohesion among European citizens.

Intercultural mobility and employment. The Erasmus program

Mobility and internationalization of higher education help improve youths' skills and chances of employability, the Erasmus program being a key component in supporting this process (The Erasmus Impact Study, 2014). The study indicates a link between the intercultural competences and employability skills. Another aspect of internationalization in Europe is creating a European identity embroidering on the idea of European citizenship and slowly constituting the European Union as a political entity. In this regard, (academic) mobility programs in general and Erasmus in particular are increasingly perceived as catalysts for a common sense of Euro-peanness among the participants (Fligstein, 2008; Rubio *et al.*, 2002). Some of the key com-

petences necessary for personal fulfillment, active citizenship, social cohesion and employability adopted by the European Council (2006) are: communication in foreign languages; cultural awareness and expression; learning to learn; sense of initiative and entrepreneurship; mathematical competence and basic competences in science and technology; digital competence; social and civic competences, etc. The European Commission has consolidated exchange programs such as Erasmus to develop this type of competences and support change in higher education. For higher education institutions, mobility programs can bring prestige, they can represent a sign of quality or an indicator of internationalization (Green, 2012).

The EU investment in mobility programs started on the premise that intercultural exchanges would be beneficial for future EU citizens and professionals especially in the context of an increasingly internationalized world (Stronkhorst, 2005). An important goal of the Bologna system is to increase academic mobility through the common degree structure and the European credit transfer system to facilitate the recognition of foreign studies and thus to encourage intercultural experiences (Wiers-Jenssen, 2012). Higher education institutions aim to enhance the quality of the educational system through mobility programs, to support academic cooperation and knowledge exchange, to develop relations based on mutual understanding, and to enhance language and cultural skills (Chetro-Szivos, 2010).

Mobility among advanced economic countries is referred to as horizontal mobility, while exchanges from a less economically developed country to a more advanced one, as vertical mobility. There can be different outcomes according to the type of mobility (Teichler, 2012). For example, in the case of former Erasmus students from Central and Eastern European countries, mobility is a more exclusive experience that ensures higher professional rewards. However, career benefits (in terms of employability, wages or international jobs) are stronger on a horizontal level than on a vertical one (Teichler & Janson, 2007; Bracht *et al.*, 2006).

As scholars show, student mobility leads to wealth, economic growth and higher quality of human resources, and it aims to help youths take advantage of the opportunities afforded by an economic and political Europe in order to have a better future (Papatsiba, 2009). Also, most adult learners are goal oriented, having specific aims for their education, including improving job prospects and developing skills (Cross, 1981), this being a reason for applying for mobility programs. Erasmus students are mostly motivated by opportunities for personal development, the experience of different cultures, language-skill development and labor market returns (Ahn, 2014; Udrea, 2014; Bracht *et al.*, 2006), all being important factors in achieving career success. The Erasmus program is considered the largest mobility student exchange scheme in Europe, enabling approximately 200,000 students to study abroad each year. Since 1987, the starting year of the program, almost 3 million students took part in academic exchanges, but the number of students being mobile still doesn't get closer to reaching the established target of 10% European students being involved in exchange academic experiences (Souto-Otero *et al.*, 2013).

Studying abroad usually makes a strong and long-lasting impact on people's lives, enhancing cross-cultural proficiency, openness, engagement in global affairs, which leads students to work in higher status employment sectors mostly internationally related, and decreases the unemployment after graduation (Parey & Waldinger, 2011, Paige, Fry, Stallman, Josic, & Jon, 2009, Norris & Gillespie, 2009, Bracht *et al.*, 2006). Participants in learning abroad programs usually report a high level of benefit in relation to the early stages of their career, helping them develop employability skills (such as interpersonal and communication skills, teamwork,

problem solving and analytical skills) leading to better future career prospects and increased motivation for their chosen direction (Potts, 2015).

Former Erasmus students are convinced the mobility helped them obtain their first job, and that the study period abroad makes the CV distinct, and their foreign language proficiency is perceived as being higher, which can constitute an important factor in recruiting decisions. However, in terms of status and income, there are no perceived differences. Graduates who have benefited from mobility programs, perceive their experiences as an advantage in facilitating their transition from study to work, but not necessarily as a catalyst for a more successful career (Wiers-Jenssen, 2012). Mostly, students appreciate that the work tasks relate to their experiences abroad and they are involved in more international activities when employed, while employers tend to consider that mobile students have superior competences than non-mobile ones, score higher at personal growth and internationalization, and thus, mobility can lead to career enhancement (Teichler & Janson, 2007).

While students want to have a successful personal and academic exchange, an important motivation remains the enhancement of their career opportunities (Krzaklewska & Krupnik, 2006). Even though mobile students gain in terms of acquired knowledge, language skills, cultural skills, and networks, they might have a minus when it comes to relevant national networks and familiarity with local rules (Wiers-Jenssen, 2012). Moreover, a series of studies show that when students graduate from foreign universities and don't have just a sojourn abroad during studies, they can face more negative challenges when entering the labor market such as longer unemployment periods due to over education, unfamiliarity with the domestic labor market or lack of network. The positive aspects of a diploma from abroad are higher wages and more international jobs on the long run (Storen & Wiers-Jenssen, 2010; Wiers-Jenssen, 2008).

Overall, there can be both positive effects, as well as challenges in terms of employability after mobility programs or study abroad periods. Intercultural experiences seem to constitute an advantage for students in terms of career enhancement and especially in terms of vertical mobility, students' sojourns score higher in the eyes of the employers. Mobility programs facilitate the path to a first job, which usually involves more international tasks. Also, it can translate into an international job or a work abroad offer with higher chances of an advantageous contract compared to immigrants with domestic diplomas. However, selectivity, personal factors and goals should also be considered in future studies about mobility outcomes and employability.

Research methodology

Method

In order to analyze Romanian students' concerns and perspectives about future careers and employability after short/ long-term study periods in Europe, we conducted a qualitative research, namely 22 semi-structured in-depth interviews. The interviews were carried out in December 2015, and all the students have spent at least one semester abroad until that time.

The main goal of this paper was to explore respondents' perspectives regarding the changes that the intercultural stage may bring to their professional lives. In this respect, there were two main questions that guided our research: *RQ1: How do students perceive the impact of*

the mobility experience on their employability and future career opportunities? RQ2: To what extent and in what ways does international mobility stimulate students' desire to get a job abroad? Thus, we were firstly interested in uncovering students' opinions about the role played by their exchange sojourn for subsequent career choices and opportunities; and, second, we aimed at discovering whether, how, and to what extent the intercultural experience may determine students to consider the thought of taking a job in other EU countries.

Design

We conducted 22 retrospective interviews with BA students from several universities in Bucharest, Romania. The core questions of the interview guide addressed the perceived impact that the intercultural sojourn may exert on students' professional life, and mostly the changes that this foreign study experience in Europe may facilitate in terms of subsequent career development. In this respect, students were asked about the main skills they have developed abroad and their role in getting the desired job, about the relationship between academic mobility and job market requirements, and about their willingness (and motivations) to build a career in other EU country.

Sample

The sample used in this research study comprises 22 Romanian students, aged between 20 and 25 years old, from the National School of Political Studies and Public Administration, the Academy of Economic Studies and the University of Bucharest. Their domains of study are communication, public relations, psychology, marketing, foreign languages and literatures, business, and tourism. All the students have been enrolled either in Erasmus or in what the literature calls "spontaneous mobility" (such as the situations when all the arrangements for mobility are coordinated by the students themselves (Brooks & Waters, 2011), and have spent at least one academic semester abroad in the last 2 years. The countries they went to for their exchange/ diploma study, include: Italy, France, Spain, Belgium, Norway, Germany, Scotland, UK, and Denmark.

The main motivation for our sampling choice emerges from the idea that mobile students are the main beneficiaries of the key skills and competences necessary for personal and professional growth, social cohesion and employability, such as: communication in foreign languages, cultural awareness and expression, sense of initiative and entrepreneurship, etc. This is why we should analyze how and to what extent they feel that these abilities acquired and/or improved during the study abroad period may impact their future employability and career development. If the results show that students perceive their foreign study program as having a significant influence on career decisions and professional outcomes, then we might conclude that being mobile during higher education increases the probability of experiencing a change in career plans afterwards (DeGraaf *et al.*, 2013; Franklin, 2010; Fry *et al.*, 2009).

Findings and discussion

Students' perceived impact of the mobility experience on their future employability and career opportunities

With regard to the link students perceive between international mobility and future career development, main findings show that all the interviewees are convinced that their foreign study sojourn will help improve job prospects and chances of employability. In this sense, respondents indicated how and to what extent their study abroad experience might influence their choice of professional field and future job activities, by pointing out some of the most important academic and personal achievements they obtained abroad. In students' view, these skills and competences are all very useful and relevant for subsequent career decisions. Among the most significant intercultural learning and living outcomes, most alumni have mentioned: the increased self-confidence and faith in their own capacities to overcome challenging situations (*"I learned that I can have a full time job and study at the same time in a totally new and different environment. By overcoming all the difficult situations, I proved to myself that I am stronger than I really thought I was, and that I can start all over again at anytime ... no matter how hard it might be"* – Iulian, UK); the increased respect for other people's perspectives, even when they oppose one's own (*"I've learned to care more about other people's opinion and to pay a lot more attention to what teamwork activities in a multiethnic group involve"* – Cezara, Norway); a better understanding of academic and social issues (*"I consolidated my knowledge in international public relations and marketing"* – Diana, Belgium); and an increased ability to work in culturally different groups and teams (*"I can say I've grown a lot in what communicating and operating in a multicultural environment are concerned"* – Adrian, Italy).

Through the newly acquired/ improved competences and skills (e.g. problem-solving abilities, open-mindedness, communication in foreign languages, critical thinking, teamwork skills, etc.) students tend to think they will receive good-quality offers of employment to fulfil their professional needs and expectations: *"If the Erasmus exchange appears in my CV, I am sure that the employers will look at me differently. I mean, Erasmus is indeed a positive and productive experience for a jobseeker"* (Marina, Spain). Others are confident that their international experience is an important advantage for recruitment purposes, and that the employers value more the employees with intercultural skills and global knowledge: *"I am pretty optimistic that I will be hired sooner than someone who has only studied in Romania"* (Nichita, Denmark). Finally, others underline the much better opportunities on the job market and fewer career concerns as compared to those faced by non-mobile students: *"You have many opportunities in terms of career development and a brighter professional future after graduating from a foreign university. For instance, if you graduate in UK, the US or Australia, then you can get a job anywhere in the world. Instead, if you attend a university at home, in Romania, the possibilities are quite scarce"* (Andreea, UK).

As illustrated by our study, for most of the respondents, the educational qualifications (especially those attained in international settings) are the best job guarantee at a time when youth unemployment rates in both Romania and Europe reach alarming levels. In different terms, education and skills are seen by the participants in this research as fundamental to their future wellbeing. In this context, mobility during tertiary education remains a promising way to provide job-related opportunities and facilitate the access to the international labor market: *"When*

you graduate from an international university which is known and recognized all over the world, you have, of course, a lot more chances to build an international career. [...] If you stay in your country, the chances for a good job are much more limited" (Cristina, Belgium); *"An Erasmus scholarship is very useful for one's CV. It helps you demonstrate that you are capable, intelligent, adaptable and you work well with people from different socio-cultural backgrounds"* (Maria, Belgium).

To sum up, as students themselves argue, the impact of the mobility sojourn on their world-view is rather significant, often involving a change in values, views and goals, and sometimes being seen as a major turning point in their lives. And this new mindset and perspective on things – besides the specific knowledge, skills and abilities enhanced abroad – is highly likely to affect their decisions and choices regarding a future career: *"I think the international experience as such changes you a lot. It opens up new avenues for you, and makes you discover a new side of yours, which, implicitly leads to another kind of professional development"* (Florin, Germany); *"I think the mentality that I achieved by coming here will help me the most with my career, and not necessarily what I have studied"* (Vlad, UK). In this line of thought, all the respondents suggest that mobility during higher education is a "must", and that every student should take the opportunity to experience life and education in another country: *"I totally recommend students to sign up for mobility stages. It is an experience that matters a lot for one's own evolution, and it will definitely be the best time of one's life"* (Anca, Germany).

Educational exchange and its effects on students' international labor market mobility decision

Concerning the impact of educational mobility on students' interest to work abroad after graduation, our results report a strong connection between the foreign study experience and respondents' account for later migration in the search of a job. Specifically, main findings reveal the great majority of interviewees as interested in obtaining a future job either in the country that hosted them during their mobility stage or in other EU country. When asked about what would stimulate them to apply for a job abroad, the students have indicated the various opportunities that the international labor market might offer to the young and highly skilled individuals, the connection they forged with the host-country's community and how special that place had become to them, and the increased chances for personal and professional development provided by an international work setting: *"I would always go back to work there. I like the culture, their system, everything..., and I adapted pretty well. I would go back to work or to do an internship there, because Italy has contributed so much to my personal growth, and the people are not that different"* (Ema, Italy); *"I will go back, that's my goal. I've always wanted to get a job in France, because it is the country where physical therapy is the most developed. In fact, this is why I wanted to do this mobility stage, to get used to the country and to the French mentality in order to go back and make a living there"* (Bianca, France).

Consistent with prior research showing that mobility during higher education is likely to increase mobility for work or study related reasons after graduation (Rodrigues, 2013; Parey & Waldinger, 2008), the current study discloses a real intention and motivation of the former mobile students to leave their home country and the dear ones for the promise of a good professional future. Furthermore, most respondents tend to credit their interest in working abroad to the study mobility time, categorizing that experience as a milestone in any young

person's life. Put differently, the foreign study is broadly conceived by the participants in the present research as an important channel to later migration in the search of a job.

Yet, there are some students for whom the foreign study experience is rather determinant for the decision to practice their profession in the native country: *"I'd like to come back to Romania and practice there. Despite the many opportunities that I found here, UK is a pretty cold and tough country, you need a strong character to handle it"* (Bianca, UK). Usually, this is a common desire among the students who seem to have become more connected to their homeland and people as a consequence of their exchange sojourn. Apparently, the study abroad program has played, in some students' case, a major role in increasing their fondness towards their own country and co-nationals, which has influenced, to a certain point, their further career options: *"I am aware of the political and social problems at home, but I somehow appreciate more the people and my friends in Romania right now. [...] If I got a super job there, I would definitely consider coming back home"* (Corina, Scotland). Additionally, there are students who have never envisaged the idea of working in a foreign setting after graduating abroad. For them, the international study experience is about personal and academic evolution in a challenging environment, in order to return home, build a career and a better future based on what they have learned overseas: *"I will definitely come back and work in Romania. [...] I will use all the background I achieved abroad and all that I've learned and understood by living and studying in an international environment"* (Nichita, Denmark); *"I have an incredibly beautiful country, and I think those who leave it are cowards. Are you afraid you won't get to do what you want here? Work for it! [...] The young, skilled people may succeed here as well!"* (Maria, Belgium).

However, beyond the national or international profile of a future job, there are other main criteria that students tend to consider in relation to their career choices after graduation, such as: doing something one really enjoys doing; working in an important company that provides fair working conditions; being able to learn and develop oneself; working in a pleasant environment and being surrounded by nice people; having the opportunity to be promoted, etc. Interestingly, the "good wage" was rarely among the factors that topped students' lists regarding the aspects they mostly focus on when prospecting a (first) job: *"The salary would be amongst my last concerns. I would never choose to work in a place if I didn't like my job activities or I couldn't get along well with my colleagues. The good pay wouldn't compensate for that"* (Alina, Spain). Yet, when motivating why they would rather prefer to practice abroad than at home, most of the opinions converged towards the superior conditions and opportunities (including a very competitive salary) provided by an international work environment as compared to the autochthonous labor market. In short, this could mean that if they decide for a job in Romania, the remuneration is not a main focus for the students (at least at the beginning, when they lack a certain experience in the domain); but if it is for them to work abroad, then the retribution must be quite rewarding and compensating for the other shortcomings inherent to living in a foreign country (*i.e.* loneliness, missing family and friends, adaptive challenges, etc.).

In brief, students' responses offer a nuanced understanding of the perceived impacts of their study abroad experience on subsequent career options, preferences and paths. Although all seem to agree that academic mobility will fundamentally impact their choices and decisions regarding a future career, further research is needed in order to explore whether there might be revealed some definitive connections between the study sojourn and current participants' absorption on the (international) labor market.

Conclusion

During the last decades, studying abroad has become a relatively common experience in both Europe and the worldwide. More recently, once Romania has joined the EU and the borders were largely open, educational mobility became easy and handy for Romanian students too. Still, despite the constantly growing number of Romanian young people who choose to study at a university abroad, empirical evidence on how academic mobility programs may affect students' behavior regarding their labor market decisions is very limited. Moreover, students' own opinions with regard to the utility of an exchange experience during higher education in their transition from education to employment are only seldom discussed. Hence, the present paper investigates how students perceive the influence of their academic mobility in relation to labor market related opportunities and outcomes.

Main findings show that most of the students are highly convinced that their educational stage in Europe may prove helpful in some unique ways in terms of skills improvement, employment choices and career development. In this regard, they all depict mobility as a "transformative experience" and as a key-action supporting future job opportunities, economic growth and social progress.

Furthermore, consistent with previous studies, the present findings show that student mobility programs are perceived as having a significant effect on young people's desire and decision to get a job abroad after graduation. Although the individual characteristics definitely play an important role in determining students' propensity for later labor migration, based on students' perspectives, the current work argues that being mobile during tertiary education increases the probability of going abroad for work related reasons at some point in life. Still, although most of the interviewees remain open to the idea of getting a job abroad, this should not only be seen as a consequence of their foreign study experience, but also as a result of being aware that their home country might not provide equally competitive opportunities.

These results are important for policymakers. Understanding the determinants of migration in the search of a job in the case of the students with a "mobility capital" is essential to formulating policies designed to attracting skilled individuals from abroad. At the same time, this understanding is fundamental to help avoiding the "brain drain", by keeping the skilled youth on the autochthonous labor market.

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Mobility as a service in smart cities

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Abstract: The new trend in the development of urban area is focused on smart city. Following the definition given by Gartner the concept of a Smart city covers 6 main components: smart mobility, smart people, smart economy, smart governance, smart environment and smart living. All these components need support systems which are able to manage, optimise and save urban resources. An important component is the smart mobility and mobility as a service could be a key solution to solve the problem of urban mobility in a smart manner. The definition of mobility as a service paves the way for understanding of the concept and new businesses could be established based on this new approach. The authors propose a model for mobility as a service and the architecture of this urban mobility system is defined to analyse the role of mobility in a smart city.

Keywords: Mobility as a service, urban mobility, smart mobility, smart city.

Introduction

The urban area has to face several challenges in terms of sustainability, consumption of resources, economic activities and the welfare of the citizens. The pollution, erosion of the soil, air quality, access of SMEs to open market, the open market of resources, happiness, the level of education are only few major issues of urban areas and metropolitan area (sub-urban areas are parts of the city through the citizens and services). Therefore new approaches, concepts and technical solutions for urban area have to be developed. A well-known concept is the concept of smart city which describes the objectives of resp. the requirement against a city not focused on infrastructure but on current and future functions of a city and therefore use ICT and related technologies to aggregate data from many different areas to generate input information for optimal fulfilment of functions by so called services.

Today we see a main trend following this concept in all components of a city. A general model of a smart city was developed in the European project (www.smart-cities.eu) where six main components was revealed and the main reason was to develop a model to be followed and to add more valuable functionalities to this conceptual model.

The urban development is based on land consumption and the relations with the mobility patterns and the mobility as an objective could affect the urban system and all its components (Camagni Gibelli, & Rigamonti, 2002) and two main approaches could be mixed in defining this: a macro approach, which is focused on the relations between the city and the rest of the region and country and a micro approach, which is focused on the city itself.

Transforming urban transport confronts head-on the dilemma faced by a world addicted to automobility (Low, 2013) and the main idea is to change the paradigm and focus the urban effort on mobility as a service more than mobility focused on vehicles, infrastructure and transport modes. This changing of the paradigm is not a simple solution for transport systems, it is more a societal problem and the solution is to involve the citizens as well as all aspects of the human society (education, businesses, political environment etc.).

Goldman and Gorham (2006) have identified four innovative directions and organized them into four clusters of activity: New Mobility, City Logistics, Intelligent System Management, and Liveability and these four directions could be reshaped into Mobility as a Service (MaaS) as main component of a smart city.

As the authors have already mentioned before, the main step in understanding the urban mobility is to create a model for the city as well as for all components of a smart city, a possible solution is to use SUMO (Behrisch, Bieker, Erdmann, & Krajzewicz, 2011), but the complexity of the model could be a barrier in understanding the mobility in urban area. The flexibility in using the models as well as the diversity of models are possible solutions to manage the modelling activity of MaaS.

The definition of Mobility as a Service, at this stage, is simple and in the same times complex, one definition is proposed in Rantasila (2015): “the concept of MaaS means (in a nutshell) bundling different transport means, public and private, into one easy-to-use package for customer” but this definition has a huge limitation in terms of concept. Our proposal is to define MaaS as a new concept based on a new support transport system.

The problem of managing urban mobility systems in a novel way by considering the complexity and diversity of the conurbation and agents involved in an urban mobility system was approached in Schrank & Lomax (2007) and Macário (2011) and the idea to focus on mobility system more than the mobility effects could be useful for the new concept of smart city.

Urban mobility is also discussed in Schlingensiepen, Mehmood, & Nemtanu (2015) and the mobility services in urban area are defined based on ICT infrastructure and an autonomic behaviour of the support system is needed in terms of providing a high level of service. The strong link between urban mobility or transport and urban development highlights the importance of mobility for urban areas (Banister & Lichfield, 1995) and the city has to be designed with a strong transport component in terms of assuring the objectives of urban development.

The urban transport, in the context of a smart city, is a very complex issue not only for its effects in the structure of the city but also as a main factor for the development of businesses in city area (Jönson, & Tengström, 2006). The importance and the roles of transport systems in urban area is revealed in a World Bank report (Gwilliam, 2002) and the main conclusion is that the way to adapt the urban mobility to smart city is to create new concepts and innovative solutions as MaaS is and to define these concepts as parts of a smart city.

Smart city as a trend

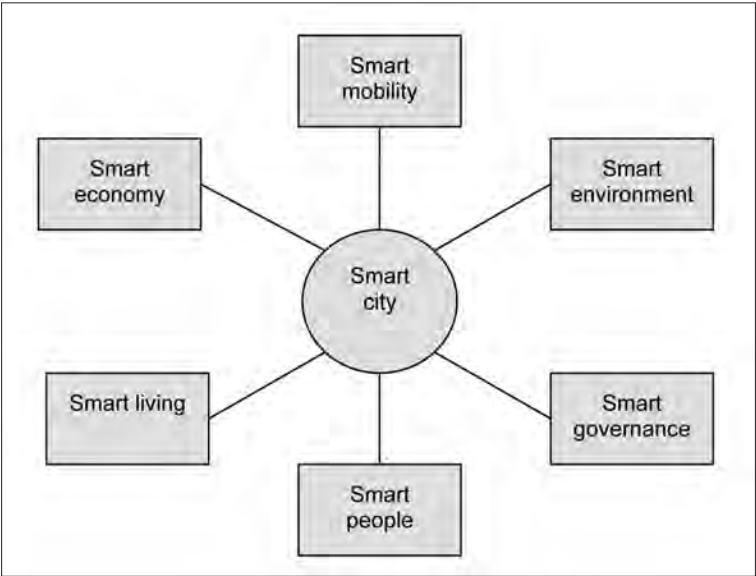
Smart city is a new and innovative concept and it is a result of the complexity of urban environment as well as the new challenges in terms of mobility, population, natural environment and other societal aspects. This new concept is at the starting point and the main opportunity is to integrate new technologies in the definition of the concept and in the structure of the new city.

Behind the scientific work, in terms of defining this new concept and this new way to develop and enlarge a city, strategies and new initiatives are arising in Europe. The European Urban Agenda (http://ec.europa.eu/regional_policy/sources/consultation/urb_agenda/pdf/swd_2015.pdf) identified three key priority areas of urban development (after a public consultation): *smart* (low carbon, low waste and smart flow cities), *green* (environmentally friendly, climate resilient and compact cities) and *inclusive* (living, caring and intergenerational cities). Since our definition of Smart City focus on the functions and optimal provision of services it also covers the aspect of green and inclusive, because the definition of the optimum can also contain those aspects and should be done by public consultations.

The approach of this paper is a top down approach with a multilayer model starting with the strategical layer. Based on this approach the strategical layer will have these 3 components: smart, green and inclusive. And, from this layer a conceptual layer will define more components which are able to be developed in an urban area. The European model elaborated in European Smart Cities (<http://www.smart-cities.eu/>) has defined 6 main components for a smart city:

– Smart mobility – the mobility of people and goods has to be provided in a smart manner which means the integration of all transport modes, ICT solutions, zero pollution and congestions and so on.

Figure 1: The model of a smart city

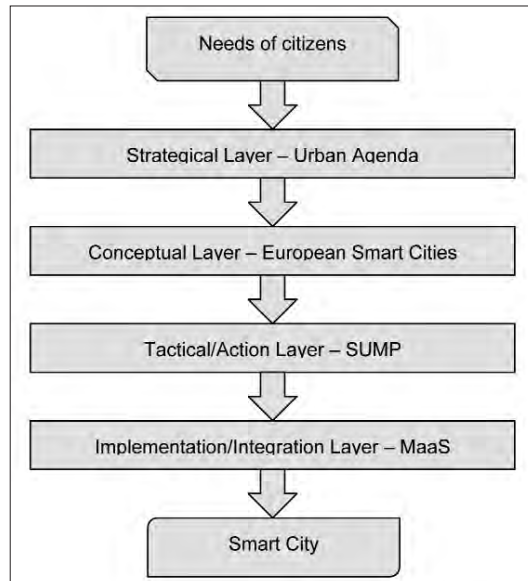


- Smart environment – all urban components (from transport to housing) have to be environmental friendly and more than it, to be able to regenerate the environment in urban areas.
- Smart economy – is focused on businesses and the effect of the business results on the urban area. The main challenge is to integrate all urban businesses in this complex concept.
- Smart people – this component is a fundamental one because all activities and things in urban areas are the results of human activity. The first step in having smart people is to invest in education of people and the second one is to involve all people in all aspects of urban life (a participative approach of citizen involvement).
- Smart living – it is the answer of a smart city to the action of smart people. The city has to be able to offer and to provide all conditions and services for a better life of urban citizens.
- Smart governance – is a key component of a smart city because all actions needed to transform a city in a smart city have to be taken by the governance body. This governance is direct linked to the smart people and the involvement of citizens is the fundamental aspects in terms of obtaining the success.

All these 6 components need a support from new and emerging technologies and ICT technologies in terms of maximising the effects and to speed up the transformation process from a normal city to a smart city. Sometimes, the term “smart city” is used only for these supporting technical systems but it is mandatory to have a concept behind the technology.

The top down, multilayer approach has to be started from the needs of citizens and the main result is a smart city.

Figure 2: A top-down, multilayer approach



The tactical/action layer is covered by sustainable urban mobility plan (SUMP) (all examples for layers were collected from transport and mobility domain, the model could be used for all components of the city not only for transport and mobility). The SUMP has to support the city governance in finding the best solution for urban mobility and has to be an instru-

ment for implementation of integrated transport solutions in urban area. (Sustainable Urban Mobility Plan, <http://www.eltis.org/mobility-plans/sump-concept>)

Under the layer of SUMP (for the case of urban mobility), implementation and integration of various solutions has to support the city. One new solution is Mobility as a Service which is, in fact, a result of this new concept of smart city.

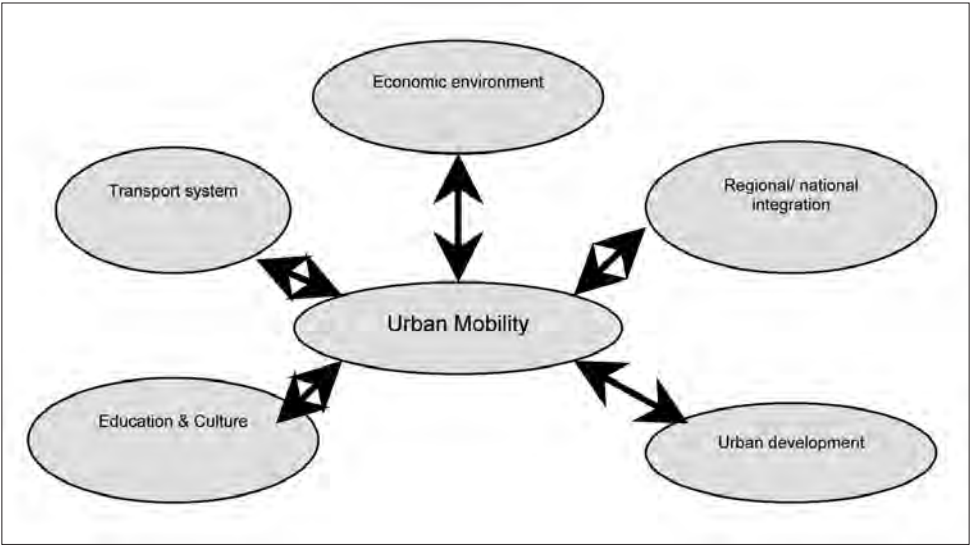
The multilayer approach is focused on urban mobility (or smart mobility for a smart city) and the main objective is to define a new way to ensure mobility services in urban areas.

Urban mobility

Urban mobility has to be defined and analysed not only as a result of providing transport services to different customers but also as a main resource and main service for various businesses and urban activities. Sometime the main components of the urban systems could be dependent by transport or mobility system, for instance the education system is closed related to transport system and mobility, the isolation of citizens could generate some educational implication and social isolation.

Urban mobility is a result of the interaction of 5 factors: transport system & services, economic environment, urban development, education & culture, regional & national integration.

Figure 3: The context of urban mobility



The most important factor of the context is the urban transport system as part of a national transport system (the city is the source and destination for interurban trips). The transport system will define the mobility in urban area and will set up the framework for mobility service in a smart city. Economic environment is also an important factor of urban mobility (industrial cities have some specific characteristics which were generated by the type of industry developed in that urban area) and it could be the main force for development of urban mobility. Urban development is also important to define urban mobility and to understand this mobil-

ity in an urban system approach. Education and culture of citizens as well as the results of educational and cultural institutions actions in urban area are very important to understand the needs of citizens and the level of implication in urban life. The city is a part of a country and it is a component of a national system. For this reason, it is also important to integrate the city in the region as a component and to define all possible links with other components of this system.

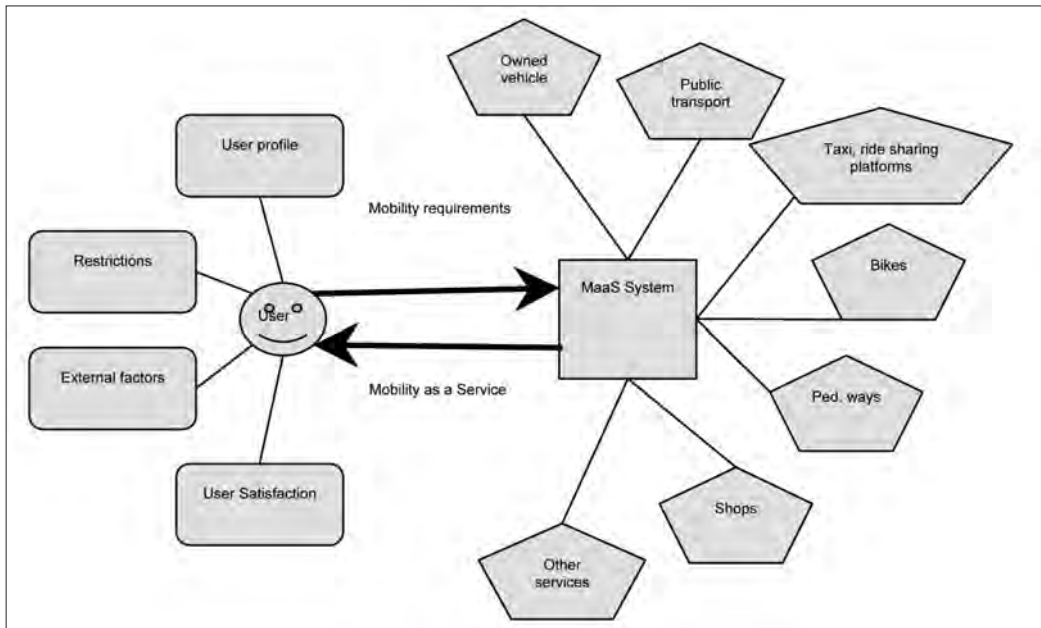
All these 5 components of the context influence the urban mobility and the urban mobility will influence and modify these. The lack of mobility in urban area could affect the transport system (the main impact will be on the efficiency of the transport system) not only through the level of demand but also through the level of socio-benefits. Urban mobility has a huge role in education and culture, the movement of people and things opens the door for people to have access to knowledge and information.

The context of urban mobility and the existence of new technologies are the main reasons for the request of a new concept in terms of mobility and this new concept is called Mobility as a Service.

Mobility as a Service (MaaS)

Mobility as a Service (MaaS) is a new concept which will shift the mobility from the privately owned vehicles and a specific transport mode to a service based on various transport solutions and modes. The customer will express its transport requirements and the MaaS system will provide the best transport solution based on the customer's profile.

Figure 4: MaaS – conceptual model



The conceptual model has two main components: the user or customer as a beneficiary of the services and MaaS system as a provider of Mobility as a Service.

The user is the main source for mobility requirements and all these requirements will be provided based on the following items:

- *User profile* – the profile will be elaborated in an automated manner based on the inputs from the user and based on the characteristics and parameters collected by an automated device (in this case, a smartphone could be a good solution, as a hardware component, and a social media app, as a software component, to solve this problem of collecting data).

- *Restrictions* – the user as well as the MaaS system could be placed in an environment with some restrictions in terms of collecting data and processing and transmitting information to different parts of the system. A backup system as well as components could provide the best solution in terms of eliminating some restrictions. The restrictions could be grouped in: technical restrictions (ex. mobile communication availability), market restrictions (ex. the lack of market information), regulatory restrictions (ex. public transport information is not available) and personal restrictions (ex. User disabilities resulting in special needs)

- *External factors* – some external factors act on user as well as MaaS and the effect of this action could change the context of MaaS. For instance, the existence of communication infrastructure could accelerate the development of MaaS.

- *User satisfaction* – the user satisfaction is defined based on ideal/reference model for a mobility service and the comparison of real service with this reference model. This satisfaction is important for MaaS as a business, in terms of keeping the user in a friendly environment.

Mobility as a Service needs a support system to provide different services as well as to transfer the information from different transport modes to the user. The system could be, at the beginning, a platform which will collect the information from basic transport systems to the user.

The main component of MaaS system is the ICT support system which is dealing with collecting, transmitting and processing information as well as with the presenting of this information in an understandable format for all users. The ICT platform as support system for MaaS system will exchange data and information with the following components:

- *Owned vehicles* – the system will integrate all available vehicles (the models and limitations of current ride sharing platform can be seen as a first step implementing this);

- *Public transport* – this is the main component of the transport system which will provide transport and mobility services in the MaaS system. The role of public transport will be increased and the priority in traffic as well as in investment will be main aspects in planning new systems.

- *Taxi, Car sharing* – the main characteristics of the user's profile as well as the availability of vehicles will include taxi system in MaaS system as provider of specific transport services (and other similar systems).

- *Bikes* – this component includes parking areas for bikes and rent-a-bike systems for both, private and public bikes.

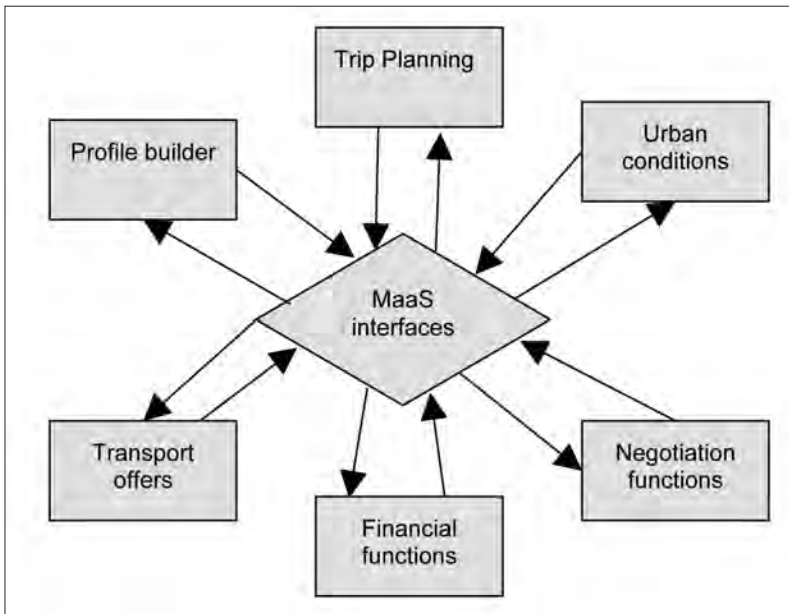
- *Ped. ways* – another direction is to include walking as an important mode for a multi-modal transport system support for MaaS.

- *Shops* – the role of shops is, on the one hand, as destinations for urban trips (transport of people) and, on the other hand, as provider of goods (transport of goods).

– Other services – any other services could be integrated in MaaS to increase the value of the service (for instance, fast food service integration – drive in service as part of the mobility as a service).

The functional architecture of the MaaS system could be defined at the beginning using the functional areas. The second step is to decompose every functional area in high level functions and dependencies among them as well the functional data flows.

Figure 5: Functional architecture MaaS



The authors have identified seven functional areas but the list could be enhanced (the security functional area could be included in this architecture for both data and people security).

The first functional area is in charge with building the profile of the user based on the inputs from user and personal sensor network (this sensor network is built in the vicinity of the user and it is based on a smart device). The *Profile Builder* will generate a virtual person (avatar) who will act as an agent in the system to find the best mobility solution for the real person who was the source of information for this profile.

The *Trip Planning* functional area will convert the needs for transport or mobility expressed by the user into a trip plan based on the existing transport solutions and external conditions.

The functional area *Urban Conditions* will collect information about the urban environment with all its components and will provide some restrictions or permissions for mobility solutions found by MaaS system (i.e. some streets could be converted into pedestrian streets during the weekend and this state could be changed the mobility solution offered by the MaaS system).

Another very important (with a huge impact on the user) functional area is *Negotiation Functions*. The system, through this functional area, has to negotiate various transport solution and various types of costs to offer the best mobility solution for the user.

The foundation of the system is formed by the transport systems behind. The *Transport Offers* as a main functional area has to collect all available offers from various transport sys-

tems and to select the proper transport solutions for a specific user (as the virtual person asked the system to do).

The financial aspect is important to open the market for new businesses as well as to attract more users into the system. *Financial Functions* has the role to distribute the budget of a trip to various transport systems involved in this trip and also to find the less expensive alternative transport solutions for a specific need.

New businesses on MaaS Market

MaaS will add more value and will open the market for new businesses in the domain of mobility of people and goods. The most important entity which is needed for implementation of MaaS is the mobility operator or MaaS operator. This has to be an independent entity (public or private) which is able to perform the mobility activities in terms of satisfy the user needs. On the other hand, the public transport operators are trying now to change their role in a supplier of mobility with more multimodal and integrated transport solutions (bikes, cars, boats etc.).

Based on the MaaS architecture presented a list of services was elaborated to support the development of the system:

- Operation of MaaS
- Financial clearing
- Data collection and processing
- Cloud computing and big data
- Communication
- Mobile applications
- Data interfaces
- Transport and trip planning

This list of services will generate opportunities for new businesses, the main goal is to ensure the development of a high number of new businesses. Every functional area has to be covered by real services provided by different companies, the main issue is to keep a maximum number of companies to ensure the freedom of the market with no interference from monopolistic or oligopolistic players.

MaaS is the result of different businesses and the complexity of the architecture needs a special attention in defining the components as well as the relations among them. This could be a real challenge and the framework of MaaS has to be developed having as starting point the architecture and the organisational component of it.

The MaaS market needs an architecture as a main conceptual tool, but needs also a framework especially focused on economic and legislative aspects. An organisational architecture could offer a good image on the context of MaaS and it could define the relations between different entities involved in mobility (for instance the owner of the vehicle, the public transport operator, the user and so on). Starting from this point it is important to define STEEP (Social, Technological, Economic, Environmental and Political) factors which are defining the context of MaaS.

Conclusions

At this time, many challenges of urban area put a huge pressure on the city and on the transport system (as main provider of transport and mobility services). To solve this problem, one solution is to change the way of organising the system which is dealing with mobility in city. This new approach has to start from the new concept of a smart city and to have as objectives all those which are coming from the objectives of smart city. Mobility as a service is changing the way of organising the transport system in urban area (an integrated vision of the urban transport is requested to fulfil the new mobility requests). MaaS will not affect only the transport system, also other components of the smart city will be changed to open the market and open new opportunities for small businesses.

The main benefits of implementing MaaS could be classified based on the following categories:

- User benefits: the cost of the mobility will be decreased having as reference the same transport conditions (safety, time etc.); the mobility will be tailored to the requests of the user and will be designed based on user's aspirations (environmental protection, safety, cultural aspects etc.); the mobility will be integrated in the life of the user and in the context of the city; the user will be involved directly in the plan of the mobility (a smart sensors' network will facilitate the collection of data from the user and his/her behaviour).

- Business benefits: the multilayer approach will facilitate the atomisation of the market with various companies acting as players with no one in a monopolistic position (if the access to information and services will be granted by an independent agency, i.e. Mobility Agency); new domains for businesses (MaaS operator, mobility facilitator, mobility negotiator etc.); public transport operators could extend their businesses or a part of their business could be under a process of externalisation.

- City benefits: the city will be able to provide mobility services for all citizens based on their needs and requests; MaaS could be a tool for development of smart city and integration among all city's components; the governance of the city will be facilitated and the users will participate directly to the governance of transport system as part of the smart city.

- Transport operators' benefits: transport operators will develop a new dimension of their businesses as part of an integrated transport system; they could attract more passengers and the efficiency of urban transport will be increased; the direct link with their customers; multimodal approach of their actual businesses.

- Societal benefits: the elevation of the quality of life in urban areas; the inclusion of the citizens in urban context and in urban activities; the reduction of negative impact of transport systems; rebalance of transport modes; open doors for innovation and new businesses; added value of existing transport systems as well new application for new and advanced technologies.

An important issue in launching new concepts is to identify the barriers as well as some measures to open these barriers. The main barriers identified by authors are: legislative barriers (i.e. collection of fares and distribution of the collected money to different actors), market barriers (i.e. some public transport operators could block the access to the market of a new companies), city's barriers (some structures and systems of the city could reject the concept and will modify the design of the concept), citizens' barriers (only a small number of citizens are open for new concepts in terms of mobility).

The impact of MaaS on transport system, urban environment and businesses could be defined as direct impact and indirect impact. In the category of direct impact, the following aspects have to be highlighted: impact on the natural environment of the city, impact on the quality of life, impact on the urban business environment, impact on the region and country.

Another important aspect is to manage the risk of implementation the concept of mobility as a service. The first step is to identify the risks and the sources of these. The second step is to define a set of measures to counterattack on these risks.

Based on this succinct cost benefit analysis the mobility as a service MaaS could be defined as a new and innovative way to manage the transport problems in urban area and the implementation of MaaS in cities will facilitate the transformation of them into smart cities.

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Government support for entrepreneurship: case of Azerbaijan

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Abstract: Azerbaijan has experienced a significant economic growth over the last decade, mainly thanks to natural resources. The government of Azerbaijan has been taking serious measures to diversify its economy and to stimulate entrepreneurship to ensure sustainable economic growth. This paper analyzes the latest developments in the entrepreneurship environment in Azerbaijan with a focus on financial, legal and organizational support for entrepreneurship in the country. The impact of the government support for entrepreneurship is examined and areas for further actions are highlighted in the article. Concluding remarks and recommendations are given in the conclusion.

Keywords: entrepreneurship, Azerbaijan, SMEs, government support

Introduction

Development of entrepreneurship is essential to economic growth in every country. New and sustainable businesses are important for the continued dynamism of the private sector. Like other emerging economies, this notion holds true for Azerbaijan, a country with rich natural resources, but has been taking measures to diversify its economy. Over the past decade, Azerbaijan's economy was one of the fastest growing economies in the world mainly thanks to extraction and export of oil. The share of oil industry in the national economy increased almost two fold from 31.7% to 61.8% between 2000 and 2007 (Kuriakose, 2013; Hasanov, 2013).

Although the boom of the oil sector led to significant increases in government spending on infrastructure, education, healthcare and other important sectors, the government has realized the importance of developing non-oil sectors to ensure the sustainable growth of the national economy. Although the share of oil sector counted for more than half of GDP between 2005-2012, since 2012 share of non-oil sector in GDP has surpassed the oil sector.

In order to develop non-oil sector, the government of Azerbaijan has been taking measures to stimulate and support entrepreneurship. Emerging economies in the post-soviet region try to foster economic growth through entrepreneurship as an important element of sustainable growth. Research is in consensus on the role of entrepreneurship as a catalyst for economic growth (Audretsch & Thurik, 2001; Carree & Thurik, 2003), as well as national

competitiveness, job creation and productivity (Leutkenhorst, 2004). The Development Concept of Azerbaijan Republic approved by the President in 2012, “Azerbaijan 2020: Look into the Future” emphasizes the establishment of market infrastructure network that serves to develop the non-oil sector.

The role of government is crucial in creating an infrastructure that supports entrepreneurship (Minniti, 2008). The government of Azerbaijan views moving away from an economy based on natural resources to an economy with strong private sector that relies on entrepreneurship as one of the high priority tasks. Thus, there is a need to analyze the government support for entrepreneurship in Azerbaijan with specific focus on the financial, legal and organizational support for entrepreneurship.

Literature is in consensus on the role of SME's as the engine of national economies' growth (Spicer & Sadler-Smith, 2006). There is ample evidence in the literature that access to finance by is fundamental for small and medium enterprises (SMEs) to grow (Beck & Demirguc-Kunt, 2006). A number of factors including information asymmetry, lack of collateral and inexperienced management are significant challenges to SMEs access to external funds (see e.g. Shaban *et al.*, 2014; Owualah, 1990; Petersen & Rajan, 1994).

Analysis of European experience reveals that the annual EU budget for 2015 realized € 145 billion which is about 1% of the GDP. However 46% spent to smart and inclusive growth in the EU, out of which 34% – helping underdeveloped EU regions and disadvantaged sections of society, 12% – making European firms more competitive (EU, 2015).

This paper addresses how government support in Azerbaijan has impacted the growth of SME's. It includes analysis of legal and financial infrastructure created in support of entrepreneurship. Macroeconomic and firm level impact of the government support for entrepreneurship is evaluated. The results of evaluation are used to develop recommendations for policy makers. The rest of the paper proceeds as follows: the next section of this paper discusses the financial support for entrepreneurship in Azerbaijan and its impact on job creation and productivity. The third section focuses on the legal context of entrepreneurship in Azerbaijan. The fourth section is on organizational support by government. The concluding remarks and recommends are given in the last section.

General description of entrepreneurship environment in Azerbaijan

Between 2004 and 2015, more than 70 thousand companies were established and total number of companies reached 100 thousand. In this timespan, 1.5 million new job openings were created; 1 million of them were permanent.

Private sector in Azerbaijan rose from 29% in 1994 to more than 80% in 2014, employing 70% of labor force. More than 72,3% of all investment in the economy were internal, 63,4% of these investments were on public enterprises. It is worth to note that 87% of legal entities are private and only 11% are public entities. During 2004-2013 internal investments grew 14,6 times, investments in non-oil sector rose 12,9 times, and investments to regions made up 50,7 billion manats from all sources.ⁱ

In 2014, sales of retail goods were 22 billion manats, which increased 10% from previous year. 99.8% of these consumption goods were sold by private sector, out of which 52.5% was sold by sole proprietors, 11.5% by companies, 35.8% in goods markets. This shows that private sector, especially sole proprietors counted for a significant share of the trade (MERA, 2014).

According to the “Law on Entrepreneurial Activities” of Azerbaijan Republic, government policy with regards to entrepreneurial activities covers legal, financial, administrative, and tax support. As mentioned in the law, both private and state owned entities can participate in entrepreneurial activities with equal rights. Entrepreneurship activities have counted for more than half of the income of society in Azerbaijan. The remaining sources of income come from salaries (32%), transfer payments (17,2%), and from assets (0,5%).

According to the Ministry of Economy of the Republic of Azerbaijan, as of January 1, 2015, distribution of entrepreneurs is: 15,4 % (94,563) legal entities and 84,6% (519,860) physical persons. Significant part (34.3%) of physical person entrepreneurs is based in Baku. Only 19% of these physical persons are women entrepreneurs, more than 60% of which operate in regions. Out of the legal persons 10,540 are owned by government, and 1,653 belong to municipalities. It is noteworthy that the 87.1% (82,370) of legal persons are private entities, out of which 5,429 involve full foreign investments and 1,754 involve combination of foreign and local investors. The companies with full and/or partial foreign investments are mainly entrepreneurs from Turkey (30,4 %), Great Britain (8,6 %), Russia (6,5 %), Iran (5,1 %), USA (3,7 %), Germany (1,9 %) and from other countries (43,7 %). Small enterprises make up 78.6 % (76,740) of all entrepreneurs as mid of 2015, compared with 59,553 in 2007. In comparison, SMEs in European Union make 99.8% of all enterprises (Muller *et al.*, 2014)

In the Development Concept decree signed by the President of Azerbaijan Republic in December 29, 2012 it is envisioned that per capita GDP will increase to 13,000 USD (more than twice) by 2020. It is also expected that non-oil export will increase to 1,000 USD along with improvements in some other socio-economic indicators. Serious steps have been taken in this direction, such as eliminating bureaucracies regarding tax and custom duty, as well as reducing regulations especially tax audits, offering tax exceptions on agribusiness, decreasing income tax rates, etc.

Alongside the positive reforms in the area of entrepreneurship, some SME's continue to face some challenges and thus may get serious damages during crisis period. As outlined by President of Azerbaijan, in 2015 more than 80.000 new permanent job places were created, meanwhile 40.000 jobs were closed (2016).

However, financial problems of small and mid-size entrepreneurs remain as evidenced by the fact that only a quarter of these entrepreneurs received loans. The main reason behind this is the difficulty associated with collateral required by banks when entrepreneurs apply for a loan. More than 85% of loans available for entrepreneurs require collateral and value of collateral is more than double the amount of the loan. Half of the entrepreneurs who need external financial support go to banks and financial institutions, however the remaining half choose their relatives, acquaintances and pawns for financing. (QABUS, 2012; SEI, 2015). Households made up the main share of the loan portfolio of banks, a trend which has lasted over the past 5 years (CBAR, 2015).

For starting business, Azerbaijan ranks 7 out of 189 countries in 2016 with a score of 97.75 out of 100 according to distance to frontier (DTF) measure. According to Doing Business Reports, Azerbaijan's ranking declined gradually on getting credits, from 15 out of 183 countries in 2010 to 109 out of 189 countries listed in 2016 (DB-2010, 2009; DB-2016, 2015).

In 2015, 78% of loans have been given to entrepreneurs in capital Baku (CBAR, 2015a). Average interest rate on loans was more than 15% for the last 5 years. The analysis indicates that there is a need for improvement with regard to entrepreneurs' access to financial resources, which requires more government support.

Accomplishments in the area of entrepreneurship support

This section of the paper discusses financial, legal and organizational support for entrepreneurship by government. It highlights reforms and specific assistance to SME's since independence and evaluates the impacts of the support.

Government financial support

In April 2001 Ministry of Economic Development (Ministry of Economy) was established to govern and foster entrepreneurship and relationship with government in one hand. That was starting point for financial support for entrepreneurs in Azerbaijan.

Azerbaijan National Fund for Entrepreneurship Support (ANFES hereafter) under the Ministry provides financial aid to the development of entrepreneurship, especially small businesses in order to increase employment. ANFES gives concessional credits between 5,000-10,000,000 manats with 5-7% interest rate up to 10 years throughout 60 banks and non-bank credit organizations. But before 2009, there was also micro-financing up to 1,000 manats and only 6 banks were involved. However, government gets only 1% interest of loans and the remaining portion of interest go to financial intermediaries (commercial banks).

Since October 13, 2011, limit on small loans increased to 50 thousand manats (its period-3 years), medium-sized credit limit up to 500 thousand manats (5 years), large amount credit limits increased to 10 million manats (10 years). Grace period for loans will cover the first half cycle of the validity period of the loan (MERA, 2014a).

As of January 1, 2016, 1,754 million manats have been given to 30,044 entrepreneurs and it is expected that at the end of 2016 it will reach 2 billion manats. In 2015, soft credits in the amount of 248.5 million manats were given to 5,243 entrepreneurs, and as a result, 12,600 new job places created. In 2015, 110,000 new job openings had been created as a result of these investments. Besides, 46 business forums were held in 2015 to train and provide financial assistance to entrepreneurs (ANFES, 2016).

During the period of 2002-2014 years, 2,773 women entrepreneurs received soft loans of 55,5 million manats, which resulted in 3,460 new job openings. 1377 of these job openings were created just in 2014 (MEAR, 2015). During 2015, 40% of the loans were from budget, and the remaining 60% came from retained loans. Loans given to regions make up 64% of the total. In order to address the problems of entrepreneurs in regions regarding collateral, partnerships were established with 32 non-bank institutions to grant loans without collateral. As a result of this partnership, loans in the amount of 53 million manats were granted to about 7 thousand farmers. In 2015 which was announced as the year of agriculture in the country, 5100 entrepreneurs benefited from soft loans in the amount of around 213 million manats (www.president.az, 2016).

In 2014, total of 5,744 entrepreneurs' loan applications (99.6% of the all applications) were granted by ANFES through 39 authorized loan agencies. Total investment demand was 587,749 thousand manats, whereas the amount of approved application loans was 324,161 thousand manats. 5,571 (96.6%) of all applications were directed to agricultural sector which was 255,606.5 thousand manats or 78.5% of loans during 2014 (ANFES, 2015).

Number of small-scale projects by entrepreneurs financed in 2014 were 5,637 (97.8%) compared to medium-scale 60 (1%), and large-scale 68 (1.2%). However, the amount of funding received by small scale entrepreneurs constituted only 20.5% (66,977 million manats), whereas

the share of loans granted to medium scale entrepreneurs was 3.2% (10,294.5 thousand manats), and share of large scale entrepreneurs was 76.3% (248336.5 thousand manats). Small-scale projects accounts more, however take small portion of financing (ANFES, 2015).

Per Presidential Decree “On Government Support for Producers of Agricultural Products” of January 23, 2007 half of the costs of entrepreneurs from agriculture sector on fuel, motor oil and mineral fertilizers are covered by the government. Since 2005, main agricultural equipment used for production are exempt from custom duties and VAT on import. Since 2011, main seeds, fertilizers, animal breeds, equipment parts and modifications are also tax and duty-free. Since January 27, 2016 fee for services of completing custom declarations of goods and vehicles is 50 manats (excluding VAT) after 70% discount (TREND, 2016).

Government offers subsidies of 50 manats for fuel and motor oil expenses per hectare of crop areas excluding GDO production fields. 5.32 million manats subsidies have been given to agribusiness entrepreneurs for seeds and sapling in 2015. Significant part (37.1%) of labor force work in agribusiness: 92.3% of them are physical persons and family groups. It must be noted that share of agriculture sector in GDP has decreased from 16.1% in 2000 to 5% in 2015. Government subsidies for agribusiness including for fuel and motor oil during 2007-2014 made up 793,6 million manats.

Since 2005, “Aqrolizing” government open joint stock company sells agrimachines at favorable terms, and since 2014 entrepreneurs get 40% discount. Entrepreneurs can get devices for 10% initial payment and lising for 10 years from the company according to the government decree. During 2005-2014, 17857 modern devices were concessionally sold valued 275 million manats. Besides, the company gives 80 manats per hectare for buying fertilizers at a 70% discount. For wheat production, per hectare irrigated land 40 manats is given as a subsidy. Subsidies for agricultural production are limited to 10% in Azerbaijan, which is in line with requirement for developing countries by WTO (Imamverdiyeva, 2015; Agrolizing, 2014).

Until 2015, Ministry of Agriculture of Azerbaijan Republic has given 645 million manat subsidies to agricultural entrepreneurs (Imamverdiyeva, 2015). Ministry of Agriculture also co-finances agricultural development projects. As a first phase of the program with 3 phases, The Agricultural development and crediting project was carried out during 2000 – 2006 valued 33.65 million USD, 30,0 million USD of which was contributed by the World Bank and 3,65 million USD by Azerbaijan Government. As second agriculture investment projects was worth 53,64 million dollars, 30 million USD of which was funded by European Bank for Reconstruction and Development, 20 million USD by Azerbaijan government and 3,64 million dollars by beneficiaries during 2012-2017 (Agrocredit, 2014).

The Second Agricultural Development and Credit Project was implemented during 2006 – 2012, and covered all the regions of the country and valued 68,38 million USD. 30,8 million USD of this amount was the share of World Bank (the amount of the credit increased up to 0,66 USD as a result of the changes in SDR), 21,7 million USD was contributed by the Azerbaijan Government, 1,6 million USD came through Japanese Grant, 9,56 million USD came from Revolving fund (the funds transferred from the first phase of the project), 4, 69 million USD was contributed by the beneficiaries. The project consisted of “Agricultural Support Services” (24,680 million USD), “Agricultural Business Services” (42.3 million USD) and “Project Management” (1,4 Million USD) components. (Agrocredit, 2014).

Government legislative support

In September, 1994 with the initiative of president Haydar Aliyev, international conference on “Entrepreneurship Strategy and Economic Reconstruction” held in Baku, Azerbaijan was a start point of new era for entrepreneurs in Azerbaijan. Additionally, the goal of two State Programs on Entrepreneurship Development in 1993-1995 and 1997-2000 were to enhance entrepreneurship. It is also worth to mention the decree on “regulation of state control and elimination of unneeded inspection on production, service and financial sectors” signed June 17, 1996 that gave entrepreneurs clear idea of government’s approach to entrepreneurship.

Since November 1, 2015 all types of inspections of entrepreneurs have been suspended for 2 years and all type of licenses to entrepreneurs could be received through “Easy Service” Government Agency, which makes the process much efficient and less bureaucratic. Number of fields requiring license was reduced from 59 to 37 and most particularly for life lasting and amount of government duty reduced 2 times in Baku and 4 times in regions.

State Law (1999) on “Government Support on Small Entrepreneurs” reveals government orientation on entrepreneur activities. Along with background of financial and legislative support, Article 13 of the Law has given clear order to the provincial authorities to realize more than 15% of government projects through small entrepreneurs. “State Program on development of small and mid-size entrepreneurship in Azerbaijan Republic in 1997-2000” and “State Support Program on development of small and mid-size entrepreneurship in Azerbaijan Republic 2002-2005” were first and foremost government act on this sphere. Another act for improving legislative background of entrepreneurs functioning is making simple and minimal of license documents, and giving all authorities to “Easy Service” government new one-stop shop starting 2012.

To establish an entrepreneurship infrastructure, government built legal framework for privatization. As a result, 1996-2015 years, 46759 small enterprises were privatized. To increase efficiency of entrepreneurs’ access to legal documents, “*Electronic information portal on permissions*” was launched on October 26, 2011, which gives preliminary knowledge to entrepreneurs and startups how to manage government documents from one source.

Azerbaijan Export and Investments Promotion Foundation (AZPROMO), as a joint public-private-initiative, was established by the Ministry of Economy in 2003 with the aim of stimulating expansion of country’s exports to the overseas markets, as well as attracting foreign investments in the non-oil sectors of the economy (MERA, 2003).

Another important step in stimulating entrepreneurship was creation of *Entrepreneurship Council* under President of Republic of Azerbaijan, established on May 2, 2003 with 46 foreign-local entrepreneur members in order to discuss current problems of entrepreneurship environment and to bring solution & advice and support packages to the President (ECPRA, 2003).

Baku Business Training Center, an agency under the Ministry of Economy operating since 2007, aims to expand entrepreneurial activities, and held 132 trainings, roundtables, seminars especially for start-ups and entrepreneurs with 3000 audiences in 2015 (BBTC, 2015).

As a result of cooperation between the Ministry of Economy of Azerbaijan Republic and Germany Federal Ministry of Economy and Technology, 240 entrepreneurs (of which 49 are women) were sent to a one month training and more than 40 seminars, conferences and trainings held during 2009-2015 years (BBTC, 2015).

All of these steps are aimed at contribute to improve government-entrepreneur cooperation. Additionally, other state programs were adopted aimed at regional development, social-economic and entrepreneurship development:

- “State Program on social-economic development of the regions of the Republic of Azerbaijan” for years of 2004-2008, 2009-2013 and 2014-2018
- “State Program on Socio-Economic Development of Baku city and its settlements” in 2011-2013 and 2014-2016 years
- “State Program on Poverty Reduction and Sustainable Development in the Republic of Azerbaijan” for 2003-2005 and 2008-2015
- “State program for reliable provision of the population with food products in Azerbaijan Republic during 2008 - 2015”
- “State Program on development of Agriculture Sector in Azerbaijan Republic during 2002-2006”
- “Employment Strategy of Azerbaijan Republic” in 2006-2015-years”.

Government organizational support

In 1995, as a first phase of privatization process, more than 1695 thousand hectare land have been given to producers for free with abolishment of state and collective farms. As a result of this process, 99.8% of agricultural products are sold by *private sector*. (H.A.F., 2012)

Government has been conducting supporting policies to maintain development of private enterprises. These policies include improvements in taxation system, registering businesses, deregulation, increased efficiency in customs and efficiencies in obtaining licenses:

Taxation system - As a result of the implementation of simplified taxation system, since January 1, 2001 entrepreneurs with annual turnover less than 120.000 manats, (which as of January 1, 2016 ceiling is set at 200.000 manats), working in capital Baku, pay only 4% of their overall revenue as tax, whereas in regions it is 2% (taxes.gov.az)

Income tax ceiling decreased from 55% in 1992 gradually to 25% in 2013. Since majority of entrepreneurs are physical persons, they definitely benefit from this. Besides, physical person entrepreneurs' tax rate decreased to 20%. Also, corporate tax ceiling was reduced from 35% to 20% in 2010. There were indirect effects of the decrease in VAT tariffs from 28% to 18%. Beginning 2001, except land tax, agribusiness enjoyed tax exemptions. As a result, till 2014, throughout this channel 1,4 billion manats left to farmers. Since 2014, including land tax, agribusiness entrepreneurs pay no taxes for 5 years ahead (Alirzayev, 2015).

Registration system - Single window system to submit regulatory and reporting documents was established to reduce bureaucratic barriers to opening businesses. As a consequence of Presidential Decree on “the application of the principle of “single window” for of entrepreneurs“, signed on October 25, 2007, procedures for registering new businesses was reduced from 15 to 1 and time lapse for registration was decreased from 30 days to 3. Since 2009, Ministry of Emergency Issues created single window operation for getting permission for construction in a short time. Another important step for stimulating entrepreneurship was minimizing the number of documents required for licenses.

Before 2008, entrepreneurs looking to start a business in Azerbaijan had to register at 5 different agencies, complete 15 procedures, and file 33 documents which had taken more than 2 months. Due to a new e-registration system, beginning January 1, 2008 entrepreneurs can be ready to do business by submitting 7 documents and completing 6 procedures at the new,

one-stop shop - State Business Registry - without additional fees to speed the cumbersome process up, which is saving businesses an estimated \$8.4 million annually (Bagaudinova, Khalifa, & Petriashvili, 2009)

Customs procedures – “e-Customs”. “Decree on the application of the principle of ‘single window’ for inspecting the goods and vehicles transported across the border checkpoints of the Azerbaijan Republic” helped to simplify the customs procedures for entrepreneurs. In accordance with the Presidential Decree on 11 November 2008 “On application of ‘Single Window’ concept during the check of goods and transport means passing through the checkpoint on the border of the Republic of Azerbaijan” the State Customs Committee was appointed as the responsible party of introduction of the “Single Window” concept on the border checkpoints. To modernize the customs service and provide more favorable conditions for business and international trade, adopted the “State Program on development of the customs system of the Azerbaijan Republic for 2007 to 2011.” Under this Program, 11 November 2008, the President of the Republic of Azerbaijan signed the “Decree on the application of the principle of ‘single window’ for inspecting the goods and vehicles transported across the border checkpoints of the Azerbaijan Republic”. Thus, from January 1, 2009 in Azerbaijan in the clearance of goods and cargoes at the customs border the “single window” system was implemented. (UNECE, 2011). In addition to simplified procedures, ceiling for import custom duty was set at 15 %.

After these changes impacted Azerbaijan’s rating in “Doing Business Report” initiated by WB, which reached 63 out of 183 countries being listed in 2015. At the same time funds being allocated to non-oil sector had rocketed 13 times within 2004-2013 period.

Challenges faced by SMEs

Between 2004 and 2015, more than 70 thousand companies were established and total number of companies reached 100 thousand. In this timespan, 1.5 million new job openings were created; 1 million of them were permanent. Meanwhile, population of the country increased by 1.3 million during this period. That means, growth rate in entrepreneurship is notable, but seems not rather enough. More efforts is required to ensure that the growth in businesses match the growth in population to avoid unemployment concerns.

It is more than 16 years that government gives subsidies and tax cuts mainly to agriculture sector, but this sector still need continuous of the support. Despite the increasing government support to stimulate non-oil sectors, share of agriculture sector (with 37.1% of labor force) in GDP decreased to 5% in 2015 despite increase in government support. Part of this can be explained by total increase in GDP, however, declining share of agriculture demonstrates that government support needs to focus more on the most pressing needs of entrepreneurs in agricultural sector.

Another noteworthy point is the involvement of women in entrepreneurial activities. Only 19% of these physical person entrepreneurs are women, more than 60% of which operate in regions despite the fact that as of 2015, 40% of unemployed persons are women. Engaging more women in entrepreneurial activities may help to reduce unemployment among women. Although weak participation of women in entrepreneurial activities is connected to cultural matters, taking measures to eliminate barriers for women entrepreneurs in starting and managing a business may help to attract more female entrepreneurs.

Although the entrepreneurs have access to soft loans, the commercial banks don't have authority to directly approve such loans. It is necessary for banks to get final approval by ANFES. This may increase the period of decision making on the side of ANFES. Since banks are in a better position to evaluate and decide on approving loans, it would be more efficient to make banks in charge of the final decision on approving loans. Not only loans, but also subsidy mechanism should be reformed in order to eliminate phantom support.

Given the high interest rates at banks as well as limited access to budget loans, there is a need to develop financial markets, in order for entrepreneurs to be able to obtain external financing. Through sales of securities, SME's may be able to acquire more affordable financing. Development of financial markets would also give wider access for entrepreneurs to get funding. Since small enterprises need much more financial support, there is a need for specialized banks that can assess risk more accurately and accord loan conditions to it.

Sole proprietors play an important role in the entrepreneurial climate in Azerbaijan. For instance, 92% of small enterprises are sole proprietors in 2014. There is a need for government to facilitate their transformation into legal persons to accelerate their growth since enterprises can get finance with better conditions than physical persons.

As President of the Republic mentioned, unfortunately, the culture of paying taxes by entrepreneurs has not been fully established yet and main revenue of government should come from such taxes. While it is important to increase tax base through stimulating entrepreneurship, this requires creating more favorable environment to do business. Entrepreneurs still remain dependent on support through tax exemptions as well. Agriculture sector is almost tax and duty-free which is big part of social importance, but small part of the economy in Azerbaijan. Despite low tax rate (20%) compared to EU countries, the reasons why some entrepreneurs still avoiding paying taxes requires further research.

Conclusion

Azerbaijan grew very rapidly during the last decade injecting oil revenues into the economy. As a result of the privatization process, employment in the private sector reached to more than 80% in 2014 compared with 29% in 1994. Since independence the government has taken steps to develop entrepreneurship and SMEs by creating legal and financial framework as well as by providing organizational and technical assistance. Since millennium government has established financial support background and began to lend soft loans priority to agriculture sector. To improve financial condition of entrepreneurs, the government also uses tax policies, in particular tax exemption on agribusiness, regional based tax policies.

Supporting agriculture sector is important for government because significant part (37.1%) of labor force work in this sector. Government provides addition support for agricultural sector such as subsidizing half of the cost of fuel and motor oil expenses, offering 70% discount on fertilizers and agricultural machines at a 40% discount. So far, agricultural entrepreneurs have received 645 million manats of subsidies and 1.4 billion USD as tax savings.

As of January 1, 2016, 1,754 million manats have been given as loans to 30,044 entrepreneurs and it is expected that at the end of 2016 it will reach 2 billion manats. Since the end of 2015, all types of inspections of entrepreneurs have been suspended for 2 years and all type of licenses to entrepreneurs can be received through one-stop shop Government

Agency, which makes the process much efficient and less bureaucratic. Number of fields requiring license was reduced.

Through the legislative framework, State Programs on development of SMEs and entrepreneurs and regional development of social-economic infrastructure have been undertaken. Besides, single window for registration, e-custom procedures, e-declaration of taxation, are good examples what have done among other initiatives.

Azerbaijan economy should prioritize the sectors where it has comparative advantage and support those areas most. Due to the significance of oil industry in the national economy of Azerbaijan, it would be rational to enhance SMEs along the chain of petro-chemical industry. Entrepreneurship development is key reason for development of the county and its regions. In order to ensure balanced development in all regions and achieve remarkable development level in the country, regional based development packages should be adopted.

Note

ⁱ On February 21, 2015 Central Bank of Azerbaijan devaluated Azeri manat from \$1.25 to \$0.95 and again to \$0.64 on December 21, 2015.

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The history of Turkish industry in Romania, and key milestones in its socio-economic and political evolution

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Abstract: The modern Muslim population has climbed to approximately 1.6 billion people on an international scale, accounting for under a quarter of the world total at 23.4% (Desilver, 2013). This statistic means Islam ranks as the second largest religion after Christianity, which today stands at 31.5% (Pew Research Center, 2012). Furthermore, it is forecasted that the Muslim population will meet the 2.2 billion mark by 2030, which would increase its global proportion by more than 25%; however, this is contingent on the 2030 world population remaining the same as 2014. The Organization of the Islamic Cooperation (OIC) is the largest Islamic group which comprises of 57 countries that are mostly predominantly Muslim, and they also have a combined GDP in excess of \$8 trillion U.S Dollars, generating a unified market valued at \$2.4 trillion U.S Dollars (Alserhan, 2010). Turkey's Muslim population stands at 97.8% (Konda, 2007), which places a significant weight on the inter-cultural dynamics of its trading operations integrating into Romanian markets, a country which is predominantly Christian. Taking into account the statics covered thus far, it is the intention of this study to highlight the importance of cultural cohesion when discussing the key political and economic challenges of Turkish businesses venturing into Romania, even though it will be clearly mentioned that the early power struggles between other neighbouring nations set the tone for a strong profitable bond between the two nations.

Keywords: inter-cultural cohesion, Islam, Turkish culture.

Introduction

Turkey and Romania are not only conveniently located close to each other geographically, but they also share common roots in their historical political challenges, which will be outlined later as one of the key fortifications of the business relationship they have today. Citizens of Turkey and Romania occupied society alongside each other for a few hundred years that many would characterize as peaceful and friendly. It is, in part, due to this early inter-cultural connection that both nations have been influenced by each other over time, which can be evident in multiple domains such as partially shared language with two thousand words

being in mutual commonality, even food cuisine reflect such a historical cultural bond. To elaborate on this inter-cultural cohesion, over 60,000 citizens of Turkish and Tatar ancestry reside in the Dobrugea region, and over 17,000 Turkish people live in Romania who serve as a cultural bridge between Turkey and Romania. Solendil (2014), It is without question, that the intimate bilateral affairs and prominent economic connections with Turkey positively influence interpersonal relationships in an increasingly poly-ethnic society in Romania. The inter-cultural bonds between Turkey and Romania dating back centuries has definitely made it easier for contemporary Turkish business integration, and this is only reinforced by the initiatives of the Lumina Educational Institutions which is founded by Turkish entrepreneurs and Yunus Emre Cultural Centers in Bucharest and Constanta, including the activities of the Dimitrie Cantemir Cultural Institute in Istanbul. However, in order to understand how the history of culture and religious influence on business trading has progressed between Turkey and Romania, it is important to briefly shed light on the inception of industrial relations, with its roots in political power struggles.

Research methodology

The purpose of this study is to gain better understanding of Turkish Businesses in Romania.

This research also outlines the strategic partnerships between Turkey and Romania during recent contemporary events, and how this has strengthened the integration of Turkish businesses in Romania by addressing key post-recession recoveries and prospering market trading values. The final segment of this research address the unexplored significance of religion playing a role in business behaviour among Turkish entrepreneurs in a country that does not coincide with their cultural values.

Considering the nature of this research objectives and the existence of various studies that might provide some perspectives, the literature review method was considered the most appropriate for this research.

The intention of this research is to introduce the inception of Turkish businesses in Romania and Turkish integration into Romanian business society and culture. The author focused mainly contemporary business relationship between Turkey and Romania also created a logical presentation of the works of previous scholars as well as their contributions in order to achieve a better understanding on how Islam and Turkish culture affect ethical business marketing by Turkish companies in Romania.

Literature search strategy

Main key words: inter-cultural cohesion, Islam and Turkish culture in Romania, Turkish business.

Themes and subjects included: “sociology”, “political science”, “international relations”, “culture”, “economics”, “research”, “globalization”, “social sciences”, “international migration”, “social aspects”, “social sciences”, “economic theory”, “nationalism”, “western Europe”, “immigration”, “economic development”, “minority and ethnic groups” “psychology”, “demography and learning behaviour”, “economic growth”, “multidisciplinary”, “social sciences”, “social trends and culture”, “social issues”, “developing countries”.

Research domains: Business and International Business, European Studies, Political Science and Government, Sociology.

Databases: Business Source Complete, Emerald Insight, Europa World of Learning, FRANCIS (International Humanities and Social Sciences), National Bureau of Economic Research (NBER) Working Papers, OECD library, Social Explorer, Web of Science (Thomson Reuters Web of Knowledge), Wiley Online Library, World Development Indicators (WDI).

Content type: Peer reviewed journal /e-journal articles.

Content language: English.

Turkish integration into Romanian business society and culture

After briefly outlining the historical introduction of Turkish presence in Romania, it is clear how the emergence of business trading from Turkey in this country has its roots in political power struggles. However, in order to fully appreciate the journey Turkish businesses have undergone in their integration into Romanian society, it is important to address several key moments in Romania's modern challenges that shed light on the remits of such a long standing inter-cultural partnership. During the early 1960s, Romania's foreign policy on importations and cross-border trading became evermore isolated from the dictatorships of the USSR. Towards the start of the 1970s, Romania conceived diplomatic agreements with West Germany and political alliances with Turkey, and also cultivated civilized connections with Israel in the aftermath of the Arab-Israeli War in 1967, while other East European communist nations terminated diplomatic bonds. As Romania did not participate in the invasion of Czechoslovakia (1969), this set the tone for the country being appraised as a peaceful nation with a more intrinsic demeanour to strengthen its own economy through mutual relationships. There was much compromising in Romania during the ambitious industrialisation of the 1970s, which was evident in several sectors losing priority in government spending and subsidised grants for workers such as in agricultural farms. This consequently opened the doors to foreign involvement in boosting Romania's economy, which helped the gradual introduction of Turkish trading through the importation of raw resources and goods for weakened sectors (Gilberg, 1990). However, Romania's national debt increased dramatically due in part to the significant investment in the petrochemical industry markets, which provoked the austerity program to reduce government spending as a method of saving money in sectors such as food and beverage, utilities, and consumer goods in 1981. From the 1990s until the early 2000s, Romania's economy fell behind, an unfortunate period marked by challenges to ascend into a market-based economy, consequently raising the merits for foreign investment and trade support from Turkish businesses. The escalations in product prices and reduction in food supply resulted in civil unrest across the nation, which was worsened by the barring of mines for non-renewable resources and precious metals. This consequently led to widespread public worker strikes and protestor campaigns organised by miners. Privatisation of state-controlled markets continued discreetly, while Romanian native citizens were blind folded from the value of the shares they invested in with their hard earned savings. It is clear from these key challenges experienced in Romania that economical support from Turkey would be inevitably encouraged, which supports the notion that the degree of needed help far exceeded the inter-cultural conflicts between Turkey and Romania due to any religious based ethical differences in how businesses should converse. Having said that, it is necessary to address the dynam-

ics of business ethics and culture as prime mediating factors on the integration of Turkish industry trading in Romania.

Organisational culture can be characterised by the consistencies of shared assumptions across multiple circumstances, within the domestic habitat and the appraisal of external foreign affairs, grounded by values, societal norms (Schein, 1992). It can also be argued that culture is also formulated by beliefs contributed by the members and leaders of a particular culturally conscious company (Ozer, 2012). Due to the facets of organisations developing in Turkey and Romania, sparked by centuries of shared economic and political advancements, cultural differences may not be that different from each other, as they are built on such experiences.

The socio-political implication of intercultural dialogue has proven to resolve and further develop economic activities between two distinct nations, on a micro and macro level of trade. In order to appreciate all facets of this paradigm shift, it is necessary to understand the interactions between religion, culture, and conflicts as a spectrum of an evolving industrial relationship. As mentioned earlier in this study, the conflicts between two cultures are a necessary evil in order to know precisely which societal domains need diplomatic effort. Identity is grounded in the process of unique consciousness, and is sometimes narrowed and hardened in the aftermath of a dispute, which is expected between two countries that embody different religious backgrounds like Turkey and Romania (Alrassi, 2013). This sense of corporate and cultural identity fortifies the self-esteem of the individual and the company being represented in a given corporate predicament, which also makes it easier to reluctantly accept changes in business deals with other parties with fearing the loss of traditional values and principles. This is especially true within poly-ethnic societies where businesses need to be evermore conscious about how they articulate their marketing to such diverse audiences, which is becoming increasingly difficult in the modern world where isolated segmentation is now unrealistic. Therefore, as the historical relationship between Turkey and Romania has drawn political and economic strength from its early turbulence between other nations, there is now more clarity established for a sustainable harmony. This needs to also take into account that culture coincides with the concept of community, and is therefore a unified identity in the context of corporate partnerships and international brand development through mergers and acquisitions (Alrassi, 2013). The holistic and psychological facets that underpin cultural differences between Turkey's Islamic population and Romania's Christian population influences variance in human behavior, which has inevitably manifested in challenged business ethics over time until inter-cultural cohesion has found stability.

Inter-cultural dialogue is a gradual process between two nations that hold distinct religious differences that underpin their business ethics, which has proven to only progress the friendly integration of Turkey in Romania further in contemporary times. This is evident in key points in recent history where members of political power from both countries have made an effort to maintain frequent contact and mutual agreements in trade. Traian Basescu, the president of Romania, attended a state visit to Turkey in 2011, which was organized to sign the Strategic Partnership Declaration; an agreement with the mission to reinforce bilateral relations in every societal domain, especially regarding political and economic interests. The execution of this agreement was also signed on the Action Plan documents when Titus Corlatean, the minister of foreign affairs of Romania, visited Turkey in 2013. Turkey's bilateral cooperation with Romania is constructed with important economic and commercial objectives, which has driven more investment than ever, thus making Turkey the largest trading partner for Romania in the Balkans. According to the website of the Republic of Turkey 'Min-

istry of Foreign Affairs', bilateral trade volume generated in excess of 4.7 billion Euros between Turkey and Romania (2013), as well as 4.3 billion Euros in 2011 and 2012.

Turkish corporations that have been trading in Romania since the 1980s and are experienced with the Romanian business culture, qualify as significant assets in advising the future progress of the Turkish-Romanian partnership for economic missions. It is clear in modern markets that Turkey is the most prominent investor in Romania, especially considering the latest estimated total of capital injection amounts to over \$6 billion U.S. Dollars. In excess of 6,000 Turkish businesses, from large to small enterprises, are presently trading in Romania, particularly in private equity investments, manufacturing and professional services sectors. Turkish investments are also trending within other sectors, including consumer goods in the food and beverage markets, farming and agricultural products, real estate and construction, media production, education, internet and telecoms, and the healthcare markets. Turkish retail banks such as Credit Europe and Garanti Bank are also trading in Romania, with over 136 branches collectively. Taking into account the widespread business activity in Romania, it presents the notion that this country has welcomed the integration of Turkish business and investment, with a seemingly effortless challenge in cultural cooperation from two completely different religious backgrounds. This is evident in the Romanian Constitution guaranteeing minorities the right to religious and cultural value preservation, and the enforcement of their ethnic identities that underpin their traditional code of conducts in business trading. The website of the Republic of Turkey 'Ministry of Foreign Affairs', also claims that over 70,000 Turks and Tatars, including other foreign minority groups residing in Romania, are prospering with the compliance of the constitutional rights through organizations developed by these ethnic groups, as the Ministry of Foreign Affairs states, "Each minority organization has political party status and minority groups are represented in the parliament in proportion to their population. Turks and Tatars have one seat each in the parliament." With this in mind, it is logical why Romania has welcomed the integration of Turkish trade to aid the development of their economy, especially considering Turkey is geographically situated, rather conveniently, at the cusp of the Black Sea Economic Cooperation (BSEC) initiative, bridging partnerships between Europe, Asia, and the Middle East.

Contemporary business relationships between Turkey and Romania, and how this reflects inter-cultural cohesion

As mentioned previously in this chapter, Romania is conveniently located close to Turkey, making them both prime candidates for bridging political and economic trades between Europe and the Middle East, two territories which are separated by distinctly different religious belief structures and code of conducts. With this in mind, Romania offers the ideal market setting for Turkish business trading, particularly with their population in the region of 20 million native citizens. The large capital investments operated by emerging Turkish entrepreneurs in Romania has sparked the ever growing trend in Romania as a promising new market economy with potential for value growth worth profiting on, and also serve as an integral strategy for Romania's bilateral economic activities. These investments amount to a collective value of over \$5 billion U.S. Dollars. There are approximately in excess of 65,000 Turkish owned corporations actively trading in Romania across multiple industry vertical sectors (Solendil, 2014).

It is a widely concurred belief among Romanian people that Turkish investors in their markets are helping to further develop and strengthen employment rates and instill faith in a more prosperous political future after a long history of foreign dominance and economic turmoil. Now, there are efforts to reciprocate this economic benefit by Romania as a sign of maintaining the long-term bond, which is evident in the Economic Forum for Investment and Trade, hosted in Ankara (Solendil, 2014). It should also be noted that Romania has been considered one of the rare European nations that persevered in the survival of the macro financial recession of the 2008 onset, particularly with minimum detrimental repercussions. Armeanu et al (2013) conducted an analysis of the correlation intensity between emerging markets during economic crisis, and found that there were several significant stock exchange movements from Turkey that had a positive impact on Romania's financial market. This was particularly shown in market elasticity; over 1% increase in the financial market for Istanbul directly influenced a quarter of a percent growth in the stock exchange for Bucharest. However, Andreea's statistical output produced a rather low coefficient in the correlation model, which suggests even though Turkey and Romania are emerging markets that have fortified business relationships with each other to grow their markets, they do not generate that much of a powerful influence in their alliance alone. Armeanu's (2013) correlation study can still provide credence to the historical fact that both Turkish and Romanian markets serve a complimentary connection with each other for domestic growth, however, this market development, in terms of quantified data does not show reliable longevity as there are always differences of investor interest from Turkish businessmen in Romania. Taking into account that the mutual market impact between Turkey and Romania is relatively low, this reaffirms the encouragement for Romania pursuing a more international portfolio with Turkey through synergistic interests of other nations around neighbouring countries in the Middle East and Europe. This may find reassurance through the BSEC (organisation of the Black Sea Economic Cooperation) which has been implementing strategic market initiatives from several European and Middle Eastern countries since 1992; a partial means for countering market risk through foreign partnership diversification. The empirically verified truth in Armeanu et al's (2013) market correlation analysis, is that Istanbul's financial industry has recently embarked on an expansion on a micro and macro economic level, making it a prime candidate for multiple foreign investors. For this reason, and similar transformations spearheaded by other initiatives like the BSEC, Romania may have a much more brighter future ahead by reaping the benefits from the versatile growth of Turkish financial markets, a key partner still ranking as the most prominent trading relationship. This increasingly closer trading alliance is also in the best interests of Turkey considering they will have more avenues to access the European markets.

With commendations owed to its GDP growth of 3.5% since 2013, Romania acquired the most significant economic developments in the European Union. It can be argued that this is a promising selling point for the nation, which should provide confidence for Turkey's continued investment, as well as from other countries (Briegel, 2014). Romania does have other macroeconomic factors in support of its prospering strength, including an unexploited potential for diversifying direct foreign investment operations. It is therefore oppressive to suggest that Romania should grow their economy by focusing on their domestic markets, when a lot of the promising growth is through foreign relations. With this in mind, Romanian business innovators are encouraged to invest in Turkey to reciprocate the integration of their economic support in modern times. However, even though it is apparent that Turkish industry has been integrating into Romanian markets with encouraged political favour, it is important

to at least address examples of this mutual relationship as a demonstration of two distinctly different nations in religion and ethical conduct expressing collaborative agreements.

In Riebel's (2014) country report for Romania at Rabobank, it was pointed out that the Turkish business community has expressed interest in getting involved with the privatisation and capital injections at Oltchim – a chemical company in Romania – as well as Cupru Min, Romanian Post, and medical pharmaceutical corporations. This was mentioned in reference to a recent release from the Ministry of Economy. However, Omur Solendil, the Ambassador of Turkey to Romania, made it clear in recent press talks that there are some challenges confronting the Turkish corporate network in Romania, which is being countered by the invitation for Turkish businesses to sign agreements on the privatisation and attraction of investments in companies listed by the portfolio owned by the Ministry of Economy. However, This has set the tone of a rather narrowed business agenda among the Turkish community as deviating too much from the Romanian's personal hopes for their investment relations. This is evident in Briegel's (2014) account of the Romanian Governemnt wishing to attract more interest from Turkish businesses in their country to invest more money in other less strong markets, such as mining, petrochemicals, as well as the manufacturing applications of the textile industry. In light of the disparity between Turkey's personal investment interest in Romania's economy and Romania's own hopes for Turkish integration into more of its weaker markets, the Ministry of Economy has urged Turkish Businessmen Association to collaborate more on a list of investment projects put forward by Romania. The Romanian corporate interests with Turkey have also made it clear in recent agreements to broaden their horizon to other proposals which they have not prioritised themselves, and to coincide more with foreign interests in their markets (Briegel, 2014). It should also be reiterated again that Turkey is renowned as the leading economic trade allie of Romania, spearheading the foreign investments into their domestic markets, as well as being the origin of several significant investments in the Romanian markets. Another important fact which should demonstrate the fostering integration of Turkish business in Romania is the relationships combined trade value reaching in the region of 3 billion Euros in the first two qurters of 2013, which is equivalent to 3.5% more than in the same month in 2012 (Nineoclock, October, 2013). The continued movement of Turkish trade into Romania has resulted in other positive movements, for example exports generated over 1.7 billion Euros, which increased by 2.9% since 2012; imports prospered at over 1.2 billion Euros, up 4.3% (Nineoclock, October, 2013). The balance of the total combined trade was in support of Romania's objectives, which totalled almost half a billion Euros. It was also recently reported how the trend in Turkish businesses are becoming increasingly more prevalent in Romania's economy, and this is evident in over 13,000 companies owned by Turkish capital registered in Romania by the third quarter of 2013 alone (Nineoclock, October, 2013).

The prosperity of the modern economic partnership between Turkish businesses and Romanian market sectors may be confounded by the rates in investor innovation, which determines the future of where capital will be put into use and the diversification of portfolios between the two nations. This is evident in the fact that Turkish manufacturers are unable to persist in competing with foreign countries in the absence of research and development, and developing proprietary methods in securing unparalleled product innovations (Yamazaki, 2012). This should not deny the fact that Turkey has a strong capable manufacturing system, which is distinct from other emerging economies. Also, the current production chains and factories would be able to save more money for such steep demand for innovation if labour costs were

reduced with more strategic human capital management during a pivotal time in economic history with Romania and the BSEC. Therefore, contemporary advancement in Turkish integration in Romania with additional foreign investor support should focus on innovation and partnerships in the rapidly developing technology sectors (Cetindamar and Ulusoy, 2008). However, on the other hand, Romania's focus on market and investment innovation has been viewed by some economists as less active than Turkey's metric for growth and future partnership prospects (Yamazaki, 2012). Romanian business activities have pointed to a greater motivation in the distribution and logistics sectors, rather than investing in research and development (Yamazaki, 2012). The noticeable inactivity in technology transfer in the Romanian markets may hinder the additional foreign support needed in order to ensure the positive influence of Turkey's alliance is increased, as expressed by Armeanu's (2013) stock exchange correlation study, mentioned earlier in this segment.

The unexplored gap in research on how Islam and Turkish culture affects ethical business marketing by Turkish companies in Romania

Despite the 97.8% of Turkish citizens being Muslim (Konda, 2007) and driving their investments evermore prominently in Romania's economy, there is little research on how Islam and Turkish culture has behaved during the historical political and economic partnerships. Even though it is widely accepted that religion is a stable driver of human behavior in terms of ethical conduct in almost all societal domains, it is unknown how this is persevered within a nation that holds very different cultural norms and religious beliefs. Islamic societies are significantly absent from contemporary marketing theory debates, which raise a question on whether Turkish trading in Romania has omitted the expected influence of religion on marketing activities. According to Sacks (2001), one of the most important laws of Islam that resonates among Muslims irrespective of their nationality is the consumption of Halal meat and avoidance of alcohol. Halal, in terms of its Arabic origin, means lawful under the allowance of Allah (God). Consuming non-Halal meat such as Pork is deemed as Haram, in other words 'forbidden'. Sacks argued that this fundamental law has direct influence on the consumer behavior among Muslims in the food and beverage market. This may be a confounding factor for Turkish involvement in market trading in Romania, however, the extent to which this has been compromised over the years is worth investigating. At the same time, it can also be argued that the compromising of certain religious and cultural values when Turkey and Romania have worked closely with each other may not necessarily be a negative behavior. This may instead be a demonstration of mutual business partnerships putting aside particular differences as a means to showing tolerance in the other's culture if a certain trading activity requires such a compromise. However, this notion can be scrutinized by arguing that intercultural tolerance should never allow traditional religious beliefs being compromised at the expense of the other.

The need for research on religion influencing marketing, particularly due to the increasing number of Muslims on a micro level in Romania, has yet to be reflected in applications for business strategy and segmentation, and it is unclear how Turkish citizens utilize Islamic principles in their trading activities. According to Delener (1990), the level of devotion an individual has to a particular faith is arguably one of the most powerful dictatorships to an individual's purchasing decisions. However, the extent to which this notion is correct, is one

of the key research objectives of this thesis study. By researching Turkish business ethics and how activities coincide with religious roots in a different culture may help determine possible multifaceted identities that exist among Turkish entrepreneurs in Romania, depending on political and market situations. This brings attention to the disparity between Islam and Christian cultures, and whether there is a fundamental component of the religious belief structure that is consistently expressed in the face of certain business trading activities and social structures in commercial environments. There are multiple beliefs embodied by Sunni and Shia Muslims that form the five pillars of Islamic law; guiding lifestyle and societal functions such as banking, advertisement, marriage, and the consumption of food and beverage (Khraim, 2010). With this in mind, it begs the question on which markets are most influenced by Turkish and Islamic values in Romania, and whether there is a common denominator that separates purchase decisions in a predominantly Christian society. This is of particular interest given the historical bond between Turkey and Romania, because there may have been several compromises during the course of the history covered thus far.

According to Hirschman (1983) there are three possible theories for why religion has been omitted from consumer and business trading behavior studies. Firstly, it could be that researchers in marketing and consumer insights are simply ignorant of there being an influential link between faiths and purchasing/trading behavior. Secondly, the absence of religion in marketing and economic debates might be attributed to intentional discrimination within the research community to avoid sensitive topics that are easily scrutinized as “taboo” topics. The third reason Hirschman argued was that the subject may simply have been overlooked all this time as such a silently obvious influential factor.

Conclusions

The long standing economic bond between Turkey and Romania has its roots in the early political struggles between neighboring nations, which provides remit for continued alliance till this day. After drawing strength from such early political turmoil due to collaborative efforts to help each other, Romania has evidently prospered through its economy gradually by fortifying its trading relationship with Turkey, even though this has proven some challenges in differences in prioritized market investments, as addressed by Briegel (2014). Despite the reassurance of there always being a mutual agreement to recover concerns from both nation’s representatives in the Ministry of Economy, there still remains a void in business psychology, specifically how Turkish entrepreneurs and corporations behave in a country that does not coincide with their cultural values or Islamic belief structures. This unexplored influence is an important holistic and conceptual factor that may underpin a large variance in Turkish business integration in Romania, and could also provide another explanation alongside economic movements why there tends to arise differences in investment interests regarding Romania’s market sectors. It is worth investigation, particularly in reference to Delener’s (1990) notion that religion and cultural values are one of the most powerful dictatorships mediating decisions in almost all societal domains, including business partnerships and market trading. It is therefore important to identify which specific business activities have a tendency to be influenced the most by inter-cultural cohesion compromise, and which market trading conditions tend to reinforce or instill Islamic belief structures. One of the assumptions that need to be tested is that the quality of the relationship between an Islamic population and a non-

Islamic one will result in more rigid utilization of religious and cultural behavior, particularly in situations when confrontations are more apparent to demotivate cultural integration.

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Understanding spatial mobility and spatial capability in women entrepreneurship: a case study on Saudi women entrepreneurs

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Abstract: This study aimed to understand spatial mobility and spatial capability and its role in women's entrepreneurial social activities. The paper focused on Saudi Arabia and considered it as a unique context when it comes to discussing women's mobility. In-depth interviews were conducted to position spatial mobility and spatial capability in entrepreneurship studies. Therefore, the study examined whether women's entrepreneurial social activities influence their spatial mobility and spatial capability, or is women condition of spatial mobility and spatial capability determines and shapes their entrepreneurial activities. In addition, this paper examined the contextual factors that of influence to women's mobility.

This study focused on nascent entrepreneurs and the start-up phase of the businesses to generate an understanding of women's capabilities and experience of constraints. With that in mind this study found that nascent women entrepreneurs adjust their entrepreneurial social activities due to the structure of mobility in the society. In addition, family ideology was one of the main components that shape nascent women entrepreneur's choice to travel and to participate in social activities. This clearly showed that nascent women entrepreneurs accept the constraints by adapting to the limited mobility that exist in this study context and they refer to it as a 'preference of choice'.

Keywords: nascent women entrepreneurs, spatial mobility, spatial capabilities, family ideology, Saudi Arabia

Theoretical framework

The study considered entrepreneurship from the conception of new venture creation (Bygrave & Hofer, 1991). The start-up phase of entrepreneurship is defined as the activity undertaken by an individual that culminates in the development of a new feasible firm (Hechavarria & Reynolds, 2009). The start-up phase is a complex process (Jack & Anderson, 2002). Therefore, studying this early phase allows for further understanding of how entrepreneurship can be fostered (Stevenson & Jarillo, 1990). It is argued in the study that if entrepreneurship as a discipline focuses on identifying opportunities, then it is crucial to look

at other characteristics that could influence such opportunities. The reason for this is that entrepreneurship cannot solely be studied nor effectively described taking a one-dimensional approach (Hornaday, 1992; Erikson, 2001), but rather is the sum of all the linked dimensions (Zahra & Dess, 2001). For this purpose, spatial mobility and spatial capability were introduced because, on reviewing the context of entrepreneurship in the extant literature, there appeared to be deficiency and discrepancy between the findings of current research and the real world experiences. This indicates, as suggested by (Zahra 2007, p. 448), that there is “a gap in our understanding of the process associated with opportunity recognition, creation, and exploitation”.

Saudi women entrepreneurs were selected as a case study sample to understand their perception and experience of spatial mobility and capability. The study context ‘Saudi Arabia’ reflects a unique case of social policy towards women’s mobility in non-western cultures. The focus of the empirical study lies on understanding the link between actual mobility (through means such as transportation) and the potential of mobility (one’s freedom of option to go to certain places and to do certain things) and its influence on nascent women entrepreneurs. It is possible to argue that the chosen context could have implication in shaping entrepreneurship, especially when focusing on women as a social group. For example, Birley (1985) confirmed that context affects an entrepreneur’s activity in terms of how they perceive it to influence the choice of operating a business. Building upon this, the current study explains the context by providing a coherent understanding its influence on women in Saudi Arabia, as it is likely that it will affect the individual in different ways (Sutcliffe, 1994; Castrogiovanni, 1996). The differential of contextual supports the study aim to increase understanding of the environmental influences on Saudi women entrepreneurs. Nonetheless, this work does not solely discuss this context on entrepreneurship, but rather focuses on spatial mobility within this situation. Kaufmann *et al.*, (2004), assert that comprehension about the territorial constraints of people movements, as well as an understanding of the condition of mobility within a particular regional context is pivotal. Equally, Church *et al.* (2000, p. 198) state that there is a number of contextual factors that effects an “individual’s ability to access an activity that facilitates participation”, and these therefore need to be examined.

Therefore the study considered actual travel, which included examining whether women experience ‘mobility social-exclusion’. Mobility social-exclusion as defined by Kenyon *et al.* (2002, p. 10) as “the process by which people are prevented from participating in the economic, political and social life of the community because of reduced accessibility to opportunities, services, and social networks, due in whole or in part to insufficient mobility in a society.” The proposition here is that insufficient mobility in a society is equivalent to the policy on banning women from driving in that society, because such policy reduces women accessibility to places that encompass opportunities, resources, and networks for their entrepreneurial activities.

The second concept addressed in the study is related to individual potential to travel, defined as ‘spatial capability’. The concept of spatial capability is generated from the capability approach introduced by Amartya Sen (1983; 1990). Sen applies the capability approach to reflect on human development. The term ‘capability’ indicates individual’s freedom to achieve ‘functioning’ (Alkire & Black, 1997). Therefore, the arguments of such concepts rest on an objective that goes beyond poverty and justice, to include individual’s freedom to make their own choice about what matters to them (Alkire, 2005). Freedom in this sense is “the real opportunity [...] to accomplish what (someone) values” (Sen, 1992, p. 31). In this light, employ-

ing the capability approach in mobility studies reflects an individual's freedom of option to achieve effective functioning via travelling (Alkire, 2002; Shin, 2011). Some urban study literature has examined women's mobility by focusing on potential mobility while others looked at mobility in terms of actual mobility. This study examined both concepts of mobility to contribute to entrepreneurship literature. In other words, the aim was to focus on the actual experience of traveling together with the potential to travel that exists for amongst Saudi nascent women entrepreneurs.

Methodology

The context

The research sample population was a group of 15 nascent Saudi women entrepreneurs who are starting a business or have started a business in the last 3 years and who are between 25-35 years of age. This approach accords with Turner and Nguyen's (2005), who define young adult entrepreneurs as those under the age of 25-35 years old. This age category was chosen because such individuals make up more than half of the Saudi population. The targeted group was selected through the researcher's personal network and through previous experience of working with institutions that support women start-up businesses. The researcher also attended important conferences, networking events and workshops, where the opportunity arose to speak about her research in an open manner with other people and casually asks 'do you know of any Saudi nascent women entrepreneurs that you can put me in touch with?' This approach provided the opportunity to increase the number of participants and improve the diversity of the sample.

Methods adopted

The interviews were semi-structured, and started with asking participants about their experience of starting a business, its location, the social activities and the places they go to and the places they don't/ avoid go to, and why? This is with the aim is to reach an understanding of the relationship between mobility and women entrepreneurship. In addition, questions about their, personality and family ideology followed, which is where the participant women started to explain about their spatial capability. In interpreting each interview, the focus was to understand how the interviewees' experience and perceive spatial mobility and capability when starting their businesses. It was also important to determine the contextual factors they shared the responses, which shapes their spatial capability. The interview approach was adopted to enable the researcher to explore hidden issues and to obtain a clearer insight of the person and to gain more knowledge and understanding of the phenomenon being studied (Sinding & Aronson, 2003). Using in-depth interviews facilitates the process of learning about the individual's perception, experience and perspective on the phenomenon being studied. Such a method relies mostly on the structure of the research questions and the research perspective. Equally, by using interviews as a research method, relationships appear to be established between the investigator and the participants, allowing the researcher to collect more in-depth information related to the subject matter under discussion (Knox & Burkard, 2009; Roulston, 2010).

To address the concerns related to the validity of the outcome of the experience of nascent entrepreneurs, this study employed a retrospective approach (Gartner *et al.*, 1989; Shaver and Scott, 1991). However, there are some issues with retrospective accounts, especially when participants describe prior experiences and events that could display self-justification bias (Cartera *et al.*, 2003). Therefore, the study asked participants who had been in business for no more than three years to explain their experience during the start-up initial stage of the business. Here, with the aim of allowing participants to remember and recall their prior experience, because the collected information and findings is then based on already lived experience and became part of the story these individual recounted to the researcher.

Interpretation and analysis

As a starting point, it is worth mentioning that a woman's explanation for starting a business has a particular and unique personal viewpoint. Although entrepreneurship has brought a new lifestyle to Saudi women in expanding their role in the society, their starting a business includes a need to pay a close attention to the contextual structure of their society, such as considering the extent to which their spatial mobility and spatial capability would influence the process of venture creation. The argument of this study is that when discussing spatial mobility and actual travel it mainly aligns with the fact that Saudi women depend on a male driver to make their movement feasible, while their spatial capability and potential of movement is associated with the need to obtain permission from their families 'I have to inform my husband about where I'm going and his reaction and opinion matters'.

Concerning actual travel, the finding shows that women entrepreneurs did not rationalise the fact that the difficulties they have encountered as women with regard to the lack of autonomous mobility are structured by the society to reduce access to opportunities. This could be due to the fact the woman's role is embedded in the society in a way that does not allow freedom of choice, and therefore have adapted to the fact that they are excluded from an independent mobility. These participants seemed to be embedded in the context, because they adjusted to spatial mobility condition. This concurs with the findings of Jack and Anderson (2002, p. 467) who indicated, "Embeddedness is the mechanism whereby an entrepreneur becomes part of the local structure."

When actual travel was investigated, the women explicitly stated that they are not in favour of being involved in actual mobility where they have the option to exhibit independent access to transportation. They explained the benefit and advantage of having a male driver (chauffeur) when starting a business. The common justification was that the driver acts as 'assistant' and a 'partner' in some of their entrepreneurial activities.

Such justification provides an explanation how these women use such condition (having a driver) as an advantage that is not adopted by other women around the world. When their capability is limited, for instance, in male dominant areas, the mission was handed over to their drivers. This shows that the family driver participated in nascent women entrepreneurial activities, such driving to places that are inappropriate for women to go to alone. The participants confirmed there are certain places they cannot access to because of the masculinity of the place, which makes it 'inappropriate' for women. One of the interviewees commented 'I send my driver to the industrial area, you know, it's inappropriate for me to go there.' In respect

to this, mobility social exclusion as introduced by Kenyon *et al.* (2002) has its advantage for Saudi women entrepreneurs. However, such finding should also be viewed critically.

Regarding spatial capability and the potential of movement, the women were asked to consider the activities of their business with respect to their condition. During the interviews, the women describe the places they go to and the places they do not go to (mobility activities) as part of their own preference of choice (self-help discourse) 'I don't like going to that area' stated one participant. Such responses tend to be passing through an internal negotiation with themselves as a self-discourse, before discussing it with their families. This is a reflection of a self-discourse that these women integrate, which shows a clear understanding of their own sub-culture of spatial capability. However, the majority of the interviewees confirmed their family preference of choice, which was apparent in comments such as, 'I don't like going there and even my husband does not allow me to go there'. Therefore, the women process of self-help discourse subconsciously considers their family ideology.

Within this context, nascent women entrepreneurship has brought a new discussion into the household; it has led to an alteration in mobility activities and in scheduling mobility. This took place during the process of starting a business, when these women discussed with their families what they wanted to do and where they wanted to go. This tendency is supported by the fact that, when these women have sought entrepreneurship, they consider their mobility capability (where they can and cannot go) with respect to the ideology embedded in their families. The indication here is that mobility restrictions seem to be voluntarily established by these nascent women entrepreneurs. This argument follows Alexander's (2008) point, where the claim was that the embedded culture tends to strengthen structural constraints, which are usually dominated by families' ideology.

Self-help discourse and family ideology

Most of the interviewees exhibited the courage to discuss and negotiate with their family for the option of doing certain activities and going to certain places as part of the entrepreneurial activities, and did so by applying a 'convincing reasoning' in their discussion. However, this mainly took place after the self-help discourse, where the women evaluated the *importance of going to places* (with respect to distance) and *the activity involved*. Some women had unresolved discussion with their families, which has led them to discard some of entrepreneurial social activities, such as places they want to go to for meetings and participation.

Family¹ in Saudi Arabia plays an important role in determining women's spatial capability; that is, women's freedom of option to travel with influence and interference of to the family preference of choice. Nielsen and Oldrup (2011, p. 96) considered 'whether or not mobility is a legitimate topic for discussion both within the family' (p. 96). This provided the study to understand how family ideology as 'contextual factors' could influence women's spatial capability in the process of venture creation. A common pattern among these women's experience of mobility is that any movements has to align with the roles appointed by their families. This clearly shows that these women were submissive in respect to their family rules, adopting an adaptation strategy to avoid jeopardising both their personal life and businesses. For instance, some of these women inform, while others consult/ discuss and some seek permission from their family for entrepreneurial activities.

The findings of the current study showed that families are a key aspect for understanding of women's spatial capability, because family imposes or eliminates societal constraints

in such contexts. Although Le Renard (2014, p. 161) argued that there is a “complex interactions between state transformation and transformations of the family institution affect, and these are affected by new behaviour among the younger generation of women”, the study findings showed that the modern young Saudi women still face constraints by family ideology and adapt to it, because up to date the influence of family is inevitable for women in such context (Alshareef, 2015).

With the salient constraints of mobility in society, and the way family ideology influence this, women tend to consider discussing mobility when it comes to starting a business. Some of the interviewees stressed the point by stating, ‘I discussed it at the beginning, I was telling my father that you have to know that with this business I have to travel a lot’. The father’s response to this comment enables women to understand the contextual factors around mobility and that were likely to define their entrepreneurial activity. Such responses show that women’s businesses require attention to one’s contextual factor around mobility capabilities. Shin (2011), for example, argued that family dissolution in some societies could hurt women’s mobility, which align with this study finding, but also shows that mobility for Saudi women is about acquiring permission from their families to maintain the traditional family order.

Mobility implications

Business location

In addition, if actual travel alone is to be considered, then the decision of business location should be considered as an indicator of unconstrained mobility. With respect to business location, most of the women interviewed chose to start their businesses from their home and this was explained to be their ‘own’ preference of choice. Nevertheless, when considering mobility, then this revealed a slightly different story. Many of the women explicitly stated the financial benefit of starting a business from home, while implicitly explaining the role of mobility to influence such choice. This was indicated by one interviewee who stated, ‘working from home is ‘more comfortable’ and ‘relaxing’. When asked for an explanation, the majority of interviewees gave an answer, such as, ‘I don’t have to think of the availability of the car and driver’. In other words, working from home reduces mobility arrangement with the driver and other family members. Working from home gave nascent women entrepreneurs ‘a peace of mind’ because mobility requires discussion and arrangement in the household. Depending on the household size and individuals’ position in the household, it also demands demand scheduling and organising the *how*, *when* and *where* aspects of one’s mobility. Therefore, a home-based business is a way for nascent women entrepreneurs to free themselves from mobility constraints.

However, it is important to recognise that even if the business location (home-based business) was a strategy for Saudi women to reduce their mobility, this does not mean that mobility is completely discarded, as it remains a crucial part for nascent women entrepreneurial social activities.

Social and cultural factors

Cultural norms play a significant role when it comes to women’s mobility for entrepreneurial activities. Generally speaking, mobility to some extent aligns with one of the main challenges encountered by Saudi women entrepreneurship, namely the issue of social activities (meeting and interacting) with the opposite sex. ‘I don’t have men as a client in my

business as my husband disagrees on that', stated one interviewee. Saudi woman's social interactions with the opposite sex are discouraged by the state policy and in most Saudi families. Saudi women have experienced such segregation from an early age and throughout their lives in schools, universities and government sectors. When it comes to meeting the opposite sex, mobility becomes part of women's self-help discourse with the society and their families.

In addition, the sex issue remains with the location of meeting (weak ties) of the same sex. Therefore, it is worth mentioning that the finding shows that at the early stage of starting a business woman usually travels to meet people with whom they have strong ties with (e.g. friends, family, and relatives). However, the sensitivity towards mobility to meet weak ties was mentioned. The need not to neglect the family view plays a role in discouraging women from travelling to certain places when meeting network of weak ties. As one woman confirmed, "my husband would not allow me to go to clients houses, especially the one who I don't know, because you never know what could happen to me, he tells me to meet them in a public place" and this is associated with a justification of 'fear' and 'protection'. Others stated, "My father is over protective", "my husband is concerned that something may happen to me" Therefore the women interviewed did not judge that they experienced a lack of freedom of options, rather they referred to their family preference of choice as a convincing reasoning to their limited capabilities, due to the fact of fear and protection. This was because in such a culture, the social policy and tradition deem the role of men to be responsible and protective towards their female counterpart. Therefore, protectiveness seems as a convincing reasoning when it comes to women's lack of option.

Discussion

This study reveals that investigating mobility allowed an understanding of women decision in relation to business social activities conducted by nascent women entrepreneurs. In this context, the findings appeared to be mainly focused on family ideology as a contextual factor to understand women's mobility.

The mainstream argument was that Saudi women are excluded from the benefit associated with autonomous mobility (access to means), where the law bans women from driving, therefore, the assumption is that Saudi women exhibit to some extent mobility social-exclusion. However, this does not seem to be the case as shown in the findings, where the outcome of the responses was a shifting of attention from mobility per se to the capability of an entrepreneur to actually travel, it was surprising to find that women had a preference to not experience independent mobility. Moreover, the other argument was that the Saudi law and policy affirms the role family as an institution to permit women to achieve functioning when conducting entrepreneurship. Consequently, the study findings agree with Shin (2011), who demonstrates in his study that family dissolution in some societies hurt women's mobility. Therefore, it seems that family ideology influences women's actual travel and the potential to travel when it comes to entrepreneurship in Saudi Arabia. These elements are not separated but rather intertwined in an implicit way that influence women's entrepreneurial activities. Therefore, the study contributes to the discussion about family ideology, shaping women entrepreneur's mobility as part of entrepreneurial social activities.

Family was one of the main dimensions in this study, Later, the options of activities to which to travel and network seems conditioned by family ideology, which eventually led women to experience limitation in their entrepreneurial activities,

These findings strongly showed that women's autonomy to go to certain places and locations along with their freedom of option to do certain things ties with family factors (family ideology). However, this consent to limited mobility as being non-problematic and accepted by most nascent women entrepreneurs working in this society.

Conclusion and recommendation

In conclusion, the study has conceptualised mobility from a female entrepreneurship perspective. It has shed a light on spatial mobility and spatial capability in terms of the possibilities, freedom, and constraints associated with nascent women entrepreneurial activities in the process of business creation, specifically in Saudi Arabia. It has also focused on the nascent women perception of actual travel and potential of movements in terms of how these women perceive their mobility to be, and how they contextualise mobility and discussed their travel with their family rather than how much they travel.

It was found that it was not actual travel that strict women's mobility, but rather spatial capability that limits and constrain their movement for social activities. Therefore, it is possible to argue that while Saudi women have started a business to be independent, this has not transformed into freedom in many aspects of their entrepreneurial activities, including spatial mobility and capability.. The constraints women face in terms of where to go along with whom to meet is what constitutes Saudi women's mobility. With this recognition in mind, it seems that entrepreneurial activities embraced by Saudi women have mostly aligned with family ideology.

This study also found that Saudi women experience limitation in their spatial capability due to the limitation of family preferences. This has contributed to the understanding of the contextual factor associated with women entrepreneurship. Moreover, this study has revealed the habituation and reinforcement of constraints stems from the women's family. It has shown that women's submission to their family ideology is accepted as their forced choice in where to go and who to meet influences their entrepreneurial activities.

The contribution this study sought to make was through combining the existing literature on both entrepreneurship and mobility to position spatial mobility and spatial capability in entrepreneurship studies. Therefore, Saudi women were selected as representing an extreme case study to understand this relationship. It also highlights family ideology as a main contextual factor of influence for nascent women entrepreneurs.

Nevertheless, the paper suggests further study to consider spatial mobility and capability as a contribution to human development by looking at the role of spatial mobility on business development and to compare other social groups and countries as unit of analysis. With spatial capability being an abstract concept, further studies could include different groups of people from diverse social environments to explore mobility to provide a diverse grounding for the literature. This could also encompass the role of women's' mobility on business growth when it comes to international travel. In addition, further studies could approach women entrepreneurship from different socioeconomic classes and analyse other contextual factors. For example, this approach could take the form of comparing Saudi women entrepreneurs in

Saudi with those who live outside Saudi, where mobility is more relaxed. While spatial capability is useful in analysing the process of business creation for nascent women entrepreneurs, it could also concern itself with business growth and internationalisation.

Note

¹ This study refers to family as a member of the family who has an authoritarian power over female family member.

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Direct Investments of European Union level

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Abstract: Investments are material support of the socio-economic development of the country. They underlie refill, diversification and qualitative growth of all factors of production. Increasing fixed or capital increase technical and economic efficiency of equipment, labour productivity, the additional jobs, diversify the economy cannot be achieved without financial resources consumption without investment.

Foreign investment will complete the necessary internal resources to develop competitive factors of production. This can be insured but only in a proper investment climate, policies and reforms based on transparent, consistent and competitive in attracting foreign capital. Tell the benefits and investment opportunities, their recovery will be given a real chance of recovery in investment activity.

The aim of this study FDI developments in the European Union, in the current economic context, their forms of manifestation, and the essential features of foreign investment, making a comparative analysis of the dynamics and the contribution of foreign capital to developing countries, and particularly countries neighbours in Central and South Eastern Europe. Studied the interdependence between the investment and the economic situation of countries, making statistical and economic analysis of the development of foreign investment in the context of economic reforms.

Keywords: European Union, foreign direct investment

Introduction

The aim of this study FDI developments in the European Union, in the current economic context, their forms of manifestation, and the essential features of foreign investment, making a comparative analysis of the dynamics and the contribution of foreign capital to developing countries, and particularly countries neighbours in Central and South Eastern Europe. Studied the interdependence between the investment and the economic situation of countries, making statistical and economic analysis of the development of foreign investment in the context of economic reforms. Are brought to light the beneficial aspects of foreign investments on the receiving economies and ways to engage them in the national economy.

Strategies for attracting foreign direct investment

Strategies aimed at attracting foreign direct investment by definition consist of offering investors a stable environment in which to be able to operate in a cost-effective manner without being subject to undue risk. To understand the difficulties faced by an investor in its investment project implementation must know the main stages of the investment process.

Develop an investment plan costs classic form involves the stages consisting of: (Bonciu, 2003)

- a. estimating costs and start developing the project investment;
- b. estimating the actual costs of investment;
- c. costing stage of contracting with providers;
- d. actual costing production / service you want to achieve;
- e. Analysis of the differences between the costs and income effort possible to get.

Assessment of the tabulation thereof requires efforts throughout the implementation of the investment, as well as the functioning of the future objective. Any investment strategy involves several variants, characterized by a multitude of technical aspects, economic, social etc.

Another aspect related to the cost of investment, it is the increase if an existing object after allocating funds, factual decision is delayed, the delay depending on the time that works can lead to an increase in funding originally allocated by the erosion occurring on the investment objective, its degradation. (Andersson, T., 1991)

There is a pattern that can be universally applied to any state requirements to ensure a favourable climate for foreign direct investment is different from one country to another. However, countries in the race to attract FDI should act three common directions above.

First, countries must ensure the improvement of the economic, social and policy on foreign direct investment through their legislative instrument that governments have at their fingertips.

Finally, any direct investment materializes in legally, through a contract between the investor and the host state (through any interface thereof). Each party pursues its own interests, and foreign investors are still in a "disadvantage" acting on the ground "opponent" for a long period of time. Of course, the alien enters the local environment by negotiating the terms of the investment, but factors such as political instability and government of the host country (in a natural way while the developing countries are in a constant process of change that the well as the international environment) creates uncertainty alteration anyway baseline where the contract was concluded.

As a result, each state must achieve permanent objective radiography own legal system, to observe to what extent it can be oriented in the desired direction, so investors and the local authority to ensure compliance with national economic security. To do this, the host country must maintain a dialogue with existing investors or organizations representing their interests and ensure the promotion of a positive image among public investors local.

Second, countries should strive to improve economic determinants because they play the most important role in the location of foreign direct investment.

If, in quantitative terms, the endowment of a country with traditional inputs can be increased by simple measures of decision makers, however, countries can act to increase the quality of and, especially, the creation of neo-factors. Increased training of the population, its ability to adapt to new technologies and performance management systems are an effective option for increasing the quality factor - labour.

In addition, host countries must ensure the conditions necessary for the development potential of local private business organizations in order to create solid and a base of suppliers able to create and maintain working relationship with the standards required by the foreign investor.

The third course of action should be to integrate the countries of the local market in trading practices, regional and international economic and political. Over time, especially since the early years of globalization, it turned out that, in terms of foreign direct investment, international cooperation is essential to the success of attracting them. Key issues have become topics of investment of bilateral, regional and international investments or the avoidance of double taxation, stipulating the rights and obligations of the parties, the terms of repatriation of profits, how to resolve disputes etc. in order to create a favourable climate Investor legally binding.

It is essential that the development direction of national policy should primarily focus on maintaining the existing stock of foreign investments before engaging in the race to attract new investors. Investors already present are the best representatives of the host country in relation to potential investors, provided that the first be happy with the treatment given to this country.

In addition, investors holding present states have consistently a certain level of foreign capital in the economy, helping them to strengthen strategic positions in the medium and long term, macroeconomic easier to steer in the desired direction.

A solution may be finding the political skills that would encourage the use of local inputs in the form of granting facilities to foreign firms (taking into account that these requirements cannot be imposed on investors due to the WTO Agreement) and minimizing currency outflows.

The appropriate approach would be to promote a selective policy towards foreign direct investment, encouraging firms generate positive effects (e.g., growth, the number of jobs created, technology transfer and export earnings) through facilities designed to maximize the country's host.

Evolution of FDI

In the world of global inflows of foreign direct investment (FDI) have increased substantially in 2005, is the second consecutive year, according to the World Investment Report (UNCTAD). This was due to cross-border mergers and acquisitions, which reflected strategic choices of transnational corporations in view of increasing corporate profits and recovery of stock markets.(www.onuinfo.ro)

Representing the global flows of foreign direct investment inflows grew by 17% in 2011, which marked a period exceeding the pre-crisis average. In terms of volume, these flows reached in 2011 about 1,500 billion U.S. dollars, a level above the average of the period 2005-2007 (which was 1472 billion U.S. dollars), but still below the reference from 2007 (1969 billion).

A positive element is that in 2011, global FDI flows rose for the second consecutive year, compared to the reality of 2008 and 2009, when it had experienced successive reductions.

In Europe, this was indeed confirmed "with flying colors" of Germany, a country that has gone relatively easily over the crisis and is the undisputed leading position among European economies. What particularly German other Western European countries were that retained and even developed an industrial economy.

Countries that have relied heavily on the service sector, including banking and financial services were greater affected by the crisis. It highlights that FDI relatively moderate reduc-

tions, allowing a faster recovery compared to portfolio investment. However, the overall FDI was found that new investments (greenfield) were the most stable and the fastest growth rate, especially in developing countries and emerging economies.

This preeminence of new investments made in developing and emerging countries maintain a share of about 50% of the world total FDI flows (755 billion dollars).

It can be said with certainty that foreign direct investment is a growth factor likely to contribute to the modernization and strengthening of sectoral structure and fields of the economy.

The year 2011 marked a growing global foreign investment flows, including in each of the three categories of countries (developed, developing and transition) but with different developments. It notes, in particular, South America and the Caribbean region with the highest growth in the world (35%), and the transition economies of Central Europe, the Balkans and the Commonwealth of Independent States - CIS.

These states will continue to attract new foreign investors with favorable effects on economic growth. The vicious circle is manifest many developed countries, although the situation varies from country to country. The situation is critical, especially for a large number of states in the euro area. But we cannot generalize because the eurozone is Germany (which came with a strengthened economy during the crisis), and Greece (country facing serious economic and financial problems). Low interest of foreign investors in the economy creates some undesirable assumption of continuing stagnation or the slight increase. In light of these realities of development in a globalized world economy, forecasts reserved on returning global FDI flows at similar or higher levels peak in 2007.

Study AT Kearney mentions that although about 55% of major investors - questioned investment budgets already at levels comparable to those prior to 2008, however, 20% of them provide a return to pre-crisis levels only from the years 2014 to 2015.

To the extent that in developed countries there is concern that a tax increase (due to the governments of many developed countries need to find new sources of income) will affect investors in developing countries concern is mainly the possibility of introducing new regulations on labor market, which would, however, increase the cost of this factor of production.

Comparison between FDI system in Romania and different countries of European Union

In the past ten years, the attention of analysts has been directed towards the European integration process of Romania, a detailed assessment of the reasons for the delays in State adoption and implementation of the Community acquis.

One of the main reasons is the lack of quality foreign direct investment during the 1990s.

Their concentration within the 2002-2012 supported to an extent lower the integration process, compared to the situation of the Czech Republic and Hungary, where foreign investment has been one of the main engines that led to the restructuring of the economy, and supported the adoption of a modern law, in parallel with the improvement of the business environment and changing mindsets.

FDI regime in the Czech Republic

Since the early '90s, the Czech Republic had a strategic objective to attract a large amount of foreign investment, as one way to reduce the gap of economic development in EU countries. (Gábor & Stankovsky, 2004)

This strategy has been extremely fruitful, as witnessed by the fact that after 15 years, the Czech Republic ranks first among EC countries, in terms of economic development and standard of living.

The activity of attracting and promoting foreign investment was supported by the Czech government in 1993 through the establishment of an agency Czech Invest, under the Ministry of Industry and Trade, in order to provide: data and information about the economy, tax incentives consultancy that can be granted to foreign investors and the conditions to be fulfilled to obtain their information providers support programs etc.

Consequently, the Czech state has adopted policy under a fierce worldwide competition for foreign direct investment, foreign investment law changing substantially by introducing the following incentives: tax exemption for 10 years only to manufacturing activities for a total investment of over \$ 25 million of which 40% must be represented by machinery, and other tangible us. Manufacturing industries are considered according to OECD classification and the investment must be made in full within 3 years and to strictly abide by national standards in terms of environmental protection. It may also consider investments in companies that already operate not only in the new company, provided that the objective for granting facilities to keep separate accounts.

The possibility of obtaining an interest-free loan to cover up to 50% of the cost of staff training and can be converted to a grant if the company employs a number of people in a certain region and a certain amount of time. The possibility of obtaining a location for the investment ready for a symbolic price. Basically, the municipality to which the land or asset will receive, in accordance with regional development policy to 60% of the costs of the fitting surface.

For the period 2007–2013 state the maximum aid intensity was reduced on average by 10%; Maximum state aid that can be given is calculated as a percentage of tangible and intangible assets owned by the company net of grants received for the creation of new jobs and the difference between the purchase price of the land and its market value. Tax exemption may be granted for a period up to 10 years.

Grant period begins no later than three years from the grant stimulus package. Direct state aid granted in the form of grants to create new jobs and for staff training.

To receive the stimulus package, the criteria must be met over a period of up to three years from the date of conclusion of the contract with the government. Legislation presented is devoted exclusively productive sector investments.

The Czech Republic offers separate incentives to invest in research and development, technology parks etc. It is important to note that although the Czech Republic has record foreign investment both in volume and in terms of quality, yet the government continues to provide significant financial and fiscal incentives which demonstrate that attractive business environment for FDI theory needs direct support to determine the location of large investors.

The quality of foreign investment attracted by the Czech Republic can be quantified and through the number of firms with foreign capital participation. For example, in this country at the end of 1997, the volume of investments attracted \$ 8 billion contains only 47,000 com-

panies with foreign capital while, in Romania, the foreign capital attracted twice lower there than 55,000 companies with foreign participation.

The decision by Philips came amid intense evaluation activities included 66 locations in several countries. The final decision was based on the fact that food from North Moravia town has a good track record of failure electronics and available skilled labor force, having at that time a high unemployment rate of about 15%, well above the average national 8.8%. To attract the strategic investor, the Czech government offered a tax incentive package that included mainly tax exemption for a period of 10 years, divided into two steps of 5 years. Also, imports of equipment and facilities made the investment account were exempt from customs duties and VAT and additionally for each new job created government granted a subsidy of about 6000 USD / employee. It produces flat screens last creations Philips and has over 1000 employees.

Also, imports of equipment and installations made on behalf of the investment were exempted from customs duties and VAT and, for each new job created Government provided a subsidy of about 6000 dollars per employee. The factory produces flat screens for the latest Philips creations and has over 1,000 employees.

The investment made by Flextronics in 1999 was located in the region of Brno as factory parts for electronics and telecommunications are currently employing CA. 3000 people. The incentives granted to have enmeshed and local authorities who have built the necessary infrastructure to accommodate the plant and issued the necessary permits construction that extends over an area of 60 hectares and whose production capacity is 8 million pieces annually.

In January 2006, and has ceased operations for several days due to the bankruptcy of the parent company in the Netherlands.

Another factor that has boosted the attraction of this kind of investment was the presence of a large number of suppliers of large multinational firms. The production of Czech subsidiaries of companies like Matsushita of Japan and Flextronics in Singapore have reached the critical mass which prompted their suppliers in the countries of residence to follow with their own investment in the Czech Republic.

In March 2006, the Agency noted Japanese investment development achieved and announced over three billion dollars.

The production capacity of the two main investment Skoda and Toyota/PSA will be in 2007. 800,000 units annually. For the past three consecutive years, the Czech Republic has been placed second in terms of the attractiveness of the business environment for the production of auto parts.

This exceptional structure of exports in conjunction with the balance of trade balance reflects the success of the restructuring of the Czech economy which would not have been possible without the massive influx of foreign capital. Similar to Hungary, in countries of FDI in the Czech Republic on the first places geographically adjacent countries - Germany, Austria, France, Netherlands (headquarters of many multinational companies who create investment vehicles in this country because of relaxed tax laws) as well as the US, Japan, Nordic countries, Switzerland, Canada, Italy etc.

Economic performance of the Czech Republic in particular in the field of FDI are reflected in the structure of the volume and structure of foreign trade. The Czech Republic, thanks to foreign investment has become the largest producer of personal computers in the EU actually supported and surplus trade balance on this group of products.

The categories of goods that he supports Romania foreign trade as well as derivative products and textiles or furniture occupies the modest places in the Czech Republic, with about 3-3.5% of total exports and 2-3% of imports.

FDI regime in Hungary

Hungary has completed the privatization process since 1997, including the privatization of the banking sector. In these circumstances, in recent years, the Hungarian government has focused on attracting foreign investors targeted, especially in "Greenfield" and private enterprise.

Hungary has established investment priorities, one of which is the introduction of advanced technologies and innovations in the production of goods with high added value. Investment in the transport sector, research and development, professional services and logistics have become the target of foreign investment promotion organizations.

To achieve this performance, Hungary has established a legal and institutional framework particularly attractive for foreign investors.

The Ministry of Economic Affairs set up in 1993, the Agency for Investment Promotion and Trade (ITD Hungary) with eight regional centers in Hungary and 34 representative offices abroad and allocating an appropriate budget to support internal and external activities.

It should be stressed that foreign centers were set up from the beginning and not the process, taking into account primarily the capitals of developed and potentially interested in the opportunities of the Hungarian economy. ITDH activity focused on activities to promote foreign investment by providing information, legal and financial advising etc. In the field of foreign investment, ITDH coordinated special programs in electronics and software, auto parts and tourism. Also, the Hungarian agency focused on promoting exports by organizing activities and network of commercial offices abroad.

In parallel with the measures of fiscal relaxation Hungary generous tax incentives for foreign investors as follows: tax exemption for a period of 10 years for investment in industry if: total investment value exceeding \$ 40 million; sales volume registered an annual growth of 5% and the company has at least 500 employees; investment is made in an economically underdeveloped region and has a value exceeding 12 million USD sales volume is growing annually by 5% and the company has over 100 employees.

Their support is in the form of grants. Hungary has provided uninterrupted these incentives for foreign investors.

In the early '90s, tax incentives investors were more generous, but with market saturation and the completion of accession negotiations, the government has reduced focusing the promotion of FDI by their integration into the local economy.

The structure of FDI, manufacturing branch is best represented the automotive industry. The same area is found first in terms of foreign trade, which directly relates the specific increase in exports and foreign investment.

From this point of view, the Czech Republic and Poland are below the EU15 average of 15% and 6%. Hungary with Czech Success is a shining example of recovery and economic recovery in foreign investment. First FDI brings with it the "know-how" crucial and superior management techniques verified by long practice, appropriate behavior in business, entrepreneurship and productivity and technical knowledge along with the contribution of modern technology. Meanwhile, FDI can play a catalytic role in the ability of local research and development

that can find through foreign investment capital needed. But maybe I should have said first access that have acquired Hungarian firms to markets of developed countries through the distribution channels of the firms investing. Because, despite trade deficit recorded exports to Hungary increased fivefold in the past 15 years and its structure has improved considerably.

FDI regime in Germany

The main weakness of Germany's high tax rate (individuals and corporations).

Even if the financial crisis hit the country and especially exports, Germany remains one of the most attractive countries in Europe in terms of investment.

Foreign direct investment: recent trends and macroeconomic effects in the early 1990s, the German economy has sharply increased international capital.

While stocks and German FDI outflows rose sharply (6 times), increased inputs de ISD also considerably during this period (4 times). Through empirical studies concluded that FDI by German firms not will have a negative effect on the long-term investments in Germany. In macroeconomic terms, the increase in employment in foreign affiliates does not mean a loss of jobs in Germany.

It seems that increased foreign presence made the German economy more competitive overall. Finally, it is obvious that the high level of German FDI in the new EU Member States has led to changes in trade relations with the old EU member states.

FDI stocks in Germany are essentially concentrated in Europe and North America. Just under half of global stocks are invested only in the 14 old EU countries, with another 30% in the United States. The ten countries that joined the EU in 2004 is now as much as 6%; the early 1990s, before the markets of Central and Eastern Europe to open the fall of the Iron Curtain were virtually devoid of content for German FDI destinations.

By contrast, emerging Asia has so far been an important target of FDI activities of German firms. In recent years, however, some countries in the region have become the preferred locations for new investments from Germany. For example, investment in China rose tenfold between 1994 and 2004. At 381.2 billion euros, currently amounts to just over 1% of the total stock of FDI in Germany.

Foreign investment in the primary sector (less foreign investment in the primary sector (less than 1%, plays a minor role. In the service sector, major investment value (46%) were made in the financial and insurance sector, reflecting the strength several German banks and insurance companies (which belong to the most important players in global financial markets). success in Germany in the export of cars, machinery and equipment led to strong foreign investment in the trade and repair of motor vehicles and personal and consumer goods, they represent 17% of the stock of German FDI outflows in the services sector in late 2007.

Foreign investments of German companies are mainly concentrated in developed countries, which are also the main target regions for German exports and provides factor inputs that German multinationals need for production (especially a highly qualified labor force).

FDI regime in France

In 2009, direct investment flows are net equity resulting output euro 63 billion in 2008. Nevertheless, in a long-term perspective, the net output remained at high levels in 2008 and 2009, being exceeded only in 1999 and in 2000, years during which evaluation of listed companies has resulted in a record number of cross-border mergers and acquisitions in France and abroad.

Among the various components of direct investment, real estate investments after they fell sharply in 2008 were maintained at 4, 3 billion in 2009, contributing to the strength of the French market in an international environment deficit. To the estimated data, profits reinvested would have a positive balance of 2.1 billion in 2009 while 2008 had a negative balance.

Capital investments, except real estate, being small scale is already in previous years, the share fell 29% to 7.7 billion compared with 2008. Finally, other operations reported a net balance negative-18, 3 billion, which is growing in relation to 2008.

At the beginning of the period, identifying the country of residence of the ultimate investor may reveal, in essence, the presence of French companies and, to a lesser extent, weight gain among a group of American investors in France. In the last years, is found also German and British groups made a seemingly significant proportion of their investments in France through third countries (notably the Netherlands, Luxembourg, and Belgium).

FDI regime in Romania

The competitive nature of the world economy facilitates the placement of capital to emerging markets investment authorities of the receivers cannot take direct action to counter, because of international conventions and agreements they have signed.

The need for foreign investment is particularly true for developing countries, where countries in the privatize, such as Romania. Among the factors that mark the need for foreign investment, remember: Countries in the process of privatization do not have sufficient capital to support private sector restructuring and recovery.

Currently, Romania's economic policy on FDI is based on three essential elements identified in the following categories: equal treatment for Romanian and foreign investors access to markets throughout the economy minimal government intervention in economic activities.

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Romanian and foreign used "advantage" continuous depreciation of the national currency and poor wages (in this category could be included even those considered large financial services and telecommunications software) by exporting labor and too little added value. Faltering economic policies promoted by all governments since 1989 have encouraged this approach often considering it as just the way Slowing economies exit from the impasse over ten decades of the last century.

The value of the 2006 record of 9,082 billion euros, in 74,24% increase compared to the previous year (Eur 5,213 million), includes the amount of € 2.2 billion, representing the takeover by Erste Bank to 36.7% of the shares of BCR.

Thus, the year 2006 is the absolute record in terms of foreign direct investment attracted by Romania. In November 2006, the cumulative amount of foreign direct investment attracted by Romania has exceeded the threshold of 30 billion EUR, with a stock of FDI of 30,967 billion.

According to early calculations, foreign investments in Romania rises in 2006 to 9.1 billion euros, with officials estimating a level of 10 billion for next year, almost double the 5.2 billion euros recorded in 2005.

The result of the world economic downturn has been felt mostly in developed countries where FDI inflows shrank in 2003 compared to the year 2000 with just 67 percent. Initiate specific measures aimed at attracting foreign investment and the establishment of agencies to promote them in conjunction with the macroeconomic stabilization program, will lead to an improvement in the attractiveness of these countries for foreign investors.

Conclusion

In conclusion, we are witnessing nowadays to an intensification in the major flows of direct investment liberalization policies regarding foreign investment and the initiation of multilateral regulations and measures to attract FDI flows, the intensification of transnational mergers and acquisitions.

The long-term prospects of FDI remain promising. A number of analyses on the investment plans suggest that major transnational companies will continue their international expansion. The most popular destinations will include major markets of developed countries, as well as a number of key destinations in developing countries (including China, Brazil, Mexico and South Africa) and countries in transition in Central and Eastern Europe.

The more investors will come, so there will be a greater growth in the host country. And the affection of a favorable macroeconomic conjuncture increasingly more investors will be interested in starting a business in such country.

Relaxation of fiscal help to attract foreign investors, as observed with the investment firm Solectron.

Foreign investors are very attentive to the peculiarities of the law of the country in which they wish to invest. In fact, the package of tax breaks offered by the target country is an important criterion for selection of the site for future foreign investment is an engine of economic development for the Central-South-eastern Europe. These countries have a high capacity to absorb foreign investment capital, there are prerequisites for transforming these resources into additional economic value.

The level of foreign investment in GDP Western European countries is close to the average of 5%.

In Southeast and Central European foreign investment in GDP generally reach higher levels, as shown in the table above.

High levels recorded are a sign that their economies are growing, they are able to absorb important external sources, and are also able to offer a competitive economic environment attractive to investors. It is noted that for Romania, the percentage of foreign investment in GDP is lower than in neighboring countries the Czech Republic, Germany, France, and Hungary.

This indicates the potential still unexploited in terms of attracting foreign investment. By achieving the optimal level of foreign investment, legal and fiscal measures, monetary and other measures should be focused on stimulating investment, it represents an important lever for economic value creation and achieve a higher level of social welfare. As basic direction to be pursued to attract more investors to open newest business. Subsequently, qualitative factors they must take into account. This will become increasingly important as new investments and to ensure environmental and social protection.

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